

INSIGHT

EXAMINERS GENERAL COMMENTS

BREACH OF EXAMINATION INSTRUCTIONS

IN SPITE OF THE EXAMINERS' GENERAL COMMENTS IN PREVIOUS EDITIONS OF THE "INSIGHT", IT WAS OBSERVED THAT A NUMBER OF CANDIDATES HAVE CONTINUED TO BREACH EXAMINATION INSTRUCTIONS AS STATED BELOW:

- A) BY ATTEMPTING MORE QUESTIONS THAN ALLOWED IN EACH PAPER; AND
- B) BY ATTEMPTING MORE QUESTIONS THAN ALLOWED IN EACH SECTION.

INADEQUATE COVERAGE OF THE SYLLABUS

IT HAS BECOME OBVIOUS THAT MANY CANDIDATES DO NOT COVER THE SYLLABUS IN DEPTH BEFORE PRESENTING THEMSELVES FOR THE EXAMINATION. CANDIDATES ARE THEREFORE ADVISED TO BE ADEQUATELY CONVERSANT WITH ALL ASPECTS OF THE SYLLABUS.

INSIGHT

FOREWORD

This **INSIGHT** is published principally, in response to a growing demand, as an aid to:

- (i) Candidates preparing to write future examinations of the Institute of Chartered Accountants of Nigeria (ICAN) at an equivalent level;
- (ii) Unsuccessful candidates in the identification of those areas in which they lost marks with a view to improving their knowledge and presentation in subsequent examinations;
- (iii) Lecturers and students interested in acquisition of knowledge in the relevant subject contained therein; and
- (iv) The profession in a bid to improving pre-examination and screening processes.

The answers provided in this book do not exhaust all possible alternative approaches to solving the questions. Efforts have been made to use methods, which will save much of the scarce examination time.

It is hoped that the suggested answers will prove to be of tremendous assistance to students and those who assist them in their preparations for the Institute's Examinations.

NOTE

Although these suggested solutions have been published under the Institute's name, they do not represent the views of the Council of the Institute. They are entirely the responsibility of their authors and the Institute will not enter into any

INSIGHT

CONTENTS	PAGES
PRINCIPLES OF AUDITING	4 - 29
COST ACCOUNTING	30 - 56
PREPARING TAX COMPUTATION AND RETURNS	57 - 83
MANAGEMENT	85 - 104

INSIGHT

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
PART III EXAMINATIONS – SEPTEMBER, 2019
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. Which of the following is the Auditor expected to exercise in the discharge of due professional care?
 - A. Prevent fraud and irregularities
 - B. Obtain professional experience and formal education in accounting and auditing
 - C. Reduce audit risk to the barest minimum
 - D. Examine all available corroborating evidence
 - E. Review the judgment exercised at every level of supervision
2. According to the Code of Conduct & Guide for members in your Institute, members in public practice must “adhere” to the following, **EXCEPT**
 - A. Accept fees of an amount that is based on the turnover of the company for which he is an Auditor
 - B. Carry out work as an Auditor and as an Executive Director of the company
 - C. Give or take loans from clients
 - D. Necessarily be computer literate
 - E. Establish family or personal relationship with client
3. The Auditor does **NOT** have a right to
 - A. Request from the client’s officers information and explanations as he thinks fit for the performance of his duties
 - B. Receive notices and other communication relating to any meeting which a member of the company is entitled to receive
 - C. Visit clients business premises at any time in order to carry out such assurance that are necessary in order to form an opinion to the true and fair view of financial statements prepared by the clients

INSIGHT

- D. Receive a copy of the special notice required for a resolution at a general meeting of the company to remove him as the auditor
 - E. Be heard at any meeting which he attends on any part of the business of the meeting which concerns him as auditor
4. The responsibility for the truth and fairness of the representations made in the financial statements rests on the
- A. External auditor
 - B. Audit committee
 - C. Client's management
 - D. Company's secretary
 - E. Board of Directors
5. The statutory duty of a company's auditor is to
- A. Prepare the financial statements of the company
 - B. Express opinion on the financial statements prepared by the company
 - C. Advise management on matters relating to the audit of the company
 - D. Act as financial adviser to the company
 - E. Provide information and explanations on issues in the financial statements
6. Which of the following does **NOT** relate to the concept of "true and fair view"?
- A. Financial statements are accurately computed
 - B. Financial statements are consistent with the underlying records
 - C. Financial statements have been prepared in accordance with acceptable accounting standards and relevant legislations
 - D. Financial statements are free from material misstatements
 - E. The assets and liabilities exist and are properly valued and pertain to the entity
7. The audit which is conducted in between two annual audits is known as
- A. Periodical audit
 - B. Internal audit
 - C. Interim audit
 - D. Occasional audit
 - E. Management audit

INSIGHT

8. What is the most important objective of internal audit?
- A. Early detection of errors and fraud
 - B. Facilitate final audit
 - C. Ensure systematic accounting
 - D. Early finalisation of annual audit
 - E. To encourage reliance on internal controls by external auditor
9. Which test involves tracing transactions and documents from inception to conclusion observing the incidence of internal control?
- A. Substantive test
 - B. Compliance test
 - C. Walk through test
 - D. Rotational test
 - E. Completeness test
10. A letter written by management to the auditor in which management confirms those information given to the auditor during his audit and management's responsibility for the financial statement is called
- A. Management Letter
 - B. Letter of Engagement
 - C. Letter of Consent
 - D. Letter of Representation
 - E. Letter of Comfort
11. The objective of vouching is **NOT** to
- A. Examine the accounting entries recorded in the books of account with reference to documentary evidence
 - B. Verify the authenticity of the transactions
 - C. Evaluate the adequacy and reliability of such documentary evidence as provided in support of transactions
 - D. Identify the documentary evidence in support of transactions
 - E. Ensure that no transaction remains unrecorded in the books of account
12. The authority of custodian of audit working papers resides with
- A. Managing director
 - B. Company secretary
 - C. Company's external auditors
 - D. Chief executive officer
 - E. Chairman of the company

INSIGHT

13. The detailed nature of the controls operative within an organisation will depend on the following, **EXCEPT**
- A. Nature and size of the business conducted
 - B. Management overriding controls in some areas
 - C. Management style and quality of staff employed
 - D. The materiality of transactions concerned
 - E. Volume of transactions
14. Which of the following is **NOT** a method of obtaining audit evidence?
- A. Inspection
 - B. Observation
 - C. Vouching
 - D. Enquiry
 - E. Analytical review
15. What is the auditor's objective in evaluating and testing an organisation's internal controls?
- A. Audit scope
 - B. Audit approach
 - C. Window dressing
 - D. Peer review
 - E. Degree of reliance
16. Which document describes the formal communication between a professional practice and the audit client stating clearly each party's responsibilities under statute and the contract?
- A. Management letter
 - B. Letter of engagement
 - C. Correspondence letter
 - D. Domestic letter
 - E. Letter of representation
17. Which of the following is an attribute of audit evidence?
- A. Sampling
 - B. Pressure
 - C. Reconciliation
 - D. Reliability
 - E. Audit Budget

INSIGHT

18. What is the audit test that seeks to provide audit evidence as to the completeness, accuracy and validity of the information contained in the accounting records?
- A. Substantive test
 - B. Compliance test
 - C. Rotational test
 - D. Directional test
 - E. Procedural test
19. Which of the following is **NOT** an objective of reviewing IT systems by auditors?
- A. Evaluate the efficiency and effectiveness of key controls
 - B. Forming an independent opinion on the financial statements
 - C. Reviewing the operations of controls against written procedures
 - D. Evaluate possibilities of weaknesses in the controls
 - E. Review protection against unauthorised system intrusions
20. Which of the following represents the challenge faced by the auditor when auditing through the computer?
- A. Lack of testing of programme
 - B. Loss of audit trail
 - C. Timing of data processing
 - D. Risk of errors
 - E. Problems of cross referencing totals
21. What is the technical term for the diagrammatic presentation of the internal control system on computer documentation by the auditor?
- A. System documentation
 - B. Programme chart
 - C. Organisation chart
 - D. System design
 - E. System flowcharts

INSIGHT

22. What can be used to reduce the occurrence of unintentionally erasing large amount of information stored on a magnetic tape?
- A. File detection rings
 - B. File completeness check
 - C. File protection rings
 - D. Check digits
 - E. Parity check
23. The term which defines the situation whereby terminals and other peripherals are directly linked to the central processing unit (CPU) is called?
- A. Online processing
 - B. Network
 - C. Programming
 - D. Linking
 - E. System control
24. Which of the following is **NOT** an advantage of using the computer audit programme?
- A. It ensures adequate back-up of transactions
 - B. Procedures to be carried out are well defined
 - C. Enhances timely completion of routines
 - D. It helps in audit documentation
 - E. Examination of data is more accurate
25. The provisions of the Companies Public Financial Management Act stipulates the following with respect to the audit committee of a quoted company, EXCEPT
- A. The composition
 - B. The chairmanship
 - C. Times of meeting
 - D. Its functions
 - E. Its liaison with the external auditor
26. In Peer Review, the reviewer is expected to report on the
- A. Amount of audit fee collected
 - B. Conduct of individual audit and other engagements
 - C. Auditor's relationship with clients
 - D. Assets verification
 - E. Compliance with accounting principles

INSIGHT

27. The evaluation of financial information made by a study of plausible relationships among both financial and non-financial data is called
- A. Walk through test
 - B. Compliance test
 - C. Verification procedure
 - D. Analytical procedure
 - E. Due process
28. The term used to describe an unintentional mistake in financial statement is called
- A. Error
 - B. Fraud
 - C. Misappropriation
 - D. Theft
 - E. Stealing
29. The opinion issued when an auditor concludes that the qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements is called?
- A. Except for opinion
 - B. Modified opinion
 - C. Disclaimer of opinion
 - D. Qualified opinion
 - E. Adverse opinion
30. Which of the following best describes the meeting held in the auditor's office among the audit team to discuss the success/failure of the just concluded audit?
- A. Briefing
 - B. Debriefing
 - C. Management report
 - D. Audit report drafting
 - E. Final review

INSIGHT

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

ATTEMPT ALL QUESTIONS

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

1. The general misconception about the role of the auditor and what the assurance is meant to achieve is
2. The internal auditor reports to the Directors or Audit Committee while External Auditor reports to
3. An assurance engagement that is being compulsorily required by law to be carried out by an enterprise is called
4. The name given to an independent examination of financial statements being carried out by non-employees of an entity is
5. The process where an audit firm engages another firm to review its working papers is technically referred to as.....
6. Audit trail is the accumulation of source documents and records that allows the auditor to..... accounting entries from initiation to conclusion
7. The name of the system of audit where the auditor concentrates on high risk clients and on high risk areas of a client's business is
8. What should an auditor who accepts an audit engagement which demands for a technical skill which he lacks, do?
9. The Combination of substantive test and compliance test in the assurance of a client's job is defined as
10. The aspect of internal control which ensures that no single task is executed from its beginning to its conclusion by one person is called
11. The medium by which weaknesses observed in the system is communicated to management is called

INSIGHT

12. The test where the auditor selects few transactions of each type and traces them through the client's system from origin to destination to ensure that the system has been correctly understood and accurately recorded is called
13. The name of the separate program that simulates the processing of the organisation's real system is called
14. A situation when auditing smaller organisations in which the software packages are merely viewed to replace manual records and there are few automated routines is called.....
15. The name given to specially designed form used to ascertain and evaluate the system of controls in an organisation is called.....
16. The term used to describe a set of master files integrated for the purpose of reducing data redundancy is called.....
17. Events occurring after the reporting period can be grouped into.....and.....
18. The accounting term given to manual or electronic record filed to ensure that all relevant matters are attended to before an audit report is signed is known as.....
19. In modern day auditing, an Accountant must learn how to present reports in a manner that is admissible for evidence in law court. The technical term used for the preparation of such report is best described as
20. The accounting term given to matters which occur between financial year end date and when the Board of Directors approved the financial statements is called

INSIGHT

SECTION B: ATTEMPT ANY FOUR QUESTIONS

(50 MARKS)

QUESTION 1

a. What are the fundamental differences between accounting and auditing? (4½ Marks)

b. List and briefly discuss the essential qualities of an auditor (8 Marks)

(Total 12½ Marks)

QUESTION 2

Audit evidence is pre-requisite for an auditor to express an opinion on a client's financial statements.

You are required to:

a. Explain briefly the term "audit evidence" (2Marks)

b. List **THREE** sources of audit evidence (3 Marks)

c. List **THREE** qualities of a good audit evidence (3 Marks)

d. Explain briefly **THREE** of the factors that influence the reliability of audit evidence (4½ Marks)

(Total 12½ Marks)

QUESTION 3

a. Define audit sampling? (1½ Marks)

b. Define sampling risk? (1½ Marks)

c. Differentiate between statistical sampling and non statistical sampling (1½ Marks)

d. List and explain **FOUR** factors affecting sampling size an auditor uses in gathering audit evidence (8 Marks)

(Total 12½ Marks)

INSIGHT

QUESTION 4

Sawyer & Co is a medium sized audit firm which until recently keeps manual working papers for the documentation of audit work done. Due to business expansion some of its clients have large volumes of sales which, in the course of assessment, were observed to be risk areas. As a result, the firm made decisions among which was the computerisation of its working papers in order for the audits to be conducted in a more effective and efficient manner.

You are required to:

- a. Outline the specific qualities of computerised working papers which Sawyer & Co. would benefit from in contrast to manual working papers. (8 Marks)
 - b. State **THREE** disadvantages of the use of electronic working papers (4½ Marks)
- (Total 12½ Marks)**

QUESTION 5

- a. Explain the term “Going Concern”. (2½ Marks)
 - b. Many indicators or events can be used to determine if there is a going concern problem. List **TWELVE** of these indicators. (6 Marks)
 - c. How should an auditor report on “Going Concern” in his assurance report putting into consideration various scenarios of the going concern concept? (4 Marks)
- (Total 12½ Marks)**

QUESTION 6

The returns of Dele Anan Limited has always been submitted late to the Tax Authorities in recent years due to the late submission of the accounts to the auditor. The chairman has been advised to computerise the company’s operations to ensure early completion and filing of the accounts with the tax authorities.

