Similarities and differences
IFRS and Nigerian GAAP

February 2011

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International Financial Reporting Standards (IFRS) were adopted in 2005 in many countries around the world. The International Accounting Standards Board (IASB) issued several new, revised and amended standards, and the International Financial Reporting Interpretations Committee (IFRIC) issued a number of new interpretations. In Nigeria companies have been complying with Standards issued by The Nigerian Accounting Standards Board (“NASB”) for a number of years. These standards represent Nigerian Generally Accepted Accounting Practice (“Nigerian GAAP”).

The NASB announced its Roadmap to Convergence with IFRS in September 2010. Based on this Roadmap Nigerian listed companies and significant public interest entities (“PIEs”) will be required to comply with IFRS for periods ending after 1 January 2012. Other PIEs will be required to comply for periods ending after 1 January 2013 and small and medium sized entities will need to comply for periods ending after 1 January 2014. Therefore entities will need to understand the similarities and differences between IFRS and Nigerian GAAP.

The development of IFRS is ongoing, and it is therefore necessary to take into account changes that occur subsequent to the time when this publication was prepared. This comparative study has been prepared to enable our personnel and clients understand the basic differences between International Financial Reporting Standards (IFRS) and present Nigeria Generally Accounting Practice (NGAAP).

We believe that this study will be beneficial not only to companies changing over to IFRS, but also to the users of financial statements prepared in this manner.
Introduction

This publication by OR&C is for those who wish to gain a broad understanding of the key similarities and differences between two accounting systems: International Financial Reporting Standards (hereinafter referred to as “IFRS”) and Nigerian Generally Accepted Accounting Practice (hereinafter referred to as “Nigerian GAAP”). The first section provides a summary of the similarities and differences between the two systems and then refers to individual, detailed parts in the second section, where key divergences between the systems are highlighted and the likely impact of transition to IFRS is explained.

Obviously, no summary publication can fully do justice to the many differences in the details that exist between IFRS and Nigerian GAAP. Even when the guidance is similar, differences in the detailed application remain, which could have a material impact on the financial statements. In this publication we have focused especially on the differences most commonly found in practice. When applying the individual accounting frameworks, readers must consult all the relevant accounting regulations, standards and, where applicable, their national law. Listed companies must also follow relevant securities legislation.

The International Accounting Standards Board (“IASB”) is currently developing a number of projects that will have an impact (often very material) on the current standards. One of the projects, which may be key to consider when converting to IFRS, is the IASB’s joint project for harmonisation with the Federal Accounting Standards Board (“FASB”) in the United States of America. As a result of this harmonisation project a number of key issues have been put on the agendas of both standard setters. In addition, the global financial crisis has led to the increased priority of a number of key projects, most notably the financial instruments project.

The publication refers to IFRS accounting standards that were issued as at December 2010 and are effective for accounting periods commencing 1 January 2011, and compares them with the Nigerian GAAP standards issued and effective for the same periods, with the exception of IFRS 9 “Financial Instruments”, which are discussed further in the Financial Assets chapter.
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Appendix A: Comparison of similar IFRS standards to their closest Nigerian GAAP equivalents

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## Summary of similarities and differences

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<tr>
<td><strong>General requirements</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Historical cost</td>
<td>Primary basis, with certain items carried at revalued amounts or fair value.</td>
<td>Uses historical cost, except for certain asset classes that may be remeasured.</td>
<td></td>
</tr>
<tr>
<td>Fair presentation override</td>
<td>In rare cases, entities should override the standards where essential to give a fair presentation.</td>
<td>An exemption exists, but not based on fair presentation. Companies Act allows departure from accounting principles if there are special reasons for doing so.</td>
<td></td>
</tr>
<tr>
<td>First-time adoption</td>
<td>Guidance is given on how to apply IFRS for the first time, including guidance on accounting policies, exemptions and exceptions.</td>
<td>This is not relevant as companies are obliged to comply with Nigerian GAAP from inception.</td>
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<tr>
<td><strong>Financial statements</strong></td>
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</tbody>
</table>
| Components of financial statements | • Statement of financial position;  
• Income statement;  
• Statement of other comprehensive income;  
• Statement of changes in equity;  
• Statement of cash flows;  
• Accounting policies; and  
• Explanatory notes. | • Balance sheet;  
• Profit or loss account (income statement);  
• Statement of cash flows;  
• Accounting policies;  
• Explanatory notes;  
• Value added statement; and  
• Five year financial statement summary. |      |
<p>| Exceptional items            | Not defined. Certain items or transactions may require separate disclosure. | Defines the term and identifies that they should be separately disclosed. |      |
| Extraordinary items          | Prohibited.                                                         | Defines the term and requires separated disclosure on the face of the income statement. |      |
| Correction of material errors | Comparatives are restated and therestated opening balance sheet for the earliest period presented is included. | No restatement of comparatives. Adjustments made in opening retained earnings. |      |
| Changes in accounting estimates | Reported in the income statement in the current period and the effect on future periods is disclosed, if applicable. | Similar to IFRS. |      |
| <strong>Consolidated financial statements</strong> |                                                                   |                                                                                |      |
| Definition of a subsidiary   | Based on voting control or power to govern.                        | Comparable to IFRS.                                                            |      |</p>
<table>
<thead>
<tr>
<th>Subject</th>
<th>IFRS</th>
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</thead>
<tbody>
<tr>
<td>Special purpose entities (&quot;SPEs&quot;)</td>
<td>Consolidate where the substance of the relationship indicates control.</td>
<td>No guidance on SPEs and in practice they are not consolidated.</td>
<td></td>
</tr>
<tr>
<td>Non-consolidation of subsidiaries</td>
<td>Not applicable - all subsidiaries must be consolidated.</td>
<td>Exemptions to consolidation exist.</td>
<td></td>
</tr>
<tr>
<td>Definition of associate</td>
<td>Based on significant influence: presumed if 20% or more voting rights.</td>
<td>Similar to IFRS. Differences arise in practice.</td>
<td></td>
</tr>
<tr>
<td>Presentation of associate results</td>
<td>Use equity method. Show share of post-tax result. In standalone financial statements measured at cost or fair value.</td>
<td>Comparable to IFRS.</td>
<td></td>
</tr>
<tr>
<td>Presentation of jointly controlled entities</td>
<td>Both the proportional consolidation and equity method are permitted.</td>
<td>Comparable to IFRS.</td>
<td></td>
</tr>
<tr>
<td>Business combinations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Date of acquisition</td>
<td>The date at which the acquirer obtains control over the acquired entity.</td>
<td>Normally based on legal date of control.</td>
<td></td>
</tr>
<tr>
<td>Consideration</td>
<td>Amount of cash or cash equivalents paid or the fair value of any assets transferred or liabilities incurred and any equity instruments issued.</td>
<td>Similar to IFRS.</td>
<td></td>
</tr>
<tr>
<td>Share based consideration</td>
<td>Recorded at their fair value.</td>
<td>Similar to IFRS.</td>
<td></td>
</tr>
<tr>
<td>Contingent consideration</td>
<td>Fair valued at date of acquisition and classified as a liability or equity. Financial liabilities are fair valued at each reporting date with gains or losses being taken to profit or loss.</td>
<td>Comparable to IFRS. No guidance on the calculation of fair value.</td>
<td></td>
</tr>
<tr>
<td>Acquisition related costs</td>
<td>Expensed in the periods incurred.</td>
<td>Comparable to IFRS.</td>
<td></td>
</tr>
<tr>
<td>Recognition and measurement of identifiable assets and liabilities acquired</td>
<td>The identifiable assets and liabilities of the acquired entity are fair valued on acquisition date.</td>
<td>Comparable to IFRS. No guidance on the calculation of fair value.</td>
<td></td>
</tr>
<tr>
<td>Subsequent adjustments to assets and liabilities</td>
<td>12 month &quot;measurement period&quot; where fair values can be finalised and comparative periods adjusted.</td>
<td>Comparable to IFRS.</td>
<td></td>
</tr>
<tr>
<td>Non-controlling interests and previously held interests</td>
<td>State at either the full fair value method or the proportional share.</td>
<td>Stated at proportional share.</td>
<td></td>
</tr>
<tr>
<td>Bargain purchases</td>
<td>Negative goodwill is recognised in profit or loss.</td>
<td>Negative goodwill is recognised in profit or loss.</td>
<td></td>
</tr>
<tr>
<td>Revenue recognition</td>
<td>Provides recognition criteria for sales of goods, rendering of services and other revenue transactions.</td>
<td>Limited guidance available on revenue recognition. Generally the accrual basis is applied to revenue contracts.</td>
<td></td>
</tr>
<tr>
<td>Construction contracts</td>
<td>Revenue and profit on long-term contracts accounted for using the percentage-of-completion method. Completed contract</td>
<td>Allows the percentage-of-completion and completed-contract approaches depending on the circumstances.</td>
<td></td>
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<tr>
<td>Subject</td>
<td>IFRS</td>
<td>Nigerian GAAP</td>
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</tr>
<tr>
<td>Multiple – element arrangements</td>
<td>The revenue recognition criteria should be applied separately to each element of the contract. The consideration received should be applied to each element of the contract.</td>
<td>Identifies that certain contracts should be split into their elements. Provides very little guidance for applying the concept.</td>
<td></td>
</tr>
<tr>
<td><strong>Employee benefits</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defined benefit plans</td>
<td>Projected unit credit method is used to determine benefit obligation and record plan assets at fair value.</td>
<td>No prescribed method to measure the defined benefit obligation. Limited guidance on measuring the plan assets.</td>
<td></td>
</tr>
<tr>
<td>Share-based payments</td>
<td>Expense incurred as a result of share compensations are recognised in the income statement. Corresponding amount is recorded either as a liability or an increase in equity depending on whether the transaction is determined to be cash-or-equity-settled.</td>
<td>No guidance exists.</td>
<td></td>
</tr>
<tr>
<td>Long-term benefits and disability</td>
<td>Similar to defined benefit plan, except that actuarial gains and losses and postservice costs are recognised in profit or loss.</td>
<td>Calculated in the same manner as defined benefit plans.</td>
<td></td>
</tr>
<tr>
<td>Termination benefits</td>
<td>Termination benefits arising from redundancies are accounted for similarly to restructuring provisions.</td>
<td>Comparable to IFRS.</td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>Use historical costs or revalued amounts. Component approach must be applied in determining depreciation for property, plant and equipment. Annual reassessment of useful lives and residual values.</td>
<td>Use historical costs or revalued amounts. No componentisation or review of useful lives and residual values.</td>
<td></td>
</tr>
<tr>
<td>Acquired intangible assets</td>
<td>Capitalise if recognition criteria are met; intangible assets may have indefinite useful life or are amortised over useful life.</td>
<td>Guidance only exists for research and development costs.</td>
<td></td>
</tr>
<tr>
<td>Internally generated intangible assets</td>
<td>Expense research costs as they are incurred. Capitalise and amortise development costs only if stringent recognition criteria are met.</td>
<td>Similar to IFRS. No guidance exists for identifiability.</td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>Carried at lower of cost and net realisable value. Use FIFO or weighted average method to determine cost. LIFO prohibited.</td>
<td>Similar to IFRS</td>
<td></td>
</tr>
<tr>
<td>Capitalisation of borrowing costs</td>
<td>Borrowing costs must be capitalised.</td>
<td>It is implied that borrowing costs should be capitalised. Not always done in practice. Generally only specific borrowings are capitalised.</td>
<td></td>
</tr>
<tr>
<td>Investment property</td>
<td>Measure at depreciated cost less accumulated depreciation or fair.</td>
<td>Measure at depreciated cost less accumulated amortisation or fair.</td>
<td></td>
</tr>
<tr>
<td>Subject</td>
<td>IFRS</td>
<td>Nigerian GAAP</td>
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<td></td>
</tr>
<tr>
<td><strong>Impairment of nonfinancial assets</strong></td>
<td>If impairment is indicated, write down assets to higher of the fair value less cost to sell and the value in use based on discounted cash flows. Reversals of losses permitted in certain circumstances, except for goodwill.</td>
<td>Impairments should be recognized when the carrying amount of PPE exceeds its recoverable amount. Very limited guidance available.</td>
<td></td>
</tr>
<tr>
<td><strong>Non-current assets held for sale or disposal group</strong></td>
<td>Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.</td>
<td>No guidance exists.</td>
<td></td>
</tr>
<tr>
<td><strong>Leases – classification</strong></td>
<td>Leases are classified as finance leases if substantially all risks and rewards of ownership transferred to a lessee. Substance rather than legal form is important.</td>
<td>Leases are classified into operating and finance leases, but based on rules rather than principles.</td>
<td></td>
</tr>
<tr>
<td><strong>Lessor accounting</strong></td>
<td>Record amounts due under finance leases as a receivable (financial asset). Allocate gross earnings to give constant rate of return based on net investment method.</td>
<td>Similar to IFRS.</td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Provisions – general</strong></td>
<td>Record the provisions related to present obligations from past events if outflow of resources is probable and can be reliably estimated. Where the effect of the time value of money is material, the amount of a provision shall be the present value of the obligation.</td>
<td>Similar to IFRS, though Nigerian GAAP does not specify the use of a pre-tax discount rate.</td>
<td></td>
</tr>
<tr>
<td><strong>Provisions – restructuring</strong></td>
<td>Recognise restructuring provisions if detailed formal plan announced or implementation effectively begun.</td>
<td>Comparable to IFRS.</td>
<td></td>
</tr>
<tr>
<td><strong>Contingencies</strong></td>
<td>Disclose unrecognised possible losses and probable gains.</td>
<td>Comparable to IFRS.</td>
<td></td>
</tr>
<tr>
<td><strong>Income taxes</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Deferred income taxes – general approach</strong></td>
<td>Use full provision (liability) method driven by balance sheet temporary differences. Deferred tax assets are recognised if recovery is probable (more likely than not).</td>
<td>Based on the income statement method.</td>
<td></td>
</tr>
<tr>
<td><strong>Deferred income taxes – exceptions</strong></td>
<td>Non-deductible goodwill and temporary differences on initial recognition of assets and liabilities that do not impact on accounting or taxable profit.</td>
<td>No exceptions exist, but deferred taxes only raised for temporary differences and not permanent differences.</td>
<td></td>
</tr>
<tr>
<td><strong>Financial assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Classification and measurement of financial assets</strong></td>
<td>Financial assets are classified at amortised cost or fair value. To be classified at amortised cost, they must meet certain criteria.</td>
<td>Financial assets are not defined. Certain financial assets are identified as investments. Others are accounted for based on general practice.</td>
<td></td>
</tr>
<tr>
<td><strong>Financial assets that are investments</strong></td>
<td></td>
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<tr>
<td>Subject</td>
<td>IFRS</td>
<td>Nigerian GAAP</td>
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</tr>
<tr>
<td>Investments in equity instruments</td>
<td>Investments in equity instruments can be designated as fair value through other comprehensive income. All other fair value instruments are fair value through profit or loss.</td>
<td>classified as short-term or long-term investments. Short-term investments are carried at the lower of cost or market value. Long-term investments are carried at cost or revalued amount, with revaluations going through equity. Exceptions and further guidance exist for banking and non-banking financial institutions.</td>
<td></td>
</tr>
<tr>
<td>Impairment of financial instruments</td>
<td>Impairment of amortised cost instruments, using an incurred loss model.</td>
<td>Receivable balances are subjected to provision for doubtful debts based on expected losses determined on an aging of such receivable balances. The loss is determined by an expected percentage loss to the different age buckets. Short- and long-term investments are written down to market value where their value is below cost.</td>
<td></td>
</tr>
<tr>
<td>Derecognition</td>
<td>Derecognise financial assets based on risks and rewards first; control is secondary test.</td>
<td>There is no general guidance. Guidance exists for financial institutions.</td>
<td></td>
</tr>
<tr>
<td>Financial liabilities classification</td>
<td>Classify capital instruments depending on substance of the issuer’s obligations, as either liability or equity.</td>
<td>No guidance.</td>
<td></td>
</tr>
<tr>
<td>Derecognition</td>
<td>Derecognise liabilities when extinguished. The difference between the carrying amount and the amount paid is recognised in the income statement.</td>
<td>No guidance. In practice derecognition occurs on extinguishment.</td>
<td></td>
</tr>
<tr>
<td>Convertible instruments</td>
<td>Account for convertible instruments on an split basis, allocating proceeds between equity and debt.</td>
<td>No guidance.</td>
<td></td>
</tr>
<tr>
<td>Equity instruments</td>
<td>The full amount paid show as deduction from equity.</td>
<td>No guidance.</td>
<td></td>
</tr>
<tr>
<td>Derivatives and hedging activities</td>
<td>Measure derivatives and hedge instruments at fair value; recognize changes in fair value in income statement except for effective cash flow hedges, where the changes are deferred in equity until effect of the underlying transaction is recognised in the income statement.</td>
<td>No guidance.</td>
<td></td>
</tr>
<tr>
<td>Embedded derivatives</td>
<td>Embedded derivatives separated from the</td>
<td>No guidance.</td>
<td></td>
</tr>
<tr>
<td>Subject</td>
<td>IFRS</td>
<td>Nigerian GAAP</td>
<td>Page</td>
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<td>----------------------------------------------</td>
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</tr>
<tr>
<td>Functional currency – definition</td>
<td>Functional currency is the currency of the primary economic environment in which an entity operates. Identification based on primary and secondary indicators.</td>
<td>No concept of functional currency. All entities report using Naira.</td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation of transactions and monetary items</td>
<td>Translate transactions at rate on date of transaction; monetary assets/liabilities at balance sheet rate; non-monetary items at historical rate.</td>
<td>Similar to IFRS. Except that there is an option to defer foreign exchange gains and loss on long term monetary items.</td>
<td></td>
</tr>
<tr>
<td>Consolidation of foreign subsidiaries</td>
<td>Use closing rate for balance sheets; average rate for the period for income statements. Take exchange differences to equity. Include in gain or loss on disposal of a subsidiary.</td>
<td>Similar to IFRS.</td>
<td></td>
</tr>
<tr>
<td>Earnings per share – diluted</td>
<td>Use weighted average potential dilutive shares as denominator for diluted EPS.</td>
<td>Similar to IFRS.</td>
<td></td>
</tr>
<tr>
<td>Disclosure of risks arising from financial instruments</td>
<td>Entity shall disclose information enabling users of financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed.</td>
<td>No guidance, except for additional risk management disclosures required of banks by the banking regulator.</td>
<td></td>
</tr>
<tr>
<td>Related party transactions – definition</td>
<td>Determine by level of direct or indirect control, joint control and significant influence of one party over another or common control of both parties.</td>
<td>No guidance exists.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nigerian Company law requires disclosures in annual financial statements of dealings with officials of the company.</td>
<td></td>
</tr>
</tbody>
</table>
Conceptual framework

General

IFRS Includes a conceptual framework. The principles set out in this framework provide a basis for setting accounting standards and a point of reference for the preparation of financial information where no specific guidance exists.

Nigerian GAAP There is no equivalent framework within Nigerian GAAP. However, there is a standard on accounting policies, which includes guidance on the preparation of accounting policies and the fundamental concepts to be utilised in preparing such policies. These fundamental concepts include: entity, going concern, periodicity, realisation, matching, consistency and historical cost. In addition, it provides policies to establish how to apply the fundamental concepts. These include: substance over form, objectivity, fairness, materiality and prudence.

Historical cost or fair value

IFRS Historical cost is the main accounting convention. However, IFRS permits the revaluation of intangible assets, property, plant and equipment (PPE), investment property and inventories in certain industries. IFRS also requires the measurement at fair value of certain categories of financial instruments and certain biological assets.

Nigerian GAAP Is similar to IFRS with some differences but with fewer departures from historical cost. The revaluation gains or losses on investment property are taken to equity as opposed to profit or loss. Financial instruments are normally carried at cost or amortised cost and subjected to provisions for losses in value.

Fair presentation override

IFRS Entities may depart from an IFRS standard in extremely rare circumstances, in which compliance with a requirement in IFRS would result in presentation of misleading financial information. IFRS requires extensive disclosure of the nature of and the reason for the departure from an IFRS standard and the financial impact of the departure. The override does not apply where there is a conflict between local company law and IFRS; in such a situation, the IFRS requirements must be applied.

Nigerian GAAP There is similar available guidance but not in relation to fair presentation. Although the principle of substance over form exists within Nigerian GAAP, there is allowance for entities to override the requirements of Nigerian GAAP. The Companies and Allied Matters Act allows departure from an accounting principle or requirement where the directors are of the opinion that there are special reasons for
doing so. Particulars of the departure, reasons for doing so and the effect should be disclosed.

**First-time adoption**

**IFRS**

IFRS includes a specific standard with guidance on how to apply IFRS for the first time (IFRS 1 ‘First-time adoption’). It introduces certain reliefs and imposes certain requirements and disclosures. First-time adoption of IFRS as the primary accounting basis requires full retrospective application of IFRS effective as at first IFRS reporting period, with some mandatory exceptions and optionalexemptions. For example, exemptions for property, plant and equipment and other non-monetary assets, business combinations and pension plan accounting. Comparative information must be prepared and presented on the basis of IFRS. Almost all adjustments arising from the first-time application of IFRS must be made against opening retained earnings or, if appropriate, another category of equity at the date of transition. Some adjustments are made against goodwill or against other classes of equity.

**Nigerian GAAP**

This issue is not addressed. All Nigerian entities must apply Nigerian GAAP from their inception. All listed and significant public interest entities (as defined by the Roadmap to IFRS as issued by the Nigerian Accounting Standards Board) will need to comply with IFRS for periods ending after 1 January 2012.

**References:**


**Nigerian GAAP:** SAS 1. Companies and Allied Matters Act 1990 amended.
Financial statements

General requirements

Compliance

IFRS  Entities should make an explicit statement that financial statements comply with IFRS. Compliance cannot be claimed unless the financial statements comply with all the requirements of each applicable standard and each interpretation.

Nigerian GAAP  There is no requirement to make an explicit statement of compliance with Nigerian GAAP. All listed and significant public interest entities will need to comply with IFRS for periods ending after 1 January 2012. Other public interest entities will need to apply IFRS for periods ending after 1 January 2013, while small- and medium-sized entities will need to adopt by 2014.

The following guidance was issued to provide clarity on the classifications:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant public</td>
<td>This means:</td>
</tr>
<tr>
<td>interest entity</td>
<td>• Government business entities;</td>
</tr>
<tr>
<td></td>
<td>• All entities that have their equities or debt instruments listed and traded in a public market (a domestic or foreign Stock Exchange or an Over the Counter market, including local and regional market); and</td>
</tr>
<tr>
<td></td>
<td>• Such other organisations, though unquoted, are required by law to file returns with regulatory authorities and this excludes private companies that routinely file returns only with Corporate Affairs Commission and the Federal Inland Revenue Service. Examples of entities meeting these criteria include financial and other credit institutions and insurance companies.</td>
</tr>
<tr>
<td>Other public interest</td>
<td>This refers to those entities, other than listed entities (unquoted, private companies), which are of significant public interest because of their nature of business, size, or number of employees or their corporate status which require, wide range of stakeholders. Examples of entities meeting these criteria are large not-for-profit entities such as charities and pension funds and may include publicly owned entities and other entities where there is a potentially significant effect on financial stability.</td>
</tr>
<tr>
<td>entities</td>
<td></td>
</tr>
<tr>
<td>Small- and medium-</td>
<td>This refers to entities that may not have</td>
</tr>
<tr>
<td>sized</td>
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</tr>
</tbody>
</table>
sizedentities public accountability and:

- Their debt or equity instruments are not traded in a public market;
- They are not in the process of issuing such instruments for trading in a public market;
- They do not hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses;
- The amount of its annual turnover is not more than N500 million or such amount as may be fixed by the Corporate Affairs Commission;
- Its total asset value is not more than N200 million or such amount as may be fixed by the Corporate Affairs Commission;
- No Board members are an alien;
- No members are a government or a government corporation or agency or its nominee; and
- The directors among them hold not less than 51 per cent of its equity share capital.

These entities will apply IFRS for SMEs when they convert.

Components of financial statements

A set of financial statements under IFRS and Nigerian GAAP comprises the following components:

<table>
<thead>
<tr>
<th>Component</th>
<th>Page</th>
<th>IFRS</th>
<th>Nigerian GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement of financial position / balance sheet</td>
<td>16</td>
<td>Required</td>
<td>Required</td>
</tr>
<tr>
<td>Income statement</td>
<td>19</td>
<td>Required (a)</td>
<td>Required (b)</td>
</tr>
<tr>
<td>Statement of comprehensive income</td>
<td>19</td>
<td>Required (a)</td>
<td>Not required (c)</td>
</tr>
<tr>
<td>Statement of changes in equity</td>
<td>21</td>
<td>Required</td>
<td>Not required (c)</td>
</tr>
<tr>
<td>Statement of cash flows</td>
<td>22</td>
<td>Required</td>
<td>Required (f)</td>
</tr>
<tr>
<td>Notes comprising a summary of significant accounting policies and other explanatory information</td>
<td></td>
<td>Required</td>
<td>Required (d) (f)</td>
</tr>
<tr>
<td>Value added statement</td>
<td></td>
<td>Not required (e)</td>
<td>Required (f)</td>
</tr>
<tr>
<td>Five-year financial summary</td>
<td></td>
<td>Not required (e)</td>
<td>Required (f)</td>
</tr>
</tbody>
</table>

Notes:

a. Under IFRS, an entity shall present all items of income and expense recognised in a single statement of comprehensive income, or in two statements: a statement
displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income).

b. The income statement is also known as the “Profit and loss account” under Nigerian GAAP.

c. There is no requirement for the statements. All movements in equity reserves are shown in the notes to the financial statements.

d. While there is a requirement to include the accounting policies, in practice these disclosures are limited and not all policies are clearly disclosed.

e. These items may be disclosed outside the financial statements by entities depending on the jurisdictions and legal requirements governing the particular entities. Under Nigerian GAAP these are required to be included inside the financial statements.

f. Under Nigerian GAAP Private Companies (as defined in the Companies and Allied Matters Act) need not disclose the accounting policies, statement of cash flows, value added statement or five-year financial summary.

Compliance

**IFRS** Requires one year of comparatives for all numerical information in the financial statements, with small exceptions. A statement of financial position as at the beginning of the earliest comparative period presented needs to be disclosed when an entity applies a new accounting policy retrospectively or makes a retrospective restatement or when it reclassifies items in its financial statements.

**Nigerian GAAP** Requires one year of comparatives for all numerical information in the financial statements and the annual report. In addition, a five-year summary financial summary is also required to be included in the annual report.

**Statement of financial position / balance sheet**

**Format**

**IFRS** Does not prescribe a particular statement format. Management may use judgement regarding the form of presentation in many areas. Entities present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of the statement of financial position, except when a liquidity presentation provides more relevant and reliable information. In such cases, all assets and liabilities shall be presented broadly in order of liquidity. However, as a minimum, IFRS requires presentation of the following items included on the table on page 17, on the face of the statement.

