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Standard Costing And Variance Analysis:

An Understanding

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Editor's Note

Preparation for any examination whatsoever is a great task which students must adequately prepare for so as to achieve the desired result. It is based on this fact that Dr. Ben Ukaegbu, the author of our lead article entitled ***"Standard Costing and Variance Analysis"*** *provides a logical approach to standard costing and variance analysis to help students to cope with the examination without having the stress and tension of remembering variance formulas and relationships.*

In the article, the author took time to explain what ***Standard Costing, Standard Cost, Standard Direct Labour Cost, Standard Direct Material Cost and Standard Overhead Cost*** *are all about.*

He defined Standard Overhead Cost as the predetermined cost of overhead of a cost/profit centre for a specified period and using appropriate recovery rates, positing that the overhead recovery rate can be an overall rate.

We also published for your reading delight the proceedings of the Ist Accounting Technology Summit (Accounteks) organized by the Institute, to sensitize Accountants and aspiring ones on the fourth industrial revolution in the practice of Accounting, with the theme ***Disruptive Technologies – The Game Changer for Businesses****.*

You will also read about one of the biggest ICAN events, the Annual Dinner & Awards where the Institute honours great achievers who have contributed to the development of accounting and the country as a whole.

As usual, we publish some past questions and solutions to guide our students on how to tackle examination questions in future. The detailed reports of all these and other regular columns including some interesting news items are contained in this edition.

Your comments on the various articles, news and other items published in this edition are welcome. Please write to: editor@ican.org.ng or aoowolabi@ican.org.ng

ICAN Holds 1st Accounting Technology Summit (Accounteks)

As part of strategic initiatives at ensuring that chartered accountants and professionals in other disciplines are adequately prepared for the fourth industrial revolution, the Institute organized the 1st Accounting Technology Summit (ACCOUNTEKS) with the theme ***Disruptive Technologies – The Game Changer for Businesses***.

In his welcome address, the ICAN President, Alhaji Razak Jaiyeola, disclosed that the world is witnessing unprecedented technological disruptions that are giving new meanings to how businesses should run, saying that failure to keep pace with the disruptive technological trend portends danger of extinction for any business entity or individual as the idea of "too-big-to-fail" has become an illusion.

"Interestingly, what we are experiencing might just be a tip of the iceberg. According to Clayton Christensen "*The reason why it is so difficult for existing firms to capitalize on disruptive innovations is that their processes and their business model that make them good at the existing business actually make them bad at competing for the disruption*", he stated.

He gave the example of the Blackberry that sold about 50 million devices in 2011, plummeted to selling just 4 million annually as at 2016, because its "business model" of physical keyboard could not compete with the touch screen of the likes of iPhone.

He also mentioned AOL's Instant Messenger which unarguably was the first of all messaging apps but whose business model and strategy have gone under due to its failure to compete favourably with the likes of Microsoft's Hotmail, Google's Gmail, WhatsApp messaging and the likes.

"Imagine the experience of Steve Sasson, the Kodak Engineer, who invented the first digital camera back in 1975 – A filmless photography. Unfortunately, Kodak's management's reaction was, "*that's cute – but don't tell anyone about it*". The leaders of Kodak failed to see digital photography as a disruptive technology with immense potentials. It was therefore not a surprise that Kodak filed for bankruptcy in 2012. Digital cameras have now been democratized and it is on everyone's hand – your Smartphone. Imagine if Kodak had invested heavily in developing and marketing of digital camera as far back as 1975, the story of the one-time market leader would have been different, "Jaiyeola enthused.

Some participants disclosed that flying taxis have already been tested in Dubai as Cargo drones will become more economical than motorcycle delivery by 2020. Blockchain technology were also said to have already been used to streamline the procedures for shipping exports, reducing the processing and handling times for key documents, increasing efficiency and reliability.

Participants also agreed that the way Uber, Taxify and similar others are changing commuting experiences in the society. They said examples of disruptions are legion across all fields, be it accounting, banking, law, medicine, hospitality, security and so on.

It was disclosed further that in accounting and the financial services industry, Artificial Intelligence (AI), Robotics, Blockchain and machine learning are currently being deployed in loans automation, customers' relations, bank reconciliation, auditing, tax filing, financial advisory and assurance services.

"Many dedicated and repetitive tasks which were done by accountants like processing of accounts payable and receivables can now be easily handled by AI. This leads to improved cost management by companies. For instance, during an audit, auditors need not search file cabinets for documentation as they can easily have access to the digital files. This, in turn, increases accuracy and efficiency of audits and makes it possible to audit 100 percent of a firm's financial transactions, instead of just samples," the summit concluded.

Speakers at the Accounteks Summit

1631 New Members Inducted As President Urges Transparency

Cross section of 2019 inductees

The Institute has inducted 1631 new members into its membership at a colourful event at the ICAN Centre, Amuwo-Odofin, Lagos.

Speaking at the 63rd Induction Ceremony held on May 9, 2019, the 54th President of ICAN, Alhaji Razak Jaiyeola, urged the new members to live above board while upholding the principles of accuracy and integrity.

He congratulated the new members having qualified as professional accountants after the rigorous qualifying examination of the institute, adding that Accounting as a profession is universally respected and internationally recognised.

He said: "I implore you to adhere strictly to the ethics and rules of professional standard of Accountancy profession and conduct yourselves as good Ambassadors of the Institute."

"You have chosen a highly rewarding discipline. If you apply yourselves to the demands of the profession, you would discover the vast opportunities open to you as Chartered Accountants. Specifically, I wish to encourage you to constantly update yourselves on the emerging disruptive technologies that are redefining business models across professions. These include artificial intelligence, Robotics, Machine Learning, Internet of Things and so on," he declared.

According to him, experts have predicted that those technologies would replace most of the repetitive jobs that Accountants do, adding that they would however create highly rewarding job opportunities for Accountants who can master and apply the technologies in their service deliveries to clients.

Chairman, ICAN Canada Receives Financial Reporting Award

Mr. Kola Oladimeji, Chairman, ICAN Canada & District Society has received the Canadian Award for Financial Reporting, for the second consecutive year.

Administered by the Government Finance Officers Association of the United States and Canada (GFOA) on behalf of Town of High River. the award underscores the town's commitment to open and transparent reporting.

The award was presented to Mr. Oladimeji who is the Chief Financial Officer for the Town at the regular Council meeting held recently for its 2017 Financial Statement.

In his reaction, the mayor of High River, Mr. Graig Snodgrass said: ''the award "shows the strength of the town's financial team and its organizational excellence.''

