

THE ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA



**ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
MARCH 2021 EXAMINATIONS (PART III)**

PRINCIPLES OF AUDITING

PLEASE READ THESE INSTRUCTIONS BEFORE COMMENCEMENT OF THE PAPER

EXAMINATION INSTRUCTIONS

1. All solutions should be in ink. Any solution in pencil will not be marked.
2. Read all instructions on each part of the paper carefully before answering the questions.
3. Ensure that you do not answer more than the number of questions required for **Section B (The Essay Section)**.
4. Check your pockets, purse and mathematical sets box to ensure that you do not have any cell phone or written material with you in the hall, otherwise, you will be stopped from continuing with the examination.
5. Do not enter the hall with anything written on your docket.
6. Insert your examination number in the space provided above.

TUESDAY, 30 MARCH, 2021

DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO

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

PART III EXAMINATIONS – MARCH 2021

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 subsequent appointment of external auditors of public companies is the responsibility of the
 - A. Finance Manager
 - B. Managing Director
 - C. Shareholders
 - D. Company Secretary
 - E. Company's solicitors

2. Which of the following is **NOT** meant to be a purpose for Letter of Engagement?
 - A. Defining clearly the extent of the auditors' and directors' responsibilities
 - B. Formalising the terms of engagement which helps to minimize the possibilities of any misunderstanding between the assurance team and client
 - C. A written representation by the client that it has fulfilled its responsibility for the preparation of financial statements
 - D. Providing written confirmation of the auditor's acceptance of the appointment
 - E. Confirming in writing verbal arrangements in respect of the scope of the scope of the audit and any non-audit service

3. The Partner in an audit firm who is responsible for the performance of the audit and the auditor's report that is issued on behalf of the firm is known as the
 - A. Quality Control Partner
 - B. Senior Partner
 - C. Sleeping Partner
 - D. Audit Partner
 - E. Engagement Partner

4. Which of the following is a type of audit conducted where the volume of testing to be undertaken is considerably large in order to reach an opinion on the reliability of the records?
- A. Complete audit
 - B. Internal audit
 - C. Comprehensive audit
 - D. Interim Audit
 - E. Continuous audit
5. Which of the following are examples of external audit?
- I. Statutory audits
 - II. Transaction audits
 - III. Private audits
 - IV. Internal audits
- A. I
 - B. I and II
 - C. III and IV
 - D. I and III
 - E. I, II, III and IV
6. The notice of removal of the company's external auditor at the Annual General Meeting is given to the Corporate Affairs Commission within days?
- A. 7
 - B. 10
 - C. 14
 - D. 28
 - E. 30
7. Which of the following is **NOT** an internal financial control policy and procedure adopted by management
- A. Ensuring the orderly and efficient conduct of its business including adherence to company's policies
 - B. The prevention and detection of frauds and errors
 - C. The safeguarding of assets
 - D. The facilitation of prompt preparation of its financial statements
 - E. Auditing of the organisation

8. **“Agency theory”** best describes the relationship between
- A. A company and its distribution agents
 - B. The various interested parties in the company
 - C. Auditors and the company
 - D. The Audit Committee and the external auditors
 - E. Agents and principals
9. The key ethical requirement governing the acceptance of appointment is that the prospective auditor should
- A. Enquire from the company director reasons for removing the former auditor
 - B. Set out the plan and procedure for the audit
 - C. Obtain information on the key management personnel responsible for the audit
 - D. Assess the internal control procedures in place
 - E. communicate with the retiring auditor with the aim of discussing issues relating to the client
10. A series of instructions and questions which an auditor should follow and answer is called
- A. Internal control questionnaire
 - B. Flow chart
 - C. Internal control evaluation questionnaire
 - D. Narrative records
 - E. Check list
11. Confirmation that the responsibility for the preparation of the financial statements rests with the Directors is expressly stated in a letter of
- A. Consent
 - B. Weakness
 - C. Representation
 - D. Engagement
 - E. Comfort

12. Which of the following describes the activities that have to do with the review of the audit work before commencement?
- A. Compliance testing activities
 - B. Substantive testing activities
 - C. Test of controls
 - D. Pre-planning activities
 - E. Audit sampling
13. The measure of the quality of audit evidence is called
- A. Sufficiency
 - B. Completeness
 - C. Appropriateness
 - D. Neutrality
 - E. Suitability
14. Which of the following statements is **NOT** correct?
- A. The auditor shall express an opinion on financial statements
 - B. Auditor's opinion is not a guarantee to future viability of business
 - C. Auditor is responsible for prevention and detection of fraud and error in financial statements
 - D. Auditor should examine whether recognised accounting principles have been followed
 - E. Auditor should have access to all the clients accounting records
15. What is the term used to describe the list of audit procedures to be performed by the audit team?
- A. Audit requirements list
 - B. Audit plan
 - C. Audit guidelines
 - D. Management letter
 - E. Audit programme
16. In Audit planning, the time budget is used for
- A. Determining the extent of audit procedures required
 - B. Ascertaining the income of the audit firm
 - C. Controlling the time spent on that audit
 - D. Decision to accept the engagement
 - E. Limiting costs to be incurred on the audit

17. Which of the following should be considered in eliminating the challenges of poor audit planning?
- A. Commencing the audit before the year end of the client
 - B. Training of all staff in the firm, rather than being selective
 - C. Reviewing the internal audit report
 - D. Revising the letter of engagement
 - E. Review compliance with auditing standards
18. The stages involved in audit sampling listed below is in which order?
- I. Evaluating the results of the tests
 - II. Planning the sample
 - III. Applying compliance and substantive procedures to the items selected
 - IV. Selecting the items to be tested
- A. IV, I, II and III
 - B. II, IV, III and I
 - C. I, II, III and IV
 - D. IV, III, II, and I
 - E. IV, II, III and I
19. Which of the following is the reason for compiling audit working papers?
- A. Acts as a link between the clients' accounting systems and the audited accounts
 - B. A basis for fees charged
 - C. Acts as back up for client's books and records
 - D. Acts as evidences during court proceedings
 - E. Acts as evidence of similar work done presented to prospective clients
20. Which of the following affects the form and content of working papers?
- A. The level of errors and misstatements in the financial statements
 - B. Statutory and regulatory requirements of the engagement
 - C. The volume of transactions of the business entity
 - D. The fees charged for the engagement
 - E. The nature and complexity of the entity's business
21. Which of the following is the most advantageous of an independent examination?
- A. The credibility of financial statements is enhanced
 - B. It is helpful in settling tax liability
 - C. It acts as moral check on the employees from committing fraud

- D. It is beneficial to the creditors
 - E. It will assist the potential investors
22. The procedure for obtaining audit evidence which includes examining records or documents, whether internal or external, in paper form, electronic form, or other media is known as
- A. Inquiry
 - B. Confirmation
 - C. Inspection
 - D. Recalculation
 - E. Analytical procedures
23. The following are examples of external confirmation, **EXCEPT**
- A. Accounts payable confirmation
 - B. Bank balances confirmation
 - C. Inventory count observation
 - D. Loans from lenders
 - E. Property title deeds held by lawyers or financiers for safe custody or as security
24. The need to use the work of an expert is determined by the following, **EXCEPT**
- A. Valuations of certain types of assets
 - B. Determination of amounts using specialised techniques
 - C. The internal policy of the entity
 - D. The measurement of work completed and to be completed on contracts in progress
 - E. Legal opinions concerning interpretations of agreements, statutes and regulations
25. The policies and procedures adopted by a firm designed to provide it with reasonable assurance that the firm and its personnel comply with professional and regulatory standards is known as
- A. Quality control
 - B. Audit strategy
 - C. Auditing standards
 - D. Auditing guidelines
 - E. Accounting standards

26. In conducting peer review, the reviewer is expected to report on which of the following?
- A. The structure of the audit firm management
 - B. Means of engaging, training, allocating and motivating staff
 - C. The emoluments paid to personnel involved in the audit
 - D. The primary contacts for the purpose of the audit
 - E. The proportion of audit fees to total income of the auditor
27. Which of the following that arises from an isolated event that has not re-occurred other than on specifically identifiable occasions and is therefore not representative of errors in the population is error
- A. Anomalous
 - B. Detection
 - C. Population
 - D. Prevention
 - E. Sampling
28. Engagement letter is provided by
- A. Management to External auditor
 - B. External auditor to Management
 - C. Internal auditor to External auditor
 - D. External auditor to Shareholders
 - E. Shareholders to External auditor
29. A complete and exhaustive description of the system as found in operation by auditors is called
- A. Check List
 - B. Flow Chart
 - C. Narrative Records
 - D. Internal Control Questionnaire
 - E. Internal Control Evaluation Questionnaire
30. Which of the following is the digital content that is stored in electronic form within the computer system?
- A. Operating System
 - B. Data
 - C. Software
 - D. Application System
 - E. Information Technology

ATTEMPT ALL QUESTIONS

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

1. An examination of financial statements with a view to expressing an independent opinion thereon is known as
2. The type of audit that is undertaken at the instance of an interested party (e.g. a sole trader) or parties (partners of a partnership), even though there is no legal obligation that an audit be carried out is called
3. With reference to the agency theory, the auditors are regarded as.....
4. The committee responsible for viewing the company's position in a detached and dispassionate manner and to liaise effectively between the main board and the external auditors is known as the.....
5. To ensure that the objectivity of the auditor is not threatened, the remuneration paid by one client or group of connected clients should not exceed of practice income for listed and other public interest companies.
6. The set of rules which requires auditors to display specific professional qualities is known as.....
7. The purpose of setting up the audit committee in public companies is to encourage familiarity between the external auditors and the directors of the Client Company. **True or false?**
8. The process of formalising audit arrangement ahead of time of carrying out the audit is called.....
9. Authoritative statements or pronouncements issued to guide accountants in the preparation of financial statements in order to narrow area of differences and varieties in accounting practices is known as
10. The risk that the conclusions drawn will be different from that which would have been drawn had the auditor examined all items is known as

11. The sampling technique which allows the auditor to bring his judgement and expertise to bear on the quality of the sample is known as
12. The system of audit that is used by auditors in order to concentrate on high risk clients and on high risks areas of a client's business rather than performing detailed audit tests on all areas of a client's business is known as
13. The materials the auditors prepare or obtain and retain in connection with the performance of the audit work is known as.....
14. A process which allows transactions to be followed stage by stage through a system to ensure accuracy of processing is called
15. The form of external confirmation that asks the respondent to reply only in the event of disagreement with the information provided in the request is known as
16. An audit which determines whether an entity is utilising its resources in the most economical and efficient manner is termed
17. The term that is applied to a condition which exists at the financial position date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events is known as
18. The condition where loan repayments are falling due in the near future, and refinancing facilities are not immediately available is an indication of
19. The opinion that is issued when the auditor is satisfied in all material respect with the matters dealt with when carrying out the review is known as
20. The paragraph that indicates the factual statement of what the auditor did in the audit exercise is called the.....paragraph

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

- a. Describe the key elements of an audit assurance. (5 Marks)
- b. Auditors perform a wide range of services other than auditing to existing and prospective clients. State and discuss **THREE** of such services. (4½ Marks)
- c. What is balance sheet audit? (3 Marks)

(Total 12½ Marks)**QUESTION 2**

- a. Differentiate between external and internal audit. (4 Marks)
- b. List instances where the directors can appoint the external auditor. (4 Marks)
- c. List factors that could result in the disqualification of external auditor. (2 Marks)
- d. What are the conditions required to render the auditors' written resignation effective? (2 Marks)

(Total 12½ Marks)**QUESTION 3**

- a. What is an audit evidence? (2 Marks)
- b. State **FOUR** conditions that can make an audit evidence reliable. (4 Marks)
- c. Differentiate between sufficiency and appropriateness of audit evidence. (1½ Marks)
- d. List and explain **FOUR** sources of obtaining audit evidence. (5 Marks)

(Total 12½ Marks)**QUESTION 4**

- a. What is audit documentation? (2½ Marks)
- b. What are the benefits of audit working papers? (2 Marks)
- c. What are the qualities of a good audit working paper file? (2 Marks)

- d. List **SIX** contents in each of the following audit working paper files
- i. Permanent files (3 Marks)
 - ii. Current files (3 Marks)
- (Total 12½ Marks)**

QUESTION 5

- a. List **SEVEN** characteristics of a good Internal Control System. (7 Marks)
- b. Define the term "Regularity Audit" (3 Marks)
- c. The effectiveness of an internal control systems is subject to the limitation of management override of controls. Explain the term Management Override of Controls. (2½ Marks)
- (Total 12½ Marks)**

QUESTION 6

- a. Define the following Computer Assisted Audit Techniques (CAATS):
- i. Test Data (2 Marks)
 - ii. Parallel Simulation Technique (2 Marks)
 - iii. Mapping (2 Marks)
- b. What is an input control? (2½ Marks)
- c. State **FOUR** uses of Computer Audit Programme (4 Marks)
- (Total 12½ Marks)**

SECTION A

PART 1

MULTIPLE-CHOICE SOLUTION

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

29. C

30. B

EXAMINER'S COMMENTS

More than 70% of the candidates scored more than 20 marks in this section. This is encouraging.