**Nigerian GAAP** The Companies and Allied Matters Act prescribes two formats for presentation. These prescribed formats require the following items to be included on the face of the balance sheet:
<table>
<thead>
<tr>
<th>IFRS</th>
<th>Nigerian GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment(PPE),</td>
<td>Fixed assets</td>
</tr>
<tr>
<td>Investment property</td>
<td>Presented separately or as part of fixed assets or long-term investments</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>Presented separately or as part of fixed assets</td>
</tr>
<tr>
<td>Financial assets</td>
<td>Included in long and short-term investments</td>
</tr>
<tr>
<td>Investments accounted for using the equity method</td>
<td>Presented separately or as part of long-term investments</td>
</tr>
<tr>
<td>Biological assets</td>
<td>Refer to biological assets and agricultural produce section (page 149)</td>
</tr>
<tr>
<td>Inventories</td>
<td>Stocks</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>Trade and other debtors</td>
</tr>
<tr>
<td>Deferred income tax assets</td>
<td>Deferred income tax assets</td>
</tr>
<tr>
<td>Current income tax assets</td>
<td>Current income tax assets</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>Cash at bank and in hand</td>
</tr>
<tr>
<td>Assets qualified as held for sale</td>
<td>No similar category exists</td>
</tr>
<tr>
<td><strong>Equity and Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Issued share capital and other components of shareholders’ equity</td>
<td>Capital and reserves</td>
</tr>
<tr>
<td>Non-controlling interest presented within equity</td>
<td>Non controlling interest</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>Loans</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>Trade and other creditors</td>
</tr>
<tr>
<td>Deferred income tax liabilities</td>
<td>Deferred income tax liabilities</td>
</tr>
<tr>
<td>Current income tax liabilities, and</td>
<td>Current income tax liabilities, and</td>
</tr>
<tr>
<td>Liabilities included in disposal groups</td>
<td>No similar category exists</td>
</tr>
</tbody>
</table>

**Current/non-current distinction**

*IFRS* The current/non-current distinction is mandatory (except when an liquidity presentation is used). Where the distinction is made, assets must be classified as current assets where they are held for sale or consumption in the course of the normal operating cycle, provided the normal operating cycle is clearly identifiable. Both assets and liabilities are classified as current where they are expected to be recovered or settled within 12 months of the reporting date (when the normal operating cycle criterion is not applicable). Interest-bearing liabilities are classified as current when they are due to be settled within 12 months of the reporting date, even if the original term was for a period...
of more than 12 months; and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue.

_Nigerian GAAP_ Current and non-current items are clearly identified. Banks and nonbanking financial institutions are permitted to present the balance sheet on a liquidity basis (refer page 129).

**Offsetting assets and liabilities**

_IFRS_ Assets and liabilities must not be offset, except where specifically permitted by a standard. Financial assets and financial liabilities maybe offset where an entity:

- Has a legally enforceable right to set off the recognised amounts; and
- Intends to settle transactions on a net basis or to realise the asset and settle the liability simultaneously.

Master netting arrangements do not provide a basis for offsetting unless both of the criteria described earlier have been satisfied.

_Nigerian GAAP_ Is silent on this matter. In practice non-financial assets and liabilities are not offset. Financial assets and liabilities are sometimes offset in practice where there is a right to do so.

**Other balance sheet classification**

Under both IFRS and Nigerian GAAP non-controlling interests are presented as part of equity.

**Income statement / statement of comprehensive income**

Both accounting frameworks require prominent presentation of an income statement / statement of comprehensive income as a primary statement(s). (Although under IFRS it is possible to present comprehensive income in two statements, in this section of the publication we refer just to the statement of comprehensive income when discussing requirements for both statements.)

**Format**

_IFRS_ The entity must analyse its expenses either by function or by nature. Additional disclosure of expenses by nature is required if the functional presentation is chosen. Entities should not mix functional and nature classifications of expenses by excluding certain expenses from the functional classifications to which they relate. The total profit or loss and total comprehensive income attributable to the non-controlling interest and to the owners of the parent are separately disclosed on the face of the statement of comprehensive income.
As a minimum, IFRS requires the disclosure of the following items on the face of the statement of comprehensive income:

- Revenue
- Finance costs
- Share of after-tax results of associates and joint ventures accounted for using the equity method
- Tax expense
- Post-tax profit or loss of discontinued operations and post-tax gain or loss recognised on the measurement to fair value less costs to sell or from disposal of assets or disposal groups constituting the discontinuing operations
- Profit or loss; each component of other comprehensive income classified by nature
- Share of the other comprehensive income of associates and joint ventures accounted for using the equity method
- Total comprehensive income

An entity that discloses an operating result should include all items of an operating nature, including those that occur irregularly or infrequently or are unusual in amount

Nigerian GAAP

Does not address the concept of function or nature. The Companies and Allied Matters Act provides example formats to be followed. These formats result in a presentation that is similar to IFRS. There are also specific income statement formats that are provided by the local accounting standards for banks and other financial institutions. There are some differences to note:

- The portion attributable to non-controlling interests is shown as a charge in arriving at net income;
- Some entities disclose interim dividends as a deduction after calculating net income (requirement of the Companies and allied Matters Act); and
- Some entities disclose transfers of net income to other reserves on the face of the income statement (for example where banks are required to keep minimum reserves, this transfer of net profits to the statutory reserve is shown on the face of the income statement).

Items for disclosure in statement of other comprehensive income

IFRS

All non-owner changes in equity will be presented in the statement of comprehensive income. Components of other comprehensive income include:

- Changes in revaluation surplus (PPE and intangible assets)
- Actuarial gains and losses on defined benefit plans recognised in full in equity (option under IAS 19)
- Gains and losses from the translation of foreign operations
- Gains and losses on remeasuring available-for-sale financial assets
- Effective portions of gains and losses of hedging instruments in cash flow hedges

**Nigerian GAAP** All movements in reserves are disclosed in the notes to the financial statements.

**Exceptional items**

**IFRS** IFRS does not use the term “exceptional items” but requires these separate disclosure of items of comprehensive income that are of such a size, nature or impact that their separate disclosure is necessary to explain the performance of the entity for the period. Disclosure may be on the face of the statement of comprehensive income or in the notes.

**Nigerian GAAP** Defines exceptional items as those items that, though normal to an activity of an enterprise, are abnormal as a result of their infrequency of occurrence and size. They should be separately reported (gross of tax) as part of the results of ordinary activities.

**Statement of changes in equity**

**IFRS** The statement of changes in equity presents:
- Total comprehensive income for the period
- The transactions with the owners in their capacity as owners
- Effects of retrospective restatements or application
- A reconciliation between the carrying amount at the beginning and the end of the period for each component of equity, disclosing each change separately

**Nigerian GAAP** No additional statement is required. All movements in reserves are disclosed as part of the notes to the financial statements. In certain situations (for example where banks are required to maintain a minimal level of reserves) transfers of net income to other reserves are sometimes disclosed on the face of the income statement.

**Dividends**

**IFRS** Presented as a deduction in the statement of changes in equity in the period when approved by the company’s shareholders.

**Nigerian GAAP** Interim dividends paid are disclosed on the face of the income statement. Proposed dividends are recognised when authorised by shareholders.

**Statement of cash flows**

[OR&C logo]
Method

**IFRS**
The statement of cash flows reflects inflows and outflows of “cash and cash equivalents”. Cash flows from operating activities may be prepared using either the direct method (cash flows derived from aggregating cash receipts and payments associated with operating activities) or the indirect method (cash flows derived from adjusting net profit or loss for transactions of a non-cash nature, such as depreciation, and changes in working capital). The latter is more common in practice.

**Nigerian GAAP**
Comparable to IFRS. Both methods, direct and indirect, are permitted. The latter is more common in practice.

Definition of cash and cash equivalents

**IFRS**
Cash includes cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent only when it has a maturity of three months or less from its acquisition date. Cash and cash equivalents may include bank overdrafts repayable on demand, but does not include short-term bank borrowings which are financing cash flows.

**Nigerian GAAP**
Cash comprises cash on hand and demand deposits, denominated in Naira and foreign currencies. Cash equivalents are short-term, highly liquid investments, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Generally, they are within three months of maturity.

Format

**IFRS**
Requires separate classification of cash flows from operating, investing and financing activities.

**Nigerian GAAP**
Comparable to IFRS.

Classification of specific items

IFRS and Nigerian GAAP require the classification of paid and received interest, dividends and tax within specific categories of the cash flow statement. These are set out below:

<table>
<thead>
<tr>
<th>Items</th>
<th>IFRS</th>
<th>Nigerian GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest paid</td>
<td>Operating or financing</td>
<td>Financing</td>
</tr>
<tr>
<td>Interest received</td>
<td>Operating or investing</td>
<td>Investing</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>Operating or financing</td>
<td>Financing</td>
</tr>
<tr>
<td>Dividends received</td>
<td>Operating or investing</td>
<td>Investing</td>
</tr>
<tr>
<td>Taxes paid</td>
<td>Operating – unless specific identification with financing or investing</td>
<td>Operating</td>
</tr>
</tbody>
</table>
Changes in accounting policies and other accounting changes

Changes in accounting policies

**IFRS**

Voluntary changes in accounting policies are allowed only if the change results in reliable and more relevant financial information. Changes in accounting policies should be accounted for retrospectively with comparative information restated and the amount of the adjustment relating to prior periods adjusted against the opening balance of retained earnings of the earliest period presented in the statement of changes in equity. An additional statement of financial position at the start of the first period presented is also disclosed. An exemption applies when changing comparative information is impracticable.

Policy changes made on the adoption of a new standard must be accounted for in accordance with that standard’s transitional provisions. If transitional provisions are not specified then the method described above must be used.

**Nigerian GAAP**

Changes in accounting policies are made to conform to new standards and legislation or when it is considered that the change would result in a more appropriate presentation of transactions in the financial statements of the enterprise. No guidance exists on how to determine when it would be more appropriate – the principles of relevance and reliability do not exist in Nigerian GAAP.

Changes in accounting policies should be accounted for with the amount of the adjustment relating to prior periods adjusted against the opening balance of retained earnings of the prior period. Comparative information is not restated.

Correction of material errors

**IFRS**

Requires the same method as for policy changes. An entity must restate comparatives and an additional statement of financial position at the start of the first period presented is disclosed.

**Nigerian GAAP**

Changes resulting from the misapplication of accounting principles should be accounted for with the amount of the adjustment relating to prior periods adjusted against the opening balance of retained earnings of the prior period. Comparative information is not restated.

Changes in accounting estimates

**IFRS**

Changes in accounting estimates are accounted for prospectively in the statement of comprehensive income when identified. IFRS treats changes in depreciation method and revised asset useful lives as a change in accounting estimate.

References:

IFRS: IAS 1, IAS 7, IAS 8, Framework.
Nigerian GAAP  Similar to IFRS, as changes are accounted for prospectively in the income statement. Nigerian GAAP treats any changes in depreciation method as a change in accounting policy.

Nigerian GAAP:
Consolidated financial statements

Preparation

IFRS
Requires the preparation of consolidated financial statements by a parent entity that includes all subsidiaries. An exemption applies to a parent entity when all of the following conditions apply:

- When the parent entity is itself wholly owned or if the owners of the minority interests have been informed about and do not object to the parent’s not presenting consolidated financial statements.
- When the parent’s debt or equity securities are not publicly traded and the parent is not in the process of issuing securities in public securities markets.
- When the immediate or ultimate parent publishes consolidated financial statements that comply with IFRS.

Nigerian GAAP
Is comparable to IFRS. The Companies and Allied Matters Act also exempts a wholly owned subsidiary of another entity that is incorporated in Nigeria from preparing group (consolidated) financial statements.

Subsidiaries

Definition

IFRS
Focuses on the concept of control in determining whether a parent/subsidiary relationship exists. Control is the parent’s power to govern the financial and operating policies of a subsidiary to obtain benefits. Control is presumed to exist when a parent owns, directly or indirectly through subsidiaries, more than one half of an entity’s voting power, unless it can be clearly demonstrated that such ownership does not constitute control. Currently exercisable potential voting rights also need to be considered in determining whether control exists. There is no requirement to assess whether the exercise is economically reasonable.

Control also exists when a parent owns half or less of the voting power but has legal or contractual rights to control the majority of the entity’s voting power or votes in the entity’s board of directors.

- Power over more than half of the voting rights by virtue of an agreement with other investors;
- Power to govern the financial and operating policies of the entity under a statute or an agreement;
- Power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
- Power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity...
In rare circumstances, a parent could also have control over an entity in circumstances where it holds less than 50 per cent of the voting rights of an entity and lacks legal or contractual rights by which to control the majority of the entity’s voting power or board of directors (de-facto control). An example of de-facto control is when a major shareholder holds an investment in an entity with an otherwise dispersed public shareholding. The assertion of de-facto control is evaluated on the basis of all relevant facts and circumstances, including the legal and regulatory environment, the nature of the capital market and the ability of the majority owners of voting shares to vote together.

Companies acquired (disposed of) are included in (excluded from) consolidation from the date control passes.

Nigerian GAAP The definition of control is comparable to IFRS. The other indicators of control also exist, but in practice these are not always considered to have as much weight as the ownership rights.

The concept of de-facto control is not applied under Nigerian GAAP.

Special purpose entities (SPE)

IFRS An SPE is an entity created to accomplish a narrow and well-defined objective (e.g. to effect a lease, research and development activities or a securitisation of financial assets). Such a SPE may take the form of a corporation, trust, partnership or unincorporated entity. IFRS requires the consolidation of special purpose entities (SPEs) where the substance of the relationship indicates that an entity controls the SPE, regardless of whether it has a direct or indirect ownership interest in the SPE. Indicators of control arise where:

1. In substance, the activities of the SPE are being conducted on behalf of the entity according to its specific business needs so that the entity obtains benefits from the SPE’s operation;
2. In substance, the entity has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an ‘autopilot’ mechanism, the entity has delegated these decision-making powers;
3. In substance, the entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE; or
4. In substance, the entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

Nigerian GAAP There is no guidance on SPEs and in practice these are not consolidated when there are no ownership interests and the other indicators of control in the relevant SAS do not exist.

Subsidiaries excluded from consolidation
**IFRS**

All subsidiaries that are controlled by the parent are consolidated. If on acquisition a subsidiary meets the criteria to be classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, it shall be accounted for in accordance with that IFRS.

**Nigerian GAAP**

The Companies and Allied Matters Act provides that subsidiaries need not be consolidated if in the opinion of the directors:

- It would be impracticable or would be of no value to members;
- It would involve expense or delay out of proportion to its value;
- The result would be misleading or harmful to the business of the company or its subsidiaries; or
- The business of the holding company and subsidiary are so different that they cannot reasonably be treated as a single undertaking.

These investments are recognised and measured at cost less any impairment.

**Changes in the interest of a subsidiary**

**IFRS**

The gain or loss on a partial disposal when control is retained is recorded in equity, because non-controlling shareholders are considered equity providers of the group and transactions among equity providers result in no change in goodwill and no gains or loss.

A gain or loss is recognised in the income statement when control is lost as a result of the transaction. In such a case the gain or loss is recognised on the ownership interest being disposed (including goodwill allocated to the subsidiary) as well as on the investment retained in the former subsidiary, which is measured at fair value at the date when control is lost.

Where an entity has an existing investment in a financial asset or an associate and increases that interest to a position where it can exert control (often referred to as a step acquisition) it should first fair-value that existing investment and take any gain or loss to profit or loss. That fair-valued portion is then considered alongside the consideration received when calculating goodwill (refer to page 40).

**Nigerian GAAP**

The new standard, SAS 27 – Consolidated Financial Statements is comparable with IFRS. This standard was issued with an effective date of 1 January 2008. Prior to this there was no guidance, but consolidated financial statements were prepared using an approach based on the earlier guidance in IFRS. Previous transactions would have been in line with the parent company model.

**Uniform accounting policies**

**IFRS**

Consolidated financial statements must be prepared using uniform accounting policies for all of the entities in the group.
Nigerian GAAP

Comparable to IFRS.

Reporting periods

IFRS

Consolidated financial statements of the parent and the subsidiary are usually drawn up as at the same reporting date. However, IFRS does permit the consolidation of subsidiary accounts, drawn up at a different reporting date, provided the difference between the reporting dates is not more than three months. Adjustments must be made for the effects of significant transactions that occur in the gap period.

Nigerian GAAP

Comparable to IFRS.

Investments in associates

Definition

IFRS

An associate is an entity over which the investor has significant influence – that is, the power to participate in, but not control, the associate’s financial and operating policies. A 20% or more interest by an investor in an entity’s voting rights leads to a presumption of significant influence. The existence of significance is usually evidenced in one of the following ways:

- Representation on the board of directors or equivalent governing body of the investee;
- Participation in policy-making processes, including participation in decisions about dividends or other distributions;
- Material transactions between the investor and the investee;
- Interchange of managerial personnel; or
- Provision of essential technical information.

Nigerian GAAP

Similar to IFRS. Though in practice the most weight is given to the 20% interest indicator and the other factors are not always considered.

Definition

IFRS

An investor must account for an investment in an associate using the equity method. The investor presents its share of the associate’s posttax profits and losses (as adjusted for depreciation and amortization on the fair values of the assets) and other comprehensive income in the statement of comprehensive income. The investor recognizes in equity its share of changes in the associate’s equity that have not been recognised in the associate’s profit or loss. On acquisition the investor prepares a notional purchase price allocation and compares the cost of the investment with the investor’s share of the associate’s identifiable assets and liabilities. If the cost of the investment exceeds the fair value of the share of net assets acquired the notional ‘goodwill’ is included in the carrying value of the investment and is not tested separately for impairment. If the cost of the investments is less than the fair value of the share of net assets acquired then negative goodwill is
credited immediately to the income statement.

The investor’s investment in the associate is stated at cost, plus share of post-acquisition profits or losses, plus share of post-acquisition movements in equity, less dividends received. Losses that reduce the investment below zero are applied against any long-term interests that, in substance, form part of the investor’s net investment in the associate; for example, preference shares or long-term receivables from the associate. Losses recognised in excess of the investor’s investment in ordinary shares are allocated to the other components in the net investment in the associate in reverse order of seniority. Further losses are provided for as a liability only to the extent that the investor has not legal or constructive obligation to make payments on behalf of the associate.

Disclosure of information is required about the results, assets and liabilities of significant associates. If the associate is listed, then its fair value, based on the listed share price, must also be disclosed.

Nigerian GAAP

Similar to IFRS. There is no guidance on presentation of items and other comprehensive income.

Impairment

IFRS

If the investment has objective evidence of one of the indicators of impairment set out in IAS 39, Financial Instruments: Recognition and Measurement, the investment is tested for impairment as a single asset in accordance with IAS 36, Impairment of Assets. In estimating value in use, the investor may use its share of the future net cash flows from the underlying entity, or the cash flows expected to arise from dividends ensuring that appropriate assumptions are made about the discount rate in each case. The investee’s goodwill is not subject to impairment testing separately.

Nigerian GAAP

Comparable to IFRS. Though there is no guidance on how to calculate the fair value less costs to sell. There is limited guidance on calculating value in use.

Investments in joint ventures

Definition

IFRS

IFRS defines a joint venture as a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic, financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers). Not necessarily all the parties in the venture are required to have joint control.

Nigerian GAAP

Comparable to IFRS.

Types of joint ventures

OR&C
IFRS Distinguishes between three types of joint venture:

- Jointly controlled entities, where the arrangement is carried on through a separate entity (company or partnership);
- Jointly controlled operations, in which each venturer uses its own assets for a specific project; and
- Jointly controlled assets, a project carried on with assets that are jointly owned.

Nigerian GAAP Comparable to IFRS.

Jointly controlled entities

IFRS For jointly controlled entities the investor may use either the proportionate consolidation method or the equity accounting method. This is a policy choice that must be applied consistently. Proportionate consolidation requires the venturer’s share of the assets, liabilities, income and expenses to be combined on a line-by-line basis with the corresponding items in the venturer’s financial statements, or to be reported line-by-line as separate line items in the venturer’s financial statements.

Nigerian GAAP Comparable to IFRS.

Contributions to a jointly controlled entity

IFRS Where a venturer contributes non-monetary assets, such as shares or property, to a jointly controlled entity in exchange for an equity interest in the jointly controlled entity, the venturer must recognize in the statement of comprehensive income the portion of a gain or loss attributable to the equity interests of the other venturers, unless:

- The significant risks and rewards of ownership of the contributed non-monetary asset(s) have not been transferred to the jointly controlled entity; or
- The gain or loss on the assets contributed cannot be measured reliably; or
- The contribution transaction lacks commercial substance.

Nigerian GAAP Comparable to IFRS.

Jointly controlled operations

IFRS Jointly controlled operations are similar to jointly controlled entities, but they lack specific incorporated structure. The venturer must recognize in its financial statements: the assets that it controls; the liabilities it incurs; the expenses it incurs; and its share of income from the sale of goods or services by the joint venture.

References:
Nigerian GAAP: SAS 28,
**Jointly controlled assets**

**IFRS** The venturer must account for its share in jointly controlled assets, classified according to the nature of the assets; any liabilities it has incurred; its share of any liabilities incurred jointly with the other venturers in relation to the joint venture; any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and any expenses that it has incurred in respect of its interest in the joint venture.

**Nigerian GAAP** Comparable to IFRS.

**Investments in subsidiaries, associates and joint ventures in the stand-alone financial statements**

**Initial measurement**

**IFRS** These investments are initially recorded at cost.

**Nigerian GAAP** Comparable to IFRS.

**Subsequent measurement**

**IFRS** These investments are carried at cost less impairments or at fair value in accordance with the principles applicable for other equity investments. Refer to page 101.

**Nigerian GAAP** These investments are carried at cost or at fair value in line with other long-term investments. Refer to page 101.

References:

**IFRS:** IAS 27, IAS 28, IAS 31.

**Nigerian GAAP:** SAS 13, SAS 27, SAS 28, SAS 29.
Business combinations

In Nigeria the standard on business combinations was issued with an effective date of 1 January 2008. Prior to this there was no guidance and various accounting policies were applied. A variation of acquisition accounting (without fair valuation of acquired assets and liabilities) was, however, more commonly used.

Types

A business combination involves the bringing together of separate entities into one economic entity. An acquisition is where one of the combining entities obtains control over the other. A group reorganisation can arise from transactions among entities that operate under common control, but these are not business combinations within the scope of IFRS.

IFRS

Business combinations within the scope of IFRS 3R are accounted for as acquisitions. A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. The acquisition method applies. Business combinations involving entities under common control, formations of joint ventures and acquisitions of assets not meeting the definition of a business are all excluded from the scope.

A business is defined as an integrated set of activities that is capable of being conducted and managed for the purpose of providing either a return in the form of dividends, lower costs or other economic benefits to owners, members or participants. A business generally consists of inputs, the processes applied to those inputs and the resulting outputs that are or will be used for generating revenues.

Nigerian GAAP

The definition of a business is more limited than that of IFRS. It does not extend to businesses that are capable of being conducted and managed to generate returns or lower costs. Instead the definition is limited to those that are already doing so. The definition of a business combination and the scope exemptions are comparable.

Date of acquisition

IFRS

Is defined as the date on which the acquirer obtains control over the acquired entity (acquiree).

Nigerian GAAP

Comparable with IFRS. Though in practice the legal date that control passes is often used as the date of acquisition.

Consideration

IFRS

The consideration transferred in a business combination is the sum of the acquisition-date fair values of the assets transferred by the acquirer, the
liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. Examples of potential forms of consideration include cash, other assets, a business or a subsidiary of the acquirer, contingent consideration, ordinary or preference equity instruments, options, warrants and member interests of mutual entities.

**Nigerian GAAP**

Comparable to IFRS.

**Share-based consideration**

**IFRS** Shares issued as consideration are recorded at their fair value at the acquisition date. The published price of a share at the acquisition date is the best evidence of fair value in an active market.

**Nigerian GAAP** Comparable to IFRS. However, there is no guidance on determining fair value.

**Contingent consideration**

**IFRS** If part of the purchase consideration is contingent on a future event, such as achieving certain profit levels, IFRS requires the recognition of the contingent consideration at the acquisition date fair value as part of the consideration. An obligation to pay contingent consideration shall be classified as a liability or equity. This classification is considered further in the financial liabilities and equity chapters (pages 106 and 110 respectively). Financial liabilities are remeasured to fair value at each reporting date. Any resulting gain or loss is recognised in profit or loss. Equity-classified contingent consideration is not remeasured at each reporting date. Settlement is accounted for in equity.

**Nigerian GAAP** Comparable to IFRS. There is no guidance within Nigerian GAAP on the classification of debt and equity. The general rule is to follow the legal construction of an instrument in determining whether it is equity or debt. Hence, preference shares are always classed as equity, regardless of the substance.

**Contingent consideration arrangements requiring continued employment**

**IFRS** Certain contingent consideration agreements may be tied to continued employment of the acquiree’s employees. These arrangements are generally recognised as compensation expenses in the post-combination period. However, consideration of the facts and circumstances and specific indicators provided in IFRS is necessary to determine whether the form of the contingent consideration should be recognised as compensation expenses or as part of the consideration transferred.

**Nigerian GAAP** No guidance is given on this issue.
Acquisition-related costs

**IFRS**

Transaction costs are expensed in the periods in which the costs are incurred, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with other IFRSs.

**Nigerian GAAP**

Is comparable to IFRS. Though, in the past acquisition related costs were mostly included in the cost of the business combination. Companies and Allied Matters Act allow the deduction of costs to issue ordinary shares from share premium reserve, if it exists.

Acquired assets and liabilities

Recognition and measurement of identifiable assets and liabilities acquired

**IFRS**

The identifiable assets acquired and liabilities assumed (including contingent liabilities) that existed at the acquisition date are recognised by the acquirer separately from goodwill. These assets and liabilities are measured at their acquisition date fair values. The following items are an exception to this rule:

**Exceptions to the recognition and measurement principles**

- Income taxes – recognised in accordance with IAS 12;
- Employee benefits – recognised in accordance with IAS 19; and
- Indemnification assets – recognised using the same principles as those used to recognise the indemnified liability.

**Exceptions to the measurement principle**

- Reacquired rights – the acquirer shall measure the value of a reacquired right recognised as an intangible asset on the basis of the remaining contractual term of the related contract regardless of whether market participants would consider potential contractual renewals in determining its fair value;
- Share-based payment awards – the acquirer shall measure a liability or an equity instrument related to the replacement of an acquiree’s share-based payment awards with share-based payment awards of the acquirer in accordance with the method in IFRS 2; and
- Assets held for sale – measured at fair value less costs to sell.

**Nigerian GAAP**

Comparable to IFRS. Intangible assets are not ordinarily separately identified and there is no guidance to do so. There are no exceptions to the recognition and measurement rules.

Fair value

**IFRS**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s-length transaction. IFRS does not specifically refer to either an entry or exit price. IFRS does not contain guidance about which market should be used as a basis for measuring fair value when more than one market exists; however, under IFRS, observable markets typically do not exist for many assets acquired in a business combination. As a result, for many non-financial assets, the principal
or most advantageous market will be represented by a hypothetical market. The fair value definition of a liability uses a settlement concept. The fair value of financial instruments should reflect the credit quality of the instrument, and generally the entity’s own credit risk. However, the fair value of non-financial liabilities may not necessarily consider the entity’s own credit risk.

**Nigerian GAAP**

Nigerian GAAP does not provide as much guidance on how to measure the fair values of the acquired assets and assumed liabilities.

**Restructuring provisions**

**IFRS**

The acquirer may recognise restructuring provisions as part of the acquired liabilities only if the acquirer has an existing liability as at the acquisition date for restructuring recognised in accordance with IAS 37 provisions, contingent liabilities and contingent assets. Liabilities for future losses or other costs expected to be incurred as a result of a business combination cannot be recognised.

