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NBAA & BOT

SEMINAR ON FINANCIAL RESPONSIBILITY

Bitcoin value

Business performance

Understanding Business Performance
Through Profit and Loss Account.

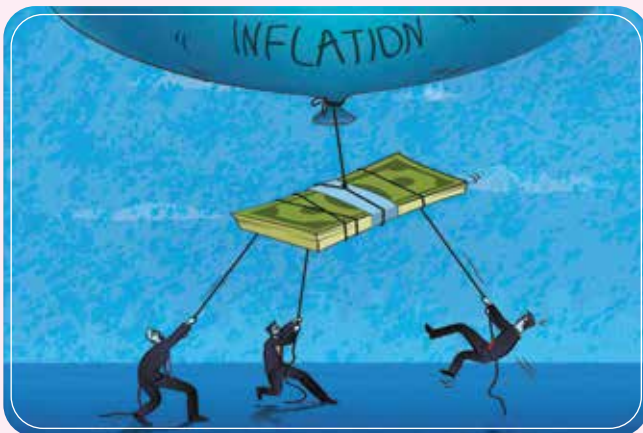
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USING LIFO OR FIFO**

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PUBLISHERS

National Board of Accountants and Auditors
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Mahakama Road, "Audit House," 8th floor
P.O. Box 1271, 41104 Tambukareli, Dodoma
Tel: +255 26 2160170-4
Email:- info@nbaa.go.tz

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GRAPHIC DESIGNER

Robert Kiatu

CONTACT:-

+255 715 89 9495 / +255 755 89 9495
Email:- rkiatu1@gmail.com
Dar es Salaam, Tanzania

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From the Executive Director's Office

Greetings

"We are focused on developing new products and initiatives that will move our profession forward. Let's continue to innovate and create solutions that can help us reach our goals. Today, we have a variety of projects and initiatives that are focused on promoting the accountancy profession. This is an exciting opportunity for us to create something great together. We are all part of the same team and should celebrate our successes together as accountants and

auditors. Let's take a moment to recognize and appreciate the small wins that we have achieved as a team. Our success in large part is due to the hard work of our teams and individuals. Let's take a moment to appreciate their efforts and applaud them for their accomplishments."

One of the major accomplishments this time is an inauguration of NBAA-VN. This is a Verification Number introduced by the Board for the following purposes:

- ✓ Collect audited financial statements (data base)
- ✓ Generate NBAAVN that will be used by users of financial statements

- ✓ Centre for checking/ comparison of the authenticity of the audited financial statements
- ✓ Measure for transparency, integrity and accountability of preparers, auditors and to the users of the financial statements
- ✓ Bases for audit quality review
- ✓ Bases for risk assessment for Anti-money Laundering and Combating the Financing of Terrorism

Greetings and welcome to January-June 2025 Issue no.013. We are delighted to see you as a part of our community. Feel free to discover, interact, and collaborate with us to create something wonderful. You are welcome to share your ideas, opinions, suggestions or any other important information which you would like to share with others in the next Issue.

 **CPA Pius A. Maneno**

NBAA Executive Director



Bitcoin value

The words “price” and “value” are being used interchangeably when it comes to bitcoin.

“Value” is what you get as a benefit when you use bitcoin.

“Price” is what you pay to get bitcoin. How much people are willing to buy it for and sell it for?. In Oct 2009 the price of 1 bitcoin was \$0.0009 but today 11/06/2025 the price of the same 1 bitcoin is \$109,345.00.

In this article we will talk about Bitcoin Value.

Bitcoin is not dead. Bitcoin will never die. But what gives it value?

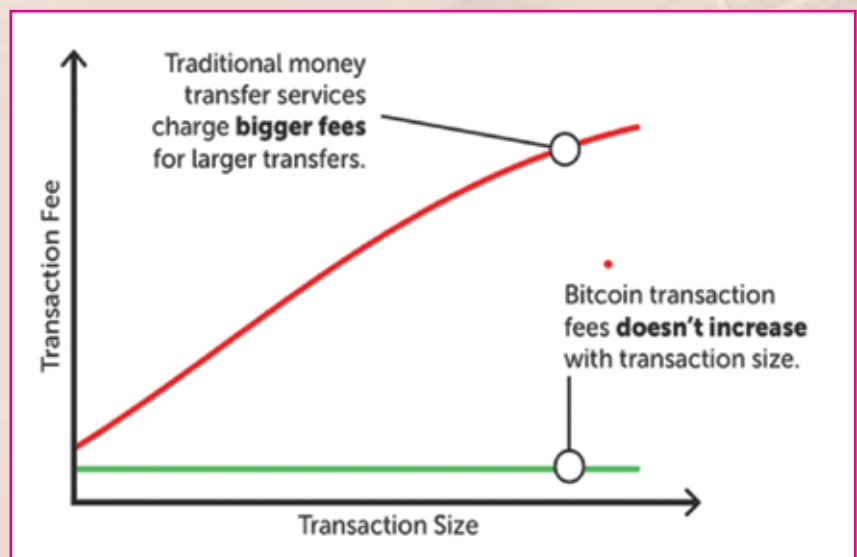
Indeed, the value of Bitcoin comes from its many properties like transaction fees advantages, worldwide distribution, High speed of transactions, Inbuilt automated mathematical controls, Openness, Lack of interference with politics and governments, hedge against currency devaluation, hedge against inflation, actual market Price, behaves like money, Pseudonymous, boarderless, use of Blockchain and many more.

Fees benefit

Bitcoin transactions have very low to no fees. The fees do not depend on the amount of money

sent or the distance to the destination. This makes the service attractive to many who are cost conscious.

Graph A: Comparing transaction size and fees in Bitcoin



Source: CryptoManiaxs

Western Union, which charges \$5 for a money transfer of up to \$50 and up to \$76 for a transfer of \$900.

Table 1: Average cost to send \$200

BUSINESS INSIDER AFRICA			
10 COUNTRIES WITH THE HIGHEST REMITTANCE TRANSFER COSTS			
Rank	Country	Region	Average Cost to Send \$200 (USD)
1	Tanzania	Africa	\$115
2	Türkiye	Europe/Asia	\$53
3	Senegal	Africa	\$35
4	Rwanda	Africa	\$30
5	Angola	Africa	\$29

Source: Business inside Africa

Acceptable world

Bitcoin is acceptable world wide by different merchants. This has the advantage when compared to exchanging money when visiting different countries.

High speed of transactions

Since by design in bitcoin there are no intermediaries like banks for a transaction to be completed, the average time taken to complete a transaction is very low no matter the geographical location.

Inbuilt automated, mathematical controls

Bitcoin halving, mining, mining difficult and hash rates are some of the controls that are inbuilt and use mathematics in execution. This raises the confidence level of users and hence the value.

Openness

Bitcoin character of being open source, worldwide distributed nodes as backups, transparency of transaction and immutability nature of its transactions in the blockchain makes it clear for knowledgeable users to see what's happening.

Lack of interference with politics and any government

The fact that bitcoin cannot be interfered by any Government and politics, gives confidence to users that in case things go wrong with banks as a result of government interference at least they will be safe with their bitcoin.

Actual Price for the commodity

Bitcoin price reflects real market activities for bitcoin worldwide. The price takes into consideration bitcoin demand worldwide at a given point in time. This is very powerful when it comes to public trust for the price given.

Behaves like money

Although not legal tender in many countries, bitcoin behaves like money in many instances.

Bitcoin is divisible into small units just like money. The smallest units for bitcoin are known as Satoshi. Bitcoin is acceptable by a certain community. As more and more users buy bitcoin, bitcoin becoming a unit of account will be possible. As of now few merchants worldwide use bitcoin as a unit of account. Bitcoin is also fungible meaning it is perfectly interchangeable.

Bitcoin is Pseudonymous

If you value financial privacy, then you can have it with Bitcoin.

Bitcoin is for those who do not want to be identified by their financial status. That means it is not quite anonymous. All Bitcoin addresses are strings of letters and numbers. They are not linked to your identity directly, like a bank account.

A Bitcoin address looks like this 3J98t1WpEZ73CN-mQviecrnyiWrnqRhWN-Ly

Bitcoin is boarderless

No need to pay higher fees, wait days and ask your bank's permission to send money abroad. Bitcoin doesn't know borders.

Bitcoin uses Blockchain.

Without blockchain there is no bitcoin. Just like without internet there is no email. Blockchain is proof. It's the ability to prove something digital. You can prove things without the middleman like financial institutions etc.