PART II SHORT-ANSWER SOLUTION

1. Audit
2. Private Audit
3. Agents
4. Audit committee
5. 10%
6. Code of ethics
7. False
8. Audit Planning
9. Accounting standards
10. Sampling risk
11. Judgmental
12. Risk-based audit
13. Audit working papers
14. Audit trail
15. Negative Confirmation
16. Value for money audit
17. Contingency
18. Going Concern problem/issue
19. Unqualified audit opinion
20. Scope

EXAMINER'S COMMENTS

More than 60% of the candidates scored more than 10 marks in this section. This also is encouraging.

SECTION B

SOLUTION 1

(a) The key elements of an audit assurance are as follows:

- i. A tripartite relationship consisting of the professional accountants that provided the services; the directors or responsible officers that prepared the financial statements; and the users of the assurance report e.g. shareholders, tax office and the researchers.
- ii. The subject matter: This is the financial statements or cash flow forecast prepared by the responsible officer for the professional accountants to review.
- iii. The suitable criteria: These are 'the rules' against which the subject matter is evaluated in order to reach an opinion e.g. CAMA, IFRS and IAS.
- iv. The evidence: This refers to all material information used by the professional accountant to arrive at his/her opinion.
- v. The assurance report: This is the written report containing the professional accountant's opinion presented to the users.

(b) Other services provided by external auditors include the following:

- i. Accounting services
Providing assistance in maintenance of accounting records and preparation of financial statements for organizations especially for small firms, partnership, etc.
- ii. Taxation matters
Assisting clients with the preparation and agreement of tax returns for the purpose of making claims for taxation relief and computations of capital allowances. They attend to queries raised by the tax office in respect of client's accounts and handle objections and appeals where an assessment is disputed. They also process and procure tax clearance certificates on behalf of clients.
- iii. Liquidation, receivership and trusts
They assist companies to realize the best returns on their assets if the company is winding up and they act in fiduciary capacity as trustees in accordance with the terms of the trust deed.
- iv. Secretarial services
They assist clients to perform other secretarial services like filing of annual returns, registration and incorporation of new business, etc. with the Corporate Affairs Commission (the Company Registry).

- v. **Recruitment and training of staff**
Auditors help clients to recruit and train account staff.
 - vi. **Investigation**
This involves investigation into any areas of interest of management of the company. This may be fraud investigation or investigation into purchase of business.
 - vii. **Value for money audit**
This involves carrying out operational audit as to economy, efficiency and effectiveness of operations of the company.
 - viii. **Provision of internal audit function**
Internal audit function may be provided by the external auditor for their clients for a period of time so as to train in-house staff of the company.
- (c) **Balance sheet audit**
Balance sheet audit refers to the audit of the account balances. It is the type of audit that commences with the examination of the draft balance sheet as prepared by the client with the objective of verifying the assets and liabilities, and vouched with the underlying records and source documents.

EXAMINER'S COMMENTS

The level of attempt is 90%. This is above average. Many failed to mention as many as five key elements of audit assurance. This resulted in scoring low marks. Candidates are advised to mention points that are justifiable to the marks allotted to any question. The performance is good.

SOLUTION 2

2a. The following features differentiate between external and internal audit:

i. Qualification:

The person that carries out external audit must be a qualified Chartered Accountant, while the person that carries out internal audit is not necessarily a professionally qualified accountant.

ii. Objective:

The principal objective of external audit is to report on the truth and fairness presented by the financial statement, while the objective of internal audit is to report on the operations, internal controls and accounting system of the organisation.

iii. Method of work:

In external audit, the auditor makes use of audit sampling techniques to carry his work while in internal audit, all transactions and events are reviewed in details.

iv. Reporting:

In external audit, the report of work done goes to the shareholders i.e the owners of the company, while in internal audit, the report of work done goes to the management of the entity.

v. Appointment:

In external audit, the appointment of the auditor is done by the shareholders, while internal audit, the appointment of the auditors is done by the management.

vi. Duties:

In external audit, the duties of work done are as specified in Companies and Allied Matters Act (2004 as amended to date) while management specifies the duties of the internal auditor.

2b. Instances where the directors can appoint the external auditor are:

- i. In case of first auditor of the company.
- ii. Where there is a casual vacancy in the office of the auditor.
- iii. Where the shareholders fail to appoint an auditor.

- 2c. The following factors can result in the disqualification of the external auditor of company.
- i. Where the external auditor is an employee/officer of the company.
 - ii. Where the external auditor is a partner to the employee/ officer of the company.
 - iii. Where the external auditor is a body corporate.
 - iv. Where the external auditor has been disqualified to audit either the parent company or the subsidiary company.
 - v. Where the external auditor is related by blood or marriage to the directors of the company.
 - vi. A person found by a competent court to be of unsound mind.
- 2d. The conditions required to render auditor's written resignation effective are:
- i. The date of the resignation must be stated.
 - ii. A statement of circumstances surrounding the resignation must be attached.
 - iii. The resignation must be deposited at the registered office of the company.

EXAMINER'S COMMENTS

Many candidates attempted the question (more than 90%). The performance is good as many candidates scored more than 8 marks. However, many candidates failed to mention factors that could result to disqualification of external auditors

SOLUTION 3

- (a) Audit evidence is all the information and explanations obtained from various sources by the auditor during the course of his work which will enable him to draw conclusion on which his opinion is based on the financial statements.
- (b) Conditions that can make an audit evidence reliable are:
- i. Audit evidence is more reliable when it is obtained from independent sources outside the entity.
 - ii. Audit evidence provided by original documents are more reliable than photocopies or facsimiles.
 - iii. Audit evidence is more reliable when it exists in documentary form, whether paper, electronic, or other medium.
 - iv. Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference.
 - v. Audit evidence that is generated internally is more reliable when the related controls imposed by the entity are effective

- (c) Sufficiency and Appropriateness of audit evidence.
Sufficiency is the measure of quantity of audit evidence obtained on a particular item while Appropriateness is the measure of the quality of audit evidence that is relevant and reliable in providing support for the opinion of the auditor.

- (d) Sources of obtaining audit evidence

- i. Inspection
 - ii. Observation
 - iii. Inquiry
 - iv. Recalculation
 - v. Analytical Procedures
 - vi. Evidence obtained from third party.
-
- i. Inspection
This consists of examining records or documents, whether internal or external, in paper form, electronic form, or other media.
 - ii. Observation
This consists of looking at a process or procedure being performed by others.
 - iii. Inquiry
This requires seeking information of knowledgeable persons, both financial and non-financial, internally or outside the entity.
 - iv. Recalculation
This involves checking the mathematical accuracy of the relevant documents or records.
 - v. Analytical procedures
This requires the evaluation of financial information made by a study of plausible relationships among both financial and non-financial data.
 - vi. Evidence obtained directly from third party by the auditor.

EXAMINER'S COMMENTS

As much as 95% of candidates attempted this question. The performance is good. Many candidates scored more than 7 marks. Candidates are advised to know conditions that can make audit evidence reliable. They should also understand what Sufficiency and Appropriateness mean in audit evidence.

SOLUTION 4

- (a) Audit documentation refers to the records or documentation of procedures that auditors performed the audit evidence that they obtained and the conclusion made by them based on the evidence obtained. Audit documentation is sometimes called audit working paper.
- (b) Benefits of Audit Working Papers:
 - i. Serve as evidence of work in support of audit opinion and in case of litigation.
 - ii. Aid the supervision, monitoring and review of work done.
 - iii. Aid in the planning and performance of audit engagement.
 - iv. Facilitate in the delegation of work to other members of the team.
 - v. Enhance the control of current year's work.
- (c) Qualities of a good audit working paper file are :
 - i. Working papers should be prepared in a standardized form, arranging the documents under various headings and sub-headings.
 - ii. Working papers should be complete, consistent and accurate as to the statistical or other information contained therein.
 - iii. It should exhibit clarity and comprehension with respect to presentation of factual and other information contained therein.
 - iv. It should be legible and neat in terms of writing and materials presented in them, arranged in a logical order depending on its relevance and importance.
- (d) (i) **Contents of Permanent audit files:**
 - i. Information concerning legal and organizational structure of the entity such as the memorandum and articles of association and certificate of incorporation.
 - ii. Extracts of important documents concerning significant matters like legal documents and minutes of meetings.
 - iii. A record of study of internal and accounting control of the entity. This may be in the form of descriptive narrations, flow charts or questionnaires.
 - iv. Copies of engagement letters
 - v. Copy of communication with the retiring auditors.
 - vi. Copies of audited financial statements of previous years.
 - vii. Analyses of significant ratios and trends.
 - viii. Note on significant accounting policies.
 - ix. Significant audit observations of earlier years.

(ii) Contents of Current audit files:

- i. Correspondence relating to acceptance of annual engagements.
- ii. Extracts of important matters in the minutes of board or general meeting which are relevant to the current year audit.
- iii. Audit programme.
- iv. Analysis of transactions and balances.
- v. Record of nature, timing and extent of audit procedures carried out and results thereof.
- vi. Evidence of the work of team members which have been supervised and reviewed.
- vii. Copies of communication with experts, other auditors or other third party.
- viii. Copies of letters or notes on audit matters communicated or discussed with the client.
- ix. Letters of representation/ confirmation received from the client.
- x. Copies of financial statements reported upon and audit reports issued on such information.

EXAMINER'S COMMENTS

Level of attempt is average 50%. Many candidates failed to explain the key term in the question which is documentation.

Points on benefit of audit working papers are not enough. Many mentioned only one or two benefits. The contents of permanent and current audit files mentioned by candidates were scanty.

SOLUTION 5

(a) A good internal control system must entail the following characteristics:

- i. Segregation of duties.
- ii. Authorization and approval.
- iii. Organization plan or structure.
- iv. Management controls.
- v. Personnel controls.
- vi. Supervision controls.
- vii. Acknowledgement of performance controls
- viii. Arithmetical and accounting controls.
- ix. Budget and budgetary controls.
- x. Physical controls.

- (b) **Regularity audit**
Regularity audit is the type of audit that verifies that expenditure has been incurred on approved services and in accordance with statutory and other regulations and authorities governing them. It is sometimes called Compliance audit.
- (c) **Management override of control**
Controls are put in place by the management of an entity so as to ensure that the operations of the organization are working very well. However, senior level managers may direct subordinates to execute actions that are not consistent with the company's policies and procedures.

EXAMINER'S COMMENTS

Level of attempt is about 60%. Candidates lack deep knowledge of the concepts. Many candidates do not understand management override of controls. Candidates are advised to read matters concerning internal control very well.

SOLUTION 6

- 6a. (i) Test Data:
Test data are selected items of transaction data with pre-determined output. During the audit testing, the auditor processes the test data using the client's accounting application program. The output produced by the client's application program is checked against predetermined test data output. Where the two outputs are consistent with each other, the auditor concludes that the client's application program can be relied upon to generate correct output.
- (ii) Parallel Simulation Technique (PST):
PST involves the setting up of a small system parallel to the clients own, thereafter using specialized audit programme to monitor the consistency with the original clients processing system.
- (iii) Mapping:
This is common but purposely written audit software used by the auditor in determining which statements have or have not been executed during the programme execution.

6b Input control

This is a control measure put in place in a computer environment which helps to ensure the integrity of data entries. It prevents unnecessary or unauthorized data from being entered into the computer system. The following techniques are normally used to ensure control over input:

- i. All data entries must be approved by appropriate responsible persons.
- ii. At least two personnel should be responsible for the data entry as one is keying in, the other is checking.
- iii. Manual or programmed against agreement of control total.

6c. Uses of Computer Audit Programme

Computer audit program which is otherwise known as audit software or file interrogation software can be used for the following purposes:

- i. To review transactions and balances in computer files and select exceptional items for further audit work.
- ii. To stratify transactions and balances in computer file and select exceptional items for further audit work,
- iii. To select a sample of transactions and account balances from computer files on random basis for further audit testing.
- iv. To match the contents of two or more computer files and select unmatched items for further audit work.
- v. To print or display on screens the contents of computer files for audit purposes.
- vi. To sort transactions and account balances into desired sequence for audit purposes.

EXAMINER'S COMMENTS

Level of attempt is very low (10%). The performance is also poor. Many candidates who attempted this question did not prepare very well as far as this question is concerned. Candidates are advised to read very wide for future examinations.