**Nigerian GAAP**

Comparable to IFRS.

**Intangible assets**

**IFRS**

An intangible asset is recognised separately from goodwill if it represents contractual or legal rights or is capable of being separated or divided and sold, transferred, licensed, rented or exchanged.

Acquired in-process research and development (IR&D) is recognized as a separate intangible asset. Non-identifiable intangible assets (e.g., some non-contractual customer relationships) are subsumed in goodwill.

**Nigerian GAAP**

Although the approach to the purchase method is similar under Nigerian GAAP, there is no guidance on identifying intangible assets or how to account for them after the acquisition date. There is no definition for identifiable intangible assets. Therefore in practice, these intangible assets are not separated.

**Acquired contingencies**

**IFRS**

A contingent liability is recognised at the acquisition date if it is a present obligation and its fair value can be measured reliably. The probability of an outflow of resources to settle the obligation is included in the fair value measurement.

The contingent liability is measured subsequently at the higher of the amount initially recognised or, if qualifying for recognition as a provision, the best estimate of the amount required to settle (using the provisions guidance) with the difference being recognised in profit or loss.

Contingent assets are not recognised. Indemnification assets are recognised as assets of the acquirer at the same time and on the same basis as indemnified items are recognised as liabilities of the acquiree.
Subsequent adjustment to assets and liabilities

**IFRS** Permits within the “measurement period” (within 12 months of the acquisition date) adjustments to the original fair values recognized at acquisition date against goodwill, as additional evidence becomes available to measure those values. Subsequent adjustments are recorded in the statement of comprehensive income unless they are to correct an error.

**Nigerian GAAP** Comparable to IFRS.

Non-controlling interests (NCI) and previously held interests

**Non-controlling interests (minority interests) at acquisition**

**IFRS** Where an investor acquires less than 100% of a subsidiary, IFRS requires the minority interest to be measured at either fair value (full goodwill method) or at the non-controlling interest’s proportionate share of the acquiree’s net identifiable assets. The acquirer has an option to measure the NCI on a transaction-by-transaction basis.

**Nigerian GAAP** Non-controlling interests are measured at their proportional share of the acquiree’s net identifiable assets.

Previously held interests

**IFRS** When an entity obtains control of an acquiree in stages by successive share purchases the business combination is accounted for using the acquisition method at the acquisition date. The previously held equity interests are fair-valued at the acquisition date and a gain or loss is recognised in profit or loss. The fair value of the previously held interest then forms one of the components of consideration that is used to calculate goodwill.

**Nigerian GAAP** Comparable to IFRS.

Goodwill

**IFRS** Goodwill is an asset and is separately recognised. Goodwill is measured at the acquisition date as the excess of (a) over (b):

a. The aggregate of:
   - Consideration transferred
   - Amount of any non-controlling interest in the acquiree
   - Acquisition-date fair value of the acquirer’s previously held equity interest in the acquiree
b. Acquisition-date amount of the identifiable net assets acquired

Where an entity acquires less than 100% of a business and non-controlling interest is measured at fair value, goodwill includes amounts relating to both the acquiring entity’s interest and the non-controlling interest in the business acquired.

In the case where non-controlling interest is measured at its proportionate share in the acquiree’s identifiable net assets goodwill will only include amounts relating to the acquiring entity’s interest in the business acquired.

**Nigerian GAAP**

Goodwill will be calculated in a comparable manner to the proportionate share method.

Note that there are legal stipulations regarding goodwill for banking and non-banking financial institutions. For further details please refer to page 133.

**Useful life**

**IFRS**

Goodwill is not amortised but tested for impairment annually and when indicators of impairment arise. Goodwill is assigned to a cash-generating unit (“CGU”) or a group of CGUs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent from other cash inflows from other assets or groups of assets. Each unit or group of units to which the goodwill is allocated shall not be larger than an operating segment in accordance with IFRS 8.

**Nigerian GAAP**

Goodwill is required to be tested annually for impairment. There is, however, no guidance on how to allocate goodwill to CGUs and there is no requirement to identify CGUs.

**Impairment**

**IFRS**

The recoverable amount of the cash-generating unit (i.e., the higher of its fair value less costs to sell and its value in use) is compared to its carrying amount. The impairment loss is recognised in operating results as the excess of the carrying amount over the recoverable amount. Impairment is allocated first to goodwill. Allocation is made on a pro rata basis to the cash-generating-unit’s other assets if the impairment loss exceeds the carrying amount of goodwill.

Any impairment loss recognised for goodwill cannot be reversed.

**Nigerian GAAP**

There is no guidance on how to perform the impairment test. In practice, some entities refer to IFRS for guidance. In addition, there is no guidance on how to allocate any impairment losses, based on the prudence principle, impairments on goodwill in practice would not be reversed.

**Bargain purchases**

**IFRS**

A bargain purchase is a business combination in which the amount of (b) above (net assets acquired) exceeds the aggregate amounts of (a) above (aggregate of consideration transferred, amount of non-controlling interest and fair value of previously held interests). The acquirer reassesses the
identification and measurement of assets acquired and liabilities assumed and the measurement of the consideration transferred, as well as the non-controlling interests and prior held interests.

Any excess remaining after the reassessment is recognised in profit or loss on the acquisition date.

**Nigerian GAAP** Comparable to IFRS.

### Common control transactions

**IFRS** Does not specifically address such transactions. Entities should develop and consistently apply an accounting policy. In practice, management elects to apply purchase- or the predecessor accounting methods to a business combination involving entities under common control. The accounting policy can be changed only when the criteria in IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, are met. Related party disclosures are used to explain the impact of transactions with related parties on the financial statements.

**Nigerian GAAP** Common control transactions are excluded and are not specifically addressed. Though there is no requirement to develop and consistently apply an accounting policy, any accounting treatment adopted will have to be applied based on the accounting concept of consistency recognised under Nigerian GAAP.

**References:**

*IFRS: IFRS 3R, IAS 12.*

*Nigerian GAAP: SAS 26.*
Revenue recognition

General

Definition

IFRS

IFRS sets out the criteria to be applied in determining when revenues should be recognised.

The two primary revenue standards classify all revenue transactions within one of four broad categories:

- Sale of goods
- Rendering of services
- Others’ use of the entity’s assets (yielding royalties, interest, etc)
- Construction contracts

The revenue recognition criteria for each of these categories include the probability that the economic benefits associated with the transaction will flow to the entity and that the revenue and costs can be measured reliably. Additional recognition criteria apply within each broad category. The principles laid within each of these categories are generally to be applied without significant further rules and/or expectations.

Nigerian GAAP

There is no well developed specific standard on revenue, except for construction contracts. In practice, revenue is recognised based on the terms of contractual agreements entered into. Where there is no express contract, the Sale of Goods Act, a statute of general application in Nigeria, is used.

The standard on accounting policies has two main bases for accounting for revenue:

- Accrual basis: Under this basis the revenue is recognised in the accounting period to which it relates and in the period in which revenue is earned and not received.
- Cash basis: Under this basis the revenue is recognised when it is actually received; however a modified cash basis permits the application of the accrual basis on selected transactions.

In practice most entities apply the accrual basis. Certain government entities and non-profit organisations apply the cash basis. Whenever there are several acceptable accounting bases that may be adopted, a reporting entity should disclose the basis used, especially where the knowledge of that accounting basis is significant in the understanding and interpretation of the financial statements.

The Statement of Accounting Standard on Telecommunications Activities describes revenue as the gross inflow of economic benefits during the period arising in the course of the ordinary activities when those inflows result in increases in equity, other than increases relating to contributions from equity participants. For further guidance on telecommunications practice refer to page 142.
**Principal and agent relationships**

**IFRS**

IAS 18 provides that in an agency relationship, the gross inflowsof economic benefits include amounts collected on behalf of the principal. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission. The appendix to IAS 18 provides guidance on determining whether an entity is acting as a principal or as an agent. An entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. Features that indicate that an entity is acting as a principal include:

- The primary responsibility for providing the goods or services to the customer;
- Bearing of inventory risk before or after the customer order, during shipping or on return;
- Latitude in establishing prices; and
- Bearing of the customer’s credit risk for the amount receivable from the customer.

An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. One feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

**Nigerian GAAP**

No general guidance exists. Guidance is provided for the telecommunications industry. Refer to page 145.

**Measurement**

**IFRS**

IFRS requires measurement of revenues at the fair value of the consideration received or receivable. This is usually the amount of cash or cash equivalents received or receivable. Where the payment is deferred, discounting to a present value is required.

**Nigerian GAAP**

There is no general guidance on the measurement for revenue. In the guidance available to telecommunications entities it is determined that revenue is measured at the fair value of the consideration received or receivable and the economic benefit is receivable over the duration of the contract. For further guidance on telecommunications entities refer to page 142.

**Revenue recognition criteria for sales of goods**

**IFRS**

Revenue from sale of goods should be recognised when:

- It is probable that economic future benefits will flow to the entity;
- The amount of revenue can be reliably measured;
- The enterprise has transferred to the buyer the significant risks and rewards of the ownership of goods;
- The enterprise retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the
goods sold; or
- Costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Nigerian GAAP** Does not stipulate specific criteria for the recognition and measurement of revenue arising from the sale of goods. In practice, revenue is measured in accordance with the terms of the contract or agreement.

### Rendering of services

**IFRS**

IFRS requires that service transactions be accounted for under the percentage of completion method when outcome of a transaction involving the rendering of services can be estimated reliably. Revenue may be recognised on a straight line basis if the services are performed by an indeterminate number of acts over a specified period of time.

When the outcome of the service transaction cannot be reliably measured, revenue may be recognised to the extent of recoverable expenses incurred (zero profit model). If the outcome of the transaction is so uncertain that recovery of costs is not probable, revenue would need to be deferred until more accurate estimates could be made, while the cost incurred is recognised as an expense.

Revenue may have to be deferred in instances where a specific act is much more significant than any other acts.

**Nigerian GAAP** Does not stipulate specific criteria for the recognition and measurement of revenue arising from the rendering of services. In practice, this revenue is recognised according to the accrual basis of accounting in a manner similar to the percentage of completion method applied in construction contracts. Refer to page 48.

### Specific revenue recognition issues

**Warranty and product maintenance contracts**

**IFRS**

When a product’s selling price includes an identifiable component for subsequent servicing, the related amount is deferred and recognised over the period during which the service is performed. If the warranty is not separable from the sale of goods (standard warranty obligations), the full consideration received is recognized as revenue on the sale and a provision is recognised in accordance with IAS 37. Warranty costs form part of the cost of sales. Revenue is deferred for warranties that are separate components.

**Nigerian GAAP** Not addressed specifically; in practice, provisions are often created for warranty repairs, but may also be created for future servicing commitments. There is no guidance for distinguishing between normal warranty provisions and servicing arrangements beyond standard warranties.
Barter transactions – advertising

An advertising barter arrangement exists when two companies enter into a non-cash transaction to exchange advertising services.

**IFRS**  
Revenue may be recognised on the exchange of dissimilar goods and services if the amount of revenue can be measured reliably. The transaction must be measured at the fair value of goods or services received, adjusted by the amount of any cash or cash equivalents transferred. However, where the fair value of goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods and services given up, adjusted by the amount of any cash or cash equivalents received.

Revenue from a barter transaction involving advertising cannot be measured reliably at the fair value of advertising services received. However, a seller can reliably measure revenue at the fair value of the advertising services it provides if certain criteria are met.

**Nigerian GAAP**  
No general guidance is given on this matter. Guidance exists for the telecommunications industry. Refer to page 144.

**Construction contracts**

Scope

**IFRS**  
The guidance applies to the fixed-price and cost-plus construction contract of contractors for the construction of a single asset or a combination of assets and is not limited to certain industries. Additionally, the guidance is generally not applied to recurring production of goods.

**Nigerian GAAP**  
Refers to the execution of building and civil engineering projects, mechanical and electrical engineering installations and other fabrications normally evidenced by an agreement between two or more parties. Nigerian GAAP differentiates between short (less than twelve months) and long term (more than twelve months) construction contracts.

Recognition method

**IFRS**  
The recognition of revenue and expenses by reference to the stage of completion of a contract (referred to as the percentage of completion method) is applied if the outcome can be measured reliably. The criteria necessary for a cost-plus contract to satisfy reliable measurement of the outcome are less restrictive than for a fixed price contract. When the final outcome cannot be estimated reliably, IFRS requires the use of the zero-profit method, which recognizes revenue only to the extent of recoverable contract costs. The gross profit approach is not allowed.

**Nigerian GAAP**  
Distinguishes between two methods that are generally used for accounting for construction contracts: the completed-contract method and the percentage-of-completion method. The completed-contract method is generally applied to short-term contracts, whereas the percentage-of-completion method is applied to long-term contracts. The completed-contract method can also be applied to long-term contracts where it is very difficult to have reliable estimates or forecasts of both costs to completion and the percentage of contract executed.
Recognition of losses

**IFRS**  When the outcome of the contract can be estimated reliably, revenue and costs must be recognised by reference to the stage of completion of the contract activity as at the reporting date. When it is probable that total contract costs will exceed total contract revenue, the expected loss must be recognised as an expense immediately.

**Nigerian GAAP**  Comparable to IFRS.

Completed-contract method

**IFRS**  Prohibited.

**Nigerian GAAP**  Under this method, the revenue is recognised when the contract is completed. Costs incurred and billings are accumulated until the contract is completed. There are no interim charges and credits made to profit and loss account. Although profit is not recognized prior to the completion of the contract, foreseeable losses on the contract are often charged in the accounts in the period they are identified.

Combining contracts and segmenting a contract

**IFRS**  Combining and segmenting contracts is required when certain criteria are met.

**Nigerian GAAP**  No specific guidance exists.

Multiple-element arrangements

**IFRS**  The revenue recognition criteria are usually applied separately for each transaction. In certain situations it is necessary to separate transactions into identifiable components in order to reflect the substance of the transaction. At the same time, two or more transactions may be grouped together when they are linked in such a way that the whole commercial effect cannot be understood without reference to the series of transactions as a whole.

The price that is regularly charged when an item is sold separately is the best evidence of the item’s fair value. At the same time, under certain circumstances, a cost-plus-reasonable-margin approach to estimating fair value would be appropriate.

**Nigerian GAAP**  Under Nigerian GAAP it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. Very little guidance exists in applying the concept to multiple element arrangements. Guidance exists specifically for telecommunications entities: the revenue from what is referred to as bundled products is recognized differently for each product. Refer to page 143.

References:

**IFRS:** IAS 11, IAS 18, IAS 37.

**Nigerian GAAP:** SAS 5, SAS 25, Sale of Goods
Act (1893).
Employee benefits

Nigerian GAAP focuses on accounting for employee retirement benefits and does not provide guidance on other types of employee benefits. It specifically excludes benefits resulting from termination indemnities; long-term leave benefits; redundancy plans or strictly gratuitous schemes, health and welfare or bonus plans; and national insurance benefit schemes, government pension schemes and social security arrangements.

The standard also contains some guidance on reporting by employee benefit plans (Trustee Accounts).

**Employee benefits – pensions**

**Classification of pension schemes**

**IFRS** Separates post-employment benefits into defined contribution plans and defined benefit plans, depending on the economic substance of the plans.

**Nigerian GAAP** Comparable to IFRS.

**Defined contribution plans**

**IFRS** Defined contribution plans are post-employment benefit plans that require the entity to pay fixed contributions into a fund. The entity has no legal or constructive obligation to make further contributions to the fund even if the fund does not hold sufficient assets to pay the benefits. Under these plans the employee is exposed to the risk of the plan assets. IFRS requires that the pension cost be measured as the contribution payable to the fund during each period based on employee services rendered during the period.

**Nigerian GAAP** The treatment is comparable to IFRS.

**Defined benefit plans**

**General**

**IFRS** Defined benefit plans are pension plans other than defined contribution plans. Defined benefit plans oblige the employer to provide agreed post-employment benefits to current and former employees. The risks associated with plan assets rest with the employer. The pension benefit might be based on a percentage of final salary for each year of service.

**Nigerian GAAP** Comparable to IFRS.
Key features of a defined benefit plan

<table>
<thead>
<tr>
<th>Item</th>
<th>IFRS</th>
<th>Nigerian GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial valuation method</td>
<td>The projected unit credit method is used to determine the present value of the entity's defined benefit obligation (DBO).</td>
<td>Allows a choice of:</td>
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<tr>
<td></td>
<td></td>
<td>a) Accrued benefit cost method; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>b) Projected benefit cost method.</td>
</tr>
<tr>
<td>Discount rate</td>
<td>The rate used to discount postemployment benefit obligations is determined by reference to market yields at the end of the reporting period on high quality bonds. Government bonds should be used when there is no deep market in high quality corporate bonds. The currency and term shall be consistent with the currency and estimated term of the DBO.</td>
<td>No guidance is given on this matter.</td>
</tr>
<tr>
<td>Valuation of plan assets</td>
<td>Measure at fair value or using discounted cash flows if market prices unavailable. The fair value of insurance policies should be estimated using, for example, a discounted cash flow model with a discount rate that reflects the associated risk and the expected maturity date or expected disposal date of the assets. Qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, are measured at the present value of the related obligations.</td>
<td>Plan assets are carried at cost less provisions. These are not disclosed with the liabilities, but rather as separate assets of the entity.</td>
</tr>
<tr>
<td>Recognition of actuarial gains and losses</td>
<td>An entity can adopt a policy of recognizing actuarial gains and losses: • Immediate recognition in full as they arise in other comprehensive income (OCI). Subsequent recycling to profit or loss is not permitted. • As they arise in the income statement. • Corridor method: Actuarial gains/losses in excess of the corridor limit are recognised and amortised over the expected remaining working lives of participating employees. The limit</td>
<td>Should be included in the retirement benefit costs of the current period or spread over a period not exceeding 5 years.</td>
</tr>
<tr>
<td>Item</td>
<td>IFRS</td>
<td>Nigerian GAAP</td>
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<tr>
<td>-------------------------------</td>
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<td>-------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Expected return on plan assets</strong></td>
<td>The expected return on plan assets:</td>
<td>No guidance is given on this matter, as assets are carried at cost less provisions.</td>
</tr>
<tr>
<td></td>
<td>• Is based on market expectations at the beginning of the period for returns over the entire life of the related obligation.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Reflects changes in the fair value of plan assets as a result of contributions received, benefits paid and transfers of assets.</td>
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<tr>
<td></td>
<td>• Is applied to the fair value of plan assets at the beginning of the period.</td>
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<tr>
<td></td>
<td>The difference between the expected and actual return is an actuarial gain or loss.</td>
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<tr>
<td><strong>Asset limitation</strong></td>
<td>The amount of a surplus that can be recognised as an the economic benefit available to the entity is restricted to either:</td>
<td>No guidance is given on this matter.</td>
</tr>
<tr>
<td></td>
<td>• A refund from the plan to which the entity has an unconditional right; or</td>
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<td></td>
<td>• A reduction in future contributions.</td>
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<td></td>
<td>There is additional guidance if there is a minimum funding requirement.</td>
<td></td>
</tr>
<tr>
<td><strong>Past-service cost</strong></td>
<td>Positive and negative past-service cost is recognised over remaining vesting period. Where benefits have already vested, the past-service cost is recognised immediately.</td>
<td>Past-service costs associated with employees may be deferred and charged to current and future operations over a period of not more than five years in a systematic and consistent manner. Where benefits have already vested, the past-service cost is recognised immediately.</td>
</tr>
<tr>
<td><strong>Multi-employer plans</strong></td>
<td>Use defined benefit accounting unless sufficient information is available. If there is a contractual agreement between the multi-employer plan and its participants, and the plan is accounted for as a defined contribution plan, the asset or liability that arises from the contractual agreement and the resulting income</td>
<td>No guidance is given on this matter.</td>
</tr>
<tr>
<td>Item</td>
<td>IFRS</td>
<td>Nigerian GAAP</td>
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<tr>
<td>or expense in profit or loss are recognised.</td>
<td>Plans with participating entities under common control are not multiemployer plans. If there is a contractual arrangement between the subsidiary and the parent for charging the net defined benefit cost for the plan as a whole to participating entities, the entities account for the defined benefit costs on that basis. Otherwise, the net defined benefit costs should be recognised by the sponsoring employer, and the other group entities should recognise a cost equal to their contribution payable for the period.</td>
<td>No guidance is given on this matter.</td>
</tr>
<tr>
<td>Group plan</td>
<td>A curtailment occurs either when an entity:</td>
<td>No guidance is given on this matter.</td>
</tr>
<tr>
<td></td>
<td>• Is demonstrably committed to making a significant reduction in the number of employees covered by the plan; or</td>
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<tr>
<td></td>
<td>• Amends the terms of the plan such that a material element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.</td>
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</tr>
<tr>
<td>Curtailment definition</td>
<td>A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all the benefits under the plan.</td>
<td>No guidance is given on this matter.</td>
</tr>
<tr>
<td>Settlement definition</td>
<td>Gains and losses are recognized when the event giving rise to the curtailments/settlements occurs.</td>
<td>No guidance is given on this matter.</td>
</tr>
<tr>
<td>Curtailment/settlement (recognition)</td>
<td>Gains and losses on curtailments/settlements include:</td>
<td>No guidance is given on this matter.</td>
</tr>
<tr>
<td></td>
<td>Changes of the DBO</td>
<td>References:</td>
</tr>
<tr>
<td></td>
<td>Changes in the fair value of the plan assets</td>
<td>IFRS: IAS 19, IFRIC 14, IAS 39.</td>
</tr>
<tr>
<td>Curtailment/settlement (calculation of gains and losses)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Share-based payments**
Recognition and classification

**IFRS**  There are three categories of share-based payment transactions in which entities receive goods or services as consideration:

- Equity instruments of the entity (e.g. shares and share options) are sometimes granted to employees as part of their remuneration package or to other third parties (equity-settled share-based payment). Such transactions are recognised as expenses or assets over the vesting period and credited to equity.

- Cash or other assets, where the amount is based on the price or value of the entity’s shares are cash-settled share-based payments. Such transactions are recognised as expenses or assets over the vesting period and credited to liabilities.

- Transactions in which either party may choose the settlement in either cash or the entity’s equity instruments.

The goods or services acquired in a share-based transaction are recognised when they are received. The fair value of shares and options awarded to employees is recognised over the period to which the employees’ services relate.

**Nigerian GAAP**  No guidance is given on this matter.

Measurement

**IFRS**  Equity-settled share-based payment transactions are measured at the fair value of the goods or services received. If the entity cannot reliably estimate the fair value of the goods or services received, as will be usually the case with employee services, it should measure the transactions by reference to the grant date fair value of the equity instruments granted, which is not subsequently remeasured.

Cash-settled share-based payment transactions are measured at the fair value of the goods or services acquired and the liability incurred. The liability is remeasured at each balance sheet date and at the date of settlement, with changes in fair value recognised in the income statement.

Extensive disclosures are required.

**Nigerian GAAP**  No guidance is given on this matter.

Unidentifiable goods or services

**IFRS**  There is a rebuttable presumption that the fair value of the goods and services received can be reliably estimated (e.g. in non-employee share-based payment transactions). Where the identifiable fair value of the goods or services received is less than the fair value of the equity instruments granted, there is a presumption that unidentifiable goods or services have also been received. Unidentifiable goods or services are measured at fair values as at the grant date.

References:
**IFRS:** IFRS 2, IFRS 8.
**Nigerian GAAP:** No guidance.
**Long-term benefits and disability**

**IFRS** Long-term employee benefits are employee benefits that are due to be settled more than 12 months after the end of the period in which an employee renders the related service. This includes long-term bonuses, long-term compensated absences such as long-term disability, long service and holidays. These benefits are accounted for in the same way as defined benefit plans with the exception that actuarial gains and losses and past service costs are recognized immediately in profit or loss.

**Nigerian GAAP** The guidance under accounting for employee retirement benefits specifically scopes out benefits resulting from termination indemnities; long-term leave benefits; redundancy plans or strictly gratuitous schemes, health and welfare or bonus plans; and national insurance benefit schemes, government pension schemes and social security arrangements.

In practice, certain long-term term benefits such as gratuity schemes are accounted for in the same way as defined benefit plans.

**Termination benefits**

**IFRS** Termination benefits are benefits payable as a result of either:

- An employer’s decision to terminate an employee’s employment before the normal retirement date; or
- An employee’s decision to accept voluntary redundancy in exchange for those benefits.

Termination benefits are recognised when the entity is demonstrably committed to terminate employees or to provide voluntary termination benefits. Termination benefits are measured at the expected amount to be paid. In the event of an offer made to encourage voluntary redundancy, the measurement of termination benefits should be based on the number of employees expected to accept the offer.

**Nigerian GAAP** Redundancy plans are excluded by the guidance on accounting for employee retirement benefits. They are often recorded as a component of the restructuring provision.

**Loans to employees**

It is common practice in Nigeria for employers to issue below market rate loans to its employees.

**IFRS** Refer to page 97 for guidance on accounting for financial assets. The fair value of a financial asset on initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received). Therefore part of the consideration received is for something other than the financial asset. As the loan to employee has to be initially recorded at fair value, its
fair value is estimated using a valuation technique. For example, the fair value of a long-term loan to employees that carries no interest can be estimated as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar loan (similar as currency, term, type of interest rate and other factors) with a similar credit rating issued at the same time. The difference between the present value of the future expected cash flows and the cash provided to the employees should be recognised as a prepayment of employee benefits and amortised to the income statement over the benefit period if the loan must be repaid when the employee leaves. The benefit period is the expected service life of the employees, but cannot exceed the term of the loan.

**Nigerian GAAP**

No guidance exists. In practice, such loans to employees are recorded at cost plus interest less repayments and are rarely subjected to provision for bad debts.

**References:**

**IFRS:** IAS 19, IAS 39.

**Nigerian GAAP:** No guidance. SAS 23.
**Assets**

**Property, plant and equipment (PPE)**

**Definition**

**IFRS**

PPE are tangible assets that are held by an entity for: (i) use in the production or supply of goods or services; (ii) rental to others; or (iii) administrative purposes, and are expected to be used during more than one period.

**Nigerian GAAP**

PPE are tangible assets that; (i) have been acquired or constructed and held for use in the production or supply of goods and services and may include those held for maintenance or repair of such assets; and (ii) are not intended for sale in the ordinary course of business.

Leasehold rights over assets which meet the above criteria may also be treated as property, plant and equipment in certain circumstances.

**Recognition**

**IFRS**

The recognition criteria are in line with the IFRS Framework. Recognise if it is probable that any future economic benefit associated with the item will flow to or from the entity; and the item has a cost or value that can be measured with reliability.

**Nigerian GAAP**

No guidance on recognition criteria other than as incorporated in the definition.

**Initial measurement**

**IFRS**

Measured at its cost at initial recognition. The cost of an item of property, plant and equipment comprises: a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. This includes costs of testing whether the asset is functioning properly. Start-up and pre-production costs must not be capitalised unless they are a necessary part of bringing the asset to its working condition. Government grants received in connection with acquisition of PPE may be offset against the cost or recognized separately.

The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with IAS 23.

Cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal
course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (see IAS2). Therefore, any internal profits are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset.

Cost is defined as “...the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs, for example, share-based payment”. Other considerations could, for example, include an asset given up in exchange. The requirements of IFRS 2 in respect of the recognition and measurement of assets acquired in a share-based payment transaction are dealt with in detail in IFRS 2.