Scarcity

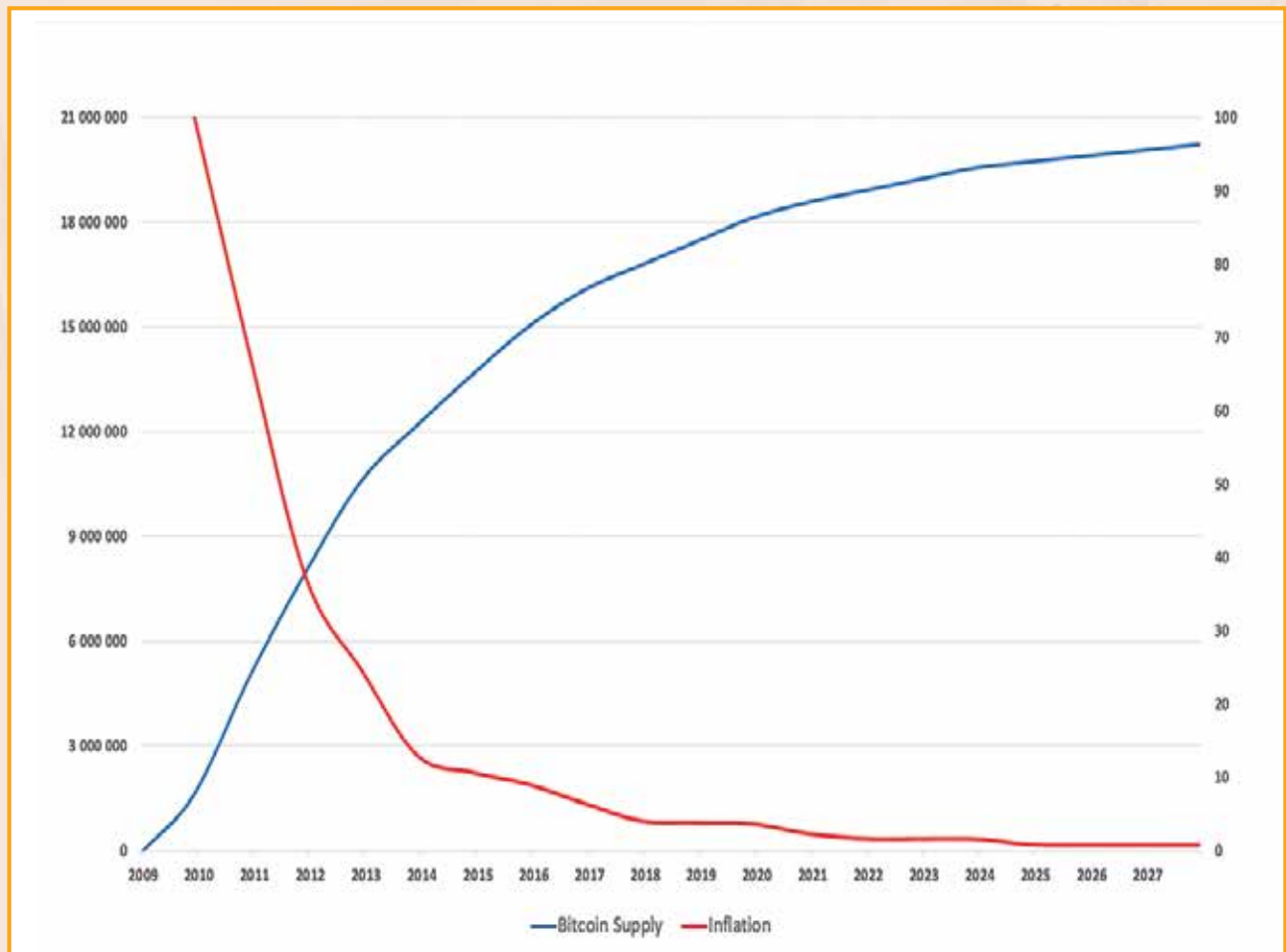
Gold is valuable because it is scarce.

Scarcity is another primary factor in what gives Bitcoin value. There will only ever be 21 million Bitcoin to ever exist while there are billions of people worldwide who will demand it soon.

Hedge against inflation

Inbuilt mathematically calculated controls for bitcoin have been designed to control inflation.

Graph B: Bitcoin Supply Vs Inflation



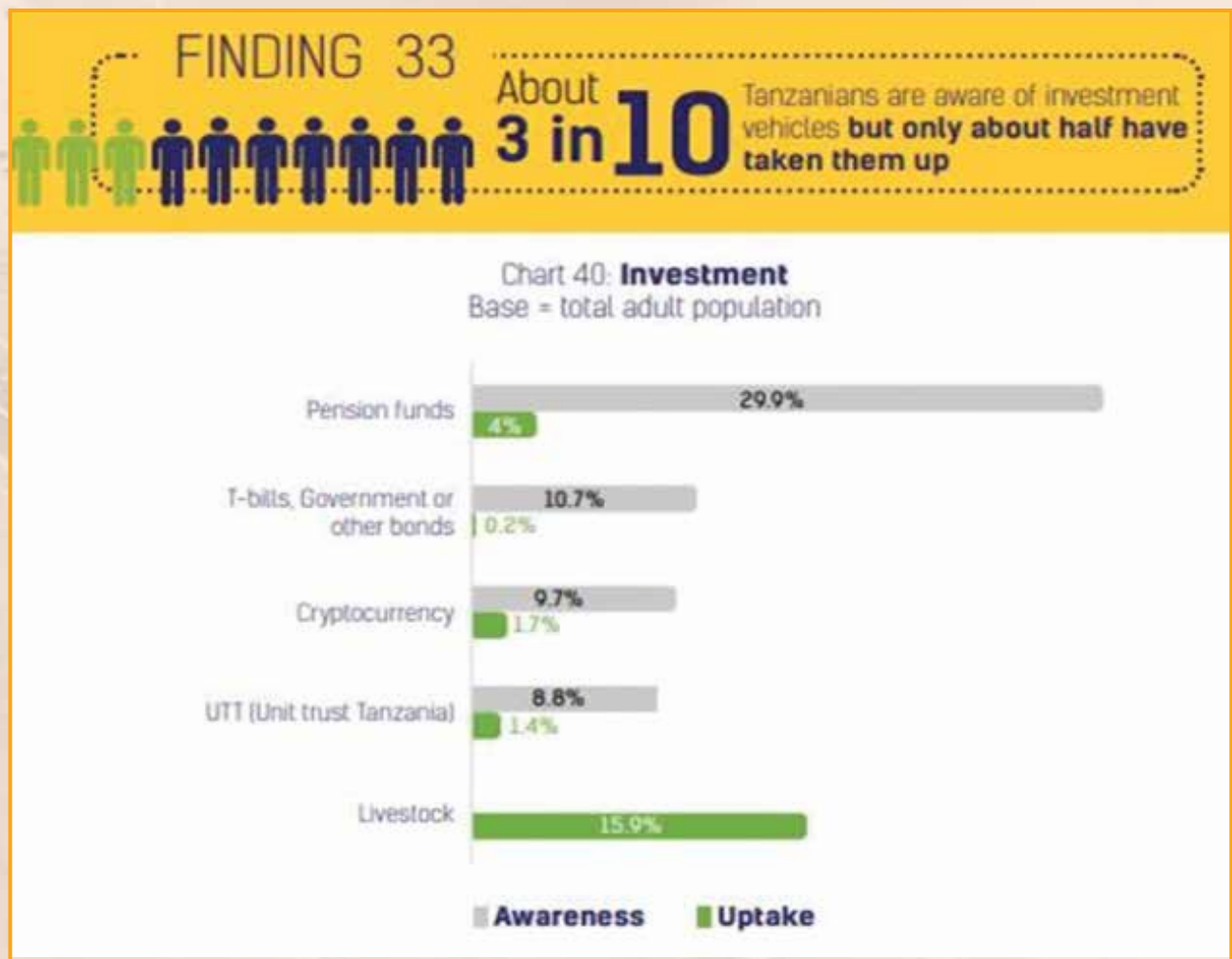
Source: medium.com/in-bitcoin-we-trust

Hedge against currency devaluation

Item 11 of the IMF Technical Assistant Report to Kenya on Cryptocurrency regulation and legislation December 2024

mentioned hedging against depreciation of the KSH to be one of the factors as to why Kenyans are moving their money into bitcoin.

Today's customers are demanding for bitcoin services



Source Tanzania Finscope report 2023

Today competitors of the bank are its own customers. Technology has created very demanding customers that are now demanding bitcoin services. This can also be seen from the Tanzania Fin scope report 2023 where by Cryptocurrency investment amounted to 1.7% while the combined bond and UTT investment amounted to 1.6%.

By **CFE ,CPA Sandra Chogo**

Principal Auditor

Blockchain and Cryptocurrency Consultants

Author ,Speaker ,panelist.

+255 745 572 656

Business performance

Understanding Business Performance Through Profit and Loss Account

Introduction.

In the dynamic world of business, financial performance is the cornerstone of success. Every decision—whether it's expansion, cost-cutting, or investment—relies on a deep understanding of a company's financial standing.

Without accurate financial insights, businesses risk inefficiency, poor resource allocation, and stagnation. This is

where financial reporting becomes indispensable, offering a comprehensive snapshot of a company's financial health and guiding strategic planning.

At the heart of financial analysis lies the profit and loss (P&L) statement, one of the most critical tools for measuring business performance. It provides a clear breakdown of revenue, expenses, and profitability over a

specific period, allowing stakeholders to assess operational efficiency and financial viability. In this article, we will explore how the P&L statement serves as a powerful instrument for evaluating financial performance, its key advantages, and the essential balance sheet accounts that ensure a well-rounded and accurate financial assessment.

Financial Performance Insights



What is Business Performance?

Business performance reflects how effectively a company achieves its objectives by generating revenue, controlling costs, and ultimately creating value. At its core, financial performance is a critical subset of business performance, as it directly measures a company's ability to sustain operations, meet financial obligations, and drive growth. A high-performing business efficiently manages its resources,

meets financial targets, and delivers consistent value to stakeholders.