THE ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA



ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA

MARCH 2021 EXAMINATIONS (PART III)

COST ACCOUNTING

PLEASE READ THESE INSTRUCTIONS BEFORE COMMENCEMENT OF THE PAPER

EXAMINATION INSTRUCTIONS

1. All solutions should be in ink. Any solution in pencil will not be marked.
2. Read all instructions on each part of the paper carefully before answering the questions.
3. Ensure that you do not answer more than the number of questions required for **Section B (The Essay Section)**.
4. Check your pockets, purse and mathematical sets box to ensure that you do not have any cell phone or written material with you in the hall; otherwise, you will be stopped from continuing with the examination.
5. Do not enter the hall with anything written on your docket.
6. Insert your examination number in the space provided above.

WEDNESDAY, 30 MARCH, 2021

DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO

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

PART I EXAMINATIONS – MARCH 2021

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 does cost accounting involve?
 - A. Drawing up balance sheet
 - B. Writing off of costs
 - C. Ascertainment of cost
 - D. Preparation of statement of value added
 - E. Annual audit of financial statement

2. Cost accounting is an integral part of
 - A. Financial accounting
 - B. Forensic accounting
 - C. Treasury accounting
 - D. Historical accounting
 - E. Management accounting

3. Which of the following is **NOT** an objective of cost accounting?
 - A. Provide information to aid control
 - B. Ascertain cost and facilitate pricing
 - C. Provide information for decision making
 - D. Investigate fraud
 - E. Assist in planning

4. Which of the following is a direct expense?
 - A. Director's salary
 - B. Cost of hiring a special equipment for a particular production order
 - C. Advertising expenses
 - D. Electricity expenses
 - E. Insurance premiums

Use the following information to answer questions 5 and 6

Buildwell Enterprises presents the following information:

Economic Order Quantity	300 units
Cost of placing an order	₦25
Carrying cost per unit per annum	8% of purchase price
Purchase price per unit	₦100

5. The Annual Demand is units
- A. 12,400
 - B. 12,440
 - C. 12,550
 - D. 14,000
 - E. 14,400
6. The number of orders per annum is times
- A. 43
 - B. 44
 - C. 48
 - D. 52
 - E. 55
7. Materials can be defined as all the tangible material assets of an organisation other than its
- A. Work-in-progress
 - B. Raw materials
 - C. Stock in transit
 - D. Fixed assets
 - E. Finished goods
8. Which of the following is **NOT** a work of a storekeeper?
- A. Receiving stock items
 - B. Issuing stock items
 - C. Custody of stock items
 - D. Recording of stock items
 - E. Selling of stock items

9. Under the First In First Out method, store issues are valued using the prices of the
- A. Last batches received into the store
 - B. First batches received into the store
 - C. Middle batches received into the store
 - D. Average of the first and last batches received into the store
 - E. Next batch to be received into the store.

Use the following information to answer questions 10 and 11.

The following details apply to a factory where W, X, Y & Z work.

Normal Rate per Hour	₦50
Standard Time per unit	12 minutes
In a 40-hour week, the output was as follows	

Work	W	X	Y	Z
Units	66	166	200	220

10. The standard output per hour is units
- A. 3
 - B. 4
 - C. 5
 - D. 9
 - E. 12
11. The piece rate per unit is
- A. ₦7.50
 - B. ₦7.80
 - C. ₦9.80
 - D. ₦10.00
 - E. ₦12.50
12. Under labour incentive schemes, bonus is paid
- A. Every December
 - B. Each time the company received a large order
 - C. To particularly good employees
 - D. Anytime there is surplus money in the treasury
 - E. Over and above the basic pay to reward extra time worked or time saved

13. PAYE is an acronym for?
- A. Pay As You Engage
 - B. Pay According to your Expectation
 - C. Pay All Your Employees
 - D. Payment At Year End
 - E. Pay As You Earn
14. Overheads are the aggregate of
- A. Indirect materials, indirect labour and indirect expenses
 - B. Expenses incurred over the normal expense heads
 - C. Expenses incurred by the owners of the business
 - D. All uncontrollable expenses
 - E. All unauthorised expenses

Use the following data to answer questions 15 and 16.

The following details were given:

Distance of one-way route	40 kilometers
Round trips per day	3
Days operated in a month	25
Seating capacity	50 passengers
Average seating capacity occupied	80%
Fuel consumption	1litre per 6kms
Fuel price	₦15 per Litre

15. The effective kilometres covered in a year is kms
- A. 62,000
 - B. 67,500
 - C. 70,500
 - D. 72,000
 - E. 72,750
16. The fuel consumption for distance covered is litres
- A. 11,200
 - B. 11,250
 - C. 12,000
 - D. 12,150
 - E. 12,200

17. The usual basis of apportioning factory rent is
- A. Number of employees
 - B. Number of machines
 - C. Floor space occupied
 - D. Kilowatt of energy used
 - E. Number of pillars
18. The distinguishes a profit centre from a cost centre
- A. Direct cost
 - B. Indirect cost
 - C. Profit
 - D. Loss
 - E. Revenue
19. In reconciliation of profits disclosed by interlocking accounts, what are the purely financial matters?
- A. Balance sheet items
 - B. Matters relating to the Banks
 - C. Matters outside the scope of operation
 - D. Salaries and wages paid to casual workers
 - E. Items involving cash transactions
20. A notional charge is
- A. A charge on the assets of the company
 - B. A government charge to be paid by the company
 - C. Charge introduced to reduce tax liability
 - D. Charge which though not payable but are meant to reflect the normal costs of running the business
 - E. Expected income which may be recognised in the accounts
21. Which of the following basis of cost classification applies to Marginal Costing Techniques?
- A. Element-wise
 - B. Function-wise
 - C. Control-wise
 - D. Behaviour-wise
 - E. Identifiable-wise

22. Which of the following is **NOT** a method used for the purpose of apportionment of joint cost in process costing?
- A. Net realisable value
 - B. Physical quantity at split-off point
 - C. Further processing cost of each product
 - D. Residual sales value
 - E. Sales value at split-off point
23. Costing methods refer to the systems of cost finding and ascertainment. Which of the following methods is **NOT** a costing method?
- A. Job costing
 - B. Service costing
 - C. Standard costing
 - D. Batch costing
 - E. Contract costing
24. Which of the following is **NOT** an appropriate cost unit for a hotel business?
- A. Meals served
 - B. Guests per night
 - C. Beds occupied per night
 - D. Rooms occupied per night
 - E. Cigarettes sold per night
25. Which of the following is an indirect cost?
- A. Cost of hire of an equipment in executing a job
 - B. Supervisory wages
 - C. Maintenance cost of tools
 - D. Cost of work sub-contracted to a third party
 - E. Cost of time spent in carrying out the audit of a client's books of accounts
26. Which of the following is **NOT** concerned with cost behaviour?
- A. Definition of cost unit
 - B. Linearity assumption
 - C. Use of statistical methods
 - D. Existence of spare capacity
 - E. Over-simplification

27. Which of the following would **NOT** be described as an industry where the output produced emerges from a continuous process?
- A. Oil refining
 - B. Beer brewing
 - C. Garri processing
 - D. Road construction
 - E. Paint production
28. The scheme where monetary incentives is paid in addition to wages and workers are entitled to a portion of the gains of the business at an agreed rate is
- A. Co-partnership Scheme
 - B. Merit Rating Scheme
 - C. Accelerated Premium Scheme
 - D. Group Bonus Scheme
 - E. Profit Sharing Scheme
29. The process of gathering, analysing and synthesising information regarding the operations, duties and responsibilities of a specific job is
- A. Job Specification
 - B. Job Description
 - C. Job Analysis
 - D. Job Evaluation
 - E. Job Identification
30. The portion of a contract work completed which has not been approved by the contractee's architect is
- A. Work specification
 - B. Work done
 - C. Work certified
 - D. Work completed
 - E. Work not yet certified

ATTEMPT ALL QUESTIONS

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

1. In classifying cost of elements, we have materials, labour and
2. The addition of all direct costs is known as
3. Costs which vary in direct proportion with changes in activity levels are called
4. The level of stock below which quantities are not expected to fall in the store is called
5. The optimum quantity of stock that should be ordered from suppliers at any time is known as
6. Time allowed minus time taken equals
7. The rate of the number of employees leaving an organisation is known as
8. The product of hours worked and wage rate per hour is
9. Where the actual overhead for a period exceeds the predetermined overheads, we have a case of
10. A system of repeatedly reallocating each service cost centre overhead until the amounts become insignificant is known as
11. The monetary incentive schemes under which workers are given opportunity to have a share in capital, profit and control of the business in which they are employed is
12. The process of grouping the various items of overheads into distinct class or group on the basis of some common characteristics is.....

13. The process of costing under which costs are accumulated and analysed under various elements of costs and the cost per unit is ascertained by dividing the total cost by the number of units produced is.....
14. The portion of contract work completed which has been approved is evidenced by
15. The avoidable loss in production which occurs due to reasons like sub-standard materials and carelessness of workers is referred to as.....
16. Two or more products of considerable values produced from the same materials in the same production process are called
17. An hypothetical hour which represents the amount of work which should be performed in one hour under stated conditions is
18. A method of ascertaining the cost of providing dishes of different types is
19. A summary account, which summarises all material transactions in aggregate form is
20. The predetermined cost based on technical estimates for materials, labour and overhead for a selected period of time for a prescribed set of working conditions is known as.....

SECTION B: ATTEMPT ANY FOUR QUESTIONS IN THIS SECTION (50 MARKS)

QUESTION 1

- a. XYZ Nigeria Limited basic rate of pay is ₦3 per hour and overtime rates are time and a half for evenings and double time for weekends.

The following details have been recorded on three jobs.

	Job X321	Job X786	Job X114
	<i>Clock Hours</i>	<i>Clock Hours</i>	<i>Clock Hours</i>
Normal Time	480	220	150
Evening Time	102	60	80
Weekend	10	30	16

You are required to calculate the labour cost chargeable to each of the jobs.

(5 Marks)

- b. Based on the data shown below, you are required to calculate the remuneration of each employee as determined by each of the following methods
- Hourly rate (2 Marks)
 - Basic piece rate (2 Marks)
 - Individual bonus scheme, where the employee receive a bonus in proportion of the time saved to the time allowed. (3½ Marks)

Name of Employees	Salmon	Roach	Pike
Units produced	270	200	220
Time allowed in min/unit	10	15	12
Time taken in hours	40	38	36
	₦	₦	₦
Rate per hour	125	105	120
Rate per unit	20	25	24

(TOTAL: 12½ Marks)

QUESTION 2

- a. Explain the following terms:
- Job Order
 - Bill of Materials
 - Job cost Card
 - Job Ticket
 - Job Costing

(5 Marks)

- b. DKT Limited factory uses a job costing system. The following cost data are available from the books for the year 31st March 2020.

	₦
Direct Material	900,000
Direct wages	750,000
Selling & Distribution overheads	525,000
Administrative Overheads	420,000
Factory Overheads	450,000

Required

Prepare a Job cost sheet indicating:

- i. Prime Cost (1½ Marks)
 - ii. Factory Cost of production (1½ Marks)
 - iii. Production cost (1½ Marks)
- c. Calculate the quoted price to be charged to give a profit of 20% on selling price. (3 Marks)

(TOTAL: 12½ Marks)

QUESTION 3

PCT Nigeria Limited provides the following figures for the year 2020:

	Product A	Product B
Sales (in units):		
1 st Quarter	1,300	1,600
2 nd Quarter	3,000	800
3 rd Quarter	2,700	1,000
4 th Quarter	3,000	600
Selling Price per unit (₦)	24	50

Targets for year 2021:

Sales quantity increase (decrease)	(20%)	25%
Selling price increase (decrease)	25%	(20%)

Sales area X, Y and Z respectively produce 10%, 20%, 70% of Product 'A' sales and 70%, 20% and 10% of Product 'B' sales.

You are required to prepare

- i. Sales Budget in total for the year 2021 (6½ Marks)
 - ii. Sales Budget in Area Wise for the year 2021 (6 Marks)
- (TOTAL: 12½ Marks)

QUESTION 4

TMN Ghana Limited commenced business on 1st March 2020 making one product only. The standard cost of which is as follows

	GH¢
Direct Material	8
Direct Labour	5
Variable Production Overhead	2
Fixed Production Overhead	<u>5</u>
Standard Production Cost	<u>20</u>

The fixed production overhead figure has been calculated based on a budgeted normal output of 36,000 units per annum.

Selling, distribution and administration expenses are:

Fixed cost	GH¢12,000
Variable cost	15% of sales value
Selling price per unit	GH¢35
Number of units produces (month of March)	2,000
Number of units sold (month of March)	1,500

Required:

- a. Prepare an Operating Statement for the month of March 2020 using
 - i. Marginal Costing Technique (4 Marks)
 - ii. Absorption Costing Technique (4 Marks)
- b. Present a reconciliation of the profit and loss given in (ai) and (aii) above.
(4½ Marks)
(TOTAL: 12½ Marks)

QUESTION 5

SMO Limited is considering investing in two projects but constrained by limited finance.