He therefore sought your advice as the auditor as to how his monitoring of the activities in the company will not be impaired since every entry will now be done electronically.

INSIGHT

You are required to:

- a. Explain the term “Audit Trail”. (2¹/₂ Marks)
 - b. Briefly discuss **TWO** typical problems that may arise as the audit moves away from hard copy trail to electronic copy. (4 Marks)
 - c. Discuss briefly how an auditor can overcome loss of audit trail (6 Marks)
- (Total 12¹/₂ Marks)**

SOLUTIONS

MUTIPLE-CHOICE SOLUTIONS

- 1. C
- 2. D
- 3. B
- 4. E
- 5. B
- 6. A
- 7. C
- 8. A
- 9. C
- 10. D
- 11. E
- 12. C
- 13. B
- 14. C
- 15. E

INSIGHT

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

EXAMINER'S REPORT

The questions were standard in nature. Though there are mixed up in respect to the option provided by the solutions given by the examiners. Reconciliation was made and effected.

INSIGHT

SHORT-ANSWER SOLUTIONS

1. Audit Expectation gap
2. Shareholders
3. Statutory audit
4. External audit
5. Peer review
6. Trace
7. Risk based audit
8. Engage an expert/Consult professional colleague for advice
9. Test of details
10. Segregation of duties controls
11. Management letter/Letter of weakness
12. Walk-through test
13. Parallel simulation
14. Test data
15. Internal Control Evaluation Questionnaire (ICEQ)
16. Normalisation
17. Adjusting and non-adjusting events
18. Audit completion checklist
19. Forensic audit
20. Subsequent events

INSIGHT

EXAMINER'S REPORT

The questions were of standard.

INSIGHT

SOLUTION 1

Many financial information users and members of the public often think of auditing as being part of accounting. The confusion results because most auditing is concerned with accounting information and almost all auditors are accountants.

1. Accounting is the process of recording, classifying and summarising business transactions in monetary terms. Accounting aims at providing financial information for decision making. The person who performs this function is called an accountant.

Auditing is the independent examination of financial statements by a qualified appointed person in order to form an opinion as to whether they show a true and fair view. Therefore, auditing begins where accounting ends.

The relationship of accounting to auditing is close, yet their natures are very different.

The main points of differences are as follows:

- i. **Subject matters:** Accounting is concerned with collection and summarisation of economic events in a logical manner for the purpose of providing financial information for decision making. Auditing on the other hand is concerned with examination or review of financial information so furnished.
- ii. **Object:** The main object of accounting is to know the trading results or state of affairs of a business during the accounting period. The object of audit is to judge the correctness and reliability of financial statements prepared by the internal staff of the business enterprise.
- iii. **Hierarchy:** Auditing begins where accounting ends. There can be no auditing without the prior existence of accounting data.
- iv. **Nature:** Accounting is constructive in nature as it measures business events in terms of profit or loss and communicates the financial position. Auditing on the other hand is referred to as analytical and critical aspect of accounting since it reviews the measurement and communication of financial results and condition of business.

INSIGHT

- v. **Expertise required:** An accountant may not be comfortable with audit techniques and procedures, but an auditor must be well versed with the principles and techniques of accounting. It is the expertise that distinguishes the auditors from the accountants.
- vi. **Process:** Accounting is a four-step process that involves collection and recording, classification, summarisation and communication of accounting information and results thereof. Auditing on the other hand includes three principal steps: preliminary planning, performance of audit work and reporting the findings.
- vii. **Qualification:** Accounting can be practiced by anybody at his/her level irrespective of qualification.
- Auditing is practiced by only professionally qualified accountants who are licensed to practice.
- viii. **Responsibility:** The accounting responsibility is the collation of the information and documentation of decision making leading to what appears in the financial statement of an entity.
- The auditing responsibility is the review of the financial statements and reporting to the shareholders.
- xi. **Appointment:** Appointment of accounting officers is subject to whims and caprices of the entity's management.
- The auditing firm is appointed subject to the provisions of the companies Act.
- x. **Records:** The records created in the process of the accounting work belongs to the client but the records created in the auditing process belongs to the auditor.
- xi. **Liability:** The accounting function does not create or accrue specified liability on the accounting officer whereas the auditing process creates liability for any improper work.

INSIGHT

(b) **Essential qualities of an auditor**

- i. **Knowledge of accounting:** An auditor must possess thorough knowledge of accounting to carry out an audit effectively. It would be practically difficult for a person to carry out critical examination of financial statements if he does not know how the accounts have been prepared.
- ii. **Knowledge of the theory and practice of auditing:** He should be familiar with various relevant laws of the country governing a business.
- iii. **Intelligence and tactfulness:** He must be capable of making intelligent and exhaustive enquiries till he ascertains the information required to understand the state of affairs of clients business.
- iv. **Responsible and prudent:** An auditor should be prudent enough. He should be responsible in terms of his attitude as well as approach to work.
- v. **Integrity:** An auditor should be honest and possess high moral standards.
- vi. **Objectivity, independence and transparency:** He should carry out his duties cheerfully, conscientiously and independently. He should prove himself to be an independent person and must not compromise on important issues.
- vii. **Vigilance:** He should be vigilant and cautious. He should be able to detect errors and frauds.
- viii. **Positive attitude and reliance upon clients' staff:** He should not be unduly suspicious.
- xi. **Diligence:** Auditing job is analytical and critical in nature and request auditor's time energy, attention and patience.
- x. **Confidentiality:** Maintaining confidentiality is an integral part of professional ethics. An auditor should maintain complete secrecy of the business of his client and should not disclose any

INSIGHT

confidential information gathered during the course of his work to an outsider.

- xi. **Communication skill:** It is quite essential for an auditor to be able to communicate very well with all the concerned. He should be able to write audit report properly without any ambiguity.

EXAMINER'S REPORT

Fundamental differences between accounting and auditing were asked. The question should state or require candidates to mention specific number of differences.

SOLUTION 2

- (a) Audit evidence are all those information and explanations obtained from various sources by the auditor during the course of his work which enable him to draw conclusion on the financial statements being examined.
- (b) Three sources of audit evidence are:
 - i. Internally generated evidence e.g. evidence obtained from clients, accounting records, company's staff and management, letter of representation, minutes of board of director's meetings etc.
 - ii. Externally generated evidence e.g. evidence obtained from clients banks, suppliers, customers etc.
 - iii. Self-generated audit evidence i.e. evidence obtained by the auditor himself through observations, analytical review and test of controls etc.
- (c) **Three qualities of a good audit evidence are:**
 - Relevance
 - Reliability
 - Sufficiency

INSIGHT

(d) **Factors that influence reliability of audit evidence:**

- Evidence obtained from original documents is more reliable than photocopies
- Written or documentary evidence is more reliable than oral evidence
- External generated audit evidence is more reliable than internally generated audit evidence

EXAMINER'S REPORT

Audit evidence

Many candidates mentioned types of audit evidence instead of stating qualities of a good audit evidence.

SOLUTION 3

- (a) **Audit sampling:** It is the process of selecting a number of items referred to as a sample from a group of items known as population with a view of testing sample and using the result obtained to generalise for the entire population.

Audit sampling can be defined as the application of compliance or substantive tests to less than 100% of the items within a class of transaction, asset, liabilities or owners' equity in order to obtain and evaluate evidence of some attributes of the items as a basis for drawing conclusion about the class as whole.

- (b) **Sampling risk:** This is the probability that the conclusion drawn on the result of the test carried out on the sample items will be different from which would have been drawn had the auditor examined all items. Sampling risk occurs as a result of biased sample i.e. the sample that does not represent a true proportion of the entire population. The auditor should endeavour to reduce the sampling risk by proper planning, selecting and testing the sample and evaluating the result of the test.
- (c) **Statistical sampling techniques:** This is an approach that is based on mathematics law of probability to determine and calculate the sample

INSIGHT

size and also planning for the audit sample to be used for testing so as to obtain the necessary audit evidence to draw conclusion on the financial statement being audited. Statistical sampling helps to promote uniformity in the conduct of an audit exercise.

Non statistical sampling on the other hand involves the use of auditor's judgement and intuition in determining the sample size and also planning for the sample item. It does not involve the use of mathematical calculation. Non statistical sampling can also be called judgemental sampling and it allows the auditor to make use of his experience in determining the sample size.

(d) **Factors affecting sampling size that an auditor uses in gathering audit evidence include:**

- Materiality of the item to the financial statement
- Level of audit risk
- Quality of internal control system
- Population of the item
- Previous knowledge of the client's business
- Alternative sources of audit evidence

Materiality of the item: Where the item is material and significant to the financial statement, more sample size is likely to be obtained for testing.

Level of audit risk: The higher the risk relating to the item, the more sample size that will be selected from the population.

Quality of internal control: Where the entity's quality control system is of high quality and they are being complied with, few sample size will be obtained for testing.

Population of the item: The higher the population, the higher the sample size and vice visa.

EXAMINER'S REPORT

Sampling

The performance of candidates was not good as most of them could not differentiate statistical sampling from non statistical sampling.

INSIGHT

SOLUTION 4

(a) Specific qualities of computerised working paper:

- i. Ability to keep large quantity of information in the computer file
- ii. Compact and precise compilation of information
- iii. Easy retrieval and reference of information
- iv. Ability to backup various working paper files
- v. Ability to keep files in a methodical manner
- vi. Easy access to computer files from any location through the internet facilities
- vii. Logical structure of working paper files in a computer file
- viii. Easy referencing of past working paper files

(b) Disadvantages of the use of electronic working papers

- i. Security of working papers may be compromised
- ii. Accidental loss of or damage of working paper files
- iii. Computer audit working paper files may be damaged at any time
- iv. Initial set up cost can be high
- v. Network challenges

EXAMINER'S REPORT

**Computerised working papers.
The performance was poor.**

SOLUTION 5

- (a) Going concern is an assumption that the entity will continue in business for the foreseeable future. A company is considered as a going concern if it is capable of earning a reasonable net income and where there is not threat from any source to significantly curtail its line of business in the foreseeable future.

Going concern relates to permanent existence of a company.

INSIGHT

- (b) **Indicators or events that can determine if there is going concern problem:**
- i. Recurring operating losses
 - ii. Low liquidity ratio
 - iii. Working capital deficiencies
 - iv. High gearing ratio
 - v. Heavy dependency on overseas holding company for finance or trade
 - vi. Evidence of major reductions or cancellations of capital projects
 - vii. Excess of liabilities over assets
 - viii. Increasing dependence upon short term finance
 - ix. Loss of key management staff
 - x. Loss of key suppliers
 - xi. Dependence upon a limited number of products, customers or suppliers
 - xii. Major restructuring of debts
 - xiii. Deterioration in relationship with the company's bankers
 - xiv. Use of short term funds to finance long term projects
 - xv. Normal purchases are deferred, thereby reducing stocks to dangerously low level
 - xvi. Disposal of substantial fixed assets not intended to be replaced
 - xvii. Normal capital expenditure being switched to leasing agreements
 - xviii. Inability to pay debts as they fall due

INSIGHT

- xix. Substantial losses are occurring or state of profitability is declining
 - xx. Default of statutory payments e.g. tax, dividends
 - xi. Excessive reliance on the success of a particular project
 - xii. Natural disaster
- (c) **Auditors are to report on “going concern” basis of a business entity audited. There are various scenarios that many occur which are highlighted below:**
- i. When there is no indication of “going concern” problems, the auditor will issue a clean or an unqualified report.
 - ii. When there is a significant level of concern as to the appropriateness of the ‘going concern’ basis, but the auditors do not disagree with its use. He should include an explanatory paragraph when setting out the basis of his opinion describing the matters giving rise to the concern and referring to the relevant financial statement disclosures. Auditor should not qualify his report based on those grounds alone provided the disclosures in the financial statement of matters giving rise to the concern are adequate to give a true and fair view.
 - iii. When the auditor disagrees with the presumption that the company is a going concern, he should issue an adverse audit opinion and provide in the report such additional information as he considers necessary based on the information of which he is aware of.
 - iv. Where the directors did not prepare the financial statement on going concern basis and the auditor considers this to be appropriate in the specific circumstances, he should include an explanatory paragraph describing the bases of preparation and referring to the notes to the financial statements concerning this basis when setting his audit opinion.

INSIGHT

EXAMINER'S REPORT

Going Concern

Many candidates failed to give the ingredient that constitute the problems of going concern. Also candidates failed to define what is going concern.

SOLUTION 6

- (a) The term Audit Trail is used to describe those facilities and evidences generated within an accounting system which enable individual transactions to be traced through the system from their origination to conclusion. By following the audit trail, the auditor, where he desires to do so, is able to ascertain the documents raised for the transactions, the records updated, the controls executed and the sequence of the above activities.
- (b) **Problems that may arise as audit moves away from hard copy trail to copy are as follows:**
- i. There may be over writing of computer files and records during undating.
 - ii. Non-retention of source documents after processing.
 - iii. Filing of source documents in a format that is different from the original format.
 - iv. There may be virus infection of the computer file where the source documents are retained and this may lead to loss of audit trail.
- (c) **How an auditor can overcome loss of audit trail:**
- i. Involvement of the auditor during the system development stage: When a client is computerising its accounting system, the auditor will advice management on the controls that should be incorporated within the system and those reports which he will require from the system for audit processes.
 - ii. Where reports that have audit relevance are routinely produced by the client's system: The auditor should inform management at an early date during the financial year to retain such computer generated reports for the purposes of the audit.

