Similarities and differences
IFRS and Nigerian GAAP

February 2011

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Preface

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 complyfor 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.

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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 harmonization 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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Summary of similarities anddifferences

Subject	IFRS	Nigerian GAAP	Page
	General requirements		
Historical cost	Primary basis, with certain items carried at revalued amounts or fair value.	Uses historical cost, except for certain asset classes that may be remeasured.	
Fair presentation override	In rare cases, entities should override thestandards where essential to give a fairpresentation.	An exemption exists, but not based on fair presentation. Companies Act allows departure from accounting principles if there are special reasons for doing so.	
First-time adoption	Guidance is given on how to apply IFRSfor the first time, including guidance onaccounting policies, exemptions andexceptions.	This is not relevant as companies areobliged to comply with Nigerian GAAP from inception.	
	Financial statements		
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.	
Exceptional items	Not defined. Certain items or transactionsmay require separate disclosure.	Defines the term and identifies thatthey should be separately disclosed.	
Extraordinary items	Prohibited.	Defines the term and requires separatedisclosure on the face of the incomestatement.	
Changes in accounting policies	Restate comparatives and prior-yearopening retained earnings, unless specifically exempted by transitional provisions of a new standard.	No restatement of comparatives.Adjustments made in opening retained earnings.	
Correction of material errors	Comparatives are restated and therestated opening balance sheet for theearliest period presented is included.	No restatement of comparatives.Adjustments made in opening retainedearnings.	
Changes in accounting estimates	Reported in the income statement in thecurrent period and the effect on futureperiods is disclosed, if applicable.	Similar to IFRS.	
	Consolidated financial statements		
Definition of a subsidiary	Based on voting control or power togovern.	Comparable to IFRS.	

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Subject	IFRS	Nigerian GAAP	Page
Special purpose entities ("SPEs")	Consolidate where the substance of therelationship indicates control.	No guidance on SPEs and in practicethey are not consolidated.	
Non-consolidation of subsidiaries	Not applicable - all subsidiaries must beconsolidated.	Exemptions to consolidation exist.	
Definition of associate	Based on significant influence: presumedif 20% or more voting rights.	Similar to IFRS. Differences arise inpractice.	
Presentation of associate results	Use equity method. Show share ofpost-tax result. In standalone financialstatements measured at cost or fairvalue.	Comparable to IFRS.	
Presentation of jointly controlled entities	Both the proportional consolidation andequity method are permitted.	Comparable to IFRS.	
	Business combinations		
Date of acquisition	The date at which the acquirer obtainscontrol over the acquired entity.	Normally based on legal date ofcontrol.	
Consideration	Amount of cash or cash equivalents paidor the fair value of any assets transferredor liabilities incurred and any equityinstruments issued.	Similar to IFRS.	
Share basedconsideration	Recorded at their fair value.	Similar to IFRS.	
Contingentconsideration	Fair valued at date of acquisition andclassified as a liability or equity. Financialliabilities are fair valued at each reportingdate with gains or losses being taken to profit or loss.	Comparable to IFRS. No guidance onthe calculation of fair value.	
Acquisition related costs	Expensed in the periods incurred.	Comparable to IFRS.	
Recognition and measurement of identifiable assets and liabilities acquired	The identifiable assets and liabilities ofthe acquired entity are fair valued onacquisition date.	Comparable to IFRS. No guidance onthe calculation of fair value.	
Subsequent adjustments to assets and liabilities	12 month "measurement period"where fair values can be finalised andcomparative periods adjusted.	Comparable to IFRS.	
Non-controlling interestsand previously heldinterests	State at either the full fair value methodor the proportional share.	Stated at proportional share.	
Bargain purchases	Negative goodwill is recognised in profitor loss.	Negative goodwill is recognised inprofit or loss.	
	Revenue recognition		
Revenue recognition	Provides recognition criteria for sales ofgoods, rendering of services and otherrevenue transactions.	Limited guidance available on revenuerecognition. Generally the accrualbasis is applied to revenue contracts.	
Construction contracts	Revenue and profit on long-termcontracts accounted for using thepercentage-of-completion method.Completed contract	Allows the percentage-of-completionand completed-contract approachesdepending on the circumstances.	

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Subject	IFRS	Nigerian GAAP	Page
	method prohibited.		
Multiple – elementarrangements	The revenue recognition criteria shouldbe applied separately to each element ofthe contract. The consideration receivedshould be applied to each element of thecontract.	Identifies that certain contracts shouldbe split into their elements. Providesvery little guidance for applying theconcept.	
	Employee benefits		
Defined benefit plans	Projected unit credit method is used todetermine benefit obligation and record plan assets at fair value.	No prescribed method to measurethe defined benefit obligation. Limitedguidance on measuring the planassets.	
Share-based payments	Expense incurred as a result of sharecompensations are recognised in the income statement. Corresponding amount is recorded either as a liabilityor an increase in equity depending onwhether the transaction is determined tobe cash-or-equity-settled.	No guidance exists.	
Long-term benefits anddisability	Similar to defined benefit plan, exceptthat actuarial gains and losses and pastservice costs are recognised in profit orloss.	Calculated in the same manner asdefined benefit plans.	
Termination benefits	Termination benefits arising fromredundancies are accounted for similarlyto restructuring provisions.	Comparable to IFRS.	
	Assets		
Property, plant andequipment	Use historical costs or revalued amounts. Component approach must beapplied in determining depreciation forproperty, plant and equipment. Annualreassessment of useful lives and residualvalues.	Use historical costs or revaluedamounts. No componentisation or review ofuseful lives and residual values.	
Acquired intangibleassets	Capitalise if recognition criteria are met;intangible assets may have indefiniteuseful life or are amortised over usefullife. Intangible assets with indefinite useful lifeare tested for impairment annually.	Guidance only exists for research anddevelopment costs.	
Internally generatedintangible assets	Expense research costs as they areincurred. Capitalise and amortisedevelopment costs only if stringentrecognition criteria are met.	Similar to IFRS. No guidance exists foridentifiability.	
Inventories	Carried at lower of cost and netrealisable value. Use FIFO or weightedaverage method to determine cost. LIFOprohibited.	Similar to IFRS	
Capitalisation ofborrowing costs	Borrowing costs must be capitalised.	It is implied that borrowing costsshould be capitalised. Not alwaysdone in practice. Generally onlyspecific borrowings are capitalised.	
Investment property	Measure at depreciated cost lessaccumulated depreciation or fair	Measure at depreciated cost lessaccumulated amortisation or fair	

Subject	IFRS	Nigerian GAAP	Page
	valueand recognise changes in fair value in theincome statement.	valueand recognise changes in fair value inequity.	
Impairment of nonfinancialassets	If impairment is indicated, write downassets to higher of the fair valueless cost to sell and the value in usebased on discounted cash flows.Reversals of losses permitted in certaincircumstances, except for goodwill.	Impairments should be recognized when the carrying amount of PPEexceeds its recoverable amount. Verylimited guidance available.	
Non-current assetsheld for sale or disposalgroup	Non-current assets are classified asheld for sale if their carrying amountwill be recovered principally througha sale transaction rather than throughcontinuing use.	No guidance exists.	
Leases – classification	Leases are classified as finance leasesif substantially all risks and rewardsof ownership transferred to a lessee.Substance rather than legal form isimportant.	Leases are classified into operatingand finance leases, but based on rules rather than principles.	
Lessor accounting	Record amounts due under financeleases as a receivable (financial asset).Allocate gross earnings to give constantrate of return based on net investmentmethod.	Similar to IFRS.	
		Liabilities	
Provisions – general	Record the provisions related to presentobligations from past events if outflow ofresources is probable and can be reliablyestimated. Where the effect of the timevalue of money is material, the amount ofa provision shall be the present value ofthe obligation.	Similar to IFRS, though Nigerian GAAPdoes not specify the use of a pre-taxdiscount rate.	
Provisions – restructuring	Recognise restructuring provisionsif detailed formal plan announced orimplementation effectively begun.	Comparable to IFRS.	
Contingencies	Disclose unrecognised possible lossesand probable gains.	Comparable to IFRS.	
		Income taxes	
Deferred income taxes – general approach	Use full provision (liability) method drivenby balance sheet temporary differences.Deferred tax assets are recognised ifrecovery is probable (more likely thannot).	Based on the income statementmethod.	
Deferred income taxes – exceptions	Non-deductible goodwill and temporarydifferences on initial recognition of assets and liabilities that do not impact on accounting or taxable profit.	No exceptions exist, but deferred taxis only raised for temporary differencesand not permanent differences.	
		Financial assets	
Classification andmeasurement offinancial assets	Financial assets are classified atamortised cost or fair value. To be classified at amortised cost, theymust meet certain criteria.	Financial assets are not defined.Certain financial assets are identifiedas investments. Others are accountedfor based on general practice. Financial assets that are investmentsare	

Subject	IFRS	Nigerian GAAP	Page
	Investments in equity instruments canbe designated as fair value through othercomprehensive income. All other fair value instruments are fair value throughprofit or loss.	classified as short-term or longterminvestments. Short-term investments are carried atthe lower of cost or market value. Long-term investments are carriedat cost or revalued amount, withrevaluations going through equity. Exceptions and further guidance existfor banking and non-banking financialinstitutions.	
Impairment of financialassets	Impairment of amortised costinstruments, using an incurred lossmodel.	Receivable balances are subjectedto provision for doubtful debts basedon expected losses determined onan aging of such receivable balances. The loss is determined by an expectedpercentage loss to the different agebuckets. Short- and long-term investments arewritten down to market value wheretheir value is below cost.	
Derecognition	Derecognise financial assets basedon risks and rewards first; control issecondary test.	There is no general guidance. Guidance exists for financialinstitutions.	
	Financial liabilities		
Financial liabilitiesclassification	Classify capital instruments dependingon substance of the issuer's obligations,as either liability or equity.	No guidance.	
Derecognition	Derecognise liabilities when extinguished.The difference between the carryingamount and the amount paid isrecognised in the income statement.	No guidance. In practice derecognitionoccurs on extinguishment.	
Convertible instruments	Account for convertible instruments on asplit basis, allocating proceeds betweenequity and debt.	No guidance.	
	Equity instruments		
Treasury shares	The full amount paid show as deductionfrom equity.	No guidance.	
	Derivatives and hedging		
Measurement offinancial instrumentsand hedging activities	Measure derivatives and hedgeinstruments at fair value; recognize changes in fair value in income statementexcept for effective cash flow hedges,where the changes are deferred in equityuntil effect of the underlying transaction isrecognised in the income statement.	No guidance.	
Embedded derivatives	Embedded derivatives separated fromthe	No guidance	

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	host contract unless the wholeinstrument is measured at fair value orthe economic characteristics, and risks ofthe embedded derivative are the same asthose of the host contract.		
Functional currency – definition	Functional currency is the currency of theprimary economic environment in whichan entity operates. Identification basedon primary and secondary indicators.	No concept of functional currency. Allentities report using Naira.	
Foreign currency translation of transactions and monetary items	Translate transactions at rate on date oftransaction; monetary assets/liabilities at balance sheet rate; non-monetary items at historical rate.	Similar to IFRS. Except that there is anoption to defer foreign exchange gains and loss on long term monetary items.	
Consolidation of foreignsubsidiaries	Use closing rate for balance sheets;average rate for the period for incomestatements. Take exchange differences toequity. Include in gain or loss on disposalof a subsidiary.	Similar to IFRS.	
Earnings per share – diluted	Use weighted average potential dilutiveshares as denominator for diluted EPS.	Similar to IFRS.	
Disclosure of risksarising from financialinstruments	Entity shall disclose information enablingusers of financial statements to evaluatethe nature and extent of risks arising fromfinancial instruments to which the entity is exposed.	No guidance, except for additional riskmanagement disclosures required of banks by the banking regulator.	
Related partytransactions – definition	Determine by level of direct or indirectcontrol, joint control and significantinfluence of one party over another orcommon control of both parties.	No guidance exists. Nigerian Company law requiresdisclosures in annual financialstatements of dealings with officials ofthe company.	

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Conceptual framework

General

IFRS Includes a conceptual framework. The principles set out in thisframework provide a basis for setting accounting standards and apoint of reference for the preparation of financial information whereno specific guidance exists.

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

Historical cost or fair value

IFRS Historical cost is the main accounting convention. However, IFRSpermits the revaluation of intangible assets, property, plant andequipment (PPE), investment property and inventories in certainindustries. IFRS also requires the measurement at fair value ofcertain categories of financial instruments and certain biologicalassets.

Nigerian GAAP Is similar to IFRS with some differences but with fewer departuresfrom 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 rarecircumstances, 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 reasonfor the departure from an IFRS standard and the financial impact ofthe departure. The override does not apply where there is a conflictbetween 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 fairpresentation. 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 andthe effect should be disclosed.

First-time adoption

IFRS

IFRS includes a specific standard with guidance on how to applyIFRS for the first time (IFRS 1 ‘First-time adoption’). It introducescertain reliefs and imposes certain requirements and disclosures.First-time adoption of IFRS as the primary accounting basis requiresfull retrospective application of IFRS effective as at first IFRSreporting period, with some mandatory exceptions and optionalexemptions. For example, exemptions for property, plant andequipment and other non-monetary assets, business combinationsand pension plan accounting. Comparative information must beprepared and presented on the basis of IFRS. Almost all adjustmentsarising from the first-time application of IFRS must be made againstopening retained earnings or, if appropriate, another category ofequity at the date of transition. Some adjustments are made againstgoodwill or against other classes of equity.

Nigerian GAAP

This issue is not addressed. All Nigerian entities must apply NigerianGAAP 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 withIFRS for periods ending after 1 January 2012.

References:

IFRS: *Conceptual Framework, IAS 1, IAS 16, IAS 38, IAS 39, IAS 40, IAS 41, IFRS 1.*

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 statementscomply with IFRS. Compliance cannot be claimed unless the financial statements comply with all the requirements of eachapplicable standard and each interpretation.

Nigerian GAAP — There is no requirement to make an explicit statement of compliancewith Nigerian GAAP. All listed and significant public interest entitieswill need to comply with IFRS for periods ending after 1 January2012. Other public interest entities will need to apply IFRS forperiods ending after 1 January 2013, while small- and medium-sizedentities will need to adopt by 2014.

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

Classification	Definition
Significant public interestentity	This means: • Government business entities; • All entities that have their equities or debt instrumentslisted and traded in a public market (a domestic orforeign Stock Exchange or an Over the Counter market,including local and regional market); and • Such other organisations, though unquoted, are requiredby law to file returns with regulatory authorities andthis excludes private companies that routinely filereturns only with Corporate Affairs Commission and theFederal Inland Revenue Service. Examples of entitiesmeeting these criteria include financial and other creditinstitutions and insurance companies.
Other public interest entities	This refers to those entities, other than listed entities(unquoted, private companies), which are of significantpublic interest because of their nature of business, size,or number of employees or their corporate status whichrequire, wide range of stakeholders. Examples of entitiesmeeting these criteria are large not-for-profit entities suchas charities and pension funds and may include publiclyowned entities and other entities where there is a potentiallysignificant effect on financial stability.
Small- and medium-	This refers to entities that may not have

sizedentities	publicaccountability 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; • I;ts 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 followingcomponents:

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

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 informationin the financial statements, with small exceptions. A statement offinancial position as at the beginning of the earliest comparativeperiod presented needs to be disclosed when an entity applies anew accounting policy retrospectively or makes a retrospectiverestatement or when it reclassifies items in its financial statements.

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

Statement of financial position / balance sheet

Format

IFRS Does not prescribe a particular statement format. Management mayuse 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 thestatement 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 forpresentation. These prescribed formats require the following items to be included on the face of the balance sheet:

	IFRS	Nigerian GAAP
Assets	Property, plant and equipment(PPE),	Fixed assets
	Investment property	Presented separately or as part of fixed assets or long-term investments
	Intangible assets	Presented separately or as part of fixed assets
	Financial assets	Included in long and short-term investments
	Investments accounted for using the equity method	Presented separately or as part of long-term investments
	Biological assets	Refer to biological assets andagricultural produce section (page149)
	Inventories	Stocks
	Trade and other receivables	Trade and other debtors
	Deferred income tax assets	Deferred income tax assets
	Current income tax assets	Current income tax assets
	Cash and cash equivalents	Cash at bank and in hand
	Assets qualified as held for sale	No similar category exists
Equity andLiabilities	Issued share capital and othercomponents of shareholders' equity	Capital and reserves
	Non-controlling interest presentedwithin equity	Non controlling interest
	Financial liabilities	Loans
	Provisions	Provisions
	Trade and other payables	Trade and other creditors
	Deferred income tax liabilities	Deferred income tax liabilities
	Current income tax liabilities, and	Current income tax liabilities, and
	Liabilities included in disposalgroups	No similar category exists

Current/non-current distinction

IFRS

The current/non-current distinction is mandatory (except when aliquidity 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 andliabilities 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-bearingliabilities are classified as current when they are due to be settled within 12 months of the reporting date, even if theoriginal term was for a period of more than 12 months; and anagreement to refinance, or to reschedule payments, on a long-termbasis is completed after the reporting date and before the financialstatements are authorised for issue.

Nigerian GAAP Current and non-current items are clearly identified. Banks and nonbankingfinancial institutions are permitted to present the balancesheet on a liquidity basis (refer page 129).

Offsetting assets and liabilities

IFRS Assets and liabilities must not be offset, except where specificallypermitted 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 offsettingunless both of the criteria described earlier have been satisfied.

Nigerian GAAP Is silent on this matter. In practice non-financial assets and liabilitiesare not offset. Financial assets and liabilities are sometimes offset inpractice 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 comprehensiveincome

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 tothe non-controlling interest and to the owners of the parent areseparately disclosed on the face of the statement of comprehensiveincome.

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 groupsconstituting the discontinuing operations
- Profit or loss; each component of other comprehensive incomeclassified 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 itemsof an operating nature, including those that occur irregularly orinfrequently or are unusual in amount

Nigerian GAAP Does not address the concept of function or nature. The Companiesand 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 thelocal 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 comprehensiveinclude:

- 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 financialstatements.