As a result of this, the company can only invest in one of these two projects:

	Project A	Project B
	GMD	GMD
Initial Capital Outlay	228,000	285,000
Net cash flows		
Year 1	114,000	57,000
Year 2	121,000	85,000
Year 3	29,000	94,000
Year 4	14,000	140,000
Year 5	24,000	60,000

The company's cost of capital is 15%

Required

Assess the viability of each of these two projects using the following methods.

- i. Net Present Value (6½ Marks)
 - ii. Internal Rate of Return (6 Marks)
- (TOTAL: 12½ Marks)

QUESTION 6

a. Write briefly on the following

- i. Overhead Apportionment (1½ Marks)
- ii. Overhead Allocation (1½ Marks)

b. AST Nigeria Limited has three production departments A, B and C and two service departments X and Y.

Department	L\$000
A	1,200
B	800
C	650
X	240
Y	150

An analysis of the services provided by each service department shows the following percentages of total spent for the benefit of each department.

Service Department	Production/Service Department				
	A	B	C	X	Y
X	30%	30%	20%	-	20%
Y	50%	10%	30%	10%	-

Required

Show the apportionment of the production service department costs to production departments using repeated distribution method. (9½ Marks)

(TOTAL: 12½ Marks)

SECTION A: PART I MULTIPLE-CHOICE SOLUTIONS

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

Workings

Q5.

$$EOQ = \sqrt{\frac{2DO_c}{C}}$$

Where D = Annual Demand

O_c = Ordering cost per order

C = Carrying cost per unit per annum

$$EOQ = \sqrt{\frac{2D \times 25}{8}} = 300$$

$$= \frac{2D \times 25}{8} = 300 \times 300$$

$$50D = 300 \times 300 \times 8$$

$$D = (300 \times 300 \times 8) / 50$$

$$D = 720,000 / 50$$

$$D = 14,400 \text{ units}$$

Q6.

$$\text{No of order per annum} = \frac{\text{Annual Demand}}{EOQ} \text{ OR } D/Q$$

$$D/Q = 14,400 / 300 = 48 \text{ times}$$

Q10.

$$\text{The standard output per hour} = 60 \text{ minutes} / 12 \text{ minutes} = 5 \text{ units}$$

Q11.

$$\begin{aligned} \text{Piece Rate per unit} &= \text{Normal Rate per hour} / \text{Standard unit} \\ &= \text{₦}50 / 5 \text{ units} = \text{₦}10.00 \end{aligned}$$

Q15.

$$\begin{aligned} \text{Effective kilometers} &= \text{Distance covered one-way} \times \text{No. of trips per day} \times \\ &\quad \text{No. of days operated} \times \text{No of months operated} \\ &= 40 \times (3 \times 2) \times 25 \times 12 = 72,000 \text{ kms} \end{aligned}$$

Q16.

$$\begin{aligned} \text{Fuel consumption} &= \frac{\text{Distance Covered}}{\text{Mileage per litre}} \\ &= 72,000 \text{ kms} / 6 \text{ litre} = 12,000 \text{ litres} \end{aligned}$$

EXAMINER'S COMMENTS

The 30 questions set under this section of the paper cover practically the entire syllabus and it was attempted by all candidates.

Performance is above average. The major pitfall on the part of the candidates is lack of adequate preparation.

Candidates are advised to prepare adequately for the future.

SECTION A: PART II SHORT ANSWER SOLUTION

1. Expenses
2. Prime Cost
3. Variable Cost
4. Minimum inventory/Stock Level or Buffer Stock/Inventory
5. Economic Order Quantity/Re-Order Quantity
6. Time Saved
7. Labour Turnover Rate
8. Basic Pay/Wage
9. Under Absorption/Absorbed Overheads
10. Continuous Apportionment/Repeated Distribution Apportionment Method
11. Co-Partnership
12. Classification of Overheads/ Overheads Classification
13. Unit Costing
14. Architect's/Surveyor's/Engineer's Certificate
15. Abnormal Loss
16. Joint Products
17. Standard Hour
18. Canteen Costing/Service Costing
19. Stores Ledger Control Account
20. Standard Cost

EXAMINER'S COMMENTS

The 20 questions set under this section cover the major parts of the syllabus and was attempted by all the candidates.

Performance is average and the major pitfall is poor preparation on the part of the candidates.

Adequate preparation for future examinations would ensure better performance in the future.

SECTION B

Solution 1

XYZ NIGERIA LIMITED

a. Calculation of Cost Chargeable to Jobs

	Job X321	Job X786	Job X114
Basic Pay:	₦	₦	₦
Normal Time	480	220	150
Hourly Rate	<u>₦3</u> 1,440	<u>₦3</u> 660	<u>₦3</u> 450
Overtime Pay:			
Evening Time	102	60	80
Hourly Rate ($1\frac{1}{2} \times \#3$)	<u>₦4:50</u> 459	<u>₦4:50</u> 270	<u>₦4:50</u> 360
Weekend Time	10	30	16
Hourly Rate ($2 \times \#3$)	<u>₦6:00</u> 60	<u>₦6:00</u> 180	<u>₦6:00</u> 96
COST CHARGEABLE	<u>1,959</u>	<u>1,110</u>	<u>906</u>

b. Calculation of Remuneration of Each Employee

Employee	Salmon	Roach	Pike
Units produced (a)	270	200	220
Time Allowed in Mins./unit (b)	10	15	12
Total Time Allowed in Mins.(c = a X b)	2,700	3,000	2,640
Total Time Allowed in Hours.(d = c/60)	45	50	44
Time Taken in Hours (e)	40	38	36
Time saved (f = d - e)	5	12	8
Hourly rate (g)	₦125:00	₦105	₦120
i. Basic Pay for Hours Worked (h = e X g)	₦5,000:00	₦3,990:00	₦4,320:00
Piece Rate (i)	₦20:00	₦25:00	₦24:00
ii. Basic Pay based on Piece rate on (j = a X i)	₦5,400:00	₦5,000:00	₦5,280:00
iii. Bonus Pay = Hours Worked X HR + ($\frac{TS}{TA} \times TS \times HR$)	₦5,069.44	₦4,292:40	₦4,494.55

EXAMINER'S COMMENTS

The question tests candidates' knowledge of labour costing.

It was attempted by about 75% of the candidates and performance was just above average.

The major pitfall is the inability of candidates to understand that the question requested for total remuneration, not just the bonus part.

It is important that candidates are patient enough to understand the requirements of questions in future examinations.

SOLUTION 2

a.(i) Job Order

This signifies the beginning of a job after a job cost card has been carefully prepared. It could be seen as a written instruction to produce a particular amount of goods or to provide a particular service.

(ii) Bill of Materials

A Bill of Materials (BOM) is a comprehensive inventory of the raw materials, assemblies, sub-assemblies, parts and components as well as the quantities of each, needed to manufacture a product. In a nutshell, it is the complete list of all the items that are required to produce a product

(iii) Job cost Card

This is also known as Job cost sheet. It is a document in which details of direct material cost, direct labour cost, overheads and total cost relating to a job are recorded.

(iv) Job Ticket

This is a document which contains several detachable portions each of which is detached and sent by the foreman to the Production Control Department on completion of each operation of a job.

(v) Job Costing

This is that form of specific order costing under which each job is treated as cost unit and costs are accumulated and ascertained separately for each job.

b.

DKT LIMITED

Cost sheet for the Jobs carried out during the year 31st March 2020

Particulars	Notes	Total (₦)
Direct Material	(a)	900,000
Direct Wages	(b)	<u>750,000</u>
Prime Cost	(c) = (a) + (b)	1,650,000
Factory Overheads	(d)	<u>450,000</u>
Factory Cost of production	(e) = (c) + (d)	2,100,000
Administrative Overheads	(f)	<u>420,000</u>
Production Cost	(g) = (e) + (f)	2,520,000
Selling & Distribution overheads	(h)	<u>525,000</u>
Total Cost	(i) = (g) + (h)	3,045,000
Profit (w1)	(j) = (i) + (j)	<u>761,250</u>
Quoted Price	(k) = (i) + (j)	<u>3,806,250</u>

Workings:

(1) Determination of profit

$$\text{Profit} = 20/80 \times \text{₦}3,045,000 = \text{₦}761,250$$

EXAMINER'S COMMENTS

The question tests candidates' knowledge of Specific Order Costing, specifically Job Costing.

It was attempted by about 70% of candidates but performance was average.

The major pitfall was the inability of candidates to differentiate between "factory cost of production" and "production cost", which is total production cost including factory cost of production.

Candidates are advised to take note of words employed in questions in the future.

SOLUTION 3

i. PCT NIGERIA LIMITED

Sales Budget in Total for the Year 2021

Period	Product A	Product B	
1 st Quarter	1,300	1,600	
2 nd Quarter	3,000	800	
3 rd Quarter	2,700	1,000	
4 th Quarter	3,000	600	
Total for 2020 (a)	10,000	4,000	
Sales Quantity (Decrease) (b1)	(20%)		
Sales Quantity Increase (b2)		25%	
Sales Budget Quantity for 2021(c = a X b)	8,000	5,000	
Selling Price/Unit (d)	N24	N50	
Selling Price Increase (e1)	25%		
Selling Price (Decrease) (e2)		(20%)	
Selling Price/Unit for 2021(f = d X e)	N30	N40	
Total Sales Budget for 2021 (g = c X f)	240,000	200,000	440,000

ii. Sales Budget Area Wise for the Year 2021

AREA	X	Y	Z	Total (₦)
Product A (10:20:70)	24,000	48,000	168,000	240,000
Product B (70:20:10)	140,000	40,000	20,000	200,000
Total	164,000	88,000	188,000	440,000

EXAMINER'S COMMENTS

The question tests candidates' ability to display knowledge of Flexible Budgeting.

The question was attempted by about 80% of the candidates and performance was good.

However, breaking the solution into different areas was a challenge to some candidates.

Candidates are advised to study the topic in total in their preparation for future examinations.

SOLUTION 4**TMN NIGERIA LIMITED****Operating Statement for the Month of March, 2020****Using Marginal Costing Technique**

	GH¢	GH¢
Sales (GH¢35 x 1,500 units)		52,500
Less: Marginal Cost of Production:		
Direct Material (GH¢8 x 2,000 units)	16,000	
Direct Labour (GH¢5 x 2,000 units)	10,000	
Variable Prod. Overhead (GH¢2 x 2,000)	<u>4,000</u>	
	30,000	
Less: Closing Inventory (GH¢15X500units)	<u>(7,500)</u>	
	22,500	
Add: Variable selling & Distr. (15% x GH¢52,500)	<u>7,875</u>	<u>(30,375)</u>
Contribution		22,125
Less: Fixed Costs		
Fixed Production Overhead: (36,000/12 x GH¢5)	15,000	
Fixed Selling, Distribution & Admin.	<u>12,000</u>	<u>(27,000)</u>
Net Loss		<u>(4,875)</u>

TMN NIGERIA LIMITED**Operating Statement for the Month of March 2020****Using Absorption Costing Technique**

	GH¢	GH¢
Sales (GH¢35 x 1,500 units)		52,500
Less: Cost of Production:		
Direct Material (GH¢8 x 2,000 units)	16,000	
Direct Labour (GH¢5 x 2,000 units)	10,000	
Variable Prod. Overhead (GH¢2 x 2,000)	4,000	
Fixed Production Overhead (GH¢5 x 2,000 units)	<u>10,000</u>	
	40,000	
Less: Closing Inventory (GH¢20 x 500units)	<u>(10,000)</u>	
	30,000	
Add: Under Absorption OH (GH¢15,000 - GH¢10,000)	<u>5,000</u>	<u>35,000</u>
Gross Profit		17,500
Less: Non Production Costs:		
Variable selling & Distribution (15% x GH¢52,500)	7,875	
Fixed selling & Distribution	<u>12,000</u>	<u>(19,875)</u>
Net Loss		<u>(2,375)</u>

C. **Reconciliation between the Marginal & Absorption Costing Technique Profits**

	Net Profit	Closing Inventory
	GH¢	GH¢
Absorption Costing	(2,375)	10,000
Marginal Costing	{(4,875)}	(7,500)
	<u>2,500</u>	<u>2,500</u>

EXAMINER'S COMMENTS

This question tests the ability of candidates to prepare operating statement using both marginal costing and absorption costing.

The question was attempted by about 85% of the candidates and performance was good generally.

However, some candidates were not able to successfully reconcile the results presented under both techniques.

Deeper study of this topic is necessary if this pitfall is to be avoided in future examinations.

SOLUTION 5

Project A

i.