For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

Nigerian GAAP

At date of acquisition, items of property, plant and equipment should be recorded at their initial cost including directly attributable expenses incurred in order to bring them into operation for the intended use. The standard provides examples of directly attributable expenses for different classes of PPE.

Where there are deferred payment terms, any interest accrued before the asset is put into use should be capitalised.

The cost of self-constructed assets should comprise those costs and other expenses that relate directly to and other expenses that are attributable to the construction of the asset. Cost of inefficiencies in the construction of the item should not form part of its cost.

Where an asset is acquired in exchange for shares or securities, the asset should be recorded at its fair value or the fair value of shares issued, whichever is more readily ascertainable. Although fair value is defined in the PPE standard, no guidance is provided for determining such fair values.

Initial measurement – exchange of assets

IFRS

Items of PPE may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless:
• the exchange transaction lacks commercial substance or
• the fair value of neither the asset received nor the asset given up is reliably measurable.

If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up. IFRS provides detailed guidance on determining whether a transaction lacks commercial substance.

**Nigerian GAAP**

When an item of property, plant and equipment is acquired in exchange or in part exchange for another item, the cost of the item acquired should be recorded either at its fair value or at an expert’s valuation of the item exchanged, adjusted for any balancing payment or receipt of cash or other consideration.

### Subsequent expenditure

**IFRS**

Subsequent maintenance expenditure is expensed as incurred. Replacement of parts can be capitalised when the asset recognition criteria per the IFRS Framework are met. The carrying value of the replaced part should be written off according to the derecognition criteria for PPE. That is: (a) on disposal; or (b) when no future economic benefits are expected from its use or disposal.

**Nigerian GAAP**

Expenditure made subsequent to the acquisition of an item of property, plant and equipment, should be added to the book value of the item if the expenditure (a) prolongs the expected useful life of the item of PPE, (b) improves significantly the performance of the item, and (c) enhances the quality of the output of the item. Any costs that do not meet the above criteria are expensed.

### Depreciation

<table>
<thead>
<tr>
<th></th>
<th>IFRS</th>
<th>Nigerian GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>The depreciable amount of an item of PPE must be allocated on a systematic basis over its useful life, reflecting the pattern in which the asset’s future economic benefits are expected to be consumed by the entity.</td>
<td>Depreciation of the asset should be allocated systematically over the asset’s estimated useful life, and should reflect the character of the asset, its intended use and the practice in the industry in which the enterprise operates.</td>
</tr>
<tr>
<td>Methods</td>
<td>• Straight-line method;</td>
<td>Guidance only allows either of two methods of depreciation:</td>
</tr>
<tr>
<td></td>
<td>• Diminishing balance method; and</td>
<td>• Straight-line method; and</td>
</tr>
<tr>
<td></td>
<td>• Units of production method.</td>
<td>• Reducing balance (similar to diminishing balance method).</td>
</tr>
<tr>
<td>Residual value</td>
<td>The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.</td>
<td>Residual value of a depreciable asset is the estimated net amount recoverable from its disposal after its expected useful economic life. There is no explicit guidance on use of residual value in determining the depreciation amount, and the practice varies.</td>
</tr>
<tr>
<td>Componentisation</td>
<td>IFRS</td>
<td>Nigerian GAAP</td>
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<tr>
<td>------------------</td>
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<tr>
<td></td>
<td>Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item and has a different useful life shall be depreciated separately.</td>
<td>No similar concept exists.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change in estimate</th>
<th>IFRS</th>
<th>Nigerian GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits. Any change in the depreciation method used is treated as a change in an accounting estimate in accordance with IAS 8 being reflected in the depreciation charge for the current and future periods. The depreciation methods are reviewed periodically; residual values and useful lives are reviewed as at each reporting date.</td>
<td>Changes in the depreciation method are considered a change in accounting policy requiring prior year adjustments in accordance with SAS 6. Estimates are not revised annually and as a result it is possible for entities to have fully depreciated PPE that is still being used.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Profit or loss</th>
<th>IFRS</th>
<th>Nigerian GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The depreciation charge for each period shall be recognised in profit or loss unless it is included in the carrying amount of another asset.</td>
<td>Recognised in profit and loss.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Start depreciating</th>
<th>IFRS</th>
<th>Nigerian GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Depreciation begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.</td>
<td>Depreciation begins when the asset starts being used.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cease depreciation</th>
<th>IFRS</th>
<th>Nigerian GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Depreciation ceases at the earlier of the date the asset is classified as held for sale in accordance with IFRS 5 and the date the asset is derecognised.</td>
<td>There is no explicit guidance. However, depreciation ceases when the asset is fully depreciated, is disposed of or a decision has been taken to discontinue its use.</td>
</tr>
</tbody>
</table>

**Subsequent measurement**

**IFRS**

Allows a choice of the cost model or the revaluation model as its accounting policy. The cost model requires that an asset be carried at cost less accumulated depreciation and impairment.

**Nigerian GAAP**

Gross book value of an item of PPE should either be the historical cost or the revalued amount. The historical cost model is in line with the IFRS cost model, except for differences in depreciation described in the above table.
## Revaluation model

<table>
<thead>
<tr>
<th></th>
<th>IFRS</th>
<th>Nigerian GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Model</strong></td>
<td>Under the revaluation model, an item of PPE whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.</td>
<td>Similar to IFRS.</td>
</tr>
<tr>
<td><strong>Treatment of accumulated depreciation</strong></td>
<td>Accumulated depreciation at the date of revaluation is either restated proportionately with the changes in the gross carrying amount of the asset or it is eliminated against the gross carrying amount of the asset and the net amount is restated.</td>
<td>Similar to IFRS.</td>
</tr>
<tr>
<td><strong>Increases in revalued amounts</strong></td>
<td>The increase of an asset’s carrying amount as a result of a revaluation must be credited directly to OCI and accumulated in equity, unless it reverses a revaluation decrease for the same asset, previously recognised as an expense; in which case it must be recognised as income in profit or loss.</td>
<td>Similar to IFRS. The increase of an asset’s carrying amount as a result of a revaluation must be credited directly to equity, unless it related to a decrease in the carrying value of the same asset that was charged to profit or loss as a result of depreciation or a decrease in the valuation; in which case it must be recognized as income in profit or loss to the extent that it offsets that previous decrease.</td>
</tr>
<tr>
<td><strong>Decreases in revalued amounts</strong></td>
<td>A revaluation decrease must be charged directly against any related revaluation surplus for the same asset, with any excess being recognised as an expense.</td>
<td>Similar to IFRS.</td>
</tr>
<tr>
<td><strong>Release of the revaluation surplus through depreciation</strong></td>
<td>The revaluation surplus may be transferred as the asset is used by the entity, in which case the amount would be the difference between depreciation based on the revalued carrying amount and depreciation based on the asset’s original cost.</td>
<td>Available guidance disallows the practice of allocating the depreciation charge based on the revalued amount between the profit and loss account and the revaluation reserve in equity. It is silent on whether the revaluation surplus can be released to the profit and loss as the asset is depreciated. In practice, this release is not permitted on the grounds of prudence.</td>
</tr>
<tr>
<td><strong>Release of the revaluation surplus through</strong></td>
<td>The revaluation surplus in respect of an item of PPE is transferred directly to retained earnings when</td>
<td>There is a policy choice; the revaluation surplus may be transferred to income (profit and loss</td>
</tr>
<tr>
<td></td>
<td>IFRS</td>
<td>Nigerian GAAP</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>----------------------------------------------------------------------</td>
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</tr>
<tr>
<td><strong>sale</strong></td>
<td>The asset is derecognised. These transfers are not made through profit and loss.</td>
<td>These transfers are not made through profit and loss.</td>
</tr>
<tr>
<td><strong>Consistency of revaluations</strong></td>
<td>The chosen policy must be applied to an entire class of property, plant and equipment.</td>
<td>Similar to IFRS.</td>
</tr>
<tr>
<td><strong>Frequency of revaluations</strong></td>
<td>Revaluations must be kept sufficiently up to date so that the carrying amount does not differ materially from the fair value. This requires regular revaluations of all PPE when the revaluation policy is adopted. Management must consider at each year end whether the fair value is materially different from the carrying amount.</td>
<td>Reporting enterprises are required to disclose in their financial statements the policy with regard to the frequency of revaluations.</td>
</tr>
<tr>
<td><strong>Impairment of revalued PPE</strong></td>
<td>An impairment loss (downward revaluation) may be offset against revaluation surpluses to the extent that it relates to the same asset; any uncovered deficit in excess of the existing revaluation surpluses must be recognised in profit or loss for the period.</td>
<td>Similar to IFRS.</td>
</tr>
</tbody>
</table>

**Derecognition**

**IFRS**

Derecognition occurs on disposal or when no future economic benefits are expected from its use or disposal.

Gain or loss arising from derecognition shall be included in profit and loss and gains shall not be classified as revenue.

**Nigerian GAAP**

Derecognition occurs on disposal or where retired from active use and are held for disposal.

Gain or loss resulting from the retirement or disposal of an item of PPE should be recognised in the income statement.

The balance in revaluation surplus in respect of an item of PPE is transferred to profit and loss or retained earnings (equity).

**Intangible assets**

**Definition**

**IFRS**

Defines an intangible asset as an identifiable non-monetary asset without physical substance. An identifiable asset is either:i) separable; or ii) arises from contractual or other legal rights. They may be acquired or internally generated. The recognition and measurement guidance in IAS 38 is split between separate acquisition, acquisition as part of a business combination, acquisition by way of a government grant, exchanges of...
assets, internally generated goodwill and internally generated intangible assets.

**Nigerian GAAP**

Guidance is only available on research and development cost. Research is a systematic investigation undertaken with the hope of gaining new scientific or technical knowledge and understanding. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

The guidance on research and development costs excludes research and development incurred by a third party acting as a consultant to a reporting entity and specialised activities in extractive industries related to the exploration and extraction of mineral deposits, oil and natural gas.

**Recognition – acquired intangibles**

**IFRS**

General IFRS asset recognition criteria apply. Recognise if future economic benefits attributable to the asset are expected to flow to the entity and the cost of the asset can be measured reliably. The probability criterion is always considered to be satisfied for a separately acquired intangible asset. The cost of a separately acquired intangible asset can usually be measured reliably. Assets acquired in a business combination that are distinguished from goodwill are recognised if the definition of an intangible asset is met and the asset is identifiable regardless of whether they have been recognised by the acquiree.

**Nigerian GAAP**

There is no specific guidance on acquired intangible assets other than as acquired in a business combination.

The standard on business combinations allows the recognition of intangibles acquired through a business combination, if it meets the definition of an intangible asset, the identifiability criterion and its fair value can be reliably measured. It, however, does not provide guidance on how to measure the fair value of such acquired intangible assets.

**Recognition – additional criteria for internally generated intangibles**

**IFRS**

Internally generated goodwill, brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as an asset.

Other internally generated intangibles must meet the general recognition criteria. Additional requirements necessitate distinguishing costs associated with the creation of intangible assets between the research phase and the development phase. Costs in the research phase must always be expensed. Costs in the development phase are expensed unless the entity can demonstrate all of the following:

- The technical feasibility of completing the intangible asset, so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
• The ability to use or sell the intangible asset;
• How the intangible asset will generate future economic benefits. Among other things, the entity must demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally the usefulness of the intangible asset;
• The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
• The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Expenditure on an intangible item that was initially recognised as an expense cannot be capitalised in a subsequent period.

Nigerian GAAP

Comparable in some respects to IFRS for research and development costs. Additionally Nigerian GAAP requires current and future cost relating to development costs to be deferred only where material.

Research costs are segregated from development costs. Where this segregation is not possible, the entire expenditure is treated as relating to the research phase only. Research costs are never recognised as assets while development costs may be recognised if they meet the following criteria:

• The product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably;
• The technical feasibility of the product or process has been demonstrated;
• The management of the entity has indicated its intention to produce and market, or use, the product or process;
• Adequate resources exist, or are reasonably expected to be available, to complete the project and market the product or process;
• The current and future costs to be deferred are material; and
• There is a reasonable indication that current costs, future research and development costs to be incurred, together with unamortised deferred costs in relation to that project, are expected beyond any reasonable doubt to be recoverable.

Recognition – website development costs

IFRS

The stages of a website’s development can be described as follows:

Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.

• Application and Infrastructure Development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
• Graphical Design Development – includes designing the appearance of web pages.
• Content Development – includes creating, purchasing, preparing and uploading information, either textual or graphical in nature, on the website before the completion of the website’s development. This information may either be stored in separate databases that are integrated into (or accessed from) the website or coded directly into the web pages.
• Costs incurred during the planning stage must be expensed. Costs
incurred for activities during the website’s application and infrastructure development stages must be capitalised. Costs incurred during the content development stage and costs incurred during the operation stage must be expensed as incurred.

**Nigerian GAAP**

No specific guidance exists.

**Measurement – acquired intangibles**

**IFRS**

An intangible asset shall be measured initially at cost. Cost comprises all expenditures that can be directly attributed or allocated to creating, producing and preparing the asset from the date when the recognition criteria are met. For subsequent measurement, an entity shall choose either the cost model or the revaluation model as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.

**Nigerian GAAP**

There is no specific guidance on acquired intangible assets other than as acquired in a business combination. SAS 26 provides limited guidance on recognition of intangible assets of the acquiree at date of acquisition. Refer to business combinations chapter (page 37).

**Exchange of assets**

**IFRS**

The recognition and measurement of intangible assets acquired in exchange for non-monetary assets is the same as the guidance for PPE. Refer to page 62.

**Nigerian GAAP**

No specific guidance exists.

**Measurement – internally generated intangibles**

**IFRS**

The cost comprises all expenses that can be directly attributed or allocated to creating, producing and preparing the asset from the date when the recognition criteria are met.

**Nigerian GAAP**

No major differences in principles noted for research and development costs. No guidance exists for any other internally generated intangible assets. Nigerian GAAP provides examples of items to be included in development cost.

**Subsequent measurement**

**IFRS**

Provides a choice of the cost or revaluation model. Under the cost model, intangible assets are measured at cost less accumulated amortisation and impairment. If the revaluation model is selected, after initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of
Revaluations under this Standard, fair value shall be determined by reference to an active market. Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.

**Nigerian GAAP**

Does not offer the option to adopt the revaluation model. Only the historic cost model can be applied to research and development costs. No guidance exists for other intangible assets.

**Amortisation**

**IFRS**

The depreciable amount of an intangible asset with a finite usefullife shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisations shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 and the date that the asset is derecognised. The amortisation method used shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortization charge for each period shall be recognised in profit or loss unless this or another Standard permits or requires it to be included in the carrying amount of another asset. An intangible asset with indefinite usefullife is not amortised, but the carrying amount of an indefinite life asset should be tested for impairment at least annually and whenever there is an indication that the intangible asset may be impaired in accordance with IAS 36. There is no presumed maximum life.

**Nigerian GAAP**

Research and development costs are segregated into research costs and development costs. Research costs may not be deferred and are expensed in the period in which they are incurred.

Amortisation of development costs shall not exceed five years from the inception of the benefits and is based on the sale or use of the product or process or to the period over which the product or process is expected to be sold or used.

**Impairment**

**IFRS**

Impairment reviews are required whenever changes in events or circumstances indicate that an intangible asset’s carrying amount may not be recoverable. Annual reviews are required for intangible assets with indefinite usefullives and for assets not yet ready for use. Assets with indefinite usefullives are usually reviewed for impairment as part of a cash-generating unit (CGU).

Reversals of impairment losses are allowed under specific circumstances.

**Nigerian GAAP**

Annual reviews of deferred development cost to be performed in line with the following steps:

- If the recognition criteria are no longer met, the unamortised balance is written off as expense immediately;

References:

**IFRS:** IAS 38.

**Nigerian GAAP:** SAS 22.
• When the amount of the unamortised balance exceeds the expected future revenues or benefits related thereto, such excess shall be charged as expense immediately; and
• If for any reason, research and/or development activities are suspended or postponed on account of lack of resources, time or other contingencies, the unamortised balance shall be written off immediately.

Inventories

**IFRS** Inventories are assets: i) held for sale in the ordinary course of business, ii) in the process of production for such sale, or iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

**Nigerian GAAP** The definition is broadly comparable to IFRS. Stocks include those finished goods and livestock awaiting sale, work-in-progress, raw materials and supplies to be consumed in the production of goods or the rendering of services.

Measurement

**IFRS** Measured at the lower of cost (comprise all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs to make the sale. Reversal (limited to the amount of the original write-down) is required for a subsequent increase in value of inventory previously written down in certain circumstances.

The write-down is expensed in profit and loss and reversal on writedowns are recognised as a reduction of inventories recognised as expense.

**Nigerian GAAP** Subject to the certain exceptions stated herein, stocks should be valued at the lower of cost or net realisable value. Net realizable value is the estimated proceeds from sale less all additional costs incurred to the point of completion, marketing, selling and distribution of an item of stock.

Formulas for determining cost

**IFRS** Refer to table summarising cost formulas.

Specific identification must be used for items that are not ordinarily interchangeable and for goods or services produced and segregated for specific projects.

Use same cost formula for items for all inventories having a similar nature and use for the entity.

**Nigerian GAAP** Refer to the table summarising cost formulas.

No requirement to apply specific identification for items that are not ordinarily interchangeable and for goods or services produced and segregated
for specific projects. This is a choice.

No requirement to apply the same cost formula to similar inventory.

<table>
<thead>
<tr>
<th>Cost method</th>
<th>IFRS</th>
<th>Nigerian GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>First-in, first-out (FIFO)</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Weighted average cost</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Specific identification</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Last-in, first-out (LIFO)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Standard cost method, if results approximate cost (standard cost with adjustments for cost variances bringing it close to actual cost)</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Retail method (adjusted selling price method where bulk purchases are made in which the costs of individual items are not readily ascertainable and the sales value of inventory is reduced by the appropriate percentage gross margin)</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Latest purchase price</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Base stock</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

✓ Permitted  X Prohibited

**Allocation of fixed overheads**

**IFRS**  
Any allocation of fixed production overheads is based on normal capacity levels to the cost of the inventory, with unallocated overheads expensed as incurred.

**Nigerian GAAP**  
Attributable production overhead costs incurred in bringing an item of stock to its present condition and location based on normal production capacities are capitalised to the cost of inventories. Abnormal costs due to inefficiency, spoilage or wastage should not be included in the cost of stock. Production costs not attributable should be expensed.

**Capitalisation of borrowing costs**

**IFRS**  
Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are to be capitalized as part of the cost of that asset. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale. Detail guidance on the treatment of specific and general borrowing costs and on the commencement, suspension and cessation of capitalisation is provided in the standard. Other borrowing costs are recognised as expense in the period in which they are incurred.

Capitisation of interest commences once the following conditions are met: i) it incurs expenditure for the asset, ii) it incurs borrowing costs and iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

The amount of interest eligible for capitalisation is either the actual borrowing costs incurred specifically for the purpose of obtaining a qualifying asset during the period less any investment income on the...
temporary investment of those borrowings or to the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, cost incurred on a specific borrowing or an amount calculated using the weighted average method, considering all the general borrowings outstanding during the period for that entity. Interest can include foreign exchange differences, but under tightly defined conditions. Any interest earned on the temporary investment of funds borrowed to finance the asset’s production is netted with the interest expense to be capitalised.

Capitalisation of interest is suspended during extended periods in which it suspends active development of a qualifying asset and must cease once the asset is ready for its intended use or sale.

**Nigerian GAAP**

There is no standard specifically for borrowing cost but this is implied in SAS 3 as it states that the cost of self-constructed items of property, plant and equipment should comprise those costs and other expenses that related directly to and are attributable to the construction of the item. The explanatory note to SAS 3 states that interest costs which are attributable to the period of constructing the item, are sometimes added to its cost. Costs of inefficiencies in the construction of the item should not form part of its cost.

In practice, some entities capitalise borrowing costs, while others do not. The methods applied to calculate the portion of borrowing costs to be capitalised differ, though predominantly only borrowing costs on specific borrowings are capitalised.

**Investment property**

**Definition**

**IFRS**

Property (land and buildings) held in order to earn rentals and/or for capital appreciation. It does not include owner-occupied property or property held for sale.

**Nigerian GAAP**

An investment property is an investment in land or buildings held primarily for generating income or capital appreciation and not occupied substantially for use in, or in operations of, the investing enterprise or another enterprise in the same group as the investing enterprise. A property is deemed to be substantially occupied if the owner or another enterprise in the same group occupies more than 15% of the lettable space.

**Initial measurement**

**IFRS**

Measured initially at its cost. Transaction costs shall be included in the initial measurement. IFRS requires the same cost-based measurement for both acquired and self-constructed investment property. The cost of a purchased investment property comprises its purchase price and any directly attributable costs such as professional fees for legal services, property transfer taxes and other transaction costs. Self-constructed property shall be initially measured at cost until its fair value is reliably determinable, if the reporting entity applies the fair value model (see subsequent measurement below). When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss. Property held under
finance or operating leases can also be classified as investment property.

**Nigerian GAAP**

Initial measurement is at cost, measured in the same manner as for PPE.

### Subsequent measurement

**IFRS**

An entity may:

- Choose either the fair value model or the cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property; and

- Choose either the fair value model or the cost model for all other investment property, regardless of the choice made in (a).

After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value.

There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably determinable on a continuing basis; this arises, when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available.

If an entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably determinable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity shall measure that investment property using the cost model as used for PPE. The residual value of the investment property shall be assumed to be zero. The entity shall apply the cost model until disposal of the investment property; refer to page 63 for further guidance.

The election to account for investment property at fair value can also be applied to leased property.

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.

**Nigerian GAAP**

Choice to account for subsequent measurement according to the cost model available for PPE (refer to page 63 for further guidance) or to carry at the market value and revalue periodically on a systematic basis at least once every three years.

It is important to note that a revaluation of the asset is permitted however, depreciation is still charged. See page 65 for discussion of treatment of resulting revaluation surpluses and deficits.
Investment properties accounted for under the revaluation model are carried at market value and revalued periodically but are not subject to a periodic charge for depreciation. When there has been a decline in the value of an investment property, the carrying amount of the property is written down to recognise the loss, and the reduction should be charged to the income statement. An increase in market value is credited to owners’ equity as revaluation surplus unless it is directly related to a previous decrease in carrying amount for the same investment property that was charged to income, in which case it should be credited to profit or loss to the extent that it offsets the previously recorded decrease.

**Transfers to or from investment property**

**IFRS**
When there is a change in use of the investment property, the standard provides a detailed guidance for subsequent classification. Investment property for which development commenced with a view to sale is reclassified to inventories, and investment property which becomes owner-occupied is reclassified to PPE. The deemed cost in this case is the fair value at the date of change in use. Transfers from inventory and PPE are also discussed in the standard.

**Nigerian GAAP**
No specific guidance exists for transfers to or from investment property. In practice, a property qualifies as an investment property once a party other than the owner or a member of the same group as owner occupies more than 15% of the lettable space. At this point, the property may be reclassified as an investment property. The property is transferred at carrying amount and the entity’s policy on investment properties subsequently applied. When the property becomes substantially occupied by the owner or member of the same group, the property is transferred to PPE at carrying amount and the policy applicable to PPE applied going forward.

**Derecognition**

**IFRS**
Derecognition occurs on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Gains or losses on derecognition shall be recognised in profit and loss in the period of the retirement or disposal.

**Nigerian GAAP**
Guidance is available for investment properties that the entity elects to account for under the cost model (see page 67).

There is no clear guidance for investment properties accounted for under the revaluation model other than when they are disposed. In practice derecognition of investment property is accounted for in the same manner as for PPE.

**Frequency and basis of revaluations**

**IFRS**
Requires that the fair value of investment property must reflect the actual market conditions and circumstances as at the reporting date. The standard does not require use of an independent and qualified valuer, but it is...
encouraged. Fair value is based on the so-called highest and best use concept. Revaluations must be made with sufficient regularity such that the carrying amount does not differ materially from fair value.

**Nigerian GAAP** Requires a periodic revaluation at least once every three years.

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**Impairment of non-financial assets**

**Recognition**

**IFRS** An entity must assess as at each reporting date whether there are any indications that an asset may be impaired. If there is any such indication, the assets must be tested for impairment. An impairment loss must be recognised in profit or loss when an asset’s carrying amount exceeds its recoverable amount. For assets classified as held-for-sale, inventory and assets held under the fair value model, impairment is indirectly considered by the valuation method.

**Nigerian GAAP** No standard specifically for impairment, but SAS 3 states that net book value should be reduced to the recoverable amount and the difference must be charged to income immediately. No specific guidance on timing of impairment tests.

**Measurement**

**IFRS** The impairment loss is the difference between the asset’s carrying amount and its recoverable amount. The recoverable amount is the higher of the asset’s fair value less cost to sell and its value in use. Value in use is the present value of the future cash flows to be derived from the particular asset or cash-generating unit. It is calculated by discounting the cash flows to present value using a pre-tax market-determined rate that reflects the current assessment of the time value of money and the risks specific to the asset.

**Nigerian GAAP** The recoverable amount is defined as that part of the net book value of an item of PPE that the enterprise can recover in the future through use of the item, including its net realisable value on disposal. There is no guidance on determining the net realizable value on disposal. In practice assets are scrapped when they are no longer useful and the carrying values written off to profit or loss.

**Reversals of impairment losses**

**IFRS** Requires reversal of impairment losses (other than those against goodwill) when there has been a change in economic conditions or in the expected use of the asset.

**Nigerian GAAP** No specific guidance is provided for reversals of impairment. Based on the prudence principle reversals of impairment are not normally recognised.
Non-current assets held for sale

**IFRS**

A non-current asset is classified as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset should be available for immediate sale in its present condition, and its sale should be highly probable. For the sale to be highly probable, the appropriate level of management should be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan should have been initiated. The asset should be actively marketed for sale at a price that is reasonable in relation to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Once classified as held for sale, the asset is measured at the lower of its carrying amount and fair value less costs to sell. Immediately before the initial classification of the asset as held for sale, the carrying amounts are measured in accordance with the applicable IFRSs. According to IAS 16, depreciation ceases at the date of classification as held for sale. An impairment loss for any initial or subsequent write-down of the asset to fair value less cost to sell is recognised. An entity shall recognise a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognised either in accordance with this IFRS or previously in accordance with IAS 36 Impairment of Assets. Some assets, for example, non-current assets accounted for in accordance with fair value model in IAS 40 Investment Property are excluded from this measurement and are measured according to the guidance in their applicable standards instead.

If the criteria for classification are no longer met, the entity ceases the classification as held for sale and measures these assets at the lower of i) its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortisation or revaluation that would have been recognised had the asset not been classified as held for sale and ii) its recoverable amount at the date of the subsequent decision not to sell.

**Nigerian GAAP**

No similar category exists but the PPE standard includes rules on the treatment of items of PPE retired from active use or held for disposal. This PPE should be eliminated from PPE on disposal or when a decision has been taken to discontinue use. No guidance exists on the classification of such PPE.

References:

**IFRS**: IAS 5.

**Nigerian GAAP**: SAS 3.

Leases

**Classification**

**IFRS**

The guidance focuses on the overall substance of the transaction. Lease classification as an operating or finance lease depends on whether the lease transfers substantially all of the risks and rewards of ownership to the lessee. Examples of situations leading to a lease being classified as a finance lease are as follows:

- Transfer of ownership at the end of the lease term;
• Bargain purchase option;
• Lease term is for the major part of the economic life of the asset even if title is not transferred;
• Present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; or
• Lease assets are of a specialised nature such that only the lessee can use them without major modifications being made.