Exceptional items

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

Nigerian GAAP Defines exceptional items as those items that, though normal to anactivity 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 beginningand the end of the period for each component of equity, disclosingeach change separately

Nigerian GAAP No additional statement is required. All movements in reserves aredisclosed 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 incomestatement. Proposed dividends are recognised when authorised byshareholders.

Statement of cash flows

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Method

IFRS	The statement of cash flows reflects inflows and outflows of "cashand cash equivalents". Cash flows from operating activities may beprepared 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, arepermitted. The latter is more common in practice.

Definition of cash and cash equivalents

IFRS	Cash includes cash on hand and demand deposits. Cash equivalentsare short-term, highly liquid investments that are readily convertibleto known amounts of cash and that are subject to an insignificantrisk of changes in value. An investment normally qualifies as a cashequivalent only when it has a maturity of three months or less from its acquisition date. Cash and cash equivalents may include bankoverdrafts repayable on demand, but does not include short-termbank borrowings which are financing cash flows.
Nigerian GAAP	Cash comprises cash on hand and demand deposits, denominatedin Naira and foreign currencies. Cash equivalents are short-term,highly liquid investments, which are readily convertible intoknown amounts of cash and which are subject to an insignificantrisk changes in value. Generally, they are within three months ofmaturity.

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 outbelow:

Items	IFRS	Nigerian GAAP
Interest paid	Operating or financing	Financing
Interest received	Operating or investing	Investing
Dividends paid	Operating or financing	Financing
Dividends received	Operating or investing	Investing
Taxes paid	Operating – unless specific identificationwith financing or investing	Operating

OR&C

Changes in accounting policies and other accountingchanges

Changes in accounting policies

IFRS

Voluntary changes in accounting policies are allowed onlyif the change results in reliable and more relevant financialinformation. Changes in accounting policies should be accountedfor retrospectively with comparative information restated and theamount of the adjustment relating to prior periods adjusted againstthe opening balance of retained earnings of the earliest periodpresented in the statement of changes in equity. An additionalstatement of financial position at the start of the first periodpresented is also disclosed. An exemption applies when changingcomparative information is impracticable.

Policy changes made on the adoption of a new standard mustbe accounted for in accordance with that standard’s transitionalprovisions. 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 newstandards and legislation or when it is considered that the changewould result in a more appropriate presentation of transactions inthe financial statements of the enterprise. No guidance exists on howto determine when it would be more appropriate – the principles ofrelevance and reliability do not exist in Nigerian GAAP.

Changes in accounting policies should be accounted for with theamount 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 mustrestate comparatives and an additional statement of financialposition at the start of the first period presented is disclosed.

Nigerian GAAP

Changes resulting from the misapplication of accounting principlesshould be accounted for with the amount of the adjustment relatingto prior periods adjusted against the opening balance of retainedearnings of the prior period. Comparative information is notrestated.

Changes in accounting estimates

IFRS

Changes in accounting estimates are accounted for prospectively inthe statement of comprehensive income when identified. IFRS treatschanges in depreciation method and revised asset useful lives as achange in accounting estimate.

References:

IFRS: *IAS 1, IAS 7, IAS 8, Framework.*

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Nigerian GAAP	Similar to IFRS, as changes are accounted for prospectively in theincome statement. Nigerian GAAP treats any changes in depreciation method as a change in accounting policy.	***Nigerian GAAP:*** *SAS 1, SAS 2, SAS 6, SAS 10, SAS 15, SAS 18. Companies and Allied Matters Act 1990 amended.*

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 Actalso exempts a wholly owned subsidiary of another entity thatis 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 toobtain benefits. Control is presumed to exist when a parent owns,directly or indirectly through subsidiaries, more than one half ofan entity's voting power, unless it can be clearly demonstrated thatsuch ownership does not constitute control. Currently exercisablepotential voting rights also need to be considered in determiningwhether control exists. There is no requirement to assess whetherthe exercise is economically reasonable. Control also exists when a parent owns half or less of the votingpower but has legal or contractual rights to control the majority ofthe 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 ofdirectors or equivalent governing body and control of the entity

isby that board or body.

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 majorshareholder holds an investment in an entity with an otherwisedispersed 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 formof a corporation, trust, partnership or unincorporated entity. IFRSrequires the consolidation of special purpose entities (SPEs) wherethe substance of the relationship indicates that an entity controlsthe SPE, regardless of whether it has a direct or indirect ownershipinterest in the SPE. Indicators of control arise where:

In substance, the activities of the SPE are being conducted on behalfof the entity according to its specific business needs so that the entityobtains benefits from the SPE's operation;

In substance, the entity has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by settingup an 'autopilot' mechanism, the entity has delegated these decision-makingpowers;

In substance, the entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidentalto the activities of the SPE; or

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 notconsolidated when there are no ownership interests and the otherindicators of control in the relevant SAS do not exist.

Subsidiaries excluded from consolidation

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IFRS All subsidiaries that are controlled by the parent are consolidated. If on acquisition a subsidiary meets the criteria to be classified as heldfor sale in accordance with IFRS 5 Non-current Assets Held for Saleand Discontinued Operations, it shall be accounted for in accordancewith 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 areconsidered 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 lossis recognised on the ownership interest being disposed (includinggoodwill 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 oran associate and increases that interest to a position where it canexert control (often referred to as a step acquisition) it should firstfair-value that existing investment and take any gain or loss to profitor loss. That fair-valued portion is then considered alongside theconsideration received when calculating goodwill (refer to page 40).

Nigerian GAAP The new standard, SAS 27 – Consolidated Financial Statements iscomparable with IFRS. This standard was issued with an effective date of 1 January 2008. Prior to this there was no guidance, butconsolidated 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 subsidiaryare usually drawn up as at the same reporting date. However, IFRSdoes permit the consolidation of subsidiary accounts, drawn up asat a different reporting date, provided the difference between thereporting dates is not more than three months. Adjustments must bemade for the effects of significant transactions that occur in the gapperiod.

Nigerian GAAP Comparable to IFRS.

References:

IFRS: *IAS 27, SIC-12.*

Nigerian GAAP:

SAS 27, Companies and Allied Matters Act 1990 amended.

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 presumptionof significant influence. The existence of significance is usuallyevidenced 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 tothe 20% interest indicator and the other factors are not alwaysconsidered.

Definition

IFRS An investor must account for an investment in an associate using theequity method. The investor presents its share of the associate's posttaxprofits and losses (as adjusted for depreciation and amortization on the fair values of the assets) and other comprehensive incomein the statement of comprehensive income. The investor recognizes in equity its share of changes in the associate's equity that have notbeen recognised in the associate's profit or loss. On acquisition theinvestor prepares a notional purchase price allocation and comparesthe cost of the investment with the investor's share of the associate'sidentifiable assets and liabilities. If the cost of the investmentexceeds the fair value of the share of net assets acquired the notional'goodwill' is included in the carrying value of the investment and isnot tested separately for impairment. If the cost of the investmentis less than the fair value of the share of net assets acquired thenegative 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 theassociate; for example, preference shares or long-term receivablesfrom 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 extentthat the investor has got legal or constructive obligation to makepayments on behalf of the associate.

Disclosure of information is required about the results, assets andliabilities 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 andother comprehensive income.

Impairment

IFRS If the investment has objective evidence of one of the indicators ofimpairment set out in IAS 39, Financial Instruments: Recognition and Measurement, the investment is tested for impairment as asingle asset in accordance with IAS 36, Impairment of Assets. Inestimating value in use, the investor may use its share of the futurenet cash flows from the underlying entity, or the cash flows expectedto arise from dividends ensuring that appropriate assumptions aremade about the discount rate in each case. The investee's goodwill isnot subject to impairment testing separately.

Nigerian GAAP Comparable to IFRS. Though there is no guidance on how tocalculate the fair value less costs to sell. There is limited guidance oncalculating value in use.

Investments in joint ventures

Definition

IFRS IFRS defines a joint venture as a contractual agreement wherebytwo or more parties undertake an economic activity that is subjectto joint control. Joint control is the contractually agreed sharing ofcontrol over an economic activity, and exists only when the strategicfinancial and operating decisions relating to the activity require theunanimous consent of the parties sharing control (the venturers).Not necessarily all the parties in the venture are required to havejoint control.

Nigerian GAAP Comparable to IFRS.

Types of joint ventures

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 theassets, liabilities, income and expenses to be combined on a line-bylinebasis with the corresponding items in the venturer's financialstatements, or to be reported line-by-line as separate line items in theventurer's financial statements.

Nigerian GAAP Comparable to IFRS.

Contributions to a jointly controlled entity

IFRS Where a venturer contributes non-monetary assets, such as sharesor property, to a jointly controlled entity in exchange for an equityinterest in the jointly controlled entity, the venturer must recognize in the statement of comprehensive income the portion of a gain orloss 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 the lack specific incorporated structure. The venturer must recognise 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:

IFRS: *IAS 1, IAS 28, IAS 31, SIC-13, SIC-20.*

Nigerian GAAP: *SAS 28,*

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Nigerian GAAP Comparable to IFRS.

SAS 29.

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 withits share of any expenses incurred by the joint venture; and anyexpenses that it has incurred in respect of its interest in the jointventure.

Nigerian GAAP Comparable to IFRS.

Investments in subsidiaries, associates and jointventures 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 fairvalue in accordance with the principles applicable for other equityinvestments. Refer to page 101.

Nigerian GAAP These investments are carried at cost or at fair value in line withother 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.*

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Business combinations

In Nigeria the standard on business combinations was issued withan effective date of 1 January 2008. Prior to this there was noguidance and various accounting policies were applied. A variationof acquisition accounting (without fair valuation of acquired assetsand liabilities) was, however, more commonly used.

Types

A business combination involves the bringing together of separate entities into oneeconomic 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 accountedfor as acquisitions. A business combination is a transaction orother event in which an acquirer obtains control of one or morebusinesses. The acquisition method applies. Business combinationsinvolving entities under common control, formations of jointventures and acquisitions of assets not meeting the definition of abusiness 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 eithera return in the form of dividends, lower costs or other economicbenefits to owners, members or participants. A business generallyconsists of inputs, the processes applied to those inputs and theresulting 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 doesnot 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 abusiness combination and the scope exemptions are comparable.

Date of acquisition

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

Nigerian GAAP Comparable with IFRS. Though in practice the legal date that controlpasses is often used as the date of acquisition.

Consideration

IFRS The consideration transferred in a business combination is the sumof the acquisition-date fair values of the assets transferred by theacquirer, 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, otherassets, a business or a subsidiary of the acquirer, contingentconsideration, 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 theacquisition 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 determiningfair value.

Contingent consideration

IFRS If part of the purchase consideration is contingent on a futureevent, such as achieving certain profit levels, IFRS requires therecognition of the contingent consideration at the acquisitiondate fair value as part of the consideration. An obligation to paycontingent consideration shall be classified as a liability or equity.This classification is considered further in the financial liabilities andequity chapters (pages 106 and 110 respectively).

Financial liabilities are remeasured to fair value at each reportingdate. Any resulting gain or loss is recognised in profit or loss.Equity-classified contingent consideration is not remeasured at eachreporting date. Settlement is accounted for in equity.

Nigerian GAAP Comparable to IFRS. There is no guidance within Nigerian GAAPonthe classification of debt and equity. The general rule is to followthe 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 continuedemployment

IFRS Certain contingent consideration agreements may be tied tocontinued employment of the acquiree’s employees. Thesearrangements are generally recognised as compensation expensesin the post-combination period. However, consideration of thefacts and circumstances and specific indicators provided in IFRSis necessary to determine whether the form of the contingentconsideration should be recognised as compensation expenses or aspart 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 costsare incurred, with one exception. The costs to issue debt or equitysecurities shall be recognised in accordance with other IFRSs.

Nigerian GAAP Is comparable to IFRS. Though, in the past acquisition relatedcosts 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 liabilitiesacquired

IFRS The identifiable assets acquired and liabilities assumed (includingcontingent liabilities) that existed at the acquisition date are recognised by the acquirer separately from goodwill. These assetsand liabilities are measured at their acquisition date fair values. Thefollowing 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 separatelyidentified and there is no guidance to do so. There are no exceptionsto 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 anarm's-length transaction. IFRS does not specifically refer to eitheran entry or exit price. IFRS does not contain guidance about whichmarket should be used as a basis for measuring fair value whenmore than one market exists; however, under IFRS, observablemarkets typically do not exist for many assets acquired in a businesscombination. 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 settlementconcept. The fair value of financial instruments should reflect thecredit quality of the instrument, and generally the entity's own creditrisk. However, the fair value of non-financial liabilities may notnecessarily consider the entity's own credit risk.

Nigerian GAAP Nigerian GAAP does not provide as much guidance on how tomeasure the fair values of the acquired assets and assumedliabilities.

Restructuring provisions

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

Nigerian GAAP Comparable to IFRS.

Intangible assets

IFRS An intangible asset is recognised separately from goodwill if itrepresents contractual or legal rights or is capable of being separatedor 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 ingoodwill.

Nigerian GAAP Although the approach to the purchase method is similar underNigerian GAAP, there is no guidance on identifying intangible assetsor how to account for them after the acquisition date. There is nodefinition for identifiable intangible assets. Therefore in practicethese intangible assets are not separated.

Acquired contingencies

IFRS A contingent liability is recognised at the acquisition date if it is apresent obligation and its fair value can be measured reliably. Theprobability of an outflow of resources to settle the obligation isincluded in the fair value measurement.

The contingent liability is measured subsequently at the higher ofthe amount initially recognised or, if qualifying for recognition as aprovision, the best estimate of the amount required to settle (usingthe provisions guidance) with the difference being recognised inprofit or loss.

Contingent assets are not recognised.Indemnification assets are recognised as assets of the acquirerat the same time and on the same basis as indemnified items arerecognised as liabilities of the acquiree.

Nigerian GAAP Comparable to IFRS.

Subsequent adjustment to assets and liabilities

IFRS Permits within the "measurement period" (within 12 months of theacquisition date) adjustments to the original fair values recognized at acquisition date against goodwill, as additional evidence becomesavailable to measure those values. Subsequent adjustments arerecorded in the statement of comprehensive income unless they areto correct an error.

Nigerian GAAP Comparable to IFRS.

Non-controlling interests (NCI) and previously heldinterests

Non-controlling interests (minority interests) at acquisition

IFRS Where an investor acquires less than 100% of a subsidiary, IFRSrequires the minority interest to be measured at either fair value (fullgoodwill method) or at the non-controlling interest's proportionalshare of the acquiree's net identifiable assets. The acquirer has anoption to measure the NCI on a transaction-by-transaction basis.

Nigerian GAAP Non-controlling interests are measured at their proportional share ofthe acquiree's net identifiable assets.

Previously held interests

IFRS When an entity obtains control of an acquiree in stages by successiveshare purchases the business combination is accounted for usingthe acquisition method at the acquisition date. The previously heldequity interests are fair-valued at the acquisition date and a gain orloss is recognised in profit or loss. The fair value of the previouslyheld interest then forms one of the components of consideration thatis used to calculate goodwill.

Nigerian GAAP Comparable to IFRS.

Goodwill

IFRS Goodwill is an asset and is separately recognised. Goodwill ismeasured 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-controllinginterest is measured at fair value, goodwill includesamounts relating to both the acquiring entity's interest and the non-controllinginterest 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 theproportionate share method.

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

Useful life

IFRS Goodwill is not amortised but tested for impairment annually andwhen indicators of impairment arise. Goodwill is assigned to acash-generating unit ("CGU") or a group of CGUs. A CGU is thesmallest identifiable group of assets that generates cash inflowsthat are largely independent from other cash inflows from otherassets or groups of assets. Each unit or group of units to which thegoodwill is allocated shall not be larger than an operating segmentin 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 thereis no requirement to identify CGUs.

Impairment

IFRS The recoverable amount of the cash-generating unit (i.e., the higherof its fair value less costs to sell and its value in use) is compared toits carrying amount. The impairment loss is recognised in operatingresults as the excess of the carrying amount over the recoverableamount. Impairment is allocated first to goodwill. Allocation is madeon a pro rata basis to the cash-generating-unit's other assets if theimpairment 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. Inpractice some entities refer to IFRS for guidance. In addition, there isno guidance on how to allocate any impairment losses, based on theprudence principle, impairments on goodwill in practice would notbe reversed.

Bargain purchases

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

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

Nigerian GAAP Comparable to IFRS.

Common control transactions

IFRS Does not specifically address such transactions. Entities shoulddevelop and consistently apply an accounting policy. In practicemanagement elects to apply purchase- or the predecessor accountingmethods to a business combination involving entities under commoncontrol. The accounting policy can be changed only when the criteriain IAS 8, Accounting Policies, Changes in Accounting Estimatesand Errors, are met. Related party disclosures are used to explainthe impact of transactions with related parties on the financialstatements.

Nigerian GAAP Common control transactions are excluded and are not specificallyaddressed. Though there is no requirement to develop andconsistently apply an accounting policy, any accounting treatmentadopted will have to be applied based on the accounting concept ofconsistency 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 revenueshould 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 applywithin each broad category. The principles laid within each of thecategories are generally to be applied without significant furtherrules and/or expectations.

Nigerian GAAP There is no well developed specific standard on revenue, exceptfor construction contracts. In practice, revenue is recognised basedon the terms of contractual agreements entered into. Where thereis no express contract, the Sale of Goods Act, a statute of generalapplication in Nigeria, is used.

The standard on accounting policies has two main bases foraccounting 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 governmententities and non-profit organisations apply the cash basis. Wheneverthere are several acceptable accounting bases that may be adopted,a reporting entity should disclose the basis used, especiallywhere the knowledge of that accounting basis is significant in theunderstanding and interpretation of the financial statements.

The Statement of Accounting Standard on TelecommunicationsActivities describes revenue as the gross inflow of economic benefitsduring the period arising in the course of the ordinary activitieswhen those inflows result in increases in equity, other than increasesrelating to contributions from equity participants. For furtherguidance 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 theprincipal. The amounts collected on behalf of the principal arenot revenue. Instead, revenue is the amount of commission. Theappendix to IAS 18 provides guidance on determining whether anentity is acting as a principal or as an agent. An entity is acting as aprincipal when it has exposure to the significant risks and rewardsassociated 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 thesignificant 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 theamount billed to the customer.