To monitor and evaluate performance, companies rely on financial statements, with the profit and loss (P&L) account—also known as the income statement—serving as a key tool. This essential financial report provides a detailed breakdown of revenues earned and expenses incurred over a specific timeframe, whether monthly, quarterly, or annually. By analyzing the P&L statement, businesses gain critical insights into

their financial health, allowing them to:

- Track progress toward financial and operational goals
- Identify areas where costs can be optimized
- Implement strategic adjustments to enhance profitability and long-term financial stability

A thorough understanding of the P&L statement empowers businesses to make data-driven decisions, ensuring sustainable growth and resilience in an ever-evolving market.

Components of Business Performance

Revenue Generation

The process of earning income through sales and services.

Cost Control

Managing expenses to optimize profitability.

Value Creation

Delivering worth to stakeholders through products and services.

Financial Statements

Reports that summarize financial performance and position.



Benefits of a Profit and Loss Account in Assessing Business Performance

Leveraging a profit and loss (P&L) account to evaluate business performance provides several key advantages:

Clear Insight into Profitability:

The P&L statement offers a transparent breakdown of income and expenses, providing a definitive measure of a company's profitability.

Identification of Revenue and Expense Trends:

Analyzing multiple P&L statements over time helps businesses detect patterns in revenue growth, seasonal fluctuations, and rising costs, enabling proactive decision-making.

Enhanced Budgeting and Forecasting:

By examining past financial performance, companies can set realistic budgets and develop more accurate financial projections for future growth.

Effective Cost Control:

A detailed expense breakdown allows businesses to pinpoint inefficiencies, identify cost-saving opportunities, and implement strategies to improve overall profitability. By consistently reviewing the P&L account, businesses gain valuable financial insights that drive informed decisions, support strategic planning, and contribute to long-term success.

Understanding P&L Account Benefits



Profitability Insight

Provides a clear measure of profitability

Trend Identification

Helps detect revenue and expense patterns

Budgeting and Forecasting

Aids in setting realistic budgets and projections

Cost Control

Allows identification of cost-saving opportunities

Key Balance Sheet Accounts to Review Before Finalizing the Profit and Loss Account

While the profit and loss (P&L) account is a crucial tool for measuring business performance, it is essential to review and adjust specific balance sheet (Statements & Financial Position) accounts to ensure financial accuracy. This process enhances the reliability of reported earnings and expenses,

creating a more precise representation of a company's financial performance.

Why Reviewing Balance Sheet Accounts Matters

- ❖ **Accuracy:** Ensures that the P&L reflects the company's true financial position by incorporating necessary adjustments.
- ❖ **Proper Timing:** Aligns revenues and expenses with the period in which they were incurred or earned, rather than when cash transactions occurred, following

the accrual accounting principle.

- ❖ **Completeness:** Captures all relevant financial activities to prevent underreporting or misstatements, ensuring a comprehensive assessment of performance.

To achieve this, businesses must carefully examine several key balance sheet accounts that directly impact the P&L. Here's a closer look at the most critical ones:

Key Reasons for Reviewing Balance Sheets



Accuracy

Ensures true financial position by making adjustments

Proper Timing

Aligns revenues and expenses with the correct period

Completeness

Captures all activities to prevent misstatements

Key Balance Sheet Accounts to Review and Their Impact on the P&L

- ❖ **Prepayments:** Expenses paid in advance (e.g., insurance, rent) must be allocated correctly so that only the portion applicable to the current period appears in the P&L. Misallocating prepayments can distort expense reporting.
- ❖ **Accruals:** Represents expenses incurred but not yet paid, such as salaries, utilities, or interest expenses. Properly accounting for accruals ensures that all obligations for the period are reflected in the P&L, even if cash has not been disbursed.
- ❖ **Depreciation & Amortization:** These adjustments spread the cost of long-term assets over their useful lives. Accurately recording depreciation

ensures that asset-related expenses are matched with the revenue they help generate, preventing overstated profits.

- ❖ **Inventory Adjustments:** Reviewing inventory valuations ensures that the cost of goods sold (COGS) accurately reflects the inventory used in generating revenue. Overstated inventory can inflate profits, while understated inventory can misrepresent financial strain. By carefully reviewing and adjusting these balance sheet accounts, businesses can ensure their P&L provides a true and fair view of financial performance. This leads to better-informed decision-making, stronger financial planning, and a clearer understanding of the company's overall financial health.

Below are the critical accounts to assess, along with examples of how each affects profitability and financial accuracy:

1. Prepayments Explanation:

Prepayments are expenses paid in advance for goods or services that a company will receive in the future. These play a critical role in financial reporting, particularly when preparing a profit and loss statement, as they influence how expenses are allocated across different accounting periods. Proper accounting for prepayments ensures that financial statements accurately reflect a company's performance and adhere to the matching principle in accounting.

Managing Insurance Expenses Over Time



Key Points About Prepayments:

- **Future Economic Benefits:** Prepayments represent costs incurred for benefits that will be realized over time, rather than immediately.
- **Amortization:** The cost of prepayments should be spread out, or "amortized," over the periods in which the benefits are received. This ensures that expenses are matched with the revenue they help generate.
- **Accurate Reporting:** Only the portion of the prepayment that relates to the current accounting period should be reflected in the P&L. This prevents distortions in financial performance.

Example: A business pays \$1,200 in December 2024 for a year's insurance policy starting in January 2025. Instead of recording the entire \$1,200 as an expense in December, the correct approach is to expense only \$100 (one-twelfth of the total) each month, from January, in the P&L. This method offers several advantages:

- **Accurate Expense Allocation:** It reflects the true cost of insurance for

each month, aligning expenses with the periods they benefit.

• Prevents

Misrepresentation:

It avoids overstating expenses in December (when the payment was made) and understating expenses in the subsequent months.

• Enhanced Financial Clarity:

By ensuring expenses are recorded in the correct periods, the P&L provides a more precise picture of the company's financial performance.

By meticulously accounting for prepayments, businesses can maintain the integrity of their financial statements, enabling stakeholders to make informed decisions based on accurate and reliable data.

2. Accruals Explanation:

Accruals are a cornerstone of accounting, ensuring that expenses are recorded in the period they are incurred, regardless of when the payment is made. This practice is essential for delivering an accurate and comprehensive view of a company's financial performance. By aligning expenses with the revenues they help generate, accruals uphold

the integrity of financial reporting and support informed decision-making.

Key Points About Accruals:

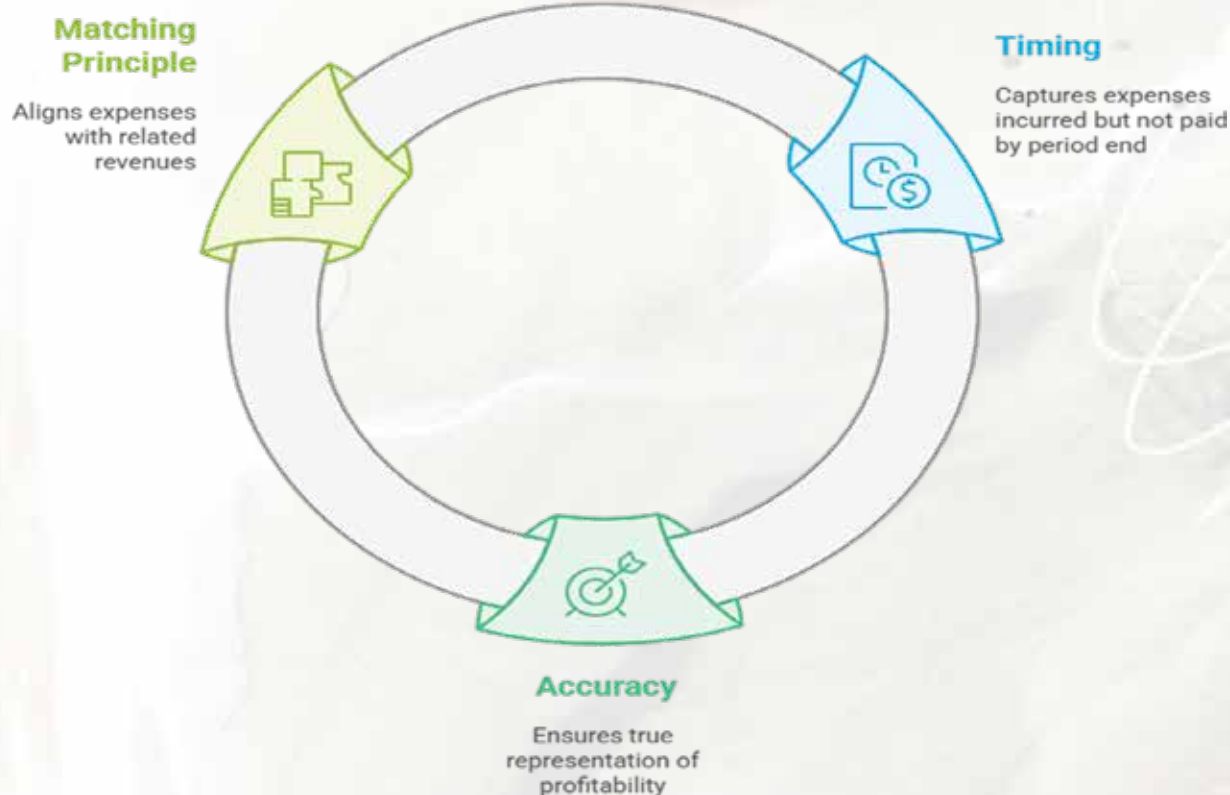
- **Timing:** Accruals capture expenses that have been incurred but not yet paid by the end of an accounting period.
- **Accuracy:** They ensure that all expenses related to a specific period are recorded, providing a true representation of profitability for that period.
- **Matching Principle:** Accruals ensure expenses align with the revenues they generate, reflecting the business's true economic activity.