SMO LIMITED
Computation of Net Present Value

Year	Cash flow	Df@15%	Present Value
	GMD		GMD
0	Cash outlay (228,000)	1.0000	(228,000)
1	114,000	0.8696	99,130
2	121,000	0.7561	91,493
3	29,000	0.6575	19,068
4	14,000	0.5718	8,005
5	24,000	0.4972	<u>11,932</u>
		+ NPV	<u>1,628</u>

Project B

<u>Computation of Net Present Value</u>			
Year		Cash flow GMD	Df@15% Present Value GMD
0	Cash outlay	(285,000)	1.0000 (285,000)
1		57,000	0.8696 49,562
2		85,000	0.7561 64,272
3		94,000	0.6575 61,807
4		140,000	0.5718 80,045
5		60,000	0.4972 29,831
			+ NPV <u>517</u>

Decision:

The two projects A and B give positive Net Present Value of 1,682 and 517 respectively, but project A should be preferred having a higher positive NPV.

ii.

SMO LIMITED **Computation of Internal Rate of Return with 20% cost of capital**

Year		Cash flow GMD	Df@20% Present Value GMD
0	Cash outlay	(228,000)	1.0000 (228,000)
1		114,000	0.8333 95,000
2		121,000	0.6944 84,028
3		29,000	0.5787 16,782
4		14,000	0.4823 6,752
5		24,000	0.4019 9,645
			NPV <u>(15,793)</u>

Project B

Computation of Net Present Value

Year		Cash flow GMD	Df@20%	Present Value GMD
0	Cash outlay	(285,000)	1.0000	(285,000)
1		57,000	0.8333	47,500
2		85,000	0.6944	59,028
3		94,000	0.5787	54,398
4		140,000	0.4823	67,515
5		60,000	0.4019	<u>24,113</u>
			NPV	<u>(32,446)</u>

$$IRR = LR + \frac{\{NPV(LR)\}}{\{NPV(LR) \pm NPV(HR)\}} (HR - LR)$$

Project A: LR = 15%

NPV (LR) = #1,628

HR = 20%

NPV (HR) = #15,793

Project A

$$IRR = 15\% + \left\{ \frac{1,628}{\{1,628 + 15,793\}} \right\} (20 - 15)$$

$$IRR = 15\% + \frac{1,628}{17,421} \quad (5)$$

$$IRR = 15\% + 0.467$$

$$IRR = \underline{15.47\%}$$

Project B

Project B: LR = 15%

NPV (LR) = #517

HR = 20%

NPV (HR) = #32,446

$$IRR = 15\% + \frac{517}{517 + 32,446} \quad (20 - 15)$$

$$IRR = 15\% + \frac{517}{32,963} \quad (5)$$

$$IRR = 15\% + 0.0156$$

$$IRR = \underline{15.02\%}$$

Decision:

Project A should be accepted because it has a higher IRR of 15.46% compared to project B with 15.02%

EXAMINER'S COMMENTS

The question tests candidates' knowledge of Investment Appraisal using Net Present Value (NPV) and Internal Rate of Return (IRR).

This question was attempted by about 60% of the candidates but performance was generally below average.

The major pitfalls are rounding up errors and use of outrageous discount factors, though the marking was fair to them.

It is important that present values are better presented in four decimal places to avoid rounding up errors in the future. Also, the use of discount factors should be restricted to certain normal ranges.

SOLUTION 6

a(i). Overhead Apportionment

This involves sharing out of a common cost in an equitable way or proportion between the production and service department according to benefits received.

(ii). Overhead Allocation

This is the process by which whole cost items are charged to a cost unit or cost centre. It is the direct charging of an overhead cost item to a specific cost centre where it was incurred.

b.

AST NIGERIA LIMITED
Apportionment of Overheads

		Prod. Dept	Prod. Dept	Prod. Dept	Serv. Dept	Serv. Dept
		A	B	C	X	Y
		L\$000	L\$'000	L\$'000	L\$'000	L\$'000
Overhead Cost		1,200	800	650	240	150
Reapportion	X(3:3:2:2)	72	72	48	(240)	48
Reapportion	Y(5:1:3:1)	99	19.8	59.4	19.8	(198)
Reapportion	X(3:3:2:2)	5.94	5.94	3.96	(19.8)	3.96
Reapportion	Y(5:1:3:1)	1.98	0.396	1.188	0.396	(3.96)
Reapportion	X(3:3:2:2)	0.1188	0.1188	0.0792	(0.396)	0.0792
Reapportion	Y(5:1:3:1)	0.0396	0.00792	0.02376	0.00792	(0.0792)
Total		1,379.08	898.26	762.65	-	-

EXAMINER'S COMMENTS

The question tests candidates' knowledge of Overhead Apportionment using continuous/repeated distribution method.

This question was attempted by about 70% of the candidates and performance was good.

The major pitfall however, was the inability of some candidates to understand the "repeated" part of the requirement, as they only distributed the service department expenses once.

A deeper study of the topic is necessary while preparing for the examination in future.

THE ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA



**ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
MARCH 2021 EXAMINATIONS (PART III)**

PREPARING TAX COMPUTATIONS AND RETURNS

PLEASE READ THESE INSTRUCTIONS BEFORE COMMENCEMENT OF THE PAPER

EXAMINATION INSTRUCTIONS

1. All solutions should be in ink. Any solution in pencil will not be marked.
2. Read all instructions on each part of the paper carefully before answering the questions.
3. Ensure that you do not answer more than the number of questions required for **Section B (The Essay Section)**.
4. Check your pockets, purse and mathematical sets box to ensure that you do not have any cell phone or written material with you in the hall, otherwise, you will be stopped from continuing with the examination.
5. Do not enter the hall with anything written on your docket.
6. Insert your examination number in the space provided above.

WEDNESDAY, 31 MARCH, 2021

DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO

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

PART III EXAMINATIONS – MARCH 2021

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** an example of indirect taxes?
 - A. Entertainment
 - B. Excise duties
 - C. Capital transfer tax
 - D. Value added tax
 - E. Custom duties

2. Which of the following is a demerit of indirect taxes?
 - A. Disincentive to hard work
 - B. Discouragement to hard work
 - C. Protection of domestic industries
 - D. Higher cost of collection
 - E. Promote capital formation

3. A company commenced business on 1 August 2017, what will be the basis period for the 3rd year of assessment if the company makes up account to 30 April every year?
 - A. 1st August 2017 to 31 July 2018
 - B. 1st May 2017 to 30 April 2018
 - C. 1st January 2018 to 31 December 2018
 - D. 1st June 2017 to 31 May 2018
 - E. 1st May 2018 to 30 April 2019

4. Year of Assessment (YOA) means
- A. The period for which the taxpayer has declared either an income or a cost
 - B. A period from 1st of April to 31st of March of the following year
 - C. A period of the taxpayer whose income is being assessed to tax
 - D. A period from 1st of January to 31st of December
 - E. The year in which the taxpayer is being assessed to tax
5. The most productive source of tax revenue to the Federal Government is
- A. Export tax
 - B. Excises and customs duties
 - C. Stamp duty
 - D. Value added tax (VAT)
 - E. Petroleum profit tax (PPT)
6. The annual allowance computed is subject to apportionment where?
- A. The basis period in the year of acquiring the asset is less than 12 months
 - B. The period of acquisition of the asset is less than 12 months by the end of the year
 - C. There is an element of unofficial use of the asset
 - D. The asset was acquired on hire purchase
 - E. The asset was acquired on lease
7. The capital allowance standing in the book of the taxpayer at cessation of business is referred to as
- A. Balancing allowance
 - B. Balancing charge
 - C. Terminal loss
 - D. Terminal capital allowance
 - E. Tax written down balance value
8. The amount of capital allowance calculated is to be restricted to a percentage of the assessable profits. The current applicable percentage is
- A. $33\frac{1}{3}\%$
 - B. 50%
 - C. $66\frac{2}{3}\%$
 - D. 75%
 - E. 95%

9. The annual return filed by an employer in compliance with the Pay As You Earn Scheme arrangement is made using
- A. Form H1
 - B. Assessment form
 - C. Self assessment form
 - D. Form H2
 - E. PAYE form
10. Which of the following is **NOT** assessable to tax under personal income tax law?
- A. Families
 - B. Communities
 - C. Trustees
 - D. Unit Trust Scheme
 - E. Sole Traders
11. Which of the following is **NOT** deductible in arriving at the divisible income of a partnership?
- A. Salaries of partners
 - B. Domestic expenses of partners
 - C. Cost of passage
 - D. Interest on capital
 - E. Interest on loan
12. Which of the following best describe royalty exempted from tax?
- A. The royalty earned from abroad and deposited into Central Bank of Nigeria
 - B. The royalty earned from abroad, brought into Nigeria in convertible currency through an approved bank's domiciliary account .
 - C. The royalty earned from abroad, brought into Nigeria through an approved commercial bank
 - D. The royalty earned from abroad and brought into Nigeria through any of the commercial banks
 - E. Royalty earned locally
13. According to Finance Act, 2019 (as amended), Capital Gain Tax Section 36, the sums obtained by way of compensation for loss of office exceeding ₦10,000 has been amended to
- A. ₦100,000
 - B. ₦1,000,000
 - C. ₦10,000,000
 - D. ₦20,000,000
 - E. ₦25,000,000

14. In 2012, Mr. Chukwuemeka purchased a piece of land for ₦1,500,000. In 2014, it was disposed for ₦8,000,000. The Capital Gain Tax payable is
- A. ₦325,000
 - B. ₦650,000
 - C. ₦850,000
 - D. ₦975,000
 - E. ₦1,300,000
15. Which of the following is allowable expenses for the purpose of computing company income tax
- A. Depreciation of property, plant and equipment
 - B. Company income tax provision
 - C. Late returns penalty
 - D. Any sort of capital expenditure
 - E. Provision for doubtful debt (specific)
16. Luxury tax is levied on the following items, **EXCEPT**
- A. Private jets
 - B. Mansions within Federal Capital territory
 - C. Yachts
 - D. Airline ticket from Abuja to Lagos
 - E. Wines
17. Which of the following is **NOT** a member of the Federal Board of Inland Revenue?
- A. The Tax Controller
 - B. All Directors and Head of departments of the Service
 - C. An Executive Director from the Nigerian National Petroleum Corporation
 - D. The Registrar-General of Corporate Affairs Commission
 - E. A member of the Board of the National Revenue Mobilisation, Allocation and Fiscal Commission
18. Losses from **CANNOT** be relieved on current year basis
- A. Property letting
 - B. Agricultural business
 - C. Mining business
 - D. Manufacturing business
 - E. Household property

19. Yabix Limited commenced business on 1 July 2017. It made up account to 31 March 2018 with an adjusted loss of ₦1,200,000 and an adjusted profit of ₦800,000 for the year ended 31 March 2019. What is the loss available for carry forward at the end of 2018 tax year?
- A. ₦800,000
 - B. ₦1,000,000
 - C. ₦1,200,000
 - D. ₦1,600,000
 - E. ₦1,800,000
20. Rent received in advance covering a period that is more than 5 years will be spread to cover a period of
- A. 2 years
 - B. 3 years
 - C. 4 years
 - D. 5 years
 - E. 6 years
21. Effective from February 2020, the Finance Act 2019 (as amended) describes small company as
- A. A company that earns turnover of ₦25,000,000 or more
 - B. A company that earns turnover of ₦25,000,000 or less
 - C. A company that earns gross turnover greater than ₦25,000,000 but less than ₦100,000,000
 - D. A company that earns profit of less than ₦25,000,000 in a year of assessment
 - E. A business with a turnover of ₦1,000,000 or less per annum
22. The minimum tax payable by a taxpayer under the Personal Income Tax Act (as amended) is
- A. 0.5% of total income
 - B. 0.5% of chargeable income
 - C. 1% of earned income
 - D. 5% of earned income
 - E. 5% of chargeable income
23. Ado John Sule is an employee of a Paint manufacturing company. His salary for the year 2019 was ₦1,505,000. He also received a dividend income of ₦250,500 from Nestle Nigeria Plc and a rental income of ₦344,500. His consolidated relief allowance for the year 2019 will be
- A. ₦370,000
 - B. ₦441,000
 - C. ₦620,000

