

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA**

PART III EXAMINATIONS – SEPTEMBER 2020

PRINCIPLES OF AUDITING

Time Allowed: 3 hours

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

ATTEMPT ALL QUESTIONS

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

1. The reliability of audit evidence is dependent on the following general presumptions, **EXCEPT**
 - A. Documented evidence is more reliable than oral evidence
 - B. The source of audit evidence is not as important as its use
 - C. Third party evidence is more reliable than evidence obtained from within the entity
 - D. Analysis and physical inspection by the auditor is more reliable than evidence obtained from others
 - E. Audit evidence from original document is more reliable than photocopies

2. The audit conducted with a view to review the internal control systems through which the transactions are processed is called..... audit
 - A. External
 - B. Systems
 - C. Interim
 - D. Statutory
 - E. Continuous

3. The type of assurance engagement with the objective of reducing assurance engagement risk to a level that is acceptable in the circumstances of the engagement as the basis for a negative form of expression of the auditor's conclusion is known as..... assurance
 - A. Limited
 - B. Quality
 - C. Independent
 - D. Reasonable
 - E. Audit

4. Which term states the set of principles, standards and procedures that define the basis of financial accounting policies and practices?
- A. Accounting policies
 - B. Accounting basis
 - C. Accounting principles
 - D. Accounting standards
 - E. Auditing standards
5. The following are the purposes for agreeing a letter of engagement, **EXCEPT**
- A. To limit the scope of the company's services
 - B. To minimise the possibilities of any misunderstanding between the auditors and the client
 - C. To clearly define the responsibilities of the company and those of the auditors
 - D. To disclose the procedures for applying the auditing standards
 - E. It defines a business relationship between two parties
6. The term used to describe the process through which the financial statements are free from material misstatements and faithfully represent the financial performance and position of the company is
- A. Audit risk
 - B. Materiality
 - C. Audit opinion
 - D. Reasonable assurance
 - E. True and fair view
7. A graphical presentation of each part of the entity's internal controls system is called
- A. Narrative records
 - B. Flow chart
 - C. Check list
 - D. Internal control questionnaire
 - E. Chart flow
8. Which of the following is an element of an assurance engagement?
- A. Reasonable assurance
 - B. Limited assurance
 - C. Private audit
 - D. Internal audit
 - E. Three-party relationship

9. Which of the following factors may **NOT** impair the going concern of a business organisation?
- A. Management incompetence
 - B. Fraudulent practices of management
 - C. Political unrest
 - D. Ability to meet creditors bill as at when due
 - E. Failure of proper control mechanism and insider abuse
10. Teeming and lading is a technique of fraud through
- A. Inflating cash payment
 - B. Wrong casting in cash book
 - C. Suppressing cash receipts
 - D. Mutilating ledger
 - E. Inflating invoices
11. Which of the following statements is false about the activities at the beginning of the current audit engagement?
- A. Assessing the risk of material misstatement
 - B. Establish an understanding of the terms of the engagement
 - C. Evaluate compliance with ethical requirements
 - D. Perform procedures regarding the continuance of the client relationship
 - E. Perform procedures regarding the specific audit engagement
12. The measure of the quantity of audit evidence is called
- A. Relevance
 - B. Appropriateness
 - C. Adequacy
 - D. Completeness
 - E. Sufficiency
13. What is the term used for making decisions about the nature, extent, timing and direction of audit tests and procedures?
- A. Audit plan
 - B. Overall audit strategy
 - C. Assurance tests
 - D. Materiality
 - E. Analytical procedures

14. A detailed schedule of audit work to be performed and the specification of the procedure to be followed in the verification of each item in the financial statements is known as
- A. Audit manual
 - B. Audit planning memorandum
 - C. Audit programme
 - D. Audit plan
 - E. Engagement letter
15. Which of the following is a factor militating against good audit planning?
- A. Prevalence of fraud and error in the preparation of the financial statements
 - B. High rate of staff turnover
 - C. Absence of an interim audit
 - D. Experience of the engagement partner
 - E. Low audit fees
16. Which of the following relates to knowledge of the client's business which the auditor should be informed about before and after accepting the audit engagement?
- A. Knowledge on the major suppliers of the company
 - B. Management controls on the preparation of the financial statements
 - C. General economic factors and industry conditions affecting the entity's business
 - D. Status of filing of annual returns
 - E. Management team to be responsible for the audit
17. Which of the following is a risk assessment procedure that should be performed by the auditor to obtain an understanding of the entity?
- A. Financial statements review
 - B. Cut off procedures
 - C. Circularisation procedures
 - D. Enquiries of management and others within the entity
 - E. Existence of related parties

18. The knowledge of the business entity is obtained to assist the auditor for which of the following?
- A. Determining investment opportunities in the business
 - B. Reviewing the levels of reporting within the entity's management
 - C. Assessing risks and identifying problems
 - D. Shareholding structure of members
 - E. Interest of directors in the business entity
19. The application of compliance or substantive procedure to less than hundred per cent of items within an account balance or class of transactions is known as
- A. Substantive technique
 - B. Audit sampling
 - C. Analytical review
 - D. Observation
 - E. Inspection
20. Which of the following is a routine audit procedure?
- A. Vouching of transactions
 - B. Analytical procedures
 - C. Risk assessment procedures
 - D. Verification of assets and liabilities
 - E. Risk analysis
21. In order to obtain reasonable assurance, the auditor focuses on and is satisfied with audit evidence
- A. Pervasive
 - B. Objective
 - C. Persuasive
 - D. Subjective
 - E. Complete
22. Which of the following is a more reliable audit evidence than those generated solely from the entity?
- A. Internally generated evidence
 - B. Evidence obtained from independent sources outside the entity
 - C. Self-generated evidence
 - D. Documentary evidence
 - E. Oral evidence

23. Which of the following is considered when the auditor uses information produced by the entity to perform audit procedures?
- A. Accuracy and completeness
 - B. Measurement and validity
 - C. Performance and suitability
 - D. Risks and materiality
 - E. Occurrence and classification
24. The process of obtaining audit evidence which consists of looking at a process or procedure being performed by others is known as
- A. Analytical procedures
 - B. Observation
 - C. Inspection
 - D. Inquiry
 - E. Re-performance
25. The process of obtaining and evaluating audit evidence directly from a third party in response to a request for information about a particular item affecting assertions in the financial statements or related disclosures is known as
- A. Independent evidence
 - B. External confirmation
 - C. Internal confirmation
 - D. Assurance evidence
 - E. Reliable evidence
26. The reliability of audit evidence provided by a confirmation is affected by all the following, **EXCEPT**
- A. Timing of the correspondence
 - B. Knowledge of the matter being confirmed
 - C. Authority to respond
 - D. Independence
 - E. Respondent's competence

27. A form of letter written by a company's external auditors which is signed by a senior management staff is known as
- A. Legal confirmation letter
 - B. Acceptance letter
 - C. Engagement letter
 - D. Bank confirmation letter
 - E. Management representation letter
28. Which of the following is an objective of stock taking?
- A. To ascertain the effectiveness of internal control system over stock
 - B. To determine the accuracy of cut-off
 - C. To verify the condition of stock
 - D. To verify the existence of stock
 - E. Reconcile purchases with stock card
29. Which of the following is responsible for poor adoption of Peer review by firms?
- A. It could result in the delay in audit completion
 - B. Cost may be prohibitive
 - C. Audit evidence could be misplaced
 - D. It is not widely accepted by entities
 - E. Its use is subject to government approval
30. Which of the following is an appropriate step to be taken when an auditor assesses the expected error to be high?
- A. Assess the likelihood of a fraud
 - B. Review the allowance of doubtful debt
 - C. Extend audit procedure to include 100% examination.
 - D. Maintain low sample size
 - E. Raise alarm

SECTION A: PART II

SHORT-ANSWER QUESTIONS

(20 Marks)

ATTEMPT ALL QUESTIONS

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

1. The type of audit established by management of the company to ensure independent appraisal function as a service to the organisation is.....
2. A new letter of engagement is necessitated by a change in the official address of the auditor. **True or false**
3. The term which connotes an unintentional mistake in financial statements is known as.....
4. The officer responsible for the non-compliance with law or regulations of the financial statements of an organisation is called.....
5. The system or code of conduct based on moral duties, values and obligations that indicate how we should behave within a constituted body or society is known as
6. Auditors are to maintain subjectivity in exercising professional judgement. **True or false**
7. The act which occurs when an auditor fails to exercise that degree of reasonable skill and care to be expected in the circumstances of the case is known as.....
8. Threats to the computer systems that usually cause loss of data due to file damage is called.....
9. The conditions for which the auditors appointment cease are..... and
10. The standards which prescribes the basic principles and essential procedures to be applied to ensure the conduct of the audit engagement is done effectively and efficiently is called.....
11. The characteristics of a good audit evidence include.....and.....
12. The risk of susceptibility of material misstatement in the accounts assuming that there were no controls is known as.....

13. Auditors are required to retain their working papers after completion of an audit for..... years
14. A report in which the auditor states the reservation which prevents him from giving a wholly affirmative opinion on the truth and fairness given by the financial statements is called
15. The reliability of audit evidence is influenced by.....and..... of the audit evidence.
16. The type of external confirmation request that asks the respondent to reply to the auditor only if there is disagreement with information provided in the request is known as.....
17. The internal control assessment and recording technique that is used to highlight precisely the areas of strengths and weaknesses in the system is.....
18. The program which the auditor writes with the intention to perform the same operation as a clients' program is known as.....
19. Where the auditors disagree with the presumption that the company is a going concern, they should issue audit opinion.
20. The term used in describing a statement where the auditor emphasises a particular matter regarding the financial statements while intending to express an unqualified audit opinion is known as.....

SECTION B:

ATTEMPT ANY FOUR QUESTIONS

(50 Marks)

QUESTION 1

- a. The professional responsibilities of external auditors are governed by ethical principles.

Explain clearly the following ethical concepts:

- | | |
|---------------------|------------|
| i. Independence | (1½ Marks) |
| ii. Integrity | (1½ Marks) |
| iii. Objectivity | (1½ Marks) |
| iv. Confidentiality | (1½ Marks) |

b. In accordance with International Standards on Auditing (ISAs), the external auditors are required to plan and perform the audit with due sense of professional scepticism.

(a) What is professional scepticism? (2½ Marks)

(b) Explain the term “reasonable assurance” in relation to an audit engagement (2 Marks)

(c) Explain briefly the term “Scope of an audit”. (2 Marks)

(Total 12½ Marks)

QUESTION 2

a. What are the sources of information available to the auditor about a new client? (5 Marks)

b. In accordance with the code of conduct for members of Professional Accountancy Organisation, under what circumstances are auditors required to disclose confidential information? (2 Marks)

c. Itemise **FIVE** contents of the letter of engagement? (2½ Marks)

d. State **THREE** reasons that may necessitate issuing a new letter of engagement (3 Marks)

(Total 12½ Marks)

QUESTION 3

(a) State and discuss the post-appointment procedures required of the newly appointed auditor (4 Marks)

b. Auditing is a discipline closely related to accounting but different in many aspects.

i. Define accounting (1 Mark)

ii. Itemise **THREE** major differences between accounting and auditing (1½ Mark)

c. State **SIX** advantages of an audit. (3 Marks)

d. What are the limitations of an audit? (3 Marks)

(Total 12½ Marks)

QUESTION 4

- (a) What is an Audit Planning Memorandum? (2½ Marks)
- (b) What are the contents of an Audit Planning Memorandum (8 Marks)
- (c) State **TWO** disadvantages of Audit Programme? (2 Marks)

(Total 12½ Marks)

QUESTION 5

- (a) Define Audit completion procedures (1 Marks)
- (b) List **EIGHT** Audit completion procedures (4 Marks)
- (c) Briefly discuss what is involved in **FIVE** Audit completion procedures (7½ Marks)

(Total 12½ Marks)

QUESTION 6

- (a) What is the difference between ICQ and an ICEQ? (4 Marks)
- (b) What are the most important tasks in controlling the use of Computer Assisted Audit Techniques? (2 Marks)
- (c) What are the advantages of automated working papers? (4½ Marks)
- (d) What is an Integrated Test Facility (ITF)? (2 Marks)

(Total 12½ Marks)

SOLUTIONS

PART 1 MULTIPLE-CHOICE QUESTIONS

1. B

2. B

3. A

4. D

5. D

6. E

7. B

8. E

9. D

10. C

11. A

12. E

13. B

14. C

15. B

16. C

17. D

18. C

19. B

- 20. A
- 21. C
- 22. B
- 23. A
- 24. B
- 25. B
- 26. A
- 27. E
- 28. D
- 29. B
- 30. C

Examiner's Report

The performance was good as more than 70% of the candidates scored more than 15 marks.

The questions covered the entire syllabus.

SECTION A: PART II: SHORT ANSWER QUESTIONS

1. Internal audit
2. False
3. Error
4. Director
5. Ethics
6. False
7. Negligence
8. Virus
9. Removal, Resignation
10. Auditing standards
11. Sufficiency, Appropriateness
12. Inherent risk
13. 6
14. Qualified Audit Report/Modified Audit Report
15. Source, Nature
16. Negative Confirmation
17. Internal Control Evaluation Questionnaire (ICEQ)
18. Parallel Simulation
19. Adverse
20. Emphasis of the matter

Examiner's Report

The performance was encouraging as more than 60% of the candidates scored more than 10 marks.