Example: A business incurs \$500 in utility expenses at the end of March, but the bill arrives in April. To accurately reflect March's expenses, the business accrues \$500 in March. This prevents an overstatement of March's profit by ensuring the expense is recorded in the correct period.

Why Accruals Matter:

- **True Financial Picture:** Accruals prevent distortions in financial performance by ensuring expenses are recorded in the period they are incurred, not when they are paid.

Understanding Accruals in Accounting



- **Informed Decision-Making:** By providing a more accurate and complete view of financial performance, accruals enable stakeholders to make better-informed business decisions.

- **Compliance:** They help businesses adhere to accounting standards and principles, such as the matching principle, which is critical for regulatory compliance and stakeholder trust.

By incorporating accruals into their financial reporting, businesses can ensure their financial statements accurately

reflect their economic activities, providing stakeholders with the clarity and reliability needed to drive strategic decisions.

3. Depreciation of Fixed Assets Explanation

Fixed assets, such as machinery, equipment, or buildings, are essential for business operations but lose value over time due to wear and tear, obsolescence, or usage. Depreciation is the accounting method used to allocate the cost

of these assets over their useful life, ensuring that the expense is matched with the revenue they help generate in each accounting period.

Key Points About Depreciation:

- **Cost Allocation:** Depreciation spreads the cost of a fixed asset over its useful life, reflecting its gradual consumption or decline in value.
- **Periodic Expense:** It records a portion of the asset's cost as an expense in each accounting period,

rather than recognizing the entire cost at the time of purchase.

- **Matching Principle:** By aligning the expense of using an asset with the revenue it generates, depreciation ensures accurate financial reporting and adherence to accounting principles.

✓ **Example:** A machine costing \$12,000 with a 5-year lifespan would have a monthly depreciation expense of \$200 (\$12,000 / 60 months). This means:

- ✓ Each month, \$200 is recorded as an expense

on the Profit and Loss P&L★ statement.

This \$200 represents the portion of the machine's value used up during that month.

Over the course of 5 years (60 months), the full \$12,000 cost of the machine will be accounted for in the P&L.

Why Depreciation Matters:

- **Accurate Financial Performance:** Depreciation ensures that the P&L reflects the ongoing cost of using the asset, rather than showing a large

expense only at the time of purchase.

- **Better Decision-Making:** By providing a clearer picture of expenses over time, depreciation helps businesses make informed decisions about asset utilization, maintenance, and replacement.

- **Compliance and Transparency:** It adheres to accounting standards and provides stakeholders with a transparent view of how fixed assets contribute to the business's operations and financial health.

Depreciation Process in P&L Accounting

Machine Purchase

A machine is acquired for \$12,000.



Monthly Depreciation Calculation

Calculate \$200 monthly depreciation.



P&L Statement Recording

Record \$200 as an expense in the P&L.



Asset Value Allocation

Allocate the machine's value over five years.



By incorporating depreciation into financial reporting, businesses can ensure their P&L statements accurately represent the cost of using fixed assets, offering a more realistic and reliable view of financial performance over time.

4. Inventory Adjustments

Explanation:

Inventory adjustments play a vital role in ensuring the accuracy of financial statements, particularly in reflecting the true cost of goods sold (COGS) on the Profit and Loss (P&L) statement. These adjustments account for obsolete, damaged, or unsellable inventory, ensuring that financial reports provide a realistic and reliable view of a company's performance and financial health.

Why Inventory Adjustments Are Important:

- **Accuracy:** Adjustments ensure that the P&L statement accurately reflects the true cost of inventory used during the accounting period, excluding items that cannot be sold.
- **Preventing Overstatement:** Without these adjustments, companies risk overstating their profits by including inventory that has no market value or utility.
- **Asset Valuation:** Inventory adjustments ensure that only sellable inventory is recorded as an asset on the balance sheet, providing a more realistic picture of the company's financial position.

Example: Consider a company that identifies \$2,000 worth of obsolete stock that can no longer be sold.

To accurately reflect this in their financial statements, the company would:

- Reduce the value of inventory on the balance sheet by \$2,000.
- Increase the cost of goods sold (COGS) on the P&L statement by the same amount.

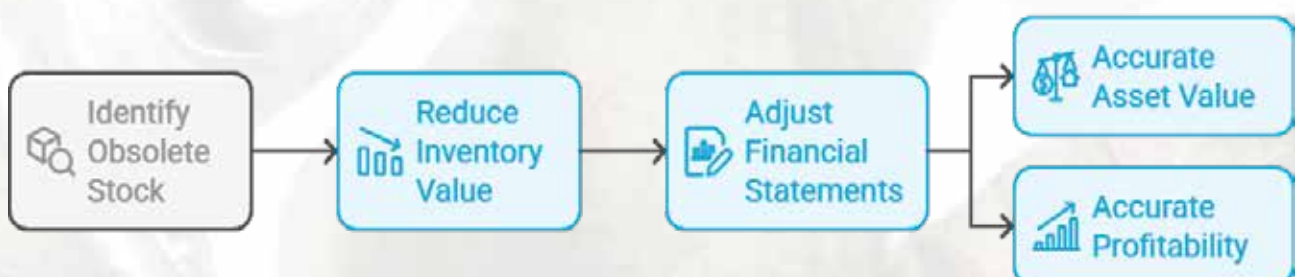
This adjustment ensures that the financial statements present a more accurate picture of the company's profitability and asset value.

The Impact of Inventory Adjustments:

• True Financial Performance:

By accounting for unsellable inventory, adjustments prevent the overstatement of profits and provide a clearer view of operational efficiency.

Adjusting Financial Statements for Obsolete Stock



- **Informed Decision-Making:** Accurate inventory valuation helps businesses make better decisions about purchasing, production, and sales strategies.

- **Regulatory Compliance:** Proper inventory adjustments ensure compliance with accounting standards, enhancing the credibility and reliability of financial statements.

By incorporating inventory adjustments into their financial reporting, businesses can ensure their P&L statements and balance sheets accurately reflect their operational realities, enabling stakeholders to make well-informed decisions based on reliable data.

5. Bad Debt Provision Explanation:

A provision for doubtful debts, often referred to as a bad debt provision, is an essential accounting adjustment that accounts for receivables that may not be collected. This adjustment ensures that revenue is not overstated and that financial statements reflect only realistic, collectible amounts. By anticipating

potential losses from uncollectible debts, businesses can present a more accurate picture of their financial performance and health.

Why Bad Debt Provision Matters:

- **Realistic Revenue Reporting:** It ensures that revenue is not overstated by accounting for receivables that are unlikely to be collected.
- **Accurate Profitability:** By reducing revenue by the estimated uncollectible amount, the P&L statement reflects a more realistic profit figure.
- **Risk Management:** It helps businesses anticipate and manage the risk of non-payment,

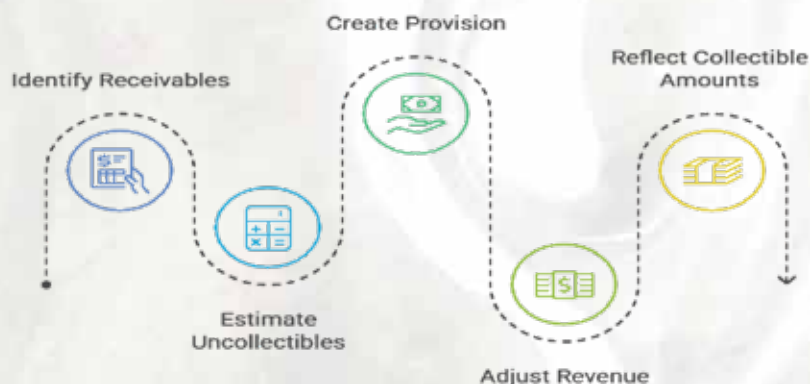
improving financial planning and decision-making.

Example: Suppose a business has \$10,000 in accounting receivables and estimates that \$1,000 of this amount may be uncollectible. To account for this, the business creates a bad debt provision of \$1,000. This adjustment:

- Reduces the reported revenue by \$1,000 on the P&L statement.
- Ensures that the financial statements reflect only the collectible portion of receivables.

By making this adjustment, the business presents a more accurate and conservative view of its profitability and financial position.

Bad Debt Provision Accounting Process



The Impact of Bad Debt Provision:

- **Enhanced Financial Accuracy:**

It prevents the overstatement of assets and revenue, ensuring that financial statements are reliable and trustworthy.

- **Improved Decision-Making:**

By accounting for potential losses, businesses can make more informed decisions about credit policies and customer relationships.