Canadian Award for Excellence in Financial Reporting programme was established in 1986 by GFOA to encourage annual financial reports that show evidence of their spirit of transparency and full disclosure.

ICAEW, ICAN Parley On African's Untapped Technological Potential

The Institute of Chartered Accountants in England and Wales (ICAEW) is parleying with the Institute of Chartered Accountants of Nigeria (ICAN) on how to develop the untapped technological potential in Nigeria.

The two bodies during a *Joint Economic Insight* organized in Lagos on April 18, 2019, with the theme ***Nigeria: The African Giant Crawling Back on its Own and its Untapped Technological Potential*** agreed that professional Accountants in Africa and Nigeria in particular should leverage on disruptive technologies in handling their duties.

In his welcome address, the ICAN President, Alhaji Razak Jaiyeola explained that the Economic Insight was one of the ways to solidify the long-established relationship between ICAN and ICAEW.

(L-R) Vice President of ICAN, Mazi Nnamdi Okwuadigbo_ President, Alhaji Razak Jaiyeola_ President, ICAEW, Mr. Paul Aplin at the Seminar

"ICAN founding fathers and some of our members were trained by the English Institute and we have over the years had exchange programmes aimed at jointly building capacity for the accounting profession in the respective countries. As part of the visit of ICAEW to Nigeria the two Institutes would consider signing a revised Memorandum of Understanding (MOU) to further enhance the existing good relationship and fruitful cooperation," he expatiated.

In his own speech, the President of ICAEW, Mr. Paul Aplin expressed his Institute's readiness to work with ICAN, adding that it was high time Nigeria moves ahead as far as emerging disruptive technologies such as artificial intelligence, robotics, Machine Learning, Blockchain Technology and Internet of Things are concerned.

He said the collaboration with ICAN would equip members with the skills and competencies required to participate in the 4th industrial revolution.

Alimosho And District Society Inaugurated

The Registrar/Chief Executive of the Institute, Mr. John Evbodaghe has called on ICAN members to uphold professionalism and high standards. He made the call at the inauguration and investiture of Mr. Tunde Adesokan, as District Chairman, Alimosho & District Society of ICAN, in Lagos on May 11, 2019.

While reiterating the need for members to abide by professionalism and maintain integrity in their practice, he disclosed that the Institute believes that Accountants have a role to play in the war against corruption and in restoring Nigeria's economy to its days of glory.

Evbodaghe who represented the ICAN President, Alhaji Razak Jaiyeola at the event, identified integrity, accuracy and accountability as the watchword of the Institute, and stressed the need for ICAN members to show high sense of ethical standards. He noted that the inauguration of district societies in communities would help the Institute disseminate its activities to societies at large.

"It is always great for us to have district societies. ICAN is a very large organisation and we have members spread all over the place but with district societies, it becomes small enough to contain all our members who are spread all over the country and in diaspora.

"Our watchword is integrity and accuracy and that means that in all that we do, we have to show very high sense of ethical standard and display "integrity."

In his acceptance speech, the district chairman, Mr. Adesokan said the District would continue to develop its members technically to carry out their duties professionally.

"We have instituted a programme in ICAN for whistle blowing activities and this is the type of programme that we want to use to reshape the economy of Nigeria. "We are also working on eradicating quacks from the profession and as a result, we have put in a system to regulate our members through day to day trainings, he declared.

109 New Specialists In Various Accounting Fields Inducted

The Institute has inducted 109 new specialists in four areas of accounting. They are: Certified Forensic Accountants under the Audit, Investigations & Forensic Accounting Faculty; experts in International Financial Reporting Standards (IFRS) of the Financial Reporting Faculty; Certified Insolvency Practitioners of the Insolvency & Corporate Re-Engineering Faculty; and Corporate Finance experts of the Corporate Finance Management Faculty.

In his remarks at the induction held in Lagos, the 54th ICAN President, Alhaji Razak Jaiyeloa, FCA, implored the new specialists "to continue to fly the profession's flag of honesty, integrity and excellence with distinction in their respective spheres of influence".

"You have joined the league of professionals who are no more generalists", he said, adding that clients would look up to them for sound advice in the special areas of competence.

He underscored the thorough trainings the inductees received which he said had adequately prepared them to face the challenging discipline of accounting.

New inductees at ICAN's specialists induction ceremony held recently in Lagos

According to him those who specialize in various aspects of accounting stand to gain distinct advantages including the opportunity to carve a niche for themselves as professionals in a particular field; effective and efficient deployment of skills and competencies for overall economic well-being and creation of an avenue for the judicious use of human and material resources, among others.

The ICAN Faculties are Audit, Investigations and Forensic Accounting; Consultancy and Information Technology; Corporate Finance Management; Financial Reporting; Insolvency and Corporate Re-engineering; Public Finance Management; as well as Taxation and Fiscal Policy Management.

ICAN Elevates 1,301 Associate Members To Fellows

The Institute has elevated 1,301 Associate members to Fellows, the highest status of membership for those who have attained requisite experience and exposure in the profession.

While presiding over the fellowship conferment ceremony in Lagos on April 23, 2019, ICAN President Alhaji Razak Jaiyeola, FCA, said the conferees were found worthy on the basis of "their compliance to global best practices in service delivery and value creation; unwavering commitment to ethical values of accountability, transparency, honesty and integrity as well as outstanding value-driven contributions to the development and growth of the Accountancy Profession".

ICAN President Alhaji Razak Jaiyeola congratulating some new fellows at the Fellowship Awards.

He said the fellowship award confers on the recipients "a higher responsibility of remaining good ambassadors of ICAN and role models for upcoming Chartered Accountants" and implored them to continue to espouse accuracy, integrity and trust in all their dealings.

"We are conscious of the fact that what makes a successful professional is not only a full grasp of the technical aspect of the profession but a seamless marriage between professional knowledge and the soft, but not less important, skills like integrity, honesty and diligence".

The ICAN President implored all Chartered Accountants to upgrade their IT skills for continued relevance in the face of technological disruptions of the profession happening at an unprecedented speed which is changing the fundamentals on which professional activities once relied.

ICAN Honours Great Achievers At The 2019 Annual Dinner And Awards

The 2019 edition of the Annual Dinne and Awards of the Institute held at Eko Hotel & Suites, Victoria Island, Lagos, on Saturday, April 13, 2019, was a gathering of who is who in Nigeria as great achievers were recognized and rewarded.

As usual, the event was colourful and specially packaged to celebrate individuals and corporate organisations that have really contributed immensely to the growth of the Institute and Nigeria as a country.

The awards were presented to deserving individuals and corporate bodies in three categories of Members, Non-Members and Corporate Organisations.