SECTION B

SOLUTION 1

(a) The following codes of ethics of an auditor are explained below:

(i) **Independence**

The term Independence is fundamental to accountancy profession especially to the auditor. It relates to the ability of the auditor to carry out his work without being influenced. An auditor must be independent (independent of mind) and must also be seen to be independent (independent of appearance). Where the auditor is perceived to lack independence, this will greatly affect credibility of his report on the financial statements.

(ii) **Integrity**

Integrity is an act of being honest and straightforward in all professional and business relationships. An accountant must show integrity in all his dealings with people

(iii) **Objectivity**

Objectivity is an act that does not allow bias, conflict of interest or undue influence of others to override an accountant's professional business judgments.

(iv) **Confidentiality**

Confidentiality is a principle that does not allow accountants to disclose information acquired as a result of professional or business relationship with a client to any third party without proper and specific authority unless there is a legal or professional right or duty to disclose.

(b)

(i) Professional Scepticism

Professional scepticism is an attitude in which the auditor makes a critical assessment, with a questioning mind, of the validity of audit evidence obtained and is alert to audit evidence that contradicts or brings into question the reliability of documents or management representations.

An attitude of professional scepticism is necessary throughout the audit process for the auditor to reduce the risk of overlooking suspicious circumstances, of over generalizing when drawing conclusions from audit observations, and of using faulty assumptions in determining the nature, timing and extent of the audit procedures and evaluating the results thereof.

(ii) Reasonable assurance

Reasonable assurance is a concept relating to the accumulation of the audit evidence necessary for the auditor to conclude that there are no material misstatements in the financial statements taken as a whole. Reasonable assurance relates to the whole audit process.

Reasonable assurance is given because auditor did not check the entire population (100 percent).

(iii) Scope of an audit

The scope of an audit refers to the audit procedures deemed necessary in the circumstances to achieve the objective of the audit. The procedures required to conduct an audit in accordance with ISAs should be determined by the auditor having regard to the requirements of ISAs, relevant professional bodies, legislation, regulations and, where appropriate, the terms of the audit engagement and reporting requirements.

Examiner's Report

The questions are within the syllabus and standard for the level of ATSWA examination.

The performance was fair as more than 60% of the candidates scored more than half of the total marks available.

SOLUTION 2

- (a) Sources of information about new clients are the following:
- i. Previous auditors.
 - ii. Confidential enquiries from prospective client's bankers, solicitors, underwriters, registrar, etc.
 - iii. Prior-year financial statements.
 - iv. Professional rules, regulations and standards.
 - v. Specific rules and regulations pertaining to the industry.
 - vi. The regulations of the client's company.
 - vii. The directories of incorporated companies.
 - viii. Internal documents produced by the entity (e.g. minutes of meetings, budgets, sales plan)
- (b) The circumstances where auditors are required to disclose confidential information are as follows:
- i. Disclosure is permitted by law and/or is authorised by the client.
 - ii. Disclosure is required by law for the production of evidence in the course of legal proceedings.
 - iii. There is a professional duty or right to disclose, when not prohibited by law:
 - To comply with the quality review of a professional body
 - To respond to an inquiry or investigation by a regulatory body.
 - To comply with technical or standards and ethical requirements.
- (c) The contents of a letter of engagement are as follows:
- i. The board of directors' responsibilities in respect of the proper books of accounts and financial statements.
 - ii. The auditors' responsibilities to report on the financial statements; the scope and basis of the audit work to be undertaken.
 - iii. Fees and billing arrangement (it does not state the fees payable)
 - iv. Where appropriate, arrangement concerning the involvement of other auditors and experts in some aspect of the audit.
 - v. Any agreement for the auditor to provide taxation services.

- vi. Arrangements, if any, to be made with the predecessor auditors.
 - vii. Any restriction of the auditors' liabilities to the client (this is not possible with limited companies).
 - viii. A reference to any further agreements between the auditors and the clients.
 - ix. A proposed timetable for the agreement.
 - x. A request for written acknowledgement of the letter.
- (d) Reasons for issuing a new letter of engagement:
- i. An indication that the client misunderstands the objective and scope of the audit.
 - ii. A recent change of management, board of directors or audit committee.
 - iii. A significant change in ownership, such as a new holding company.
 - iv. Any relevant change in the nature and size of the client's business; and
 - v. Any relevant change in legal or professional requirements.

Examiner's Report

Attempt was as high as 90%. The performance was good (8 marks and above).

SOLUTION 3

- (a) Post-acceptance procedures of newly appointed auditor are as follows:
- i. **Confirmation of the retirement or resignation of the outgoing auditor**
The new auditor should ensure that the outgoing auditor's removal, retirement or resignation has been properly concluded and in consonance with provisions of the Companies and Allied Matters Act CAP C20 LFN 2004.

ii. **Obtaining copy of resolution for his appointment**

The new auditor should ensure that his appointment is valid and formalised. It is essential that he obtains a copy of the resolution passed at the general meeting appointing him as the company's auditor.

iii. **Ensuring that the outstanding audit fee of the previous auditor had been settled**

Where a portion of the outgoing auditor's fees is still outstanding, the new auditor should join hands with the outgoing auditor to secure payment.

iv. **Submission of letter of Engagement**

The new auditor should submit a letter of engagement to the directors of the client's company.

v. **Arranging meeting with the outgoing auditor**

On taking up the appointment, the new auditors should make arrangement to collect all books, documents and papers that belong to the client from the outgoing auditors. The outgoing auditors are expected to co-operate in that regard and transfer all such documents unless they have lien over the records as a result of outstanding fees.

(b)

i. **Accounting**

Accounting is the art of recording, classifying and summarizing, analyzing, interpreting and reporting on the financial transactions and position of an organization to interested persons or bodies.

ii. **Differences between accounting and auditing**

(a) **Meaning:**

Accounting is the systematic keeping of the records of account of an organisation and preparation of financial statements at the end of the financial year. Auditing means the inspection of the books of account and financial statements of an organisation.

- (b) **Objective:**
The objective of accounting is to show the performance, profitability and financial position of an organisation while auditing is to reveal the extent to which the financial statements of an organisation gives true and fair view.
- (c) **Preparer:**
An accountant prepares the accounting information whereas auditor carries out auditing exercise.
- (d) **Timing:**
Accounting is a continuous process i.e. day-to-day recording of transaction. Auditing is a periodic process and not day to day activities.
- (e) Accounting starts first while auditing starts where accounting ends.
- (f) **The Scope**
The scope of accounting work is determined by management. Auditing is carried out under the provision of the applicable laws on behalf of shareholders or regulators.

(c) **Advantages of an audit**

- i. Errors and fraud can be detected and rectified in time.
- ii. Audited accounts carry greater authority than accounts which have not been audited
- iii. Audited accounts are readily accepted by government authorities like Inland Revenue Service, Internal Revenue Service and other financial institutions like banks.
- iv. In obtaining loans and advances from financial institutions such as banks, previous audited accounts are evaluated for determining the repayment capability of the loan.
- v. Regular audit of accounts creates a great moral influence on clients' staff thereby restraining them from committing fraud and errors.
- vi. Audited accounts facilitate settlement of claims on the retirement/ death of a partner.

- vii. In the event of loss of property by fire or on happening of the event insured against, audited accounts help in the early settlement of claims from insurance company.
- viii. To determine the value of businesses in the event of purchase or sales of the business, audited accounts are used as the basis of the evaluation.
- ix. It helps management to understand the financial position of the business and also helps to take decision on various matters such as report on internal control system of the organisation or setting up of an internal audit department.

(d) Limitations of an audit

There are some limitations in what the auditors can do.

- i. The auditors' opinion is neither a guarantee of the future viability of the entity nor an assurance of management's efficiency and effectiveness even though the auditor, in the course of the audit work, pays attention to both matters. Neither of them represents the main purpose of an audit.
- ii. An audit work is focused on examining financial records and statements relating to past transactions and the verification of assets and liabilities held by the client at the end of the relevant accounting period. There is no guarantee or assurance from the auditors that what happened in the past will apply to the future.
- iii. The primary concern of auditors is how the decisions of management affect the financial statements and to recommend ways of improving the control systems. Auditors do not conduct extensive review of efficiency.
- iv. Auditors express an "opinion". They do not certify whether a set of accounts is completely correct or not. What is "reasonable assurance" depends largely on what a user of financial statements expects from the auditor's report. This limitation stems from the fact that:
 - It is not practically possible for the auditor to examine all items within an account balance or class of accounts;
 - There is the possibility of collusion and misrepresentation for fraudulent purposes. Many audit evidences are persuasive (indicating what is probable) rather than conclusive (indicating what is definite).

Examiner's Report

Performance was very poor. Candidates failed to understand limitations of an audit. Most wrote on disadvantages of auditing.

SOLUTION 4

(a) Audit Planning Memorandum

The Audit Planning Memorandum is the systematic and the deliberate documentation of planning efforts and management events, actions and decisions taken in the course of planning the audit.

Basically, the memorandum summarizes all important overall planning information and documents to be able to conclude that the audit team conforms to generally accepted auditing standards.

It usually covers the general audit strategy already established, the timing, the objectives, staffing requirements and costs among other matters.

The objectives of the Audit Planning Memorandum is to provide a formal records of planning, references and processes and to form the basis of communicating major decisions and actions to all the members of the engagement team.

(b) Contents of the Audit Planning Memorandum are:

- i. Client's background information to include details of share capital, principal activities, key management staff, major suppliers.
- ii. Audit strategy to cover the objective of the audit, audit approach, timing, extent and the nature of tests and procedures.
- iii. Materiality and risk assessment procedures and methodology taken in order to reduce the engagement risk to an acceptable level.
- iv. Audit engagement staffing and organisation to include the engagement partner, audit manager and other members of the team, job allocation and review procedures.
- v. Audit budget detailing the expected revenue and associated costs and likely expenses, time budget for each schedule of specific activities.

- vi. Areas requiring special audit attention and the procedures to be applied.
- (c) Disadvantages of Audit Programme are as follows:
- i. It makes audit work to be too mechanical because of its repetitive nature.
 - ii. It does not allow the audit staff to use their own initiative.
 - iii. The audit programme may be too rigid and may not make room for changes in the business.
 - iv. Standard audit programmes are too difficult to design.

Examiner's Report

Poor performance. Attempt rate is 30%. Average mark is less than 4 marks.

SOLUTION 5

- a. Audit completion procedure is a procedure that the auditor embarked upon after the completion of the audit exercise in order to ensure that quality control is achieved before issuing out the final audit report.
- b. The procedures the auditor is expected to carry out to complete the audit in an orderly and proper manner are under the following headings.
 - i. Final review of draft financial statements
 - ii. Completion of field work
 - iii. Drafting the audit report
 - iv. Issues documentation
 - v. Audit completion checklist
 - vi. The engagement partner sign-off
 - vii. Debriefing
 - viii. Reporting to the board and to management
 - ix. Consideration of desirability of reappointment

c. i. **Final Review of Draft Financial Statement:**

The auditor should carry out a final review of the draft financial statements in conjunction with the conclusion drawn from other evidence obtained to provide a reasonable basis for the audit opinion. The final review should cover the following matters:

- That all the audit programmes were followed through in each transaction cycle during the audit;
- That audit working papers were complete with covering memos and properly referenced and cross referenced;
- That all audit queries raised were attended to;
- That matters carried forward from the prior year have been reviewed and treated;
- That comparative figures agree to prior year financial statements.

ii. **Completion of field work:**

The engagement manager should ensure that all field work have been completed and reviewed, except as indicated in Issues Documentation, before the files are presented for final review by the engagement partner. The engagement manager should be satisfied that:

- adequate working paper review is evidenced in the life
- all review notes have been satisfactorily cleared and have been removed from the files. Any documents relating to matters of substance affecting the opinion must be transferred to the Issues Documentation.

iii. **Drafting the Report:**

The draft financial statements presented to the engagement partner for review should include the draft audit report. The audit report should use the standard working for an unqualified opinion and should ensure that all relevant circumstances have been taken into consideration.

iv. **Issues Documentation:**

To assist the partner in the efficient review of the financial statements and clearance of the audit, it is helpful for the audit team to prepare Issues Documentation. All unresolved matters are brought together from the various sections and presented in this document to aid the partner' decision

on the final working of the opinion. The engagement partner may evidence clearance of the opinion on the financial statements by signing off the issues documentation.

v. **Audit Completion Checklist:**

To help ensure that all relevant matters are attended to before the audit report is signed, it is often useful to provide an “Audit completion checklist”. This could be a manual or electronic record. When final Issues Documentation is first presented to engagement partner for initial clearance; and it is likely that some of the matters e.g. subsequent events review would not have been completed. However, the audit manager should go through the checklist and ensure that various aspects of the work have been completed before presenting the Issues Documentation (with the checklist) for final clearance.

vi. **The Engagement Partner’s Sign-Off**

It may be useful to record information relating to signature of the master copy of the financial statements. The audit file could also contain a record of the location and movement of draft and signed copies, the number required for printing and the persons to whom copies should be sent. The partner’s sign off will authorize the acceptance for issuance of the reports.

vii. **Debriefing**

This is a meeting held in the auditor’s office, among the audit team, to share and discuss information on the success or failure of the audit just completed.

The objectives of debriefing at the end of the audit are:

- To ensure that all matters that may be used in the report to the board and to management are identified and included;
- To assist in the assignment, training and development of the audit team;
- To improve the efficiency and effectiveness of future audits;
- To allow key players to obtain important information that will lead to improvement in future performance.