- **Regulatory Compliance:**

Properly accounting for doubtful debts ensures compliance with accounting standards, such as the matching principle, which requires expenses to be matched with the revenues they help generate.

By incorporating a bad debt provision into their financial reporting, businesses can ensure their financial statements accurately reflect their economic realities, providing stakeholders with a clear and reliable view of their financial health.

6. Employee Benefits Explanation:

Accruing for employee benefits, such as bonuses, vacation pay, or other incentives, ensures that these costs are recorded in the period in which they are earned by employees, rather than when they are paid. This practice aligns with the matching principle in accounting, which requires expenses to be recognized in the same period as the revenues they help generate. By accurately recording these liabilities, businesses can provide a more precise representation of their financial performance and obligations.

Why Accruing Employee Benefits Matters:

- **Matching Principle:** It ensures that employee-related expenses are recorded in the same period as the work performed, aligning costs with the revenues

they help generate.

- **Accurate Financial Reporting:**

Accruals prevent distortions in financial statements by recognizing expenses when they are incurred, not when cash is paid.

- **Compliance:** Properly accounting for employee benefits ensures adherence to accounting standards and regulatory requirements.

Example: Consider a \$1,200 bonus earned by an employee in December but paid in January. To accurately reflect this expense in the financial statements:

- The \$1,200 bonus should be accrued in December's P&L statement, matching the cost to the period in which the work was performed.
- This ensures that December's financial performance accurately reflects the true cost of operations, even though the payment occurs in January.

Accruing Employee Benefits Enhances Financial Accuracy

Accurate Reporting
Reflects true financial performance

1

Compliance
Meets accounting standards requirements

2

Employee Benefits

The Impact of Accruing Employee Benefits:

- **True Financial Picture:** It prevents understating expenses in the period the work was done and overstating expenses in the period the payment is made.
- **Better Planning:** By recognizing liabilities when they are incurred, businesses can improve cash flow management and financial planning.
- **Stakeholder Confidence:** Accurate reporting of employee-related expenses enhances the credibility of financial statements, fostering trust among stakeholders.

Final Thoughts

While the various accounting adjustments and reviews discussed (such as inventory adjustment, bad debt provision, etc.) are crucial for accurate financial reporting, implementing them in real-world scenarios can be challenging. This is because:

- Real business situations are often complex and may not neatly fit into predefined accounting categories.
- There might be ambiguities or uncertainties in financial data that require interpretation.
- Time constraints and

resource limitations can make it difficult to perform all ideal adjustments.

Given these challenges, accountants must use their professional judgment to determine:

- Which adjustments are most critical for presenting a fair and accurate financial picture.
- How to handle ambiguous or complex financial situations.
- The appropriate level of detail and precision in financial reporting, balancing accuracy with practicality.

The preparation of a profit and loss account requires comprehensive approach beyond merely presenting income and expenses. The adjustments discussed are essential for ensuring the accuracy of this financial statement. Through a meticulous review of these accounts and implementation of necessary adjustments, an organization can effectively align its expenses with revenues, adhering to the matching principle for precise performance reporting. This approach yields an accurate representation of profitability, thereby facilitating informed financial decision-making and promoting sustainable growth.

When creating a profit and loss account, remember

these key points:

- Include both direct income and expenses
- Make necessary adjustments for accuracy
- Align expenses with revenues (matching principle)

In conclusion, while financial metrics provided by profit and loss accounts are essential, they tell only part of the story of business performance. A truly comprehensive evaluation must also consider non-financial aspects such as customer satisfaction, employee engagement, and innovation capacity. These factors are crucial drivers of long-term sustainability and competitive advantage. To capture this holistic view, many forward-thinking companies utilize balanced scorecards or key performance indicators (KPIs) that integrate both financial and non-financial measures. This approach provides a more nuanced and complete picture of a company's overall health, future potential, and ability to create lasting value in an increasingly complex business environment.

This article was written by
Adam Kamulika, ACPA
Certified Public Accountant
| Master's in finance &
Investment | Bachelor's in
accounting
Accountant & Financial
Analyst

APPROPRIATENESS OF USING LIFO OR FIFO

The Trade-Offs of Valuation Methods

Recent years have seen the highest levels of inflation in the United States since the early 1980s. This has been blamed on the COVID-19 pandemic, which affected many businesses and supply chains (B. Bernanke and O. Blanchard, "What Caused the U.S. Pandemic-Era Inflation?" Conference Draft, Brookings Institute, May 23, 2023). The pandemic led to stimulus packages and unemployment policies aimed at helping U.S. workers and businesses. In November 2021, inflation for durable goods rose to 14.9%. Fuel prices rose by 49% from January 2022 to June 2022, while higher energy costs caused inflation to rise further in 2022, reaching 9.1%, a high not seen since 1981. In 2023, in an effort to combat inflation, the Federal Reserve increased its benchmark rate four times in a row, yet inflation remained high, outpacing the growth in wages and spending. Businesses that

managed to weather the pandemic struggled to maintain positive earnings numbers and to fortify their supply chains. According to the National Bureau of Economic Research, earnings per share forecasts over 2020 earnings were reduced by 16% (A. Landier and D. Thesmar, "Earnings Expectations During the COVID-19 Crisis," *The Review of Asset Pricing Studies*, vol. 10, no. 4, 598-617, 2020). Accounting firms and consulting practices attempted to advise firms on appropriate accounting choices in this new economic environment. One of the areas addressed, due to drops in both inventory levels and earnings, was the choice of inventory valuation method. Many are aware of the relevance of the measurement of inventory to profitability. The lower the capital account (inventory), the higher the operational expenses (cost-of-goods-sold). This inverse relation affects profitability

and can be manipulated for financial and tax purposes. The manipulation of inventory values played a role in well-known accounting frauds. These include inventory frauds perpetrated by McKesson in the 1930s, Allied Oil in the '60s, Crazy Eddie in the '80s, and Phar-Mor in the 1990s (Justin Mock, "Classic Case Studies in Accounting Fraud," *Miami University, OhioLINK Electronic Theses and Dissertations Center*, 2004).

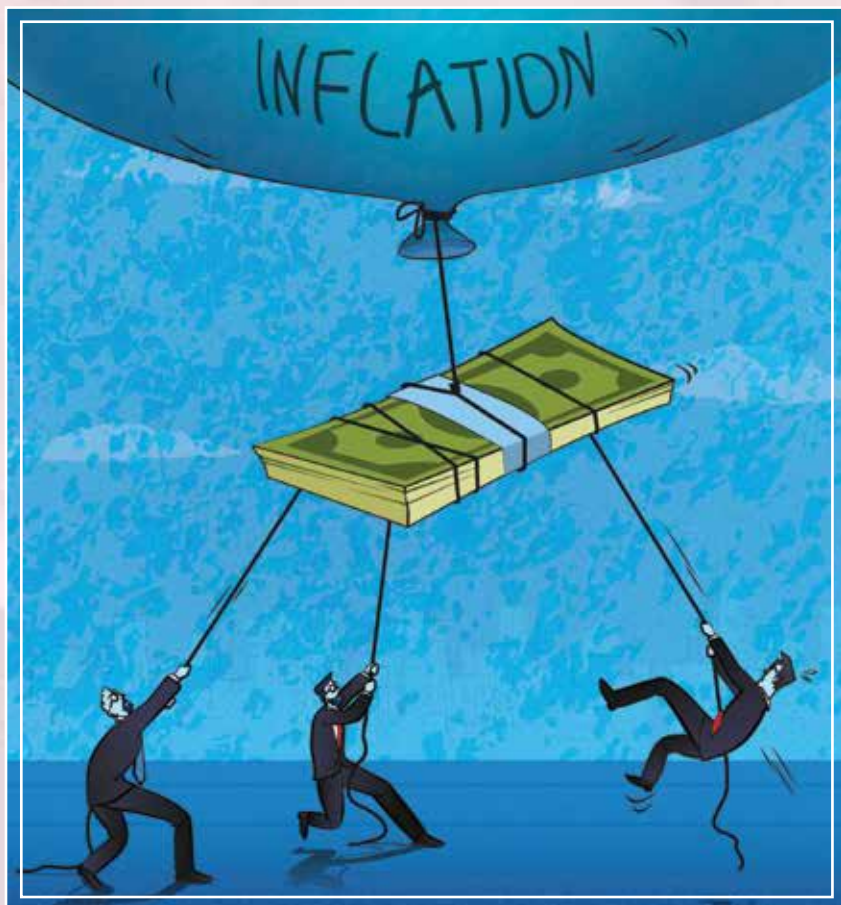
More recently, research has found that 19% of fraud cases in the Audit Analytics database from 2000 to 2014 were related to the inappropriate determination of inventory costs, cost of sales, and inventory balances at the year-end (Fatima Alali and Sophia I-Ling Wang, "Characteristics of Financial Restatements and Frauds: An Analysis of Corporate Reporting Quality from 2000-2014," *The CPA Journal*, Nov 2017, vol. 87, no. 11).