In his speech, the 54th President of the Institute, Alhaji Razak Jaiyeola disclosed that the annual event was instituted for members to unwind, celebrate the Institute's successes and some achievers as well as discuss issues of professional and national interests.

His Highness, Emir of Kano, Mallam Muhammad Sanusi II receiving his award

Mr. Fatai Folarin, FCA receiving ICAN award on behalf of Deloitte

In his welcome address, the Chairman of Publication and Image Committee (PIC), which organised the event, Mallam Haruna Yahaya disclosed that the annual dinner and awards was designed for members to interact and rob minds with their colleagues, friends and family members in a relaxed and serene atmosphere.

He emphasised that the awardees were carefully and diligently selected by the Annual Dinner and Awards Sub-Committee of the Publications and Image Committee (PIC) of ICAN and were duly approved by the Council of the Institute.

In the members' category, two people received the awards for their immense contributions to the accounting profession and the nation. They are: Otunba Abdul Lateef Adebayo Owoyemi, FCA (ICAN President 2005-2006) and Dr Awa Ibraheem, FCA – the Chairman, OAK Pensions.

In the non-members category, the Emir of Kano, His Highness Muhammad Sanusi II, the Sarkin Kano, was the only one honoured. He was honoured for his roles and contribution to the development of Nigeria's economy.

In the Corporate Body category, two accounting firms in the country namely Deloitte & Touche, Nigeria and KPMG, Nigeria were honoured. They were recognised for their immense contributions to the economic and financial growth and healthy well-being of the nation and their contributions to the development of the Accountancy profession.

Standard Costing And Variance Analysis:
An Understanding

By Ben Ukaegbu

Ben Ukaegbu provides a logical approach to standard costing and variance analysis to help students to cope with the examination without having the stress and tension of remembering variance formulas and relationships.

Standard Costing: 'This is a technique which uses standards for costs and revenues for the purposes of control through variance analysis' CIMA

Standard cost: This is a predetermined cost under specified working conditions, i.e. it is a predetermined quantity at a predetermined price or, put another way, a standard quantity at a standard price.

Standard direct labour cost: This is a predetermined quantity of labour at a predetermined labour rate, e.g. if the standard labour time for 1 unit of output is 90 minutes and the standard labour rate is N5.00 per hour, then the standard labour cost is N7.50.

Standard direct material cost: This is a predeterm*ined* quantity of material or materials at a predetermined price, e.g. if it requires 2kg of raw material A at N1.00 and 1kg of raw material B at N2.00 to make a unit of output, then the standard material cost is N4.00 (i.e. 2 x N1.00 + 1 x N2.00).

Standard overhead cost: This is the predetermined cost of overhead of a cost/profit centre for a specified time period and using appropriate recovery rates. The overhead recovery rate can be an overall rate, i.e. a combined variable and fixed overhead rate, or separable recovery rates, i.e. a variable overhead recovery rate and a fixed overhead recovery rate.

Illustration 1

The following is the standard cost of 1 unit of Omega product based on a fixed budget of 10,000 units for the first quarter of 2019.

		N		N
Direct material	2kg A @ N1.00 per kg	2.00		
	1kg B @ N2.00 per kg	2.00		4.00
Direct labour	90 minute at N5.00 per hr			7.50
Overhead – variable	90 min at N4.00 per hr.			6.00
Standard marginal cost				17.50
Overhead – fixed	90 min at N7.00 per hr		10.50	
Total standard cost			N28.00	

Then the fixed budget for the First of 2019 would be:

Direct materials	20,000kg A at N1.00	N20,000
	10,000kg B at N2.00	20,000
Direct labour	15,000 hr at N5.00	75,000
Overhead variable	15,000 hr at N4.00	60,000
Fixed overhead	15,000 hr at N7.00	105,000

The actual results for the First Quarter 2019 were:

Production units			11,000
Direct materials	A actual kg 23,000	Actual cost	N25,300
	B actual kg 10,600	Actual cost	23,320
Direct labour	16,000 actual hr	actual cost	80,000
Overhead variable		actual cost	67,200
Overhead fixed		actual cost	N112,000

Cost Variance: This is the difference between a standard cost and the comparable actual cost in the cost period. Then Omega total cost variance from a fixed budget basis is:

Standard cost of 11,000 units is	N308,000 (11,000 x N28)
Actual cost of 11,000 units is	
(i.e N25,300 + 23320 + 80,000 + 67,000 + 112,000)	307,802
Total cost variance (TCV)	180F

Since total actual cost is less than total standard cost the variance is favourable.

Material Cost Variance
Since material cost is made up from a predetermined quantity and a predetermined price we can have a quantity (or usage) variance and a price variance.

Usage Variance
To produce 11,000 units OMEGA should have used:
22,000 kg of A, and
11,000 kg of B

However, the actual usage was
23,000 kg of A, and
10,600 kg of B.
i.e., we used more than the standard quantity of A material and less than the standard quantity of B material.

Then A actual 23,000 kg – Std 22,000 kg Variance 1000A x N1.00 =	N1,000A
B actual 10,600 kg – Std 11,000 kg Variance 400F x N2.00 =	800F
Material usage variance (MUV)	200A

Price Variance
This is the difference between the actual prices paid for the material A and material B compared to standard prices multiplied by actual usage.

A N25,300 actual cost for 23,000 kg – std cost N23,000 =	N2,300A
B N23,320 actual cost for 10,600 kg – std cost N21,200 =	N2,120A
Material Price Variance (MPV)	N4,420A

The usage variance of N200 A and the Price variance of N4,420 A gives a material cost variance of N4,620.00. We can verify this by:
11,000 units actual cost N48,620 (25,300 + 23,320)
11,000 units std cost N44,000 (11,000 x N4.00)
or actual cost exceeded standard cost by N4,620.

Mixture and Yield Variances
The usage variance can be subdivided into a mixture variance if there are two or more raw materials and also a yield variance.

Mixture Variance. The mixture variance shows the effect on standard cost of the changes in actual mixture compared to the standard mixture to the standard mixture.

	Actual mix	std Mix	Variance	N
A	23,000	22,400(2)	600A x N1.00std price	600A
B	10,600	11,200(1)	600F x N2.00std price	1,200F
	33,600	33,600	Material Mixture (MMV)	600F

Yield Variance. The actual yield or output from the input to a machine or process can be different from the standard yield. If there is only one raw material then yield equals usage since there is no mixture, but if there are two or more materials

being mixed then there can be a mixture variance and a yield variance making up the usage variance.

33,600 kg should have produced 11,200 units of Omega (33,600/3)
but actually produced 11,000 units.
So yield variance was 200 units Adverse since the standard material cost is N4.00, the yield variance is N800.00A.
Mixture yield variance (MYV) N800A. therefore, the mixture of N600F + Yield at N800A gives the material usage variance of N200A.