Minimum lease payments under IFRS include any residual value guaranteed by the lessees or by related person to the lessee and payments related to bargain purchase options.

The interest rate implicit in the lease would, under IFRS, generally be used to calculate the minimum lease payments and the unguaranteed residual value. If not practicable, the incremental borrowing rate can be used.

In a lease of a land and building, the land and building elements must be considered separately for classification, unless the land element is not material.

Under IFRS arrangements that are not legal forms of a lease may in substance be or include a so-called “embedded” lease agreement. Where such agreement conveys the right to use an asset, and the fulfilment of the arrangement depends on the use of a specific asset, the identified lease is accounted for according to the leasing guidance (IAS 17).

Nigerian GAAP

The guidance focuses less on judgement criteria than that of IFRS. A lease is classified as a finance lease if:

• The lease is non-cancellable; and
• Any of the following are applicable:
  – the lease term covers substantially (80% or more) the estimated useful life of the asset; or
  – The net present value of the lease at its inception, using the minimum lease payments and the implicit interest rate, is equal to or greater than the fair value of the leased asset; or
  – The lease has a purchase option which is likely to be exercised.
• All other leases are operating leases.

The concept of minimum lease payments and usage of interest rates implicit in the lease (and incremental borrowing rates) are comparable to IFRS.

Under Nigerian GAAP there is no guidance for “embedded” lease agreements.

Lessor accounting – finance leases

IFRS

The amount due from a lessee under a finance lease is recognised as a receivable at an amount equal to the net investment in the lease. At any point in time, this will comprise the total of the future minimum lease payments less gross earnings allocated to future periods. Minimum lease payments for a lessor include guarantees from a third party related to the leased assets under IFRS. The present value of minimum lease payments would generally use the
implicit rate in the lease for discounting under IFRS.

For finance leases other than those involving manufacturer or dealer lessors, initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of incomerecognised over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the finance lease receivable; there isno need to add them separately. Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease are excluded from the definition of initial direct costs. As a result, they are excluded from the net investment in the lease and are recognised as an expense when the selling profit is recognised, which for a finance lease is normally at the commencement of the lease term.

Nigerian GAAP Comparable to IFRS, except that initial direct costs are expensed in the period in which they are incurred.

Lessor accounting – operating leases

IFRS Requires that an asset leased under an operating lease should be recognised by the lessor and depreciated or amortised over its useful life. For example, if the asset is property, plant and equipment, the guidance in IAS 16 is applied. Leasing income from operating leases is generally recognised on a straight-line basis over the lease term. Initial direct costs are often incurred by lessors in negotiating, and arranging a lease are amortised over the lease term.

Nigerian GAAP The accounting for the leased asset is comparable to IFRS. Rental income should be recognised as income as they become receivable. Initial direct costs are expensed as they are incurred.

Lease incentives

IFRS IFRS requires that the lessor recognises the aggregate cost of incentives given as a reduction of rental income over the lease term on a straight-line basis, unless another systematic basis is more representative of the time pattern over which the benefit of the leased asset is diminished.

Nigerian GAAP This is not addressed.

Lessee accounting – finance leases

IFRS Requires recognition of an asset held under a finance lease with a corresponding obligation to pay future rentals, at an amount equal to the lower of the fair value of the asset and the present value of the minimum lease payments (MLPs) at the inception of the lease. An asset leased under a finance lease is depreciated over the shorter of the lease term and its useful life, unless there is a reasonable certainty the lessee will obtain ownership of the asset by the end of the lease term, in which case it should be depreciated over its useful life. The interest rate implicit in the lease must normally be used to calculate the present value of the MLPs. The lessee’s incremental borrowing rate may be used, if the implicit rate is unknown.
**Nigerian GAAP** Comparable to IFRS except that the depreciation of the leased asset or amortisation of the rights under the leased assets is according to the entity’s depreciation policies for owned assets.

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**Lessee accounting – operating leases**

**IFRS** The rental expense under an operating lease must generally be recognised on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user’s benefit.

**Nigerian GAAP** The rental expense should be charged into the income account on a systematic basis in line with the time pattern of the user’s benefit, not on the basis of the rental payments made by the user.

In practice operating leases for property are paid for upfront and amortised over the period of the lease.

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**Sale and leaseback transactions**

In a sale and leaseback transaction, the seller-lessee sells an asset to the buyer-lessee and leases the asset back. There are certain differences in the rules on dealing with profits and losses arising on sale and leaseback transactions across both frameworks. These are highlighted in the table below:

<table>
<thead>
<tr>
<th>Issue</th>
<th>IFRS</th>
<th>Nigerian GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Classification of lease</strong></td>
<td>According to normal lease classification criteria.</td>
<td>Where in a sale and leaseback transaction an asset is sold at a price equal to or greater than the current market value and it is leased back for a term approximating the useful life of the asset and for payments that are sufficient to cover the new owner’s investment plus a reasonable return thereon, the transaction should be classified as a finance lease by the seller-lessee. Otherwise classified as an operating lease.</td>
</tr>
<tr>
<td><strong>Finance lease</strong></td>
<td>Deferred and amortised over the lease term.</td>
<td>Any profit is deferred and amortised over the lease term. Losses are expensed immediately.</td>
</tr>
<tr>
<td><strong>Operating lease</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Issue</th>
<th>IFRS</th>
<th>Nigerian GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit or loss on sale</td>
<td>IFRS differentiates between when the selling price is equal to, less than, or greater than fair value.</td>
<td>Profits are deferred and amortised in proportion to the rental payments over the lease term. Losses are expensed immediately.</td>
</tr>
<tr>
<td></td>
<td>If the sale is at fair value, any profit or loss is recognised immediately.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Where the sale price is above the fair value, the excess of the sale price over the fair value does not represent a genuine profit and should be deferred and amortised over the period for which the asset is expected to be used.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>If the fair value of an asset at the time of a sale and operating leaseback transaction is less than the carrying amount of the asset, a loss equal to the difference between the carrying amount of the asset and its fair value should be recognised immediately.</td>
<td></td>
</tr>
</tbody>
</table>

References:

IFRS: IAS 17, IFRIC 4, SIC-32.
Nigerian GAAP: SAS 11.
Liabilities

Provisions

Recognition

**IFRS**
A provision is recognised only when:

- The entity has a present obligation to transfer economic benefits (legal or constructive) as a result of past events (events prior to the reporting date);
- It is probable that the entity’s assets will be required to settle the obligation; and
- A reliable estimate of the amount of the obligation can be made.

A present obligation arises from an obligating event and may take the form of either a legal obligation or a constructive obligation. An obligating event leaves the entity no realistic alternative other than to settle the obligation. If the entity can avoid the future expenditure by its future actions, it has no present obligation and a provision is not recognised.

**Nigerian GAAP**
Comparable to IFRS.

Measurement

**IFRS**
The amount recognised as a provision must be the best estimate of the expenditure required to settle the present obligation as at the reporting date. The entity must discount the anticipated cashflows using a pre-tax discount rate that reflects the current market assessment of the time value of money and those risks specific to the liability, if the effect is material. Where there is a continuous range of possible outcomes and each point in that range is as likely as any other, the midpoint of the range is used.

**Nigerian GAAP**
Comparable to IFRS. Nigerian GAAP does not specify the use of a pre-tax discount rate.

Restructuring provisions

**IFRS**
In the case of restructuring, a present obligation exists only when the entity is demonstrably committed to the restructuring. An entity is usually demonstrably committed when there is a legal or constructive obligation. A constructive obligation exists when the entity has a detailed formal plan for the restructuring and has announced its main features to those affected or is unable to withdraw because it has started to implement the plan. However, if there will be a delay before the restructuring begins, or the restructuring will take an unreasonably long time to complete, then a provision is unlikely to be justified.

**Nigerian GAAP**
Comparable to IFRS.
**Future operating losses / onerous contracts**

**IFRS** Prohibits provisions for future operating losses. However, a provision should be recognised if an entity has a contract that is onerous. An onerous contract is one in which the unavoidable costs of meeting the obligations exceed the economic benefits expected to be received under the contract. One of the most common examples relates to an operating lease property that has been abandoned and cannot be sub-let.

**Nigerian GAAP** Comparable to IFRS.

**Decommissioning, restoration and similar liabilities (asset retirement obligations)**

**IFRS** The present value of the costs of dismantling, removing or restoring as a result of a legal or constructive obligation is recognised as a liability and the corresponding cost capitalised as part of the related property, plant or equipment (PPE). An obligation arises either when the item is acquired or as a result of using the item during a particular period for purposes other than to produce inventories during that period.

The accounting for changes in the measurement of the liability is different for the cost and the revaluation model.

**Nigerian GAAP** The costs for restoration and similar liabilities are recognised under the existing guidance for provisions. No guidance exists under Nigerian GAAP as to whether the amount recognised forms part of the cost of the asset or whether it is expensed to profit or loss. In addition, there is no guidance for the treatment of changes in estimates to such provisions.

Specific guidance exists for the oil and gas industry (extractive industries) and the telecommunications industry. Refer to pages 138 and 146 respectively.

**Contingencies**

**Contingent liabilities**

**IFRS** Contingent liabilities are not recognised but disclosed, unless the probability of outflows is remote.

**Nigerian GAAP** Comparable to IFRS.

**Contingent assets**

**IFRS** Contingent assets are not recognised. When the realisation of the income, such as an insurance recovery, is virtually certain, the item is recognised as an asset.

**Nigerian GAAP** Comparable to IFRS.
**GAAP**

**Government grants**

**IFRS**

Government grants are recognised when there is reasonable assurance that the entity will comply with the conditions related to them and that the grants will be received.

Revenue-based grants are deferred in the statement of financial position and released to profit or loss to match the related expenditure that they are intended to compensate.

Capital-based grants must either be deferred and matched with the depreciation on the asset for which the grant arises, or reduce the cost of the subsidised asset.

**Nigerian GAAP**

No guidance exists. In practice the treatment applied is similar to IFRS.

**References:**

**IFRS:** IAS 17, IFRIC 4, SIC-32.

**Nigerian GAAP:** SAS 11.
Income taxes

Current tax

IFRS Current tax for the current and prior periods should be recognized as a liability to the extent unpaid. If the amount paid exceeds the amounts due, the excess shall be recognised as an asset.

Nigerian GAAP Similar to IFRS.

Deferred tax

General approach

IFRS Full provision on all temporary differences between the tax bases and the carrying amounts of assets and liabilities, with only a limited number of exceptions (see below).

Nigerian GAAP Deferred tax is calculated using the income statement approach and full provision is made for all deferred taxes. Under this approach, the tax profit is compared to the accounting profit – deferred tax is based on the timing differences that are expected to reverse within the period allowed by the tax laws. These differences may be treated as an asset or as a charge (liability) to the deferred tax account. No deferred tax is calculated on the permanent differences.

In the profit and loss, deferred taxes relating to ordinary activities are shown as part of tax on profit or loss resulting from ordinary activities while deferred taxes relating to extraordinary items are shown as part of tax on extraordinary items.

Exceptions

IFRS Deferred tax liabilities are recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- Goodwill, which is not deductible for tax purposes, and does not give rise to a taxable temporary difference;
- Initial recognition of an asset or liability in a transaction that (i) is not a business combination and (ii) at the time of the transaction affects neither accounting nor taxable profit; and
- Investments in subsidiaries, branches, associates and joint ventures, where the parent, investor or venture is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Nigerian GAAP No exceptions are identified under Nigerian GAAP. Rather, deferred tax is raised only on timing differences.

Though guidance requires that only timing differences be considered in determining deferred taxes, guidance also requires that the tax effect of an
Recognition and measurement of deferred tax

Tax rates

**IFRS**
Deferred tax assets and liabilities are based on the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date for the period of the anticipated realisation of temporary differences.

**Nigerian GAAP**
Comparable to IFRS. The guidance requires the use of the liability method in computing deferred tax balances. Under this method, the amount of deferred tax is computed using the tax rate expected to be in force during the period in which the timing differences reverse. Usually, the current tax rate is used as a reasonable estimate of the future tax rates, unless changes in tax rates are known in advance.

Recognition of deferred tax assets

**IFRS**
Deferred tax assets must be recognised if it is probable that sufficient taxable profit will be available against which the temporary difference or unused tax losses/credits can be utilised.

**Nigerian GAAP**
There is no requirement specifically relating to deferred tax assets. However, the explanatory note to SAS 19, states that “When accounting for timing differences results in a debit balance, and there is reasonable expectation of its recovery, it is usually carried forward as an asset”.

In practice, deferred tax assets and liabilities are recognised together without separate disclosure. Deferred tax assets only become apparent when the assets exceed the liabilities.

Measurement – Expected manner of recovery of assets and settlement of liabilities

**IFRS**
The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences on the manner in which the entity expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities. Consequently, the tax base may be different depending on how the asset or liability may be recovered or settled in practice (normally recovered through use, through sale or through use and sale).

**Nigerian GAAP**
No guidance exists.

Discounting of deferred tax assets and liabilities

**IFRS**
Prohibited.

**Nigerian**
Not considered. In practice deferred taxes are not discounted.
\section*{GAAP}

\textbf{Deferred tax arising in business combinations}

\textbf{Step-up of acquired assets and liabilities to fair value}

\textbf{IFRS}  A deferred tax is provided unless the tax base of assets and liabilities is also stepped up. The recognition of the deferred tax liability affects goodwill.

\textbf{Nigerian GAAP}  There is no guidance on this. No practice has yet been established for the treatment of deferred tax arising in business combinations.

\textbf{Previously unrecognised tax losses of the acquirer}

\textbf{IFRS}  Deferred tax asset is recognised if, as a result of the acquisition, there are recognition criteria for the deferred tax assets are met. As these losses are not the losses of the acquiree, the recognition of the deferred tax asset is not part of the business combination and is recognised in profit or loss.

\textbf{Nigerian GAAP}  No guidance exists in this regard.

\textbf{Unrecognised tax losses of the acquiree}

\textbf{IFRS}  Similar requirements as for the acquirer except that the deferred tax asset is recognised as part of the purchase accounting and affects goodwill.

If the potential benefit of the acquiree’s unused tax losses or other deferred tax assets do not satisfy the criteria for separate recognition when a business combination is initially accounted for, but are subsequently realised, an entity recognises these deferred tax assets as follows:

- Acquired deferred tax benefits recognised within the measurement period that result from new information about facts and circumstances that existed at the acquisition date are applied to reduce the carrying amount of any goodwill related to that acquisition. If the carrying amount of that goodwill is zero, any remaining deferred tax benefits are recognised in profit or loss.

- All other acquired deferred tax benefits realised are recognised in profit or loss (or, if IAS 12 so requires, outside profit or loss).

\textbf{Nigerian GAAP}  No guidance exists for unrecognised tax losses of the acquiree at the date of acquisition. Based on the general principles of business combinations it is likely that they will be recognised and will impact goodwill.

Where the unrecognised tax losses were not initially recognised at the date of acquisition and are subsequently recognised, the adjustment will affect goodwill.

\textbf{Specific applications}

\textbf{Non-depreciable assets}
The deferred tax liabilities or deferred tax assets associated with a non-depreciable asset (such as land with an unlimited life) are measured based on the tax consequences that would follow from the sale of that asset. This is because no part of its carrying amount is expected to be recovered (that is, consumed) through use; therefore, the land’s carrying amount reflects the value recoverable from its sale.

Non-depreciable assets

Revaluation of property, plant and equipment and intangible assets

Deferred tax arising as a result of the revaluation of PPE and intangible assets is recognised in other comprehensive income.

Deferred tax arising on the revaluation of PPE is taken to equity.

Revaluation of investment properties

Deferred tax arising from the revaluation of investment property is taken to profit or loss. Deferred tax needs to be calculated separately for the land and buildings elements. Deferred tax on the land is discussed above. Deferred tax on the building should be based on the expected manner of recovery.

Deferred tax arising on the revaluation of investment property is taken to equity.

Presentation of deferred tax

Offset of deferred tax assets and liabilities

Permitted only:

- when the entity has a legally enforceable right to set off current tax assets and liabilities; and
- the deferred taxes relate to the same tax authority on either the same taxable entity or intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

No guidance exists. In practice deferred tax assets and liabilities are offset when they relate to the same tax authority.

Reconciliation of actual and expected tax expense

Required. The expected tax is calculated by applying the applicable tax rates to accounting profit or loss, also disclosing the basis on which the applicable tax rates are computed.
Nigerian GAAP
No reconciliation is required.
Financial assets

Under IFRS, financial instruments are governed primarily by three standards:

- IAS 32 Financial instrument – presentation;
- IAS 39 Financial instruments – classification and measurement; and
- IFRS 7 Financial instruments – disclosures

Due to international pressures and the global financial crisis the IASB embarked on a three-phase project to overhaul the accounting for financial instruments. As part of this project IFRS 9 was released in 2009. Ultimately, IFRS 9 will replace IAS 39. At this stage, however, only phase one has been completed. This phase covers the classification of financial assets. The standard has an effective date for periods commencing on or after 1 January 2013. In Nigeria the first compulsory date of conversion to IFRS is periods ending on or after 1 January 2012. Therefore companies that convert to IFRS can either adopt IAS 39 as it currently is and adopt IFRS 9 one year later. Alternatively, they can adopt IFRS 9 early.

It is expected that many entities in Nigeria will adopt the classification and measurement of financial assets in IFRS 9 early to avoid the additional complications of adopting one year after converting to IFRS and therefore this chapter is written from the perspective of IFRS 9, with regards to the classification and measurement of financial assets.

The remaining phases relate to the impairment of financial assets and hedging. At this stage the exposure drafts for these projects have been released but not the standards.

Definition

IFRS

A financial asset is any asset that is:

- cash;
- an equity instrument of another entity;
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- a contract:
  - that will or may be settled in the entity’s own equity instruments; and
  - is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity’s own equity instruments or a derivative.

Nigerian GAAP

There is no concept of financial instruments identified or defined in Nigerian GAAP.

However, some types of financial assets are embodied under the definition of
investments: “Investments are assets acquired by an enterprise for purposes of capital appreciation or income generation without any activities in the form of production, trade or provision of services.” The scope of this definition is broad and incorporates equity investments, debt investments and investment property. Investment property is covered under the Assets chapter on page 76.

Cash, accounts receivable and accounts payable are not directly addressed under Nigerian GAAP.

**Recognition**

**IFRS**  
IFRS requires that an entity recognises a financial asset only when the entity becomes a party to the contractual provisions of the instrument.

**Nigerian GAAP**  
No guidance exists on when to recognise financial assets. In practice, these instruments are recognised once there is performance by either party to the contract, i.e. delivery of the financial asset or the cash has taken place.

**Classification**

**IFRS**  
Financial assets are classified and measured at either:

- Amortised cost; or
- Fair value.

To be classified and measured at amortised cost a financial asset must be:

- Held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. For this purpose, interest is consideration for time value of money and credit risk.

Those financial assets that do not meet the above criteria are classified and measured at fair value. In addition, an entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an ‘accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

For assets at amortised cost, current period interest income, credit losses and any realised gains or losses are recognised in net income.

**Nigerian GAAP**  
Guidance is available only for investments. Investments are classified into short-term investments, long-term investments and investment properties. Investment properties have been discussed on page 76. The focus of this section will be on the short- and long-term investments.

Short-term investments are investments which are readily realizable and intended to be held for not more than one year.

Long-term investments are investments other than short-term investments.
Initial measurement

IFRS Financial assets are initially recognised at fair value plus transaction costs, except for those assets that are measured at fair value through profit or loss, which are initially recognised at fair value.

Nigerian GAAP Investments are initially recorded at cost, including any transaction costs. Similar treatment is given to other types of financial assets, even though there is no specific guidance on them.

Subsequent measurement

The table below sets out types of financial assets and these are grouped according to their most common classification per IFRS. In addition, the Nigeria GAAP guidance is based on the general guidance applicable to investments and loans. Additional guidance is available to banking and non-banking financial institutions; this is dealt with on page 131.

<table>
<thead>
<tr>
<th>Classification</th>
<th>Common type of instrument</th>
<th>IFRS</th>
<th>Nigerian GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amortised cost</strong></td>
<td>Accounts receivable</td>
<td>Measured at amortised cost using the effective interest rate method. Transaction costs are included in the effective interest rate method. Refer below for more details. Changes in fair value are not recognised.</td>
<td>Impairment1&lt;sup&gt;1&lt;/sup&gt; Under IAS 39, impairments and reversals of impairment are recognised in profit or loss. Impairment is recognised using the incurred loss model. I.e. impairment losses are recognised when there is objective evidence that a loss event has occurred. The amount of the impairment is measured as the difference between the carrying value of the instrument and the present value of estimated future cash flows discounted at the asset's original effective interest rate1.</td>
</tr>
<tr>
<td><strong>Loans</strong></td>
<td>All amortised cost financial assets are accounted for in the same manner (as described above).</td>
<td></td>
<td>No general guidance exists. Refer to the section on banking and non-banking financial institutions for additional guidance applicable to those industries (page 131).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fair value</th>
<th>Equity investments</th>
<th>General</th>
<th>Short-term investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remeasured at each reporting date to fair value</td>
<td></td>
<td>Measured at the lower of cost and fair value</td>
<td></td>
</tr>
</tbody>
</table>

<sup>1</sup>This is the current impairment model under IAS 39. There are plans to adopt an expected loss model in the future. This has not yet been finalised.
<table>
<thead>
<tr>
<th>Classification</th>
<th>Common type of instrument</th>
<th>IFRS</th>
<th>Nigerian GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>value. Any changes in fair value are recorded in profit or loss.</td>
<td>market value (defined as the amount obtainable from the sale of an investment in an active market).</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Exception for equity investments</strong></td>
<td>The amount by which the cost exceeds the market value is taken to profit or loss.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Where an entity has an investment in an equity instrument it can elect to record the fair value movements in other comprehensive income.</td>
<td>Realised gains on disposal are taken to profit or loss.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dividends related to the investment are recorded in profit or loss.</td>
<td><strong>Long-term investments</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fair value gains or losses recorded in other comprehensive income are not recycled to profit or loss at any point in time.</td>
<td>Are carried at cost or revalued amount; this policy needs to be clear and consistently applied.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Impairment</strong></td>
<td>Where there is a permanent decrease in value the amount should be taken to profit or loss.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>There is no need to test for impairment as this is embodied in the fair value.</td>
<td>Reversals of these increases are first taken to profit or loss, up to the original write-down, any excess is taken to equity.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Permanent increases in value are taken to equity. Reversals of these increases are first reduced, equity and then are taken to profit or loss.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>There is no guidance on what would constitute a &quot;permanent&quot; increase or decrease in value or how to calculate the revalued amount.</td>
</tr>
<tr>
<td>Debt instruments</td>
<td></td>
<td>As with equity instruments, except there is no option to take the fair value movements to other comprehensive income.</td>
<td><strong>Short-term investments</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Are accounted for in the same manner as short-term investments above.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Long-term investments</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Where the investment is a debt instrument it is measured on a basis comparable to amortised cost.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Any premiums and discounts are captured in the effective interest rate calculation.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Fees and transaction costs are not normally included in the effective interest rate calculation.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Interest earned on the investment will accrue in a separate interest receivable account and will only be transferred to the investment upon contractual maturity dates.</td>
</tr>
</tbody>
</table>

**Interest income and amortised cost using the effective interest rate method**

IFRS

Interest is recognised according to the effective interest rate method. This method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective
interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument.

When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

There is a presumption that the cash flows and the expected life can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument, the entity shall use the contractual cash flows over the full contractual term of the financial instrument.

**Nigerian GAAP**

No general guidance exists. Refer to page 130 for guidance applicable to banking and non-banking financial institutions.

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**Derecognition of financial assets**

**IFRS**

The guidance focuses on evaluating whether a qualifying transfer has taken place, whether risks and rewards have been transferred and, in some cases, whether control over the asset(s) in question has been transferred.

The transferor first applies the consolidation guidance and consolidates any and all subsidiaries or special purpose entities (SPEs) it controls.

The next step is to determine whether the derecognition analysis should be applied to part of a financial asset, (or part of a group of similar financial assets) or to the financial asset in its entirety (or a group of similar financial assets in their entirety).

Under IAS 39, full derecognition is appropriate once both of the following conditions have been met:

- The financial asset has been transferred outside the consolidated group.
- The entity has transferred substantially all of the risks and rewards of ownership of the financial asset.

The first condition is achieved in one of two ways:

- When an entity transfers the contractual rights to receive the cash flows of the financial asset; or
- When an entity retains the contractual rights to the cash flows, but assumes a contractual obligation to pass the cash flows on to one or more recipients (referred to as a pass-through arrangement).

If there is a qualifying transfer, an entity must determine the extent to which it retains the risks and rewards of ownership of the financial asset. This is done by comparing its exposure to variability in the amounts and timing of the transferred financial asset’s net cash flows, before and after the transfer.

If the entity’s exposure does not change substantially, derecognition is not appropriate. Rather, a liability equal to the consideration received is recorded (financing transaction). If, however, substantially all risks and rewards are
transferred, the entity would derecognise the financial asset transferred and recognises separately any asset or liability created by retaining any rights and obligations in the transfer (e.g. servicing assets).

**Nigerian GAAP** No general guidance exists. Guidance exists for banks and nonbanking financial institutions to determine if the sale of a loan or security is without recourse. In practice this is followed by entities in the banking industry, but not by other industries. For further details refer to page 133.

### Reclassification of assets between categories

**IFRS** When an entity changes its business model for managing financial assets, it is required to reclassify the affected financial assets prospectively from the reclassification date (i.e., when an entity reclassifies an asset currently measured at fair value so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount).

**Nigerian GAAP** Where long-term investments are reclassified as short-term they should be transferred at the lower of cost and market value, and any gains previously recorded in equity will be reversed.

Where short-term investments are reclassified as long-term they are transferred at historical cost less impairments.

**References:**
- **IFRS**: IFRS 9, IAS 39.
- **Nigerian GAAP**: SAS 13.
Financial liabilities

Interest expense

**IFRS**  Interest expense is recognised using the effective interest method. Where interest expense includes a discount or premium arising on the issue of a debt instrument, the discount or premium is amortised using the effective interest rate method. The effective interest rate is the rate that discounts the estimated future cash payments through the expected life of the debt instrument to the carrying amount of the future debt instrument.

**Nigerian GAAP**  No guidance exists for recognising interest expense. In practice, the treatment of interest expense is based on the contractual interest rates associated with the financial liability. Transaction costs and fees are normally expensed as incurred.

Guidance exists on income recognition for banks and as a result, the costs related to borrowings recognised by banks often mirror that method, but this is not common practice for entities in other industries. For further guidance refer to page 130.

Definition

**IFRS**  A financial liability is any liability that is:

A contractual obligation:

- To deliver cash or a financial asset to another entity; or
- To exchange financial instruments with another entity under conditions that are potentially unfavourable to the entity.

A contract that will or may be settled in the entity’s own equity instruments and is:

- A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity’s own equity instruments; or
- A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments. For this purpose, the entity’s own equity instruments do not include puttable instruments and obligations arising on liquidation that are classified as equity or instruments that are contracts for the future receipt or delivery of the entity’s own equity instruments. Derivatives are dealt with on page 112.