Nigerian GAAP No general guidance exists. Guidance is provided for thetelecommunications industry. Refer to page 145.

Measurement

IFRS IFRS requires measurement of revenues at the fair value of theconsideration received or receivable. This is usually the amount ofcash or cash equivalents received or receivable. Where the paymentis 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 isdetermined that revenue is measured at the fair value of theconsideration received or receivable and the economic benefit isreceivable over the duration of the contract. For further guidance ontelecommunications 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 andmeasurement of revenue arising from the sale of goods. In practicerevenue is measured in accordance with the terms of the contract oragreement.

Rendering of services

IFRS IFRS requires that service transactions be accounted for under thepercentage of completion method when outcome of a transactioninvolving the rendering of services can be estimated reliably.Revenue may be recognised on a straight line basis if the servicesare performed by an indeterminate number of acts over a specifiedperiod of time.

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

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

Nigerian GAAP Does not stipulate specific criteria for the recognition andmeasurement of revenue arising from the rendering of services. Inpractice this revenue is recognised according to the accrual basisof accounting in a manner similar to the percentage of completionmethod 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 componentfor subsequent servicing, the related amount is deferred andrecognised over the period during which the service is performed.If the warranty is not separable from the sale of goods (standardwarranty obligations), the full consideration received is recognized as revenue on the sale and a provision is recognised in accordancewith IAS 37. Warranty costs form part of the cost of sales. Revenue isdeferred for warranties that are separate components.

Nigerian GAAP Not addressed specifically; in practice, provisions are often createdfor warranty repairs, but may also be created for future servicingcommitments. There is no guidance for distinguishing betweennormal warranty provisions and servicing arrangements beyondstandard warranties.

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Barter transactions – advertising

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

IFRS Revenue may be recognised on the exchange of dissimilar goodsand services if the amount of revenue can be measured reliably. Thetransaction must be measured at the fair value of goods or servicesreceived, adjusted by the amount of any cash or cash equivalentstransferred. However, where the fair value of goods or servicesreceived cannot be measured reliably, the revenue is measured at thefair value of the goods and services given up, adjusted by the amountof any cash or cash equivalents received.

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

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

Construction contracts

Scope

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

Nigerian GAAP Refers to the execution of building and civil engineering projects,mechanical and electrical engineering installations and otherfabrications normally evidenced by an agreement between twoor more parties. Nigerian GAAP differentiates between short (lessthan 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 ofcompletion of a contract (referred to as the percentage of completionmethod) is applied if the outcome can be measured reliably.The criteria necessary for a cost-plus contract to satisfy reliablemeasurement of the outcome are less restrictive than for a fixedpricecontract. 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 grossprofitapproach is not allowed.

Nigerian GAAP Distinguishes between two methods that are generally used foraccounting for construction contracts: the completed-contractmethod and the percentage-of-completion method. The completedcontractmethod is generally applied to short-term contracts,whereas the percentage-of-completion method is applied to longtermcontracts. The completed-contract method can also be appliedto long-term contracts where it is very difficult to have reliableestimates or forecasts of both costs to completion and the percentageof contract executed.

Recognition of losses

IFRS When the outcome of the contract can be estimated reliably, revenueand costs must be recognised by reference to the stage of completionof the contract activity as at the reporting date. When it is probablethat total contract costs will exceed total contract revenue, theexpected 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 iscompleted. Costs incurred and billings are accumulated until thecontract is completed. There are no interim charges and creditsmade to profit and loss account. Although profit is not recognized prior to the completion of the contract, foreseeable losses on thecontract are often charged in the accounts in the period they areidentified.

Combining contracts and segmenting a contract

IFRS Combining and segmenting contracts is required when certaincriteria are met.

Nigerian GAAP No specific guidance exists.

Multiple-element arrangements

IFRS The revenue recognition criteria are usually applied separately foreach transaction. In certain situations it is necessary to separatetransactions into identifiable components in order to reflectthe substance of the transaction. At the same time, two or moretransactions may be grouped together when they are linked in such away that the whole commercial effect cannot be understood withoutreference 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, undercertain circumstances, a cost-plus-reasonable-margin approach toestimating fair value would be appropriate.

Nigerian GAAP Under Nigerian GAAP it is necessary to apply the recognition criteriato the separately identifiable components of a single transaction inorder to reflect the substance of the transaction. Very little guidanceexists in applying the concept to multiple element arrangements.Guidance exists specifically for telecommunications entities: therevenue 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 retirementbenefits and does not provide guidance on other types of employeebenefits. It specifically excludes benefits resulting from terminationindemnities; long-term leave benefits; redundancy plans or strictlygratuitous schemes, health and welfare or bonus plans; andnational insurance benefit schemes, government pension schemesand social security arrangements.

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

Employee benefits – pensions

Classification of pension schemes

IFRS Separates post-employment benefits into defined contribution plansand defined benefit plans, depending on the economic substance ofthe plans.

Nigerian GAAP Comparable to IFRS.

Defined contribution plans

IFRS Defined contribution plans are post-employment benefit plans thatrequire the entity to pay fixed contributions into a fund. The entityhas no legal or constructive obligation to make further contributionsto the fund even if the fund does not hold sufficient assets to pay thebenefits. Under these plans the employee is exposed to the risk ofthe plan assets. IFRS requires that the pension cost be measured asthe contribution payable to the fund during each period based onemployee 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 definedcontribution plans. Defined benefit plans oblige the employer toprovide agreed post-employment benefits to current and formeremployees. The risks associated with plan assets rest with theemployer. The pension benefit might be based on a percentage offinal salary for each year of service.

Nigerian Comparable to IFRS.

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Key features of a defined benefit plan

Item	IFRS	Nigerian GAAP
Actuarial valuation method	The projected unit credit method isused to determine the present value ofthe entity's defined benefit obligation(DBO).	Allows a choice of: a) Accrued benefit costmethod; and b) Projected benefit costmethod.
Discount rate	The rate used to discount postemploymentbenefit obligations isdetermined by reference to marketyields at the end of the reporting periodon high quality bonds. Governmentbonds should be used when there is nodeep market in high quality corporatebonds. The currency and term shallbe consistent with the currency andestimated term of the DBO.	No guidance is given onthis matter.
Valuation of plan assets	Measure at fair value or usingdiscounted cash flows if market pricesunavailable. The fair value of insurance policies should be estimated using, forexample, a discounted cash flowmodel with a discount rate that reflectsthe associated risk and the expectedmaturity date or expected disposaldate of the assets. Qualifying insurancepolicies that exactly match the amountand timing of some or all of the benefitspayable under the plan, are measuredat the present value of the relatedobligations.	Plan assets are carried atcost less provisions. Theseare not disclosed withthe liabilities, but ratheras separate assets of theentity.
Recognition of actuarial gains and losses	An entity can adopt a policy ofrecognising 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	Should be included in the retirement benefit costs of the current period orspread over a period notexceeding 5 years.

Item	IFRS	Nigerian GAAP
	is the greater of10% of the DBO and 10% of the fair value of plan assets at the end of the previous reporting period.	
Expected return on plan assets	The expected return on plan assets: • Is based on market expectations at the beginning of the period for returns over the entire life of the related obligation. • Reflects changes in the fair value of plan assets as a result of contributions received, benefits paid and transfers of assets. • Is applied to the fair value of plan assets at the beginning of the period. The difference between the expected and actual return is an actuarial gain orloss.	No guidance is given onthis matter, as assetsare carried at cost lessprovisions.
Asset limitation	The amount of a surplus that can be recognised as an the economic benefitavailable to the entity is restricted toeither: • A refund from the plan to which the entity has an unconditional right; or • A reduction in future contributions. There is additional guidance if there is a minimum funding requirement.	No guidance is given onthis matter.
Past-service cost	Positive and negative past-servicecost is recognised over remainingvesting period. Where benefits havealready vested, the past-service cost isrecognised immediately.	Past-service costsassociated with employeesmay be deferred andcharged to current andfuture operations over aperiod of not more than fiveyears in a systematic andconsistent manner. Where benefits havealready vested, the pastservice cost is recognized immediately.
Multi-employer plans	Use defined benefit accounting unlesssufficient information is available.If there is a contractual agreementbetween the multi-employer planand its participants, and the plan isaccounted for as a defined contributionplan, the asset or liability that arisesfrom the contractual agreement and theresulting income	No guidance is given onthis matter.

Item	IFRS	Nigerian GAAP
	or expense in profit orloss are recognised.	
Group plan	Plans with participating entitiesunder common control are not multiemployerplans. If there is a contractualarrangement between the subsidiaryand the parent for charging the netdefined benefit cost for the planas a whole to participating entities,the entities account for the definedbenefit costs on that basis. Otherwisethe net defined benefit costs shouldbe recognised by the sponsoringemployer, and the other group entitiesshouldrecognise a cost equal to theircontribution payable for the period.	No guidance is given onthis matter.
Curtailmentdefiniti on	A curtailment occurs either when anentity: • Is demonstrably committed to making a significant reduction in the number of employees covered by the plan; or • 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.	No guidance is given onthis matter.
Settlementdefiniti on	A settlement occurs when an entityenters into a transaction that eliminatesall further legal or constructiveobligation for part or all the benefitsunder the plan.	No guidance is given onthis matter.
Curtailment/settle ment(recognition)	Gains and losses are recognized when the event giving rise to thecurtailments/settlements occurs.	No guidance is given onthis matter.
Curtailment/settle ment(calculation ofgains and losses)	Gains and losses on curtailments/settlements include: Changes of the DBO Changes in the fair value of the planassets Any related unrecognised actuarialgains and losses and past-service cost.	No guidance is given onthis matter.

References:

IFRS: *IAS 19, IFRIC 14, IAS 39.*

Nigerian GAAP: *SAS 8.*

Share-based payments

Recognition and classification

IFRS There are three categories of share-based payment transactions inwhich 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 arerecognised when they are received. The fair value of shares andoptions awarded to employees is recognised over the period to whichthe employees' services relate.

Nigerian GAAP No guidance is given on this matter.

Measurement

IFRS Equity-settled share-based payment transactions are measured atthe fair value of the goods or services received. If the entity cannotreliably estimate the fair value of the goods or services received, aswill be usually the case with employee services, it should measurethe transactions by reference to the grant date fair value of theequity instruments granted, which is not subsequently remeasured.

Cash-settled share-based payment transactions are measured atthe fair value of the goods or services acquired and the liabilityincurred. The liability is remeasured at each balance sheet date andat the date of settlement, with changes in fair value recognised inthe 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 thegoods and services received can be reliably estimated (e.g. innon-employee share-based payment transactions). Where theidentifiable fair value of the goods or services received is lessthan the fair value of the equity instruments granted, there is apresumption that unidentifiable goods or services have also beenreceived. Unidentifiable goods or services are measured at fair valueas at the grant date.

References:

IFRS: *IFRS 2, IFRS 8.*

Nigerian GAAP: *No guidance.*

Nigerian GAAP No guidance is given on this matter.

Long-term benefits and disability

IFRS Long-term employee benefits are employee benefits that are dueto be settled more than 12 months after the end of the period inwhich an employee renders the related service. This includes long-termbonuses, long-term compensated absences such as long-termdisability, long service and holidays. These benefits are accountedfor in the same way as defined benefit plans with the exceptionthat actuarial gains and losses and past service costs are recognized immediately in profit or loss.

Nigerian GAAP The guidance under accounting for employee retirement benefitsspecifically scopes out benefits resulting from terminationindemnities; long-term leave benefits; redundancy plans or strictlygratuitous schemes, health and welfare or bonus plans; and nationalinsurance benefit schemes, government pension schemes and socialsecurity arrangements.

In practice, certain long-term term benefits such as gratuity schemesare 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 employmentbefore the normal retirement date; or

An employee's decision to accept voluntary redundancy in exchangefor those benefits.

Termination benefits are recognised when the entity is demonstrablycommitted to terminate employees or to provide voluntary termination benefits. Termination benefits are measured at theexpected amount to be paid. In the event of an offer made toencourage voluntary redundancy, the measurement of terminationbenefits should be based on the number of employees expected toaccept the offer.

Nigerian GAAP Redundancy plans are excluded by the guidance on accountingfor employee retirement benefits. They are often recorded as acomponent of the restructuring provision.

References:

IFRS: *IAS 19.*

Nigerian GAAP: *SAS 8, SAS 23.*

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 normallythe transaction price (i.e. the fair value of the consideration givenor received). Therefore part of the consideration received is forsomething other than the financial asset. As the loan to employeeshas to be initially recorded at fair value, its

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fair value is estimatedusing a valuation technique. For example, the fair value of a longtermloan to employees that carries no interest can be estimatedas the present value of all future cash receipts discounted usingthe prevailing market rate(s) of interest for a similar loan (similaras to currency, term, type of interest rate and other factors) with asimilar credit rating issued at the same time. The difference betweenthe present value of the future expected cash flows and the cashprovided to the employees should be recognised as a prepayment ofemployee benefits and amortised to the income statement over thebenefit period if the loan must be repaid when the employee leaves.The benefit period is the expected service life of the employees, butcannot exceed the term of the loan.

Nigerian GAAP

No guidance exists. In practice, such loans to employees arerecorded at cost plus interest less repayments and are rarelysubjected 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 theproduction or supply of goods or services; (ii) rental to others; or (iii) administrative purposes, and are expected to be used duringmore than one period.

Nigerian GAAP PPE are tangible assets that; (i) have been acquired or constructedand held for use in the production or supply of goods and servicesand 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 mayalso be treated as property, plant and equipment in certaincircumstances.

Recognition

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

Nigerian GAAP No guidance on recognition criteria other than as incorporated inthe definition.

Initial measurement

IFRS Measured at its cost at initial recognition. The cost of an item ofproperty, 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 directlyattributable to bringing the asset to the location and conditionnecessary for it to be capable of operating in the manner intendedby 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 isacquired or as a consequence of having used the item during aparticular period for purposes other than to produce inventoriesduring that period. This includes costs of testing whether the assetis functioning properly. Start-up and pre-production costs must notbe capitalised unless they are a necessary part of bringing the assetto its working condition. Government grants received in connectionwith acquisition of PPE may be offset against the cost or recognized separately.

The cost of an item of property, plant and equipment is the cashprice equivalent at the recognition date. If payment is deferredbeyond normal credit terms, the difference between the cash priceequivalent and the total payment is recognised as interest over theperiod of credit unless such interest is capitalised in accordance withIAS 23.

Cost of a self-constructed asset is determined using the sameprinciples as for an acquired asset. If an entity makes similar assetsfor sale in the normal course of business, the cost of the asset isusually the same as the cost of constructing an asset for sale (see IAS2). Therefore, any internal profits are eliminated in arriving at suchcosts. Similarly, the cost of abnormal amounts of wasted material,labour, or other resources incurred in self-constructing an asset isnot included in the cost of the asset.

Cost is defined as "...the amount of cash or cash equivalents paid orthe fair value of the other consideration given to acquire an assetat the time of its acquisition or construction or, where applicable,the amount attributed to that asset when initially recognised inaccordance with the specific requirements of other IFRSs, forexample, share-based payment". Other considerations could, forexample, include an asset given up in exchange. The requirementsof IFRS 2 in respect of the recognition and measurement of assetsacquired in a share-based payment transaction are dealt with indetail in IFRS 2.

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

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

Nigerian GAAP

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

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

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

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

Initial measurement – exchange of assets

IFRS

Items of PPE may be acquired in exchange for a non-monetaryasset or assets, or a combination of monetary and non-monetaryassets. The cost of such an item of property, plant and equipment ismeasured 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 ismeasured at the carrying amount of the asset given up. IFRSprovides detailed guidance on determining whether a transactionlacks commercial substance.

Nigerian GAAP When an item of property, plant and equipment is acquired inexchange or in part exchange for another item, the cost of theitem acquired should be recorded either at its fair value or at anexpert's valuation of the item exchanged, adjusted for any balancingpayment 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 recognitioncriteria per the IFRS Framework are met. The carrying value of thereplaced part should be written off according to the derecognitioncriteria for PPE. That is: (a) on disposal; or (b) when no futureeconomic 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 ifthe expenditure (a) prolongs the expected useful life of the item of PPE,(b) improves significantly the performance of the item, and (c) enhancesthe quality of the output of the item. Any costs that do not meet theabove criteria are expensed.

Depreciation

	IFRS	**Nigerian GAAP**
Depreciation	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.	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.
Methods	• Straight-line method; • Diminishing balance method; and • Units of production method.	Guidance only allows either of two methods of depreciation: • Straight-line method; and • Reducing balance (similar to diminishing balance method).
Residual value	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.	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

	IFRS	Nigerian GAAP
		from entity to entity.
Componentisation	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.	No similar concept exists.
Change in estimate	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.	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.
Profit or loss	The depreciation chargefor each period shall berecognised in profit or lossunless it is included in thecarrying amount of anotherasset.	Recognised in profit and loss.
Start depreciating	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.	Depreciation begins when the asset starts being used.
Cease depreciation	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.	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.

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

	IFRS	Nigerian GAAP
Model	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.	Similar to IFRS.
Treatment of accumulated depreciation	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.	Similar to IFRS.
Increases in revalued amounts	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.	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.
Decreases in revalued amounts	A revaluation decrease must be charged directly against any related revaluation surplus for the same asset, with any excess being recognised as an expense.	Similar to IFRS.
Release of the revaluation surplus through depreciation	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.	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.
Release of the revaluation surplus through	The revaluation surplus in respect of an item of PPE is transferred directly to retained earnings when	There is a policy choice; the revaluation surplus may be transferred to income (profit and loss

	IFRS	Nigerian GAAP
sale	the asset is derecognised. These transfers are not made through profit and loss.	account) or to retained profit (equity).
Consistency of revaluations	The chosen policy must be applied to an entire class of property, plant and equipment.	Similar to IFRS.
Frequency of revaluations	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.	Reporting enterprises are required to disclose in their financial statements the policy with regard to the frequency of revaluations.
Impairment of revalued PPE	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.	Similar to IFRS.