INSIGHT

- iii. Where this is practicable, the auditor may clerically recognise the computer input data, manually calculate the output and compare this with the computer-generated output. This will provide assurance as to the correctness of the computer processing and the reliability of its output.
- iv. The auditor may place greater emphasis on alternative audit procedures as a means of obtaining audit evidence. Such alternative audit procedures may include third party confirmation and physical verification of computer generated balances.

EXAMINER'S REPORT

Audit Trail

Poor performance

INSIGHT

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
PART III EXAMINATIONS – SEPTEMBER 2019**

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. Which of the following areas would Cost Accounting help managers?
(I) Planning (II) Controlling (III) Co-ordinating (IV) Decision-making
 - A. I, II, and III
 - B. I and II
 - C. III and IV
 - D. I, II, III, IV
 - E. IV

2. Which of the following is **NOT** always a desirable quality of information?
 - A. Understandability
 - B. Voluminous
 - C. Brevity
 - D. Availability
 - E. Complete Accuracy

3. Cost Account is
 - A. The cost of a product
 - B. The selling price of a product
 - C. An account in the financial account ledger
 - D. The margin between the selling price and the cost price of a product
 - E. An account in the cost ledger

4. A Prime cost is a/an
 - A. Direct cost
 - B. Indirect cost
 - C. Irrelevant cost
 - D. Contribution
 - E. Semi-fixed cost

INSIGHT

5. Which of the following would be classified as a direct cost?
- A. Chief Accountant of John Holt Plc
 - B. General Manager in Zenith Bank
 - C. Maintenance Manager in Dangote Plc
 - D. Personnel Manager in a company servicing car
 - E. Plasterers in Construction Company
6. The major objective of cost classification is to
- A. Assist management in product diversification
 - B. Enhance optimal production mix
 - C. Serve as a control mechanism
 - D. Assist management in various decision area
 - E. Assist in product pricing
7. The document that records the details of materials received from suppliers, which includes additional items such as the date, suppliers name, purchase order and quantity is
- A. Waybill
 - B. Performa Invoice
 - C. Goods received note
 - D. Stores requisition note
 - E. Material order note
8. The process whereby all inventory items are physically counted and valued at a regularly predetermined point in time at the end of an accounting periods is
- A. Stock taking
 - B. Continuous stock taking
 - C. Physical stock taking
 - D. Periodic stock taking
 - E. System stock taking
9. A job is budgeted to require 6,600 productive hours after incurring 25% idle time. If the total labour cost budgeted for the job is GH¢72,600, what is the labour cost per hour?
- A. GH¢ 8.25
 - B. GH¢ 8.30
 - C. GH¢11.40
 - D. GH¢14.75
 - E. GH¢16.30

INSIGHT

10. The point of focus for the costs relating to a particular activity in an activity-based costing system is called
- A. Cost apportionment
 - B. Cost driver
 - C. Activity
 - D. Production
 - E. Cost Pools
11. The process of charging the proportion of common items of cost to two or more cost centres on some equitable basis is called
- A. Overhead allocation
 - B. Cost separation
 - C. Overhead sharing
 - D. Overhead apportionment
 - E. Overhead distribution
12. The accounting system where the cost accounts and financial accounts are combined in one set of account is called
- A. Marginal costing system
 - B. Cost control accounting system
 - C. Integrated accounting system
 - D. Interlocking accounting system
 - E. Control accounting system
13. A company absorbs overheads on machine hours which were budgeted at 11,250 hours with overheads of ₦258,750. Actual results were 10,980 hours with overheads of ₦254,692. The overheads were
- A. Under-absorbed by ₦2,152
 - B. Exactly ₦2,152
 - C. Over-absorbed by ₦2,152
 - D. Under-absorbed by ₦4,058
 - E. Over-absorbed by ₦4,058
14. Which of the following are characteristics of job costing?
- I. Customer-driven production
 - II. Complete production possible within a single accounting period
 - III. Homogenous products
- A. I and II
 - B. I and III
 - C. II and III
 - D. III

INSIGHT

- E. I, II and III
15. Which of the following is **NOT** a characteristic of contract costing?
- A. Surplus materials
 - B. Continuous operation
 - C. Low indirect costs
 - D. Difficulties of cost control
 - E. High proportion of direct costs
16. The document used to record costs for each service that is provided in National Health Insurance Scheme is
- A. Drug sheet
 - B. Operational sheet
 - C. Service sheet
 - D. Cost sheet
 - E. Operation sheet
17. The following information is available for AJK Guest House for the latest thirty day period:
- | | |
|-------------------------------------|----------|
| Number of rooms available per night | 80 |
| Percentage occupancy achieved | 65% |
| Room servicing cost incurred | L\$7,800 |
- The room servicing cost per occupied room per night for the last thirty days is
- A. L\$ 5.00
 - B. L\$97.50
 - C. L\$120.50
 - D. L\$142.50
 - E. L\$150.00
18. A zero-based budget
- A. Is drawn up without regards to historical records
 - B. Ensures that figures are expressed to the nearest thousand
 - C. Is also known as flexible budget
 - D. Applies a uniform incremental percentage on past performance
 - E. Is the budget for not-for profit organisation

INSIGHT

19. Which of the following is **NOT** a principal use of budget?
- A. Controlling
 - B. Planning
 - C. Communication of plans
 - D. Budget time table
 - E. Evaluation of performance
20. In the preparation of production budget, the quantity to be produced equals
- A. Sales quantity plus opening inventory of finished goods plus closing inventory of finished goods
 - B. Sales quantity plus closing inventory of finished goods minus opening inventory of finished goods
 - C. Sales quantity minus opening inventory of finished goods minus closing inventory of finished goods
 - D. Sales quantity plus opening inventory of finished goods minus closing inventory of finished goods
 - E. The quantity of finished goods produced
21. A control technique which compares standard costs and revenues with actual results to obtain differences which are used to stimulate improved performance is called
- A. Variance analysis
 - B. Responsibility accounting
 - C. Standard costing
 - D. Budgeting
 - E. Marginal costing
22. You are provided with the following information:
- | | |
|------------------------|----------|
| Selling Price per unit | Le100 |
| Variable cost per unit | Le 60 |
| Fixed cost | Le20,000 |
- The number of units to be produced to earn a zero profit is units.
- A. 250
 - B. 300
 - C. 460
 - D. 500
 - E. 550

INSIGHT

23. Absorption costing is concerned with which of the following?
- A. Direct labour cost
 - B. Direct material cost
 - C. Variable and fixed costs
 - D. Fixed costs
 - E. Semi-fixed costs
24. Ladex Plc. produces a single product and sells it at GMD500 per unit. Unit variable cost is GMD350 and fixed cost amount is GMD12,000,000 per annum. The P/V ratio and break-even sales are
- A. 25% and GMD250,000,000
 - B. 30% and GMD27,500,000
 - C. 30% and GMD40,000,000
 - D. 30% and GMD42,500,000
 - E. 30% and GMD41,500,000
25. Contribution to sales ratio can be represented by
- A. $\frac{\text{Total Contribution}}{\text{Sales permit}} \times 100\%$
 - B. $\frac{\text{Fixed Cost}}{\text{Contribution per unit}} \times 100\%$
 - C. $\frac{\text{Contribution per Unit}}{\text{Sales per unit}} \times \frac{1}{100}$
 - D. $\frac{\text{Contribution per unit}}{\text{Sales per unit}} \times \frac{100}{1}$
 - E. $\frac{\text{Fixed Cost}}{\text{Contribution}} \times \text{sales value} \times 100\%$
26. A Life cycle costing tracks and communicates the actual costs from the beginning to the end of a
- A. Product
 - B. Process
 - C. Company
 - D. Contract
 - E. Cost-centre

INSIGHT

27. Which of the following techniques can be used in a cost reduction programme?
- A. Value reduction
 - B. Marginal costing
 - C. Variety reduction
 - D. Standard costing
 - E. Costing techniques
28. Which of the following is **NOT** a component of value, under value analysis techniques?
- A. Consumer value
 - B. Cost value
 - C. Usage value
 - D. Esteem value
 - E. Exchange value
29. The acronyms ABC and ABM represents
- A. Activity Based Costing and Activity Based Management
 - B. Advanced Business Concepts and Action Based Manager
 - C. Activity Based Concept and Activity Based Management
 - D. Actual Budget Concept and Activity Based Manager
 - E. Activity Based Contract and Actual Based Management
30. Which of the following is a key element of material requirement planning?
- A. Inventory report
 - B. Stock out schedule
 - C. Master production schedule
 - D. Lead time of all times
 - E. Bill of material life

INSIGHT

**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 production or service function activity or item of equipment whose costs may be attributed to cost units is
2. The value of a budget sacrificed in favour of an alternative course of action is referred to as
3. A unit of product or service in relation to which costs are ascertained is called
4. The arrangement of items in logical groups having regards to their nature or purpose is
5. A system of symbols designed to be applied to a classified set of items, to give a brief accurate reference facilitating entry, collation and analysis is referred to as.....
6. An information in a cost accounting system is considered relevant and appropriate if it is useful for planning, and
7. The economic order quantity, where the demand is 2,000 units per month, the ordering cost per order is ₦700, the unit cost is ₦16 each and it is estimated that carrying cost is 15% per annum is
8. The system used to control the investments in stocks items and has the overall objective of minimising total associated cost is called
9. A method of material pricing that ensures that materials with the most recent purchase will be the first to be issued at the actual cost of purchase in line with their receipts into the store is
10. The payment method to workers based on clock hours worked multiplied by the rate per hour is called

INSIGHT

11. A cost system in which only one ledger is used to maintain both cost and financial accounts transaction is called
12. A form of specific order costing which applies where work is undertaken according to customer's specifications is
13. A loss which arises where actual loss is greater than expected loss is called.....
14. A form of costing method which applies where standardised services are rendered by a cost centre within an undertaking is called.....
15. Under marginal costing, the excess of sales value over variable costs is
16. The point at which total revenues equal total cost is known as
17. The number of years required to recoup the amount originally invested in a project is known as
18. In investment appraisal technique, Gross Present Value
Initial outlay
represent
19. Quality assurance comprises of the twin functions of quality planning and
20. A move towards zero inventory and an emphasis on perfect quality are features of

INSIGHT

SECTION B: ATTEMPT ANY FOUR QUESTIONS (50 Marks)

QUESTION 1

OXION Plc. is a manufacturing company with no proper defined purchasing policy, Lately the company recorded an offer of quantity discounts on its order of materials as stated below

Price per tonne in (Le)	Tonnes in Number
2,400	Less than 1,000
2,360	1,000 and less than 2,000
2,320	2,000 and less than 3,000
2,280	3,000 and less than 4,000
2,240	4,000 and above

The annual requirement for the material is 10,000 tonnes. The ordering cost per order is Le2,400 while the holding cost is estimated at 20% of material cost per annum,

Required:

- Compare the most economical optimal size considering the order size of 500 units, 1,000 units, 2,000 units, 4,000 units and 6,000 units.
- Advise the management of OXION Plc. on the size of order that will be economical to the management. **(Total 12½ Marks)**

QUESTION 2

Mr. James, a Cost Accountant to Rola Nigeria Limited has been asked to prepare the best option for the job for his company with the following details

	GH¢
Materials and supplies at cost	60,000
Hourly pay for consultants: 4,000 hrs @ GH¢35/hr	140,000
Fringe benefit for consultants: 4,000 hrs@ GH¢12/hr	48,000
Total Variable Costs	<u>248,000</u>
Fixed costs allocated to the job:	
Based on labour: 4,000 hrs @ GH¢10/hr	40,000
Based on materials & supplies: 80% of materials cost and supplies	<u>48,000</u>
Total Costs	<u><u>336,000</u></u>

INSIGHT

Out of the GH¢88,000 allocated fixed costs, GH¢70,000 will be incurred even if the job is not undertaken. The company usually bids for jobs at the sum of 150% of the estimated materials and supplies cost and GH¢80 per estimated labour hour.

You are required to prepare the cost of the job based on the:

- i. Proposed bid cost on normal policy of the company
- ii. Minimum cost of the job that is equal to the expected cost to be incurred to complete the job.
- iii. Cost of the job that will cover the full cost, plus a mark-up for a profit equal to 20% of full costs.

(Total 12½ Marks)

QUESTION 3

AMEER Nigeria Limited provides the following information at 80% level of capacity.

Production and sales (Qty)	4,000 units
Direct material (L\$)	10 per unit
Direct labour (L\$)	10 per unit
Direct expenses (L\$)	8 per unit
Production overheads (15% variable) – (L\$)	20 per unit
Administrative overheads (80% fixed) – (L\$)	20 per unit
Selling and distribution overheads (25% variable) – (L\$)	20 per unit
Total cost (L\$)	88 per unit
Profit (L\$)	12 per unit
Selling price (L\$)	100 per unit

You are required to:

Prepare a flexible budget at 60% and 90% capacity level for the period of 2018.

(Total 12½ Marks)

INSIGHT

QUESTION 4

AJAY NIGERIA LIMITED has an installed capacity to produce 16,000 units per month but the market can currently absorb a maximum of 10,000 units. Selling price per unit is ₦150. Cost per unit has the following breakdown:

	₦
Direct material	50.00
Direct labour	30.00
Variable factory overhead	7.50
Fixed factory overhead	15.00
Variable selling expenses	2.50
Fixed Administrative Expenses	10.00
	<hr/>
	115.00

Required:

- Should the company accept a special order for 4,000 units at the price of ₦100 per unit? Justify your answer.
- What is the maximum price the company should be willing to pay an outside supplier who is interested in manufacturing this product?
- What would be the effect on the monthly contribution margin, if the sales price was reduced to ₦140 resulting in a 10% increase in sales volume?