**Nigerian GAAP**  No specific detailed guidance corresponding to IFRS is available.

Classification

**IFRS**  The issuer of a financial instrument classifies the instrument, or its component parts, on initial recognition as a financial liability, a financial asset, or an equity instrument in accordance with the substance of the
contractual arrangement and the definitions of financial instruments.

Where there is a contractual obligation (either explicit or indirectly through its terms and conditions) on the issuer of an instrument to deliver either cash or another financial asset to the holders; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer, that instrument meets the definition of a financial liability, regardless of the manner in which the contractual obligation will be settled.

Preferred shares that are not redeemable, or that are redeemable solely at the option of the issuer, and where distributions are at the discretion of the issuer, are classified as equity. However, preferred shares requiring the issuer to redeem for a fixed or determinable amount at a fixed or determinable future date, or where the holder has the option of redemption, are classified as liabilities.

Generally, puttable instruments (financial instruments that give the holder the right to put the instrument back to the issuer for cash or another asset) are liabilities, unless they meet certain specific criteria.

Some liabilities have both a debt and an equity component. The most common example is convertible debt which is discussed below. Where instruments have a debt and equity component, IFRS requires the compound instrument to be bifurcated and for each component to be accounted for separately.

**Nigerian GAAP**

No specific detailed guidance corresponding to IFRS is available.

### Recognition

**IFRS**

The financial liability shall be recognised when the entity becomes party to the contractual provisions of the instrument.

**Nigerian GAAP**

No specific detailed guidance corresponding to IFRS is available. In practice financial liabilities are recognised as the obligation arises based on the contractual terms and the accrual basis of accounting.

### Measurement

**IFRS**

There are two categories into which financial liabilities must be classified: i) financial liabilities at fair value through profit or loss (including trading liabilities) and ii) financial liabilities at amortised cost. A financial liability at fair value through profit or loss is a financial liability that meets either of the following conditions: i) it is classified as held for trading (incurred principally for the purpose of selling/repurchasing in the near term, part of a portfolio with evidence of recent short-term profit taking or a derivative which is not a financial guarantee contract or a designated and effective hedging instrument) or ii) upon initial recognition it is designated by the entity as at fair value through profit and loss, provided it results in more relevant information in line with the guidance provided in IAS 39.

Initial measurement of liabilities at fair value through profit or loss is at fair value, while for all other financial liabilities it is fair value plus transaction costs that are directly attributable to the acquisition or issue of that liability.
After initial recognition, financial liabilities at fair value through profit or loss are measured at fair value (the changes in fair value recognised in profit or loss for the period, the distribution of discount/premium is implied in the fair value and the credit risk of the issuer must be recognised). All other financial liabilities are carried at amortised cost using the effective interest method.

**Nigerian GAAP**

No specific detailed guidance corresponding to IFRS is available. However, the practice is to measure financial liabilities initially at cost and subsequently at the outstanding principal obligation (cost plus interest accrued less payment). Interest is accrued based on the contractual interest rate.

In financial institutions, interest on financial liabilities is often accrued in a separate interest payable account and transferred to the underlying instrument on the contractual interest due date. Fees and transaction costs are recognised as expenses as incurred.

For further detail on banking and non-banking financial institutions practice, refer to page 130.

**Derecognition**

**IFRS**

A financial liability must be derecognised when: the obligation specified in the contract is discharged, cancelled or expires; or the primary responsibility for the liability is legally transferred to another party. A liability is also considered extinguished if there is a substantial modification in the terms of the instrument. The difference between the carrying amount of a liability (or a portion thereof) extinguished or transferred and the amount paid for it must be recognised net in profit or loss for the period.

**Nigerian GAAP**

No specific or detailed guidance corresponding to IFRS is available. In practice financial liabilities are only derecognised upon extinguishment of the debt or when the obligation to pay ceases.

**Convertible instruments**

**IFRS**

For convertible instruments with a conversion feature characterized by a fixed amount of cash for a fixed number of shares, IFRS requires bifurcation and split accounting between the liability and equity components of the instruments in question. “Split accounting” is used whereby the proceeds of issuing the convertible debt are allocated between the two components: the liability, recognized at fair value calculated by discounting the cash flows associated with the liability component at a market rate for a non-convertible debt (recognised in liabilities); and the equity conversion rights measured as the residual amount with no subsequent measurement (recognised in equity).

**Nigerian GAAP**

No specific detailed guidance corresponding to IFRS is available. In practice convertible debt instruments are accounted for as full liabilities. Upon conversion the outstanding liability is transferred at carrying value to equity plus any adjustment to achieve the contractually agreed conversion price. Any difference is recognized in profit and loss account.

**References:**

*IFRS:* IAS 32, IAS 39.

*Nigerian GAAP:* Not applicable.
Equity instruments

Recognition and classification

IFRS  IAS 32 defines an equity instrument as any contract that evidences a residual interest in an entity’s assets after deducting all of its liabilities.

Preference shares, which are not redeemable, or redeemable solely at the option of the issuer, and where distributions are at the issuer’s discretion, are classified as equity.

Only derivative contracts that result in the delivery of a fixed amount of cash, or other financial asset for a fixed number of an entity’s own equity instruments, are classified as equity instruments.

Nigerian GAAP  Available guidance on classification includes preference shares as part of capital and reserves. In practice preference shares are classified in equity like ordinary shares.

Treasury shares

IFRS  When an entity’s own shares are repurchased, the shares are shown as a deduction from shareholders’ equity. Any profit or loss on the subsequent sale of the shares is shown as a change in equity.

Nigerian GAAP  No guidance exists. Legally companies and their subsidiaries are prohibited from holding the parent company’s and their own shares. Although company law allows companies to implement capital reduction schemes, they are required to cancel such re-acquired shares.

In the format of financial statements prescribed in the Nigerian company law, treasury (own) shares is listed as part of current assets.

References:

IFRS: IAS 32.
Nigerian GAAP: Company and Allied Matters Act (1990 amended).
Derivatives and hedging

**Derivatives**

**Definition**

**IFRS**

Derivatives are financial instruments that derive their value from an underlying price or index. Their primary purpose is to create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary instrument. Consequently, they may be used for trading purposes to generate profits from risk transfers or they may be used as a hedging instrument for managing risks. IFRS defines a derivative as a financial instrument whose value changes in response to a specified variable or underlying rate, requires little or no net investment and is settled at a future date.

**Nigerian GAAP**

Derivatives are not defined under Nigerian GAAP.

**Initial measurement**

**IFRS**

Under IFRS all derivatives are recognised in the statement of financial position as either financial assets or financial liabilities. They are initially measured at fair value. The direct external transaction costs are recognised in profit or loss.

**Nigerian GAAP**

No guidance exists. These are not common transactions, and in practice any derivatives will only be recognised at any initial consideration paid, if any.

**Subsequent measurement**

**IFRS**

IFRS requires subsequent measurement of all derivatives at their fair value, regardless of any hedge relationship that might exist. Changes in a derivative’s value are recognised in profit or loss as they arise, unless they satisfy the criteria for cash flow hedge accounting outlined below.

**Nigerian GAAP**

No guidance exists. These are not common transactions, and in practice, derivatives will be accounted for through profit or loss upon their settlement.

**Embedded derivatives**

**IFRS**

Derivatives embedded in a host contract have to be separated from that contract, unless the whole instrument is measured at fair value or the economic characteristics and risks of the embedded derivative are the same as those of the host contract. Note that under IFRS 9 embedded derivatives where the host contract is a financial asset will not be separated. The impact of any embedded derivatives is considered in determining whether the whole asset is accounted for at fair value or whether the cash flows reflect solely the payment of principal and interest on the principal amount outstanding.
Hedge accounting

Criteria for hedge accounting

IFRS  Hedge accounting is a technique that modifies the normal basis for recognising gains and losses on associated hedging instruments and hedged items so that both are recognised in earnings in the same period. Financial statements may provide more relevant information if hedge accounting is applied. In a hedge relationship, hedge accounting is applied to the hedged item and the hedging instrument.

Hedge accounting is permitted (not required) provided that certain stringent qualifying criteria are met in relation to:

- Hedge designation;
- Qualifying hedged items;
- Qualifying hedging instruments;
- Qualifying hedged risks (hedged risk should be in compliance with the specifications of risk management);
- Documentation;
- High probability of a forecast transaction; and
- Prospective and retrospective hedge effectiveness.

Nigerian GAAP  The principle of hedge accounting does not exist in Nigerian GAAP.

Hedged items

IFRS  Hedged items can be recognised assets, recognised liabilities, firm commitments, or forecast transactions that involve an external party. As an exception, the foreign currency risk of an intragroup monetary item may qualify as a hedged item if it results in an exposure to foreign exchange rate gains or losses that are not fully eliminated on consolidation.

A forecast transaction should be highly probable to qualify as a hedged item.

In principle derivatives do not qualify as hedged items.

Nigerian GAAP  The principle of hedge accounting does not exist in Nigerian GAAP.

Hedging instruments

IFRS  Only derivative financial instruments with external parties to the reporting entity can qualify as a hedging instrument. An exception exists where a non-derivative financial instrument is used to hedge foreign currency risk.
In principle a derivative has to be designated as a hedging instrument in its entirety with some limited exceptions.

*Nigerian GAAP* The principle of hedge accounting does not exist in Nigerian GAAP.

**Hedge relationships**

IFRS IFRS recognises several types of hedge relationships: a fair value hedge where the risk being hedged is a change in the fair value of a recognised asset or liability; or unrecognised firm commitment; a cash flow hedge where the risk being hedged is the potential volatility in future cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss; a hedge of a net investment in a foreign entity, where the hedging instrument is used to hedge the currency risk of a net investment in a foreign entity.

*Nigerian GAAP* The principle of hedge accounting does not exist in Nigerian GAAP.

**Hedge effectiveness**

IFRS A hedge qualifies for hedge accounting if changes in fair values or cash flows of the hedging instrument are expected to be highly effective in offsetting changes in the fair value or cash flows of the hedged item prospectively and retrospectively. The results of effectiveness testing should be within a range of 80% to 125%.

*Nigerian GAAP* The principle of hedge accounting does not exist in Nigerian GAAP.

**Accounting treatment**
IFRS

Application of hedge accounting is optional if the requirements are met.

Fair value hedges: Hedging instruments are measured at fair value. The hedged item is adjusted for changes in its fair value, but only due to the risks being hedged over the duration (term) of the hedgerelationship. Gains and losses on fair value hedges, for both the hedging instrument and the item being hedged, are recognised in profit or loss.

Cash flow hedges: Hedging instruments are measured at fair value, with gains and losses on the hedging instrument, where they are effective, initially deferred in equity and subsequently released to profit or loss at the same time as the earnings recognition pattern of the hedged item. Gains and losses on financial instruments used to hedge forecast non-financial asset or liability acquisitions may be included in the cost of the non-financial asset or liability—so-called “basis adjustment”—but this is not permitted for financial assets or liabilities.

Hedges of net investments in foreign operations: Similar treatment to cash flow hedges; the hedging instrument is measured at fair value with gains or losses deferred in equity, to the extent that the hedge is effective, together with exchange differences arising on the entity’s investment in the foreign operation. These gains/losses are transferred to profit or loss on disposal of the foreign operation. IFRS allows the full gains and losses on hedges of a net investment in a foreign operation to be deferred in equity (including any hedge ineffectiveness), provided the hedging instrument is a non-derivative (e.g., a borrowing).

References:

IFRS: IAS 39.
Nigerian GAAP: Not applicable.

Nigerian GAAP

The principle of hedge accounting does not exist in Nigerian GAAP.
Other reporting topics

Foreign currency translation

Functional currency

IFRS  Functional currency is defined as the currency of the primary economic environment in which an entity operates.

IFRS provides a list of primary and secondary indicators to consider when determining functional currency. If the indicators are mixed and the functional currency is not obvious, management should use its judgment to choose the functional currency that most faithfully represents the economic results of the entity’s operations. This is driven by the currency of the economy that determines the pricing (not the transaction in which transactions are denominated) and the currency that most influences labour, material and other costs of providing goods and services.

Additional evidence (secondary in priority) may be provided from the currency in which funds from financing are generated, or receipts from operating activities are usually retained, as well as the nature of activities and extent of transactions between the foreign operation and the entity.

Nigerian GAAP  Guidance identifies the concept of reporting currency and identifies Naira as the reporting currency for Nigeria. All entities must prepare their financial statements using the domestic currency: Naira. However, SAS 14 – Accounting in the Petroleum Industry: Upstream Activities, identifies the concept of functional currency for upstream oil and gas operators but does not define the concept (refer to page 139).

Translation of foreign currency transactions and foreign currency monetary items

IFRS  Translation is as follows:

- Translation of transactions denominated in a foreign currency is done at the exchange rate valid as at the transaction date.
- Monetary assets and liabilities denominated in a foreign currency are translated at the closing (balance sheet) exchange rate.
- Non-monetary foreign currency assets and liabilities are translated at the appropriate historical acquisition rate.
- Income statement amounts are translated using historical rates of exchange as at the date of the transactions or at the average rate for the period as a practical alternative.
- Non-monetary items denominated in a foreign currency and carried at fair value are reported using the exchange rate applicable when the fair value was determined.
- Exchange gains and losses arising on an entity’s own foreign currency transactions are reported as part of the profit or loss for the year. This includes long-term loans, which in substance form part of an entity’s net investment in a foreign operation.
Translation is as follows:

- Translation of transactions denominated in a foreign currency is at the exchange rate valid as at the transaction date. No guidance exists for identifying the transaction date.
- Monetary assets and liabilities denominated in a foreign currency are translated at the closing (year-end) exchange rate.
- Income statement amounts are translated using historical rates of exchange as at the date of the transactions or at the average rate for the period as a practical alternative.
- Exchange gains and losses arising on an entity’s own foreign currency transactions are reported as part of the profit or loss for the year. Exchange gains and losses on long-term foreign-currency monetary items can either be taken to profit or loss or deferred and written off on a systematic basis over the life of the monetary item. This deferral should not be used on losses where it is reasonable to expect that exchange losses will recur on the item in the future.

Upstream Oil and Gas operators are allowed to maintain their records in United States Dollars as their functional currency but are still required to present results for statutory purposes in Naira using the above translation rules. Refer to page 139.

Consolidated financial statements

IFRS

Requires that where the operations of a foreign consolidated entity are largely independent of the investing (parent) entity’s reporting currency, amounts in the foreign entity’s statement of financial position be translated using the closing (year-end) rate, with the exception of equity balances, for which the historical rate is used. Amounts in the income statement are usually translated using the average rate for the accounting period. The translation differences arising are reported in other comprehensive income.

Nigerian GAAP

Comparable to IFRS except that:

- There is no concept of comprehensive income;
- The guidance states that “income statement items should be translated either at the closing rate or at the exchange rates at the dates of the transactions”, but in practice the average rate is used; and
- Guidance is also available on how foreign operations that are deemed to be carried as an integral part of the activities of the parent enterprise in Nigeria should be translated for consolidation purposes. Such operations may be translated using either the closing rate method (described above) or the temporal method. Under the temporal method, current assets and liabilities are translated at the rate ruling at the balance sheet date and non-current assets and liabilities are translated at the applicable historical rates at the dates they were acquired or incurred. The income statement is translated at average rates.

References:
IFRS: IAS 21.
Nigerian GAAP: SAS7.

Earnings per share
Basic earnings per share (“EPS”)

**IFRS**

Basic EPS is calculated as profit or loss available to common shareholders, divided by the weighted average number of shares outstanding during the period.

Where a company issues new shares by way of a bonus issue or stock dividend during the period, the effect is to increase only the number of shares outstanding after the issue. There is no effect on earnings as there is no flow of funds as a result of the issue. Consequently, the shares should be treated as outstanding as if the issue had occurred at the beginning of the earliest period reported.

**Nigerian GAAP**

The calculation of earnings for the basic EPS calculation is comparable to IFRS, except that it excludes extraordinary items. Bonus issues are treated in a similar manner. There is no guidance on rights issues, though the calculation of share options for diluted EPS indicates the concept of a “free issue” of shares and this could be applied for rights issues. Due to the lack of guidance differences will arise in practice.

Diluted earnings per share – basis

**IFRS**

Diluted EPS is measured in a similar way to basic EPS except that:

- Diluted earnings are adjusted for effects of after-tax changes in income, expenses and dividends that would have occurred had the dilutive potential ordinary shares been converted in ordinary shares;
- The weighted average number of ordinary shares is adjusted for the effects of all dilutive potential ordinary shares. A potential ordinary share is a financial instrument or other contract that may entitle its holder to ordinary shares such as convertible debentor preference shares, warrants and options. Potential ordinary shares should be included in the calculation of diluted EPS for the period in which they were outstanding.

**Nigerian GAAP**

Comparable to IFRS.

Disclosure of risks arising from financial instruments

**IFRS**

The entity shall disclose information enabling those who make use of financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed. Extensive disclosures are required, taking a ‘through the eyes of management’ approach.

**Nigerian GAAP**

No general guidance exists.

For guidance applicable to banks refer to page 134.

Related party disclosure

Definition of related parties

**IFRS**

Related party relationships are generally determined by reference to the
control or indirect control of one party by another or by the existence of joint control or significant influence of one party over another. Related parties include subsidiaries, joint ventures, associates, key management personnel, post-employment benefit plans and shareholders.

**Nigerian GAAP**

The Nigerian company law includes the concept of “officers” of the company and requires the disclosure of loans (and amounts outstanding on reporting date) and other transactions favouring directors and officers.

There is also specific guidance relating to banks and “insider-related credits”. Insider-related credits are defined to include transactions involving shareholders, employees, directors and their related interests. For further guidance refer to page 134.

Other than the above, there is no guidance on definition of related parties.

**Disclosures and exemptions**

**IFRS**

The nature and extent of any transactions with all related parties and the nature of the relationship is disclosed, together with amounts involved. There is a requirement to disclose the amounts involved in a transaction, the amount, terms and nature of outstanding balances, any doubtful amounts related to those outstanding balances and balances for each major category of related parties.

The compensation of key management personnel is disclosed in total and by category of compensation.

An exemption exists for government related entities. As part of this exemption, relief is granted to disclose only the nature and amounts of individually significant transactions and a qualitative or quantitative summary of other transactions with government related entities.

**Nigerian GAAP**

The Nigerian company law contains certain disclosure requirements for directors and officers.

There is specific guidance relating to banks and “insider-related credits”. For further guidance refer to page 134.

Other than the above, there is no guidance on required disclosures on related parties and transactions with them.

**References:**

**IFRS:** IAS 24.

**Nigerian GAAP:** Companies and Allied Matters Act (1990 amended), Central Bank of Nigeria circular BSD/1/2004.

**Segment reporting**

IFRS has specific requirements for the identification, measurement and disclosure of segment information. Similarities and differences are reflected in the following table. Nigerian GAAP requires entities to split results by individual business and geographical segments. The guidance in Nigerian GAAP was derived from IAS 14, which was superseded in IFRS by the new standard IFRS 8.

<table>
<thead>
<tr>
<th>Issue</th>
<th>IFRS</th>
<th>Nigerian GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## General requirements

<table>
<thead>
<tr>
<th>Scope</th>
<th>Public entities and entities in the process of filing in a public market. Non-public entities may choose full compliance.</th>
<th>All entities. Though in practice smaller entities will only disclose one segment.</th>
</tr>
</thead>
</table>

| Format | Operating segments are identified based on internal reports on each component of a business that are regularly used by the chief operating decision-maker to allocate resources and assess performance. | Based on business and geographic segments. Format is rules based. |

### Identification of segment

<table>
<thead>
<tr>
<th>General approach</th>
<th>Based on the internally reported operating segments.</th>
<th>Based on the organisational units for which information is reported to top management.</th>
</tr>
</thead>
</table>

| Aggregation of similar operating segments | Specific aggregation criteria are given to determine whether two or more operating segments are similar and may be aggregated. | Specific aggregation criteria are given to determine whether two or more reportable segments are similar and, thus, may be aggregated. |

| Threshold for reportable segments | Revenue, result or assets are 10% or more of all segments. If revenues of reported segments are below 75% of the total, additional segments are reported until the 75% threshold is reached. | Revenue, result or assets are 10% or more of all segments. |

| Disclosures required | Disclosure of measure of profit; Measure of assets to be disclosed if that information is regularly reported to the CODM; Measure of liabilities to be disclosed if that information is regularly reported to the CODM; Total revenue is disclosed, as well as the relevant segment that reported the revenues, for each external customer greater than or equal to 10% of consolidated | Disclosure identified measures of profit; Tangible and intangible assets; Not required to disclose liabilities; No requirement to disclose information relating to major customers; No reconciliations required. |

### References:

- **IFRS:** IFRS 8.
- **Nigerian GAAP:** SAS 24.
Discontinued operations

**IFRS**

<table>
<thead>
<tr>
<th><strong>Issue</strong></th>
<th><strong>IFRS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition</strong></td>
<td>A component of an entity (operations and cash flows that can be clearly distinguished operationally and for financial reporting) that has either been disposed of or is classified as held-for-sale and represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.</td>
</tr>
<tr>
<td><strong>Envisaged timescale</strong></td>
<td>Completed within a year, with limited exceptions.</td>
</tr>
<tr>
<td><strong>Starting date for disclosure</strong></td>
<td>From the date on which a component has been disposed of or, if earlier, is classified as held-for-sale.</td>
</tr>
<tr>
<td><strong>Measurement</strong></td>
<td>Lower of the carrying value or fair value less costs to sell.</td>
</tr>
<tr>
<td><strong>Presentation</strong></td>
<td>An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale shall be separately disclosed either in the statement of financial position or in the notes, with certain exceptions. A single amount is presented on the face of the statement of comprehensive income comprising the post-tax profit or loss of discontinued operations and an analysis of this amount either on the face of the statement of comprehensive income or in the notes for both current and prior periods.</td>
</tr>
<tr>
<td><strong>Ending date</strong></td>
<td>Until completion of the discontinuance.</td>
</tr>
</tbody>
</table>
Comparatives
Income statement re-presented for effects of discontinued operations but not balance sheet.

Nigerian GAAP
The guidance on property, plant and equipment does mention “decision to discontinue use” of an item of PPE. There is however no guidance on classification, measurement or presentation of such discontinued PPE.
Other than the above, there is no specific guidance on accounting treatment of discontinued assets or operations.

References:
IFRS: IFRS 5.
Nigerian GAAP: SAS 3.

Interim financial reporting

Scope

IFRS
There is no requirement for an entity to publish interim financial statements. However, a number of territories and regulators require or recommend entities (e.g. listed entities) to publish interim financial statements.

Nigerian GAAP
Interim reports are required to be released within 45 days of the end of the interim reporting period. It is not mandatory to prepare interim reports. Where an entity elects to do so, the 45 days rule will apply.

Disclosures and additional guidance

IFRS
As a minimum the following should be contained in an interim financial report:
- Condensed statement of financial position;
- Condensed statement of comprehensive income or separate condensed income statement and separate condensed statement of comprehensive income;
- Condensed statement of cash flows;
- Condensed statement of changes in equity;
- Selected explanatory notes; and
- Basic and diluted EPS.

Additional guidance includes the following:
- Use of accounting policies consistent with the previous annual financial statements, together with adoption of any changes to accounting policies that it is known will be made in the year-end financial statements (for example, application of a new standard);
- Preparation of the interim statements using a “discrete approach” to revenue and expenditure recognition; that is, viewing the interim period as a distinct accounting period, rather than part of the annual cycle. Hence, incomplete transactions must be treated in the same way as at the year end. For interim results, the tax charge is based on an estimate of the annual effective tax rate applied to the interim results. Impairment losses recognised in interim periods in respect of goodwill, or an investment in either an equity instrument or a financial asset carried at cost, cannot be
reversed later on; and

- Quarterly interim reports must contain comparatives (other than for the statement of financial position) for the cumulative period to date and the corresponding period of the preceding year to the same date.

**Nigerian GAAP**

Comparable to IFRS based on types of financial statements used in Nigerian GAAP, i.e. there is no requirement to prepare a statement of changes in equity.

### Abridged financial statements

**IFRS**

Condensed financial information can be prepared for interim reporting as discussed above.

**Nigerian GAAP**

Company law in Nigeria permits companies to publish abridged financial statements. However, the company code did not specify the minimum disclosure requirements of such statement. Guidance available is geared towards ensuring comparability and standardisation of the contents of abridged financial statements.

The guidance allows entities to, voluntarily, issue abridged financial statements to users and only applies to abridged financial statements issued by companies under the Companies and Allied Matters Act. Abridged financial statements may not be published for periods in respect of which the auditor issues a qualified report. They need to meet the following requirements:

- Carry a declaration that they are abridged;
- Declare that the financial statements and specific disclosures within are derived from the full set of financial statements;
- Declare that the abridged financial statements cannot be expected to give a full understanding of the results of the entity; and
- Declare that the full set of financial statements can be obtained from the Registrar.

The abridged financial statements must include the following:

- Accounting policies;
- Profit and loss account (income statement);
- Balance sheet;
- Statement of cash flows;
- Notes in relation to exceptional and extraordinary items;
- Five year financial summary;
- Any other financial information to ensure that the abridged financial statements are consistent with the full set of financial statements;
- Financial highlights;
- Material events after the balance sheet date;
- Details on changes in accounting policies and estimates that havea

**References:**

**IFRS:** IAS 34, IFRIC 10.

**Nigerian GAAP:** SAS 20, SAS 30
material effect; and

- Comparative information.
Specialised reporting industries

The standards issued under IFRS are meant to be general with the intention that entities should be able to apply them regardless of the industry to which they belong. Similar transactions should be accounted for by different entities in the same way with no discrepancies arising because of industry. As a result there is very little guidance in IFRS that is industry specific, with the two notable exceptions being:

- Insurance contracts – a standard dealing with the accounting for insurance contracts, which is not only specific to the insurance industry; and
- Exploration for and evaluation of mineral resources – dealing with the exploration and evaluation expenses for the oil and gas and mining industries.

In Nigeria, specific industry guidance has also been issued. The industry-specific guidance is generally not followed in other industry groups in Nigeria, even where such guidance could be applicable. This chapter will focus on where this guidance differs from the general Nigerian GAAP and also contrasting it to the equivalent areas in IFRS.

Banking and non-banking financial institutions

Balance sheet current and non-current distinction

**IFRS**  Refer to page 18.

**Nigerian GAAP**  The liquidity presentation is permitted for banking and non-banking financial institutions. The liquidity presentation is comparable to IFRS. In addition, the guidance available for banks and non-bank financial institutions give prescribed balance sheet as well as profit and loss account formats.

References:

- **IFRS**: IAS 1.
- **Nigerian GAAP**: SAS 10, SAS 15.

Income recognition

**IFRS**  Refer to page 102.

**Nigerian GAAP**  Interest income should be recognised so as to record a constant yield on the outstanding principal over the life of the credit at the interest rate applicable to the facility. Premiums and discounts are included in the interest rate calculation.

Credit-related fee income is regarded as material where in aggregate it constitutes at least 10% of the projected average annual yield over the life of facility to which it relates.

In practice, fees, whether credit related or not, are not deferred but recognised immediately in fee income.

Related direct expenses should be deducted from the fees before deferral. In practice, fees are recognised directly in the profit and loss account.

Non-material fees can be recognised as incurred.

References:

- **IFRS**: IAS 18.
- **Nigerian GAAP**: SAS 10, SAS 15.