Derecognition

IFRS Derecognition occurs on disposal or when no future economicbenefits are expected from its use or disposal.

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

Nigerian GAAP Derecognition occurs on disposal or where retired from active useand are held for disposal.

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

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

References:

IFRS: *IAS 16.*
Nigerian GAAP:*SAS 3, SAS 9.*

Intangible assets

Definition

IFRS Defines an intangible asset as an identifiable non-monetaryasset 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 recognitionand measurement guidance in IAS 38 is split between separateacquisition, acquisition as part of a business combination,acquisition by way of a government grant, exchanges of assets,internally generated goodwill and internally generated intangibleassets.

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

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

Recognition – acquired intangibles

IFRS General IFRS asset recognition criteria apply. Recognise if futureeconomic benefits attributable to the asset are expected to flowto the entity and the cost of the asset can be measured reliably.The probability criterion is always considered to be satisfied fora separately acquired intangible asset. The cost of a separatelyacquired intangible asset can usually be measured reliably. Assetsacquired in a business combination that are distinguished fromgoodwill are recognised if the definition of an intangible asset is metand the asset is identifiable regardless of whether they have beenrecognised by the acquiree.

Nigerian GAAP There is no specific guidance on acquired intangible assets otherthan as acquired in a business combination.

The standard on business combinations allows the recognition ofintangibles acquired through a business combination, if it meetsthe definition of an intangible asset, the identifiability criterionand its fair value can be reliably measured. It, however, does notprovide guidance on how to measure the fair value of such acquiredintangible 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 asan asset.

Other internally generated intangibles must meet the generalrecognition 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 existenceof a market for the output of the intangible asset or the intangibleasset itself or, if it is to be used internally the usefulness of theintangible asset;
- The availability of adequate technical, financial and otherresources to complete the development and to use or sell theintangible asset; and
- The ability to measure reliably the expenditure attributable tothe intangible asset during its development.

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

Nigerian GAAP Comparable in some respects to IFRS for research and developmentcosts. Additionally Nigerian GAAP requires current and future costrelating 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 treatedas relating to the research phase only. Research costs are neverrecognised as assets while development costs may be recognised ifthey meet the following criteria:

- The product or process is clearly defined and the costsattributable to the product or process can be separately identifiedand measured reliably;
- The technical feasibility of the product or process has beendemonstrated;
- The management of the entity has indicated its intention toproduce and market, or use, the product or process;
- Adequate resources exist, or are reasonably expected to beavailable, to complete the project and market the product orprocess;
- The current and future costs to be deferred are material; and
- There is a reasonable indication that current costs, futureresearch and development costs to be incurred, together withunamortised deferred costs in relation to that project, areexpected 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, definingobjectives and specifications, evaluating alternatives andselecting 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 comprisesall expenditures that can be directly attributed or allocated tocreating, producing and preparing the asset from the date whenthe recognition criteria are met. For subsequent measurement, anentity shall choose either the cost model or the revaluation modelas its accounting policy. If an intangible asset is accounted for usingthe revaluation model, all the other assets in its class shall also beaccounted for using the same model, unless there is no active marketfor those assets.

Nigerian GAAP There is no specific guidance on acquired intangible assets otherthan as acquired in a business combination. SAS 26 provides limitedguidance on recognition of intangible assets of the acquiree at dateof acquisition. Refer to business combinations chapter (page 37).

Exchange of assets

IFRS The recognition and measurement of intangible assets acquired inexchange for non-monetary assets is the same as the guidance forPPE. 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 orallocated to creating, producing and preparing the asset from thedate when the recognition criteria are met.

Nigerian GAAP No major differences in principles noted for research anddevelopment costs. No guidance exists for any other internallygenerated intangible assets. Nigerian GAAP provides examples ofitems to be included in development cost.

Subsequent measurement

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

Nigerian GAAP Does not offer the option to adopt the revaluation model. Only thehistoric 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 capableof operating in the manner intended by management. Amortisationshall cease at the earlier of the date that the asset is classified asheld for sale (or included in a disposal group that is classified asheld for sale) in accordance with IFRS 5 and the date that the assetis derecognised. The amortisation method used shall reflect thepattern in which the asset's future economic benefits are expectedto be consumed by the entity. If that pattern cannot be determinedreliably, the straight-line method shall be used. The amortization charge for each period shall be recognised in profit or loss unlessthis or another Standard permits or requires it to be included inthe carrying amount of another asset. An intangible asset withindefinite useful life is not amortised, but the carrying amount of anindefinite life asset should be tested for impairment at least annuallyand whenever there is an indication that the intangible asset maybe impaired in accordance with IAS 36. There is no presumedmaximum life.

Nigerian GAAP Research and developments costs are segregated into research costsand 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 ofthe product or process or to the period over which the product orprocess is expected to be sold or used.

Impairment

IFRS Impairment reviews are required whenever changes in events orcircumstances indicate that an intangible asset's carrying amount may not be recoverable. Annual reviews are required for intangibleassets with indefinite useful lives and for assets not yet ready foruse. Assets with indefinite useful lives are usually reviewed forimpairment 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 linewith 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 ofbusiness, 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 thosefinished goods and livestock awaiting sale, work-in-progress, raw materials and supplies to be consumed in the production of goods orthe rendering of services.

Measurement

IFRS Measured at the lower of cost (comprise all costs of purchase, costsof 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 estimatedcosts to make the sale. Reversal (limited to the amount of theoriginal write-down) is required for a subsequent increase in valueof inventory previously written down in certain circumstances.

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

Nigerian GAAP Subject to the certain exceptions stated herein, stocks should bevalued 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 anddistribution 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 ordinarilyinterchangeable 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.

Cost method	IFRS	Nigerian GAAP
First-in, first-out (FIFO)	√	√
Weighted average cost	√	√
Specific identification	√	√
Last-in, first-out (LIFO)	X	X
Standard cost method, if results approximate cost(standard cost with adjustments for cost variancesbringing it close to actual cost)	√	√
Retail method (adjusted selling price method wherebulk purchases are made in which the costs ofindividual items are not readily ascertainable and thesales value of inventory is reduced by the appropriate percentage gross margin)	√	√
Latest purchase price	X	X
Base stock	X	X

√ Permitted X Prohibited

Allocation of fixed overheads

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

Nigerian GAAP Attributable production overhead costs incurred in bringing anitem of stock to its present condition and location based on normalproduction 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.

References:

IFRS: *IAS 2.*

Nigerian GAAP:*SAS 4.*

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, suspensionand cessation of capitalisation is provided in the standard. Otherborrowing costs are recognised as expense in the period in which they are incurred.

Capitalisation 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 incomeon the temporary investment of those borrowings or to the extentthat an entity borrows funds generally and uses them for thepurpose of obtaining a qualifying asset, cost incurred on a specificborrowing or an amount calculated using the weighted averagemethod, considering all the general borrowings outstanding duringthe period for that entity. Interest can include foreign exchangedifferences, but under tightly defined conditions. Any interestearned on the temporary investment of funds borrowed to financethe asset's production is netted with the interest expense to becapitalised.

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 andother expenses that related directly to and are attributable to theconstruction 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 inthe construction of the item should not form part of its cost.

In practice some entities capitalise borrowing costs, while others donot. The methods applied to calculate the portion of borrowing costs to be capitalised differ, though predominantly only borrowing costs on specific borrowings are capitalised.

References:

IFRS: *IAS 16.*

Nigerian GAAP:*SAS 3.*

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 propertyor 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-basedmeasurement 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 asprofessional fees for legal services, property transfer taxes andother transaction costs. Self-constructed property shall be initiallymeasured at cost until its fair value is reliably determinable, ifthe reporting entity applies the fair value model (see subsequentmeasurement below). When an entity completes the constructionor development of a self-constructed investment property that willbe carried at fair value, any difference between the fair value ofthe property at that date and its previous carrying amount shall berecognised in profit or loss. Property held under finance or operatingleases 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 whenan existing property first becomes investment property after achange in use) that the fair value of the investment property is notreliably determinable on a continuing basis; this arises, when, andonly when, comparable market transactions are infrequent andalternative reliable estimates of fair value (for example, based ondiscounted 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 underconstruction 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 measurethat investment property using the cost model as used for PPE.The residual value of the investment property shall be assumed tobe zero. The entity shall apply the cost model until disposal of theinvestment 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 adecline in the value of an investment property, the carrying amountof the property is written down to recognise the loss, and thereduction should be charged to the income statement. An increasein market value is credited to owners' equity as revaluation surplusunless it is directly related to a previous decrease in carrying amountfor the same investment property that was charged to income, inwhich case it should be credited to profit or loss to the extent that itoffsets 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 re-classified 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 asowner occupies more than 15% of the lettable space. At this point,the property may be re-classified as an investment property. Theproperty is transferred at carrying amount and the entity's policyon investment properties subsequently applied. When the propertybecomes 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 andloss 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 thesame 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

References:

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.

IFRS: *IAS 40.*
Nigerian GAAP:*SAS 3, SAS 9 andSAS 13.*

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

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 suchindication, 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 inuse. Value in use is the present value of the future cash flows tobe derived from the particular asset or cash-generating unit. It iscalculated by discounting the cash flows to present value using a pre-tax market-determined rate that reflects the current assessmentof 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 thefuture through use of the item, including its net realisable value ondisposal. There is no guidance on determining the net realizable value on disposal. In practice assets are scrapped when they are nolonger 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 availablefor immediate sale in its present condition, and its sale should behighly probable. For the sale to be highly probable, the appropriatelevel of management should be committed to a plan to sell the asset,and an active programme to locate a buyer and complete the planshould have been initiated. The asset should be actively marketed forsale at a price that is reasonable in relation to its current fair value.The sale should be expected to qualify for recognition as a completedsale within one year from the date of classification, and actionsrequired to complete the plan should indicate that it is unlikely thatsignificant changes to the plan will be made or that the plan will bewithdrawn.

Once classified as held for sale, the asset is measured at the lower of its carrying amount and fair value less costs to sell. Immediatelybefore 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 sellis recognised. An entity shall recognise a gain for any subsequentincrease in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognised eitherin accordance with this IFRS or previously in accordance with IAS36 Impairment of Assets. Some assets, for example, non-currentassets accounted for in accordance with fair value model in IAS 40Investment 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 thelower of i) its carrying amount before the asset was classified as heldfor sale, adjusted for any depreciation, amortisation or revaluationsthat would have been recognised had the asset not been classifiedas held for sale and ii) its recoverable amount at the date of thesubsequent 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 valueguaranteed 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 theunguaranteed residual value. If not practicable, the incrementalborrowing 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 landelement 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 leasingguidance (IAS 17).

Nigerian GAAP The guidance focuses less on judgement criteria than that of IFRS. Alease 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) arecomparable 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. Atany 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 valueof minimum lease payments would generally use the implicit rate inthe 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 is no need to add them separately. Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease are excludedfrom the definition of initial direct costs. As a result, they areexcluded from the net investment in the lease and are recognised asan expense when the selling profit is recognised, which for a financelease 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 areoften incurred by lessors in negotiating, and arranging a lease areamortised 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 ofthe minimum lease payments (MLPs) at the inception of the lease.An asset leased under a finance lease is depreciated over the shorterof the lease term and its useful life, unless there is a reasonablecertainty the lessee will obtain ownership of the asset by the end ofthe lease term, in which case it should be depreciated over its usefullife. The interest rate implicit in the lease must normally be used tocalculate the present value of the MLPs. The lessee’s incrementalborrowing 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.

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 patternof 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 andamortised over the period of the lease.

Sale and leaseback transactions

In a sale and leaseback transaction, the seller-lessee sells an asset to the buyer-lessor 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 arehighlighted in the table below:

Issue	IFRS	Nigerian GAAP
Classification of lease	According to normal leaseclassification criteria.	Where in a sale and leaseback transaction an asset is sold at a priceequal to or greater than the currentmarket value and it is leased back fora term approximating the useful life ofthe asset and for payments that aresufficient to cover the new owner'sinvestment plus a reasonable returnthereon, the transaction should beclassified as a finance lease by theseller-lessee. Otherwise classified asan operating lease.
	Finance lease	
Profit or loss on sale	Deferred and amortised overthe lease term.	Any profit is deferred and amortisedover the lease term. Losses areexpensed immediately.
Operating lease		

Issue	IFRS	Nigerian GAAP	
Profit or loss on sale	IFRS differentiates betweenwhen the selling priceis equal to, less than, orgreater than fair value. If the sale is at fair value, any profit or loss isrecognised immediately. Where the sale price is above the fair value, theexcess of the sale price over the fair value does not represent a genuine profit and should be deferredand amortised over theperiod for which the asset isexpected to be used. If the fair value of an asset at the time of a saleand operating leaseback transaction is less then the carrying amount of the asset, a loss equal to thedifference between thecarrying amount of the asset and its fair value should be recognised immediately.	Profits are deferred and amortised in proportion to the rental payments overthe lease term. Losses are expensedimmediately.	***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. Anobligating event leaves the entity no realistic alternative other than to settle the obligation. If the entity can avoid the future expenditureby its future actions, it has no present obligation and a provision isnot 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 atthe reporting date. The entity must discount the anticipated cashflows using a pre-tax discount rate that reflects the current marketassessment of the time value of money and those risks specific to theliability, if the effect is material. Where there is a continuous rangeof possible outcomes and each point in that range is as likely as anyother, 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. Anentity is usually demonstrably committed when there is a legal ora constructive obligation. A constructive obligation exists whenthe entity has a detailed formal plan for the restructuring andhas announced its main features to those affected or is unable towithdraw because it has started to implement the plan. However,if there will be a delay before the restructuring begins, or therestructuring will take an unreasonably long time to complete, thena provision is unlikely to be justified.

Nigerian GAAP Comparable to IFRS.

OR&C

Future operating losses / onerous contracts

IFRS Prohibits provisions for future operating losses. However, aprovision should be recognised if an entity has a contract that isonerous. An onerous contract is one in which the unavoidable costsof meeting the obligations exceed the economic benefits expected tobe received under the contract. One of the most common examplesrelates to an operating lease property that has been abandoned andcannot 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 aparticular period for purposes other than to produce inventoriesduring that period.

The accounting for changes in the measurement of the liability isdifferent 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 inestimates to such provisions.

Specific guidance exists for the oil and gas industry (extractiveindustries) 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 Comparable to IFRS.

GAAP

Government grants

IFRS Government grants are recognised when there is reasonableassurance that the entity will comply with the conditions related tothem and that the grants will be received.

Revenue-based grants are deferred in the statement of financialposition 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 thedepreciation 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.

OR&C

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 theamounts 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 basesand the carrying amounts of assets and liabilities, with only a limitednumber of exceptions (see below).

Nigerian GAAP Deferred tax is calculated using the income statement approach andfull provision is made for all deferred taxes. Under this approach,the tax profit is compared to the accounting profit – deferred tax isbased on the timing differences that are expected to reverse withinthe period allowed by the tax laws. These differences may be treatedas an asset or as a charge (liability) to the deferred tax account. Nodeferred tax is calculated on the permanent differences.

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

Exceptions

IFRS Deferred tax liabilities are recognised for all taxable temporarydifferences, except to the extent that the deferred tax liability arisesfrom:

- Goodwill, which is not deductible for tax purposes, and does notgive 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 thetransaction 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, deferredtax is raised only on timing differences.

Though guidance requires that only timing differences be consideredin determining deferred taxes, guidance also requires that the taxeffect of an increase in the carrying value of a revalued asset isdetermined and charged or credited to equity. This is accounting fora temporary difference.

Recognition and measurement of deferred tax

Tax rates

IFRS Deferred tax assets and liabilities are based on the tax rates and taxlaws that have been enacted or substantively enacted at the balancesheet date for the period of the anticipated realisation of temporarydifferences.

Nigerian GAAP Comparable to IFRS. The guidance requires the use of the liabilitymethod in computing deferred tax balances. Under this method, theamount of deferred tax is computed using the tax rate expected to bein force during the period in which the timing differences reverse.Usually, the current tax rate is used as a reasonable estimate of thefuture 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 sufficienttaxable profit will be available against which the temporarydifference 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 “Whenaccounting for timing differences results in a debit balance, andthere is reasonable expectation of its recovery, it is usually carriedforward as an asset”.

In practice, deferred tax assets and liabilities are recognised togetherwithout separate disclosure. Deferred tax assets only becomeapparent when the assets exceed the liabilities.

Measurement – Expected manner of recovery of assets andsettlement of liabilities

IFRS The measurement of deferred tax liabilities and deferred tax assetsreflects the tax consequences on the manner in which the entityexpects, at the balance sheet date, to recover or settle the carryingamount of its assets and liabilities. Consequently, the tax basemay be different depending on how the asset or liability may berecovered 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.

GAAP

Deferred tax arising in business combinations

Step-up of acquired assets and liabilities to fair value

IFRS A deferred tax is provided unless the tax base of assets and liabilitiesis also stepped up. The recognition of the deferred tax liabilityaffects goodwill.

Nigerian GAAP There is no guidance on this. No practice has yet been establishedfor the treatment of deferred tax arising in business combinations.

Previously unrecognised tax losses of the acquirer

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

Nigerian GAAP No guidance exists in this regard.

Unrecognised tax losses of the acquiree

IFRS Similar requirements as for the acquirer except that the deferred taxasset is recognised as part of the purchase accounting and affectsgoodwill.

If the potential benefit of the acquiree's unused tax losses or otherdeferred tax assets do not satisfy the criteria for separate recognitionwhen a business combination is initially accounted for, but aresubsequently realised, an entity recognises these deferred tax assetsas 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 inprofit or loss (or, if IAS 12 so requires, outside profit or loss).

Nigerian GAAP No guidance exists for unrecognised tax losses of the acquiree atthe date of acquisition. Based on the general principles of businesscombinations it is likely that they will be recognised and will impactgoodwill.