Examiner’s Report

Candidates do not have idea of the requirements of the question. Attempt rate is 30%. More than 70% scored less than 5 marks.

SOLUTION 6

(a)

- An **Internal Control Questionnaire (ICQ)** is a schedule or checklist, containing a series of questions designed to ascertain and record the accounting and internal control procedures in existence within a client's entity.
 - The **Internal Control Evaluation Questionnaire (ICEQ)** is a schedule or checklist containing a series of questions, which are designed to assess the strength and or weakness of an entity's internal control system.
 - The objective of an ICQ is to record controls, whereas, the objective of ICEQ is to evaluate the controls.
 - A **"Yes"** response to a question in **ICQ** implies the existence of controls whereas a **"No"** response implies otherwise.
 - A **"Yes"** response in **an ICEQ** implies that controls are weak and a **"No"** response implies the reverse.
- b. **The most important tasks in controlling the use of Computer Assisted Audit Techniques are:**
- i. To ensure knowledge and expertise of the auditor on the use of CAAT.
 - ii. To ensure the availability of the computer assisted audit techniques and suitable computer facilities.
 - iii. To ensure the availability of the time that the computer assisted audit techniques could be used.
 - iv. To confirm the extent to which CAAT can be used.
- c. **Advantages of automated working papers are:**
- i. It helps to access documented information easily in the computer file.
 - ii. Automated working papers help to enhance security of documented information.

- iii. It promotes better backup system as electronic documents can safely be stored in hard drives and smart phones that are easily portable.
 - iv. Automated working papers help to minimize storage space compared to manual working papers.
- d. **Integrated Test Facility** involves the creation of a fictitious entity (for example a department or customer) within the framework of the regular application. Transactions are then posted to the fictitious entity along with the regular transactions. The results produced by the normal processing cycle are compared with what should have been produced, which is predetermined by other means.

Examiner's Report

Poor performance. Attempt rate is less than 20%. Many do not have the idea of the difference between ICQ and ICEQ.

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA**

PART III EXAMINATIONS – SEPTEMBER 2020

COST ACCOUNTING

Time Allowed: 3 hours

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

ATTEMPT ALL QUESTIONS

Write ONLY the alphabet (A, B, C, D or E) that corresponds to the correct option in each of the following questions/statements

1. What is a cost driver?
 - A. An item of direct cost
 - B. An activity which generates costs
 - C. A common cost which is shared over cost centres
 - D. Any cost relating to transport activity
 - E. An item of production overhead

2. The cost behavioral pattern which has attributes of fixed and variable elements is
 - A. Standard cost
 - B. Full cost
 - C. Variable cost
 - D. Fixed cost
 - E. Semi-variable cost

3. The cost which represents the loss of alternative income as a result of acceptance of a particular decision is known as
 - A. Sunk cost
 - B. Opportunity cost
 - C. Imputed cost
 - D. Fixed cost
 - E. Historical cost

4. In a process account, abnormal losses are valued at
 - A. Scrap value
 - B. The same as good production
 - C. Cost of raw material
 - D. Materials and labour cost
 - E. Good production cost less scrap value

5. The summarised combination of all functional budgets and projected profit or loss account is known as

- A. Flexible budget
- B. Master budget
- C. Fixed budget
- D. Functional budget
- E. Capital budget

6. From the following information, calculate economic order quantity

Quarterly requirements	36,000 units
Cost of placing an order	₦50
Carrying cost per unit p.a.	₦1.6

- A. 3,300 units
- B. 3,200 units
- C. 3,150 units
- D. 3,100 units
- E. 3,000 units

7. Addrex Limited purchased 13,700 units of material at a total cost of ₦43,840. The material price variance was ₦2,740 favourable. What is standard material price?

- A. ₦3.45
- B. ₦3.40
- C. ₦3.25
- D. ₦3.20
- E. ₦3.00

8. From the following data, compute the break-even sales volume (in Naira).

Expected sales	₦600,000
Variable Costs	₦300,000
Fixed Costs	₦177,500

- A. ₦360,000
- B. ₦355,000
- C. ₦340,000
- D. ₦330,000
- E. ₦310,000

9. Where material is regarded as key budget factor, it means
- A. Materials budgeted is extremely high
 - B. Material is the largest item in the budget
 - C. Materials and sales are competing
 - D. Material is in short supply
 - E. Material issues are already taken care of
10. Which of the following decision methods can be used by companies to improve profit when production capacity is not fully utilised?
- A. Joint product decision
 - B. Acceptance of special order
 - C. Discontinuation of a product line
 - D. Make or buy decision
 - E. Product mix
11. The output from manufacturing process with no recoverable value is referred to as
- A. Residue
 - B. Scraps
 - C. By-product
 - D. Waste
 - E. Abnormal loss
12. The decision rule for the acceptance of investment using Net Present Value (NPV) method of appraisal, is accept if the
- A. $NPV = 0$
 - B. $NPV > 0$
 - C. $NPV < 0$
 - D. $NPV \leq 0$
 - E. $NPV \geq 0$
13. Which of the following is a characteristic of the Push Production System?
- A. Elimination of non-value adding activities
 - B. Production is in anticipation of request from customer
 - C. Short set-ups
 - D. Move towards zero levels
 - E. Reduction of cost of carrying inventory

14. The following are discounted cash flow investment appraisal technique, **EXCEPT**
- A. Net present value
 - B. Internal rate of return
 - C. Payback period
 - D. Discounted payback period
 - E. Profitability index

Use the information below to answer questions 15 and 16

	Sales ₦	Profit ₦
May	4,000,000	(800,000)
June	36,000,000	12,000,000

15. What is the P/V ratio?
- A. 65%
 - B. 60%
 - C. 56%
 - D. 40%
 - E. 35%
16. What is the fixed cost?
- A. ₦1,200,000
 - B. ₦1,500,000
 - C. ₦1,800,000
 - D. ₦2,400,000
 - E. ₦2,560,000
17. Under marginal costing, selling prices in the short-term are usually fixed on the basis of
- A. Fixed cost plus contribution
 - B. Total cost plus profit
 - C. Total cost plus contribution
 - D. Variable cost plus contribution
 - E. Below marginal cost
18. The process of establishing time for a qualified labour to carry out a given task at a defined level of performance is known as
- A. Work study
 - B. Work measurement
 - C. Cost reduction
 - D. Method study
 - E. Value analysis

19. The company ABC currently produces one product which sells for ₦130 per unit. The cost per unit is given below

	₦
Direct materials	22
Direct labour	15
Variable overheads	3
Direct expenses	<u>10</u>
Variable cost per unit	<u>50</u>

If the total fixed costs for the period is ₦1,600,000, how many units will be produced and sold to generate a target profit of ₦250, 000?

- A. 26,428 units
B. 23,125 units
C. 21,252 units
D. 20,555 units
E. 20,000 units
20. Which of the following is **NOT** an underlying assumption in Economic Order Quantity Model?
- A. Demand rate is constant and known
B. Lead time is certain and constant
C. All units ordered are delivered piece meal
D. Ordering cost is known and constant
E. Purchase price per unit is constant, no quantity discount
21. Budget formulated with the active involvement of all employees is called
- A. Master budget
B. Operating budget
C. Participative budget
D. Behavioral budget
E. Employees budget
22. Which of the following is **NOT** used for cost reduction?
- A. Value analysis
B. Work study
C. Total Quality Management (TQM)
D. Just-in-Time (JIT) processes
E. Budgetary control

23. A written request to initiate purchases in an organisation is referred to as
- A. Purchase Order
 - B. Invoice
 - C. Receiving Report
 - D. Materials Requisition Form
 - E. Purchase Requisition
24. The evaluation of performance by means of variance with timely reporting that maximises the opportunity for managerial action is
- A. Efficiency variance
 - B. Standard costing
 - C. Variance analysis
 - D. Value analysis
 - E. Variable cost
25. Which of the following would be treated as relevant cost in short term tactical decision making process?
- A. General expenditure already incurred
 - B. Depreciation of existing non-current assets
 - C. Cost of specific materials which will be purchased
 - D. Specific development cost incurred
 - E. Original cost of materials already in the store to be used for the project
26. Which of the following cost accounting features is **CORRECT**?
- A. Information is mainly produced for external use
 - B. The purpose of information is to record financial performance
 - C. Formats and contents of accounts should follow accounting standards
 - D. It is regulated by legal requirement
 - E. Time period is historical and futuristic
27. In interlocking accounting system, the profit disclosed differs due to appropriation of profits and need to be reconciled. Which of the following is **NOT** an appropriation of profit?
- A. Income tax
 - B. Dividends
 - C. Loss on sale of investment
 - D. Transfer to a reserve account
 - E. Amortisation of fictitious assets

28. The deduction of net realisable value from the total joint cost, is the accounting treatment given to
- A. Process account
 - B. Joint products
 - C. Equivalent units
 - D. By-products
 - E. Separation cost
29. Marginal and Absorption costing techniques can produce the same net profit where
- A. First-In-First-Out valuation stock is used
 - B. First costs are not included
 - C. Overheads are spread over cost unit
 - D. Overheads are absorbed using standard cost
 - E. There is no opening or closing inventory
30. Short-term decisions for which marginal costing techniques are employed do **NOT** include
- A. Make or buy
 - B. Acceptance of special order
 - C. Discontinuing a product line
 - D. Improving product quality
 - E. Optimum product mix

SECTION A: PART II

SHORT ANSWER QUESTIONS

(20 MARKS)

ATTEMPT ALL QUESTIONS

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

1. Any cost that is expedient for the purpose of decision making is often referred to as.....
2. Cost Audit is the of the correctness of cost accounts
3. The certificate issued by an expert certifying the work or any portion of the work satisfactorily completed in Contract Costing is called.....
4. The period of time between ordering and replenishment of inventory is called.....

5. The name given to a budget drawn up without reference to past performances is known as.....
6. At break-even-point and are equal
7. The method of selecting the highest and lowest activity levels and comparison of the changes in the costs that result from the two levels is known as
8. The main characteristic of variable cost of production per unit is.....
9. The number of employees replaced per period divided by the average total number of employees in the period is called
10. The storekeeper, issues materials from store in exchange for a duly authorised.....
11. The **TWO** major categories of labour remuneration are and
12. Budgeted Overhead refers to
Budgeted Activity level
13. The systematic interdisciplinary review of factors affecting the cost of a product, component or service in order to devise means of achieving the specified purpose most economically at the required standard of quality and reliability without reducing the quality or usefulness of the item concern is known as
14. The costing system which standardises costing methods and procedures over a group of factories and regional service centres is known as.....
15. Material usage variance can be categorised into.....and.....
16. The period that begins with initial specification for a product and ends with the product's withdrawal from the market is known as.....
17. The use of technology to manufacture higher quality and cheaper products more quickly is known as.....
18. ALUM Limited wishes to sell 14,000 units of its product which has a variable cost of ₦150 to make and sell. Fixed costs are ₦470,000 and the required profit is ₦230,000. The selling price per unit is

Calculate the following variances for product "BED"

(i)	Material price variance	(1½ Marks)
(ii)	Material usage variance	(1½ Marks)
(iii)	Labour rate variance	(1½ Marks)
(iv)	Labour efficiency variance	(1½ Marks)
(v)	Variable overhead expenditure variance	(1½ Marks)
(vi)	Fixed overhead expenditure variance	(2 Marks)
(vii)	Sales margin price variance	(1½ Marks)
(viii)	Sales margin volume variance	(1½ Marks)
		(Total 12½ Marks)

QUESTION 2

BLUE Limited, a newly established company manufactures three chemicals A, Y and Z. the selling price and cost per litre for each of these products are budgeted as follows:

PRODUCTS	K	Y	Z
	₦/litre	₦/litre	₦/litre
Selling Price	100	120	120
Direct Materials	20	16	21
Direct labour (₦12 per hour)	18	24	27
Other Direct Expenses	2	3	--
Variable overhead	12	16	18
Machine hours	4	3	3

Additional information:

- (i) Maximum demand for each product for the month of August 2020 is as follows: K 15,000 Litres, Y 4,000 Litres and Z 6,000 Litres.
- (ii) During the period under consideration, there is a shortage of labour as the total number of labour hours available is 37,500 hours.
- (iii) Included in the maximum demand totals for each of the product is an unavoidable commitment to a major customer to supply 1,500 litres.
- (iv) The fixed overhead for the period is estimated at ₦176,000 which is to be apportioned to each product on the basis of machine hours used.

Required:

Determine the production mix that will maximise profit for the month of October 2019.
(Total 12½ Marks)

QUESTION 3

The following balances were extracted from Tejumo Company Limited's cost ledger as at June 2019

	₦	₦
Nominal Ledger Control A/C		2,719,000
Finished Goods Control A/C	708,000	
Work – In – Progress	503,000	
Raw Material Control A/C	<u>1,508,000</u>	-
	<u>2,719,000</u>	<u>2,719,000</u>

Further transactions that took place during the quarter ending 30th June 2019 are as follows:

	₦
Raw material issued to production	358,000
Finished Goods at cost	1,200,000
Factory overhead allocation to Work – In – Progress	650,000
Raw material purchased	720,000
Cost of goods sold	1,800,000
Raw material returned to suppliers	65,000
Direct wages allocated to Work – In – Progress	158,000
Work - In – Progress rejected (with no scrap value)	24,000
Customers' return (at cost) of finished goods	86,000

You are required to:

- a.
 - i. Write up the four control accounts in the cost ledger (10 Marks)
 - ii. Prepare the trial balance as at the end of the second quarter (2½ Marks)
- (Total 12½ Marks)**

QUESTION 4

The following data relates to three joint products from the books of Ladex Limited for the month of December 2019.