When valuing inventory, companies have traditionally selected from a range of acceptable accounting methods, including first-in-first-out (FIFO) and last-in-first-out (LIFO), among other reasonable approaches. Each method reflects a different assumption about the flow of inventory and can significantly impact financial reporting outcomes. The primary benefit of FIFO has always been higher earnings. In periods of rising prices, older inventory (first in) is expensed first, thus contributing to a lower cost of goods sold (COGS)

and, in turn, a higher pretax income. LIFO, on the other hand, delivers higher COGS numbers, due to charging the highest-priced inventory to cost of goods sold, thereby lowering pretax income, and lowering the tax liability. And that benefit grows as inventory pricing rises due to inflation or other factors, and as tax rates increase. Therefore, all else being equal, management at times must choose between reporting higher earnings—and paying the taxes on them—or reporting less attractive earnings numbers while achieving a tax benefit.

Why Keep Using (or Switch to) FIFO?

There are no costs in switching from LIFO to FIFO for entities that are already run on a FIFO basis internally. The primary reason companies are switching, however, is to be able to continue to show high earnings numbers to investors. In essence, LIFO is a key to what may be seen as “over capitalization” of an operating expense, which can be viewed by some as manipulative. According to Mayew, “The increase in companies switching to FIFO accounting may indicate that the pressure to present competitive earnings figures is outweighing the tax benefits afforded by LIFO” (S. I. Weiss, “More Firms Drop LIFO Amid Inflation, Low Taxes,” CFO Brew, May 4, 2023). Kris Bennati, Bedrock AI’s CEO, confirmed this statement by saying, “in a highly inflationary environment, FIFO accounting delays the impact of rising prices on net income, while LIFO accounting has a much more punishing impact on earnings.” Paccar Controller Michael Barkley echoed these sentiments in comments to the *Wall Street Journal*: “When inflation popped up, we said we’re taking hits to our margin that make us noncomparable. And for what?” (Maurer 2023).



In Favour of LIFO

A taxing authority could theoretically answer the question: should companies stop using LIFO? Without LIFO, the U.S. Treasury would expect to see higher taxes being paid by companies to the tune of billions of dollars. In fact, repealing LIFO has two separate revenue effects. LIFO repeal would raise about \$1 billion annually by reducing the COGS deduction alone. In addition, when a company elects to value inventory using LIFO, it must also report LIFO reserves which reflect the difference between inventory valued by the LIFO and FIFO methods. Companies that switch from LIFO to FIFO must take the value of LIFO reserves into income over five years, substantially raising their annual income, and thereby their tax bills. The Congressional Budget Office, in 2020, estimated that taxes raised from LIFO reserves would approximate \$50 billion over four years. With higher inflation and higher oil prices affecting new inventory costs, the LIFO reserve would be greater, especially from large corporations in the energy sector, and repeal could raise substantially more tax revenue (Matheson and

Broisy, "Inflation and Oil Price Spikes Revive Case for LIFO Repeal," Tax Policy Center, May 12, 2022

Numerous large companies who use LIFO have resisted the elimination—and the substantial tax penalties—which would arise from a change to a different inventory valuation method (see e.g., Q.Ling and D.P. Tinkelman, "Costs and Benefits of the LIFO-FIFO Choice," *Journal of Corporate Accounting & Finance*, 2020). Companies like Caterpillar, Sherwin-Williams, Amazon, Macy's, Kroger, and Home Depot have been using LIFO for decades for their U.S. operations and are in no rush to consider a change.

The Save LIFO Coalition, formed in 2006, has consistently fought to keep LIFO in the tax code. They argue that repealing LIFO would disincentivize inventory investment, hampering efforts to make U.S. supply chains more resilient. It would also reduce economic growth and penalize industries that typically keep more inventory on hand, such as retailers of durable goods (Muresianu and Durante 2022). Companies that deal in nonperishable commodities, like petroleum (D.P. Tinkelman and C. Tan, "Estimating the

Potential Revenue Impact of Taxing LIFO Reserves in the Current Low Commodity Price Environment," *Journal of the American Taxation Association* vol. 40, no. 2, 2018), metals, and chemicals also use LIFO accounting when allowed, but are often portrayed as examples of corporate behemoths rather than local businesses—making the Save LIFO lobbyists' case tougher to promote.

It should be noted that a contributing factor to the trend away from LIFO is that IFRS disallowed its use in 2003. Companies who may prefer to use LIFO but also prepare international financial statements have had to prepare two sets of statements. While several companies, like Walmart, have chosen to prepare LIFO statements for its U.S. segments and FIFO for the rest of its operations overseas, most companies, like Lowe's and Coca-Cola, find using dual inventory methods too burdensome and choose FIFO.

Until the late 1980s, when LIFO seems to have fallen out of favor, it was considered by many to be the most accurate income measure during inflationary periods (S. C. Lessard, "Giving Life to LIFO: Adoption of the LIFO Method of Inventory Valuation by the Income Tax

Code," *Tax Law*, vol. 60, no. 78, 2006). Lessard (2006) cites Frederic Hichman, assistant secretary of the treasury for tax policy, as saying that *not* using the LIFO method of inventory valuation could misrepresent income. Even in noninflationary periods, LIFO was looked at largely as a way of smoothing income and taxes. However, there was still the "LIFO puzzle," coined to describe the mystery as to why many companies paid millions of dollars in extra taxes by staying with FIFO [G. Biddle, "Accounting Methods and Management Decisions: The Case of Inventory Costing and Inventory Policy," *Journal of Accounting Research*, (Supplement 1980) p. 235-280, 1980]. Research has shown that it's not investors, but rather managers, who prefer using FIFO in order to receive higher compensation, which may be based on income measures (F. A. Gul, "Free Cash Flow, Debt-Monitoring and Managers' LIFO/FIFO Policy Choice," *Journal of Corporate Finance*, vol. 7, no. 4, p. 475-492, 2001). In fact, Jensen (M.C. Jensen, "Eclipse of the Public Corporation," *Harvard Business Review* p. 61-74, September/October 1989) and Maloney et al. (M. T. Maloney, R. E. McCormick,

and M. L. Mitchell, "Managerial Decision Making and Capital Structure," *Journal of Business*, p. 189-217, 1993) find that at higher levels of debt, when managers may be under more scrutiny, they are incentivized to make decisions more consistent with the interest of shareholders and are more likely to choose LIFO—minimizing taxes and increasing shareholder wealth.

This article presents an example highlighting the inventory purchase, sale, and subsequent allocation of funds to demonstrate how LIFO minimizes taxes and maximizes shareholder wealth in periods of rising prices, which has been assumed to be the case since the mid 1970s (H.Z. Davis, "History of LIFO," *The Accounting Historians Journal*, vol. 9, no. 1, Spring 1982). It illustrates how using LIFO not only results in the most equitable outcome to all stakeholders, it also contributes to the ongoing sustainability of the business. Furthermore, it demonstrates how, while companies using FIFO may present higher earnings numbers, once adjusted for inventory replacement cost, economic earnings are lower than they would be under LIFO.

LIFO-FIFO Demonstration Model Inventory cost flow assumptions.

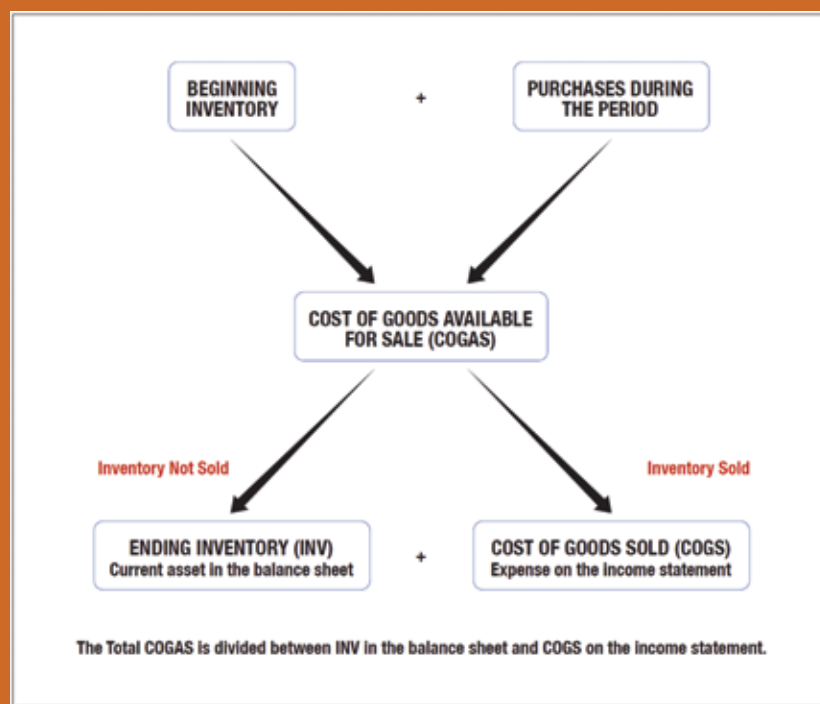
The total cost of goods acquired by a company in a given period for inventory plus the cost of any inventory remaining from the previous period is known as Cost of Goods Available for Sale (COGAS). This total cost is eventually divided on a company's financial statements (**Exhibit 1**) between:

- The cost of inventory that is sold, Cost of Goods Sold (COGS), an expense on a company's income statement; and
- The cost of unsold inventory, reported as Inventory (INV) in the current assets section of the balance sheet.

