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March 2021
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“*It always seems impossible until it’s done*” - Nelson Mandela
Solving problems is the prerogative of the management of any organisation and this could be done in many ways to realize the objectives of the organisation. In our lead article in this edition entitled “Linear Programming”, the author described Linear Programming as a mathematical technique available to management for solving problems of rationing limited facilities and resources among alternative uses in such a way that the optimum benefits can be derived from their utilization.

According to him, it is a procedure adopted to maximize or minimize the values of some objectives, subject to some constraints e.g. maximizes contribution, gain, opportunities or minimize cost, time, loss or threats.

He added that Linear programming is applicable to decisions such as product mix selection, production planning and scheduling, warehouse shipping pattern, transportation routes, capital rationing, blending diet selection, resource allocation and assignment problems. The author gave valuable illustrations to drive home the topic. Please seize the opportunity to gain insights to the topic.

The Institute recently reviewed its syllabus for professional examinations as part of its resolve to continue to produce future-ready Chartered Accountant with skills and competencies desired by the market. The syllabus which takes effect in November 2021 takes into account the new trends in the Nigerian economic environment such as the Finance Act 2019 which introduced new developments in the country’s tax system and the new Companies and Allied Matters Act (CAMA 2020).

It would be recalled that the current syllabus was reviewed in 2018 but the rapidly changing environment necessitated a revisit of the status quo from the five-year policy of the syllabus review to a more regular one that proactively responds to the demands of the market. The details of the syllabus review and other news items are published in this edition for your reading delight.

As usual, we publish some past questions and solutions to guide our students on how to tackle examination questions in future.

The detailed reports of all these and other regular columns are contained in this edition.

Your comments and contributions are welcome. Please contact the Editor via: editor@ican.org.ng or aoowolabi@ican.org.ng

Editor’s Note
The newly inducted members of the Association of Accounting Technician West Africa (AATWA) of the Institute have been charged to adhere strictly to the rules and conduct of professionalism the needs of its members.

The President of the Institute, Dame Onome Joy Adewuyi gave the admonition at the 53rd induction ceremony for 244 members of AATWA, at Amuwo Odofin, Lagos on Monday 14th December 2020.

She advised the inductees to adhere to the ethics of the profession and remain focused in order to succeed since they have chosen the best profession.

The ICAN President expressed satisfaction at the growth rate of accounting profession in Nigeria, adding that the world expects Accountants to bring to the fore, the profession’s culture of transparency, integrity and hard work.

In his paper entitled “From Youth to Legend: Pathway for the Young Professionals”, the guest speaker and Past President of the Institute, Otunba Lateef Adebayo Owoyemi enjoined the new members not to relent in the pursuance of their set goal.

He urged the young professionals to embrace integrity and hard work to succeed in their chosen career. He said success can only come through discipline and good time management.

He said, “The way to success is to free your potential. Your potential is the unlimited you, the limitless you. Success is about setting reasonable goals as without goals, you simply drift and flow on the current of life. Goals are the fuel in the furnace of achievement.”.

The Institute has launched a new syllabus for its professional in Examination. The new syllabus which takes effect from March 2021 was developed in line with the “Institute’s bring to fore the technical skills acquired in the process resolve to continue to produce future-ready Chartered Accountants with skills and competences desired by the market”.

She explained further that new trends in the Nigerian environment such as the Finance Act 2019 which introduced new developments in the country’s tax system and the new Companies and Allied Matters Act (CAMA 2020) also presented added impetus for the review.

According to her, “a Chartered Accountant worth its salt is not just an expert in the technical aspect of the profession but should be furnished with soft skills including effective communication, integrity, accuracy and good professional judgment”.