Products	Output	Sales Price/Unit	Post Separation
Cost	(units)	₦	₦
Blue	2,500	50	100,000
Black	1,000	100	50,000
Brown	1,500	200	150,000

Joint costs incurred amounted to ₦200,000. The products are processed from the same input material in one common process before they were separated and may undergo further individual processing. The joint costs are apportioned to joint products on the basis of physical units or weight.

Required:

- i. Prepare a statement showing the estimated profit or loss for each product and in total. (4 Marks)
 - ii. Prepare an alternative statement which will determine the maximum profit from the production of these joint products by avoiding unprofitable further processing and incremental costs. The sales price of each product at split-off-point is as follows:
Blue ₦30; Black ₦40 and Brown ₦60 (5 Marks)
 - iii. Compute the value of the maximum profit. (3½ Marks)
- (Total 12½ Marks)**

QUESTION 5

Sotiri Limited manufactures a single product with a sale price of ₦400,000 per unit.

The marginal cost is as follows:

	₦
Direct materials 20kg @ ₦2,500 per kg	50,000
Direct labour 2 hours @ ₦37, 500 per hour	75,000
Variable overheads 2 hours @ ₦25,000 per hour	<u>25,000</u>
	<u>150,000</u>

Fixed costs are ₦30,000,000 per annum.

You are required to:

- a. Calculate
- i. The number of units to sell in order to breakeven
 - ii. Sales at breakeven point
 - iii. C/S ratio
 - iv. Number of units to be sold to achieve a profit of ₦40, 000,000.
 - v. The number of units to be sold to achieve a profit after tax of ₦21,000,000 if the tax rate is 30% (10½ Marks)
- b. List **FOUR** uses of cost volume profit analysis (2 Marks)
- (Total 12½ Marks)**

QUESTION 6

There has been a growing interest in the usage of information technology (automation) in every facet of human endeavor.

- a. State **SIX** advantages of automating the production process in a typical manufacturing sector. (9 Marks)
- b. What is level of activity? Show its relationship with variable cost (3½ Marks)
- (Total 12½ Marks)**

Multiple-Choice Questions Solutions

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

Workings

No 6

$$EOQ = \frac{2 \cdot Co \cdot D}{Cc}$$

Where Co = Ordering cost per order
 D = Demand per annum
 Cc = Carrying cost per item per annum

$$= \sqrt{\frac{2 \times 36,000 \times 4 \times N50}{\text{₦}1.6}}$$
$$= \sqrt{\frac{14,400,000}{\text{₦}1.6}} = 3,000 \text{ units}$$

No 7

Actual cost = ₦21,920 ..

Standard Cost = ₦43,840 + ₦2,740 (Fav.) = ₦46,580

Therefore standard price per unit = ₦46,580/13,700 = ₦3.40

No 8

BEP = Fixed Cost / Contribution Margin Ratio

CMR =

Total Sales – Total Variable Cost / Total Sales CMR = 600,000 – 300,000 / 600,000 X 100%

1 = 0.5

Therefore, ₦177,500/0.5 = ₦355,000

No 15

Change in Sales = ₦36,000,000 – ₦4,000,000

= ₦32,000,000

Change in Profit = ₦12,000,000 - (-800,000)

= ₦12,800,000

Therefore PV Ratio = $\frac{\text{Change in Profit}}{\text{Change in Sales}}$

$$= \frac{\text{₦}12,800,000}{\text{₦}32,000,000} = 40\%$$

No 16

May sales = ₦4,000,000

Contribution = ₦4,000,000,000 x 40%
= ₦1,600,000

Profit (Loss) = ₦ (800,000)

□□ Fixed Cost = ₦2,400,000

February

Sales = ₦36, 000,000

Contribution = ₦36,000,000 x 40%
= ₦14,400,000

Profit = ₦12,000,000

∴ Fixed Cost = ₦2,400,000

Fixed Cost in both situations = ₦2,400,000.

NO 19

Units to be produced and sold to earn a target profit of ₦250,000

$$\frac{\text{Fixed cost} + \text{target profit}}{\text{Contribution per unit}} = \frac{₦1,600,000 + ₦250,000}{(₦130 - ₦50)} = \underline{23,125 \text{ units}}$$

Examiner's Report

Questions cover all areas of the syllabus significantly and were attempted by all candidates.

Performance was good, about 70% of the candidates scored above half of the marks allotted.

Some of the candidates that did not perform well because they did not study well enough to cover the whole syllabus. Apparently, they concentrated on calculations alone.

Candidates should in future prepare well enough and tuition houses could help with mock examinations to assist in their preparations.

Short-Answer Questions Solutions

1. Relevant cost
2. Verification/Examination
3. Architect's Certificate/Certificate of work done
4. Lead time/re-order period/replenishment period/waiting time
5. Zero-based budget
6. Contribution and fixed cost; Sales and total costs
7. High and low method
8. Fixed/Constant
9. Labour turnover
10. Store Requisition Note/Material Requisition Form
11. Time-based remuneration and output or performance-based remuneration.
12. Overhead absorption
13. Value analysis
14. Uniform costing
15. Material mix and material yield variances
16. Product life cycle
17. Advanced Manufacturing Technology/Technique (AMT)
18. ₦200
19. 2 years
20. 28%

Workings

No 2

$$\begin{aligned}\text{Maximum level of stock} &= \\ \text{Re-order level} + \text{EOQ} - \text{Minimum} \times \text{Max Reorder period} &= \\ &= (8,400 \times 28) + 70,000 - (4,400 \times 20) \\ &= 235,200 - 88,000 \\ &= 217,200 \text{ pieces}\end{aligned}$$

No 18

Required contribution = fixed cost + profit = ₦470,000 + ₦230,000 = ₦700,000

$\frac{₦700,000}{14,000} = ₦150 = ₦200$

Workings for No 19 & No 20

	₦
Income before depreciation and taxes	7,500,000
Deduct depreciation (₦15,000,000/10)	<u>1,500,000</u>
Income before taxes	6,000,000
Less income tax @30%	<u>1,800,000</u>
NET INCOME	4,200,000
Add back depreciation	<u>1,500,000</u>
Annual cashflow	5,700,000

No 19

Payback period $\frac{\text{initial capital outlay}}{\text{Annual cashflow}}$

$\frac{₦15,000,000}{₦7,500,000} = 2\text{years}$

No 20

Accounting rate of return = $\frac{\text{net income}}{\text{Original investment}}$

$\frac{₦4,200,000}{₦15,000,000} = 28\%$

Examiner's Report

Questions cover all areas of the syllabus significantly and were attempted by all candidates.

Performance was fair, about 50% of the candidates scored above half of the marks allotted.

Some of the candidates that did not perform well because they did not study well enough to cover the whole syllabus. Apparently, they concentrated on calculations alone.

Candidates should in future prepare well enough by using the ATSWA Study Texts and INSIGHT in their preparations

SECTION B

SOLUTION 1

MEELAK LTD- COMPUTATION OF BASIC VARIANCES

(i) Material price variance

$$\begin{aligned} & (\text{Actual purchase quantity} \times \text{Actual price}) - (\text{Actual purchase quantity} \times \text{standard price}) \\ &= (5,700 \times \text{₦}105) - (5,700 \times \text{₦}100) \\ &= \text{₦}598,500 - \text{₦}570,000 \\ &= \text{₦}28,500\text{A} \end{aligned}$$

(ii) Material usage variance

$$\begin{aligned} & (\text{Actual quantity used} \times \text{std price}) - (\text{std quantity for actual prod.} \times \text{standard price}) \\ &= (5,700 \times \text{₦}100) - (5,500 \times \text{₦}100) \\ &= \text{₦}570,000 - \text{₦}550,000 \\ &= \text{₦}20,000\text{A} \end{aligned}$$

(iii) Labour rate variance

$$\begin{aligned} & (\text{Actual labour hour} \times \text{actual rate}) - (\text{Actual labour hour} \times \text{standard rate}) \\ &= (54,000 \times \text{₦}12.5) - (54,000 \times \text{₦}12) \\ &= \text{₦}675,000 - \text{₦}648,000 \\ &= \text{₦}27,000\text{A} \end{aligned}$$

(iv) Labour efficiency variance

$$\begin{aligned} & (\text{Actual labour hour} \times \text{standard rate}) - (\text{standard labour hour} \times \text{standard rate}) \\ &= (54,000 \times \text{₦}12) - (55,000 \times \text{₦}12) \\ &= \text{₦}648,000 - \text{₦}660,000 \\ &= \text{₦}12,000\text{F} \end{aligned}$$

(v) Variable overhead expenditure variance

$$\begin{aligned} & (\text{Actual variable overhead}) - (\text{Actual labour hours} \times \text{V.O.A.R}) \\ &= (\text{₦}460,000) - 54,000 \times \text{₦}9 = \text{₦}486,000 \\ &= \text{₦}460,000 - \text{₦}486,000 \\ &= \text{₦}26,000\text{F} \end{aligned}$$

(vi) Fixed overhead expenditure variance

$$\begin{aligned} & (\text{Actual expenditure on fixed overhead}) - (\text{Actual hours} \times \text{F.O.A.R}) \\ &= \text{₦}350,000 - 54,000 \times \text{₦}6 = \text{₦}324,000 \\ &= \text{₦}350,000 - \text{₦}324,000 \\ &= \text{₦}26,000\text{A} \end{aligned}$$

(vii) Sales margin price variance

$$\begin{aligned} & (\text{Actual units} \times \text{actual margin}) - (\text{Actual units} \times \text{standard margin}) \\ &= (105,000 \times \text{₦}6) - (105,000 \times \text{₦}3) \\ &= \text{₦}630,000 - \text{₦}315,000 \\ &= \text{₦}315,000\text{F} \end{aligned}$$

(viii) Sales margin volume variance
 (Actual units x standard margin) – (standard units x standard margin)
 = (105,000 x ₦3) – (100,000 x ₦3)
 = ₦315,000 - ₦300,000
 = ₦15,000F

Examiner's Report

This question tests candidates' knowledge of variance analysis and was attempted by about 60% of the candidates.

Performance was below average. About 20% of those who attempted the question scored above 50% of the allotted marks

The pitfall here is that, most candidates couldn't pick the right figures to be fixed into the formulas. Most of them got the formula right but the final answer wrong.

Candidates are advised to study more, especially past questions in their future preparations.

SOLUTION 2

BLUE LIMITED STATEMENT OF PRODUCTION MIX

PRODUCTS	A		Y		Z	
	₦	₦	₦	₦	₦	₦
Selling		100		120		120
Less variable cost:						
Direct materials	20		16		21	
Direct labour	18		24		27	
Direct expenses	2		3		---	
Variable overhead	<u>12</u>		<u>16</u>		<u>18</u>	
Total Variable Cost		<u>(52)</u>		<u>(59)</u>		<u>(66)</u>
Contribution		48		61		54
Labour per hour		1.5		2.0		2.25
Contribution/labour hour		32		30.5		24
Ranking		1st		2nd		3rd

PRODUCTION PLAN BASED ON RESTRICTED LABOUR HOURS

RANK	PRODUCT	MAX DD	HR/LTS	LABOUR HRS AVAILABLE	LITRES PRODUCED
1 ST	X	15,000	1.5 Hrs	22,500	15,000
2 ND	Y	4,000	2 Hrs	8,000	4,000
3 RD	Z	6,000	2.25 Hrs	<u>7,000</u>	3,111
				<u>37,500</u>	

Examiner's Report

This question tests candidates' knowledge of optimum product mix in manufacturing. About 20% of the candidates attempted the question and performance was poor.

The pitfall is that those that attempted the question lacked understanding of the principles.

Candidates are advised to study harder in the future.

SOLUTION 3

TEJUMO Company Limited

Raw Material Control Account

	₦		₦
Balance b/d	1,508,000	Work in progress A/c	358,000
Nominal control a/c	<u>720,000</u>	Nominal ledger A/c	<u>65,000</u>
		Balance c/d	1,805,000
	<u>2,228,000</u>		<u>2,228,000</u>
Balance b/d	1,805,000		

Work In Progress Control Account

	₦		₦
Balance b/d	503,000	Finished goods A/c	1,200,000
Nominal ledger(o/v alloct.	650,000	Nominal ledger A/c	24,000
Ram material A/c	358,000	Balance c/d	<u>445,000</u>
Nominal ledger D.W.	<u>158,000</u>		
	<u>1,669,000</u>		<u>1,669,000</u>
Balance b/d	445,000		

Finished Good Control Account

	₦		₦
Balance b/d	708,000	Nominal ledger A/c	1,800,000
Work in progress A/c	1,200,000	Balance c/d	194,000
Nominal ledger Alc	86,000		
	1,994,000		1,994,000
Balance b/d	194,000		

Nominal Ledger Control Account

	₦		₦
Finished goods A/c	1,800,000	Balance b/d	2,719,000
Raw material Alc (Return)	65,000	WIP (Factory overhead)	650,000
Work in progress A/c(reject)	24,000	WIP- Direct wages	158,000
Balance c/d	2,444,000	Raw material purchased	720,000
	4,333,000	Finished goods A/c (return)	86,000
			4,333,000
		Balance b/d	2,444,000

TEJUMO Company Limited TRIAL BALANCE AS AT 30TH JUNE 2019

	₦	₦
Nominal ledger control A/c		2,444,000
Raw material control A/c	1,805,000	
Work-in-progress control A/c	445,000	
Finished goods control A/c	194,000	
	2,444,000	2,444,000

Examiner's Report

This question tests candidates' knowledge of cost control accounts. It was attempted by about 20% of the candidates.