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

Specific applications

Non-depreciable assets

IFRS The deferred tax liabilities or deferred tax assets associated witha non-depreciable asset (such as land with an unlimited life) aremeasured based on the tax consequences that would follow from thesale of that asset. This is because no part of its carrying amount isexpected to be recovered (that is, consumed) through use; therefore,the land's carrying amount reflects the value recoverable from itssale.

Nigerian GAAP Non-depreciable assets

Revaluation of property, plant and equipment and intangible assets

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

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

Revaluation of investment properties

IFRS Deferred tax arising from the revaluation of investment property istaken to profit or loss. Deferred tax needs to be calculated separatelyfor the land and buildings elements. Deferred tax on the land isdiscussed above. Deferred tax on the building should be based onexpected manner of recovery.

Nigerian GAAP Deferred tax arising on the revaluation of investment property istaken to equity.

Presentation of deferred tax

Offset of deferred tax assets and liabilities

IFRS Permitted only:

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

Nigerian GAAP No guidance exists. In practice deferred tax assets and liabilities areoffset when they relate to the same tax authority.

Reconciliation of actual and expected tax expense

IFRS Required. The expected tax is calculated by applying the applicabletax rates to accounting profit or loss, also disclosing the basis onwhich the applicable tax rates are computed.

Nigerian GAAP No reconciliation is required.

Financial assets

Under IFRS, financial instruments are governed primarily by threestandards:

- *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 obligedto 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 inNigerian GAAP.

However, some types of financial assets are embodied under thedefinition of investments: “Investments are assets acquired by anenterprise for purposes of capital appreciation or income generationwithout any activities in the form of production, trade or provisionof services.” The scope of this definition is broad and incorporatesequity 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 directlyaddressed under Nigerian GAAP.

Recognition

IFRS — IFRS requires that an entity recognises a financial asset only whenthe entity becomes a party to the contractual provisions of theinstrument.

Nigerian GAAP — No guidance exists on when to recognise financial assets. In practicethese instruments are recognised once there is performance byeither party to the contract, i.e. delivery of the financial asset or thecash 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 assetmust be:

- Held within a business model whose objective is to hold assets inorder to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specifieddates to cash flows that are solely payments of principal andinterest 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 areclassified and measured at fair value. In addition, an entity may, atinitial recognition, designate a financial asset as measured at fairvalue through profit or loss if doing so eliminates or significantlyreduces a measurement or recognition inconsistency (sometimesreferred to as an ‘accounting mismatch’) that would otherwise arisefrom measuring assets or liabilities or recognising the gains andlosses on them on different bases.

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

Nigerian GAAP — Guidance is available only for investments. Investments areclassified into short-term investments, long-term investments andinvestment properties. Investment properties have been discussedon page 76. The focus of this section will be on the short- and long-terminvestments.

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-terminvestments.

Initial measurement

IFRS	Financial assets are initially recognised at fair value plus transactioncosts, except for those assets that are measured at fair value throughprofit or loss, which are initially recognised at fair value.
Nigerian GAAP	Investments are initially recorded at cost, including any transactioncosts. 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.

Classification	Common type ofinstrument	IFRS	Nigerian GAAP
Amortised cost	Accounts receivable	Measured at amortised cost usingthe 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. **Impairment1**[1] Under IAS 39, impairments and reversals of impairment are recognised in profit or loss. Impairment is recognised using theincurred loss model. I.e. impairment losses are recognised when there is objective evidence that a loss event has occurred. The amount of the impairment ismeasured as the difference between the carrying value of the instrument and the present value of estimatedfuture cash flows discounted at theasset's original effective interestrate1.	No specific guidance exists. In practiceaccounts receivable are measured at costless provisions for doubtful debts. Accounts receivable balances aresubjected to provision for doubtful debtsbased on expected losses determinedon an aging of such receivable balances.The loss is determined by applying apercentage loss to the different agebuckets in which the outstanding amountshave been segmented. The rates andage buckets are determined based onmanagement experience. Changes in fair value are not recognised.
	Loans	All amortised cost financial assetsare accounted for in the samemanner (as described above).	No general guidance exists. Refer to thesection on banking and non-bankingfinancial institutions for additionalguidance applicable to those industries(page 131).
Fair value	**Equity investments**	**General** Remeasured at each reporting dateto fair	**Short-term investments** Measured at the lower of cost and

[1] 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.

OR&C

Classification	Common type ofinstrument	IFRS	Nigerian GAAP
		value. Any changes in fairvalue are recorded in profit or loss. **Exception for equity investments** Where an entity has an investmentin an equity instrument it can electto record the fair value movementsin other comprehensive income. Dividends related to the investmentare recorded in profit or loss. Fairvalue gains or losses recorded inother comprehensive income arenot recycled to profit or loss at anypoint in time. **Impairment1** There is no need to test forimpairment as this is embodied inthe fair value.	marketvalue (defined as the amount obtainablefrom the sale of an investment in an activemarket). The amount by which the cost exceedsthe market value is taken to profit or loss. Realised gains on disposal are taken toprofit or loss. **Long-term investments** Are carried at cost or revalued amount;this policy needs to be clear andconsistently applied.Where there is a permanent decreasein value the amount should be taken toprofit or loss. Reversals of these increasesare first taken to profit or loss, up to theoriginal write-down, any excess is takenand to equity. Permanent increases in value are taken toequity. Reversals of these increases firstreduce equity and then are taken to profitor loss. There is no guidance on what wouldconstitute a “permanent” increase ordecrease in value or how to calculate therevalued amount.
	Debt instruments	As with equity instruments, exceptthere is no option to take thefair value movements to othercomprehensive income.	**Short-term investments** Are accounted for in the same manner asshort-term investments above. **Long-term investments** Where the investment is a debt instrumentit is measured on a basis comparableto amortised cost. Any premiums anddiscounts are captured in the effectiveinterest rate calculation. Fees andtransaction costs are not normallyincluded in the effective interest ratecalculation. Interest earned on theinvestment will accrue in a separateinterest receivable account and will onlybe transferred to the investment uponcontractual maturity dates.

Interest income and amortised cost using the effective interest ratemethod

IFRS Interest is recognised according to the effective interest ratemethod. This method is a method of calculating the amortised costof a financial asset and of allocating the interest income over therelevant period. The effective interest rate is the rate that exactlydiscounts estimated future cash receipts through the expected life ofthe financial instrument.

When calculating the effective interest rate, an entity shall estimatecash flows considering all contractual terms of the financialinstrument (for example, prepayment, call and similar options) butshall not consider future credit losses.

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

There is a presumption that the cash flows and the expected life canbe estimated reliably. However, in those rare cases when it is notpossible to estimate reliably the cash flows or the expected life of afinancial instrument, the entity shall use the contractual cash flowsover the full contractual term of the financial instrument.

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

Derecognition of financial assets

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

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

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

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

- The financial asset has been transferred outside the consolidatedgroup.
- 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 thecash 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 flowson to one or more recipients (referred to as a pass-througharrangement).

If there is a qualifying transfer, an entity must determine theextent to which it retains the risks and rewards of ownership of thefinancial asset. This is done by comparing its exposure to variabilityin the amounts and timing of the transferred financial asset's netcash flows, before and after the transfer.

If the entity's exposure does not change substantially, derecognitionis not appropriate. Rather, a liability equal to the considerationreceived is recorded (financing transaction). If, however,substantially all risks and rewards are transferred, the entity wouldderecognise the financial asset transferred and recognises separatelyany asset or liability created by retaining any rights and obligationsin the transfer (e.g. servicing assets).

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

Reclassification of assets between categories

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

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

Where short-term investments are reclassified as long-term they aretransferred 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 onthe issue of a debt instrument, the discount or premium is amortisedusing the effective interest rate method. The effective interest rate isthe rate that discounts the estimated future cash payments throughthe expected life of the debt instrument to the carrying amount ofthe future debt instrument.

Nigerian GAAP

No guidance exists for recognising interest expense. In practice thetreatment of interest expense is based on the contractual interestrates associated with the financial liability. Transaction costs andfees 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 mirrorthat method, but this is not common practice for entities in otherindustries. 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 underconditions that are potentially unfavourable to the entity.

A contract that will or may be settled in the entity’s own equityinstruments 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 theexchange of a fixed amount of cash or another financial assetfor a fixed number of the entity’s own equity instruments. Forthis purpose the entity’s own equity instruments do not includeputtable instruments and obligations arising on liquidation thatare 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, orits component parts, on initial recognition as a financial liability,a financial asset or an equity instrument in accordance with thesubstance of the contractual arrangement and the definitions offinancial instruments.

Where there is a contractual obligation (either explicit or indirectlythrough its terms and conditions) on the issuer of an instrument todeliver either cash or another financial asset to the holders; or toexchange financial assets or financial liabilities with another entityunder conditions that are potentially unfavourable to the issuer, thatinstrument meets the definition of a financial liability, regardless ofthe manner in which the contractual obligation will be settled.

Preferred shares that are not redeemable, or that are redeemablesolely at the option of the issuer, and where distributions are at thediscretion of the issuer, are classified as equity. However, preferredshares requiring the issuer to redeem for a fixed or determinableamount at a fixed or determinable future date, or where the holderhas the option of redemption, are classified as liabilities.

Generally, puttable instruments (financial instruments that give theholder the right to put the instrument back to the issuer for cashor another asset) are liabilities, unless they meet certain specificcriteria.

Some liabilities have both a debt and an equity component. Themost common example is convertible debt which is discussed below.Where instruments have a debt and equity component, IFRS requiresthe compound instrument to be bifurcated and for each componentto 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 becomesparty to the contractual provisions of the instrument.

Nigerian GAAP No specific detailed guidance corresponding to IFRS is available. Inpractice financial liabilities are recognised as the obligation arisesbased on the contractual terms and the accrual basis of accounting.

Measurement

IFRS There are two categories into which financial liabilities must beclassified: i) financial liabilities at fair value through profit or loss(including trading liabilities) and ii) financial liabilities at amortisedcost. A financial liability at fair value through profit or loss is afinancial liability that meets either of the following conditions: i) itis classified as held for trading (incurred principally for the purposeof selling/repurchasing in the near term, part of a portfolio withevidence of recent short-term profit taking or a derivative whichis 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 itresults in more relevant information in line with the guidanceprovided in IAS 39.

Initial measurement of liabilities at fair value through profit or lossis at fair value, while for all other financial liabilities it is fair valueplus transaction costs that are directly attributable to the acquisitionor issue of that liability.

After initial recognition, financial liabilities at fair value throughprofit or loss are measured at fair value (the changes in fair valueare recognised in profit or loss for the period, the distribution ofdiscount/premium is implied in the fair value and the credit riskof the issuer must be recognised). All other financial liabilities arecarried 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 atcost and subsequently at the outstanding principal obligation (costplus interest accrued less payment). Interest is accrued based on thecontractual interest rate.

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

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

Derecognition

IFRS A financial liability must be derecognised when: the obligationspecified in the contract is discharged, cancelled or expires; orthe primary responsibility for the liability is legally transferred toanother party. A liability is also considered extinguished if thereis a substantial modification in the terms of the instrument. Thedifference between the carrying amount of a liability (or a portionthereof) 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 uponextinguishment 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 requiresbifurcation and split accounting between the liability and equitycomponents of the instruments in question. “Split accounting”is used whereby the proceeds of issuing the convertible debt areallocated between the two components: the liability, recognized at fair value calculated by discounting the cash flows associatedwith the liability component at a market rate for a non-convertibledebt (recognised in liabilities); and the equity conversion rightsmeasured 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 fullliabilities. Upon conversion the outstanding liability is transferredat carrying value to equity plus any adjustment to achieve thecontractually agreed conversion price. Any difference is recognized in profit and loss account.

References:

IFRS: *IAS 32, IAS 39.*

Nigerian GAAP: *Not applicable.*

OR&C

Equity instruments

Recognition and classification

IFRS — IAS 32 defines an equity instrument as any contract that evidencesa residual interest in an entity's assets after deducting all of itsliabilities.

Preference shares, which are not redeemable, or redeemable solelyat the option of the issuer, and where distributions are at the issuer'sdiscretion, are classified as equity.

Only derivative contracts that result in the delivery of a fixedamount of cash, or other financial asset for a fixed number of anentity's own equity instruments, are classified as equity instruments.

Nigerian GAAP — Available guidance on classification includes preference sharesas part of capital and reserves. In practice preference shares areclassified in equity like ordinary shares.

Treasury shares

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

Nigerian GAAP — No guidance exists. Legally companies and their subsidiaries areprohibited from holding the parent company's and their own shares.Although company law allows companies to implement capitalreduction schemes, they are required to cancel such re-acquiredshares.

In the format of financial statements prescribed in the Nigeriancompany law, treasury (own) shares is listed as part of currentassets.

References:

IFRS: *IAS 32.*

Nigerian GAAP:*Company and AlliedMatters Act (1990amended).*

Derivatives and hedging

Derivatives

Definition

IFRS Derivatives are financial instruments that derive their value from anunderlying price or index. Their primary purpose is to create rights and obligations that have the effect of transferring between theparties to the instrument one or more of the financial risks inherentin an underlying primary instrument. Consequently, they may beused for trading purposes to generate profits from risk transfers orthey may be used as a hedging instrument for managing risks. IFRSdefines a derivative as a financial instrument whose value changesin response to a specified variable or underlying rate, requires littleor 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 offinancial position as either financial assets or financial liabilities.They are initially measured at fair value. The direct externaltransaction costs are recognised in profit or loss.

Nigerian GAAP No guidance exists. These are not common transactions, andin practice any derivatives will only be recognised at any initialconsideration paid, if any.

Subsequent measurement

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

Nigerian GAAP No guidance exists. These are not common transactions, and inpractice, derivatives will be accounted for through profit or lossupon their settlement.

Embedded derivatives

IFRS Derivatives embedded in a host contract have to be separated fromthat contract, unless the whole instrument is measured at fair valueor the economic characteristics and risks of the embedded derivativeare the same as those of the host contract. Note that under IFRS 9embedded derivatives where the host contract is a financial assetwill not be separated. The impact of any embedded derivatives isconsidered in determining whether the whole asset is accounted forat fair value or whether the cash flows reflect solely the payment ofprincipal and interest on the principal amount outstanding.

OR&C

Nigerian GAAP No guidance exists. In practice embedded derivatives are notidentified or separated.

Hedge accounting

Criteria for hedge accounting

IFRS Hedge accounting is a technique that modifies the normal basis forrecognising gains and losses on associated hedging instruments and hedged items so that both are recognised in earnings in thesame period. Financial statements may provide more relevantinformation if hedge accounting is applied. In a hedge relationshiphedge accounting is applied to the hedged item and the hedginginstrument.

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

- Hedge designation;
- Qualifying hedged items;
- Qualifying hedging instruments;
- Qualifying hedged risks (hedged risk should be in compliancewith 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, firmcommitments, or forecast transactions that involve an external party. As an exception, the foreign currency risk of an intragroup monetaryitem may qualify as a hedged item if it results in an exposure toforeign exchange rate gains or losses that are not fully eliminated onconsolidation.

A forecast transaction should be highly probable to qualify as ahedged 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 thereporting entity can qualify as a hedging instrument. An exceptionexists where a non-derivative financial instrument is used to hedgeforeign currency risk.

In principle a derivative has to be designated as a hedginginstrument 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 valuehedge where the risk being hedged is a change in the fair value ofa recognised asset or liability; or unrecognised firm commitment;a cash flow hedge where the risk being hedged is the potentialvolatility in future cash flows that is attributable to a particular riskassociated with a recognised asset or liability or a highly probableforecast transaction that could affect profit or loss; a hedge of a netinvestment in a foreign entity, where the hedging instrument is usedto 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 valuesor cash flows of the hedging instrument are expected to be highlyeffective in offsetting changes in the fair value or cash flows of thehedged 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 aremet.

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

Cash flow hedges: Hedging instruments are measured at fair value,with gains and losses on the hedging instrument, where they areeffective, initially deferred in equity and subsequently released toprofit or loss at the same time as the earnings recognition patternof the hedged item. Gains and losses on financial instruments usedto hedge forecast non-financial asset or liability acquisitions may beincluded in the cost of the non-financial asset or liability – so-called“basis adjustment” – but this is not permitted for financial assets orliabilities.

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

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

References:

IFRS: *IAS 39.*

Nigerian GAAP: *Notapplicable.*

Other reporting topics

Foreign currency translation

Functional currency

IFRS

Functional currency is defined as the currency of the primaryeconomic environment in which an entity operates.

IFRS provides a list of primary and secondary indicators to considerwhen determining functional currency. If the indicators are mixedand the functional currency is not obvious, management should useits judgement to choose the functional currency that most faithfullyrepresents the economic results of the entity's operations. This isdriven by the currency of the economy that determines the pricing(not the transaction in which transactions are denominated) andthe currency that most influences labour, material and other costs ofproviding goods and services.

Additional evidence (secondary in priority) may be provided fromthe currency in which funds from financing are generated, orreceipts from operating activities are usually retained, as well as thenature of activities and extent of transactions between the foreignoperation and the entity.

Nigerian GAAP

Guidance identifies the concept of reporting currency and identifiesNaira as the reporting currency for Nigeria. All entities must preparetheir financial statements using the domestic currency: Naira.However, SAS 14 – Accounting in the Petroleum Industry: UpstreamActivities, identifies the concept of functional currency for upstreamoil and gas operators but does not define the concept (refer to page139).

Translation of foreign currency transactions and foreign currencymonetary 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 currencyare translated at the closing (balance sheet) exchange rate.
- Non-monetary foreign currency assets and liabilities aretranslated at the appropriate historical acquisition rate.
- Income statement amounts are translated using historical rates ofexchange as at the date of the transactions or at the average ratefor the period as a practical alternative.
- Non-monetary items denominated in a foreign currency andcarried at fair value are reported using the exchange rateapplicable when the fair value was determined.
- Exchange gains and losses arising on an entity's own foreigncurrency transactions are reported as part of the profit or loss forthe year. This includes long-term loans, which in substance formpart of an entity's net investment in a foreign operation.

Nigerian GAAP

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 foreigncurrency monetary items can either be taken to profit or loss ordeferred and written off on a systematic basis over the life of themonetary item. This deferral should not be used on losses whereit is reasonable to expect that exchange losses will recur on theitem in the future.