(Total 12½ Marks)

QUESTION 5

Explain the following terms:

- Target Costing (1½ Marks)
- Activity Based Management (1½ Marks)
- Value Chain Analysis (1½ Marks)
- Life Cycle Costing (1½ Marks)
- Kaizen Costing (1½ Marks)
- Advanced Manufacturing Technology (1½ Marks)
- Materials Requirement Planning (2 Marks)
- Total Quality Management (1½ Marks)

(Total 12½ Marks)

INSIGHT

QUESTION 6

HIGH-TREE Manufacturing Company Limited presents the following balances extracted from the company's books of account as at 31 December 2018.

	DR GMD	CR GMD
Raw-material control a/c	488,360	
Work-in-progress control a/c	147,450	
Finished inventory control a/c	219,800	
Normal ledger control a/c	<u> </u>	855,610
	<u>855,610</u>	<u>855,610</u>

Further transactions took place during the following quarter as follows:

	GMD
Factory overhead allocated to WIP	117,860
Goods finished at cost	368,340
Raw- materials purchase	224,220
Direct wages allocated to WIP	183,700
Cost of goods sold	420,000
Raw material issued to production	170,000
Raw materials credited by suppliers	10,000
Inventory audit-raw material losses	13,000
WIP rejected (with no scrap value)	18,000
Customer's returns (at cost) of finished goods	30,000
Sales	420,000

Required:

Prepare the following ledger accounts in cost ledger.

- i. Raw materials control Account (3 Marks)
- ii. Work-in-progress control Account (3 Marks)
- iii. Finished inventory control Account (2½ Marks)
- iv. Nominal ledger control Account (4 Marks)

(Total 12½ Marks)

INSIGHT

SOLUTION TO MCQ

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

INSIGHT

29. A

30. C

Q9. Total paid Hours = $\frac{6600}{0.75} = 8800$ hours

Total labour cost = $\text{N}72600 \div 8800 \text{ hrs} = \text{N}8.25$

Q13. Budgeted = $\frac{258,750}{11250}$

O I R = ~~N~~23

Actual = $\frac{254,692}{10,980}$

= ~~N~~23,195

Under absorbed overheads (23.195 - 23) x 10,980hrs
= ~~N~~2152

Q17. No of occupied room-night = $80 \times 65\% = 52$

Room servicing cost per occupied room per night

L\$ '7,800 ÷ 52 = 150

Q22. $\frac{\text{Fixed cost} + 0}{\text{contribution percent}} = \frac{20,000 + 0}{40}$

D¢ = 500 units

Q24. Selling price per unit = N 500

Variable cost per unit = N350

Contribution per unit = 150

p.v ratio = $\frac{150}{500} \times 100 = 30\%$

Fixed cost per annum is N12,000,000

B. E. P in sales value = $\frac{12,000,000}{0.3}$

= ~~N~~40,000,000

C = 30% and ~~N~~40,000,000

INSIGHT

EXAMINER'S REPORT

The questions are well spread across the syllabus. Being a compulsory section, all the candidates attempted the questions. Performance was rated high as more than 60% of the candidates scored 50% of the marks allotted to this part of the paper.

SOLUTION TO SAQ

1. Cost centre
2. Opportunity cost/cost of opportunity forgone
3. Cost unit
4. Cost classification
5. Codification/coding system
6. Controlling and Decision making
7. 3742 units (workings)
8. Economic Order Quantity (EOQ)
9. First - in - First out (FIFO)
10. Time - based - method/ Time-Rate method
11. Integral/Integrated Accounting System
12. Job costing/contract costing
13. Abnormal loss
14. Operation costing/Service Costing
15. Contribution
16. Break - even - point
17. Payback period
18. Profitability Index
19. Quality control
20. Just in time system

INSIGHT

$$\begin{aligned}
 \text{Q7. EOQ} &= \sqrt{\frac{2DCO}{cc}} \\
 &= \sqrt{\frac{2 \times 24,000 \times 700}{2.4}} \\
 \text{EOQ} &= 3742 \text{ units}
 \end{aligned}$$

EXAMINER'S REPORT

The question substantially covered a large part of the syllabus. All the candidates attempted this part and more than 50% of them scored half of the marks allotted to this part of the paper.

SOLUTION 1

OXION PLC

TABULATION OF THE OPTIMAL SIZE

Demand	10,000	10,000	10,000	10,000	10,000
E O Q	500	1000	2000	4000	6000
No. of sector (P/Q)	20	10	5	2.5	1.67
Average Inventory ($Q/2$)	250	500	1000	2000	3000
Purchase cost (₹)	2400	2360	2320	2280	2240
Ordering cost (₹)	2400	2400	2400	2400	2400
Cost Analysis					
	₹	₹	₹	₹	₹
Total ordering cost(unit)	48,000	24,000	12,000	6,000	4,000
Total holding cost (unit)	12,000	236,000	464,000	896,000	1,344,000
Purchase cost	<u>24,000,000</u>	<u>23,600,000</u>	<u>23,200,000</u>	<u>22,400,000</u>	<u>22,400,000</u>
Total cost	<u>24,168,000</u>	<u>23,860,000</u>	<u>23,676,000</u>	<u>23,302,000</u>	<u>23,748,000</u>

INSIGHT

Decision:

The best economical size is 2000 units that provides the last total cost of **₦23,302,000**

Q1. Workings

i. Determination of total ordering cost

$$\text{No. of order} = D/Q$$

D	$\frac{10,000}{500}$	$\frac{10,000}{1000}$	$\frac{10,000}{2000}$	$\frac{10,000}{4000}$	$\frac{10,000}{6000}$
Q	500	1000	2000	4000	6000
Toc ($\frac{D}{Q} \times O_c$)	$\frac{10,000}{500} \times 2400$	$\frac{10,000}{1000} \times 2400$	$\frac{10,000}{2000} \times 2400$	$\frac{10,000}{4000} \times 2400$	$\frac{10,000}{6000} \times 2400$
	$\frac{10,000}{600} \times 240$				
	48,000	24,000	12,000	6,000	4,000

ii. Determination of total holding cost

$$\text{Average Inventory} = Q/2$$

$$\text{Total holding cost} = Q/2 \times cc$$

Q.

		₦
500 =	$500/2 \times 20\% \times 2400$	= 120,000
1000 =	$1000/2 \times 20\% \times 2360$	= 236,000
2000 =	$2000/2 \times 20\% \times 2320$	= 464,000
4000 =	$4000/2 \times 20\% \times 2280$	= 912,000
6000 =	$6000/2 \times 20\% \times 2240$	= 1,344,000

INSIGHT

EXAMINER'S REPORT

The question tested candidates' ability to apply Economic Order Quantity (EOQ) in a manufacturing company. About 70% of the candidates attempted the question.

The performance is very poor with less than 10% of those that attempted the question scoring above 50% of the marks allotted to the question. Major pitfall being shallow knowledge of inventory control techniques

SOLUTION 2

ROLA NIGERIA LIMITED

Preparation of cost of the job

i. Based on Bid cost of the company

	₦
Materials & supplies	90,000
150% x ₦66,000	
Estimated Labour Hour:	
₦80 x 4,000 hrs	<u>320,000</u>
Total costs	<u>410,000</u>

ii. Based on the minimum cost of the job that is equal to the cost to be incurred to complete the job.

	₦
Materials & supplies	60,000
Labour payments on hourly rate	
4,000 hrs @ ₦35/hr	140,000
Fringe benefits:	
4,000hrs @ ₦12	48,000
Fixed (Avoidable cost (₦88,000 - ₦70,000))	<u>18,000</u>
Total cost	<u>266,000</u>

INSIGHT

iii. Based on full cost plus mark-up of 20%

	₦
Materials & supplies	60,000
Labour payment (4,000hrs @ ₦35hrs)	140,000
Fringe benefits (4,000hrs @ 12/hr)	<u>48,000</u>
Total variable costs	<u>248,000</u>
Fixed costs:	
Based on labour laws (4000 @ ₦10/hr)	<u>40,000</u>
Based on material & Supplies (80% x ₦60,000)	<u>48,000</u>
	336,000
Add:- 20% mark-up (20% x ₦336,000)	<u>67,200</u>
Total cost	<u>403,200</u>

EXAMINER'S REPORT

The question tested an aspect of specific order costing method. About 30% of the candidates that wrote this paper attempted the question. About 5% of those that attempted the question scored above 50% of the marks allotted to the question. Poor preparation must have accounted for the abysmally poor performance.

SOLUTION 3

AMEER NIGERIA LIMITED PREPARATION OF FLEXIBLE BUDGET FOR 2017

Level of Activity	80%	60%	90%
Units	400	3000	500
Selling price unit(N)	100	100	100
	₦	₦	₦
Total selling price	400,000	300,000	450,000

Less: variable costs

Direct Materials	40,000	30,000	45,000
Direct Labour	40,000	30,000	45,000
Direct Expenses	32,000	24,000	36,000
Selling & Distribution-variable	20,000	15,000	22,500
Variable Prod. Overhead	12,000	9,000	13,500
Admin Overheads	<u>16,000</u>	<u>12,000</u>	<u>18,000</u>
Total contribution	240,000	180,000	270,000

Less: Fixed costs (unit)

Production overheads	68,000	68,000	68,000
----------------------	--------	--------	--------

INSIGHT

Administrative overheads	64,000	64,000	64,000
Selling & distribution	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>
Net profit or loss	<u>48,000</u>	<u>(12,000)</u>	<u>18,000</u>

Q3. Workings:

Separation of semi variable costs

Level of activity	80%	60%	90%
Units	4000	3000	4500

	N	N	N
Production overheads			
Variable (N3 x	12,000	9,000	13,500
Fixed ($\frac{N17}{20}$ (4,000	68,000	68,000	68,000
units)			

Selling Distribution			
Variable (N5)	20,000	15,000	22,500
Fixed $\frac{15}{20}$ (4,000	60,000	60,000	60,000
units)			

Admin overhead			
Variable N4	16,000	12,000	18,000
Fixed N16 (4,000	64,000	64,000	64,000
units)			

EXAMINER'S REPORT

The question tested candidates' knowledge of flexible budgeting. About 90% of the candidates attempted the question but a little below 50% of those who attempted the question scored above 50% of the marks allotted to the question. The major pitfall being inability of candidates to prepare flexible budget correctly.

INSIGHT

SOLUTION 4

AJAY NIG. LIMITED

- a. Acceptance/Rejection of a special order, Should the company accept the special order at ₦100?

	TOTAL		PER UNIT	
	₦	₦	₦	₦
Selling price per unit		400,000		100.00
Less: variable costs				
Direct material	200,000		50.00	
Direct Labour	120,000		30.00	
Variable selling Expenses	30,000	350,000	7.5	87.50
Contribution per unit		50,000		12.50

The company should accept the special order of 4000 units at a price of ₦100 per unit, as it yields contribution of ₦50,000 (₦12.50 per unit).

- b. In the case of buying decision, where the product is not manufactured in AJAY NIG. LTD. The company should be willing to pay ₦87.50 (see workings) per unit.

Relevant cost of Production per unit

	₦
Direct material	50.00
Direct Labour	30.00
Variable factory overheads	<u>7.50</u>
Total variable production cost	<u>87.50</u>

INSIGHT

- c. If the selling price is reduced to ₦140 per unit and 10% increase in sales volume

No of units sold	<u>10,000</u>			<u>11000</u>
Selling price per unit	₦150			₦140
	₦	₦	₦	₦
Total sales value		1,500,000		1,540,000
Less: Variable costs:				
Direct material	500,000		650,000	
Direct Labour	300,000		330,000	
Variable factory overhead	75,000		82,500	
Variable selling expenses	<u>25,000</u>		<u>27,500</u>	
Total variable costs		(900,000)		<u>990,000</u>
Total contribution		<u>600,000</u>		<u>550,000</u>

If the proposal is accepted, the total contribution will be reduced from ₦600,000 to ₦550,000, therefore, the proposal should not be accepted.

EXAMINER'S REPORT

The question demanded for an application of marginal costing technique in solving short-term tactical decision. About 90% of the candidates attempted the question and almost 60% of those who attempted the question scored above 50% of the marks allotted to the question. Nonetheless, almost all the candidates that failed the question were unable to demonstrate the application of marginal costing technique in respect of cost behavior.

SOLUTION 5

- a. **Target Costing**

This is a costing technique where the product and the processes used to produce it are designed so that ultimately, the product can be manufactured at a cost that will enable the company to make profit, when the product is sold at an estimated market driven price. The estimated price is called "Target Price"

INSIGHT

b. **Activity Based Management**

This is the use of activity based costing to improve operations and to eliminate non-value added cost. The main goal of Activity Based Management is to identify and eliminate non-value added activities and costs.

c. **Value chain Analysis**

Value chain analysis is a means of achieving higher customer satisfaction, and meaning costs more effectively. It is the linked set of value creating activities all the way from basic raw-materials sources, components suppliers to the ultimate end-use product or source delivered to the customers.

d. **Life Cycle Costing**

Life cycle costing estimates and accumulates cost over a product's entire life cycle in order to determine whether the profits earned during the manufacturing phase will cover the costs incurred during the pre-and-post manufacturing stage.

e. **Kaizen Costing**

kaizen Costing is the process of cost reduction during the manufacturing phase of an existing product. The word 'KAIZEN' refers to continual and gradual improvement through small activities, rather than large or radical improvement through innovation or large investment technology.

f. **Advance Manufacturing Technology**

Advance Manufacturing Technology revolutionized the way products are manufactured especially in what is turned as World-Class-Manufacturers (WCM).

Advance manufacturing technology is a general expression uncompassing: Automated production technology, computer assisted design and manufacturing, flexible manufacturing systems, total quality control, advances in production management which includes materials requirement and manufacturing resources planning systems, Just-in-time-system etc.

g. **Material Requirement Planning**

This is a computerised information, planning and control system which has the objective of maintaining a smooth production flow. Material requirement planning includes, and concerned with;

i. Maximising the efficiency in the timing of order external suppliers.

INSIGHT

- ii. Efficient scheduling of manufacture and assembly of the final products.