Because the sum of these two values, COGS and INV, equals COGAS, the greater the costs assigned to COGS, the lower the costs remaining in INV, and vice versa. The implications of this seemingly simple observation go to the crux of the LIFO issue and are illustrated by the following example.

Limitations

The discussion above describes how, in periods of rising prices, LIFO delivers the most equitable division of wealth and is most



beneficial to a company's long-term profitability. But there are also several reasons why a switch to LIFO is not as attractive a proposition as it might have been years ago. First, since the Tax Cuts and Jobs Act of 2017 lowered the corporate tax rate from 35% to 21%, the tax benefit of switching to LIFO has substantially decreased. Second, companies have become more adept at inventory management, and just-in-time inventory has helped decrease the amount of time between purchasing and selling, so LIFO and FIFO inventory valuation is not as different as it may have been in the past. Third, while inflation has been high since 2021, many believe this is a

temporary phenomenon (D.P. Tinkelman, and Q. Ling, "The Rise and Decline of LIFO," *Accounting Historians Journal*, vol. 49, no. 2, p.103-120, 2022). Fourth, as mentioned earlier, IFRS's disallowance of LIFO has caused many large companies to disregard it. Finally, with management compensation regularly based on income measures, high income will remain a priority for managers. As in any model, the scenario presented above relies on several assumptions that may not always be present. We believe, however, that the assumptions underlying the model represent a likely scenario in many industries. First, the model assumes that sales prices are marked up at a specified percentage

above cost, which may not always be the case. Second, the model primarily deals with an inflationary period in which prices and costs are expected to rise. While this is a very typical scenario in many industries, it is not necessarily expected to occur in every industry and in every time period. Finally, the model makes an implicit assumption that inventory is always replenished at a constant rate. In theory, if a company reduces its inventory levels and continues to sell out older inventory before making new purchases, the effect of the chosen inventory costing method on the company's income statement may differ.

NBAA & ZIAAT SIGN A 4-YEAR AGREEMENT

THE National Board of Accountants and Auditors of Tanzania (NBAA) and the Zanzibar Institute of Accountants, Auditors and Tax Advisors (ZIAAT) have signed a four-year memorandum of understanding to work together in various areas including the organization and conduct of continuous training in the fields of Accounting and Auditing.

The 4-year agreement, which is open to renewal and extension upon the expiration of the initial agreement, is a positive and significant step towards the growth and sustainability of the Accountancy Profession in the country.

In addition, the agreement will help to simplify the functioning of these two

Institutions on Tanzania Mainland and Zanzibar. It should be noted that the Act that established NBAA was limited to Tanzania Mainland.

Also, the establishment of ZIAAT in Zanzibar, along with the signing of the agreement, will help NBAA to work in Zanzibar in collaboration with ZIAAT, and ZIAAT to work in Tanzania Mainland in collaboration with NBAA.

Thus, the Institutions have now agreed to cooperate in various matters including the organization and operation of continuous training, membership issues, examination issues and technical issues.



CPA Pius A. Maneno of NBAA & CPA Ame Burhan Shadhil of ZIAAT showing the signed contracts between NBAA & ZIAAT.

NBAA & BOT

SEMINAR ON FINANCIAL RESPONSIBILITY

The National Board of Accountants and Auditors of Tanzania (NBAA), in collaboration with the Bank of Tanzania (BOT), organized a joint seminar that brought together accounting professionals, auditors and financial sector stakeholders from within and outside the country, held from 28th to 30th May, 2025 in Arusha.

Opening the seminar held in Arusha, the BOT Governor, Mr. Emmanuel Tutuba, emphasized the importance of the accounting profession in stimulating the development of the national economy. He called on accountants and auditors to use their

knowledge to improve financial accountability in all public and private institutions.

"We need integrity, transparency, and the use of technology in financial management. This starts with the accounting profession," said Tutuba.

The seminar, themed: "Good Governance and Accountability in a Digital Environment", aims to highlight the role of the accounting profession in a world led by IT and artificial intelligence (AI).

For his part, the NBAA Executive Director, CPA Pius Maneno, said the institution continues to manage the quality of accounting services in the country by

implementing modern systems for controlling and managing financial information.

He noted that NBAA has introduced a new system for controlling the submission of accounts, where all auditors will be required to submit information to NBAA for a certification number before it can be officially used by the relevant institution. The three-day seminar was attended by approximately 800 participants including chief accountants, internal and external auditors, university lecturers, as well as stakeholders from the financial and business sectors.



The Governor of the Bank of Tanzania (BOT), Emmanuel Tutuba speaking at the opening of a joint seminar organized by the NBAA and BOT in Arusha



NBAA Executive Director, CPA Pius Maneno speaking during the opening of a joint seminar organized by NBAA and BOT that brought together accounting professionals, auditors and financial sector stakeholders from within and outside the country.



A cross section photo of accounting professionals, auditors and financial sector stakeholders from within and outside the country during the opening of a joint seminar organized by NBAA and BOT.

ESTABLISHMENT OF HIGHER LEARNING STUDENTS' DATA BASE

“

We have initiated this initiative to identify and monitor all accounting students in institutions. Through this “database”, we will enable them to obtain important information on examination procedures, conditions for obtaining exemptions, and the correct time to begin professional examinations after graduation.

NBAA Administrative and Human Resources Officer, Gloria Kaaya speaking on behalf of NBAA Executive Director, CPA Pius A. Maneno regarding strategies to establish a database of students studying accounting in various universities in the country for the Higher Learning Institutions.

THE National Board of Accountants and Auditors of Tanzania (NBAA) has set out strategies to establish a database of accounting students studying in various Higher Learning institutions in the country, to facilitate close monitoring of their academic progress and assist them in preparing for the Board's examinations.

Ms. Gloria Kaaya, said that the move aims to increase efficiency in the management of the accounting

profession and ensure that students receive timely and accurate information on professional matters.

"We have initiated this initiative to identify and monitor all accounting students. Through this "database", we will enable them to obtain important information on examination procedures, conditions for obtaining exemptions, and the correct time to begin professional examinations after graduation," said Ms. Kaaya.

She added that some students have been missing out on the opportunity to sit for the Board exams on time due to lack of accurate information, or late registration within the required time frame, especially when it is more than five years since they completed their studies.

According to NBAA, the "database" will also facilitate

communication between the Board, higher Learning institutions and students themselves, thus increasing transparency and efficiency in the implementation of professional responsibilities in the country.

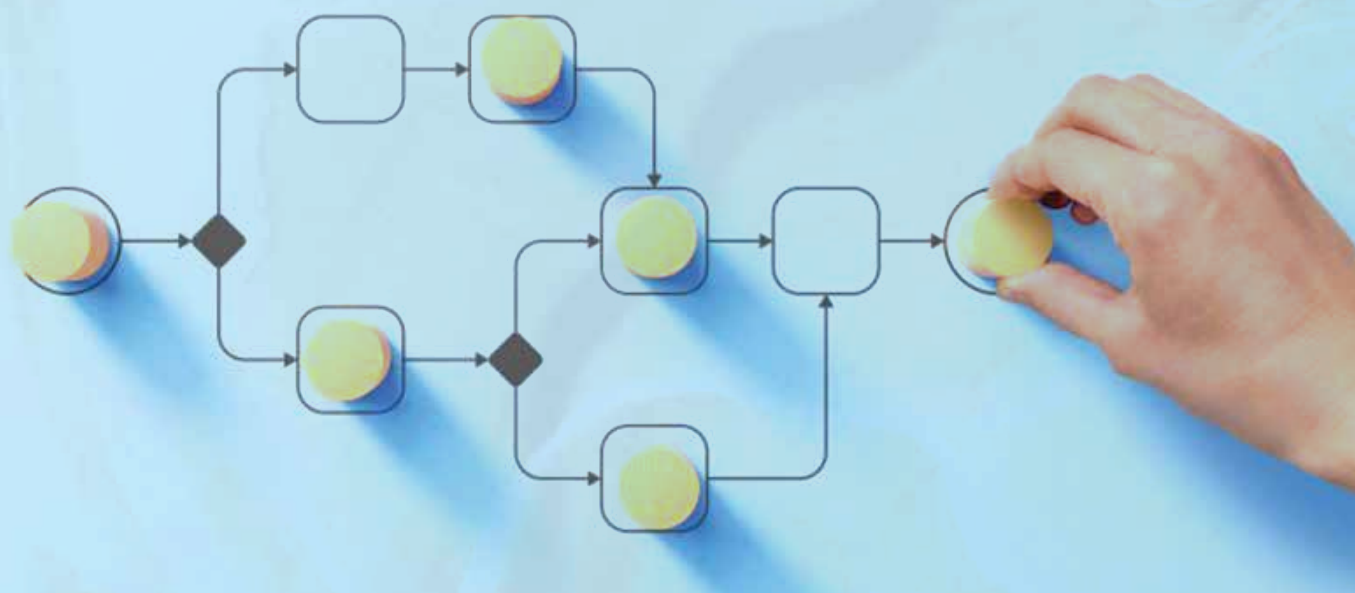
"We want all students to understand the opportunities available to them and know the steps they need to take to achieve their professional goals. This system will help increase the number of certified accounting professionals, who are a vital resource for the development of the national economy," she stressed.