Interest expense

**OR&C**


**IFRS** Refer to the financial liabilities chapter on page 105.

**Nigerian GAAP** No guidance exists. Banking entities therefore apply the mirror of the income recognition principles.

In financial institutions, interest on financial liabilities is often accrued in a separate interest payable account and transferred to the underlying instrument on the contractual interest due date. Fees and transaction costs are recognised as expenses as incurred.

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**Classification and measurement of financial assets – specific to banking and non-banking financial institutions**

This is a follow-up to the table on page 100. Only the affected asset types are included here.

<table>
<thead>
<tr>
<th>Classification</th>
<th>Common type of instrument</th>
<th>IFRS</th>
<th>Nigerian GAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amortised cost</strong></td>
<td>Loans</td>
<td>Measured at amortised cost using the effective interest rate method. Transaction costs are included in the effective interest rate method. Changes in fair value are not recognised.</td>
<td>In practice loans are carried at amortised cost using a method similar to the effective interest rate, based on the income recognition model described above. Changes in fair value are not recognised.</td>
</tr>
<tr>
<td><strong>Impairment</strong></td>
<td></td>
<td>Under IAS 39, impairments and reversals of impairment are recognised in profit or loss using the incurred loss model. An amount of the impairment is measured as the difference between the carrying value of the instrument and the present value of estimated future cash flows discounted at the asset’s original effective interest rate. Interest is still charged based on the effective interest rate.</td>
<td></td>
</tr>
</tbody>
</table>

**Provision for losses**

Provisions for losses and reversals of the provisions are recognised in profit or loss. Losses on loans are recognised based on a thorough and systematic review of nonperforming loans. The provisions should also consider areas where loans are still performing. Specific percentages are provided for raising provisions:

- 180 days overdue – 50% provision

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**References:**

*IFRS: IAS 39.*

**Nigerian GAAP:** Not applicable.
360 days overdue – 100% provision

- A general 1% on all performing loans

The above percentages are minimum percentages and where there is a legal or statutory requirement to increase the rate or decrease the period it should be followed.

For banks the Central Bank of Nigeria released prudential guidelines indicating that in addition to the above rates a 10% provision should be raised on all amounts overdue by 90 days. A 1% general provision is also charged on loans deemed to be performing and hence not specifically provided for.

When a loan is identified as nonperforming, interest is no longer charged and recognised on a cash basis.

---

### Fair value

<table>
<thead>
<tr>
<th>Debt and equity investments</th>
<th>General</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Remeasured at each reporting date to fair value. Any changes in fair value are recorded in profit or loss.</td>
</tr>
</tbody>
</table>

**Exception for equity investments**

Where an entity has an investment in an equity instrument it can elect to record the fair value movements in other comprehensive income. All dividends related to the

---

### Short-term investments

In the books of banks, these are carried at net realisable value. Changes in value are taken to profit or loss.

Unit trusts, investments schemes and other entities established for the sole purpose of trading in marketable
Investment gains or losses recorded in other comprehensive income are not recycled to profit or loss at any point in time. Securities carried at market value with net cumulative gains being recognised in an revaluation reserve (equity).

Impairment

There is no need to test for impairment as this is embodied in the fair value.

Interest expense

IFRS

Refer to page 102.

Nigerian GAAP

Guidance is provided to banking and non-banking financial institutions on identifying the sale of loans or securities with and without recourse. To be classified as a sale without recourse a sale must satisfy all of the following:

1. Control over the economic benefits of the asset must be passed on to the buyer;
2. The seller can reasonably estimate any outstanding cost; and
3. There must not be any repurchase obligations.

Where a sale is made without recourse the asset will be derecognised and any gain or loss will be taken to profit or loss when the transaction is completed.

A sale or transfer of loans or securities with recourse where there is an obligation to, or an assumption of, repurchase should not be treated as a sale, and the asset should remain in the seller’s balance sheet, with any related cash received recognised as a liability. Where there is no obligation to or assumption of repurchase, the sale should be treated as a disposal and the asset excluded from the balance sheet, and any contingent liability should be disclosed. Profit arising from sale or transfer of loan or securities with recourse should be amortised over the remaining life. However, losses should be recognised as soon as they can reasonably be estimated.

Impact of goodwill on dividends

IFRS

This is not applicable.

Nigerian GAAP

Based on guidance contained in the banking laws of Nigeria, a bank is not permitted to declare dividends until all its preliminary expenses, organisational expenses, share selling commission, brokerage, amount of losses incurred and other capitalised expenses not represented by tangible

References:

IFRS: Not applicable.
Nigerian GAAP: Bank
assets have been completely written off. In the recent past, the banking regulators have interpreted goodwill as capitalised expenses not represented by tangible assets.

**Disclosure of risks arising from financial instruments**

**IFRS** The entity shall disclose information enabling those who make use of financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed. Extensive disclosures are required, taking a ‘through the eyes of management’ approach.

**Nigerian GAAP** The Central Bank of Nigeria requires the disclosure of credit, liquidity and foreign exchange risks and risk management that are broadly comparable to some of the disclosures required by IFRS.

**Related party transactions**

Additional related party disclosure is required for banking and non-banking financial institutions. The Central Bank of Nigeria identifies when individuals can be classified as “insiders”:

- If he/she is, or at any time in the preceding 6 months has been knowingly connected with the company; or
- An individual is connected with a company if, but only if—
  - He/she is a director of that company or a related company; or
  - He/she occupies a position as an officer (other than a director) or employee of that company or a related company or a position involving a professional or business relationship between himself/herself (or his/her employer or a company of which he/she is a director) and the first company or related company which either case may reasonably be expected to give him/her access to information which, in relation to securities of either company, is unpublished price-sensitive information, and which it would be reasonable to expect a person in his/her position not to disclose except for the proper performance of his/her functions.

Where there are transactions with insiders the following needs to be disclosed:

- The aggregate amount of insider-related loans, advances and leases outstanding as at the financial year end should be separately stated in a note to the accounts and the non-performing component further analysed by security, maturity, performance, provision, interest-in suspense and name of borrowers as per the attached prescribed format.

- Note to the accounts on guarantees, commitments and other contingent liabilities should also give details of those arising from related-party transactions. The External Auditors and Audit Committees should include in their reports their opinion on related-party transactions.

**Extractive industries**

**Scope**

**IFRS** IFRS 6 deals with the exploration for and evaluation of mineral resources.
This is applicable to entities dedicated to extractive activities (e.g. oil and gas and mining). The standard focuses on the exploration and evaluation phases only.

**Nigerian GAAP**

Guidance exists for the upstream and downstream petroleum industries. Activities of the petroleum industry can be divided into two broad categories, upstream and downstream. Upstream activities involve acquisition of mineral rights in properties, exploration, development and production of crude oil and gas. Downstream activities involve transporting, refining and marketing of oil, gas and derivatives.

**Exploration and evaluation expenditure**

**IFRS**

IFRS 6 was issued to provide an interim solution for exploration costs pending the outcome of the wider extractive industries project by the IASB. Entities transitioning to IFRS can continue applying their current accounting policy for exploration and evaluation. IFRS 6 provides an interim solution for exploration and evaluation costs, but does not apply to costs incurred once this phase is completed. The period of shelter provided by the standard is a relatively narrow one, and the impairment rules make the continuation of full cost past the exploration and evaluation phase a challenge.

An entity accounts for its E&E expenditure by developing an accounting policy that complies with the IFRS Framework or in accordance with the exemption permitted by IFRS 6. IFRS 6 allows an entity to continue to apply its existing accounting policy under national GAAP for E&E. The policy need not be in full compliance with the IFRS Framework.

If initial recognition of exploration and evaluation under the Framework is elected, expenditures incurred in exploration activities should be expensed unless they meet the definition of an asset. An entity recognises an asset when it is probable that economic benefits will flow to the entity as a result of the expenditure. The economic benefits might be available through commercial exploitation of hydrocarbon reserves or sales of exploration or further development rights. It is difficult for an entity to demonstrate at that stage that the recovery of exploration expenditure is probable. As a result, exploration expenditure has to be expensed.

Two broadly acknowledged methods have developed in practice to account for exploration and evaluation, and subsequent development costs. These methods are successful efforts and full cost.

- Under the successful-efforts method, costs incurred in finding, acquiring and developing reserves are capitalised on a field-by-field basis. Capitalised costs are allocated to commercially viable hydrocarbon reserves. Failure to discover commercially viable reserves means that the expenditure is charged to expense. Capitalised costs are depleted on a field-by-field basis as production occurs.

- Under the full-cost method, all costs incurred in searching for, acquiring and developing the reserves in a large geographic cost centre or pool, as opposed to individual fields, are capitalised. Cost centres are typically grouped on a country-by-country basis, although sometimes countries may be grouped together if the fields have similar or linked economic or geological characteristics. These larger cost pools are then depleted on a country basis as production occurs. If exploration efforts in the country or geologic formation are wholly unsuccessful, the costs are expensed.
Full cost, generally, results in a larger deferral of costs during exploration and development and increased subsequent depletion charges.

**Nigerian GAAP**  Entities can elect to use the full cost or successful efforts methods, similar to those identified above.

- Under the full-cost method, costs incurred on mineral rights acquisition, exploration, appraisal and development activities should be capitalised irrespective of whether or not the activities resulted in the discovery or reserves. Such costs are usually amortised against successful finds on gross revenue or unit of production basis.
- Under the successful-efforts method, costs incurred prior to the acquisition of mineral rights and other exploration activities not specifically directed to an identifiable structure should be expensed when incurred. All costs incurred on mineral rights acquisition, exploration, appraisal and development activities should be capitalised initially on the basis of wells, fields or exploration cost centres, pending determination. These costs should be written off when it is determined that the well is dry.

**Development and production expenditures**

**IFRS**  IFRS does not contain specific guidance for the treatment of development and production expenditures. Accounting policies applied have developed from practice. Development expenditures are costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas. Development expenditures should generally be capitalized to the extent that they are necessary to bring the property to commercial production, (Costs must provide future benefits to the entity in order to be capitalized.) Expenditures incurred after the point at which commercial production has commenced should only be capitalised if the expenditures meet the asset recognition criteria. This will be where the additional expenditure enhances the productive capacity of the producing property.

**Nigerian GAAP**  As with exploration and evaluation expenditure, development expenditure is accounted for using the full-cost or successful-efforts methods.

**Amortisation**

**IFRS**  Amortisation should be based on the units-of-production method. The straight line method may be appropriate for some assets. IFRS does not prescribe what basis should be used for the UOP calculation. Many entities use only proved, developed reserves; others use all proved reserves; or both proved and probable reserves. The basis of the UOP calculation is an accounting policy choice, and should be applied consistently.

The component approach as identified under the PPE chapters should be followed. Refer to page 63.

**Nigerian GAAP**  Comparable to IFRS, except that proved developed reserves should be used for the units of production calculation. Mineral rights acquisition costs which have not been allocated should be amortised over the remaining life of the
Impairment

IFRS 6 introduces an alternative impairment testing regime for exploration and evaluation that differs from the general requirements for impairment testing set out in IAS 36. An entity assesses for impairment only when facts and circumstances suggest that impairment exists. Indicators of impairment include, but are not limited to the following:

- Rights to explore in an area have expired or will expire in the near future without renewal.
- No further exploration or evaluation is planned or budgeted.
- The decision to discontinue exploration and evaluation in an area because of the absence of commercial reserves.
- Sufficient data exists to indicate that the book value will not be fully recovered from future development and production.

Impairment of development costs is based on the impairment principles contained in IAS 36. Refer to page 79.

The application of these impairment requirements is particularly important for extractive entities that have decided to recognise all exploration and evaluation expenditure as an asset; they might be carrying significant amounts on the balance sheet in respect of projects for which the outcome is highly uncertain. Once an impairment trigger has been identified, the impairment assessment is performed in accordance with IAS 36 – except that extractive entities are allowed to group exploration and evaluation assets with producing assets for the purposes of impairment testing, as long as they establish an accounting policy for this.

Nigerian GAAP

If the full-cost method is applied, a ceiling test should be performed at least annually on a country-wide basis. Such tests should include the discounted values for revenues, costs, estimated future taxes and estimated future development costs. The following assumptions are applicable:

- The price used should be that ruling at the balance sheet date.
- The reserve value should be the proved reserves.
- Where accounts are prepared in US Dollars, the discount rate should be 10%.
- Where accounts are prepared in Naira, the Central Bank rediscount rate should be used.
- Restoration and abandonment costs should be deducted in arriving at estimated future net revenues for ceiling test calculation.

For the successful-efforts method, the net book value of undepreciated mineral rights acquisition costs should be tested annually for impairment on a well-by-well basis. No guidance is provided on how to calculate the impairment.

Decommissioning costs
IFRS

The extractive industries can have a significant impact on the environment. Decommissioning or environmental restoration work at the end of the useful life of a plant or other installation may be required by law, the terms of operating licences or an entity’s stated policy and past practice. An entity that promises to remediate damage, even when there is no legal requirement, may have created a constructive obligation and thus a liability under IFRS. There may also be environmental clean-up obligations for contamination of land that arises during the operating life of a refinery or other installation. The associated costs of remediation or restoration can be significant. The accounting treatment for decommissioning costs is discussed on page 88.

Nigerian GAAP

According to CAP P10 paragraph 36, Laws of the Federal Republic of Nigeria all abandonment programmes have to be approved or agreed by the head of the Petroleum inspectorate. There is therefore a legal requirement to rehabilitate the damage done.

Entities should make provision for restoration and abandonment costs less estimated salvage values based on the best availability estimate by:

- A charge against income on a systematic basis over the full productive lives of the facilities concerned so that the accumulated provision will cover the cost of restoration or abandonment; or
- Recognising the eventual liability at the outset; the corresponding debit should be treated as a capital cost to be depreciated using the units-of-production basis.

References:


Functional currency

IFRS

Based on the normal IFRS principles. Refer to page 117.

Nigerian GAAP

Under Nigerian GAAP all entities are deemed to prepare their accounts in Naira. There is an exception that exists for Oil and Gas entities where accounts can be dollar based and translated to Naira in accordance with the normal translation rules.

Downstream activities

Scope and definition

IFRS

No specific guidance exists. The general guidance for property, plant and equipment and inventories is followed.

Nigerian GAAP

SAS 17 provides guidance for downstream activities. The Standard provides a guide on accounting practices and reporting formats to be followed by companies operating in the downstream sector of the Nigerian petroleum industry. Such companies include those engaged in:

- Refining and Petrochemicals;
- Marketing and Distribution; and
- Liquefied Natural Gas

Downstream activities refer to those activities that take place from receipt of crude oil into crude oil tanks or gas into petrochemical tanks to the
transportation of refined products to the final user of processed products to secondary industries. These activities encompass transporting, refining, liquefaction of natural gas, distributing and marketing of refined petroleum products, gas and derivatives.

**Issues related to refining and petrochemical operations**

**Catalysts**

Catalysts are chemical substances used to speed up the cracking of hydrocarbons.

**IFRS**

IFRS does not have prescribed guidance for Catalysts. The principles in the IFRS framework IAS 16 and IAS 2 are used in this case. Catalysts are usually accounted for as inventory and recorded at the lower of cost or net realisable value. These are expensed as consumed.

**Nigerian GAAP**

The standard requires catalysts to be separated into short-life (lasts for less than a year) and long-life (lasts for longer than a year).

Costs of short-life catalysts are expensed in the year in which they are incurred while costs of long-life catalysts are capitalised and written off over the life of the refinery. Where long-life catalysts are regenerated, the costs of regeneration should be capitalised and amortised over the life of the regeneration.

**Turn-around maintenance**

Turn-around maintenance (TAM) refers to the overhaul of a refinery or a petrochemical plant normally carried out after operating the plant for a specified period, usually two years.

**IFRS**

Major overhauls of a refinery, petrochemical plant or similar item of PPE can be capitalised to the extent that the useful life of the PPE gets extended or its productive capacity is increased. Otherwise, such costs should be expensed as incurred.

**Nigerian GAAP**

Costs associated with turn-around maintenance costs are usually capitalised and amortised over the expected period before the next turn-around maintenance.

**Standby equipment**

**IFRS**

Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts and standby equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Some items of property, plant and equipment, such as pipelines, refineries and gas storage, require a certain minimum level of product to be maintained in them in order for them to operate efficiently (linefill). Such products are capitalised as part of the PPE and amortised over the useful life of the related
Depreciation on PPE begins when the asset is available for use.

**Nigerian GAAP** Costs associated with turn-around maintenance costs are usually capitalised and amortised over the expected period before the next turn-around maintenance.

### Depreciation of plant and equipment

<table>
<thead>
<tr>
<th><strong>IFRS</strong></th>
<th>Refer to the depreciation guidance on page 63.</th>
<th><strong>References:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nigerian GAAP</strong></td>
<td>The costs of refining or petrochemical plant and equipment should be depreciated on a straight-line basis over the useful life of the assets or, if operating at normal levels of production, on the basis of expected throughput. The method used should be disclosed and consistently applied. There is no requirement to split items of PPE into its components and depreciate same over their useful life, taking into account residual values.</td>
<td><strong>IFRS:</strong> IAS 16. <strong>Nigerian GAAP:</strong> SAS 17.</td>
</tr>
</tbody>
</table>

### Debottlenecking, major plant rehabilitation and replacement of major components

<table>
<thead>
<tr>
<th><strong>IFRS</strong></th>
<th>When items qualify for capitalisation they are depreciated following the guidance on page 63.</th>
<th><strong>Nigerian GAAP</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Comparable to IFRS.</strong></td>
<td>Where major plant rehabilitation, debottlenecking or replacement of major components result in a significant and identifiable increase in output or betterment of the plant, the costs are capitalised and amortised over the period over which the benefit is expected to last. In any other case, such costs are expensed as incurred.</td>
<td><strong>The basis for the accounting is based on the general accounting rules.</strong></td>
</tr>
</tbody>
</table>

### Telecommunications

**General**

<table>
<thead>
<tr>
<th><strong>IFRS</strong></th>
<th>No specific guidance exists for the telecommunications industry under IFRS. The basis for the accounting is based on the general accounting rules.</th>
<th><strong>Nigerian GAAP</strong></th>
</tr>
</thead>
</table>
| **The objective of the telecommunications standard is to streamline the accounting practices within the telecommunications industry as most telecommunication operators come from different countries. This standard is also aimed at ensuring the comparability and usefulness of financial statements.** | **The standard covers the following issues:**
- Timing, measurement and recognition of revenue;
- Measurement and recognition of costs;
- Depreciation, dismantling and removal of fixed costs;
- Capitalisation and amortisation of intangibles; and |
Calculated and treatment of impairment.

Issues related to revenue

Revenue recognition and measurement

**IFRS**  The standard dealing with revenue is generic and is applied to all entities, regardless of industry. Refer to page 43 for the details.

**Nigerian GAAP**  The standard addresses the specific recognition and measurement:

- Revenue includes gross inflow of economic benefits received and receivable. The revenue shall be measured at the fair value of the consideration received or receivable.
- Revenue is calculated based on usage.
- Revenue for transactions that are artificial or lack commercial substance are not recognised.
- Connection fees are recognised immediately unless the contract states that the connection fee is for a certain period. In this case, the connection fee shall be deferred and recognised over that period.
- Interconnection fees are calculated at an agreed rate of the call charges and recognised by the terminating operator as earned.

Deferred or unearned revenue

**IFRS**  Amounts received in advance, as consideration for goods or services not yet provided, are deferred and recognised when the recognition criteria are met.

**Nigerian GAAP**  Comparable to IFRS.

Where there is a timeframe included in the service, unutilized services at the expiration of the period are recognised as revenue.

Rendering of services – installation fees

**IFRS**  Refer to page 46 regarding the recognition and measurement of rendering services.

Installation fees are usually deferred and recognised as revenue by reference to the stage of completion unless the fees are identical to the sale of a product in which they are recognised when the goods are sold.

**Nigerian GAAP**  Revenue is usually deferred and recognised over the duration of the contract as specified with the subscriber.

If there is no contract stating the service period, the revenue cannot be deferred and is usually recognised immediately.

Multiple element / bundled transactions

**IFRS**  Refer to page 49 for detailed guidance on multiple element transactions under
In the telecommunications industry, the separation of components is often required; for example, a mobile phone network packages within a single contract contain a handset, line rental, and pre-paid calls. These three products and services are also available separately, and their stand-alone retail prices are a good guide to determine the fair value of the consideration received for each component. At the start of the contract, the handset is delivered, but provision of the line rental and pre-paid calls will be outstanding. Thus revenue is recognised immediately for the handset, but revenue for the line rental and pre-paid calls is deferred. The revenue from line rental will be recognised over the rental period, and revenue from the call will be recognised on a usage basis.

As the handset can be used on any network, it also has value to the customer when separated from the associated line rental, so the customer could reasonably have bought just the handset and the revenue would be recognised upon delivery. Where a handset is sold with no associated line rental and, instead, cards with pre-paid units are purchased by the user, revenue would be recognised on the sale of the handset. Revenue from the sale of pre-paid units would be deferred and recognised as the units are used.

Nigerian GAAP

The recognition criterion of the bundled products is usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. Any discount attached to the transaction shall be prorated and applied on all the elements of the bundled product’s cost.

Where a multiple element arrangement includes the sale of equipment along with long-service items, the key issue is to identify whether any proceeds in respect of the equipment that was sold upfront should be accounted for as revenue or be deferred. It is expected that the sale of equipment is accounted for separately as it has stand-alone value to the customer.

When the selling price of the product includes an identifiable amount for subsequent servicing, that amount is usually deferred and recognised as revenue over the period during which the services are performed.

Where equipment is priced as an overall upfront charge with free future services, a reasonable proportion of the revenue is recognized upfront subject to sufficient revenue being deferred to cover the cost of providing the subsequent services at a reasonable margin.

If it is clear that the ongoing service is the principal service provided and where related equipment is secondary, revenue must be recognized to ensure that a reasonable margin is earned on both components.

Exchange of capacities / barter transactions

IFRS

Refer to page 47 regarding the accounting of barter transactions. IFRS provides detailed guidance on determining whether a transaction lacks commercial substance.

In the telecommunication industry, entities enter into transactions for the sale or purchase of network capacity. Occasionally, an entity may sell capacity to another party in exchange for receiving capacity on that other party’s network. The key consideration is whether the capacity swap transaction has
substance. To the extent that the swap does not have substance, the entity and the other party should not record revenue or costs in respect of the capacity exchanged. To the extent that the transaction has substance, it may be appropriate to recognise revenue.

Nigerian GAAP

Exchanges of similar values and little or no cash, or where capacity is sold wholly or in part for cash and at the same time purchased capacity for a similar value (reciprocal transactions) are considered to be artificial and lacking in substance and therefore no accounting is applied.

An entity that sells capacity on its network to another entity recognises the gross revenue as earned and the purchaser recognizes the cost as incurred.

Transfers from customers

IFRS

IFRIC 18 ‘Transfers of assets from customers’ clarifies how an entity should account for assets received from a customer in return for connection to a network and/or ongoing access to goods or services. The same accounting applies if the customer transfers cash to the entity and that cash is to be used only to build an asset that in turn is to be used to connect the customer to a network and/or provide ongoing access to goods or services; or the customer pays a third party to provide the connection service, who then transfers the connection asset to the network entity upon completion. If it meets the definition of an asset the asset received is recognised initially at fair value. If this asset is in exchange for a single service the revenue is recognised once the service is performed. If there is more than one service the entity has to allocate revenue and apply recognition criteria to each service.

Nigerian GAAP

No guidance exists.

Principal and agent relationships

IFRS

Refer to page 45.

Nigerian GAAP

In determining whether an entity is acting as a principal or agent the following should be considered:

- Whether the gross inflow results in an increase in equity for the entity; and
- Whether the inflows represent amounts collected on behalf of a third party.

In an agency relationship, revenue is commission received. Commission paid shall not be set off against commission received.

Property, plant and equipment-related issues

Decommissioning costs

IFRS

Refer to page 88.

Nigerian

The present value of management’s best estimate of the cost
of decommissioning and dismantling costs is included in the cost of an item of property, plant and equipment. Subsequent changes to this estimate shall be added to or deducted from the item’s cost. The carrying amount is subsequently depreciated over its remaining useful life. This is comparable to IFRS.

The liability is adjusted for the time value of money and increases in the liability recognised as an expense in the profit and loss account of each period. The adjustment for time value of money is consistent with IFRS, which states that the periodic unwinding of the discount shall be recognised in profit or loss as a finance cost as it occurs. The treatment of other changes to the liability differs from IFRS, where the changes affect the carrying value of the PPE.

Componentisation

IFRS

Refer to page 63.

Nigerian GAAP

The component approach is considered for property, plant and equipment that consist of various components with separate useful lives or consumption patterns. Each item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately and assets with similar useful lives and depreciation methods may be grouped together.

Intangible asset related issues

Subscriber acquisition costs

IFRS

The costs of acquiring contracts which are identifiable, controlled by a company and meet the recognition criteria of IAS 38 (i.e. probable inflow of future economic benefits to the entity and reliable measurability of the cost of the asset) should be capitalized as intangible assets. Subsequent amortisation of the cost over the useful life of the intangible asset is allocated on a systematic basis over the useful life of the asset.

Where the operator is unable to reliably measure the extent to which costs relate directly to the acquisition of customers rather than to general sales and marketing efforts, it may be appropriate to expense all such costs as incurred.

Nigerian GAAP

Subscriber acquisition costs are those costs that are directly attributable to establishing specific subscriber contracts and would not have been incurred had that specific contract not been entered into.

These costs are usually expensed as incurred however it is possible to recognise these costs as intangible assets when the following conditions are met:

- The operator by means of an enforceable contract, controls the future economic benefits as a result of the costs incurred;
- It is probable that those future economic benefits will eventuate; and
- The costs must be specified to that particular contract and can be measured reliably.

Once capitalised, the costs are amortised over the specific period of the contract. If the contract with the acquisition costs is terminated early, then the
net book value of the intangible asset is usually regarded as impaired.

Licenses

**IFRS**
Licences are capitalised as per IAS 38 and amortised on a systematic basis over the best estimate of their useful lives. The straight line method is usually the most appropriate way as the licence period is usually determined by a contract.

**Nigerian GAAP**
Licences are accounted for based on time or usage. Where the licences are capitalised, they are usually amortised over the period of the licence using the straight-line method unless another pattern can be reliably determined. Impairment loss on licences is usually recognised immediately in the profit and loss account. No guidance exists on determining the recoverable amount.

Right to use arrangements

**IFRS**
These agreements are akin to leases in that they convey a right to use specified network assets, to the exclusion of other operators, including the seller. Payment for the use of the assets is made in advance and does not vary with the buyer’s actual usage.

Indefeasible-Right-of-Use (IRU) arrangements that transfer substantially all of the risks and rewards of ownership to the buyer should be capitalised as a leased asset in PPE. The ongoing involvement of the seller, for example through the supervision of access, needs to be assessed in determining where the risks and rewards of ownership rest.

An IRU often contains multiple elements such as Operations and Maintenance (O&M) and co-location agreements. Separate contracts may be executed for each element, with cash flows from the buyer to the seller associated with each separate contract. These contracts must be considered together when determining cost of assets acquired and the costs that are operating expenses. The relative fair value of each element of the arrangement should be determined and the same proportion of cost (cash paid, discounted as appropriate) allocated to the element. The IRU assets should be capitalised based on their relative fair value. The costs of associated O&M and co-location services should also be recorded as their relative fair value as the costs are incurred. The seller’s accounting should mirror the buyer’s treatment of the agreement.