The operations of materials requirement planning system are;

- i. A master production schedule showing the quantities and timings required for the finished product.
- ii. A bill of materials which shows the breakdown of each finished product into sub-assemblies components and raw materials.
- iii. An inventory file containing the balance on hand, scheduled receipts and numbers already allocated for each sub-assembly, components and type of raw materials
- iv. A parts manufacturing and practicing file containing lead times of all practiced items and lead times and production sequences of all sub- assemblies and components produced internally.

h. Total Quality Management

This is used to describe a situation where all business functions are involved in a process of continuous quality improvement, and has been adopted many companies. It is an act of overseeing all activities and tasks needed to maintain a described level of excellence. It includes the determination of a quality policy, creating and implementing quality planning and assurance, and quality control and quality improvement. The following are the principles of Total Quality Management.

- 1. Customer focused
- 2. Total employee involvement
- 3. Process centered
- 4. Integrated system
- 5. Strategic and system approach
- 6. Continual improvement
- 7. Fact-based decision making
- 8. Communications

EXAMINER'S REPORT

The question tested candidates understanding of recent developments in cost accounting. About 90% of the candidates that sat for this paper attempted the question albeit performance was poor. About 30% of those who attempted the question scored a little above 50% of the marks allotted to the question. The major pitfall is inadequate preparation for the examination.

INSIGHT

SOLUTION 6

HIGH-TREE MANUFACTURING CO. LTD

Dr.	Raw Material Control A/c		Cr.
	₦		₦
Bal b/d	488,360	Nominal ledger control A/c	10,000
Nominal ledger control a/c	224,220	Work in progress control A/c	170,000
		Costing profit or Loss A/c	13,000
		Bal c/d	<u>519,580</u>
	<u>712,580</u>		<u>712,580</u>
Bal b/d	519,580		

Dr.	Work - in - progress Control A/c		Cr.
	₦		₦
Bal b/d	47,450	Finished inventory A/c	368,340
Raw Material control A/C	170,000	Costing profit or Loss A/c	18,000
Factory overhead control A/C	117,860	Bal c/d	<u>232,670</u>
Direct wages control A/C	<u>183,700</u>		
	<u>619,010</u>		<u>619,010</u>
Bal b/d	232,670		

Dr.	Finished Inventory Control A/c		Cr.
	₦		₦
Bal b/d	219,800	Nominal ledger control A/c	420,000
Work - in - progress Control A/C	368,340	Bal c/d	198,140
Nominal ledger Control A/C	<u>30,000</u>	Bal c/d	<u>232,670</u>
	198,140		<u>618,140</u>

Dr.	Nominal Ledger Control A/c		Cr.
	₦		₦
Raw Material control A/c	10,000	Bal b/d	855,610
Costing profit or Loss A/C	420,000	Factory overhead control A/	117,860
Raw materials control A/C	31,000	Direct wages control A/C	183,700
WIP control A/C	18,000	Raw-material control A/C	224,220
Bad c/d	<u>950,390</u>	Finished inventory control A/C	<u>30,000</u>
	<u>1,411,390</u>		<u>1,411,390</u>

INSIGHT

EXAMINER'S REPORT

The question tested the concept of interlocking and integrated cost accounting system.

About 90% of the candidates attempted the question. 40% of those that attempted the question scored a little above 50% of the marks allotted to the question. Shallow knowledge of the concept of cost control accounting system is the major pitfall.

INSIGHT

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
PART III EXAMINATIONS – SEPTEMBER 2019
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. For a new trade, assessable profit for the second year is
 - A. Actual profit from commencement date to end of first accounting year end of the new trade
 - B. Assessable profit from January 1 to December 30
 - C. Profit of the first twelve months
 - D. Assessable profit from commencement to December 31, of the following year
 - E. Actual profit for the first fifteen months

2. The conditions to be satisfied to be able to exercise right of election by the taxpayer include the following, **EXCEPT**
 - A. Notice of Intention to exercise right must be given in writing to the Federal Inland Revenue Service
 - B. The election to be assessed on actual basis must be for the second and third years together
 - C. The notice must be given within two years after the end of the second year of assessment
 - D. Notice to revoke the right of election must be given in writing within twelve months after the end of the third year of assessment
 - E. The notice must be filed with the Federal Inland Revenue Service by a qualified accountant

3. In a situation of change of accounting date of a business, the Federal Inland Revenue Service
 - A. Exercises its discretion
 - B. Chooses between actual year and preceding year basis
 - C. Seeks the consent of the taxpayer on the basis of assessment to adopt

INSIGHT

- D. Identifies the two years of assessment next to the year of change
 - E. Calculates tax payable on actual year basis
4. Which of the following is **NOT** a tax collectable by State Governments in Nigeria?
- A. Value Added Tax
 - B. Pay - As - You - Earn
 - C. Pools betting and casino taxes
 - D. Naming of street registration fee
 - E. Capital Gains Tax
5. Which of the following is **NOT** a Capital Allowance?
- A. Investment allowance
 - B. Initial allowance
 - C. Annual allowance
 - D. Balancing allowance
 - E. Liquidity allowance
6. How many days after the assessment should an employer file a tax return to the tax authority in respect of it's employees?
- A. 60 days
 - B. 21 days
 - C. 30 days
 - D. 90 days
 - E. 10 days
7. Which of the following is **NOT** an expenses allowable by the Federal Inland Revenue Service in Capital Gains Tax assessment.
- A. Cost of acquisition
 - B. All cost incidental to purchase
 - C. Cost wholly, exclusively and necessarily incurred in establishing, preserving or defending the owner's title to a right over the asset
 - D. Cost of repairs before sale
 - E. Advertisement cost to find a seller/buyer
8. Under Section 24 of Capital Gains Tax Act CAP C1 of the Laws of the Federation of Nigeria (LFN) 2004, a company is connected with another company in the following cases, **EXCEPT** where
- A. The same person controls both

INSIGHT

- B. A person controls one company and persons connected with him control the other
 - C. The same group of persons controls both
 - D. The companies involved are in the same industry
 - E. One is controlled by a person who has control of the other in conjunction with persons connected with him
9. Tax laws in Nigeria include the following legislations, **EXCEPT**
- A. Personal Income Tax Act Cap. C21, LFN 2004 (as amended)
 - B. Petroleum Profits Tax Act Cap. P13 LFN 2004
 - C. Tertiary sports Institutions Tax Act Cap. C12 LFN 2004
 - D. Value Added Tax Act Cap. VI LFN 2004
 - E. Stamp Duties Act Cap. S8 LFN 2004
10. A cardinal objective of taxation is
- A. Revenue generation, income redistribution and economic growth
 - B. To serve as a monetary tool for development
 - C. To serve as a tool for curbing corruption
 - D. Social integration
 - E. Economic diversification
11. The principle of efficiency in tax administration means
- A. Convenience
 - B. Economy of collection
 - C. Effectiveness of collection
 - D. Revenue greater than cost of collection
 - E. Satisfactory
12. Which of the following is **NOT** on the State Board of Internal Revenue?
- A. A Director from State Ministry of Finance
 - B. A Legal Adviser from the State Ministry of Justice
 - C. The State Commissioner for Finance
 - D. The Directors and Heads of Departments within the Internal Revenue Service
 - E. The Secretary of State Internal Revenue Service
13. The composition of Local Government Revenue Committee includes
- A. Two Local Government Councillors
 - B. Three Local Government Councillors
 - C. Local Government Chairman and two Councillors

INSIGHT

- D. Two other persons experienced in revenue matters and are party members
 - E. The Director for Finance as Chairman
14. The duty of the Joint State Revenue Committee is **NOT** to
- A. Implement the decisions of the Joint Tax Board
 - B. Enlighten members of the public generally on State and Local Government Revenue matters
 - C. Carry out such other functions as may be prescribed from time to time by the Joint Tax Board
 - D. Harmonise tax administration in the State
 - E. Recommend and effect punishment for tax offences
15. Which of the following is **NOT** exempted from Value Added Tax?
- A. Income from betting
 - B. Medical services
 - C. All exported services
 - D. Baby products
 - E. Books and educational materials
16. Payment of Value Added Tax should be effected not later than..... following the month of transaction
- A. 30 days
 - B. 20 days
 - C. 21 days
 - D. 10 days
 - E. 5 days
17. Which of the following is **NOT** a disadvantage of Withholding Tax?
- A. A high rate of withholding tax will adversely affect operational performance of most business
 - B. It is likely to discourage hard work by Revenue Officers since it is self accounting in nature
 - C. It is a source of additional revenue for government use
 - D. It leads to the locking up of capital of some businesses with the Revenue agencies
 - E. The application of withholding tax affects the cash flow of most businesses
18. The Withholding Tax for companies on all aspects of construction contract is
- A. 5%
 - B. 25%

INSIGHT

- C. 2½%
D. 10%
E. 20%
19. Which of the following is referred to as Benefits-in-Kind?
- A. The official non-monetary remuneration of an employee
 - B. Benefits from different angles
 - C. The official allowance of the management staff
 - D. The remuneration of the management staff
 - E. The official end of year bonus of employee
20. Which of the following is **NOT** a Personal Income Tax Laws in Nigeria?
- A. Taxation of employees
 - B. Taxation of sole traders
 - C. Taxation of small limited liability companies
 - D. Taxation of Estate, Trusts and settlement
 - E. Partnership assessment
21. Which of the following will **NOT** apply in amalgamation of two or more partnerships?
- A. There would be no application of commencement rule
 - B. There would be no application of cessation rule
 - C. Transferred qualifying capital expenditure to new partnership is deemed to be transferred at Actual Cost
 - D. Only annual allowance is claimable on transferred qualifying capital expenditure
 - E. There would be no computation of balancing allowance
22. Which of the following is **NOT** a change in partnership structure for tax purposes?
- A. Death of an old partner
 - B. Amalgamation of two or more partnerships
 - C. Retirement of an old partner
 - D. Relocation of a partner to another town
 - E. Admission of a new partner
23. Which of the following is **NOT** chargeable to tax in the hands of a partner in a partnership?
- A. Interest received on the firm's fixed bank deposit

INSIGHT

- B. Interest on capital
 - C. Share of profit
 - D. Salaries
 - E. Leave passages
24. Which of the following is **NOT** among the uses of Tertiary Education Tax Fund?
- A. Provision of essential physical infrastructure for teaching and learning
 - B. Academic staff training and development
 - C. Provision of instructional materials and equipment
 - D. Payment of academic staff emoluments
 - E. Research and Journal publication
25. The disbursement of Tertiary Education Tax revenue for a year among the Universities, Polytechnics and Colleges of Education respectively is
- A. 50%, 25%, 25%
 - B. Ratio 4 : 3 : 3
 - C. 50%, 30%, 20%
 - D. 60%, 20%, 20%
 - E. 70%, 15%, 15%
26. Which of the following is **NOT** a member of the Tertiary Education Tax Board of Trustees?
- A. A member from Proprietors Association
 - B. A representative from the Universities
 - C. A representative from the Polytechnics
 - D. A representative from the Colleges of Education
 - E. The Executive Secretary of Tertiary Education Tax Fund
27. Which of the following is **NOT** a basis of computing Companies Income Tax payable?
- A. Normal basis
 - B. Minimum Tax basis
 - C. Turnover basis
 - D. Accrual basis
 - E. Dividend basis
28. Which of the following is **NOT** exempted from taxation?
- A. Dividend received from a pioneer company

INSIGHT

- B. Dividend by way of a bonus issue of share
 - C. Dividend from a Trust Scheme
 - D. Dividend from ordinary course of business
 - E. Dividend received by a company from another one
29. In Nigeria, the taxation of companies is charged at the rate of
- A. 33%
 - B. 30%
 - C. 28%
 - D. 31%
 - E. $33\frac{1}{3}\%$
30. The responsibility for taxation of all Limited Liability Companies in Nigeria is vested in
- A. State Board of Internal Revenue
 - B. Federal Inland Revenue Service Board
 - C. Joint Tax Board
 - D. Internal Revenue Office
 - E. Stamp Duties Office

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

ATTEMPT ALL QUESTIONS

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

1. The tax principle that recommends non distortion of economic choices is.....
2. Ad-Valorem tax is an example of.....
3. Payments to generate revenue to government and confer a peculiar advantage on the tax payer is called.....
4. Division of a tax burden between buyers and sellers is called.....
5. Quorum of the meeting of the Joint Tax Board is.....

INSIGHT

6. The penalty for the offence of failure to keep proper records under the Value Added Tax Law in Nigeria is.....
7. Contribution to a Pension Fund must be approved by.....before it can be allowed as an expense for tax purposes.
8. For the purposes of ascertaining the Total Profit or Loss of any company, only expenses incurred wholly, necessarily,..... and reasonably.
9. In Nigeria, the taxation of Companies is administered by.....
10. In the taxation of foreign air and sea transport companies, Minimum Tax should not be less than.....of the full sums receivable in respect of the carriage of passengers, mails, livestock or goods shipped or loaded into aircraft in Nigeria.
11. All taxpayers involved in real estate transactions are required to register for Value Added Tax with the relevant tax authority within.....
12. In agricultural business “Average Standard Cultivation” plays an important role when the business performance is below.....
13. Capital Gain Tax relating to a Limited Liability Company is payable to.....
14. Under Capital Gains Tax administration in Nigeria, consideration for asset acquired or disposed of shall be deemed to be equal to thevalue of the asset where any person acquires the asset otherwise than by way of bargain made at arms length.
15. Capital Gains on the disposal of a landed property through acquisition by government is exempted from Capital Gains Tax.

INSIGHT

16. When an asset is disposed of, the asset is removed at.....from the Capital Allowances computation table.
17. Balancing adjustments in Capital Allowance computation include..... and.....
18. Current Year Loss Relief is applicable only to.....
19. Carry Forward Loss relief applies to both and.....
20. Revenue's option to revise an assessment to actual basis on cessation of business is for.....