Note: In calculating the material cost variance (MCV), the actual material cost is compared to the standard cost. In calculating material price variances (MPV), the actual prices are compared to the standard prices for actual usage. For all other variances, i.e. usage (MUV), mixture (MMV) and yield (MYV), standard costs are used, that is, the usage is at standard cost, mixture is at standard cost and yield is at standard cost.

Direct Labour Cost:
The standard direct labour cost has two main components – labour rate variance and a labour efficiency variance.
Labour rate variance: this is the difference between the standard labour rate per hour and the actual labour rate paid for the actual hours worked.
The actual hours worked were 16,000 and the actual wages paid were N80,000, if the standard rate of N5.00 per hour had been paid, the standard labour cost would have been N80,000, that is, 16,000 x N5.00, so there is a nil variance.
Labour Efficiency variance: this is the difference between the standard hours allowed for the actual production and the actual hours worked both valued at the standard labour rate.

The standard hours allowed for 11,000 units is 16,500 (11,000 x 1.5)
Actual hours worked on 11,000 units was 16,000.
So there is a saving of a favourable variance of 500 hr at N5.00 per hour or N2,500F.
The labour rate variance and the labour efficiency variance give a labour cost variance of N2,500F. We can verify this by comparing the 11,000 units of actual cost N80,000 to a standard cost of 11,000 x N7.50 = N82,5000, that is, a favourable variance of N2,500 for the labour cost.

True labour efficiency variance: In certain situations, the labour efficiency variance may hide events which management wish to highlight and exclude or take out of the labour efficiency variance, for example, idle or waiting time. If in our example, there were 200 hours of idle time, the labour idle time variance would be 200 hrs x N7.50 standard = N1,500A. This would have the effect of making the true labour efficiency variance N4,000F, so instead of having a labour efficiency variance of N2,500 F we now have a true labour efficiency variance of N4,000F and a labour idle time variance of N1,500A

In calculating labour variances, the labour cost variance is the actual labour cost compared to standard cost. In calculating labour rate variance, the actual rates are compared to the standard rate for the actual labour used. For the labour efficiency variance, the labour idle time variance and the true labour efficiency variance standard rates are used.

Variable overhead variance: The variable overhead variance as the name implies, varies with outputs, i.e. if output goes up the variance overheads are expected to move upwards and if output is reduced the variable overheads are also expected to be reduced.

The variance is divided into two main elements – an expenditure variance and an efficiency variance.
Expenditure variance: This is the difference between the actual expenditure for the actual hours worked compared to the standard expenditure for those actual hours.

The actual variable overhead expenditure for 16,000 hours was N16,200. The standard overhead expenditure should be 16,000 x N4.00 or N64,000 then since actual expenditure is greater than standard the variance is Adverse, variable overhead expenditure variance (VOExV) is N3,200A.

Efficiency Variance: since the variable overhead recovery rate is based on labour hours, then a favourable labour efficiency variance will also give a favourable variable overhead efficiency variance.

16,000 actual hours produced 11,000 units but it should have taken 16,500 hours under standard output conditions, i.e. 11,000 1.5hrs, so there is a favourable overhead efficiency of (500 hours x N4.00) N2,000F.
Variable overhead efficiency variance (VOEffV) N2,000F

The expenditure variance and the efficiency variance together give the variable overhead variance (VOV) and we can verify this as follows. In the period we produced 11,000 units which should have cost 11,000 x N6.00 = N66,000 but the actual cost was N67,000 or a VOV of N1,200A which is made up of the two variances VOExV of N3,200 and VOEffV of N2,000F.

Fixed Overhead variance. The fixed overhead variance, as the named implies, suggests it should not vary with outputs – this, however applies to the expenditure variance. The fixed overhead variance is divided into two main elements –

Expenditure variance and Volume variance
Expenditure variance: it should not vary, (within given parameters) with volume increases or decreases. In our example, the budgeted expenditure from the fixed budget (one level activity) was N105,000 compared to an actual fixed overhead expenditure of N112,000 which gives an adverse expenditure variance of N7,000, i.e. FOExV is N7,000A.

Volume variance: the fixed budget was based on 10,000 units or 15,000 standard hours, the actual performance was 11,000 units produced or 11,000 x N10.50 = N115,000 or 16,500 std hours x N7.00 = N115,500. Therefore our actual volume exceeded our budgeted volume by 1,000 units or 1,500 std hours which is a favourable volume variance of N10,500, i.e. 1,000 units x N10.50 or 1,500 standard hours x N7.00).

Since the fixed overhead variance is made up of two elements – an expenditure variance and a volume variance then the addition of these two elements gives the fixed overhead variance, i.e. N3,500F (N7,000A expenditure + N10,500F volume). This can be verified: the budgeted variance based on the fixed budget was N105,000 (15,000 hours x N7.00 or 10,000 x N10.50). the actual overhead recovered from the actual output in the period was 16,500 x N7.00 = N115,500 or 11,000 x N10.50. The actual expenditure incurred was N112,000 so the overhead over-recovered is N3,500 or a favourable variance of N3,500.

The volume variance can be divided into two sub-variances – an efficiency variance and a capacity variance.

Fixed Overhead efficiency variance: In producing 11,000 units, we should have taken 16,500 standard hours but the actual hours taken were 16.000 so there is favourable efficiency variance of 500 standard hours x N7.00 per hour or N3,500F.

Fixed overhead capacity variance – the budget capacity on the fixed budget was 15,000 standard hours, i.e. 10,000 x 1.5hours = 15,000, but the actual capacity hours worked was 16,000, i.e. 10,000 extra hours at N7.00 per hour or N7,000F.

The fixed overhead expenditure variance is the difference between the budgeted fixed overhead and the actual fixed overhead cost. The volume variance represents the overhead over-recovered if the actual volume is greater than budgeted volume or the overhead under-recovered if actual is less than the budgeted volume. The excess volume or shortfall volume is multiplied by the standard fixed overhead rate. The volume variance can be sub-divided into a fixed overhead efficiency variance and a fixed overhead capacity variance. The fixed overhead efficiency variance is the difference between the actual hours taken and the standard hours, equivalent of the output multiplied by standard overhead recovery rate. The fixed overhead capacity variance is the difference between the budgeted capacity and the actual capacity utilised, multiplied by the standard fixed overhead recovery rate.

In the concluding article on Variance Analysis, we shall discuss Sales Variance, Reconciliation of variances and investigation of variances.