- D. ~~₦~~641,000
 - E. ~~₦~~642,000
24. The remittance to the relevant tax authority of the Value Added Tax charged on VATable supplies made to Oil company by a contractor is the responsibility of the
- A. Oil company
 - B. Supplier
 - C. Tax department of the supplying company
 - D. Tax consultant
 - E. Contractor
25. For a donation to be allowed under CITA, it must be
- A. A capital expenditure meant to generate further income
 - B. Made to an approved body out of the profit
 - C. Made to a ruling party
 - D. Made to a well known Gospel Church in Nigeria
 - E. Made to a Mosque
26. Which of the following is **NOT** a Benefit-In-Kind?
- A. Personal life assurance premium of employee
 - B. Free company car
 - C. Rented or hired equipment in the use of employment
 - D. Electricity bills paid by the employer
 - E. Assets in the accommodation provided by the employer
27. Losses incurred on agricultural business can be carried forward for years of assessment?
- A. Three
 - B. Four
 - C. Five
 - D. Ten
 - E. Indefinitely
28. The losses incurred by a partnership is
- A. Shared equally
 - B. Taken by the partner with the highest credit in his account
 - C. Shared in the agreed profit sharing ratio
 - D. Lost and cannot be carried forward
 - E. Borne by the General Partner

29. Which of the following is **NOT** an example of instrument for Ad-valorem assessment?
- A. Guarantor form
 - B. Payment receipts
 - C. Proxy forms
 - D. Bank notes or bill of payable at sight
 - E. None of the above
30. Which of the following is **NOT** a chargeable asset under Capital Gain Tax?
- A. Incorporeal properties
 - B. Artworks and paintings
 - C. Land
 - D. Options
 - E. Medals and plaques

ATTEMPT ALL QUESTIONS

Write the correct answer that best completes each of the following Questions/Statements

1. A condition whereby a tax payer fails to pay tax is referred to as.....
2. The applicable rate of tax in the taxable profit of a small business is.....
3. The measures employed by the State Internal Revenue Service (SIRS) aimed at improving voluntary compliance by tax payers is.....
4. The methods of claiming Value Added Tax Refund are and.....
5. The Executive Chairman of the Federal Inland Revenue Service Board is appointed by
6. The relevant tax authority in respect of Withholding tax is
7. Allowable donation must be made out of.....
8. Tax system includes tax laws, and tax administration
9. The normal basis of assessment of a company's profit from a trade or business is the.....
10. Under personal income tax "perquisites" can also be called.....
11. The aggregate deduction from profits in respect of a loss incurred must not exceed the actual amount of the.....
12. Unutilised capital allowance of a business on cessation is carried backward foryears before cessation
13. For a balancing allowance or charge to be given or made , the asset must have been disposed off during the..... for the relevant years of assessment
14. The Joint Tax Board was established by Section 85(1) of.....
15. Where no financial records or returns are submitted by the tax payer to the relevant tax authority, the tax inspectors can raise.....assessment

16. Losses of cash and inventory through fire, theft etc are allowable deduction provided they are not covered by an.....
17. Wages or salaries and allowances, gratuities, superannuation or pension schemes and any other incomes derived solely by reason of employment is called
18. Stamp duty is managed by the.....
19. A company that is yet to commence operation after six months of incorporation will pay.....
20. Defalcations of money by the staff are allowable deductions but not if perpetrated by a very senior official, such as a.....

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

Boroquin Nigeria limited has been in business for years and makes up its accounts to 30th June each year. The company normally acquires new assets for use in its business on hire purchase.

On 1st July, 2015, it acquired some trailers on the following terms:

Deposit on purchase ~~₦~~360,000, followed by three equal yearly payments of ~~₦~~200,000 payable on 30th September, of every year. The first instalment was due on 30th September, 2016. The hire purchase interest was spread equally over the number of deposit and instalments.

The cash price of the trailers when newly purchased was ~~₦~~800,000. The Tax Written Down Value of the existing assets at the end of 2015 tax year was ~~₦~~400,000 and were acquired on 17th August, 2012.

You are required to

Compute the Capital Allowances for 2016, 2017, 2018 and 2019 years of assessment, assuming that the instalments were paid on their due dates.

(Total 12½ Marks)**QUESTION 2**

Alamu, Logudu and Ojinmi have been in partnership as Civil Engineering Consultants for many years. The following results were extracted from their records for the year ended 31st December, 2018.

	₦'000	₦'000
Gross Profit		105,000
Salaries and Wages:		
Alamu	8,000	
Ojinmi	6,000	
Consultancy fees	12,000	
Provision for Bad Debt (Specific)	8,200	
Depreciation	10,400	
Interest on loan	3,500	
Office Expenses	8,500	
Interest on Capital:		
Alamu	6,200	
Logudu	8,000	
Ojinmi	3,000	<u>73,800</u>
Net Profit		<u>31,200</u>

Additional information are as follows

- (i) Capital Allowances have been agreed at ₦12,000,000
- (ii) Consultancy services were rendered by Alamu
- (iii) Interest on loan was paid to Ojinmi having provided the firm with facility
- (iv) Profits and losses are shared in the ratio 2:2:1

You are required to compute

- a. Distributable profit of the partnership (2½ Marks)
 - b. Statutory total income of the partners for the relevant year of assessment (10 Marks)
- (Total 12½ marks)**

QUESTION 3

Mr. Shekere was an employee of Shaggy Nigeria limited. His salary was ₦1,500,000 per annum and he had a life assurance policy with Sure Insurance limited, the sum assured was ₦350,000 and the premium on it was ₦4,500 per annum. He contributed ₦1,000 monthly to a pension scheme approved by the Joint Tax Board.

The following additional information is made available.

- (i) He retired on 31st December 2018 and was paid a gratuity of ₦200,000
- (ii) Annually, he spent ₦8,000 on his aged father, ₦10,000 on his aged mother and ₦5,000 on his aunt. The three have no source of income
- (iii) The Company paid ₦180,000 per annum on his accommodation and provided him with an official car which has a market value of ₦3,000,000
- (iv) He was paid a lump sum of ₦120,000 as compensation for loss of office
- (v) He enjoyed a Christmas bonus of ₦18,000
- (vi) He paid ₦6,000 to his professional body as annual subscription.

You are required to

Compute Mr. Shekere's tax liability for the relevant year of assessment.

(Total 12½ Marks)

QUESTION 4

Alaran Limited, an agro-allied company has been in business for several years and makes up its accounts to 31st October, annually. The accounts for the year ended 31st October, 2018 show the following:

	N
Profit for the year	130,000
After charging:	
Depreciation	50,000
Bad debts (including general provision of N10,000)	20,000
Donations (including N10,000 to a social club)	12,000
Cash stolen in transit	5,000
Interest received	2,000
Court fines	3,000
Profit on disposals of fixed assets	110,000

You are required to

Show the company's adjusted profit for tax computation.

(12 ½ Marks)

QUESTION 5

- a. Every private and public limited liability company is required to file its tax returns. List **THREE** and explain **TWO** of the documents expected to be enclosed with the tax returns form. **(7 Marks)**
 - b. State which types of self assessment notice that are required by law to be filed by a limited liability company along with the audited financial statements. **(2 Marks)**
 - c. Explain briefly "Information Technology Tax" **(3½ Marks)**
- (Total 12½ Marks)**

QUESTION 6

- a. State the composition and functions of the Value Added Tax Technical Committee. **(7 Marks)**
- b. Joyous limited produced a raw material and sold it to Falz limited at ₦300,000. Falz limited processed it and sold it 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 (VAT) payable to Relevant Tax Authority, showing output VAT and input VAT at every stage of the transaction.

(5½ 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 - Others	
	95	Nil
	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% |

SECTION A: PART I

MULTIPLE CHOICE SOLUTIONS

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

29. E

30. E

EXAMINER'S COMMENTS

The Multiple Choice Questions (MCQs) covered the entire syllabus. The questions are straight forward and simple. All the candidates attempted the questions and the general performance was above average.

SHORT ANSWER SOLUTIONS

1. Tax evasion
2. (0% effective from 2020 tax year. 20% prior to 2020 tax year)
3. Introduction of Integrated Tax Administration System /increasing of self assessment regime
4. Credit method or Direct cash method
5. The President of Federal Republic of Nigeria
6. Federal Inland Revenue Service for companies and State Internal Revenue for individuals
7. Profit
8. Tax policy
9. Preceding year basis (PYB)
10. Benefit – in- kind
11. Loss (incurred in the previous YOA)
12. Five (5)
13. Accounting period
14. Personal Income Tax Act 2004 (as amended)
15. Best of judgment (BOJ)
16. Insurance policy
17. Gross Emoluments/Gross income
18. Commissioner of stamp duties
19. Preoperational levy
20. Director

EXAMINER'S COMMENTS

These questions cut across the contents of the syllabus and the questions are straight forward. All the candidates attempted the questions and the general performance was below average.

SECTION B
SOLUTION 1

Boroquin Nigeria limited
Computation of Capital Allowances
Initial Allowance 50%
Annual Allowance 25%

YOA			Capital Allowance
		₦	₦
2016	TWDV b/f existing assets	400,000	
	Annual allowance	<u>(200,000)</u>	200,000
2017	TWDV b/f	200,000	
	Additions: Initial payment	360,000	
	Initial allowance	180,000	180,000
	Annual allowance:		
	Existing Asset	(199,990)	199,990
	Additions	(45,000)	45,000
2018	TWDV: Existing Asset	10.00	
	Additions	135,000	
	1 st Instalment (Wk2)	146,667	
	Initial allowance	(73,333)	73,333
	Annual allowance	(18,333)	18,333
	Annual allowance	<u>(45,000)</u>	45,000
2019	TWDV	145,000	
	Additions 2 nd Instalment (Wk2)	146,667	
	Initial allowance	(73,333)	73,333
	Annual allowance	(81,666)	81,666

WORKINGS TO INSTALMENT PAYMENT

Workings to determine Hire Charge

	₦
Initial Payment	360,000
Instalments: ₦ 200,000 × 3 years	<u>600,000</u>
Hire purchase price	960,000
Cash price	<u>800,000</u>
Hire charge	<u>160,000</u>

Yearly Instalmental Payment

	₦
Total Instalments	600,000
Deduct Hire Charge	<u>160,000</u>
Total Principal Payable	440,000
÷ 3 years	= 146,666.67

EXAMINER'S COMMENTS

This is a standard question, testing candidates' understanding of capital allowances of a business on hire purchase. About 10 per cent of the candidates attempted the question and the general performance was below average. The major pitfall was inability of candidates to identify the years of assessment the instalments were paid.

Candidates are advised to give more attention to this area of syllabus in future. Suffice it to say that all aspects of the syllabus must be properly understood before examinations.

SOLUTION 2

2a. Alamu, Logudu & Ojinmi

Computation of Distributable Profit of the partnership for year ended 31/12/2018

	₦'000
Net profit reported	31,200
Add	
Depreciation	<u>10,400</u>
Adjusted Profit	41,600
Less: Capital Allowance	<u>12,000</u>
Distributable Profit of Partners	<u>29,600</u>

2b. Computation of Statutory Total Income of Partners for 2019 Tax Year

	ALAMU	LOGUDU	OJINMI
	₦'000	₦'000	₦'000
Salaries	8,000	0	6,000
Consultancy fees	0	12,000	0
Interest on Capital	6,200	8,000	3,000
Share of Profit (W1)	<u>11,840</u>	<u>11,840</u>	<u>5,920</u>
Earned Income	26,040	31,840	14,920
Unearned Income			
Interest on Loan	<u>0</u>	<u>0</u>	<u>3,500</u>
Statutory Total Income	<u>26,040</u>	<u>31,840</u>	<u>18,420</u>

Working notes:

1. Share of Profit		₦'000		₦'000
Alamu	=	$2/5 \times 29,600$	=	<u>11,840</u>
Logudu	=	$2/5 \times 29,600$	=	<u>11,840</u>
Ojinmi	=	$1/5 \times 29,600$	=	<u>5,920</u>

An alternative method is to share the income and then share the capital allowance to be deducted from the income. It gives the same amount of net share of profit.

	ALAMU	LOGUDU	OJINMI
	₦	₦	₦
Share of Profit (₦ 41,600)	16,640	16,640	8,320
Less:			
Capital Allowance (₦12,000)	<u>(4,800)</u>	<u>(4,800)</u>	<u>(2,400)</u>
Net share of Income	<u>11,840</u>	<u>11,840</u>	<u>5,920</u>

EXAMINER'S COMMENTS

This is a good question on partnership. About 90 per cent of the candidates attempted the question, and the general performance was above average.