She added that the current syllabus was reviewed in 2018 but the rapidly changing environment necessitated a revisit of the status quo from the five-year policy of the syllabus review to a more regular one that proactively responds to the demands of the market. The review also necessitated the restructuring the various levels of the Institute’s examinations to reflect the new changes in the syllabus and equally expanded the contents of the various subjects against the backdrop of the new normal. While retaining the fifteen (15) subjects, there are now four (4) subjects at the Foundation level.
ICAN Blacklists Six Students for Examination Malpractices

The Institute has blacklisted six students caught cheating during the March/July 2020 diet of Professional Examinations. The numbers of the six students are:

(i) Exam. Number: 20201/201442/S/12345
    (Reg. number – 231770)

(ii) Exam. Number: 20201/201746/S/134
     (Reg. number – 207399)

(iii) Exam. Number: 2020/205546/S/512345
     (Reg. number – 189492)

(iv) Exam. Number: 20201/306871/P/4
     (Reg. number – 225533)

(v) Exam. Number: 20201/300787/P/34
     (Reg. number – 194155)

(vi) Exam. Number: 20201/300093/P/123
     (Reg. number – 240467)

During the March/July 2020 diet of the professional examinations, the six candidates were caught with various malpractices ranging from: written materials hidden inside calculator during Financial Reporting paper; written materials at the back of docket during Performance Management paper; candidate caught with written materials during PSAF paper; candidate caught in the toilet checking a written material during Advanced Taxation paper; candidate caught with mobile phone during Advanced Taxation paper and candidate caught with mobile phone during Strategic Financial Management paper.

The exhibit, the invigilator’s report as well as the candidates confessions were evidences against them. After due investigations, the Council of the Institute approved that the six students be blacklisted and barred from all the Institute’s examinations. They were deregistered as candidates and have all the papers taken during the March/July 2020 diet professional examination cancelled.

Issuance of Transcripts Automated

The Institute has strengthened the processing of transcripts issuance to make it seamless.

ICAN President Dame Onome Joy Adewuyi FCA said this during a virtual session with members of Joint Minds International on Friday, November 6, 2020 tagged “Time Out with ICAN President”.

The event gave the President the opportunity to take numerous questions from members of the group who participated in the programme virtually about the Institute.

Mrs. Adewuyi explained that the reorganization of the transcript processing was part of the Institute’s technology innovation which included the automation of its document management system in line with global standards.

She said that one of the major objectives of the Institute which she would drive during her presidency was to produce future-ready chartered accountants through continuous learning, unlearning and re-learning to adapt to the needs of the future. She advised members to sharpen their accounting and soft skills to make them indispensable to employers and users of accounting services.

The 56th President said that the Institute recognizes the importance of building a robust technology infrastructure for smooth-running of its affairs and would continue to invest in it, adding that the long term objective was to migrate its examinations to computer based testing system.

She also revealed that ICAN is working with other stakeholders to take the Accounting Technicians Scheme West Africa examination to the rest of Africa as a means of harmonizing accounting education at the sub-professional level in the continent, while also working on achieving reciprocity with other professional accounting organizations to give our members the opportunity to work anywhere in the world without having to write examinations again.
This is a mathematical technique available to management for solving problems of rationing limited facilities and resources among alternative uses in such a way that the optimum benefits can be derived from their utilization.

It is a procedure adopted to maximize or minimize the values of some objectives subjects to some constraints e.g. maximize contribution, gain, opportunities or minimize cost, time, loss, threats.

Linear programming is applicable to decisions such as product mix selection, production planning and scheduling, warehouse shipping pattern, transportation routes, capital rationing, blending diet selection, resource allocation and assignment problems.

**STRUCTURE OF A LINEAR PROGRAMMING**

The structure of a linear programming model is divided into:
- **Objective function**
- **Constraints**
- **Solution**

**Objective function**

- The first stage of a linear programming structure is the determination of the objective function i.e. the required result. This may be to maximize opportunities strengths, gains, profits, contributions or to minimize loss, time, cost, weaknesses, threats etc.

- The following are the characteristics of an objective function:
  - **Objective function**
    - The decision maker has a single and measurable objective.
    - Several activities known as decision variables such as products, services and processes can be used to achieve the stated objective.
    - There should be a mathematical relationship between the objective function and the decision variables involved in achieving the objective.
    - The objective function is linear i.e. it is raised to the first power. This means that the contribution per unit for each product and the utilization of resources per unit are the same irrespective of the quantity of output produced and sold within the output range being considered.
    - Each decision variable appears in a separate form.

- **Constraints**
  - Constraints are divided into two groups namely:
    (a) Structural constraints
    (b) Non-negativity constraints.