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Further Readings:

Colin Drury,
Management & Cost Accounting,
10th Edition, Cengage Learning, 2017.

Horngren's Cost Accounting: A Managerial Emphasis
Global Edition,
Pearson, 2017

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

(Established by Act of Parliament No. 15 0f 1965)

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47, Ikotun/Egan Road, Market B/stop, Igando, Lagos.

2 **Accountancy Tutors Nigeria Limited**
1-9, Ilorin/Katsina Road, By Independence Way, Marafa Estate, Kaduna State.

3 **Accountancy Trainining Centre , Makurdi**
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29 **MSL, School of Accountancy & Mgt. Studies**
L8, Ahmadu Bello Way, Katsina Round-about, same building with Studio 24, Kaduna, Kaduna State

30 **Networth Professional Tutors, V/I**
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19A Lady Regina Nwankwu Avenue, GRA, Onitsha, Anambra State

32 **Pass Associates Limited**
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33 **Password Professional Tutors, Akoka**
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34 **PLUM Academy Limited**
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35 **Portharcourt School of MGT & Economics**
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37 **Potec Training Centre, Port-Harcourt**
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HOW TO PASS YOUR PROFESSIONAL EXAMS

The purpose of any professional exam is not just to help you get a good job, but also to create a well-rounded, accomplished professional. Passing professional exams can be challenging, expensive and time consuming, but if you follow these top tips you will have a greater chance of success:

1. **BELIEVE IN YOURSELF**
   If you don't believe that you will pass the exam you won't, you will be defeated before you even start. If you believe in yourself, you are committed to doing your best both in your preparation and in the exam session.

2. **INVEST IN YOURSELF**
   Qualification as a professional accountant costs money, but the return on investment is worth it. Becoming a qualified accountant opens the door to a wealth of career opportunities and the financial rewards that come with them. You must invest in the study materials; the e-books, recommended reading and Achieve, if you can, but the most important investment is your time. If you put the work in, then you have the best chance of success, carry your notes wherever you go and read them whenever you have the opportunity.

3. **PUT THEORY INTO PRACTICE**
   The underpinning principle of the AIA qualification is the application of theory to practical situations, relating what you're learning to the real world. Look for practical ways to apply the knowledge you're acquiring, this will greatly benefit your understanding of the topics and make it easier for you to tackle case studies in the exam.

4. **UNDERSTAND THE SYLLABUS AND EXAM STRUCTURE**
   Your first step in your studies should be to read and understand the structure of the exam you're going to sit, this will give you a structure for your revision and will help you grasp how all the topics fit together. The syllabus explains how the marks are allocated and how each of the topics within the paper are weighted.

5. **PRACTICE PAST EXAM QUESTIONS**
   "Practice makes perfect" and you should practice as many past exam papers as you can. Papers from the last four sessions are available to download from the Secure Document Library in My AIA and you should attempt at least one of these papers, as a mock exam, under conditions as close to the actual exam as possible.

6. **MAKE SUMMARY NOTES**
   To assist your recall when the exam comes around, make notes from your study materials and books, this can help embed the information in your mind, and gives you something to revise from as the exam approaches, rather than going back to the full book. Write bullet points for important concepts and key ideas which you need to remember

7. **REMEMBER KEY INFORMATION**
   Aid your memory of key information and formulas by making use of mnemonics (like SWOT) or by making posters that you can stick up around your home. You could even post it at the bottom of your bed, so it's the last thing you see at night or the first thing you see in the morning.

8. **MAKE USE OF YOUR NETWORK**
   If you're studying at a college, consider forming a small study group to help you with topics you don't understand. If you don't have any other students living near you, you can connect with other students through our LinkedIn group or our Achieve Facebook group. Not only will this help your studying, you can start to build your professional network, which in the future can refer you to job opportunities.

9. **PLAN YOUR EXAM STRATEGY**
   You have months to study but just over three hours to pass your exam, so it's vital you know how you're going to approach the exam and make the best use of that precious time. Know how you're going to allocate your time before you get in the exam hall. You should allot some time at the beginning to read the paper through before you begin and then again at the end to check through your answers. The mark allocation indicated in the syllabus will also give you an idea of how long to spend on a question. If you get stuck on a question, don't panic, move onto the next question and if you have time you can go back to it. The examiner can't allocate you any marks if you haven't even attempted a question.

10. **MAKE THE EXAMINER'S JOB EASY**
    Examiners will only mark what they can understand and read clearly, so it's vital that you write clearly and legibly, and that you check your spelling and that what you've written makes sense. Examiners have a limited amount of time to mark exams, so it helps if you make your paper as examiner friendly as possible.

Culled from Association of International Accountants through http://www.aiaworldwide.com

Our goal is to ensure success in ICAN exams. We have, therefore, provided solutions to some past questions to guide candidates in future exams. Although these suggested solutions have been published under the Institute's name, they do not represent the views of the Council of the Institute. ICAN will, therefore, not enter into any correspondence about them.

Economics (ATSWA PART 1 - MARCH, 2018 DIET)

SECTION A: PART I
MULTIPLE-CHOICE QUESTIONS *(30 Marks)*

ATTEMPT ALL QUESTIONS IN THIS SECTION.
Write ONLY the alphabet (A, B, C, D or E) that corresponds to the correct option in each of the following questions / statements.

1. Which of the following is NOT an advantage of a capitalist economic system?
   A. Progress and prosperity
   B. Increase in efficiency
   C. Emergence of monopoly
   D. Greater output and higher income
   E. Optimal allocation of resources

2. Which of the following is NOT TRUE of an entrepreneur?
   A. Organises other factors of production
   B. Determines what and how much to produce
   C. Shares out the business risks
   D. Provides business capital
   E. Decides method of production

3. People are best able to take the fullest advantage of their unique talents and skills through
   A. Specialisation
   B. Commercialisation
   C. Trade by barter
   D. Trade liberalisation
   E. Merger and acquisition

4. The following are advantages of a merger EXCEPT
   A. Access to larger investment fund
   B. Derivation of technical diseconomies of scale
   C. Reduction in transaction cost
   D. Enhanced Market Power
   E. Wider spread of risks

5. The primary goal of a firm as an economic agent is to
   A. Maximise profit
   B. Minimise profit
   C. Promote competition
   D. Maximise cost of production
   E. Maximise society's welfare

6. Which of the following is exclusively owned and controlled by the government?
   A. Sole proprietorship
   B. Partnership
   C. Private limited company
   D. Public limited company
   E. Public corporation

7. A point inside the production possibilities curve illustrates the concept of
   A. Full employment
   B. Opportunity cost
   C. Scale of preference
   D. Unemployment
   E. Economic growth

8. Which of the following is TRUE of the range of income elasticity of demand co-efficient for a normal commodity with an inelastic demand?
   A. O<EY< 1
   B. 1 < EY< "
   C. 1d" EYd" 0
   D. 0d" EY< 1
   E. 1d" EY< 0

9. If experts in the oil industry predict an increase in the price of fuel, beginning next month, in the current month, this prediction would, ceteris paribus.
   A. Shift demand curve of fuel backward
   B. Shift supply curve of fuel backward
   C. Shift equilibrium quantity of fuel backward
   D. Shift demand curve of fuel rightward
   E. Result in decrease in the quantity of fuel demanded in the current month.