**Nigerian GAAP**
A seller does not recognise a sale of asset for the right of use but recognises rental income which is recognised on a straight-line basis over the period of the indefeasible right of use unless:
- The purchaser’s right of use is exclusive and irrecoverable;
- The asset component is specific and separable;
- The term of the contract is for a major of the asset’s useful life;
- The attributable cost or carrying amount can be measured reliably; and
- No significant risks have been identified.

Where the transaction is reported as a sale of an asset, the proceeds are reported as turnover only if the assets were designated as held for resale;

**References:**
- **IFRS:** IAS 18, IAS 16, IAS 17, IAS 37, IFRIC 1, IFRIC 4.
- **Nigerian GAAP:** SAS 25.
otherwise such transactions are reported as disposal on fixed assets.

**Biological assets and agricultural produce**

**Definition and scope**

**IFRS**
The standard applies to the accounting for biological assets and agricultural products at the point of harvest.

A biological asset is a living animal or plant.

Agricultural produce is the harvested product of an entity’s biological assets.

The standard is applied to agricultural produce, which is the harvested product of the entity’s biological assets, only at the point of harvest. Thereafter, IAS 2 or another applicable standard is applied. The standard does not deal with the processing of agricultural produce after harvest, for example the processing of grapes into wine by a vintner who has grown the grapes. While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in this Standard.

**Nigerian GAAP**
There are no definitions included; however, guidance is provided in the form of examples:

- Arable stocks are commercially grown farm produce.
- Plantation products are cocoa, coffee, kola, oil palm, plantain, rubber, tea and tobacco, etc., cultivated on a large estate.
- Livestock refers to farm animals such as poultry, sheep, cattle, etc., which are specifically raised for commercial purposes.

**Recognition**

**IFRS**
Biological assets and agricultural produce are only recognised when:

i) the entity controls the asset as a result of past events;

ii) it is probable that future economic benefits associated with the asset will flow to the entity; and

iii) the fair value or cost of the asset can be measured reliably.

**Nigerian GAAP**
No specific guidance is provided.

**Initial measurement**

**IFRS**
Biological asset shall be measured on initial recognition at its fair value less costs to sell. If the presumption that the fair value of a biological asset can be measured reliably is rebutted on initial recognition because the market-determined prices or values are not available and alternative estimates of fair value are determined to be clearly unreliable, the biological asset is measured as its cost.

Agricultural produce shall be measured at its fair value less costs to sell at the point of harvest.

Gains or losses on initial recognition of biological assets and agricultural
produce are recognised in profit or loss in the period they arise.

**Nigerian GAAP** Refer to the subsequent measurement section below. No separate guidance provided.

### Subsequent measurement

**IFRS** At the end of each reporting period a biological asset is measured at its fair value less costs to sell. Gains or losses from a change in fair value are recognised in profit or loss in the period they arise. If the presumption that the fair value of a biological asset can be measured reliably has been rebutted on initial recognition, it is measured at cost less accumulated depreciation and accumulated impairment losses. Once the fair value then becomes reliably measurable, it is measured at fair value less costs to sell.

After harvest, agricultural produce is classified into the applicable category of assets, such as inventory, and shall be measured under the applicable Standard. IAS 41 no longer applies. The fair value less cost-to-sell measurement is the cost when applying the applicable Standard.

**Nigerian GAAP** Specific rules on arable stocks are provided in the stocks Standard. The value of such stocks would include the cost of tillage, planting and nurturing plants to harvesting stage. The valuation of arable stock is based on cost where an adequate record-keeping and appropriate cost accounting system exists. Otherwise, valuations should be based on net realisable value. Reasonable provision for deterioration or normal spoilage should be made for perishable farm products. Where practical, the costs should be accumulated separately for the three operational stages: tillage, in-ground (growing crops) and harvested crops.

The cost of plantation crops on hand at the end of the year consists of the proportion of cost accumulated for the quantities harvested plus the cost of extracting and transporting them to the point of sale. The same treatment is applied to the products of fruit trees, regardless of whether the scale is sufficiently large to be normally regarded as plantation. The first cost includes the amortisation of costs accumulated during the preparation, planting, pruning and development of the plantation up to the maturity/beginning of bearing fruits, which are then amortised over the productive life of the plantation. These accumulated costs can either be separately accumulated per lot/batch or based on average costs. On the other hand, produce of plantation crops that are annual crops which yield produce within the first year of being planted are valued in the same manner as arable products.

One of the following methods should be used and should be applied consistently when valuing livestock: cost method, net realizable value (value is based on expected return allowing for costs of fattening, preparation for sale and selling) or appraised value (value is determined by a professional valuer, taking into consideration the current market value, the mortality factor and the relative marketability of the breed or class of stock). Where livestock is raised primarily for its products rather than consumption, the cost of bringing such livestock to the point of maturity at which they begin to yield products should be capitalised and then amortised over their estimated productive lives.

**References:**

- **IFRS:** IAS 41.
- **Nigerian GAAP:** SAS 4.
Insurance

Scope

**IFRS**

The scope of IFRS 4 provides guidance on the financial reporting for insurance contracts by any entity that issues such contracts. This includes insurance contracts issued and reinsurance contracts held. It also applies to financial instruments that are issued with a discretionary participation feature. Some other items, such as warranties issued directly by manufactured, retailer or dealer, are specifically excluded from the scope of IFRS 4. Unless a derivative embedded in insurance contracts is also an insurance contract, it falls outside the scope of IFRS 4. There are some further exemptions from the requirement to separate the embedded derivative, for example deposit components included in an insurance contract may or may not need to be unbundled based on certain criteria. The standard applies to all insurance contracts regardless of the business of the issuer. Furthermore, the substance, rather than the legal form, of the contract is important to determine whether IFRS 4 is applicable (to insurance contracts as defined below or to investment contracts with discretionary participation features) or whether the contract falls within the scope of IAS 39 or IFRS 9 (known as investment contracts).

The IASB released an exposure draft proposing a comprehensive standard to address recognition measurement, presentation and disclosure for insurance contracts. The Board expects to issue the final standard in mid 2011, but has not proposed an effective date.

**Nigerian GAAP**

The statement does not apply to all insurance contracts, but is intended for non-life and life assurance undertakings. SAS 16 states specifically that the standard applies to financial statements prepared in accordance with the requirements of the Companies and Allied Matters Decree, 1990 and the Insurance Decree, 1997. The activities of friendly societies, pension or provident funds, loss adjusters and insurance brokers/agents are specifically excluded. Investment contracts are included in the scope of the standard insofar as they are recognised as an activity integral to insurance business.

Definition

**IFRS**

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

IFRS 4 provides additional guidance on the application of this definition, but the definition’s key principle is that there should be significant insurance risk arising from an uncertain future event that adversely affects the policyholder, who must be another party. To meet this principle there should be: a specified uncertain future event that adversely affects the policyholder; the event arises from a scenario with commercial substance and from a pre-existing risk; and the additional benefits due if the insured event occurs are significant compared to all other scenarios.

**Nigerian GAAP**

Two types of insurance businesses are identified:

- General business: an insurance business other than life assurance business. It is also called non-life business. General insurance provides
protection against losses which may result from occurrence of specified events within specified periods.

- Life assurance: an insurance business under which, in consideration for a premium, the company undertakes to pay an agreed benefit primarily on the survival of the policyholder to a specified age or on death. Thus life assurance, other than term insurance, is normally an assurance that a benefit will be paid on the occurrence of a specified event that will definitely take place, but the timing of which may be uncertain. Life assurance business includes whole life, endowment, annuity, pension, permanent disability, capital redemption and pension fund management business. It is also called long-term business.

These definitions underline the difference in the standards in that IFRS concentrates on insurance contracts and Nigerian GAAP on insurance businesses.

**Recognition**

**IFRS**

An insurance obligation arises from a contractual relationship between the company and the policyholder. This contract must exist at the statement of financial position date in order to recognise an insurance liability – IFRS 4 prohibits the creation of liabilities for potential claims that may arise under future contracts. Liabilities of this type are often called catastrophe or equalisation provisions and are created when a liability is built up over time to be used on the occurrence of a future catastrophic loss covered by current or future contracts. They are prohibited as they do not meet the definition of an liability under the Framework.

**Nigerian GAAP**

General:

The annual basis of accounting is applied. Under this basis, the results disclosed in the financial statements include the results of the current accounting period and adjustments, if any, made to estimates used in determining the underwriting result of the previous accounting period.

If it is not possible to determine the underwriting result with reasonable certainty until the following accounting period, the deferral annual basis should be adopted. There are two variants of deferral annual basis.

- Under the first variant, items relating to business written in an accounting period are accounted for one year in arrears. Therefore, the results will relate to transactions conducted in the prior year and to adjustments made to estimates used in arriving at the result of the previously closed years. Current year items are deferred however, a provision for anticipated losses in respect of business written in the current year is usually made.

- Under the second variant, underwriting transactions are recognised in the accounting period in which they are notified. However, the total net revenue at the end of the accounting period, adjusted for anticipated losses, is not recognised and is carried forward as a fund to the next period. Therefore, the underwriting results for the period will include the result of the closed year, adjustments to estimates of previously closed years and provision for expected losses for the open year. The fund at the end of the accounting period will include outstanding liabilities for closed years, the net income of the open year and any provisions for anticipated losses thereof.
Refer to sections on premiums, claims, expenses and liabilities for more information on the specific treatment of these items.

**Life assurance:**

The fund accounting basis is applied. Under this basis, a fund is created for each underwriting year. Premiums on business written during the year and the related claims or expenses are posted to the fund. The fund for each year will remain open until there is enough information to determine the underwriting results. No profit is recognised for open years but provisions are usually made for anticipated losses. The underwriting results at the end of the accounting period will include results of the underwriting years closed during the period, adjustments to estimates of the previously closed years and anticipated loss in respect of the open year. The fund at the end of the accounting period will include outstanding liabilities for closed years, the net income for each open year and provisions for anticipated losses. The life fund balance is reported as a liability on the balance sheet of the entity.

Refer to sections on premiums, claims, expenses and liabilities for more information on the specific treatment of these items.

**Measurement**

**IFRS**

IFRS 4 allows entities to continue to use their existing accounting policies to measure liabilities arising from insurance contracts as long as the existing policies meet certain minimum requirements set out in IFRS 4, the most significant of which relates to the performance of liability adequacy tests.

The minimum requirement needed for a liability adequacy test to comply with IFRS 4 is that it should consider current estimates of all contractual cash flows and of related cash flows such as claim handling costs, as well as cash flows resulting from embedded options and guarantees. If the recognised liability is inadequate in the light of the estimated future cash flows, the entire deficiency must be recognised in profit or loss. If the accounting policies used by the entity do not specify a liability adequacy test, the insurer’s liability’s carrying amount (less any related deferred acquisition costs and other insurance related intangible assets) should be compared to the provision that would be required if the relevant insurance liabilities were measured using IAS 37. If the net carrying amount of the liability is insufficient when compared with the IAS37 measurement, the entity should increase the liability or reduce the related assets and recognise the difference in profit or loss. If the insurer’s liability adequacy test meets the requirements of the IFRS4, the test is applied at the level of aggregation specified in that test. If this is not the case, the comparison of its insurance liabilities with the provision that would be required by IAS 37, should be done for each portfolio of contracts. A portfolio includes all contracts that are managed together and that are subject to broadly similar risks.

As far as accounting policy changes are concerned, the entity will only be allowed to change existing accounting policies for insurance contracts where the change results in presenting information that is more relevant and no less reliable, or more reliable and no less relevant than before. The criteria in IAS 8 are used to determine whether a change in policy would result in more relevant or reliable information. IFRS 4 provides relief from full compliance with IAS8 as long as the change moves the entity closer to meeting
those criteria. If such accounting policy changes are contemplated, refer to the guidance in IFRS 4 on the following specific areas: current interest rates; continuation of certain existing practices; prudence; future investment margins; and shadow accounting.

**Nigerian GAAP**

**General and life assurance:**

The insurance standard does not provide general guidance on the measurement of insurance elements. Where available, the specific treatment of premiums, claims, expenses and liabilities is included in the relevant sections below.

**Derecognition**

**IFRS**

An insurance liability may only be removed from the statement of financial position when it is discharged, cancelled or expires. This is consistent with the treatment of financial liabilities under IAS 39.

**Nigerian GAAP**

See guidance below for maintaining insurance funds (life and nonlife businesses). In practice, due to the revenue recognition method described below for life businesses, liabilities relating to certain types of life business (group life) continue to be carried as liabilities even after the liability has been extinguished.

**Premium**

**IFRS**

No specific guidance is given in IFRS 4. IFRS 4 exempts entities from the requirement to choose accounting policies for insurance contracts that are consistent with the IFRS framework and other standards. Therefore, in general, recognition and measurement of premiums will be consistent with local GAAP for insurance contracts as long as those policies meet the minimum requirements of IFRS 4.

**Nigerian GAAP**

**General:**

Premiums are recognised from the date of attachment of risk, which is the date from which the insurer (reinsurer) accepts the risk from the insured (insurer) under a contract. A basis of recognition that approximates the date of attachment of risks is acceptable, as long as it does not result in material distortions in premiums recognised.

Premiums are assumed to be earned evenly over the period of risk. If there is significant market variation in the pattern of risks within the risk period, the revenue should be accounted for in accordance with that pattern of risk exposure.

Written premiums, defined as premiums in respect of contracts which commence during the accounting period, that do not relate to the risk for the current accounting period, should be carried forward as unearned premium. Therefore, the earned premiums are written premiums adjusted for the unearned premium provisions at the beginning and at the end of the accounting period. Unearned premium will be regarded as earned in a subsequent period.

**Life assurance:**

Premiums are recognised and credited to the fund when due for payment
from policyholders. No allocation of premium between accounting periods is necessary as premiums are not recognised in the profit and loss account.

The explanatory note to SAS 16 states that depending on the type of product premiums are either treated as liability or revenue. Receipts from underwriting business of a savings nature (e.g., deposit administration contracts) are not treated as revenue but as liabilities. This is in line with IFRS 4’s scope, which treats investment contracts as financial liabilities (IAS 39). Under Nigerian GAAP, interest accruing to the life assurers from the investment of such deposits is recognised as income in the period earned and interest paid to the depositor is recognised as expense.

The explanatory note to SAS 16 suggests that if the acceptance of premiums does not give rise to the creation of immediate corresponding liabilities, they are considered revenue, e.g., for term assurance. As also stated in the explanatory note to SAS 16, in the case of products with a savings component and an amount for risk (e.g., death) whose elements are difficult to separate, the premium is treated as a revenue item.

However, in practice all life business premiums are treated as a liability as a result of SAS 16 requiring the use of the fund basis for accounting for life business. This creates a problem discussed below.

**Claims**

**IFRS**

No specific guidance is given in IFRS 4. IFRS 4 exempts entities from the requirement to choose accounting policies for insurance contracts that are consistent with the IFRS framework and other standards. Therefore, in general, recognition and measurement of claims will be consistent with local GAAP for insurance contracts as long as those policies meet the minimum requirements of IFRS 4.

**Nigerian GAAP**

**General:**

Claims and claims handling expenses are charged to the revenue account in the period in which they are incurred. Incurred claims include claims reported but not yet paid and claims incurred but not yet reported. Provisions are created for both estimates.

Adequate provisions should be made for the settlement of claims incurred but not reported by the end of the accounting period. These claims result from events that occurred by the end of the accounting period but which have not been reported by the insured to the insurer at that date. The estimate is based on the latest information available at the time of preparing the financial statements and on other factors such as trends in the economy, previous experience in claims notification and changes in volume or mix of risks underwritten. It includes estimated associated claims handling expenses. Amounts recoverable through salvage or subrogations should be used to reduce claims incurred. The Insurance Act (1997) currently requires that a 10% provision on outstanding claims at reporting date be made to cover claims incurred but not reported (IBNR).

**Life assurance:**

Claims due or notified during a period are charged to the fund in that period. The expense is determined in the same way as for general insurance. Claims handling expenses are charged to revenue when incurred. There is, however,
no requirement to make provisions for IBNR.

**Expenses**

**IFRS**

No specific guidance is given in IFRS 4. IFRS 4 exempts entities from the requirement to choose accounting policies for insurance contracts that are consistent with the IFRS framework and other standards. Therefore, in general, recognition and measurement of expenses will be consistent with local GAAP for insurance contracts as long as those policies meet the minimum requirements of IFRS 4. However, remember that the IFRS Framework and IAS 1 relate to insurance companies too for their non-insurance transactions; particularly the definition of expenses, general recognition criteria and the accrual principle are applicable to expense recognition and measurement.

**Nigerian GAAP**

**General:**

Expenses should be classified into the following categories: underwriting, which is subdivided into maintenance and acquisition expense; claims; investments and management.

Maintenance expenses are those incurred in servicing existing policies/contracts and should be charged to the revenue account in the period in which they are incurred.

Acquisition expenses are those incurred in obtaining and renewing insurance contracts, including commissions or brokerage paid to agents or brokers and indirect expenses such as salaries in underwriting staff. These costs should be deferred to the extent that they relate to unearned premiums. The deferred portion is computed by applying to the acquisition expenses the ratio of unearned premium to written premium. The movement in deferred acquisition expense between two periods is expensed in the revenue account. Deferred acquisition expenses should be determined separately for each class of business. Where it is difficult to associate an acquisition cost with the related premium revenue, such cost is usually expensed when incurred.

Claims are discussed in more detail in the relevant section.

Investment and management expenses should be charged to the profit and loss account in the period in which they are incurred. Investment expenses are all expenses arising from buying, holding and selling all types of investments, which are not capitalised as part of the cost of the investment. Management expenses include all expenses not covered by the other categories.

**Life assurance:**

All incurred expenses should be charged to the fund. Expenses should be classified into the same categories as for general insurance and are determined in the same fashion, except for some differences. For life assurance renewal costs are not incurred, commissions paid are not recoverable as they are usually paid in arrears and acquisition costs are expensed as incurred.

**Liabilities**
No specific guidance is given. Refer to general minimum recognition and measurement criteria of insurance contracts, specifically the requirement that insurance liabilities meet the liability adequacy test. Adjustments resulting from the application of the liability adequacy test are taken to profit and loss. However, remember that the IFRS Framework, IAS 1, IAS 37 and IAS 39 relate to insurance companies too for their non-insurance transactions; particularly the definition of liabilities, general recognition criteria, the accrual principle and the recognition and measurement of provisions and financial instrument guidance are applicable to liability recognition and measurement.

**Nigerian GAAP**

**General:**

A provision for unearned premiums has already been discussed above under premiums.

An unexpired risks provision should be made for the estimated amounts required over and above provisions for unearned premium to meet the total of anticipated claims and related expenses on businesses in force at the end of the period. It should be determined based on the underwriting experience of each class of business. The provision can be recognised in two ways of which the first alternative is usually preferred:

- Provision is made for the entire shortfall in the unearned premium provision and deferred acquisition expenses are being carried forward separately.

- Deferred acquisition expenses are written off to the revenue account and provision is made for the remaining shortfall.

As mentioned under claims, outstanding claims will also include an element of a provision for claims incurred but not reported.

**Life assurance:**

Policy liabilities refer to the policyholders’ interest in the life assurance business and are the amount which is required by the life assurance to meet obligations under existing contracts. Their amount is determined by actuarial valuation. For protection policies, this valuation is determined after considering the length of the contract period, assumptions on human mortality, interest rate level, and all related expenses in accordance with general accepted actuarial principles. For savings contracts, the liability is determined by the accrued benefits of relevant policyholders.

If a valuation surplus (net assets representing the life fund balance exceed the actuarially assessed policy liabilities) arises as a result of such valuation, it should be shared between the ‘with-profit’ policyholders and shareholders in accordance with the advice of the actuary and subject to the legal provision that shareholders interest in surplus should not be more than 40 percent of the surplus. The shareholders portion constitutes their profit from the life assurance business and is therefore transferred to the profit and loss account. The insurer’s share of the surplus is charged as a deduction from the life fund.

A valuation deficiency (actuarially assessed liabilities exceed the net assets representing the life fund) should be transferred from the profit and loss account and is therefore borne by the shareholders.
As earlier stated, the principles of fund accounting apply to all life business including those of a term nature. Group life insurance policies are classed as life business and usually cover life for a specified tenure (normally one year).

The major issue is that there is no guidance on when and how to stop recognising an insurance liability and the Standard is silent on how to account for the premiums arising from term assurance. Hence, a common occurrence is that where term contracts have expired, the underwriters continue to carry these balances in the life fund and only recognise 40% of the valuation gain that arise each time an actuarial valuation is done. Most companies have adopted a policy of annual actuarial valuation versus the minimum of every three years recommended by the Insurance Act.

Reinsurance

**IFRS**

Reinsurance assets may not be offset against the related insurance liabilities. The same applies to income and expense from reinsurance contracts which may not be offset against the expense or income from related insurance contracts.

**Nigerian GAAP**

There is no specific guidance in SAS 16 on offsetting reinsurance assets against related liabilities. In practice, these are disclosed separately in the financial statements of insurance and are not offset. Amounts due from insurers, reinsurers and brokers are disclosed as assets (receivables) while amounts due to these same parties are disclosed as liabilities. Note that the balances are often settled net.

Presentation and disclosure

**IFRS**

One of IFRS 4’s objectives is to help users of financial statements understand the impact on the financial statements of amounts arising from insurance contracts. Disclosure is particularly important for information relating to insurance contracts as insurers can continue to use local GAAP accounting policies. The diversity of local GAAP would result in difficulty in comparing the financial performance of insurers without extensive disclosure. IFRS requires significant disclosures for insurance contracts. These disclosures can be classified into two categories based on their purpose: (i) information that identifies and explains the amounts in the financial statements and (ii) information that enables evaluation of the nature and extent of risks arising from insurance contracts.

The following specific disclosures are required to identify and explain the amounts in the financial statements:

- Accounting policies for insurance contracts and related assets, liabilities, income and expense;
- Recognised assets, liabilities, income, expenses and cash flows, if presented in the direct format;
- The process used to determine assumptions that have the greatest effect on the measurement of the recognised amounts. Quantified disclosure of assumptions is required, if practicable;
- The effect of changes in assumptions used to measure insurance assets and liabilities, showing separately the effect of each change that has a
material effect on the financial statements; and

- Reconciliations of changes in insurance liabilities, reinsurance assets and, if any, related deferred acquisition costs.

The following specific disclosures are required to enable an evaluation of the nature and extent of risks arising from insurance contracts:

- The insurer’s objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks;

- Information about insurance risk, both before and after mitigation by reinsurance. This should include information on:
  - Sensitivity of insurance risk.
  - Concentrations of insurance risk.
  - Actual claims compared with previous estimates.

- Information about credit risk, liquidity risk and market risk that IFRS 7 would require if the insurance contracts were in IFRS 7's scope. However, a maturity analysis is not required if the entity discloses information about estimated timings of the net cash outflows resulting from insurance liabilities.

- Information about exposures to market risk arising from embedded derivatives contained in the host insurance contract if the insurer is not required to, or does not, measure the embedded derivatives at fair value.

*Nigerian GAAP* The main difference compared to IFRS is that Nigerian GAAP does not require disclosure on the nature and extent of risks or assumptions used in the measurement of recognised amounts. Neither is a reconciliation of changes in insurance assets and liabilities required. The disclosure of accounting policies is required too and Nigerian GAAP provides detailed guidance on the disclosure of recognised income, expenses, assets, liabilities and equity of insurance companies. As discussed in the scope section, Nigerian GAAP is not limited to insurance contracts, but rather the standard focuses on insurance companies. Therefore, the disclosure requirements do not only include insurance contract related items, but all items recorded in the financial statements of insurers. Apart from the general disclosure requirements in SAS 2, the following disclosure is required:

**General:**

A revenue account for each class of insurance business undertaken is required in the financial statements. The general business revenue account is a component of the profit-and-loss account as the net underwriting results from the revenue account is the opening line in the general business profit-and-loss account. This revenue account should disclose the following:

- Income: direct premiums, inward reinsurance premiums, gross written premiums, net written premiums, decrease in provision for unexpired risks and commissions received;

- Deductions from income: outward reinsurance premiums and increase in provision for unexpired risks;

- Expenses: direct claims paid, inward reinsurance claims paid, increase in

**References:**

- **IFRS:** IFRS 4.
- **Nigerian GAAP:** SAS 16.
provision for outstanding claims;

- Recoveries from expenses: outward reinsurance recoveries and decrease in provision for outstanding claims; and
- Underwriting expenses: acquisition and maintenance.

The profit-and-loss account or related notes should include the following income and expense captions (unless included in the revenue account):

- Income: gross written premiums, outward reinsurance premiums, earned premiums, investment income (net), commissions received and other income; and
- Expenses: underwriting expenses, claims incurred, management expenses and provision for bad and doubtful debts.

The balance sheet should be disclosed in order of liquidity. The balance sheet or related notes should include the following asset and liability captions:

- Assets: cash, short-term investments, debtors, deferred acquisition expenses, long term investments, statutory deposit and fixed asset;
- Liabilities: creditors and accruals and insurance fund (including provisions for unearned premiums, outstanding claims and unexpired risks); and
- Shareholders’ Funds: authorised share capital, called-up share capital, statutory contingency reserves, capital reserves and general reserves.

**Life assurance:**

- A life revenue account is only required if the insurer has other classes of insurance business. If this is the case, the revenue account should disclose the following:
  - Income: direct premiums, inward reinsurance premiums, gross written premiums, net written premiums and commissions received;
  - Deductions from income: outward reinsurance premiums;
  - Claims incurred: direct claims, inward reinsurance claims, reinsurance recoveries and surrenders; and
  - Underwriting expenses: acquisition and maintenance.

The profit-and-loss account or related notes should include the following income and expense captions (unless included in the revenue account):

- Income: gross written premiums, earned premiums, investment income (net), commissions received, shareholders portion of life assurance, surplus/deficit and other income;
- Deductions from income: outward reinsurance premiums; and
- Expenses: underwriting expenses, claims incurred, management expenses and provision for bad and doubtful debts.

Note that in spite of the disclosures required in presenting the profit-and-loss account of the life insurance business, the principles of fund accounting apply. Where the income and expenses are disclosed in the profit-and-loss account, the net underwriting results are still transferred to the life fund account, leaving a zero impact on the profit and loss for the period. Actuarial deficits are also reflected as deductions while shares of actuarial gains are
reported as gains in the profit-and-loss account.

In order to ensure that the policyholders bear their equitable portion of expenses, management expenses are apportioned between the life underwriting activities and the shareholders. The management expenses disclosed in the revenue account are the portion attributable to policyholders. Balance sheet or related notes should include the following asset and liability captions:

- **Assets**: cash, short-term investments, debtors, loans to policyholders, long-term investments, statutory deposit and fixed asset;
- **Liabilities**: creditors and accruals, outstanding claims, insurance funds (life fund) and deposit administration; and
- **Shareholders’ Funds**: called-up share capital, statutory contingency reserves, general reserves and retained earnings / accumulated losses.

**Composite business (life and general):**

If an insurer carries on a life and general business, the disclosure requirements for both should be followed. Additionally, the financial statements should include a separate life balance sheet.
## Appendix A:

Comparison of similar IFRS standards to their closest Nigerian GAAP equivalents

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