SOLUTION 3

Mr. Shekere
Computation of tax Liability for 2018 year of assessment

	₦	₦
Gross income		
Salary		1,500,000
Christmas Bonus		18,000
Benefits in kind		
Company accommodation	180,000	
Official car (5%x 3,000,000)	<u>150,000</u>	330,000
Gratuity		<u>200,000</u>
<u>Gross income</u>		2,048,000
Relief		
Consolidated relief (20,000+ 0.2x2,048,000)	609,600	
Gratuity	200,000	
Life assurance relief	54,000	
Professional subscription	6,000	
Contribution to pension scheme	12,000	<u>(881,600)</u>
Chargeable income		<u>1,166,400</u>
Tax payable		
1 st 300,000@7%		21,000
Next 300,000@11%		33,000
Next 500,000@15%		75,000
Last 166,400@ 19%		<u>31,616</u>
Tax payable		<u>160,616</u>

EXAMINER'S COMMENTS

This is a straight forward question on computation of tax liability for an individual. About 80 per cent of the candidates attempted the question; the general performance was good. About 20 percent of the candidates still had challenge in calculating the Consolidated tax relief

SOLUTION 4

Alaran Ltd Computation of Adjusted Profit Assessment year 31st October, 2018

	=N=	=N=
Profit for the year		130,000
<u>Add:</u>		
Depreciation	50,000	
General provision for doubtful debts	10,000	
Donation	10,000	
Cash stolen in transit	5,000	
Court fines	<u>3,000</u>	<u>78,000</u>
 Deduct:		(208,000)
Interest received	(2,000)	
Profit on disposal of fixed asset	<u>(110,000)</u>	<u>(112,000)</u>
		<u>96,000</u>

EXAMINER'S COMMENTS

This is a simple question on tax computation of adjusted profit for a company. About 96 per cent of the candidates attempted the question. The general performance was above average.

SOLUTION 5

- a)
- i) Audited accounts/audited financial statements;
 - ii) Tax computation (income tax and education tax); and
 - iii) Capital allowances computation.
 - iv) A true and correct statement in writing containing the amount of its profits from each and every source computed and declaration on the truth and fairness of computed amounts and signed by a director or secretary of the company.

I) Audited accounts/audited financial statements

- Audited financial statement means a financial statement that has been prepared in accordance with international financial reporting standards (IFRS)
- That has been audited by an independent chartered accountants certified by law of the Federal Republic of Nigeria in accordance with generally accepted auditing standards
- and includes notes to the financial statement
- Items contained in the financial statements such as
 - i) Statement of financial position,
 - ii) Income statement/Statement of comprehensive income
 - iii) Statement of changes in owners' equity or stockholders' equity
 - iv) Cash flow statement
 - v) Notes to financial statement
 - vi) Statement of value added
 - vii) Five years financial summary

II) Tax computation (income tax and education tax)

A tax computation

A tax computation is a statement showing the tax adjustments to the accounting profit to arrive at the income that is chargeable to tax.

Tax adjustments include non-deductible expenses, non-taxable receipts and capital allowances.

Income tax

An income tax is a tax that governments impose on income generated by businesses and individuals within their jurisdiction. By law, [taxpayers](#) must file an income tax return annually to determine their tax obligations.

Income tax can be Company Income tax (CIT) and in case of individual PAYE and Direct Assessment as in Personal Income Tax. The administration of Companies Income Tax and Personal Income Tax in Nigeria is vested in the Federal Inland Revenue Service and the State Internal Revenue Service respectively.

Company income tax is charged on Adjusted Profit or Chargeable Profit at 30%.

Education tax

Education tax otherwise known as Tertiary Education Tax (TET) was promulgated and came into effect on 1st January 1993. It is assessable at the rate of 2% on the Assessable Profit payable in the money currency of assessable profit and not on individual transaction as is in withholding tax.

III) **Capital allowances computation**

- i) Capital allowances are granted in place of depreciation which is disallowed by the income tax law in computing assessable income.
- ii) The computation forms part of the Tax computation but it must be computed on a separate page.
- ii) Both initial allowance and annual allowance are expected to be shown in the computation.

b) **Types of self assessment notice**

- i) Company Income Tax; and
- ii) Education Tax or Tertiary Education Tax.

c) **Information Technology Tax**

- This tax is payable at applicable rate of 1% of Profit before Tax by specified companies with a turnover of ₦100million and above.
- Those specified companies include:
 - a) Cyber companies and internet providers;
 - b) GSM service providers and all telecommunication companies;
 - c) Pension managers and pension related companies;
 - d) Banks and other financial institutions; and
 - e) Insurance companies
- This tax is assessed by the Federal Inland Revenue Service and
- It is payable within 60 days of service of a Notice of assessment.
- The penalty for non-compliance attracts 2 per cent of tax payable.

The tax when paid is tax deductible for company income tax purpose

EXAMINER'S COMMENTS

This is a three-part question, Part 'a' tested candidates knowledge of tax filing returns. Part 'b' is on self-assessment by a limited liability company and Part 'c' tested candidates' understanding of the term 'Information Technology Tax'.

About 30 percent of the candidates attempted the question. The general performance was below average. The major pitfall of the candidate was inability to explain lucidly the term Information Technology Tax. Candidates should always keep abreast of the latest development in tax matters in the country.

SOLUTION 6

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

B. Computation of Value Added Tax Payable

Vatable person	Sales 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>
Totals		<u>183,750</u>	<u>116,250</u>	<u>67,500</u>
	VAT payable to Government is 900,000 x 7.5%			67,500

EXAMINER'S COMMENTS

This is a two-part question Part 'a' is on Value Added Tax Technical Committee whilst Part 'b' is on computation of Value Added Tax (TAX). About 99 per cent of the candidates attempted the question. The general performance was above average.

THE ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA



**ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
MARCH 2021 EXAMINATIONS (PART III)**

MANAGEMENT

PLEASE READ THESE INSTRUCTIONS BEFORE COMMENCEMENT OF PAPER

EXAMINATION INSTRUCTIONS

1. All solutions should be in ink. Any solution in pencil will not be marked.
2. Read all instructions on each part of the paper carefully before answering the questions.
3. Ensure that you do not answer more than the number of questions required for **Section B (The Essay Section)**.
4. Check your pockets, purse and mathematical sets box to ensure that you do not have any cell phone or written material with you in the hall, otherwise, you will be stopped from continuing with the examination.
5. Do not enter the hall with anything written on your docket.
6. Insert your examination number in the space provided above.

TUESDAY, 30 MARCH 2021

DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO

ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA

ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA

PART III EXAMINATIONS – MARCH 2021

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. In a free enterprise economy theis an important decision-making unit.
 - A. Business Activities
 - B. Business Administration
 - C. Business Economy
 - D. Business Enterprise
 - E. Firm Manager
2.organisations are established by government for the purpose of providing services for the good governance and administration of a country.
 - A. NGOs
 - B. Corporate
 - C. Educational
 - D. Not-for-Profit
 - E. Institutional
3.model is used to explain why entities in some countries or areas of a particular country enjoy competitive advantage over similar entities in the same industry or sector.
 - A. Porter's Pyramid Model
 - B. Porter's Model
 - C. Porter's Diamond
 - D. Porter's Pyramid
 - E. Porter's Diamond Model

4. is referred to as the totality of the system by which companies are directed and controlled.
- A. Management
 - B. Organisation
 - C. Corporate Governance
 - D. Control Mechanism
 - E. System mechanism
5. The requirement that any business enterprise is expected to deploy the human, material, technological and other resources acquired by it from the society in a manner that maximises the output/profit of the operation or maximises the value-added by the operation is called
- A. Social responsibility
 - B. Economic of the environment
 - C. Ethical responsibility
 - D. Economic responsibility
 - E. Corporate social responsibility
6.manager is one who achieves outputs or results, that measure up to the input (labour, material, and time) used to achieve them.
- A. Efficient and effective
 - B. Organise
 - C. Active
 - D. Productive
 - E. Professional
7.involves the manager generating new ideas, initiating new projects/programmes as well as seeking and identifying opportunities to promote improvement and needed change.
- A. Innovative role
 - B. Strategic management role
 - C. Entrepreneurial role
 - D. Promotional role
 - E. Implementation role

8. The process by which managers retain final responsibility but also need to give their subordinates enough authority to do their jobs properly is called
- A. Delegation
 - B. Authority
 - C. Decentralisation
 - D. Centralisation
 - E. Responsibility
9. The process of delegation required three sequential and prominent attributes which include
- A. Delegation - Responsibility -Accountability
 - B. Authority - Accountability - Control
 - C. Authority - Control and Reporting
 - D. Authority - Responsibility - Accountability
 - E. Planning - Authority - Delegation
10. is the process of integrating the activities and objectives of the separated units of an organisation to efficiently achieve organisational goals.
- A. Organising
 - B. Coordination
 - C. Integration
 - D. Harmonisation
 - E. Planning
11. A.....is a cross-functional organisation outlay that creates multiple lines of authority and places people in teams to work on tasks for a finite period of time.
- A. Matrix organisation
 - B. Departmentalisation
 - C. Flat organisation structure
 - D. Tall organisation structure
 - E. Inter-coordinated organisation

12. The type of control often used to develop strong identification of the individual with the goals and objectives of the organisation is referred to as.....
- A. Clan control
 - B. Output control
 - C. Strategic control
 - D. Identification control
 - E. Tactical control
13. The most expensive but common type of control in traditional control systems is known as control.
- A. Concurrent
 - B. Feedback
 - C. Feed-forward
 - D. Routine
 - E. Overlapping
14. The periodic assessment of a company's managerial planning, organising, actuating and controlling compared to what might be called the norm of successful operation is called
- A. Control
 - B. Audit
 - C. Monitoring and evaluation
 - D. Management audit
 - E. Managerial control
15.refers to all activities carried out to attract qualified applicants to fill vacancies in an organisation.
- A. Selection
 - B. Recruitment
 - C. Placement
 - D. Induction
 - E. Selection and recruitment

16. The stage at which human resource manager define the objectives of the organisation and the strategies for achieving them is called
- A. Human resource planning
 - B. Identification of organisational objective
 - C. Analysis of existing human resource needs
 - D. Forecasting human resources needs
 - E. Analysing employee quality
17.has to do with interpretation of the job description in terms of the kind of person suitable for the job.
- A. Job analysis
 - B. Job enrichment
 - C. Job enlargement
 - D. Job specification
 - E. Job description
18. The process of increasing job depth by adding, planning and evaluating responsibilities towards enhancing motivation and productivity is called
- A. Job enlargement
 - B. Job enrichment
 - C. Jobbing
 - D. Job planning
 - E. Job expansion
19.is defined as the relationship between the number of units produced and the quantity of inputs (human/materials) used to produce them.
- A. Labour productivity
 - B. Productivity
 - C. Optimisation
 - D. Efficiency
 - E. Effectiveness

20.has to do with monitoring raw materials, work-in-progress and finished goods to ensure that these conform to quality standards and specifications.
- A. Standardisation
 - B. Control
 - C. Standard measurement
 - D. Specification control
 - E. Quality control
21. Systematic gathering, analysis and interpretation of data to aid decision-making in areas such as the type of products to make, the price to charge, how to distribute and promote the product is called
- A. Market analysis
 - B. Analytical marketing
 - C. Market research
 - D. Market diagnosis
 - E. Market survey
22. The consumer market is segmented using the following, **EXCEPT**
- A. Income
 - B. Price
 - C. Sex
 - D. Age
 - E. Social background
23. The individual who physically purchases the product or places an order for the product is **NOT** a
- A. Consumer
 - B. Buyer
 - C. Personal consumer
 - D. Organisational consumer
 - E. Seller
24. Which of the following is **NOT** a function of an accounting department?
- A. Keeping records of the organisation's financial transactions
 - B. Preparation of financial statements
 - C. Preparation of organisation forecasts and budgets
 - D. Conducting external audit exercises
 - E. Designing accounting systems

25. An accountant can occupy any of the following positions within any organised firm, **EXCEPT**
- A. External Auditor
 - B. Budgeting Officer
 - C. Final Accounts Officer
 - D. Treasurer
 - E. Inventory officer
26. The developmental phase, where members of a group or team feel they are working in a vacuum because nobody knows quite what to expect from the group and what is expected of them is called phase.
- A. Adolescent
 - B. Hatching
 - C. Forming
 - D. Enumeration
 - E. Norming
27. The method of rewarding teams or group of employees carrying out similar work that is connected with overall team performance is called
- A. Team pay
 - B. Group pay
 - C. Team and group remuneration
 - D. Collective pay package
 - E. Team based pay
28. The use of technical jargons, unfamiliar words, high-sounding words, poor sentence structure etc. during communication may lead to barrier.
- A. Diction
 - B. Decoding
 - C. Semantic
 - D. Communication overload
 - E. Poor listening
29. Which of the following is **NOT** a major filing system in an office setting?
- A. Subject filling system
 - B. Filling system by alphabetical order
 - C. Filling system by seniority and status
 - D. Geographical filling system
 - E. Alpha-numerical filling system

30. An electronic device that scans printed, type written texts and images and transmits them to another receiving device of its exact type which eventually converts the electronic signals back to the original text or image is called
- A. Photocopy machine
 - B. Computer
 - C. Android phone
 - D. Facsimile machine
 - E. CPU

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. A legal relationship between a person and an object which is considered as the right and owner exercises over his possessions and also determined by law is called
2. is concerned with processing of materials through different stages of production so as to make the final product.
3.environment is the state of the application of scientific principles and mechanical arts to various tasks in the society.
4. The processes used by a manager to monitor events occurring in the external environment of the organisation is called.....
5. Planning is setting organisational goals and deciding on the course of action for achieving them, whileis selecting a course of action to achieve the goals.
6. The theory that was developed at the same time as scientific management, but the “emphasises management functions and attempts to generate broad administrative principles that would serve as guidelines for the rationalisation of activities” is called.....
7.exist to serve certain needs of members of the formal organisation which are outside the scope of the formal organisation and which the formal organisation may find difficult to serve.