Performance was poor as less than 30% of the candidates scored above 50% of the marks allotted. The major pitfall is that candidates lacked knowledge of what to credit and debit into the different control accounts.

Candidates are advised to be better prepared against future examinations.

SOLUTION 4

LADEX LTD

i. ESTIMATED PROFIT OR LOSS FOR THE MONTH OF DECEMBER

	BLUE	BLACK	BROWN	TOTAL
	₦	₦	₦	₦
Sales value	125,000	100,000	300,000	525,000
Less apportioned Cost on physical units	<u>(100,000)</u>	<u>(40,000)</u>	<u>(60,000)</u>	<u>(200,000)</u>
Contribution	25,000	60,000	240,000	325,000
Further proc. Cost	<u>(100,000)</u>	<u>(50,000)</u>	<u>(150,000)</u>	<u>(300,000)</u>
Estimated profit/loss	<u>(75,000)</u>	<u>10,000</u>	<u>90,000</u>	<u>25,000</u>

ii. ALTERNATIVE STATEMENT OF PROFIT OR LOSS INCREMENTAL APPROACH

	BLUE	BLACK	BROWN	TOTAL
	₦	₦	₦	₦
Final sales value	125,000	100,000	300,000	525,000
Sales at separation	<u>(75,000)</u>	<u>(40,000)</u>	<u>(90,000)</u>	<u>(205,000)</u>
Incremental revenue	50,000	60,000	210,000	320,000
Incremental cost of Further processing	<u>(100,000)</u>	<u>(50,000)</u>	<u>(150,000)</u>	<u>(300,000)</u>
Incremental profit/(Loss)	<u>(50,000)</u>	<u>10,000</u>	<u>60,000</u>	<u>20,000</u>

Remark: profit will be maximized by further processing BLACK and BROWN while BLUE at the point of separation.

iii. COMPUTATION OF MAXIMUM PROFIT

	₦	₦
Blue sales value at separation point		75,000
Less appointed cost		<u>100,000</u>
Loss		(25,000)
Black profit after further processing	10,000	
Brown profit after further processing	<u>90,000</u>	<u>100,000</u>
Maximum profit		<u>75,000</u>

Examiner's Report

This question tests candidates' knowledge of apportionment of costs. It was attempted by about 25% and performance was poor. Pitfall was lack of adequate understanding of the requirements of the question.

Candidates should in future study more and only attempt topics/questions they are familiar with.

SOLUTION 5

SOTIRI LTD

a.

i. Number of units to breakeven BEP

$$= \frac{\text{Fixed cost}}{\text{Contribution per unit}}$$

	₦	₦
Selling price		400,000
Less variable cost:		
Direct materials	50,000	
Direct labour	75,000	
Variable overhead	<u>25,000</u>	<u>150,000</u>
Contribution per unit		<u>250,000</u>

$$\begin{aligned}\text{Therefore, BEP} &= \frac{\text{₦30,000,000}}{\text{₦250,000}} \\ &= \underline{\underline{120 \text{ units}}}\end{aligned}$$

$$\begin{aligned}\text{ii. Sales value at BEP} &= \text{Fixed cost/contribution} \times \text{Selling Price} \\ &= \frac{\text{₦30,000,000}}{\text{₦250,000}} \times \text{₦400,000} \\ &= \underline{\underline{\text{₦48,000,000}}}\end{aligned}$$

$$\begin{aligned}\text{iii. Contribution sales ratio} &= \frac{\text{Contribution}}{\text{Selling price}} \times 100\% = \frac{\text{₦250,000}}{\text{₦400,000}} \\ &= \underline{\underline{62.5\%}}\end{aligned}$$

iv. Number of units for the target profit of ₦40,000,000

$$\begin{aligned} & \frac{\text{Fixed cost} + \text{target profit}}{\text{Contribution per unit}} \\ &= \frac{\text{₦30,000,000} + \text{₦40,000,000}}{\text{₦250,000}} \\ &= 280 \text{ units} \end{aligned}$$

- v. Number of units to be sold to achieve a target profit of ₦21,000,000 after tax

$$\begin{aligned} & \frac{\text{Fixed cost} + \frac{\text{target profit}}{1 - \text{tax rate}}}{\text{Contribution per unit}} \\ &= \frac{\text{₦30,000,000} + \frac{\text{₦21,000,000}}{1 - 0.3}}{\text{₦250,000}} \\ &= \frac{\text{₦30,000,000} + \text{₦30,000,000}}{\text{₦250,000}} \\ &= 240 \text{ units} \end{aligned}$$

- b. Uses of cost volume profit analysis
- i. It helps in settling selling prices and volume decision
 - ii. It is very useful in budget planning
 - iii. It is an effective control method which can be used in forecasting or estimating future profits
 - iv. It can be used to quantify the effect of cost reduction programmes
 - v. It is an appropriate tool to determine appropriate product mix.

Examiner's Report

This question tests candidates' knowledge of break-even analysis and was attempted by about 75% of the candidates. Performance was good as about 50% of the candidates scored above 50% of the allotted marks.

The Part B which required candidates to list uses of cost-volume-profit analysis was poorly attempted as performance was not good enough. The major pitfall was that candidates' concentration was on calculations, they could not do well in the qualitative aspect.

Candidates should realise that a trained accounting technician is expected to be an all-rounder.

SOLUTION 6

a. Advantages of automation on manufacturing processes

1. Increased productivity: output will increase because computer will actively take over some or all manually done operations
2. It will lead to cost reduction: the cost of production will fall after initial outlay of automation
3. More effective use of materials: computer will generally make better use of resources as errors and wastages from human perspective will be eliminated.
4. Better product quality: there will be better quality of product because of accuracy and consistency in the production with automation and this will improve the image of the organisation
5. Automation will definitely improve safety: a safer production is expected in automation environment
6. Automation will also improve storage facilities
7. Automation will streamline and simplify workflow activities
8. It will be less labour intensive
9. There will be better enterprise resource planning system (ERPS)
10. Faster access to information and records
11. Making alteration will become easier in automating environment.
12. Reduction of factory lead time
13. Facilitate competitiveness

- b. Level of activity refers to the amount of work done, or the number of events that have occurred. The behavioral of cost in relation to changes in the level of activity is very significant that it forms the basis of the accounting classification of cost into fixed and variable and the resulting costs changes form the basis of many practical decisions.

Level of activity is expressed in many ways e.g. tons produced, turnover achieved; hours worked, standard hours produced, stores issue etc,

Fixed cost is a cost which accrues in relation to the passage of time and which remain fixed within relevant activity levels. It is instructive to note that fixed cost will change outside the maximum capacity level.

Variable costs on the other hand tend to vary in direct proportion to changes in the level of activity. Variable cost per unit is the same amount for each unit produced. But changes can occur to some variable cost at some activity level. For example, a unit material cost may reduce at high volume due the existence of discounts given.

Therefore, activity level attained is an important determinant of changes in fixed and variable cost.

Examiner's Report

This question tests candidates' knowledge of Automation of manufacturing process. About 40% of the candidates attempted it. Performance was just fair as about 55% of the candidates scored above half of the mark allocated.

The B part of the question was supposed to be easier to answer but they could not explain the level of activity and its relationship with variable cost well enough.

Candidates are enjoined to use the ATSWA Study Text in their future preparations among other materials.

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA**

**PART III EXAMINATIONS – SEPTEMBER 2020
PREPARING TAX COMPUTATIONS AND RETURNS**

Time Allowed: 3 hours

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

ATTEMPT ALL QUESTIONS

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** a guideline underlying a good tax system?
 - A. Economy in collection
 - B. Convenience
 - C. Effectiveness
 - D. Efficiency
 - E. Equity

2. Which of the following is a demerit of direct taxes?
 - A. It has high cost of collection
 - B. It is not equitable
 - C. It is not easy to ascertain tax incidence
 - D. It may discourage hard work
 - E. It cannot be adjusted easily

3. Which of the following is **NOT** a tax base?
 - A. Property
 - B. Capital
 - C. Expenditure
 - D. Interest
 - E. Savings

4. The Board of State Internal Revenue Service consists of the following, **EXCEPT**
- A. A Director from State Ministry of Finance
 - B. The State Minister of Justice or his representative
 - C. The Directors and Heads of Department within the Internal Revenue Service
 - D. A Director from the State Ministry of Finance
 - E. The Secretary of the State Internal Revenue Service
5. A quorum is formed at a meeting of the State Board of Internal Revenue Service with the presence of any
- A. Seven members, one of which must be the Chairman or a Director
 - B. Five members, one must be the Chairman or a Director
 - C. Five members
 - D. Five members, the Chairman and a Director
 - E. Four members, the Chairman and a Director
6. Members of the Technical Committee of a State Internal Revenue Service in Nigeria include the following, **EXCEPT**
- A. The Chairman of the State Board of Internal Revenue
 - B. The Directors within the State Service
 - C. The legal adviser to the State Service
 - D. Heads of Departments within Internal Revenue Service
 - E. The Secretary of the State Internal Revenue Service
7. In a meeting of the Joint Tax Board, quorum is formed with the presence of any
- A. Seven members or their representatives
 - B. Seven members including the Chairman
 - C. Seven members including the Chairman and the Secretary
 - D. Eight members
 - E. Eight members including the Chairman and the Secretary
8. The duty to advise the government in respect of double taxation arrangements is that of the
- A. Joint Tax Board
 - B. State Internal Revenue Service
 - C. State Technical Committee
 - D. Federal Inland Revenue Service Board
 - E. State Internal Revenue Service Board

9. The Assessable profit of a new trade or business in Nigeria for the first year under the Company Income Tax Act is profit from
- A. Commencement to 31st December following
 - B. Commencement to 31st December of year following year of commencement
 - C. Commencement to the end of its first accounting period
 - D. Commencement to the end of Government fiscal year
 - E. Date of registration of business to end of Government fiscal year
10. Total profit equals
- A. Total assessable profit plus balancing charge
 - B. Total assessable profit minus losses
 - C. Assessable profit less allowable deduction
 - D. Assessable profit plus balancing charge less allowable deductions
 - E. Assessable profit less Capital Allowances
11. A major advantage of Capital Allowances is
- A. Uniform treatment
 - B. That it increases Government revenue
 - C. That it discourages investment
 - D. That it encourages expenditure
 - E. That it is easy to compute
12. Which of the following is **NOT** a condition for granting Capital Allowances?
- A. Qualifying asset must be used for the purpose of trade or business
 - B. Qualifying Capital expenditure must be owned by the taxpayer at the beginning of the basis period
 - C. The qualifying capital expenditure must be incurred in the basis period
 - D. The Capital Allowance must be claimed by the taxpayer
 - E. An asset acquired through hire purchase agreement can be the subject of a Capital Allowance claim
13. Which of the following is **NOT** true for Annual Allowance in Nigeria?
- A. It cannot be prorated
 - B. Its basis period is the same as that for assessment of profit
 - C. It is allowed over the useful life of an asset
 - D. It is allowed for qualifying capital expenditure
 - E. Ten Naira is retained in the account for tax purposes until asset is disposed

14. Pepedem Nigeria limited had a qualifying capital expenditure of ₦1,000,000 with a Tax Written Down Value of ₦500,000. The company sold the asset for ₦700,000. What is the balancing adjustment of the transaction?
- A. Balancing allowance of ₦200,000
 - B. Balancing allowance of ~~₦500,000~~
 - C. Balancing charge of ₦200,000
 - D. Balancing charge of ₦500,000
 - E. Balancing charge of ~~₦700,000~~
15. For an individual, residence is a place which is available for domestic use of the individual
- A. On the last day in a relevant tax year
 - B. On the first day in a relevant tax year
 - C. For the most part of the relevant tax year
 - D. For seven unbroken months in the tax year
 - E. As approved by the relevant tax authority
16. Settlement can be through the following, **EXCEPT**
- A. Disposition
 - B. Trust
 - C. Agreement
 - D. Agency
 - E. Covenant
17. The aggregate of properties possessed by a person including his/her goods, money and others is called
- A. Estate
 - B. Possessions
 - C. Trust
 - D. Equity
 - E. Chattel
18. A person who has provided or undertaken to provide funds directly or indirectly for the purpose of a settlement is called a
- A. Settler
 - B. Bailor
 - C. Beneficiary
 - D. Settlor
 - E. provider

19. A company shall **NOT** be chargeable to company income tax in Nigeria
- A. In its own name
 - B. In the name of a principal officer
 - C. In the name of an attorney
 - D. In the name of its major shareholder
 - E. In the name of a liquidator
20. Which of the following dividend income is **NOT** tax exempt in Nigeria?
- A. Dividend distributed by a Unit Trust
 - B. Dividend that has been subjected to Withholding tax
 - C. Dividend derived from abroad and brought into Nigeria through government approved channel
 - D. Dividend received from companies engaged in agricultural business
 - E. Dividend received from investment in wholly export oriented business
21. Withholding tax was first introduced in Nigeria in the year
- A. 1980
 - B. 1984
 - C. 1985
 - D. 1987
 - E. 1990
22. Penalty for non-payment of Tertiary Education Tax within 60 days is
- A. 5% of tax due plus 10% interest on tax payable for days of default
 - B. 5% of tax due plus interest at bank lending rate on tax payable for days of default
 - C. 5% of tax due
 - D. 7.5% of tax due
 - E. 10% of tax due
23. The board of trustee of TETFund consist of the following, **EXCEPT**
- A. A representative from South West Nigeria
 - B. A representative from the Universities
 - C. A representative from the Technical Institutions
 - D. A representative from the Polytechnics
 - E. A chairman