10. The indifference curve theory was developed to explain the
    A. quantity theory of money
    B. theory of comparative cost advantage
    C. law of returns to scale
    D. law of demand
    E. law of supply

11. Two goods M and N are described as substitutes if
    A. A fall in the price of M causes a decrease in the quantity demanded of N.
    B. A fall in the price of M causes an increase in the quantity

demanded of N
C. A rise in the price of M does not affect the quantity demanded of N
D. A fall in the price of M does not affect the quantity demanded of N
E. The two goods are inferior goods

12. If the country's GDP in the current year is N65 billion and the GDP in the base year is N50 billion, the GDP growth rate is
A. 15%
B. 30%
C. 35%
D. 25%
E. 20%

13. The excess of equilibrium National Income over the full employment National Income is referred to as
A. GDP Gap
B. Deflationary Gap
C. Inflationary Gap
D. Recessionary Gap
E. Devolutionary Gap

14. A governed but closed economy will be captured in a .....National Income model
A. One sector
B. Two sector
C. Three sector
D. Four sector
E. Five sector

15. A sustained increase in real output accompanied by positive changes that improve human welfare is referred to as
A. Economic progress
B. Economic growth
C. Economic development
D. Economic recession
E. Economic recovery

16. Which of the following DOES NOT stimulate the economic growth of a nation?
A. Availability of skilled human resources
B. Capital accumulation
C. Expansion of knowledge
D. Depletion of environmental resources
E. Availability of mineral resources

17. The value of money in an economy is usually affected by
A. Speculative motive
B. Transaction motive
C. Precautionary motive
D. Employment motive
E. Price level

18. An essential attribute of money which makes it widely acceptable is
A. Portability
B. Homogeneity
C. Durability
D. Divisibility
E. Relative Scarcity

19. The incidence of an indirect tax imposed on a commodity falls equally on both the consumer and the producer if demand is
A. Price elastic
B. Price inelastic
C. Unit-price elastic
D. Perfectly price elastic
E. Perfectly price inelastic

20. A situation where a tile manufacturing firm merges with a polish manufacturing firm is known as
A. Horizontal Merger
B. Vertical Merger
C. Parallel Merger
D. Conglomerate Merger
E. Acquisition

21. Suppose a customer deposits N120,000 in a commercial bank, and cash reserve ratio imposed by the central bank is 5%. The maximum amount created by the commercial bank is
A. 2.4 million
B. 4.2 million
C. 24 million
D. 42 million
E. 240 million

22. Which of the following statements is/are NOT TRUE? I. A major disadvantage of direct taxes is that they can be easily evaded II. Protecting infant industries requires lowering import duties III. A deficit budget may be used to promote economic growth
A. I
B. II
C. III
D. I and II
E. I, II and III

23. Employment of workers into positions requiring less of their acquired education and skills constitute what is known as
A. Voluntary unemployment
B. Involuntary unemployment
C. Residual unemployment
D. Full employment
E. Underemployment

24. The following monetary policy measures can be used to reduce inflation rate in an economy EXCEPT
A. Sales of government securities
B. Increase cash reserve ratio
C. Purchase of treasury bills

D. Increase in discount rate
E. Call for special deposit

25. Trade protection in a developing country could be justified on the following grounds EXCEPT to
A. Protect infant industries
B. Protect and expand domestic employment
C. Correct Balance of payment deficit
D. Encourage dumping
E. enhance national security

26. Which of the following is NOT an underlying assumption of the theory of comparative cost advantage?
A. There are only two countries
B. There is perfect mobility of factors of production
C. There is full employment
D. The cost of production is not the same
E. There are no trade barriers

27. Which of the following instruments of trade protection implies that the entry of a foreign good is totally disallowed?
A. Embargo
B. Import tariff
C. Exchange control
D. Quota
E. Subsidy

28. A perfectly competitive firm can enjoy only normal profit in the long run due to the assumption of
A. Free flow of market information
B. Free entry and exit
C. Homogeneous goods
D. Large number of buyers and sellers
E. Perfect mobility of resources

29. Product differentiation is an essential feature of
A. Oligopoly
B. Duopoly
C. Perfect competition
D. Monopoly
E. Monopolistic competition

30. Which of the following can be described as an international cartel?
A. Economic Community of West African States (ECOWAS)
B. Organisation of Petroleum Exporting Countries (OPEC)
C. International Monetary Fund (IMF)
D. United Nations Conference for Trade and Development (UNCTAD)
E. European Union (EU)

SECTION A: PART II
SHORT-ANSWER QUESTIONS *(20 Marks)*
ATTEMPT ALL QUESTIONS IN THIS SECTION.

Write the correct answer that best completes each of the following questions/statements:

1. As a factor of production, all natural resources are collectively called.....

2. The negative slope of the indifference curve is called .....

3. The total output achieved in a production process divided by the number of workers engaged gives the .....

4. The production period during which all factors of production are variable is referred to as the .....

5. A 25% increase in quantity supplied caused by 10% increase in price will give price elasticity of supply coefficient of .....

6. A demand curve that violates the law of demand is called .....

7. An economic agent that seeks to maximise social welfare is called.....

8. The rate of economic growth is measured as the percentage increase in .....overtime.

9. Cyclical fluctuations in output and employment levels over a period of time is usually illustrated by a diagram known as .....

10. The ratio of a country's real Gross National Product (GNP) to the total population is called.....

11. Government expenditure is one of the main instruments of .....policy

12. The desire to hold wealth in the form of cash instead of interest yielding assets is described as.....

13. Expenses on the construction of roads, bridges, dams, schools and hospitals readily fall within the category of .....

14. An appeal by the Central Bank to Commercial Banks in respect of the kind of lending policies they should adopt is described as .....

15. The form of economic integration in which the agreements of member countries includes adoption of single currency is called .....

16. A market structure where only TWO firms constitute the industry is called .....

17. The shut down condition for a monopolistically competitive

firm is when the price is.....