SECTION B: ATTEMPT ANY FOUR QUESTIONS (50 Marks)

QUESTION 1

- a. List **SEVEN** sources of Nigeria tax laws and practices. (3½ Marks)
- b. Explain **FOUR** differences between Taxes and Levies. (4 Marks)
- c. Briefly explain the following terms:
 - i. Tax yield (1 Mark)
 - ii. Tax incidence (1 Mark)
 - iii. Tax impact (1 Mark)
 - iv. Tax shift (1 Mark)
 - v. Tax effect (1 Mark)

(Total 12½ Marks)

QUESTION 2

- a. List **SEVEN** members of the Federal Inland Revenue Service Board (FIRSB) and briefly explain **FIVE** duties of the Board. (8 Marks)
- b. Explain the penalty for failure to pay tax in Nigeria and list **FIVE** items to be disclosed in a Tax Clearance Certificate in respect of the last three years of assessment (4½ Marks)

(Total 12½ Marks)

INSIGHT

QUESTION 3

- a. Olori Limited for many years prepared accounts to 31 December, but in 2014, it decided to prepare a sixteen – month accounts to 30 April. The adjusted profits are as follows:

	₦
12 months to 31 December 2010	500,000
12 months to 31 December 2011	360,000
12 months to 31 December 2012	420,000
16 months to 30 April 2014	750,000
12 months to 30 April 2015	144,000

Required:

Compute the Assessable Profits for the relevant years of assessment having regard to the provisions of the law and the practice of the Revenue
(6¹/₂Marks)

- b.
- (i) List the chargeable incomes of an individual under the Personal Income Tax Act C8 LFN 2004 (as amended). (3 Marks)
- (ii) List the contents of Notice of Appeal on Personal Income Tax Assessment. (3 Marks)
- (Total 12¹/₂ Marks)**

QUESTION 4

- a. Sherere Farms Nigeria Limited purchased a chargeable asset on hire-purchase. The deposit paid for the purchase was ₦450,000. The balance of the purchase price was to be paid in twenty-four monthly instalments of ₦45,000 each. The cash price of the asset is ₦1,290,000.

Required:

Calculate the Capital Gains Tax due assuming the assets were sold for ₦1.4million after full payment of all the instalments.
(5 Marks)

- b. Define ‘Artificial Transaction’ under the Capital Gains Tax Act CAP C1 (LFN 2004. How will the relevant tax authority treat such a case?
(3 Marks)
- c. List **THREE** services and **FIVE** goods that are exempted from Value Added Tax in Nigeria.
(4¹/₂ Marks)
- (Total 12¹/₂ Marks)**

INSIGHT

QUESTION 5

- a. Mr. Oba owns a property in Lagos from where he earns rental Income of ₦2million annually. He received ₦4million on September 1, 2016 as two years' rent in advance from his tenant.

Mr. Oba incurred the following expenses on the building:

- (i) Water rates ₦80,000 per year
(ii) Insurance ₦120,00 per year

Capital allowances granted on the building amounted to ₦70,000 for the 2017 assessment year. The water rates were paid in 2016 and 2017 at 40% and 60% respectively.

Required:

- Compute Mr. Oba's chargeable rental income for the assessment year 2017. (7 Marks)
- b. State the Relevant Tax Authority in relation to a Trust or settlement. (2 Marks)
- c. Explain the basis of assessment and payment of Taxes on Investment Income. (3½ Marks)
- (Total 12½ Marks)**

QUESTION 6

- a. Triplex Limited has been in business for many years and engaged in the marketing and sales of textile materials.

Its result for the year ended 31 December 2017 revealed the following:

Statement of Profit or Loss

	₦
Turnover	7,504,000
Cost of sales	<u>3,108,000</u>
	4,396,000
Less: Overhead expenses	<u>3,848,000</u>
Net profit	<u>548,000</u>

Notes

1. Overhead expenses include	₦
• Share issue expenses	15,000
• Loss on realising of Non-current asset	25,000
• Depreciation	400,000
2. Revenue was overstated by	20,000
3. Capital allowance for the year	450,000

INSIGHT

4.	Unabsorbed capital allowance brought forward	404,000
5.	Unrelieved loss brought forward	120,000

**Statement of Financial Position as at 31 December 2017
(Extract)**

	₤
Non Current Asset	2,458,000
Current Assets	<u>6,849,000</u>
Total Assets	<u>9,307,000</u>
Financed by:	
Share capital	1,000,000
Capital Reserve	1,345,000
General Reserve	<u>985,000</u>
Total Equity	3,330,000
Current Liabilities	4,382,999
Long Term Loans	<u>1,594,001</u>
Total Equity and Liabilities	<u>9,307,000</u>

Required:

Compute the Companies Income Tax liability for the relevant year of assessment. (7¹/₂ Marks)

- b. List **FIVE** examples each of allowable and disallowable expenses under Companies Income Tax Act (CITA) CAP C21 LFN 2004 (as amended). (5 Marks)

(Total 12¹/₂ Marks)

INSIGHT

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		
-Agric. Production	95	Nil
- Others	50	25

2. INVESTMENT ALLOWANCE

10%

3. RATES OF PERSONAL INCOME TAX

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

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

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

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

INSIGHT

SOLUTIONS

MULTIPLE – CHOICE SOLUTIONS

1. C
2. E
3. A
4. A
5. E
6. A
7. D
8. D
9. C
10. A
11. D
12. C
13. B
14. E
15. A
16. C
17. C
18. C
19. A
20. C

INSIGHT

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

EXAMINER'S REPORT

These questions spread across the entire syllabus. All the candidates attempted the questions. The general performance was impressive.

SHORT ANSWER SOLUTIONS

- 1. Neutrality
- 2. Indirect tax
- 3. Levies
- 4. Tax Incidence
- 5. Any seven members of their representatives
- 6. Penalty of N2,000 for every month of failure
- 7. Joint Tax Board
- 8. Exclusively

INSIGHT

9. FIRS
10. 2%
11. 6 months
12. Expectation
13. Apportioned - FIRS
14. Market value
15. Compulsory
16. Tax Written Down Value
17. Balancing Charge and balancing allowance
18. Individuals
19. Individuals and Companies
20. Penultimate year

EXAMINER'S REPORT

These are standard questions. They covered the entire syllabus. All the candidates attempted the questions and the general performance was above average.

SOLUTION 1

- (a) Sources of Nigeria tax laws and practices include the following:
- i. Federal Government Acts and the State Government Laws
 - ii. Opinion of Income tax experts and authors in so far as the courts take judicial notice of them
 - iii. Court judgments until overruled
 - iv. Departmental and official circulars
 - v. Customary laws
 - vi. Practices of the Revenue department
 - vii. Accepted recommendations of Commission of Inquiry
 - viii. The Constitution

INSIGHT

- (b) Differences between taxes and levies include the following:
- i. Taxes are not levied in return for any specific service rendered by government to the tax payer, however levies are paid to the government in return for specific services rendered by government to the taxpayer.
 - ii. Taxes are compulsory, but not punitive where as levies may be punitive.
 - iii. All forms of taxes can be described as levies since they constitute imposition, but not all levies can be described as taxes.
 - iv. Taxes do not confer a special advantage on the taxpayer, while levies such as fees confer special advantages on a taxpayer.
- (c)
- i. Tax yield is the excess of tax revenue over cost of collection.
 - ii. **Tax incidence:** Tax incidence is the decision of a tax burden between buyers and sellers revealing the person that will pay the tax liability.
 - iii. **Tax impact:** This is the effect of a tax on the production or consumption of the product being taxed.
 - iv. **Tax shift:** Is a change in taxation that eliminates or reduces one or several taxes and establishes or increases others, while keeping the overall revenue the same. It is also known as Tax Swap.
 - v. **Tax effect:** Is a term that describes the consequences of a specific tax scenario with respect to a particular tax-paying entity.

EXAMINER'S REPORT

This is a three-part question, testing candidates' knowledge of the tax laws, levies and some basic taxation terms. About 98 percent of the candidates attempted the question. The general performance was satisfactory. The candidates showed fair understanding of the question.

SOLUTION 2

- (a) Members of Federal Inland Revenue Services Board (FIRSB) include the following persons:
- i. The Directors and Heads of Departments of the services.

INSIGHT

- ii. An Executive Chairman who shall be a person within the service experienced in taxation to be appointed by the president.
- iii. The Officer from time to time holding or acting in the post of Director with the responsibility for planning, research and statistics matters in the Federal Ministry of Finance.
- iv. A member of the Board of the National Revenue Mobilisation, Allocation and Fiscal commission.
- v. A member from the Nigeria National Petroleum Corporation, not lower in rank than an Executive Director.
- vi. A Director from the National Planning Commission.
- vii. A Director from the Department of Customs and Excise.
- viii. The Registrar – General of the Corporate Affairs Commission (CAC).
- ix. The Legal Adviser who shall be an ex-officio members of the Board.

Duties of the Federal Inland Revenue Service Board (FIRSB) include the following:

- i. Advising the Federal Government through the Minister of Finance on tax matters.
- ii. Assessment and collection of companies income tax.
- iii. Issuing instructions on the financial aspects of assessment includes interpretation on income tax Acts.
- iv. Reviewing and approving the strategic plans of the service.
- v. Employ and determine the terms and conditions of service including disciplinary measures of the employees of the service.
- vi. Do such other things, which in its opinion are necessary to ensure the efficient performance of the functions of the service under the Act.

(b) If a taxpayer fails to timely pay tax due and the failure continues for more than three months after the deadline, the minimum penalty for the failure is 10% of the unpaid tax, increased by ten percent (10%) per month (or part of a month) during which the tax remains unpaid, not to exceed two hundred percent (200%) of the unpaid tax. For wilful failure to pay the penalty is doubled with possible term of imprisonment of up to ten (10) years.

INSIGHT

The following items are disclosed in a tax clearance certificate:

- i. Name, address and taxpayer's identification number (TIN) of the company
 - ii. Total profits or chargeable income
 - iii. Tax payable
 - iv. Tax paid
 - v. Tax outstanding or alternatively a statement to the effect that no tax is due
 - vi. Nature of business
 - vii. Type of assessment
 - viii. Expiry date
- (c) **Tax avoidance:** Is a situation by which a taxpayer who is armed with the knowledge of all the available and operating tax laws and regulations in a tax territory takes advantages of some or all the lapses or loopholes that are inherent in these tax laws and regulations to pay lesser tax.
- Tax evasion:** Wilful and illegal contravention of tax laws of a territory in order to dodge tax payment. Tax evasion is criminal and punishable under relevant laws.

EXAMINER'S REPORT

This is a two-part question. Part 'a' tested candidates' knowledge on the composition and duties of the Federal Inland Revenue Service Board.

The part 'b' tested candidates' knowledge on the penalty for failure to pay tax and items disclosed in a Tax Clearance Certificate.

About 90 percent of the candidates attempted the question. The general performance was satisfactory.

INSIGHT

SOLUTION 3

(a)

Year of Assessment	OLORI LIMITED Computation of Assessable profit Old Basis Basic Period	Assessable profit ₦
2013	1/1/2012 – 31/12/2012	420,000
2014	1/1/2013 – 31/12/2013 (¹² / ₁₆ X 750,000)	562,500
2015	1/1/2014 – 31/12/2014 (⁴ / ₁₆ X 750,000) + (⁴ / ₁₆ X 144,000)	<u>235,000</u>
		<u>1,218,000</u>

OLORI LIMITED
Computation of Assessable profit for the relevant Years of Assessment

Year of Assessments	Basis periods	Workings	Assessable Profits (₦)
2011	01/01/2010 – 31/12/2010	Given	500,000
2012	01/01/2010 – 31/12/2011	Given	360,000
2013	01/05/2010 – 30/04/2012	(Wk 2)	380,000
2014	01/05/2010 – 30/04/2013	(Wk 2)	467,500
2015	01/05/2010 – 30/04/2014	(Wk 2)	562,500
2016	01/05/2014 – 30/04/2015	Given	144,000

WORKINGS

(Wk1) Assessable profits for 2013, 2014 and 2015 Tax years (using old date -31 December)

Tax years	Basic periods	Workings	Assessable profits (₦)
2013	01/01/2012 31/12/2012	- Given	420,000
2014	01/01/2013 31/12/2013	- (¹² / ₁₆ x ₦750,000)	562,500
2015	02/01/2014 01/12/2014	-	
	01/01/2014 30/04/2014	- (⁴ / ₁₆ x ₦750,000)	187,500
	01/05/2014 31/12/2014	- (⁸ / ₁₂ x ₦144,000)	96,000
		Total assessable profits	<u>1,266,000</u>

INSIGHT

(Wk2) Assessable profits for 2013, 2014 and 2015 Tax years (using new date -30 April)

Tax years	Basic periods	Workings	Profits (R)
2013	01/05/2011 - 30/04/2012:		
	01/05/2011 - 31/12/2011	(8/12 x R 360,000)	240,000
	02/01/2012 - 30/04/2012	(4/12 x R 420,000)	140,000
	01/05/2012		} 380,000
2014	30/04/2013:		
	01/05/2012 - 31/12/2012	(8/12 x R 420,000)	280,000
	01/01/2012 - 30/04/2013	(4/16 x R 750,000)	187,500
2015	01/05/2013 - 30/04/2014	(12/16 x R 750,000)	<u>562,500</u>
		Total assessable profits	<u>1,410,000</u>

Decision: The Tax Authority will assess 2013, 2014 and 2015 Tax Years on Preceding Year Basis using New dates (30 April each year) because it gives a higher Total Assessable Profits of ~~R~~1,410,000 compared to the total assessable profit using the old dates in WK 1).