Higher Learning Institutions have been urged to take this initiative positively by collaborating with the Board especially on guiding the students on how to register into this data base.



Some heads of Finance and Accounting Departments who attended a meeting on official inaguration of Higher Learning Students' Data Base held at NBAA Mhasibu House Function Hall, Dar es Salaam.

TIPS FOR A SMOOTH NONPROFIT AUDIT PROCESS



By Corinna Creedon, CPA

While the audit process generally has an overwhelming connotation, there are several steps that a not-for-profit (NFP) organization can take to make the audit process much smoother year

over year. This article will review what happens in the external audit: how NFPs can plan, document, and prepare for the audit, and what steps NFPs can take now to take the distress out of the audit.

Ongoing Preparation Throughout the Closing Process

A key component of the ongoing planning, documentation, and preparing for the audit is having a consistent and “competent monthly closing”—and the first step

in having a competent monthly/quarter closing is to develop a checklist. This should include the following:

- Confirm all transactions for the period.
- Post closing entries in the general journal.
- Close sub-ledgers, if any.
- Perform all reconciliations.
- Run review reports.
- Close the books (depending upon GL software).

Closing the books each month (or quarter) sets the numbers in stone. It is impossible to accurately track performance if those numbers bounce around when someone finds invoices or bills that weren't recorded on a timely basis, or when someone changes transactions from previous months (or even previous years). Including a monthly closing process in regular accounting procedures ensures that your numbers are

dependable, stable, and accurate.

Complete and timely financial statements are the most powerful strategic decision-making tool for any NFP organization. A competent closing not only involves recording transactions and making sure cash ties (that would only provide cash basis reporting) but also recording any accrual journal entries to make sure all revenue earned in the period is recognized and all expenses incurred recorded. The better the closing is, the less work the finance team will have come audit time.

To have a competent closing, an NFP should do the following:

- Leverage financial software to provide faster financials.
- Develop integrations (bank transactions—bank feeds, upload tool, AP, AR).
- Utilize dynamic allocations or preset allocations.

NFPs also need to consider the annual

closing and how it is different from a monthly/quarterly closing, and what can be done during the annual closing to prepare for the audit. The annual closing is more robust, there are hard deadlines as to timing, recognition, and matching to period of expense/benefit, and there is a heightened focus on accruals, allowances, and receivables. The annual closing also includes metrics, analytics, and budget-to-actual comparisons.

This is the time for the finance team to ensure that it has supporting reconciliations which not only tie to the general ledger and trial balance but have also resolved all hanging variances during the year. This is also the time to make sure the trial balance balances tie to the financial statements that will be presented to the auditors. This will minimize the effort an auditor needs to perform their initial ticking and tying, a task usually done by first year staff.

The following are areas that the finance team can focus on to create a smoother audit process:

- Review revenue streams for proper recognition according to GAAP and propose any necessary journal entries. Staff should gather all relevant grant and contract documentation as required.
- Prepare pledge receivables schedules, including roll forward, aging, and any applicable discount for multiyear gifts. Verify proper recognition in conjunction with revenue recognition standards.
- Prepare accounts payable aging, review subsequent disbursements to verify proper cutoff for the year, and gather documentation for selected transactions likely to be assessed.
- Manage preparation of confirmations and gathering

of requested subsequent receipt documentation.

- Review in-kind expense records for appropriateness and propose adjustments to record in-kind expenses.
- Prepare and evaluate preliminary analytics on statements of activities and financial position.
- Prepare net asset schedules and evaluate proper recognition and support for restricted revenue and releases.

Ongoing Planning, Documenting, and Preparing for Your Audit

Audits tend to run smoother when NFP organizations put effort into preparing for them. This includes developing an audit plan throughout the year, compiling documentation early, presenting it to auditors when needed, and preparing data and financial statements through a timely and

competent closing process.

Planning is the Key

Planning is a key component to the audit process and should be done throughout the year. When developing an audit plan, NFPs should consider the timelines for both management and auditors, prior year management comments, any questions that come up throughout the year, new or unusual transactions, and using technology.

Timelines

The finance team should plan to devote additional time both prior to and in connection with year-end closing to adequately prepare for the audit, to be available during audit fieldwork, and to communicate with those involved in the audit process. Meetings should be scheduled with the auditors to go through opening and closing meetings, board communication, coordination of representation letters,

and other matters that may arise between fieldwork and issuance.

Prior Year Management Comments and New or Unusual Transactions

Be aware of management comments from prior audits (not just last year) and be prepared to support how they have been addressed this year, to avoid the risk of a repeat deficiency, or worse, escalation to a significant or material one. Maintain an open line of communication with the external auditors during the year rather than waiting until the audit to discuss new or unusual transactions. This will minimize surprises and also enable the organization to make appropriate plans or necessary changes.

Compile Documentation and Organize the Data

Much of the required documentation on an auditor's prepared by client (PBC) list is available throughout the year. Rather than compiling it

in the moment, an NFP should continuously update its PBC lists to keep on top of internal documentation. The audit firm may provide a "prep packet" describing what the auditors will ask to review. New auditors may have more questions in advance of the audit than those who have conducted the audit in prior years. The finance team should ask its auditors to let them know what format they want to receive the requested documentation in (e.g., electronic files) since having those documents ready in advance, in the right format, will help save the auditors' time, and thereby save audit costs.

Items to continuously add to the PBC list might include: board meeting minutes; quarterly income and expenses variance analyses and analytics; updates from the compliance department or internal audit department's transaction cycle reviews; permanent file documentation such as

updated organization charts, workflow charts, and accounting manuals; and board of director's annual independence checklists. The NFP will also want to provide internal control forms and documentation; organization charts, and the chart of accounts; and any changes in program delivery or deployment of new digital technology, or system changes.

Once the finance team starts compiling data, the key is to organize it to be easily accessible during the audit. The auditors will review the NFP's financial records by evaluating a variety of financial transactions and may ask the finance team to produce documentation to support any number of them. Be ready to provide the auditors with documentation of any financial transaction made during the fiscal year promptly when asked.



AFIAAR

African Forum of Independent
Accounting and Auditing Regulators

AFIAAR ELECTS NEW LEADERSHIP TO ADVANCE AUDIT AND Accounting Regulation Across Africa

AFIAAR Announces New Leadership Appointments



Chairman
Viswajithsing Tuhobol
FCCA, MBA



Vice Chairman
Imre Nagy
CA (SA), RA, M. Inst.D



Vice Chairman
CPA Pius Aloysius Maneno



AFIAAR

African Forum of Independent
Accounting and Auditing Regulators

Port Louis, Mauritius – The African Forum for Independent Accounting and

Auditing Regulators (AFIAAR) is pleased to announce the appointment of its new leadership team,

elected during the AFIAAR Members Plenary Meeting held on 23 May 2025. The new Officers will serve

a two-year term ending 30 June 2027.

The newly elected Officers are:

❖ **Chairman -
Mr Viswajithsing
Tuhobol, FCCA, MBA**

Mr Tuhobol, who has been re-elected for a second term, is the Chief Executive Officer of the Financial Reporting Council (FRC) of Mauritius. He brings more than 30 years of experience in public financial management, audit regulation, and policy reform. Under his leadership, the FRC has spearheaded critical regulatory reforms in Mauritius and contributed significantly to regional and international regulatory discourse.

❖ **Vice Chairman -
Mr Imre Nagy, CA(SA),
RA, M. Inst.D**

Mr Nagy is the Chief Executive Officer of the Independent Regulatory Board for Auditors (IRBA) of South Africa. With 28 years of experience in auditing, regulation, risk management, and forensic audit, he

also serves as a Board Member and Audit and Finance Committee Chairperson of the International Forum of Independent Audit Regulators (IFIAR), representing Africa in the global arena.

❖ **Vice Chairman
- CPA Pius Aloysius
Maneno, CPA(T),
MAcc., CMInstD(Nz),
PGD (Mgt), B.Com.**

Mr Maneno is the Executive Director of the National Board of Accountants and Auditors (NBAA) of Tanzania. A respected voice in the accounting and governance sectors, he has served in leadership roles across numerous boards in the public and private sectors. His experience spans over 25 years and includes former roles as Chairman of the Dar es Salaam Stock Exchange and the Institute of Directors in Tanzania. These appointments reflect AFIAAR's commitment to strengthening the regulatory ecosystem for accounting and auditing in Africa. The collective expertise

of the new leadership team reinforces AFIAAR's mission to enhance investor confidence and build regulatory capacity on the continent.

About AFIAAR

Established in 2018, the African Forum for Independent Accounting and Auditing Regulators (AFIAAR) comprises regulators from 17 jurisdictions across Africa. AFIAAR serves to promote effective and harmonised regulation, build institutional capacity, and provide a platform for dialogue, collaboration, and the exchange of regulatory best practices.

For further information, please contact:

AFIAAR Secretariat

Admire Ndurunduru

admiren@afiaar.org

3rd Floor, Anglo Mauritius House, Intendance Street, Port Louis, Mauritius



PUBLISHERS

National Board of Accountants and Auditors Tanzania



Mahakama Road, "Audit House," 8th floor
P.O. Box 1271, 41104 Tambukareli, Dodoma
Tel: +255 26 2160170-4
Email:- info@nbaa.go.tz

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