- **Structural constraints**
  - The structural constraints are the finite budgetary restrictions limiting production and sales indefinitely such as limited resource supply, shortage of materials, labor hours, machine hours, minimum production standards. These constraints are usually stated in the form of inequalities which could either be less than or equal to (≤) or greater than or equal to (≥). This means that we cannot use more than the available resources supply or that we must have at least as much output as a required resource demand.
  - Each constraint which is presented in a mathematical form has a linear relationship i.e. concepts like diminishing marginal returns, discount on large quantity, synergy etc do not come into focus.

- **Non-negativity constraints**
  - The non-negativity constraint confirms the fact that working must be limited to the first quadrant of the two Cartesian coordinates or that our recommended solution or decision variables must either be positive or zero but can never be negative.
  - Solution
    - The decision maker has to determine the combination of activities or decision variables that will result in the optimum value of the objective function after all constraints would have been satisfied.
If only one resource is in short supply, the simple approach is to produce the product with the largest contribution margin per unit of limiting factor as priority.

Where there are two or more limiting factors and a decision has to be taken to combine the production of just two products in such a way as to maximize profit or minimize cost, then the graphical approach can be adopted.

Where there are two or more constraints and a decision has to be taken to combine for the production of more than two products in such a way as to maximize profit or minimize cost, then an iterative approach called the simplex method would have to be adopted.

**DUAL PRICE, SHADOW PRICE OR SENSITIVITY ANALYSIS**

This is defined as the amount by which profit of a company will increase or decrease if any additional unit, of the scarce resource is made available or taken away.

A dual price is the increase in the value of the objective function of a linear programme made possible by a unit relaxation in one of the constraints.

A dual price or shadow price tests the sensitivity of profit to a slight favourable or unfavourable change in a scarce resource.

Dual and shadow prices are associated with the opportunity cost of the resources. At the optimum combination, some constraints are binding i.e. at this point, the resources are in short supply for production or they are just enough to produce the optimal production max.

Whereas at the optimum production level, some resources are available in excess quantity of what is required to meet the optimum combination, they will be said to be non-binding constraints, i.e. a constraint is said to be binding if and only if it is fully utilized at the optimum level of production.

The dual or shadow price of a non-binding constraint is zero, therefore, shadow prices are found only for binding constraints.

**Uses of dual-shadow prices**

- Shadow prices are useful in the following ways:
  - To assist management in determining the additional profit that can be earned by a company if one more unit of the binding constraint is made available.
  - It shows the maximum amount which a company should be willing to pay to make available an extra unit of a scarce and binding constraint.
  - Dual prices show the resources that are most critical.
  - They can be used directly to evaluate new projects.

**Limitations of dual/shadow prices**

- The main limitation is that a given set of dual prices may have validity only for small changes from the optimal plan. Large changes in the quantity of resources used might mean that the nature of the optimal plan is changed.

**Assumption underlying linear programming**

- All relationships are linear.
- All constraints and coefficients are stated with certainty i.e. with known magnitudes.
- Solutions in fractional units are allowable; otherwise, rounding up of figures is performed.
- Negative solutions are not permitted for the decision variables.
- There is only one single objective at a time and this may be to maximize or minimize cost.
- Limitations of linear programming
  - It fails to consider the effect of risk
  - All relationships may not be linear at all times.
  - Products are assumed to be infinitely divisible and that a fraction of a product may be produced. The truth of these assumptions lies in the type of product under consideration.

- Products are assumed to be independent. This may not be true at all times.

**Approaches to linear programming solutions**

- For a problem that has more than one constraint but with two products to be mixed, the graphical approach can be adopted. In a situation where there are more than one constraint, and the products involved are more than two, than an iterative method referred to as simplex shall be employed.

- Procedures for a graphical solution to a linear programming problem
  - State the objective function.
  - State the structural constraints.
  - State the negativity constraint.

- From the structural constraints, turn inequalities to equalities and determine the number of units that will be produced from the available resources if only one product will be produced at a time.

- Represent the extreme assumption of producing only one product at a time from the available resources on a graph.

- Label the inner most interceptions and this is the region where a feasible solution lies.