18. In international trade, a country that has the lowest opportunity cost exhibits a.....

19. A deliberate official reduction of the value of a country's currency relative to other currencies is called .....

20. A rise in the price level in an economy resulting from an increase in the salaries and wages of workers is specifically referred to as .....

SECTION B: (ATSWA PART 1 - MARCH, 2019 DIET)
MICRO / MACROECONOMICS

Question 1

a. Explain briefly the difference between
   i. Microeconomics and Macroeconomics
   ii. Positive economics and Normative economics *(8 Marks)*

b. Explain with illustrative examples what economists meant by
   i. Ceteris paribus
   ii. Direct Relationship
   iii. Inverse Relationship *(4½ Marks)* ***(Total 12½ Marks)***

Question 2

a. Distinguish clearly between private limited liability company and public limited liability company. *(5 Marks)*

b. Write short notes on each of the following concepts:
   i. Privatisation
   ii. Commercialisation
   iii. Nationalisation *(7½ Marks)* ***(Total 12½ Marks)***

Question 3

a. i. What is Inflation?
   ii. Differentiate between creeping inflation and hyper-inflation. *(4½ Marks)*

b. Explain briefly the specific effects of inflation on
   i. Fixed income earners
   ii. Business profits
   iii. Lenders and borrowers
   iv. Foreign trade *(8 Marks)* ***(Total 12½ Marks)***

Question 4

a. Explain briefly the use of government expenditure and taxation as instruments of fiscal policy. *(4½ Marks)*

b. State **FOUR** reasons why government expenditure has been on the increase in West Africa over the years. *(8 Marks)* ***(Total 12½ Marks)***

Question 5

a. State **FIVE** objectives of Organisation of Petroleum Exporting Countries (OPEC). *(5 Marks)*

b. Explain briefly **THREE** problems militating against OPEC from achieving its objectives. *(7½ Marks)* ***(Total 12½ Marks)***

Economics

(ATSWA PART 1 - MARCH, 2018 DIET)

Suggested Solutions

SECTION A: PART I
MULTIPLE-CHOICE QUESTIONS

1. C	6. E	11. A	16. D	21. A	26. D
2. C	7. D	12. B	17. E	22. B	27. A
3. A	8. A	13. C	18. B	23. E	28. B
4. B	9. D	14. C	19. C	24. C	29. E
5. A	10. D	15. C	20. D	25. D	30. B

Examiners' Report
This part of the paper is compulsory and was attempted by all the candidates. The questions were drawn from all areas of the syllabus.

About 61 percent of the candidates scored above the average mark allotted to this part of the paper.

Suggested Solutions

SECTION A: PART II
SHORT-ANSWER QUESTIONS

1. Land
2. Marginal Rate of Commodity Substitution
3. Average Product
4. Long run
5. 2.5
6. Abnormal demand curve/Exceptional demand curve
7. Government
8. Real GDP/Real GNP/Real National Income
9. Business Cycle
10. Per-capita Real GNP
11. Fiscal
12. Demand for money/Liquidity preference
13. Capital expenditure
14. Moral suasion
15. Monetary Union
16. Duopoly
17. Less than Average Variable Cost
18. Comparative cost advantage
19. Currency devaluation
20. Wage push Inflation/Cost-push inflation

Examiners' Report
This is also a compulsory part of the paper. The questions were fairly drawn from all areas of the syllabus and were attempted by all the candidates in compliance with the instruction. On the average, the candidates posted a poor performance with a success rate of about 34%.

Candidates should note that, to perform well in this part of the paper requires a good knowledge of all topics of the syllabus.

Suggested Solutions

SECTION B: (ATSWA PART 1 - MARCH, 2019 DIET)
MICRO / MACROECONOMICS

SOLUTION 1

a (i) The study of economics is generally separated into two major areas; Microeconomics and Macroeconomics. Micro-economics is concerned with the behaviour of individual consumers and firms and how individual markets and industries are organized. It studies economics in a smaller unit. Specifically, it examines how relative prices are determined and how resources are allocated to the production of goods and services, how prices are determined and how efficiently the resources are utilized. Macroeconomics is the study of the economy as a whole. The emphasis is on aggregate economic variables such as the level of employment, total output and income, etc. Thus, macroeconomics explores the problems of inflation, external disequilibrium, growth and general poverty, among others, in the macro economy.

(ii) Economic analysis can be divided into positive economics and normative economics.
Positive economics is concerned with describing and analysing the way things are or things will be if certain conditions exist. It is a statement of facts. It is an objective science which provides explanation of the working of the economic system.

Normative economics is concerned with what ought to be or should be with respect to how economic problems should be solved. It is a value judgement, and subjective, thus, it deals with those areas of human economic behaviour in which personal value judgements are made. Example of normative statement can be like this; *money supply should be reduced to lower inflation in the economy*.

b (i) **Ceteris paribus** is a latin phrase meaning 'other things being equal'. Since human behaviour cannot be predicted, it is important to state the underlying assumptions clearly. Adding the phrase 'ceteris paribus' to the state of economic law is to indicate the law of valid to the extent that other influencing factors remain unchanged. Example is the *law of demand* ceteris paribus, the lower the price, the greater the quantity demanded.

(ii) **Direct relationship** exists between two variables if they move in the same direction. For example, price and the quantity supplied by the firm. In supply, other things being equal, the higher the price, the greater the quantity supplied.

(iii) **Inverse relationship** exists between two variables when they are moving in opposite direction. A good example is the *law of demand*. All things being equal, the higher the price, the lower the quantity demanded.

Examiners' Report
This question is on the nature and scope of economics and some of the terms that constitute the language of modern economics. About 77% of the candidates attempted the question recording a dismal performance of about 30% success rate.

The funniest thing was that most of the candidates wrongly interpreted the popular Latin phrase 'ceteris paribus' as meaning 'all things being equal' as against the correct interpretation of 'all others things being equal'. It is very important that candidates are well grounded in the nature and scope of modern economics and the language of economics.

SOLUTION 2

a. There are two types of joint-stock companies: Private limited Liability Company and Public Limited Liability Company. A **private limited liability company** is small in size with membership ranging between two (2) and fifty (50). The minimum number of shareholders a private limited liability company can have is two and a maximum number of fifty. It has smaller capital shareholders when compared with a public limited liability company. The company does not sell shares to the public to raise capital but members contribute their funds for the business shares.