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

Consolidated financial statements

IFRS

Requires that where the operations of a foreign consolidated entityare largely independent of the investing (parent) entity's reportingcurrency, amounts in the foreign entity's statement of financialposition be translated using the closing (year-end) rate, with theexception of equity balances, for which the historical rate is used.Amounts in the income statement are usually translated using theaverage rate for the accounting period. The translation differencesarising 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

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Basic earnings per share ("EPS")

IFRS

Basic EPS is calculated as profit or loss available to commonshareholders, divided by the weighted average number of sharesoutstanding during the period.

Where a company issues new shares by way of a bonus issue or stockdividend during the period, the effect is to increase only the numberof shares outstanding after the issue. There is no effect on earningsas there is no flow of funds as a result of the issue. Consequently, theshares should be treated as outstanding as if the issue had occurredat the beginning of the earliest period reported.

Nigerian GAAP

The calculation of earnings for the basic EPS calculation iscomparable to IFRS, except that it excludes extraordinary items.Bonus issues are treated in a similar manner. There is no guidanceon rights issues, though the calculation of share options for dilutedEPS indicates the concept of a "free issue" of shares and this could beapplied for rights issues. Due to the lack of guidance differences willarise 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 hadthe dilutive potential ordinary shares been converted in ordinaryshares;
- The weighted average number of ordinary shares is adjusted forthe effects of all dilutive potential ordinary shares. A potentialordinary share is a financial instrument or other contract thatmay entitle its holder to ordinary shares such as convertible debtor preference shares, warrants and options. Potential ordinaryshares should be included in the calculation of diluted EPS forthe period in which they were outstanding.

Nigerian GAAP

Comparable to IFRS.

References:

IFRS: IAS 33.

Nigerian GAAP:*SAS 21.*

Disclosure of risks arising from financial instruments

IFRS

The entity shall disclose information enabling those who make useof financial statements to evaluate the nature and extent of risksarising from financial instruments to which the entity is exposed.Extensive disclosures are required, taking a 'through the eyes ofmanagement' approach.

Nigerian GAAP

No general guidance exists.

For guidance applicable to banks refer to page 134.

References:

IFRS: IFRS 7.

Nigerian GAAP: *Notapplicable.*

Related party disclosure

Definition of related parties

IFRS

Related party relationships are generally determined by referenceto the

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control or indirect control of one party by another or bythe existence of joint control or significant influence of one partyover another. Related parties include subsidiaries, joint ventures,associates, key management personnel, post-employment benefitplans and shareholders.

Nigerian GAAP

The Nigerian company law includes the concept of “officers” ofthe company and requires the disclosure of loans (and amountsoutstanding on reporting date) and other transactions favouringdirectors and officers.

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

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

Disclosures and exemptions

IFRS

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

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

An exemption exists for government related entities. As part ofthis exemption, relief is granted to disclose only the nature andamounts of individually significant transactions and a qualitativeor quantitative summary of other transactions with governmentrelated entities.

Nigerian GAAP

The Nigerian company law contains certain disclosure requirementsfor directors and officers.

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

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

References:

IFRS: *IAS 24.*

Nigerian GAAP:*Companies and AlliedMatters Act (1990amended), CentralBank of Nigeriacircular BSD/1/2004.*

Segment reporting

IFRS has specific requirements for the identification, measurement and disclosure ofsegment 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.

Issue	IFRS	Nigerian GAAP

	General requirements	
Scope	Public entities and entitiesin the process of filing in apublic market. Non-public entities maychoose full compliance.	All entities. Though in practice smallerentities will only disclose one segment.
Format	Operating segmentsare identified based oninternal reports on eachcomponent of a businessthat are regularly used by the chief operating decision-maker to allocateresources and assessperformance.	Based on business and geographicsegments. Format is rules based.
	Identification of segment	
General approach	Based on the internallyreported operatingsegments.	Based on the organisational units forwhich information is reported to topmanagement.
Aggregation ofsimilar operatingsegments	Specific aggregationcriteria are given todetermine whether two ormore operating segmentsare similar and may beaggregated.	Specific aggregation criteria are givento determine whether two or morereportable segments are similar and,thus, may be aggregated.
Threshold forreportablesegments	Revenue, result or assetsare 10% or more of allsegments. If revenues ofreported segments arebelow 75% of the total,additional segments arereported until the 75%threshold is reached.	Revenue, result or assets are 10% ormore of all segments.
Disclosuresrequired	Disclosure of measure ofprofit; Measure of assets tobe disclosed if thatinformation is regularlyreported to the CODM; Measure of liabilitiesto be disclosed if thatinformation is regularlyreported to the CODM; Total revenue is disclosed,as well as the relevantsegment that reportedthe revenues, for eachexternal customer greaterthan or equal to 10% ofconsolidated	Disclosure identified measures of profit; Tangible and intangible assets; Not required to disclose liabilities; No requirement to disclose informationrelating to major customers; No reconciliations required.

References:

IFRS: *IFRS 8.*

Nigerian GAAP:*SAS 24.*

	revenue; Reconciliations fromtotal segment revenue,total segment measuresof profit or loss, totalsegment assets to theentity’s total revenue,profit or loss beforetax and total assets. Ifsegment liabilities areregularly reported to theCODM a reconciliation oftotal segment liabilities tototal liabilities is required;and Entity-wide disclosuresabout major customers,geographical information,third party revenues.		

Discontinued operations

IFRS

Issue	IFRS
Definition	A component of an entity (operations and cash flows thatcan be clearly distinguished operationally and for financialreporting) that has either been disposed of or is classified asheld-for-sale and represents a separate major line of businessor geographical area of operations, is part of a single coordinatedplan to dispose of a separate major line of businessor geographical area of operations, or is a subsidiary acquiredexclusively with a view to resale.
Envisaged timescale	Completed within a year, with limited exceptions.
Starting date fordisclosure	From the date on which a component has been disposed of or,if earlier, is classified as held-for-sale.
Measurement	Lower of the carrying value or fair value less costs to sell.
Presentation	An entity shall present a non-current asset classified as held forsale and the assets of a disposal group classified as held forsale separately from other assets in the statement of financialposition. The liabilities of a disposal group classified as heldfor sale shall be presented separately from other liabilities inthe statement of financial position. Those assets and liabilitiesshall not be offset and presented as a single amount. Themajor classes of assets and liabilities classified as held forsale shall be separately disclosed either in the statement offinancial position or in the notes, with certain exceptions. Asingle amount is presented on the face of the statement ofcomprehensive 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 thenotes for both current and prior periods.
Ending date	Until completion of the discontinuance.

ofdisclosure	
Comparatives	Income statement re-presented for effects of discontinuedoperations 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 howeverno guidance on classification, measurement or presentation of suchdiscontinued PPE.

Other than the above, there is no specific guidance on accountingtreatment 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 financialstatements. However, a number of territories and regulators requireor recommend entities (e.g. listed entities) to publish interimfinancial statements.

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

Disclosures and additional guidance

IFRS As a minimum the following should be contained in an interimfinancial report:

- Condensed statement of financial position;
- Condensed statement of comprehensive income or separate condensed income statement and separate condensed statementof 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 annualfinancial statements, together with adoption of any changes toaccounting policies that it is known will be made in the yearendfinancial statements (for example, application of a newstandard);
- Preparation of the interim statements using a “discrete approach”to revenue and expenditure recognition; that is, viewing theinterim period as a distinct accounting period, rather than part ofthe annual cycle. Hence, incomplete transactions must be treatedin the same way as at the year end. For interim results, the taxcharge is based on an estimate of the annual effective tax rateapplied to the interim results. Impairment losses recognised in interim periods in respect of goodwill, or an investment in eitheran equity instrument or a financial asset carried at cost, cannotbe

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reversed later on; and

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

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

Abridged financial statements

IFRS Condensed financial information can be prepared for interimreporting as discussed above.

Nigerian GAAP Company law in Nigeria permits companies to publish abridgedfinancial statements. However, the company code did notspecify the minimum disclosure requirements of such statement.Guidance available is geared towards ensuring comparability andstandardisation of the contents of abridged financial statements.

The guidance allows entities to, voluntarily, issue abridged financialstatements 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 inrespect of which the auditor issues a qualified report. They need tomeet 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 financialstatements;
- 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*

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material effect; and

- Comparative information.

Specialised reporting industries

The standards issued under IFRS are meant to begeneral with the intention that entities should be ableto apply them regardless of the industry to which theybelong. Similar transactions should be accounted for bydifferent entities in the same way with no discrepanciesarising because of industry. As a result there is very littleguidance in IFRS that is industry specific, with the twonotable 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 hasalso been issued. The industry-specificguidance is generally not followed in otherindustry groups in Nigeria, even where suchguidance could be applicable. This chapterwill focus on where this guidance differsfrom the general Nigerian GAAP and alsocontrasting it to the equivalent areas inIFRS.

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-bankingfinancial institutions. The liquidity presentation is comparable to IFRS. In addition, the guidance available for banks and non-bankfinancial institutions give prescribed balance sheet as well as profitand 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 yieldon the outstanding principal over the life of the credit at the interestrate applicable to the facility. Premiums and discounts are includedin the interest rate calculation.

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

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

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

Non-material fees can be recognised as incurred.

References:

IFRS: *IAS 18.*

Nigerian GAAP:*SAS 10, SAS 15.*

Interest expense

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IFRS Refer to the financial liabilities chapter on page 105.

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

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

References:

IFRS: *IAS 39.*

Nigerian GAAP:*Not applicable.*

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

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

Classification	Common type ofinstrument	IFRS	Nigerian GAAP
Amortised cost	Loans	Measured at amortised cost usingthe effective interest rate method.Transaction costs are included in theeffective interest rate method. Changes in fair value are notrecognised. **Impairment** Under IAS 39, impairments andreversals of impairment arerecognised in profit or loss using theincurred loss model. An amount of the impairment ismeasured as the difference betweenthe carrying value of the instrumentand the present value of estimatedfuture cash flows discounted at theasset's original effective interest rate. Interest is still charged based on theeffective interest rate.	In practice loans are carried at amortisedcost using a method similar to the effectiveinterest rate, based on the incomerecognition model described above. Changes in fair value are not recognised. **Provision for losses** Provisions for losses and reversals of theprovisions are recognised in profit or loss. Losses on loans are recognised based on athorough and systematic review of nonperformingloans. The provisions shouldalso consider areas where loans are stillperforming. Specific percentages are provided forraising provisions: • 180 days overdue – 50% provision

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			• 360 days overdue – 100% provision • A general 1% on all performing loans The above percentages are minimumpercentages and where there is a legalor statutory requirement to increase therate or decrease the period it should befollowed. For banks the Central Bank of Nigeria released prudential guidelines indicatingthat in addition to the above rates a 10%provision should be raised on all amountsoverdue by 90 days. A 1% generalprovision is also charged on loans deemedto be performing and hence not specificallyprovided for. When a loan is identified as nonperforming,interest is no longer chargedand recognised on a cash basis.
Fair value	Debt and equityinvestments	General Remeasured at each reporting dateto fair value. Any changes in fairvalue are recorded in profit or loss. **Exception for equity investments** Where an entity has an investmentin an equity instrument it can electto record the fair value movementsin other comprehensive income. Alldividends related to the	**Short-term investments** In the books of banks, these are carried atnet realisable value. Changes in value aretaken to profit or loss. Unit trusts, investments schemes and otherentities established for the sole purposeof trading in marketable

		investmentare recorded in profit or loss. Thosegains or losses recorded in othercomprehensive income are notrecycled to profit or loss at any pointin time. **Impairment** There is no need to test forimpairment as this is embodied inthe fair value.	securities carrysuch investments at market value with netcumulative gains being recognised in arevaluation reserve (equity).

References

IFRS: ***IFRS 9, IAS 39.***

Nigerian GAAP:SAS 10, SAS 15.

Interest expense

IFRS Refer to page 102.

Nigerian GAAP Guidance is provided to banking and non-banking financialinstitutions on identifying the sale of loans or securities with andwithout recourse. To be classified as a sale without recourse a salemust satisfy all of the following:

Control over the economic benefits of the asset must be passed on to the buyer;

The seller can reasonably estimate any outstanding cost; and

There must not be any repurchase obligations.

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

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

References:

IFRS:*Not applicable.*

Nigerian GAAP:*SAS 10, SAS 15.*

Impact of goodwill on dividends

IFRS This is not applicable.

Nigerian GAAP Based on guidance contained in the banking laws of Nigeria, abank is not permitted to declare dividends until all its preliminaryexpenses, organisational expenses, share selling commission,brokerage, amount of losses incurred and other capitalised expensesnot 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 goodwillas capitalised expenses not represented by tangible assets.

and otherFinancial InstitutionsAct (1991 amended).

Disclosure of risks arising from financial instruments

IFRS The entity shall disclose information enabling those who make useof financial statements to evaluate the nature and extent of risksarising from financial instruments to which the entity is exposed.Extensive disclosures are required, taking a 'through the eyes ofmanagement' approach.

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

References:

IFRS:*IFRS 7.*

Nigerian GAAP:*Central Bank ofNigeria circular onminimum informationto be disclosed infinancial statements.*

Related party transactions

Additional related party disclosure is required for banking and non-banking financialinstitutions. 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 orbusiness relationship between himself/herself(or his/her employer or a companyof which he/she is a director) and the first company or related company whichin either case may' reasonably be expected to give him/her access to informationwhich, in relation to securities of either company, is unpublished price-sensitiveinformation, and which it would be reasonable to expect a person in his/herposition 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 andthe non-performing component further analysed by security, maturity, performance,provision, interest-in suspense and name of borrowers as per the attached prescribedformat.
- Note to the accounts on guarantees, commitments and other contingent liabilitiesshould also give details of those arising from related-party transactions. The ExternalAuditors and Audit Committees should include in their reports their opinion onrelated-party transactions.

References

IFRS: *IAS 34.*

Nigerian GAAP:*Central Bank ofNigeria circularBSD/1/2004.*

Extractive industries

Scope

IFRS IFRS 6 deals with the exploration for and evaluation of mineralresources.

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This is applicable to entities dedicated to extractiveactivities (e.g. oil and gas and mining). The standard focuses on theexploration and evaluation phases only.

Nigerian GAAP Guidance exists for the upstream and downstream petroleumindustries. Activities of the petroleum industry can be dividedinto two broad categories, upstream and downstream. Upstreamactivities involve acquisition of mineral rights in properties,exploration, development and production of crude oil and gas.Downstream activities involve transporting, refining and marketingof oil, gas and derivatives.

Exploration and evaluation expenditure

IFRS IFRS 6 was issued to provide an interim solution for explorationcosts pending the outcome of the wider extractive industries projectby the IASB. Entities transitioning to IFRS can continue applyingtheir current accounting policy for exploration and evaluation. IFRS6 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 narrowone, and the impairment rules make the continuation of full costpast the exploration and evaluation phase a challenge.

An entity accounts for its E&E expenditure by developing anaccounting policy that complies with the IFRS Framework or inaccordance with the exemption permitted by IFRS 6. IFRS 6 allowsan entity to continue to apply its existing accounting policy undernational GAAP for E&E. The policy need not be in full compliancewith the IFRS Framework.

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

Two broadly acknowledged methods have developed in practiceto account for exploration and evaluation, and subsequentdevelopment costs. These methods are successful efforts and fullcost.

- Under the successful-efforts method, costs incurred in finding,acquiring and developing reserves are capitalised on a field-by-field basis. Capitalisedcosts 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-countrybasis, although sometimes countries may be grouped togetherif the fields have similar or linked economic or geologicalcharacteristics. These larger cost pools are then depleted on acountry basis as production occurs. If exploration efforts in thecountry or geologic formation are wholly unsuccessful, the costsare expensed.

Full cost, generally, results in a larger deferralof costs during exploration and development and increasedsubsequent 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 rightsacquisition, exploration, appraisal and development activitiesshould be capitalised irrespective of whether or not the activitiesresulted in the discovery or reserves. Such costs are usuallyamortised against successful finds on gross revenue or unit ofproduction basis.
- Under the successful-efforts method, costs incurred prior to theacquisition of mineral rights and other exploration activitiesnot specifically directed to an identifiable structure should beexpensed when incurred. All costs incurred on mineral rightsacquisition, exploration, appraisal and development activitiesshould be capitalised initially on the basis of wells, fields orexploration cost centres, pending determination. These costsshould 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 ofdevelopment and production expenditures. Accounting policiesapplied have developed from practice. Development expendituresare costs incurred to obtain access to proved reserves and to providefacilities for extracting, treating, gathering and storing the oil andgas. Development expenditures should generally be capitalized to the extent that they are necessary to bring the property tocommercial production, (Costs must provide future benefits to theentity in order to be capitalised.) Expenditures incurred after thepoint at which commercial production has commenced shouldonly be capitalised if the expenditures meet the asset recognitioncriteria. This will be where the additional expenditure enhances theproductive capacity of the producing property.

Nigerian GAAP As with exploration and evaluation expenditure, developmentexpenditure is accounted for using the full-cost or successful-effortsmethods.

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 UOPcalculation. 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, andshould be applied consistently.

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

Nigerian GAAP Comparable to IFRS, except that proved developed reserves shouldbe used for the units of production calculation. Mineral rightsacquisition costs which have not been allocated should be amortisedover the remaining life of the licence.

Impairment

IFRS IFRS 6 introduces an alternative impairment testing regimefor exploration and evaluation that differs from the generalrequirements for impairment testing set out in IAS 36. An entityassesses for impairment only when facts and circumstances suggestthat impairment exists. Indicators of impairment include, but arenot 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 impairmentprinciples contained in IAS 36. Refer to page 79.

The application of these impairment requirements is particularlyimportant for extractive entities that have decided to recognise allexploration and evaluation expenditure as an asset; they mightbe carrying significant amounts on the balance sheet in respectof projects for which the outcome is highly uncertain. Once animpairment trigger has been identified, the impairment assessmentis performed in accordance with IAS 36 – except that extractiveentities are allowed to group exploration and evaluation assets withproducing assets for the purposes of impairment testing, as long asthey establish an accounting policy for this.