- (b) i. The chargeable income of an individual under the Personal Income Tax Act 2004 (as amended) include the following:
1. Gains and profit from any trade, business, profession or vocation
 2. Employment income such as salaries, wages, fees and allowance
Employment income chargeable to tax should exclude gratuity because gratuity is not taxable
 3. Interests and commissions, annuities and royalties
 4. Gains and profits resulting from rent or property, and
 5. Share options granted to employees
- ii. Notice of Appeal on Personal Income Tax contains the following:
- (a) The name and address of the applicant
 - (b) The official date and number of the relevant notice of assessment
 - (c) The amount of the assessable, total or chargeable income and of the tax charged as shown by the notice and the year of assessment concerned
 - (d) The precise grounds of appeal against the assessment
 - (e) The date on which the applicant was served with Notice of Refusal by the relevant tax authority to amend the required assessment and
 - (f) The address for service of any notice of other documents for the applicant.

INSIGHT

EXAMINER'S REPORT

This is a standard two-part question. Part 'a' tested candidates' knowledge on change of accounting date. Part 'b' is on chargeable income and contents of Notice of Appeal. About 98 percent of the candidates attempted the question and the general performance was above average.

SOLUTION 4

(a) **Sherere Farms Nigeria Limited**
Computation of Capital Gains Tax
Disposal after full payment

	N'000	N'000	N'000
Sales price			1,400
Less cost of asset			
Deposit		450	
Instalments paid (24 x N45,000)	1,080		
	<u>(240)</u>	<u>840</u>	
		<u>1,290</u>	<u>(1,290)</u>
Capital Gains			<u>110</u>
Capital Gains Tax at 10% of thereof			<u>11</u>

(b) **Meaning of Artificial or Fictitious Transaction**

Transactions between connected persons shall be deemed to be artificial or fictitious, if in the opinion of the Board on terms which might fairly have been expected to have been made by persons engaged in the same or similar activities dealing with one another at arm's length.

Where the board is of the opinion that any disposition is an artificial or fictitious transaction, it shall disregard such disposition and may direct that such adjustments shall be made with respect to the liability of any person for the payment of Capital Gains Tax as it considers appropriate so as to counteract the reduction of liability to Capital Gains Tax effected or reduction which would otherwise be effected, by the transaction and any person concerned with such transaction shall be assessable accordingly.

INSIGHT

- (c) i. The following are exempted from value added tax assessment in Nigeria.

Services

1. Medical services
2. Services rendered by Community Banks and Mortgage Institutions
3. Plays and performances conducted by educational learning Institutions
4. All exported services

Goods

1. All medical and pharmaceutical products
2. Basic food items
3. Books and educational materials
4. Baby products
5. Fertilisers locally produced, agricultural and veterinary medicine
6. All exports
7. Plant and machinery imported for use in the Export Processing Zone
8. Plant, machinery and equipment purchased for utilisation of gas in downstream petroleum operations
9. Tractors, ploughs, agricultural equipment purchased for agricultural purposes

EXAMINER'S REPORT

This is a good three-part question. Part 'a' is computation question on Capital Gains Tax whilst part 'b' tested candidates' knowledge on 'Artificial Transaction' under the Capital Gains Tax Act. Part 'c' is on services and goods exempted from Value Added Tax.

About 90 percent of the candidates attempted the question. The performance was above average in part 'a' and part 'b'. About 60 percent of those that attempted part 'c' could not identify services and goods exempted from VAT.

INSIGHT

SOLUTION 5

(a) **Computation of chargeable rental
Income for the 2017 year of assessment**

	N'000	N'000
Income received ($\frac{2}{24} \times \text{N}4,000,000$)		666,667
Deduct:		
Water rates ($\frac{4}{12} \times \text{N}80,000$)	26,667	
	<u>40,000</u>	<u>66,667</u>
	<u>66,667</u>	
Net income		600,000
Less capital allowance		<u>70,000</u>
Chargeable rental income		<u>530,000</u>

(b) The relevant tax authority in relation to a trust or settlement shall be:

1. The tax authority of a state where all the income of the trust or settlement emanates from the stage only.
2. The Federal Inland Revenue Services where the incomes of the trust or settlement arises from more than one tax territory.

(c) Investment income are incomes received primarily from investment decisions, examples of investment income include:

The basis of assessment of investment income is the preceding year basis. The assessment income from each year of assessment is the income of the year immediately preceding the year of assessment.

Taxes on investment income are paid to the relevant tax authority of the tax territory in which the recipient of the investment income resides, if the recipient is non-resident in Nigeria the Federal Capital Territory is the relevant tax authority.

EXAMINER'S REPORT

This is a question on rental income, trust or settlement and investment income. About 25 percent of the candidates attempted the question. The general performance was below average.

The major pitfall is lack of adequate knowledge of Investment Income. Candidates are advised to study all aspects of the syllabus before sitting for the examinations.

INSIGHT

SOLUTION 6

(a) **Triplex Limited**
Computation of Income tax for the year ended 31/12/2015
(Assessment year 2016)

	N'000	N'000
Profit per account		548,000
Add:		
Depreciation	400,000	
Share issue expenses	15,000	
Loss on realising of non-current assets	<u>25,000</u>	<u>440,000</u>
		988,000
Less:		
Overstated revenue		<u>20,000</u>
Adjusted profit		968,000
Deduct:		
Unrelieved loss brought forward		<u>120,000</u>
		848,000
Capital allowances for the year	450,000	
Unabsorbed capital allowance brought forward	<u>404,000</u>	
	854,000	
Restricted to $66 \frac{2}{3} \times 968,000$	<u>(645,333)</u>	<u>(645,333)</u>
Unrelieved capital allowance of	<u>208,667</u>	
Assessable profit		<u>202,667</u>
Income tax payable		
Higher of @ 30% x 202,667 =	N60,800	
@ Minimum tax w1 =	N33,380	
Income tax payable =	N60,800	

INSIGHT

Computation of minimum tax

Workings

	N'000	N'000
(a) 0.5% of gross profit (N 439,000)		21,980
(b) 0.5% of net assets (N 4,924,001)		24,620
(c) 0.25% of paid up capital (N 1,000,000)		2,500
(d) Turnover 0.25% of N 500,000		1,250
0.125% of (N 7,504,000 - N 500,000)	8,755	
Add highest of a - d	<u>24,620</u>	
	33,375	

(b) Allowable expenses under Company Income Tax Act (CITA) CAP C 21 LFN 2004 (as amended) are as follows:

1. Interest on money borrowed or employed as capital in generating the profits of the company.
2. Rent and premium paid by the company for the period of assessment in respect of land or building, occupied and used for the purpose of generating the profit.
3. Salaries, wages or remuneration as well as any benefits-in-kind or allowance granted by the company to senior staff subject to the approval of the Federal Ministry of Labour, employment and productivity.
4. Repairs and renewal in respect of premises, plant, machinery or fixtures, implements, utensils or articles employed in acquiring the profit.
5. Bad debts incurred in the course of trade or business proved to have become bad, during the period and specific provision for doubtful debts.
6. Research and development expenses incurred by the company for the period including levy payable to National Science and Technology Fund.
7. Allowable donations as stipulated under Section 25 CITA.

Specific disallowable expenses under company Income Tax computation in Nigeria include:

1. Capital repaid or withdrawn and any expenditure of a capital nature.
2. Sums recoverable under an insurance or contract of indemnity.

INSIGHT

3. Taxes on income or profits, except tax levied outside Nigeria on profits, which are also chargeable to tax in Nigeria and in respect of which double tax relief is not available.
4. Depreciation
5. Expenses incurred in earning management fees unless prior approval of an agreement giving rise to the management fees has been obtained from the Minister of Finance.
6. Management fees, unless under an agreement for which prior approval of the Minister of Finance has been obtained.

(c) Examples of profits or incomes exempted from tax under the Company Income Tax Act (CITA) CAP. C. 21 LFN 2004 (as amended) are as follows:

1. Dividend distributed by a unit trust
2. Profits of company engaged in petroleum operations within the meaning of Section 2 of Petroleum Profits Tax Act CAP P13 LFN 2004.
3. Dividend, interest, rent, royalty derived by a company from a country outside Nigeria and brought into Nigeria through the Central Bank of Nigeria or an authorised dealer under the Second Tier Foreign Exchange Market Act.
4. Interests on deposit account of a foreign non-resident company provided the deposits are in respect to foreign currencies transferred into the account on or after 1 January, 1990 through government approved channels.
5. Dividend received from investments in wholly export oriented business.
6. Dividend received from small companies engaged in manufacturing during the first five years of their operations.
7. Franked Investment Income.

EXAMINER'S REPORT

This is a good two-part question. Part 'a' is a computation question on Companies Income Tax Liability and part 'b' tested candidates' knowledge on allowable and disallowable expenses.

About 70 percent of the candidates attempted the question.

The general performance was below standard. The general pitfall was lack of proper knowledge of the computation of Companies Income Tax Liability.

INSIGHT

INSIGHT

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
PART III EXAMINATIONS – SEPTEMBER 2019**

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. A situation where there is a conflict of interest between individual goal and the business objective is termed as
 - A. Goal incongruence
 - B. Management congruence
 - C. Goal setting
 - D. Ease of expansion
 - E. Accumulated tension
2. The type of growth that occurs when a firm expands through selling more of its existing products or services is known as
 - A. External growth
 - B. Organic growth
 - C. Intermediate growth
 - D. Steady growth
 - E. Expansion growth
3. The concept “Corporate Governance” is required for the purposes of ensuring
 - A. Fairness
 - B. Profitability
 - C. Adjustment
 - D. Benchmarking
 - E. Punctuality
4. Management is about formulating business strategies for the company while..... is the responsibility of the Board of Directors and other Senior Managers for strategic decision making
 - A. Tactical management
 - B. Corporate governance
 - C. Human resources management

INSIGHT

- D. Organisational commitment
- E. Product design
- 5. The concept that affords Managers the opportunity to acquire a foreknowledge of what lies ahead in order to cope with their business environment is called
 - A. Forecasting
 - B. Environmental scanning
 - C. Budgeting
 - D. Environmental scanning and budgeting
 - E. Planning
- 6. The process of educating and informing employees on preventive and protective measures capable of making them more safety conscious is
 - A. Health talk
 - B. Health and safety training
 - C. Safety management
 - D. Induction training
 - E. Employee training and development
- 7. Hazards in the workplace can be prevented by designing and installing equipment and protective devices
 - A. Camera
 - B. Safety
 - C. Reflective
 - D. Magnetic
 - E. Electric
- 8. Which of the following is **NOT** usually considered while designing a form in an organisation?
 - A. Content
 - B. Language
 - C. Purpose
 - D. Delivery charges
 - E. Ease of processing
- 9. Which of the following is **NOT** a characteristic of an effective control system?
 - A. Timely
 - B. Focused on strategic control points
 - C. Take punitive action
 - D. Objective and comprehensible
 - E. Accurate information

INSIGHT

10. Which of the following is **NOT** included in the PERT steps?
 - A. State the first event of the task
 - B. List the events that follow the first one
 - C. Understand the project
 - D. Chart all the events needed to complete the project
 - E. Determine the amount of time it takes to complete each activity
11. Which of the following is a job evaluation method?
 - A. Time rate system
 - B. Ranking
 - C. Rating scale
 - D. Assessment by co-employees
 - E. Points system
12. Which of the following is **NOT** a financial incentive pay system?
 - A. Stock ownership scheme
 - B. Commission
 - C. Employee compensation
 - D. Bonuses
 - E. Piece rate
13. Which of the following is **NOT** a function of Human Resource Management?
 - A. Performance appraisal
 - B. Industrial relations
 - C. Training and development
 - D. Employee compensation
 - E. Job rotation
14. Which of the following is **NOT** a process of understanding behaviour of consumers?
 - A. Identifying and evaluating market opportunities
 - B. Determining appropriate distribution channels
 - C. Designing promotion and communication strategies
 - D. Determining quantity demanded
 - E. Selecting pricing methods
15. Which of the following is **NOT** a criteria employed by consumers to judge the quality of a product?
 - A. Physical attributes
 - B. Physical quantity
 - C. Product price

INSIGHT

- D. Company image
 - E. Country of production
16. Which of the following is **NOT** a factor that can influence product pricing?
- A. Cost of production
 - B. Cost of supply
 - C. Nature of demand
 - D. Margin paid distributors
 - E. Competitors
17. The system by which businesses producing variety of goods and services are concentrated at a certain area is called
- A. Business geography
 - B. Plant size
 - C. Plant sample
 - D. Facility factory
 - E. Facility plant location
18. The tool employed to monitor the quality of an organisation's product with respect to industry practices is
- A. Inspection
 - B. Monitoring
 - C. Inventory
 - D. Benchmarking
 - E. Controlling
19. Which of the following is **NOT** a feature of Bureaucracy?
- A. Division of labour
 - B. Authority hierarchy
 - C. Formal selection and training
 - D. Formal rules and controls
 - E. Charismatic leadership
20. The theory stating that the task of Managers is to try to identify which technique will in a particular situation, under particular circumstances and at a particular time, best contribute to the attainment of management goals is known as
- A. System
 - B. Contingency
 - C. Human relations

INSIGHT

- D. Bureaucracy
 - E. Scientific
21. Economic measure of efficiency that summarises the value of outputs relative to the value of inputs used to create them is called
- A. Production
 - B. Productivity
 - C. Promotion
 - D. Profit
 - E. Possibility
22. The managerial role that is characterised by transmitting information to various people and groups outside the organisation is
- A. Leader
 - B. Liaison
 - C. Spokesperson
 - D. Negotiator
 - E. Figure head
23. Which of the following is a standing plan?
- A. Strategic plan
 - B. Tactical plan
 - C. Human resource plan
 - D. Production plan
 - E. Policies
24. An organisation that is characterised by clearly defined roles, jobs, hierarchical structure, rules, procedures and pattern of relationships is
- A. Formal
 - B. Informal
 - C. Functional
 - D. Standardised
 - E. Operational
25. The 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 is
- A. Matrix organisation
 - B. Bureaucratic organisation
 - C. Technological organisation