24. The administration of Capital Gains Tax is under the charge and management of the
- A. Federal Inland Revenue Service Board
 - B. State Internal Revenue Board
 - C. Capital Gains Tax Board
 - D. Tax authority of the territory of tax payer
 - E. Joint Tax Board
25. Which of the following is **NOT** allowable expenses under Capital Gains Tax computation
- A. Accountant's commission
 - B. Legal adviser's fees
 - C. Stamp Duties paid
 - D. Insurance Premium paid on assets disposed
 - E. Cost of acquisition
26. In Nigeria, the Value Added Tax Technical Committee comprises of the following, **EXCEPT**
- A. All Directors in the Federal Inland Revenue Service
 - B. A Director from the Federal Ministry of Finance
 - C. A chairman who shall be the chairman of the Federal Inland Revenue Board
 - D. A Director in the Nigeria Customs Service
 - E. Three representatives of the State Governments who shall be members of the Joint Tax Board
27. A taxable person in Nigeria shall within.....months of commencement of business register with the Board for the purpose of Value Added Tax
- A. Three
 - B. Six
 - C. Nine
 - D. Twelve
 - E. Eighteen
28. In Nigeria, the penalty for failure to collect Value Added Tax is
- A. ₦50,000 or imprisonment for a term of five years
 - B. ₦50,000 or imprisonment for a term of six months
 - C. 100% of amount not collected
 - D. 100% of amount not collected or imprisonment for a term of six months
 - E. 150% of amount not collected plus 5% interest above rediscount rate

29. According to the Finance Act 2020, is an allowance under Personal Income Tax computation
- A. Child allowance up to a maximum of four children
 - B. Wife allowance
 - C. Consolidated relief allowance
 - D. Dependent relative allowance
 - E. Housing allowance
30. Where a taxable person subject to Value Added Tax, permanently ceases business in Nigeria, the taxable person shall notify the relevant tax authority to be deregistered for tax purposes within days of such cessation.
- A. 30
 - B. 45
 - C. 90
 - D. 180
 - E. 365

SECTION A: PART II SHORT ANSWER QUESTIONS (20 Marks)

ATTEMPTS ALL QUESTIONS

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

1. When the Government takes away less of peoples own money so as to enable them spend more in accordance with their choices, it is known as.....
2. A statement of intention which guide the thinking and action of all concerned towards the realisation of set tax goals is called
3. An amount paid to relevant tax authority by a company yet to commence business is called
4. A document issued by the tax authority to an employer about an employee based on the information given on such employee is called.....
5. The burden of proof that an assessment is excessive or erroneous is on the

6. If a company ceases business, its assessed tax for the year of cessation is payable within
7. Capital Allowances are otherwise called.....
8. An expenditure incurred on patent and licenses is called qualifying expenditure
9. The basis period for Capital Allowance for a company in the first year of assessment, is the date of commencement to.....
10. Initial allowance may be prorated if there is an evidence of
11. The useful life of an asset is determined for capital allowances purposes byrate
12. For tax purposes, rent received in advance can be apportioned for a maximum of years
13. A person mentioned in a will to administer the estate of a deceased is called the.....
14. In a will, an administrator is appointed by the.....
15. A person receiving a payment annually from a will is called
16. In Nigeria, a taxpayer is expected to file the withholding tax returns latest by the end of the.....
17. Compensation for loss of office is not chargeable under Capital Gains Tax , **EXCEPT** such is above.....
18. In Nigeria, zero rated supplies include of taxable goods and services
19. The total education tax collected in a year is disbursed among Nigerian Universities, Polytechnics and Colleges of education in the following percentages is:, andrespectively
20. Capital loss on disposal of an asset is from the capital gains on disposal of any other asset

SECTION B:**ATTEMPTS ANY FOUR QUESTIONS****(30 Marks)****QUESTION 1**

- a. i. Explain the term 'Tax' (2½ Marks)
ii. Distinguish between a tax and a levy (4 Marks)
- b. Explain the following
i. Tax base (2 Marks)
ii. Tax shift (2 Marks)
iii. Tax Incidence (2 Marks)
- (Total 12½ Marks)**

QUESTION 2

- a. Under the Pay-As-You-Earn (PAYE) scheme in Nigeria, every employer is expected to make returns to the relevant tax authority.
Highlight the documents that constitute such returns (7 Marks)
- b. List the contents of a Tax Deduction Card (5½ Marks)
- (Total 12½ Marks)**

QUESTION 3

- a. Yakoyo Nigeria limited commenced business on 3rd February 2016 preparing its accounts to 30th September of every year. Its adjusted profits are as follows

Accounting periods	₦
Period to 30 th September 2016	30,000,000
Year to 30 th September 2017	60,000,000
Year to 30 th September 2018	80,000,000
Year to 30 th September 2019	16,000,000
Period to 31 st December 2019	2,000,000

The company ceased operation due to the effect of a pandemic disease on its operations.

You are required to:

Determine the company's basis period and assessable profits for the relevant years of assessment. (4 Marks)

- b. Explain the Actual Year Basis of assessment as it applies to a company in Nigeria.

(8½ Marks)

(Total 12½ Marks)

QUESTION 4

Purepure Nigeria limited commenced his business of manufacturing garments on 1st July 2016. The following are particulars of capital expenditure incurred by him during the period from September 2015 to 30th June 2016.

	₦
Factory Building	100,000
Plant and Machinery	200,000
Motor Vehicle	60,000

Other additional purchases are as follows:

Date of purchase	Item	Cost
		₦
August 2016	Plant	60,000
January 2017	Lorry	30,000
June 2017	Building	100,000
December 2017	Cutting Machine	60,000
May 2018	Additional Building	30,000
September 2018	Lorry	20,000

The accounts are made up to 30th June each year.

You are required to:

- a. State the basis period for all relevant years of assessment and the basis period for capital allowances in columnar form. (2½ Marks)
- b. Compute the capital allowance claimable by the company for the first three years of assessment (10 Marks)

(Total 12½ Marks)

QUESTION 5

Realyready Nigeria Limited is a company engaged in the marketing and sale of designer cloths. Its results for the year ended 31st December 2018 revealed the following

Statement of Profit or Loss

	N(000)
Revenue	<u>125,000</u>
Gross profit	8,820
Deduct	
Overhead	<u>5,940</u>
Net Profit	<u>2,880</u>

Notes

(1) The overhead expenses include

	N
(i) Depreciation	600,000
(ii) Share issue expenses	35,000
(iii) Non current assets costing below (N5,000)	20,000
(iv) Donation to Maami motherless babies homes	10,000
(v) Donations to Gbogboero University	50,000

(2) Revenue was overstated by N400,000

(3) Revenue includes the following

- (i) N100,000 interest on loan given to Piggy agricultural limited
- (ii) N50,000 dividend received from Ile Trust limited, a unit trust institution.

(4) Capital allowances for the year was N3,200,000

(5) Unrelieved losses brought forward was N380,000

(6) Other additional information below:

Statement of financial position as at 31st December 2018

	N(000)
Non current assets	17,500
Current assets	<u>110,000</u>
	<u>127,500</u>
Financed by:	
Share capital	77,500
Reserves	<u>30,000</u>
Total equity	107,500
Current liabilities	<u>20,000</u>
	<u>127,500</u>

You are required to:

- a. Compute the company's total profit (6 Marks)
 - b. Calculate the tax payable by the company (3½ Marks)
 - c. State the categories of companies exempted from minimum tax legislation in Nigeria. (3 Marks)
- (Total 12½ Marks)**

QUESTION 6

- a. Joyous limited produced a raw material which was sold to Falz limited for ₦300,000. Falz limited further processed and sold to Oga limited for ₦500,000. Oga limited a wholesaler later sold it to Nownow limited a retailer at ₦750,000 and finally to Mrs. Aminat a final consumer who paid ₦900,000 for the product.

You are required to:

Compute the Value Added Tax payable to the government, showing output VAT and Input VAT at every stage of the transaction. (6 Marks)

- b. Briefly state the composition and functions of the Value Added Tax Technical Committee in Nigeria. (6½ Marks)
- (Total 12½ Marks)**

NIGERIAN TAX RATES

1. CAPITAL ALLOWANCES

	Initial %	Annual %
Office Equipment	50	25
Motor Vehicles	50	25
Office Buildings	15	10
Furniture and Fittings	25	20
Industrial Buildings	15	10
Non-Industrial Buildings	15	10
Plant and Machinery		
- Agricultural		
- Production	95	Nil
- Others	50	25

2. INVESTMENT ALLOWANCE 10%

3. RATES OF PERSONAL INCOME TAX

Graduates tax rates with consolidated relief allowance of ₦200,000 or 1% of Gross Income whichever is higher + 20% of Gross income.

	Taxable Income ₦	Rate of Tax %
First	300,000	7
Next	300,000	11
Next	500,000	15
Next	500,000	19
Next	1,600,000	21
Over	3,200,000	24

After the relief allowance and exemption had been granted, the balance of income shall be taxed as specified in the tax table above.

- | | |
|------------------------------|---------------------------|
| 4. COMPANIES INCOME TAX RATE | 30% |
| 5. TERTIARY EDUCATION TAX | (2% of Assessable Profit) |
| 6. CAPITAL GAINS TAX | 10% |
| 7. VALUE ADDED TAX | 7.5% |

SOLUTIONS

SECTION A PART 1 – MULTIPLE CHOICE

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

- 27. B
- 28. E
- 29. C
- 30. C

EXAMINER'S REPORT

The Multiple Choice Questions cover the entire syllabus. The questions are standard and appropriate. All the candidates attempted these questions and the performance is satisfactory.

SECTION A PART II

- 1. Tax cut
- 2. Tax policy
- 3. Pre- operation levy
- 4. Tax deduction card
- 5. Tax payer
- 6. Six months
- 7. Standardised depreciation
- 8. Research and development
- 9. End of government fiscal year or (31st December of the same year)
- 10. Private use
- 11. Annual Allowance
- 12. Five years
- 13. Executor
- 14. Court
- 15. An annuitant
- 16. Following month
- 17. ~~₦10,000~~ (Prior to 2020 Year of Assessment (YOA) ~~₦10 million~~, effective 2020 YOA)
- 18. Export

19. 50%, 25% and 25%
20. Not deductible

EXAMINER'S REPORT

The Short Answer Questions are simple and straight forward. All the Candidates attempted the questions. The general performance was above average.

SECTION B

Solution 1

- a.
 - i. Tax is a compulsory contribution imposed by the government on the tax payers even though taxpayers may receive nothing identifiable in return for their contribution. It is usually imposed by the government for many reasons among which is to raise revenue.
 - ii. **Tax Vs Levy**
Tax and levy can be distinguished using any of the following factors:
 - i. **Expected benefit**
Tax is not lived in return for any specific service rendered by the government to the tax payer. However, levy is paid to the government in return for specific services by government to the taxpayer.
 - ii. **Objective**
The purpose of tax is primarily to generate income for the government. The objective of some levies is to punish offenders who violate the law of the land. Example is fines for traffic offence.
 - iii. **Nature**
Taxes are compulsory in nature and therefore imposed by government. Levies are optional in nature. They are paid where necessary or required.
 - iv. **Returns filing**
Monthly or annual returns filing is required for taxes. This is not required for levies.

v. **Tax base**

Items subject to tax may be income, profits, assets or transactions which are collectively referred to as tax base. Most levies are fixed amount or payment independent of profits, incomes or transaction undertaken.

b. i. **Tax Base**

This is a measure upon which the assessment or determination of tax liability is based. It is that portion of a taxpayer's income or property which is expected to suffer tax.

Tax Incidence

It is an economic term for the division of a tax burden between buyers and sellers. It does reveal the person that will pay the tax liability. For instance, if the government decided to impose an increased tax rate on cigarettes, the producers may increase the sale price by the full amount of the tax. If the consumers still purchased cigarettes on the same amount after the price increase, it will be said that the tax incidence fell entirely on the buyers.

Tax Shift

This is also referred to as tax swap. It is a change in taxation that eliminates or reduces one or several taxes and establishes or increases others while keeping the overall revenue the same.

EXAMINER'S REPORT

This is a straight forward theory question testing candidates' knowledge of the meaning of tax and levy.

About 98percent of the candidates attempted the question. The general performance was above average.

Solution 2

a. **Individual Taxpayer's Returns**

At the end of each year, every employer is expected to make returns to the relevant tax authority – the State Board of Internal Revenue under the Pay-As-You-Earn (PAYE) Scheme, of all emoluments paid to its employees not later than 31st January of every year in respect of all employees in its employment in the preceding year.