Nigerian GAAP If the full-cost method is applied a ceiling test should be performedat least annually on a country-wide basis. Such tests should includethe discounted values for revenues, costs, estimated future taxes andestimated future development costs. The following assumptions areapplicable:

- 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 rateshould be 10%.
- Where accounts are prepared in Naira, the Central Bankrediscount rate should be used.
- Restoration and abandonment costs should be deductedin arriving at estimated future net revenues for ceiling testcalculation.

For the successful-efforts method, the net book value ofundepreciated mineral rights acquisition costs should be testedannually for impairment on a well-by-well basis. No guidance isprovided on how to calculate the impairment.

Decommissioning costs

IFRS The extractive industries can have a significant impact on theenvironment. Decommissioning or environmental restoration workat the end of the useful life of a plant or other installation may berequired by law, the terms of operating licences or an entity's statedpolicy and past practice. An entity that promises to remediatedamage, even when there is no legal requirement, may have createda constructive obligation and thus a liability under IFRS. Theremay also be environmental clean-up obligations for contaminationof land that arises during the operating life of a refinery or otherinstallation. The associated costs of remediation or restoration canbe significant. The accounting treatment for decommissioning costsis discussed on page 88.

Nigerian GAAP According to CAP P10 paragraph 36, Laws of the Federal Republicof Nigeria all abandonment programmes have to be approved oragreed by the head of the Petroleum inspectorate. There is thereforea legal requirement to rehabilitate the damage done.

Entities should make provision for restoration and abandonmentcosts less estimated salvage values based on the best availabilityestimate by:

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

References:

IFRS: *IFRS 6, IAS 16,IAS 21, IAS 36, IAS 37,IFRIC 1.*

Nigerian GAAP:*SAS14.*

Functional currency

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

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

Downstream activities

Scope and definition

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

Nigerian GAAP SAS 17 provides guidance for downstream activities. The Standardprovides a guide on accounting practices and reporting formats tobe followed by companies operating in the downstream sector ofthe Nigerian petroleum industry. Such companies include thoseengaged in:

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

Downstream activities refer to those activities that take place fromreceipt of crude oil into crude oil tanks or gas into petrochemicaltanks to the transportation of refined products to the final userof processed products to secondary industries. These activitiesencompass transporting, refining, liquefaction of natural gas,distributing and marketing of refined petroleum products, gas andderivatives.

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 principlesin the IFRS framework IAS 16 and IAS 2 are used in this case.Catalysts are usually accounted for as inventory and recorded atthe lower of cost or net realisable value. These are expensed asconsumed.

Nigerian GAAP The standard requires catalysts to be separated into short-life (lastsfor 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 theyare incurred while costs of long-life catalysts are capitalised andwritten off over the life of the refinery. Where long-life catalysts areregenerated, the costs of regeneration should be capitalised andamortised over the life of the regeneration.

Turn-around maintenance

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

IFRS Major overhauls of a refinery, petrochemical plant or similar itemof PPE can be capitalised to the extent that the useful life of the PPEgets 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 usuallycapitalised and amortised over the expected period before the nextturn-around maintenance.

Standby equipment

IFRS Spare parts and servicing equipment are usually carried as inventoryand recognised in profit or loss as consumed. However, majorspare parts and standby equipment qualify as property, plant andequipment when an entity expects to use them during more thanone period. Similarly, if the spare parts and servicing equipmentcan be used only in connection with an item of property, plant andequipment, 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 ofproduct to be maintained in them in order for them to operateefficiently (linefill). Such products are capitalised as part of the PPEand amortised over the useful life of the related asset.

Depreciation on PPE begins when the asset is available for use.

Nigerian GAAP Costs associated with turn-around maintenance costs are usuallycapitalised and amortised over the expected period before the nextturn-around maintenance.

Depreciation of plant and equipment

IFRS Refer to the depreciation guidance on page 63.

Nigerian GAAP The costs of refining or petrochemical plant and equipment shouldbe depreciated on a straight-line basis over the useful life of theassets or, if operating at normal levels of production, on the basisof expected throughput. The method used should be disclosed andconsistently applied.

There is no requirement to split items of PPE into its components anddepreciate same over their useful life, taking into account residual values.

References:

IFRS: *IAS 16.*

Nigerian GAAP:*SAS 17.*

Debottlenecking, major plant rehabilitation and replacement ofmajor components

IFRS When items qualify for capitalisation they are depreciated followingthe guidance on page 63.

Nigerian GAAP Comparable to IFRS.

Where major plant rehabilitation, debottlenecking or replacementof major components result in a significant and identifiable increasein output or betterment of the plant, the costs are capitalised andamortised over the period over which the benefit is expected to last.

In any other case, such costs are expensed as incurred.

Telecommunications

General

IFRS No specific guidance exists for the telecommunications industryunder IFRS. The basis for the accounting is based on the generalaccounting rules.

Nigerian GAAP The objective of the telecommunications standard is to streamlinethe accounting practices within the telecommunications industry asmost telecommunication operators come from different countries.This standard is also aimed at ensuring the comparability andusefulness 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

OR&C

- Calculation and treatment of impairment.

Issues related to revenue

Revenue recognition and measurement

IFRS The standard dealing with revenue is generic and is applied to allentities, 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 andreceivable. The revenue shall be measured at the fair value of theconsideration received or receivable.
- Revenue is calculated based on usage.
- Revenue for transactions that are artificial or lack commercialsubstance are not recognised.
- Connection fees are recognised immediately unless the contractstates that the connection fee is for a certain period. In this casethe connection fee shall be deferred and recognised over thatperiod.
- Interconnection fees are calculated at an agreed rate of the callcharges and recognised by the terminating operator as earned.

Deferred or unearned revenue

IFRS Amounts received in advance, as consideration for goods or servicesnot yet provided, are deferred and recognised when the recognitioncriteria 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 ofrendering services.

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

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

If there is no contract stating the service period, the revenue cannotbe deferred and is usually recognised immediately.

Multiple element / bundled transactions

IFRS Refer to page 49 for detailed guidance on multiple elementtransactions under

OR&C

IFRS.

In the telecommunications industry the separation of componentsis often required; for example a mobile phone network packageswithin a single contract contain a handset, line rental and pre-paidcalls. These three products and services are also available separatelyand their stand-alone retail prices are a good guide to determinethe fair value of the consideration received for each component. Atthe start of the contract, the handset is delivered, but provision ofthe line rental and pre-paid calls will be outstanding. Thus revenueis recognised immediately for the handset, but revenue for the linerental and pre-paid calls is deferred. The revenue from line rentalwill be recognised over the rental period and revenue from the callswill be recognised on a usage basis.

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

Nigerian GAAP

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

Where a multiple element arrangement includes the sale ofequipment along with long-service items, the key issue is to identifywhether any proceeds in respect of the equipment that was soldupfront should be accounted for as revenue or be deferred. It isexpected that the sale of equipment is accounted for separately as ithas stand-alone value to the customer.

When the selling price of the product includes an identifiableamount for subsequent servicing, that amount is usually deferredand recognised as revenue over the period during which the serviceis performed.

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

If it is clear that the ongoing service is the principal service providedand where related equipment is secondary, revenue must berecognised to ensure that a reasonable margin is earned on bothcomponents.

Exchange of capacities / barter transactions

IFRS

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

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

Nigerian GAAP Exchanges of similar values and little or no cash, or where capacityis sold wholly or in part for cash and at the same time purchasecapacity for a similar value (reciprocal transactions) are consideredto be artificial and lacking in substance and therefore no accountingis applied.

An entity that sells capacity on its network to another entityrecognises 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 entityshould account for assets received from a customer in return forconnection to a network and/or ongoing access to goods or services.The same accounting applies if the customer transfers cash to theentity and that cash is to be used only to build an asset that in turnis to be used to connect the customer to a network and/or provideongoing access to goods or services; or the customer pays a thirdparty to provide the connection service, who then transfers the

connection asset to the network entity upon completion. If it meetsthe definition of an asset the asset received is recognised initially atfair value. If this asset is in exchange for a single service the revenueis recognised once the service is performed. If there is more thanone service the entity has to allocate revenue and apply recognitioncriteria 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 thefollowing 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 athird 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

GAAP ofdecommissioning and dismantling costs is included in the cost of an item of property, plant and equipment. Subsequent changes tothis estimate shall be added to or deducted from the item's cost.The carrying amount is subsequently depreciated over its remaininguseful life. This is comparable to IFRS.

The liability is adjusted for the time value of money and increases inthe liability recognised as an expense in the profit and loss accountof each period. The adjustment for time value of money is consistentwith IFRS, which states that the periodic unwinding of the discountshall be recognised in profit or loss as a finance cost as it occurs. Thetreatment of other changes to the liability differs from IFRS, wherethe changes affect the carrying value of the PPE.

Componentisation

IFRS Refer to page 63.

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

Intangible asset related issues

Subscriber acquisition costs

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

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

Nigerian GAAP Subscriber acquisition costs are those costs that are directlyattributable to establishing specific subscriber contracts and wouldnot have been incurred had that specific contract not been enteredinto.

These costs are usually expensed as incurred however it is possibleto recognise these costs as intangible assets when the followingconditions are met:

- The operator by means of an enforceable contract, controls thefuture 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 bemeasured reliably.

Once capitalised, the costs are amortised over the specific period ofthe contract. If the contract with the acquisition costs is terminatedearly, then the net book value of the intangible asset is usuallyregarded as impaired.

Licenses

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

Nigerian GAAP Licences are accounted for based on time or usage. Where thelicences are capitalised, they are usually amortised over the periodof the licence using the straight-line method unless another patterncan be reliably determined.

Impairment loss on licences is usually recognised immediately inthe profit and loss account. No guidance exists on determining therecoverable amount.

Right to use arrangements

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

Indefeasible-Right-of-Use (IRU) arrangements that transfersubstantially all of the risks and rewards of ownership to thebuyer should be capitalised as a leased asset in PPE. The ongoinginvolvement of the seller, for example through the supervision ofaccess, needs to be assessed in determining where the risks andrewards of ownership rest.

An IRU often contains multiple elements such as Operationsand Maintenance (O&M) and co-location agreements. Separatecontracts may be executed for each element, with cash flows fromthe buyer to seller associated with each separate contract. Thecontracts must be considered together when determining cost ofassets acquired and the costs that are operating expenses. Therelative fair value of each element of the arrangement should bedetermined and the same proportion of cost (cash paid, discountedas appropriate) allocated to the element. The IRU assets should becapitalised based on their relative fair value. The costs of associatedO&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 theagreement.

Nigerian GAAP A seller does not recognise a sale of asset for the right of use butrecognises rental income which is recognised on a straight-line basisover 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 measuredreliably; and
- No significant risks have been identified.

Where the transaction is reported as a sale of an asset, the proceedsare reported as turnover only if the assets were designated as heldfor 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 onfixed assets.

Biological assets and agricultural produce

Definition and scope

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

A biological asset is a living animal or plant.

Agricultural produce is the harvested product of an entity'sbiological assets.

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

Nigerian GAAP There are no definitions included; however, guidance is provided inthe 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 isprobable that future economic benefits associated with the asset willflow to the entity; and iii) the fair value or cost of the asset can bemeasured reliably.

Nigerian GAAP No specific guidance is provided.

Initial measurement

IFRS Biological asset shall be measured on initial recognition at its fairvalue less costs to sell. If the presumption that the fair value ofa biological asset can be measured reliably is rebutted on initialrecognition because the market-determined prices or values are notavailable and alternative estimates of fair value are determined to beclearly unreliable, the biological asset is measured as its cost.

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

Gains or losses on initial recognition of biological assets andagricultural produce are recognised in profit or loss in the periodthey arise.

Nigerian GAAP Refer to the subsequent measurement section below. No separateguidance provided.

Subsequent measurement

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

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

Nigerian GAAP Specific rules on arable stocks are provided in the stocks Standard.

The value of such stocks would include the cost of tillage, plantingand nurturing plants to harvesting stage. The valuation of arablestock is based on cost where an adequate record-keeping andappropriate cost accounting system exists. Otherwise, valuationshould be based on net realisable value. Reasonable provision fordeterioration or normal spoilage should be made for perishablefarm products. Where practical, the costs should be accumulatedseparately 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 consistsof the proportion of cost accumulated for the quantities harvestedplus the cost of extracting and transporting them to the point ofsale. The same treatment is applied to the products of fruit trees,regardless of whether the scale is sufficiently large to be normallyregarded as plantation The first cost includes the amortisation ofcosts accumulated during the preparation, planting, pruning anddevelopment of the plantation up to the maturity/beginning ofbearing fruits, which are then amortised over the productive life ofthe plantation. These accumulated costs can either be separatelyaccumulated per lot/batch or based on average costs. On the otherhand, produce of plantation crops that are annual crops which yieldproduce within the first year of being planted are valued in the samemanner as arable products.

One of the following methods should be used and should be appliedconsistently when valuing livestock: cost method, net realizable value (value is based on expected return allowing for costs offattening, preparation for sale and selling) or appraised value (valueis determined by a professional valuer, taking into considerationthe current market value, the mortality factor and the relativemarketability of the breed or class of stock). Where livestock israised primarily for its products rather than consumption, the costsof bringing such livestock to the point of maturity at which theybegin to yield products should be capitalised and then amortisedover 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 reportingfor insurance contracts by any entity that issues such contracts.This includes insurance contracts issued and reinsurance contractsheld. It also applies to financial instruments that are issued witha discretionary participation feature. Some other items, such aswarranties issued directly by manufactured, retailer or dealer, arespecifically excluded from the scope of IFRS 4. Unless a derivativeembedded in insurance contracts is also an insurance contract, itfalls outside the scope of IFRS 4. There are some further exemptionsfrom the requirement to separate the embedded derivative, forexample deposit components included in an insurance contractmay or may not need to be unbundled based on certain criteria. Thestandard applies to all insurance contracts regardless of the businessof the issuer. Furthermore the substance, rather than the legalform, of the contract is important to determine whether IFRS 4 isapplicable (to insurance contracts as defined below or to investmentcontracts with discretionary participation features) or whetherthe contract falls within the scope of IAS 39 or IFRS 9 (known asinvestment contracts).

The IASB released an exposure draft proposing a comprehensivestandard to address recognition measurement, presentation anddisclosure for insurance contracts. The Board expects to issue thefinal standard in mid 2011, but has not proposed an effective date.

Nigerian GAAP

The statement does not apply to all insurance contracts, but isintended for non-life and life assurance undertakings. SAS 16states specifically that the standard applies to financial statementsprepared in accordance with the requirements of the Companiesand Allied Matters Decree, 1990 and the Insurance Decree, 1997.The activities of friendly societies, pension or provident funds, lossadjusters and insurance brokers/agents are specifically excluded.Investment contracts are included in the scope of the standard inso far as they are recognised as an activity integral to insurancebusiness.

Definition

IFRS

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

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

Nigerian GAAP

Two types of insurance businesses are identified:

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

- Life assurance: an insurance business under which, inconsideration for a premium, the company undertakes to pay anagreed benefit primarily on the survival of the policyholder to aspecified age or on death. Thus life assurance, other than terminsurance, is normally an assurance that a benefit will be paidon the occurrence of a specified event that will definitely takeplace, but the timing of which may be uncertain. Life assurancebusiness includes whole life, endowment, annuity, pension,permanent disability, capital redemption and pension fundmanagement business. It is also called long-term business.

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

Recognition

IFRS

An insurance obligation arises from a contractual relationshipbetween the company and the policyholder. This contract must existat the statement of financial position date in order to recognise aninsurance liability – IFRS 4 prohibits the creation of liabilities forpotential claims that may arise under future contracts. Liabilities ofthis type are often called catastrophe or equalisation provisions andare created when a liability is built up over time to be used on theoccurrence of a future catastrophic loss covered by current or futurecontracts. They are prohibited as they do not meet the definition of aliability under the Framework.

Nigerian GAAP

General:

The annual basis of accounting is applied. Under this basis, theresults disclosed in the financial statements include the resultof the current accounting period and adjustments, if any, madeto estimates used in determining the underwriting result of theprevious accounting period.

If it is not possible to determine the underwriting result withreasonable certainty until the following accounting period, thedeferral annual basis should be adopted. There are two variants ofdeferral annual basis.

- Under the first variant, items relating to business written inan accounting period are accounted for one year in arrears.Therefore, the results will relate to transactions conducted in theprior year and to adjustments made to estimates used in arrivingat the result of the previously closed years. Current year items aredeferred however, a provision for anticipated losses in respect ofbusiness written in the current year is usually made.
- Under the second variant, underwriting transactions arerecognised in the accounting period in which they are notified.However, the total net revenue at the end of the accountingperiod, adjusted for anticipated losses, is not recognised andis carried forward as a fund to the next period. Therefore, theunderwriting results for the period will include the result of theclosed year, adjustments to estimates of previously closed yearsand provision for expected losses for the open year. The fundat the end of the accounting period will include outstandingliabilities for closed years, the net income of the open year andany provisions for anticipated losses thereof.

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

Life assurance:

The fund accounting basis is applied. Under this basis, a fund iscreated for each underwriting year. Premiums on business writtenduring the year and the related claims or expenses are posted tothe fund. The fund for each year will remain open until there isenough information to determine the underwriting results. Noprofit is recognised for open years but provisions are usually madefor anticipated losses. The underwriting results at the end of theaccounting period will include results of the underwriting yearsclosed during the period, adjustments to estimates of the previouslyclosed years and anticipated loss in respect of the open year. Thefund at the end of the accounting period will include outstandingliabilities for closed years, the net income for each open year andprovisions for anticipated losses. The life fund balance is reported asa liability on the balance sheet of the entity.

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

Measurement

IFRS IFRS 4 allows entities to continue to use their existing accountingpolicies to measure liabilities arising from insurance contracts aslong as the existing policies meet certain minimum requirementsset out in IFRS 4, the most significant of which relates to theperformance of liability adequacy tests.