INSIGHT

- D. Product cycle
 - E. Line organisation
26. The extent to which expectation and norms are made explicit is called
- A. Environmental uncertainty
 - B. Formalisation
 - C. Centralisation
 - D. Role clarity
 - E. Decision making
27. Which of the following is **NOT** technique of coordination?
- A. Coordination by simplified organisation
 - B. Coordination by communication
 - C. Coordination by meeting
 - D. Coordination through liaison roles
 - E. Coordination through authority
28. Which of the following is **NOT** an accounting package?
- A. E-view
 - B. Sage
 - C. Peachtree
 - D. Poise
 - E. Debtor manager
29. A leader who secures a leadership position by what he or she does is aleader
- A. Visionary
 - B. Transformational
 - C. Functional
 - D. Transactional
 - E. Charismatic
30. Standards of behaviour that a group accepts and expects from its members is known as
- A. Norms
 - B. Roles
 - C. Customs
 - D. Morals
 - E. Motives

INSIGHT

**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 business that is owned, managed and controlled by an individual is called
.....
2. The coming together of two or more individuals with an agreement to organise and operate an enterprise jointly with profit as their main motive is known as.....
3. Which model is an easy non-quantitative technique used in identifying the critical elements of an entity's external environment?
4. The general guidelines that refers to values and ethical standards which should be used by managers to guide their decisions is called.....
5. Filing refers to the systematicof documents such that they may be retrieved later for references.
6. The systematic attempt to increase productivity of an organisation by improving procedures, methods, systems and organisation structure is known as.....
7. The control that is implemented before operations actually begin is called.....
8. What is the full meaning of PERT?
9. The process of considering present employees as applicants for available positions in an organisation is called.....
10. The process of equipping employees with knowledge, skills and attitudes they need to perform their jobs effectively and preparing them for future careers is referred to as

INSIGHT

11. The process by which an organisation determine what, how and the price to sell goods produced is called.....
12. A product's ability to satisfy customer needs is called.....
13. A form of authority in which individuals in management positions have the formal power to direct and control immediate subordinates is
14. The principle of management that emphasises harmony among people within the organisation so that morale is high is.....
15. The coming together of a limited number of individuals who have common intentions and to some degree share the same values and norms is called.....
16. The organisation of work elements into jobs is called.....
17. Organising the enterprise around the market served is a typical.....
18. An accountant who is charged with the responsibility of preparing organisational forecasts and budgets is called.....
19. The theory that suggests that individuals are rational, aware of their goals and are influenced by the expected outcomes of their actions is.....
20. The processes that account for an individual's intensity, direction and persistence of effort toward attaining a goal is called.....

INSIGHT

SECTION B: ATTEMPT ANY FOUR QUESTIONS (50 Marks)

QUESTION 1

- a. Define the term “Stakeholder”. (2½ Marks)
- b. State **THREE** internal and **FOUR** external stakeholders in business. (7 Marks)
- c. Explain briefly with **TWO** examples, the expectations of stakeholders in business. (3 Marks)
- (Total 12½ Marks)**

QUESTION 2

- a. State **FIVE** activities of industrial undertakings as identified by Fayol. (2½ Marks)
- b. Outline and explain **FIVE** Fayol’s principles of management. (10 Marks)
- (Total 12½ Marks)**

QUESTION 3

- a. Explain the steps involved in the strategic management process. (7½ Marks)
- b. List **FIVE** causes of high incidence of resistance to the control system in an organisation. (5 Marks)
- (Total 12½ Marks)**

QUESTION 4

- a. Define the term “job analysis” (2 Marks)
- b. List and explain **THREE** internal and **FOUR** external sources of recruitment. (10½ Marks)
- (Total 12½ Marks)**

QUESTION 5

List and explain **FIVE** guidelines for effective communication. (Total 12½ Marks)

QUESTION 6

Explain **SEVEN** do’s and **THREE** don’ts of document filing. (Total 12½ Marks)

INSIGHT

INSIGHT

SOLUTION TO MCQ

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

INSIGHT

28. E

29. C

30. A

EXAMINER'S REPORT

The questions were well distributed across the subject syllabus. This section was attempted by all candidates being compulsory and about 64% of the candidates passed.

SOLUTION TO SAQ

1. Sole partnership
2. Partnership
3. PESTEL Analysis
4. Code of ethics
5. Storage
6. Organisation and methods
7. Feed – forward control
8. Project Evaluation and Review Technique
9. Internal recruitment
10. Training and development
11. Marketing research
12. Product quality
13. Line authority
14. Espirit De Corps
15. Group
16. Job design
17. Market structure
18. Budgeting officer
19. Vroom's Expectancy theory
20. Motivation

INSIGHT

EXAMINER'S REPORT

All the questions in this section were within the scope of the syllabus. This section is compulsory and attempted by all candidates.

The pass rate was about 38%. It will be helpful if candidates can make a better use of the study pack to sharpen their understanding of many of the basic concepts in their preparation for future examination.

SOLUTION 1

- a. The term stakeholder means any individual or group of individuals that have a strong interest in the organisation and in what it does or it's trying to achieve.
- b. Internal Stakeholders are:
- i. Stakeholders
 - ii. Directors/top management
 - iii. Senior management staff
 - iv. Other management and staff

External stakeholders

- i. Lenders
 - ii. Suppliers
 - iii. Regulators
 - iv. Government
 - v. General public
 - vi. Company auditors
- c. **Expectations of stakeholders**
Each stakeholder has different expectations which they expect to benefit from their association with the company. For example, shareholder expectation may include share price growth, stable dividends and good returns on investment, while the directors and senior managers might place emphasis on personal advancement, increase in remuneration, higher status and power to make key strategic decisions.
- a. Expectations of stakeholder includes:
 - b. shareholders with explanations.
 - c. Directors: with explanations
 - d. Management: with explanations
 - e. Staff/Employees: with explanations
 - f. Lenders: with explanations

INSIGHT

- g. Suppliers: with explanations
- h. Regulators: with explanations
- i. General Public: with explanation
- j. Company Auditors: with explanations

Management: Expects increased productivity increased profitability, adherence to code of conduct, ethics and practice.

Staff/Employees: Payment of salary, promotion as at when due,

Lenders: Payment of principal with interest as and when due

Suppliers: Prompt payment of supplies.

Regulators: Compliance with rules and regulations.

General Public: Quality product, good pricing, availability of product and services, good distribution network CSR

Company Auditors: Accountability and transparency.

Government: payment of taxes, respect to the Law/law abiding

EXAMINER'S REPORT

The question was direct and drawn from the study pack. About 96% of the candidates attempted the question and about 88% passed with considerably high grades.

SOLUTION 2

- a. Activities of industrial undertaking as identified by Henri Fayol
 - i. Technical (production)
 - ii. Commercial (buying, selling and exchange)
 - iii. Financial (optimum use of capital resources)
 - iv. Accounting (recording and taking stock of costs)
 - v. Security: protecting property and persons
 - vi. Managerial (planning, organizing, directing and controlling)
- b. Fayol's principles of management;
 - i. Division of labour: The more people specialised, the more efficiently they will perform.
 - ii. Authority and responsibility: Managers need to be able to give orders to get things done.

INSIGHT

- iii. Discipline: members in an organization need to request for the rules and agreements that govern their employment contract with the organization.
- iv. Unity of command:- Each employee must receive his or her instructions about a particular operation from only one supervisor.
- v. Subordination of individual interest to the common goal: In any undertaking, the interests of employees should not take precedence over the interest of the organization as a whole.
- vi. Remuneration: Compensation for work done should be fair to both employees and employers.
- vii. Centralisation:- Any action taken to decrease the role of subordinates in decision making is centralization.
- viii. The Hierarchy:- This is the line of authority in an organization. Its runs in order of rank from top management to the lowest level of the enterprise.
- ix. Order: Materials and people should be in the right place at the right time. People in particular, should be in the jobs or position most suited to them
- x. Equity: Managers should be both friendly and fair to their subordinates.
- xi. Stability of staff: A high employee turnover rate is not good for the efficient functioning of an organization.
- xii. Unity of Direction: All activities within the organization that have the same objectives should be grouped together and the supervision of the activities should be under one manager.
- xiii. Initiative: Subordinates should be given the freedom to conceive and carry out their plans, even when some mistakes result.
- xiv. Espirit de corps: Promoting team spirit will give the organization a sense of unity.

EXAMINER'S REPORT

The question was drawn from the study pack. About 95% of the candidates attempted the question and over 70% passed.

INSIGHT

SOLUTION 3

- a. The steps involved in the strategic management process are:
- i. **Developing vision, mission and objective:-** An organisation's mission is her statement of purpose. It states what the organisation is in business to do. An organization's vision on the other hand is a statement showing its destination.
 - ii. **SWOT Analysis:-** For strategies to be formulated, an analysis of the organizations external and internal environment is necessary. The acronym SWOT stands for strength, weakness, opportunities and threats.
 - iii. **Formulation of strategies:-** At this stage, managers use identified strength, weakness, opportunities and threats to formulate strategies that will lead to the achievement of organizational objectives.
 - iv. **Implementation of strategies:-** proper implementation of strategy is a prerequisite for an effective strategic management process.
 - v. **Evaluation:-** Evaluation provides the means of determining the impact of implemented strategies. The purpose of evaluation is to establish whether the strategy is working and whether adjustments are necessary.
- 3b. Causes of high incidence of resistance to the control system by employees in an organisation.
- i. Where a unit meets control standards but fails to achieve its overall objectives for failure to strengthen the link between planning and control.
 - ii. Interested control standards without a commensurate compliance or results.
 - iii. Declining performance
 - iv. Increase in wastages
 - v. Rising operational and maintenance cost

INSIGHT

EXAMINER'S REPORT

About 35% of the candidates attempted this question which was drawn from the study pack. The pass rate was about 70%. The candidates were not familiar with the “b” part of the question and they performed poorly.

SOLUTION 4

- a. Job analysis is the process of examining a job with a view to identifying its components and conditions under which it is performed.
- b. Internal sources of recruitment are:
 - i. **Promotion:** When a vacancy occurs, existing employees whose qualifications and experience suit the vacant job could be promoted.
 - ii. **Transfer:** A suitable staff may be transferred from a different department to fill the vacancy.
 - iii. **Job posting:-** The vacancy is announced on the notice boards, house journal and memos in the organization, inviting interested qualified staff within the organization to apply.
 - iv. **Job bidding:** In this system, employees are allowed to indicate interest in a specific position; they are qualified for before the job becomes vacant. When the vacancy occurs, the bidders are considered for appointment.

External Sources of recruitment are:

- i. **Educational Institution:** Some organizations recruit employees directly from universities, polytechnics and other educational institutions.
- ii. **Unsolicited Applications:** Some organizations receive unsolicited application letters from people seeking employment.
- iii. **Employee referrals:** This refers to the use of existing employees to recommend qualified applicants to fill vacancies
- iv. **Employment agencies:** There are organizations that recruit employees for client free of charge or for a fee.

INSIGHT

- v. **Professional organisation:** These are professional bodies e.g. ICAN may recommend members to interested organizations for employment
- vi. **Advertisement:** This is the recruitment of employees by advertising in the internet, newspapers, Television etc.

EXAMINER'S REPORT

The question was attempted by about 85% of the candidates and over 80% of the candidates who attempted the question passed.

SOLUTION 5

Guidelines for Effective Communication in Organisations:

- a. Improve the general atmosphere for effective communication by adopting an open door style, which encourages employees to communicate without fear.
- b. Planning before communication, that is, decide what message you want to get across to the receiver, how to send the message to the receiver and who is to send the message to the receiver.
- c. Management must provide the right media of communication and make these media accessible to all employees who need them. The media chosen must suit the receiver(s) of the message.
- d. Overload of managers with volumes of irrelevant information must be avoided by regulating the quantity of information flowing to them and encouraging delegation of authority.
- e. Remove physical barriers to communication by designing the office layout in such a way that it makes it possible for employees to interact.
- f. Management must reduce the use of highly technical jargons especially when communicating with subordinates.
- g. Develop effective listening skills: One management author wrote, "When a sender does not listen, he has no way of getting a feedback to see if his message is being understood".
- h. Management must use the right media of communication.
- i. Gestures, facial expressions, body movements, physical contacts etc affect communication flow between individuals and should be taken into consideration when transmitting information.

INSIGHT

EXAMINER'S REPORT

The question was attempted by about 80% of the candidates and over 90% of the candidates who attempted the question passed.

SOLUTION 6

The do's for filing documents:

- i. Ensure the document has been released or authorized for filing or no further action is required
- ii. Where there are a number of documents for filing, sort them out in a logical sequence before filing.
- iii. Examine the document to ensure that it is in good condition and could be filed without damaging it.
- iv. If a document is oversized, fold before filing or photocopy into a small size to fit into the file.
- v. Staple all enclosures to documents before filing.
- vi. Give the document a folio number before putting into the folder
- vii. Label all files/folders
- viii. Keep a file register
- ix. Design a book, which will help you keep track of the movement of files and documents into and out of your office
- x. Ensure that you have a good incoming and outgoing mail book. It helps to keep records of documents coming in or going out.
- xi. Have an idea about the sort of documents you are expected to file and those you are expected to dispose.
- xii. To prevent unauthorised access to documents, keep all file cabinets locked up.

The don'ts for documents filing are:

- i. Don't allow files to over flow. If there are too many documents in a folder, it makes it rather unwieldy. Open a new volume.
- ii. Don't file a document until you are sure it is necessary.
- iii. Don't remove a file from the cabinet unless it is required for office use.
- iv. Never use filing cabinets to store anything other than files.

INSIGHT

- v. Don't allow documents to be removed from a file. Where this becomes necessary insert a substitution note to indicate that a document has been removed. To prevent unnoticed document removal, number the sheets in a file.

EXAMINER'S REPORT

The question was well attempted by 52% of the candidates and about 75% of these candidates passed. The study pack addressed the area robustly and adequately. The candidates displayed good understanding of the question.