Such returns usually include the following:

1. Certificate of Tax Deduction of the employees. These shows the:
 - i. Total number of employees;
 - ii. Amount of tax deducted in respect of all employees; and
 - iii. Amount of tax actually paid to the tax authority in respect of the deductions made.
2. Completed tax deduction cards of all the employees duly signed by employer or representative.
3. A duly signed statement showing the following:
 - i. Name of each employee;
 - ii. Employee's taxable income;
 - iii. Amount of tax deducted; and
 - iv. Particulars of tax receipts issued.

b. Contents of a Tax Deduction Card

A tax deduction card is usually issued by the tax authority to an employer based on the information already given on such employee. This card contains the following:

- a. Year of assessment;
- b. Name of the employer;
- c. Name of the employee;
- d. Place of residence of the employee for the year of assessment; and
- e. Employee's reference number.

This tax deduction card also has columns for the following:

- (i) Gross pay for each month;
- (ii) Gross pay to date;
- (iii) Free pay to date;
- (iv) Taxable pay to date;
- (v) Tax due to date;
- (vi) Deduction up to the end of the previous month; and
- (vii) Tax deducted for the month (v-vi).

EXAMINER'S REPORT

This is a simple question on Pay-As-You-Earn (PAYE). 60 percent of the candidates attempted the question and the general performance was below average.

Solution 3

a.

YAKOYO NIGERIA LIMITED

COMPUTATION OF ASSESSABLE PROFITS FOR THE RELEVANT YEARS OF ASSESSMENT

YOA	Basis Period	Workings		Assessable Profits (₦)
2016	03/02/2016 – 31/12/2016	$(30,000,000 + \frac{3}{12} \times 60,000,000)$		45,000,000
2017	03/02/2016 – 31/01/2017	$(30,000,000 + \frac{4}{12} \times 60,000,000)$		50,000,000
	The higher of			
2018	PYB 03/02/2016 – 30/09/2017	Given	60,000,000	64,000,000
	AYB 01/01/2018 – 31/12/2018	$(\frac{9}{12} \times 80,000,000 + \frac{3}{12} \times 16,000,000)$	64,000,000	
2019	AYB 01/01/2019 – 31/12/2019	$(\frac{9}{12} \times 16,000,000 + \frac{3}{12} \times 2,000,000)$		14,000,000

- b. i. in Actual Year basis of assessment, profits made by a company in an assessment year are assessed to tax in such assessment year.
- ii. The Finance Act 2020, as amended in Nigeria wherein the basis periods for assessing profits of companies at commencement and cessation were changed thus:

1. Commencement

- The assessable profits for the first year of assessment shall be the profits from the date in which it commenced business in Nigeria to the end of its first accounting period.
- Assessable profit is the profit of the first twelve (12) months from the date of commencement of the business.
- Assessable profit is profit of a twelve-month (normal) accounting period ended in the preceding year of assessment.

2. Cessation

Upon cessation, assessable profit of the year of cessation shall be the profits in the beginning of the accounting period to the date of cessation

Ultimate YOA: Actual profit for the year of cessation (1st January – date of cessation)

Ultimate: Higher of the assessable profits based on:

- a. Actual basis and
- b. Preceding year basis

EXAMINER'S REPORT

This is a standard computation question, testing candidates' knowledge of the commencement and cessation rules. About 80 percent of the candidates attempted the question. The general performance is average. The main pitfall was wrong application of the commencement and cessation rules.

Candidates are advised to study this area of the syllabus very well.

Solution 4

a.

**PUREPURE NIGERIA LIMITED
DETERMINATION OF BASIS PERIOD FOR ASSESSABLE PROFIT
AND CAPITAL ALLOWANCE
FOR ALL RELEVANT YEARS OF ASSESSMENT**

YOA	Basis period assessable	Basis period for capital allowance	Remark
2016	01/07/2016 – 31/12/2016	01/07/2016 – 31/12/2016	Factory building, Planting & machinery, Motor Vehicle, Plant
2017	01/07/2016 – 30/06/2017	01/07/2016 – 30/06/2017	Lorry, Building
2018	01/07/2016 – 30/06/2017	–	–
2019	01/07/2017 – 30/06/2018	01/07/2017 – 30/06/2018	Cutting Machine, Building
2020	01/07/2018 – 30/06/2019	01/07/2018 – 30/06/2019	Lorry

b.

PUREPURE NIGERIA LIMITED
Computation of capital allowance

Details/ Description	Factory building	Plant & Machinery	Motor vehicle	Plant	Lorry	Building	Total
Initial Allw	15%	50%	0.50	50%	50%	15%	
Annual Allw	10%	25%	0.25	25%	25%	10%	
Invest Allow	0	10%	-	10%			
Cost – 2016	100,000.00	260,000,000	60,000,000				
Initial Allw	15,000.00	130,000,000	30,000,000				175,000.00
Annual Allw	4,250.00	16,250.00	3,750.00				24,250.00
Invest Allow	-		-				26,000.00
							225,250.00
TWDV – 2017	80,750.00	113,750.00	26,250.00	-			
Cost					30,000.00	100,000.00	
Initial Allw					15,000.00	15,000.00	30,000.00
Annual Allow	8,972.22	37,916.67	8,750.00		3,750.00	8,500.00	67,888.89
							97,888.89
TWDV – 2018	71,777.78	75,833.33	17,500	-	11,250.00	76,500.00	
Annual Allw	8,972.22	37,916.67	8,750.00	-	3,750.00	8,500.00	67,888.89

EXAMINER'S REPORT

This is a straight forward question testing candidates' understanding of Basis Period for capital allowance for relevant years of Assessment.

About 95 percent of the candidates attempted the question. The general performance was above average.

Solution 5

a.

REALYREADY NIGERIA LIMITED
COMPUTATION OF TOTAL PROFIT

	N'000	N'000	N'000
Net profit per account			2,880
Add disallowable expenses			
Depreciation		600	
Share issue expenses		35	
Non Current assets		<u>20</u>	<u>655</u>
			3535

Less income exempted from tax			
Interest on agric loan		100	
Dividend		<u>50</u>	<u>(150)</u>
			3,385
Less overstatement of revenue			<u>(400)</u>
Assessable profit			2,985
Less loss relieve B/F			<u>(380)</u>
Balance			2,605
Capital allowance	3,200		
Restricted to 66 2/3 x2,985,000	<u>(1,990)</u>		<u>(1,990)</u>
Capital allowance C/F	<u>1,210</u>		
Total profit			<u>615</u>

b.

**REALYREADY NIGERIA LIMITED
COMPUTATION OF TAX PAYABLE**

	₦	₦
REVENUE		125,000,000
Less overstatement		(400,000)
Adjusted revenue		<u>124,600,000</u>
Minimum tax	0.5% x 124,600,000	<u>623,000</u>
Tax on total profit	30% x 615,000	<u>184,500</u>
Tax payable		<u>623,000</u>

c. According to Section 33(3) CITA as amended by the finance act 2020, the following categories of companies are exempted from the payment of minimum tax

1. A company engaged in agricultural business
2. A company with a turnover of less than ₦25 Million
3. Any company for the first four calendar years of its commencement)
4. Company with at least 20% of imported equity

EXAMINER'S REPORT

This is a good question testing candidates' knowledge of computation of Total Profit and minimum tax. About 75 percent of the candidates attempted the question and the general performance was satisfactory.

Solution 6

a. **COMPUTATION OF VALUE ADDED TAX PAYABLE**

Vatable person	Price (₦)	Output VAT (₦)	Input VAT (₦)	VAT payable to government (₦)
Joyous	300,000	22,500	–	22,500
Falz	500,000	37,500	22,500	15,000
Oga	750,000	56,250	37,500	18,750
Nownow	900,000	<u>67,500</u>	<u>56,250</u>	<u>11,250</u>
		<u>183,750</u>	<u>116,250</u>	<u>67,500</u>
VAT paid to government = ₦67,500				

- b. In Nigeria, the **Value Added Tax Technical Committee** comprises of:
- a) A Chairman, who shall be the Chairman of the Federal Inland Revenue Service Board;
 - b) All Directors in the Federal Inland Revenue Service;
 - c) A Director in the Nigeria Customs Service, and
 - d) Three representatives of the State Governments shall be members of the Joint Tax Board.

The functions of the Technical Committee include:

- i) To consider all the tax matters that require professional and technical expertise and make recommendation as appropriate;
- ii) To advise the Board on the administration and management of VAT; and
- iii) To attend to such other matters as the Board, may from time to time refer to it.

EXAMINER'S REPORT

This is a two-part question. Part "a" tested candidates' knowledge of computation of Input and Output VAT, while part "b" is on the composition and functions of the Value Added Technical Committee in Nigeria.

About 85 percent of the candidates attempted the question. The general performance was above average.

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA**

PART III EXAMINATIONS – SEPTEMBER 2020

MANAGEMENT

Time Allowed: 3 hours

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

ATTEMPT ALL QUESTIONS

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

1. Business can be classified based on the following parameters, **EXCEPT**
 - A. Use of output
 - B. Use of input
 - C. Technical status
 - D. Ownership type
 - E. Size of the unit

2. To control a business as it grows, a firm may need to do which of the following?
 - A. Engage a management consultant
 - B. Relate with government
 - C. Be socially responsible
 - D. Use performance appraisal systems
 - E. Be more reactive

3. Which of the following is **NOT** an item in Articles of Association?
 - A. The types of businesses
 - B. Rights and responsibilities of shareholders
 - C. Appointment and termination of directors
 - D. Procedure for auditing and accounting
 - E. Procedure for the issue and transfer of shares

4. Which of the following is **NOT** a reason for the dissolution of a partnership?
 - A. Technical insolvency
 - B. Completion of the assignment
 - C. The dominance of a partner
 - D. Mutual Agreement
 - E. Court order

5. Which of the following should a manager **NOT** pay attention to in his/her social responsibility?
- A. Land use and beautification
 - B. Equal employment opportunities
 - C. Dispersion or spread of industries
 - D. Control of business through a political action
 - E. Corporate insolvency
6. The ability to see the big picture, to recognise the significant elements in a situation and to understand the relationships among the elements is
- A. Analytical skill
 - B. Conceptual skill
 - C. Diagnostic skill
 - D. Human skill
 - E. Problem-solving Skill
7. The Pre-scientific theorist that built co-operation between workers and management and practised the idea that workers should be treated as human beings is
- A. Charles Babbage
 - B. Henry Vanum Poor
 - C. Robert Owen
 - D. Henry Metcalfe
 - E. Chester Barnard
8. Organisations **CANNOT** be departmentalised by
- A. Customer
 - B. Time
 - C. Process
 - D. Product
 - E. Profession
9. Which of the following is the contribution of scientific management to management?
- A. Workers performance is influenced by the work environment
 - B. Management should make certain cost estimates on the basis of work observation
 - C. Formulation of work standards
 - D. Management should maintain relevant crucial information
 - E. The process should be rationalised

10. Which of the following is **NOT** to be addressed by strategic planning?
- A. What are our competitors doing?
 - B. What service are we trying to provide?
 - C. Should we continue with what we are presently doing?
 - D. Who should we employ as a sales representative?
 - E. What can we offer?
11. Which of the following is **NOT** a technique of coordination?
- A. Coordination by meeting
 - B. Managerial Hierarchy
 - C. Rules and Procedures
 - D. Coordination by compulsion
 - E. Coordination by liaison roles
12. The decision making that involves the use of estimates, guesses, or hunches to choose among alternative courses of action is in
- A. Proactive Decision
 - B. Uncertain Decision
 - C. Risky Decision
 - D. Intuitive Decision
 - E. Reactive Decision
13. Which of the following is **NOT** a characteristic of an effective control system?
- A. Objective and comprehensive
 - B. Depends on organisational variables
 - C. Focused on strategic control products
 - D. Economically realistic
 - E. Accurate
14. $X = \frac{\text{income before taxes} - \text{interest expense}}{\text{Interest expense}}$
- A. Debt Ratio
 - B. Profit return on net worth
 - C. Time interest earned
 - D. Profit return on net sales
 - E. Leverage Ratio

15. The process by which managers ensure that they have the right number and kind of capable people in the right place at the right time is
- A. Human resource management
 - B. Personnel management
 - C. Human resource placement
 - D. Human resource planning
 - E. Human resource engagement
16. Which of the following is **NOT** a step involved in the human resource planning process?
- A. Identify organisational objective
 - B. Recruitment of qualified workers
 - C. Estimate human resource needs
 - D. Analyse existing human resources
 - E. Develop a plan
17. Which of the following is **NOT** a source of internal recruitment?
- A. Encouraging current staff to go for training so as to qualify for the job
 - B. Job posting
 - C. Job bidding
 - D. Promotion
 - E. Transfer
18. Products with unique characteristics for which buyers are willing to make a special purchasing effort is
- A. Convenience Goods
 - B. Sought Goods
 - C. Speciality Goods
 - D. Shopping Goods
 - E. Unique Goods
19. Which of the following factor will affect the choice of the channel a marketer will adopt?
- A. Government influence
 - B. Location of the company
 - C. Distributor choice
 - D. International practice
 - E. Complexity of the product