The minimum requirement needed for a liability adequacy test tocomply with IFRS 4 is that it should consider current estimates ofall contractual cash flows and of related cash flows such as claimshandling costs, as well as cash flows resulting from embeddedoptions and guarantees. If the recognised liability is inadequate inthe light of the estimated future cash flows, the entire deficiencymust be recognised in profit or loss. If the accounting policies usedby the entity do not specify a liability adequacy test, the insuranceliability’s carrying amount (less any related deferred acquisitioncosts and other insurance related intangible assets) should becompared to the provision that would be required if the relevant insurance liabilities were measured using IAS 37. If the net carryingamount of the liability is insufficient when compared with the IAS37 measurement, the entity should increase the liability or reducethe related assets and recognise the difference in profit or loss. If theinsurer’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 withthe provision that would be required by IAS 37, should be done foreach portfolio of contracts. A portfolio includes all contracts that aremanaged together and that are subject to broadly similar risks.

As far as accounting policy changes are concerned, the entity willonly be allowed to change existing accounting policies for insurancecontracts where the change results in presenting information thatis more relevant and no less reliable, or more reliable and no lessrelevant than before. The criteria in IAS 8 are used to determinewhether a change in policy would result in more relevant or reliableinformation. IFRS 4 provides relief from full compliance with IAS8 as long as the change moves the entity closer to meeting thosecriteria. If such accounting policy changes are contemplated, refer to the guidance in IFRS 4 on the following specific areas: currentinterest 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 themeasurement of insurance elements. Where available, the specific treatment of premiums, claims, expenses and liabilities is includedin the relevant sections below.

Derecognition

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

Nigerian GAAP See guidance below for maintaining insurance funds (life and nonlifebusinesses). In practice, due to the revenue recognition methoddescribed below for life businesses, liabilities relating certain typesof life business (group life) continue to be carried as liabilities evenafter the liability has been extinguished.

Premium

IFRS No specific guidance is given in IFRS 4. IFRS 4 exempts entitiesfrom the requirement to choose accounting policies for insurancecontracts that are consistent with the IFRS framework and otherstandards. Therefore, in general, recognition and measurement ofpremiums will be consistent with local GAAP for insurance contractsas long as those policies meet the minimum requirements of IFRS 4.

Nigerian GAAP **General:**

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

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

Written premiums, defined as premiums in respect of contractswhich commence during the accounting period, that do not relateto the risk for the current accounting period, should be carriedforward as unearned premium. Therefore, the earned premiums arewritten premiums adjusted for the unearned premium provisionsat the beginning and at the end of the accounting period. Unearnedpremium will be regarded as earned in a subsequent period.

Life assurance:

Premiums are recognised and credited to the fund when due forpayment from policyholders. No allocation of premium betweenaccounting periods is necessary as premiums are not recognised inthe profit and loss account.

The explanatory note to SAS 16 states that depending on the typeof 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 asliabilities. This is in line with IFRS 4's scope, which treats investmentcontracts as financial liabilities (IAS 39). Under Nigerian GAAP,interest accruing to the life assurers from the investment of suchdeposits is recognised as income in the period earned and interestpaid to the depositor is recognised as expense.

The explanatory note to SAS 16 suggests that if the acceptanceof premiums does not give rise to the creation of immediatecorresponding liabilities, they are considered revenue, e.g. for termassurance. As also stated in the explanatory note to SAS 16, in thecase of products with a savings component and an amount for risk(e.g. death) whose elements are difficult to separate, the premium istreated as a revenue item.

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

Claims

IFRS

No specific guidance is given in IFRS 4. IFRS 4 exempts entitiesfrom the requirement to choose accounting policies for insurancecontracts that are consistent with the IFRS framework and otherstandards. Therefore, in general, recognition and measurement ofclaims will be consistent with local GAAP for insurance contracts aslong as those policies meet the minimum requirements of IFRS 4.

Nigerian GAAP

General:

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

Adequate provisions should be made for the settlement of claimsincurred but not reported by the end of the accounting period. Theseclaims result from events that occurred by the end of the accountingperiod but which have not been reported by the insured to theinsurer at that date. The estimate is based on the latest informationavailable at the time of preparing the financial statements and onother factors such as trends in the economy, previous experiencein claims notification and changes in volume or mix of risksunderwritten. It includes estimated associated claims handlingexpenses. Amounts recoverable through salvage or subrogationshould be used to reduce claims incurred. The Insurance Act (1997)currently requires that a 10% provision on outstanding claims atreporting date be made to cover claims incurred but not reported(IBNR).

Life assurance:

Claims due or notified during a period are charged to the fundin that period. The expense is determined in the same way asfor general insurance. Claims handling expenses are charged torevenue when incurred. There is, however,

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no requirement to makeprovisions for IBNR.

Expenses

IFRS No specific guidance is given in IFRS 4. IFRS 4 exempts entitiesfrom the requirement to choose accounting policies for insurancecontracts that are consistent with the IFRS framework and otherstandards. Therefore, in general, recognition and measurement ofexpenses will be consistent with local GAAP for insurance contractsas long as those policies meet the minimum requirements of IFRS4. However, remember that the IFRS Framework and IAS 1 relateto insurance companies too for their non insurance transactions;particularly the definition of expenses, general recognition criteriaand the accrual principle are applicable to expense recognition andmeasurement.

Nigerian GAAP

General:

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

Maintenance expenses are those incurred in servicing existingpolicies/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 renewinginsurance contracts, including commissions or brokerage paidto agents or brokers and indirect expenses such as salaries inunderwriting staff. These costs should be deferred to the extent thatthey relate to unearned premiums. The deferred portion is computedby applying to the acquisition expenses the ratio of unearnedpremium to written premium. The movement in deferred acquisitionexpense between two periods is expensed in the revenue account.Deferred acquisition expenses should be determined separately foreach class of business. Where it is difficult to associate an acquisitioncost with the related premium revenue, such cost is usually expensedwhen incurred.

Claims are discussed in more detail in the relevant section.

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

Life assurance:

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

Liabilities

IFRS No specific guidance is given. Refer to general minimum recognitionand measurement criteria of insurance contracts, specifically therequirement that insurance liabilities meet the liability adequacytest. Adjustments resulting from the application of the liabilityadequacy test are taken to profit and loss. However, remember thatthe IFRS Framework, IAS 1, IAS 37 and IAS 39 relate to insurancecompanies too for their non-insurance transactions; particularlythe definition of liabilities, general recognition criteria, the accrualprinciple and the recognition and measurement of provisions andfinancial instrument guidance are applicable to liability recognition and measurement.

Nigerian GAAP

General:

A provision for unearned premiums has already being discussedabove under premiums.

An unexpired risks provision should be made for the estimatedamounts required over and above provisions for unearned premiumsto meet the total of anticipated claims and related expenses onbusinesses in force at the end of the period. It should be determinedbased on the underwriting experience of each class of business.The provision can be recognised in two ways of which the firstalternative is usually preferred:

- Provision is made for the entire shortfall in the unearnedpremium provision and deferred acquisition expenses are beingcarried forward separately.
- Deferred acquisition expenses are written off to the revenueaccount and provision is made for the remaining shortfall.

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

Life assurance:

Policy liabilities refer to the policyholders' interest in the lifeassurance business and are the amount which is required by the lifeassurer to meet obligations under existing contracts. Their amountis determined by actuarial valuation. For protection policies, thisvaluation is determined after considering the length of the contractperiod, assumptions on human mortality, interest rate level, andall related expenses in accordance with general accepted actuarialprinciples. For savings contracts, the liability is determined by theaccrued benefits of relevant policyholders.

If a valuation surplus (net assets representing the life fund balanceexceed the actuarially assessed policy liabilities) arises as a resultof such valuation, it should be shared between the 'with-profit'policyholders and shareholders in accordance with the advice of theactuary and subject to the legal provision that shareholders interestin surplus should not be more than 40 percent of the surplus. Theshareholders portion constitutes their profit from the life assurancebusiness and is therefore transferred to the profit and loss account.The insurer's share of the surplus is charged as a deduction from thelife fund.

A valuation deficiency (actuarially assessed liabilities exceed thenet assets representing the life fund) should be transferred from theprofit and loss account and is therefore borne by the shareholders.

As earlier stated, the principles of fund accounting apply to all lifebusiness including those of a term nature. Group life insurancepolicies are classed as life business and usually cover life for aspecified tenure (normally one year).

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

Reinsurance

IFRS Reinsurance assets may not be offset against the related insuranceliabilities. The same applies to income and expense from reinsurancecontracts which may not be offset against the expense or incomefrom related insurance contracts.

Nigerian GAAP There is no specific guidance in SAS 16 on offsetting reinsuranceassets against related liabilities. In practice, these are disclosedseparately in the financial statements of insurance and are not offset.Amounts due from insurers, reinsurers and brokers are disclosedas assets (receivables) while amounts due to these same parties aredisclosed 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 statementsunderstand the impact on the financial statements of amounts arising from insurance contracts. Disclosure is particularly importantfor information relating to insurance contracts as insurers cancontinue to use local GAAP accounting policies. The diversity oflocal GAAP would result in difficulty in comparing the financialperformance of insurers without extensive disclosure. IFRS requiressignificant disclosures for insurance contracts. These disclosurescan be classified into two categories based on their purpose: (i)information that identifies and explains the amounts in the financialstatements 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 andexplain 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, reinsuranceassets and, if any, related deferred acquisition costs.

The following specific disclosures are required to enable anevaluation of the nature and extent of risks arising from insurancecontracts:

- The insurer's objectives, policies and processes for managingrisks arising from insurance contracts and the methods used tomanage those risks;
- Information about insurance risk, both before and aftermitigation 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 thatIFRS 7 would require if the insurance contracts were in IFRS 7'sscope. However, a maturity analysis is not required if the entitydiscloses information about estimated timings of the net cashoutflows resulting from insurance liabilities.
- Information about exposures to market risk arising fromembedded derivatives contained in the host insurance contract ifthe insurer is not required to, or does not, measure the embeddedderivatives at fair value.

Nigerian GAAP

The main difference compared to IFRS is that Nigerian GAAPdoes not require disclosure on the nature and extent of risks orassumptions used in the measurement of recognised amounts.Neither is a reconciliation of changes in insurance assets andliabilities required. The disclosure of accounting policies isrequired too and Nigerian GAAP provides detailed guidance on thedisclosure of recognised income, expenses, assets, liabilities andequity 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 disclosurerequirements do not only include insurance contract related items,but all items recorded in the financial statements of insurers. Apartfrom the general disclosure requirements in SAS 2, the followingdisclosure is required:

General:

A revenue account for each class of insurance business undertakenis required in the financial statements. The general business revenueaccount is a component of the profit-and-loss account as the netunderwriting results from the revenue account is the opening line inthe general business profit-and-loss account. This revenue accountshould 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 thefollowing income and expense captions (unless included in therevenue 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. Thebalance sheet or related notes should include the following asset andliability 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 sharecapital, statutory contingency reserves, capital reserves andgeneral 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 thefollowing income and expense captions (unless included in therevenue 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, managementexpenses 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 fundaccounting apply. Where the income and expenses are disclosed inthe profit-and-loss account, the net underwriting results are stilltransferred to the life fund account, leaving a zero impact on theprofit and loss for the period. Actuarial deficits are also reflected asdeductions while shares of actuarial gains are reported as gains inthe profit-and-loss account.

In order to ensure that the policyholders bear their equitable portionof expenses, management expenses are apportioned between thelife underwriting activities and the shareholders. The managementexpenses disclosed in the revenue account are the portionattributable to policyholders.balance sheet or related notes should include the following asset and liability captions:

- Assets: cash, short-term investments, debtors, loans topolicyholders, long-term investments, statutory deposit and fixedasset;
- Liabilities: creditors and accruals, outstanding claims, insurancefunds (life fund) and deposit administration; and
- Shareholders' Funds: called-up share capital, statutorycontingency reserves, general reserves and retained earnings /accumulated losses.

Composite business (life and general):

If an insurer carries on a life and general business, the disclosurerequirements for both should be followed. Additionally, the financial statements should include a separate life balance sheet.

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Appendix A:

Comparison of similar IFRS standards to their closest Nigerian GAAP equivalents

IFRS standards and IFRIC interpretations	Closest Nigerian GAAP equivalent
Accounting framework	No equivalent
IFRS 1 First-time Adoption of International Financial Reporting Standards	No equivalent
IFRS 2 Share-based Payment	No equivalent
IFRS 3 Revised Business Combinations	SAS 26
IFRS 4 Insurance Contracts	SAS 16 Accounting for the insurance business
IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations	No equivalent
IFRS 6 Exploration for and Evaluation of Mineral Resources	SAS 14 Petroleum industry: upstream activities
IFRS 7 Financial Instruments: Disclosures	No equivalent
IFRS 8 Operating Segments	SAS 24 On segment reporting
IFRS 9 Financial Instruments	SAS 13 Accounting for investments
IAS 1 Revised Presentation of FinancialStatements	SAS 2 Information to be disclosed in financialstatements
IAS 2 Inventories	SAS 4 On stocks
IAS 7 Cash Flow Statements	SAS 18 On statement of cash flows
IAS 8 Accounting Policies, Changes inAccounting Estimates and Errors	SAS 1 Disclosure of accounting policies SAS 6 Extraordinary items and prior yearadjustments
IAS 10 Events after the Balance Sheet Date	No equivalent
IAS 11 Construction Contracts	SAS On construction contracts
IAS 12 Income Taxes	SAS 19 Accounting for taxes
IAS 16 Property, Plant and Equipment	SAS Accounting for property, plant andequipment SAS 9 Accounting for depreciation
IAS 17 Leases	SAS 11 On leases
IAS 18 Revenue	No equivalent
IAS 19 Employee Benefits	SAS 8 Accounting for employees retirementbenefits
IAS 20 Accounting for Government Grantsand Disclosure of Government Assistance	No equivalent
IAS 21 The Effects of Changes in ForeignExchange Rates	SAS 7 On foreign currency conversions andtranslations
IAS 23 Borrowing Costs	No equivalent
IAS 24 Related Party Disclosures	No equivalent
IAS 26 Accounting and Reporting byRetirement Benefit Plans	SAS 8 Accounting for employees retirementbenefits

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IFRS standards and IFRIC interpretations	Closest Nigerian GAAP equivalent
IAS 27 Revised Consolidated and SeparateFinancial Statements	SAS 27 On consolidated and separatefinancial statements
IAS 28 Investments in Associates	SAS 28 On investments in associates
IAS 29 Financial Reporting inHyperinflationary Economies	No equivalent
IAS 31 Interests in Joint Ventures	SAS 29 In interests in joint ventures
IAS 32 Financial Instruments: Disclosureand Presentation	No equivalent
IAS 33 Earnings Per Share	SAS 21 On earnings per share
IAS 34 Interim Financial Reporting	SAS 30 On interim financial reporting SAS 20 Abridged financial statements
IAS 36 Impairment of Assets	No equivalent
IAS 37 Provisions, Contingent Liabilitiesand Contingent Assets	SAS 23 Provisions, contingent liabilities and contingent assets
IAS 38 Intangible Assets	SAS 22 On research and development costs
IAS 39 Financial Instruments: Recognitionand Measurement	No equivalent
IAS 40 Investment Property	SAS 13 On accounting for investments
IAS 41 Agriculture	SAS 4 On stocks
No equivalent	SAS 10 Banks and non-bank financialinstitutions, part 1
No equivalent	SAS 15 Banks and non-bank financialinstitutions, part 2
No equivalent	SAS 17 Petroleum industry: downstreamactivities
No equivalent	SAS 25: On telecommunications activities
SIC 7 Introduction of the Euro	No equivalent
SIC 10 Government Assistance – NoSpecific Relation to Operating Activities	No equivalent
SIC 12 Consolidations (Updated to January2007) – Special Purpose Entities	No equivalent
SIC 13 – Jointly Controlled Entities – Non-monetaryContributions by Ventures	No equivalent
SIC 15 Operating Leases – Incentives	No equivalent
SIC 21 Income Taxes – Recovery ofRevalued Non-Depreciable Assets	No equivalent
SIC 25 Income Taxes – Changes in TaxStatus of an Enterprise or its Shareholders	No equivalent
SIC 27 Evaluating the Substance ofTransactions Involving the Legal Form of aLease	No equivalent
SIC 29 Disclosure – Service ConcessionArrangements	No equivalent
SIC 31 Revenue – Barter TransactionsInvolving Advertising Services	No equivalent
SIC 32 Intangible Assets – Web Site Costs	No equivalent
IFRIC 1 Changes in ExistingDecommissioning, Restoration	No equivalent

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IFRS standards and IFRIC interpretations	Closest Nigerian GAAP equivalent
and SimilarLiabilities	
IFRIC 2 Members Shares in Co-operativeEntities and Similar Instruments	No equivalent
IFRIC 4 Determining whether anarrangement contains a lease	No equivalent
IFRIC 5 Rights to Interests arising fromDecommissioning, Restoration andEnvironmental Rehabilitation Funds	No equivalent
IFRIC 6 Liabilities Arising from Participatingin a Specific Market – Waste Electrical andElectronic Equipment	No equivalent
IFRIC 7 Applying the restatement approachunder IAS 29 Financial Reporting inHyperinflationary Economies	No equivalent
IFRIC 8 Scope of IFRS 2	No equivalent
IFRIC 9 Reassessment of EmbeddedDerivatives	No equivalent
IFRIC 10 Interim Financial Reporting andImpairment	No equivalent
IFRIC 11 IFRS 2 – Group and TreasuryShare transactions	No equivalent
IFRIC 12 Service ConcessionArrangements	No equivalent
IFRIC 13 Customer Loyalty Programmes	No equivalent
IFRIC 14 IAS 19 – The Limit On ADefined Benefit Asset, Minimum FundingRequirements and Their Interaction	No equivalent
IFRIC 15 Agreements for the Constructionof Real Estate	No equivalent
IFRIC 16 Hedges of a Net Investment in aForeign Operation	No equivalent
IFRIC 17 Distributions of Non-Cash Assetsto Owners	No equivalent
IFRIC 18 Transfer of Assets fromCustomers	No equivalent
IFRIC 19: Extinguishing financial liabilitieswith equity instruments	No equivalent

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