8. The type of departmentalisation done on the basis of process or type of equipment or technologies involved in the manufacture of a product is called
9. A decision made in anticipation of a change in the external environment or other condition is called a
10.gives those who will be affected by the decision a chance to participate in it and helps to develop the members of the group.
11.is the process of examining a job with a view to identifying its components and conditions under which it is performed.
12. The rewards made to employees in addition to their normal pay with a view to motivating them to increase their performance is known as
13.has to do with monitoring of the stock of raw materials, work-in-progress and finished goods to ensure that at any point in time, the organisation has the right quantity at the right time.
14. The periodic and planned maintenance of the physical facilities of an organisation with a view to preventing their breakdown during use is called
15.groups jobs according to marketing function such as marketing research, product planning and development, advertising and sales promotion.
16. The process of taking the total, heterogeneous market for a product and dividing it into several submarkets or segments, each of which tends to be homogenous in all significant aspects is called
17. An analogue method of preparing, monitoring, coordinating and reporting financial transactions is accounting system.
18. Amay be defined as a physical or psychological attribute that influences the behaviour of a person.
19. Groups and.....pass through five developmental stages in forming, storming, norming, performing and closing phases.

- SECTION B: ATTEMPT FOUR QUESTIONS (50 Marks)**

- Describe the concept of social responsibility. (2½ Marks)
- State **SIX** arguments for and **FOUR** arguments against social responsibility. (10 Marks)

(Total 12½ Marks)

- What is planning? (2 Marks)
- Explain briefly **FIVE** importance of planning to an organisation. (7½ Marks)
- State **THREE** limitations to planning. (3 Marks)

(Total 12½ Marks)

- Discuss the term “collective bargaining agreement”. (2½ Marks)
- Enumerate **TEN** contents of collective bargaining agreement. (10 Marks)

(Total 12 ½ Marks)

a. Explain briefly **FIVE** preventive and protective measures for safety in an organisation. (7½ Marks)

b. List **TEN** sources of dangers to health and safety at the work place. (5 Marks)

(Total 12½ Marks)

- a. Using **FIVE** criteria, make a comparison of manual and computerised accounting system. (7½ Marks)
- b. State **FIVE** functions expected of accounting department in an organisation. (5 Marks)

(Total 12½ Marks)

QUESTION 6

- a. Define the concept of packaging stating **THREE** of its advantages. (5 Marks)
- b. State **FIVE** factors that should be taken into consideration when designing a package for a product. (7½ Marks)

(Total 12½ Marks)

SECTION A

PART I:

MULTIPLE - CHOICE SOLUTION

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

EXAMINER'S COMMENTS

The questions cover all the areas of the syllabus. Candidates' performance was fairly good. Candidates observed pitfalls were due to inadequate usage of the study pack for the examination and poor preparation. The candidates are advised to use the study pack extensively while preparing for the examinations.

PART II:**SHORT ANSWER SOLUTION**

1. Ownership
2. Process Industry/processing industry
3. Technological
4. Environmental scanning
5. Decision – making
6. Administrative theory/Administrative management theory
7. Informal organizations
8. Departmentalisation by process
9. Proactive decision
10. Group decision-making
11. Job analysis
12. Incentives
13. Inventory Control
14. Preventive maintenance
15. Functional organisation
16. Market segmentation
17. Manual/ Manual Accounting System
18. Trait
19. Teams
20. Centralised filing

EXAMINER'S COMMENTS

The questions cover all parts of the syllabus. All the candidates attempted the questions. The performance was average. Poor preparation and inadequate usage of the study pack were responsible for the average performance. The candidates are advised to use the study pack religiously for future examinations.

SECTION B

SOLUTION 1

(a) Concept of Social Responsibility

Social responsibility of business refers to the obligations of enterprises to adopt policies and plans of actions that are desirable in terms of the expectations, values and interest of the society.

OR

The concept of social responsibility deals with the corresponding obligations that organizations have toward society.

(b) Arguments for social responsibility

- i. Business organizations are expected to respond more favourably to the society in terms of its needs because they receive their charter from the society and their products still go back to the society.
- ii. The creation of a better social environment benefits both society and business.
- iii. Business has a great deal of power that is reasoned, should be accompanied by an equal amount of responsibility.
- iv. Social environment discourages additional government regulation and interventions.
- v. Social responsibility is in the long run interest of the stakeholders.
- vi. Social involvement creates a favourable public image.
- vii. A business has the resources to solve society's problem(s).

ARGUMENT AGAINST

- i. The primary task of business is to maximize profit by focusing strictly on economic activities.
- ii. Social involvement could reduce economic efficiency.
- iii. Society usually pay for the social involvement of business through higher prices. Social involvement would create excessive costs for business.
- iv. Social involvement can create a weakened international balance of payment situation.
- v. Business lacks the social skills to deal with the problems of society.

EXAMINER'S COMMENTS

The question tests the knowledge of the candidates on Corporate Social Responsibility. About 90% of the candidates attempted the question and about 75% passed. The major pitfalls of the candidates were poor preparation and poor usage of the study pack. Candidates are advised to make adequate use of the study pack for subsequent examinations.

SOLUTION 2

2(a) Planning is a primary function of management. Planning has been defined as selecting mission and objectives and the actions to achieve them

OR

Planning is deciding in advance, what is to be done when, where and how and by whom it is to be done.

2b Five Importance of Planning

- i. By providing a more rational, fact based procedure for making decisions, planning allows the managers and organizations to minimize risk and uncertainty.
- ii. Planning enables managers to face increasing competition.
- iii. Planning enables managers to keep pace with complex technological changes in the business environment.
- iv. Planning leads to success. It helps organization to succeed compare to those without plans.
- v. Planning focuses on goals. It helps manager to focus all its activities and resources on selected goals.
- vi. Planning facilitates goals. Planning is a benchmark for measuring performance.

2c Limitations to Planning

- i. Planning is hindered by inaccurate information.
- ii. An element of uncertainty always exists in plan.
- iii. Planning may hinder creativity and innovation. Plan involves formalization.
- iv. Planning involves some element of rigidity.
- v. Planning consumes a lot of resources in term of time, energy and intellect.

EXAMINER'S COMMENTS

The question tests the ability of candidates to demonstrate knowledge of planning. About 85% of the candidates attempted the question and about 80% passed. The major pitfalls of the candidates were poor preparation. Candidates are advised to make adequate use of the study pack for subsequent examinations.

SOLUTION 3

3(a) Collective Bargaining Agreement

Collective bargaining agreement can be defined as negotiations about working conditions and terms of employment between an employer, a group of employers and one or more employer organization on the one hand and one or more representatives of workers organizations on the other with a view to reaching agreements.

3(b) Contents of collective bargaining agreement

- i. A statement recognizing a union as the sole representative union in the organization concerned.
- ii. Definitions of various terms used in the agreement.
- iii. Valid period of the agreement.
- iv. How notices for renegotiation of the agreement may be given by either side.
- v. Recognition of the concept of union shop by management and the categories of employees the agreement covers.
- vi. Agreement by management to deduct union dues from source through the check off system.
- vii. Responsibilities of parties to agreement.
- viii. Purpose and intention of both parties in entering into the agreement.
- ix. How employees may be treated.
- x. Rules and regulations governing salary increment, probation, termination of appointment, promotion, transfer, overtime.
- xi. Remuneration and other financial compensation.
- xii. A statement that all employees shall provide their full personal details.
- xiii. Rights and privileges of employees while in service.
- xiv. Compensation for injuries during the course of employment.
- xv. Governance procedure and how dispute may be resolved.
- xvi. A statement that the firm shall offer facilities or grant permission for lawful trade union activity.
- xvii. Benefits and rights accruing to employees leaving the service of the firm.

EXAMINER'S COMMENTS

The question tests the candidates' knowledge of collective bargaining. About 82% of the candidates attempted the question and about 78% passed. Candidates are advised to make adequate use of the study pack for subsequent examinations to enhance their performance.

SOLUTION 4

4(a) Preventive and protective measures.

- i. Safety policy: The safety policy is a statement of commitment of the management to safety and health at work.
- ii. Periodic risk assessment: This is the process of identifying hazards and the risks attached to them.
- iii. Hazard Elimination: This may require use of alternatives, design improvement change of process.
- iv. Substitution of equipment
- v. Use of Barriers: removal of dangerous equipment.
- vi. Use of procedure: putting in place right procedure
- vii. Use of warning system: signs, labels can be used.
- viii. Use of protective equipment; such as gloves, clothing, boot.
- ix. Commitment of workers to safety measures.
- x. installation of safety equipment.
- xi. Periodic inspections.
- xii. Investigation of accident.
- xiii. Education and training of workers on safety measures.

4b Sources of danger

- i. Slippery floor
- ii. Open cabinet
- iii. frayed carpets
- iv. Poorly lit airways or offices
- v. Poor ventilation
- vi. Dangerous fumes
- vii. Poor factory layout
- viii. Congestion
- ix. Horse play
- x. Dirty environment
- xi. Inadequate safety gadget
- xii. Wrong use or handling of equipment
- xiii. Malfunctioning of equipment
- xiv. Absence or inadequate sewage facilities
- xv. Failure to use safety equipment or refusal to adhere to safety procedures during work.

EXAMINER'S COMMENTS

The question is structured to test the knowledge of the candidates on preventive and protective measures for safety in an organization and also the sources of dangers to health and safety at the work place. About 75% of the candidates attempted the question and about 65% passed. The major pitfalls of the candidates' were basically poor preparation and poor interpretation of the question. Candidates are therefore

advised to demonstrate more seriousness towards preparation for the examinations by using the study pack religiously in subsequent examinations.

SOLUTION 5

5(a) Manual and computerized accounting compared

- i. Manual accounting system is based on the use of analogue system while computerised accounting is based on the use of digital system.
- ii. Manual accounting system is easier while computerized accounting system is rigorous.
- iii. Manual accounting implementation cost is lower while computerized system is higher.
- iv. Manual system transactional cost is lower while computerized system is higher.
- v. Manual system is prone to errors while computerized system is more accurate.
- vi. Manual system is slower while computerized system is faster.
- vii. Manual system is cumbersome while computerized system is efficient.
- viii. Manual system control measure is physical while computerized system is electronic.
- ix. Manual system has limited capacity for data analysis while computerized system has greater capacity for data analysis.

5(b) FIVE functions of accounting department

- i. Keeping records of the organization's financial transactions.
- ii. Analyzing and interpreting financial information.
- iii. Preparations of financial statements.
- iv. Management of the organization's funds.
- v. Designing accounting system.
- vi. Preparation of special business and financial studies for accountants in training.
- vii. Preparation of organizational forecast and budgets.
- viii. Providing effective custody of the organization's asset.
- ix. Provision of tax services.

EXAMINER'S COMMENTS

The question tests the knowledge base of the candidates on manual and computerized accounting system. The question also tests the knowledge of the candidates on the functions of the accounting department in an organisation. About 75% of the candidates attempted the question while about 70% passed the question.

The major pitfalls of the candidates were inadequate usage of the study pack and poor preparation. Candidates are advised to make good use of the study pack in subsequent examinations.

SOLUTION 6

- 6(a) The concept of packaging and its advantages.
Packaging is the activities involved in designing a protective container for the purpose of promoting the product.

Advantages

- i. It makes a product easier and convenient to use.
- ii. It influences consumer behaviour because it indicates the quality of the product.
- iii. It may increase consumer purchases and hence, company's profit.

- 6(b) Factors to be taken into consideration when designing packaging.

- i. Presentability: It should make the product presentable.
- ii. Portability: It should make it easy to move the product from one place to the other.
- iii. Promotion: It should differentiate the product from that of competitors.
- iv. Protection: It should preserve the product and protect it from spoilage, spilling and evaporation.
- v. Proportionality: It should be reasonably proportional to the size of the product as well as its price.
- vi. Opportunity for re-use: The packaging materials could be designed in such a way that it offers customers opportunity to re-use the package for other items.

EXAMINER'S COMMENTS

The question tests the knowledge of the candidates on packaging as a marketing concept. About 75% of the candidates attempted the question and about 68% passed the question.

Those who did not do well in the question were due to poor preparation and inadequate use of the study pack. Candidates are advised to make adequate use of the study pack and prepare diligently for the examinations.