On the other hand, a **public limited liability company** possesses a larger capital as compared to a private joint-stock company through the sale of shares to the general public. It has a membership of seven (7) and above. And shareholders can freely transfer or sell their shares.

b.(i) **Privatisation:** This can be defined as the process of transferring ownership and control of publicly owned enterprises from

government (public sector) to private individuals and companies (private sector). **Privatisation** can take any of the following forms:

- **Share issue privatisation:** This involves selling shares of the enterprise to private individuals and businesses on the stock market.
- **Voucher privatisation:** This entails distributing shares of ownership of the enterprise to citizens usually for free or at any low price.
- **Asset sale privatisation:** This involves selling the entire enterprise or a substantial part of it to strategic investor, usually by auction. The choice of privatisation method is influenced by capital market, political and enterprise-specific factors.

ii. **Commercialization:** This is the process of reorganizing a public enterprise to make it self-sustaining and self-accounting instead of depending on the government subventions and subsidies for its survival and operation. Such reorganized enterprises are not subsidized by government and product pricing is achieved by market forces.

The primary goal of commercialization is to promote efficient use of public resources as well as improving quality of service delivery, especially in areas that are critical to the growth of the economy and poverty reduction.

iii. **Nationalisation:** This refers to a process whereby the government assumes the exclusive ownership and control of a firm or an industry. In most developing countries, the term is used to refer to transfer of ownership and control of an industry from the private sector to the public sector. In the later case, nationalization is direct opposite of privatization. Nationalization enables the government to fast track national economic development.

Examiners' Report
This question tested the candidates' understanding of the forms of business organisation as well as some government policies affecting ownership, control and restructuring of businesses. The question was relatively popular among the candidates because it was attempted by about 88% of them.

However, only about 20% of the candidates scored up to half of the marks allocated to the question.

SOLUTION 3

a (i) **Inflation** is defined as a persistent increase in the general price level of goods and services over a period of time. The inflation rate is measured as a percentage change in a price index, such as Consumer Price Index (CPI).

During the period of inflation, there is a continuous fall in the purchasing power of money. That is, the higher the price level, the lower the value of money.

ii. **Creeping inflation:** This is an inflationary situation, whereby the inflation rate is low, much less than 10 percent. The inflation rate increases gradually, but over time (over a period of time).

Hyper-inflation: This refers to inflation which has gone out of hand. That is a persistently high increase in the price level. In other word, hyper-inflation occurs when there is a significant increase in the money supply not supported by Gross Domestic Product (GDP) growth which results in an imbalance in the supply and demand for money. If left unchecked, it causes prices to increase as the currency loses its value.

b. **Effects of Inflation**

i. **Fixed income earners:** Those on fixed incomes or assets lose during inflation. For instance, people living on pensions or social security tend to suffer during inflation as their real income shrinks (reduces).

ii. **Business profits:** Profits increases when the inflation is of demand-pull type and decline when the inflation is cost-push type. During the period of demand pull inflation, the prices of final goods and services tend to be more flexible in an upward direction than many other prices.

iii. **Lenders and Borrowers:** Inflation tends to encourage borrowing and discourage lending. For instance, what is borrowed today may not be equal in value when it is being paid back in the future. This is true only when nominal interest rate is fixed or rises at a lower pace than inflation.

iv. **Foreign Trade:** Rising domestic prices can hurt exports. If domestic prices are rising faster than the rest of the world prices, exports will fall and imports will tend to increase and this will invariably affect our net exports and may have devastating balance of payments implications.

Examiners' Report
This is a straightforward question on the macroeconomic problem of inflation and some of its effects. About 86% of the candidates attempted this question while the success rate is about 12%.

This performance outcome was as a result of the fact that about 88% of the candidates had no knowledge of the effects of inflation which was tested in part (b) and which attracts about 68% of the entire marks allocated to the question.

SOLUTION 4

a. **Government expenditure** refers to government spending in the performance of her responsibilities. **Government tax** is a compulsory levy payable by individuals and business organisations to the government without receiving any definite corresponding service or good directly in return from the government.

These two fiscal instruments are used to address economic problems. For instance, government may address the problem of high inflation by reducing spending and increasing tax rate. Likewise, government spending will increase, while tax rate will be reduced when a country is facing the problem of unemployment.

b. Government spending have been on the increase in West Africa because of the following reason:

i. **Increasing population:** As the population increases, there are many more people requiring government-supplied amenities such as schools, hospital, recreational facilities, and so on.

ii. **Inflation:** Government expenditure usually exhibits a rising trend because of rising price level overtime.

iii. **Public debt servicing:** The servicing of both domestic and external public debts requires large payments of interest and principal as they fall due.

iv. **Changing political and bureaucratic structure:** Political instability and bureaucracy in West Africa are the major factors for upsurge in public expenditure on administration and governance.

Examiners' Report

This is a public finance question on government expenditure, taxation and fiscal policy. About 75% of the candidates attempted the question, while the success rate was about 10%.

Since the question was not ambiguous, one could only conclude that the candidates did not prepare well for this paper.

SOLUTION 5

a. The objectives of Organization of Petroleum Exporting Countries (OPEC) are:

i. To promote oil price stability in international market through periodic review of members oil-export volume.

ii. To coordinate and unify the petroleum policies of member countries and determine the best means of safeguarding their interest individually and collectively.

iii. To provide an efficient economic and regular supply of petroleum to consuming nations.

iv. To guarantee a fair return on capital to those individuals and corporate bodies investing in the petroleum industry.

v. To provide financial assistance to poor in non-oil producing countries so as to close the gap between the rich and the poor nations.

b. The problem of OPEC includes:

i. Non-compliance of members to the export quota dictated by OPEC leading to over population and decline in prices and their revenues.

ii. The production and market strategies of independent non-OPEC oil exporting countries have always tended to undermine OPEC's resolutions.

iii. Economic diversity of member countries. The different characteristics of the member countries require the different development needs that might affect the resolutions of OPEC.

iv. Price instability results in oil revenue volatility which affects long term planning and budgeting challenges in member countries. It also complicates the efforts to deal with balance of payments problems.

Examiners' Report

This question on Organisation of Petroleum Exporting Countries (OPEC) was straightforward. About 34% of the candidates attempted the question and only about 8% of them scored pass marks.

Candidates are advised to attach importance to all the topics in the syllabus.

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SKILLS LEVEL	Financial Reporting, Taxation, Performance Management, Management, Governance & Ethics; Audit & Assurance, Public Sector Accounting & Finance.
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- National Certificate of Education (NCE)
- Any other qualification approved by ICAN

Relevant qualifications may be considered for exemption

Examination Subjects

PART III	Financial Accounting, Management Information, Quantitative Techniques in Business, Business Law, Business & Finance.
PART II	Information Technology, Quantitative Analysis, Public Sector Accounting, Principles & Practices of Financial Accounting
PART I	Management, Preparing Tax Computations & Returns, Cost Accounting, Principles of Auditing.

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