20. Which of the following is **NOT** an example of an accounting package?
- A. Peachtree
 - B. Module
 - C. Sage
 - D. E-view
 - E. Poise
21. Which of the following is **NOT** a source of primary data?
- A. Survey method
 - B. Google
 - C. Observation method
 - D. Experimentation
 - E. interview
22. Which of the following is **NOT** a Content Theory of Motivation?
- A. Abraham Maslow Hierarchy of Needs Theory
 - B. Fredrick Hertzberg's two-factor theory
 - C. Clayton Alderfer ERG Theory
 - D. Professor Argyris immaturity- maturity theory
 - E. McClelland's Achievement Motivation Theory
23. In the Blake and Morton managerial grid theory of leadership, the country club (1,9) implies that the manager
- A. Has little concerns for work but more concerns for the need of employees
 - B. Is lazy and shows, little or no concern for employees and their work.
 - C. Is very concerned with the work of employees with less concern for the need of employees or the workers
 - D. Develops teamwork and cooperation among employees
 - E. Has a balanced concern for the employees and their work
24. Which of the following is **NOT** a type of team?
- A. Self-managed work teams
 - B. Formal teams
 - C. Cross-functional teams
 - D. Virtual teams
 - E. Commonwealth teams

25. Which of the following is **NOT** a type of conflict?
- A. Cross-sectional conflict
 - B. Interpersonal conflict
 - C. Intergroup conflict
 - D. Inter organisational conflict
 - E. Interdepartmental conflict
26. The diagonal flow of information among employees at different levels of the organisation and in different departments is.....communication
- A. Horizontal
 - B. Upward
 - C. Crosswise
 - D. Downward
 - E. dynamic
27. In designing of a form, which of the following factor should be taken into consideration?
- A. Time
 - B. Language
 - C. Day
 - D. Interest
 - E. size
28. The role of information technology (IT) in the controlling functions are the following, **EXCEPT**
- A. Lower communication cost
 - B. Ease of control
 - C. Detection of deviation from plan
 - D. The internet enables worldwide selling it makes scanning of the environment easier and faster
 - E. Facilitates productivity measurement at every cost
29. Which of the following is **NOT** involved in the study of Organisation and Method (O&M) study?
- A. Research the work
 - B. Select the work
 - C. Record the existing method
 - D. Examine the existing method
 - E. Maintenance of new methods

30. Which of the following is **NOT** a source of safety hazard at the workplace?

- A. Slippery floors
- B. Frayed carpets
- C. Open cabinets
- D. Poorly lit offices
- E. Slow movement

SECTION A: PART II

SHORT-ANSWER QUESTIONS

(20 Marks)

ATTEMPTS ALL QUESTIONS

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

1.is concerned with combining several raw materials and processing them into a simple unit (output)
2. Individual or group of individuals who have a strong interest or stake in the organisation and what it does or trying to achieve is a
3. The growth that occurs when a firm expands through selling more of its existing products or services or new products/services is referred to as.....
4. The indirect action environments are otherwise called.....
5.involves working with people and establishing a proper environment in which employees willingly achieve goals.
6. The principle that expects each employee to receive his or her instructions from only one superior on a particular operation is.....
7. The standards of behaviour guiding individual managers in the discharge of their work assignments vis-a-vis their relationship with one another and with their organisation is called.....
8. An ideal system wherein positions and tasks are clearly defined, division of labour was precise and clear, objectives are explicit and a clear chain of command is maintained is.....

9.is defined as the number of employees that a manager can effectively and efficiently supervise
10.is defined as a conscious choice among alternative courses of action followed by activities to implement the choice.
11. technique can be viewed as an assignment of calendar and clock times for beginning and completing production activities.
12. studies the relationship between total revenue and total costs at various levels of production so as to establish the level of production at which total revenue equals total cost.
13. The concept where the company concentrated its energy on making good quality products because it is assumed that a good quality product will sell itself is called.....
14. A deliberate, planned and sustained marketing effort to establish and maintain understanding between an organisation and its public is referred to as.....
15. The process when an organisation compares it's quality control practices with the best practice in the industry and improves its practices is.....
16. The motivation theory that emphasises that behaviour with positive consequences tends to be repeated, while behaviour with negative consequences tend not to be repeated is.....
17.is the art or process of influencing people so that they will strive willingly and enthusiastically toward the achievement of group goals.
18. A document with spaces in which to write or select for a series of documents with similar contents is.....
19.plays a major role in accident prevention and protection at the workplace and should be made part of the organisational induction programme.
20. The machine that scans printed typewritten texts and images and transmits them through telephone lines to a receiving fax machine is.....

SECTION B:**ATTEMPT FOUR QUESTIONS****(50 Marks)****QUESTION 1**

Many businesses are likely to experience failure as a result of COVID-19 pandemic.

List **TEN** approaches against business failure.

(Total 12½ Marks)**QUESTION 2**

In systems theory, there are **FIVE** key concepts.

List and explain them.

(Total 12½ Marks)**QUESTION 3**

a. Explain with a diagram, line organisational structure.

(5 Marks)

b. State **FIVE** advantages of line organisational structure

(7½ Marks)**(Total 12½ Marks)****QUESTION 4**

a. What is controlling

(2½ Mark)

b. List **FOUR** benefits of control to organisations.

(4 Marks)

c. List and explain **FOUR** control systems based on resources

(6 Marks)**(Total 12½ Marks)****QUESTION 5**

a. List and explain **FIVE** techniques used in motivating employees in practice.

(7½ Marks)

b. Explain **FIVE** functions of permanent formal group.

(5 Marks)**(Total 12½ Marks)****QUESTION 6**

a. List **SIX** characteristics of an effective group.

(7½ Marks)

b. State and explain **TWO** ways of evaluating team performance

(5 Marks)**(Total 12½ Marks)**

MULTIPLE CHOICE QUESTIONS (MCQ)

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

EXAMINER'S REPORT

The questions cover all the areas of the syllabus. It is compulsory question. Candidates' performance was good. Candidates observed pitfalls were inadequate usage of the study pack for the examination. The candidates are advised to use the study pack for the Institute's future examinations.

SHORT ANSWER QUESTIONS (SAQ)

1. Synthetic Industry
2. Stakeholder
3. Internal/Organic Growth
4. General Environment
5. Leading
6. Unity of Command
7. Managerial Ethics
8. Bureaucracy
9. Span of Control
10. Decision
11. Scheduling
12. Break-even Analysis
13. Product Concept
14. Public Relations/Publicity
15. Benchmarking
16. Reinforcement Theory
17. Leadership
18. Form
19. Health and Safety Training
20. Facsimile Machine

EXAMINER'S REPORT

The questions cover all parts of the syllabus. All the candidates attempted it and their performances were above average. Candidates observed pitfalls were poor preparation and inadequate usage of the study pack in order to be familiar with basic management principles. The candidates are advised to use the study pack for future examinations.

SECTION B

SOLUTION ONE

1. The following are some of the approaches to planning against business failures
 - I. Development of a business plan
 - II. Obtaining accurate financial information about the business in a timely manner.
 - III. Having a profile of the target customer

- IV. Having a profile of competitors
- V. Developing a suitable and effective control system
- VI. Networking with other business owners
- VII. Remember that someone will charge a lower price
- VIII. Develop a strong management team
- IX. Realising that customer tastes and preferences are changing
- X. Be aware of available resources

EXAMINER'S REPORT

The question tests the ability of candidates to demonstrate knowledge of approaches against business failure. About 80% of the candidates attempted the question and about 55% passed.

The major pitfalls of the candidates were poor preparation and understanding of the questions requirements. Candidates are advised to make adequate use of the study pack for subsequent examinations.

SOLUTION TWO

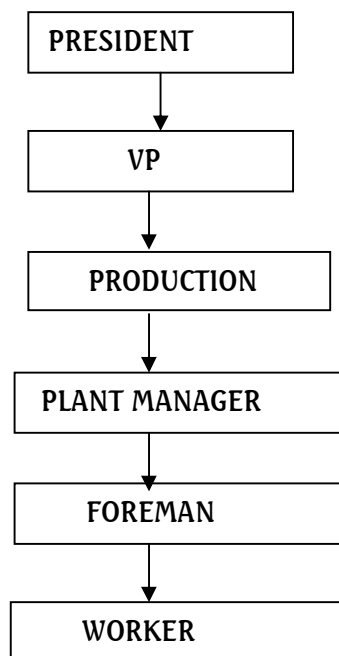
2. The key concepts in system theory are
 - I. Subsystems:- The parts that make up the whole of a system are called subsystems. And each system, in turn, maybe a subsystem of a still larger whole. Thus, a department is a subsystem of an organization.
 - II. Synergy:- Synergy means that the whole is greater than the sum of its parts in organisational terms synergy means that as separate departments within an organisation cooperate and interact, they become more productive than if they have acted in isolation.
 - III. Open and closed systems:- A system is considered open if it interacts with its environment, it is considered closed if it does not. All organisations interact with their environment, but the extent to which they do, do vary.
 - IV. System Boundary:- Each system has a boundary that separates it from its environment. In a closed system, this boundary is rigid, in an open system, the boundary is more flexible.
 - V. Flow:- A system has flows of information, material, and energy (including human). These enter the system from the environment as inputs (raw materials)

EXAMINER'S REPORT

The question tests the five key concepts of system theory. About 90% of the candidates attempted the question and about 85% passed. The major pitfalls of the candidates were poor preparation for the examination. The candidates are advised to make adequate use of the study pack for subsequent examinations.

SOLUTION THREE

3(a) Line organisation structure:- This is the simplest type of organisation. People in line organisation are directly responsible for achieving the goals of the organisation. They form a hierarchical structure and are in direct line from the top of the managerial hierarchy down to the operative level of workers.



3(b) The line Organisation Advantages:

- I. The line organisation is simple to operate
- II. Responsibility, authority and accountability are all clearly spelt out and easily assignable and traceable
- III. Communication is fast and easy and feedback can be acted upon faster
- IV. Due to small structural size, discipline and effective control can be easily exercised
- V. The line managers can seek help from specialists by way of advice and hence, improve on the quality of their decisions.

- VI. Companies with a line type of organisation are usually small in size, hence, personally get to know each other better and tend to feel close to each other.

EXAMINER'S REPORT

The question tests the candidates' knowledge of line organizational structure. About 75% of the candidates attempted the question and their performance was average. Candidates' major pitfalls were poor understanding of line organization and structure. Candidates are advised to use the study pack in preparation for subsequent examinations.

SOLUTION FOUR

- 4 (a) Controlling is the process of regulating organisational activities so that actual performance conforms to expected standards
- (b) Control helps or benefits the organisation in the following range:
- i. Adapting to changing conditions- a properly designed control system can help managers to monitor and respond to changing conditions.
 - ii. Minimising Errors- an effective control system can anticipate mistakes so that preventive steps are taken to avoid them.
 - iii. Coping with organisational complexity- a well-designed control system will assist a complex organisation to run effectively
 - iv. Minimising cost- control that is well designed helps to reduce waste and eventually reduce cost.
- (c) The following are the control system based on resources:
- i. Financial control - financial control focuses on inflow and outflow of financial resources in the organization
 - ii. Material control- this is concerned with the acquisition, storage recording and use of materials for operations
 - iii. Quality control- this is concerned with the quality of both inputs and outputs. To ensure that they meet established standards
- Behavioural control- this focuses on the behaviour of employees and other stakeholders that the organisation depends upon.

EXAMINER'S REPORT

The question tests the candidates' knowledge of Controlling. About 90% of the candidates attempted this question and about 85% passed. Major pitfall was inadequate usage of the study pack in preparation for the examination. The candidates are advised to make adequate use of the study pack for subsequent examinations.

SOLUTION FIVE

- 5(a) Techniques to motivate employees in the practice
- i. Financial reward - Money is one of the oldest methods of motivating workers in practice and it still remains so.
 - ii. Employee participation - Employees are more likely to work harder when they contribute to decisions that affect them at work.
 - iii. Favourable condition of work - Employees will be more motivated if they are provided with good working environment and conditions.
 - v. Enhanced social relationship - Employees will be motivated when the manager creates an environment that enhances good interpersonal relationships.
 - vi. Personal Development - Employees will be more productive when they are given the choice to advance their career through training and development.
- (b) Functions of permanent formal groups
- i. Means of working on complex interdependent tasks too difficult for an individual to handle.
 - ii. Generation of new ideas or creative solution when information is dispersed among several people.
 - iii. Co-ordination of functions among departments whose function is somewhat interdependent.
 - iv. Facilitation of the implementation of complex decisions.
 - v. Formal groups provide a vehicle for socialisation and training.

EXAMINER'S REPORT

The question tests the candidates' knowledge of employee motivation. The second part of the question tests the functions of permanent formal group. About 80% of the candidates attempted the question and about 65% passed. Major pitfall was poor preparation for the examination. Candidates are advised to make use of the study pack for subsequent examinations.

SOLUTION SIX

6(a) Characteristics of an effective group

- I. Common understanding of group aims
- II. members are committed
- III. Each member understands his/her role in the group
- IV. Good leadership
- V. Effective conflict handling
- VI. Members obey group norms
- VII. Loyalty
- VIII. Group members are satisfied

(b) The following are ways of evaluating team performance:

- I. Manager Evaluation- This involves the making of team performance by a manager or someone of sufficient seniority in the organisation.
- II. 360 Degree feedback- This is otherwise called multi-source feedback it involves a group of people within the organisation to perform the evaluation.
- III. Objective performance- it involves evaluating team performance on the basis of measurable goals set at the beginning of the evaluation period.
- IV. Self-Evaluation- this is a method where each member is asked to evaluate the performance of their members and the team as a whole.

EXAMINER'S REPORT

The question tests the candidates' knowledge of effective group and evaluation of team performance. About 75% of the candidates attempted the question and about 65% passed. The major pitfall of the candidates were poor understanding of the concepts tested. Candidates are advised to make use of the study pack for subsequent examinations.