- Evaluate each of the interceptions to determine the point that will give the highest contribution.

- Arrive at a conclusion based on the evaluation done above. The point giving the highest contribution will yield the highest contribution.

- Test to know if any of the constraints is binding at the optimal production mix.

**ILLUSTRATION**

KOBIOWU NIG LTD. manufactures for sales two products X and Y from three raw materials, R1, R2 and R3 which are in short supply.

The usage of these raw materials per product is as follows:
Raw material per unit

<table>
<thead>
<tr>
<th></th>
<th>X</th>
<th>Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>R1</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>R2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>R3</td>
<td>2</td>
<td>4</td>
</tr>
</tbody>
</table>

The supply of each raw material is limited to:

R1 = 240
R2 = 120
R3 = 200

The contribution per product is N100 for X and N16 for Y.

You are required to:

(a) Formulate and determine graphically

(b) At the optimal solution, determine the shadow price of each raw material.

Solution to Illustration 1

Obj.fn...Max.C. = 100 X + 160Y

Subject to the following constraints:

6x + 2y≤240....R1
2x + 2y ≤ 120....R2
2x + 4y≤200 ....R3

x, y ≥ 0 .... Non negativity

Turn inequalities to equalities

Obj.fn...Max.C. = 100 X + 160Y

Subject to the following constraints:

6x + 2y=240....R1
2x + 2y = 120....R2
2x + 4y=200 ....R3

x, y ≥ 0 .... Non negativity

Turn inequalities to equalities

Determination of binding constraints

<table>
<thead>
<tr>
<th></th>
<th>X</th>
<th>Y</th>
<th>Raw material Consumed</th>
<th>Raw material Available</th>
<th>Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>R1</td>
<td>6</td>
<td>2</td>
<td>200</td>
<td>240</td>
<td>40</td>
</tr>
<tr>
<td>R2</td>
<td>2</td>
<td>2</td>
<td>120</td>
<td>120</td>
<td>-</td>
</tr>
<tr>
<td>R3</td>
<td>2</td>
<td>4</td>
<td>200</td>
<td>200</td>
<td>-</td>
</tr>
</tbody>
</table>

Decision - The optimal production mix to maximize contribution is to produce 20 units of X and 40 units of Y i.e. 20x and 40y since contribution is highest at this mix.

Evaluation of the intersections

<table>
<thead>
<tr>
<th></th>
<th>X</th>
<th>Y</th>
<th>100X + 160Y = CONTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>A</td>
<td>0</td>
<td>50</td>
<td>100(0) + 160(50) = 8000</td>
</tr>
<tr>
<td>B</td>
<td>20</td>
<td>40</td>
<td>100(20) + 160(40) = 8400</td>
</tr>
<tr>
<td>C</td>
<td>30</td>
<td>30</td>
<td>100(30) + 160(30) = 7800</td>
</tr>
<tr>
<td>D</td>
<td>40</td>
<td>0</td>
<td>100(40) + 160(0) = 4000</td>
</tr>
</tbody>
</table>

Decision - The optimal production mix is 20x and 40y since contribution is highest at this mix.

B. Determination of the shadow prices of binding constraint.

SHADOW PRICE OF R1:

- Increase the availability of resource R2 by 1 and hold equation R3 constant.

\[ 2x + 2y = 121 \]
\[ 2x + 4y = 200 \]

- Solving these two equations simultaneously:

\[ 2y = 79 \]
\[ y = 39.5 \]
\[ x = 21 \]

- Substitute these values into the contribution equation as follows:

\[ C = 100x + 160y \]
\[ = 100(21) + 160(39.5) \]
\[ = N8,420.00 \]

New contribution .................8,420

Less contribution at the optimal mix 8,400

SHADOW PRICE OF R2

New contribution .................8,430

Less contribution at optimal mix 8,400

SHADOW PRICE OF R3...... 30

Alternative approach: the dual pricing method

This method converts a maximization problem into a minimization one. In adopting the method to determine the shadow price of a scarce resource, the resources must be binding at the optimal product mix. In this situation, we have the following:

\[ 2x + 2y = 120 \]
\[ 2x + 4y = 200 \]

Obj. fn. Max ... 100x + 160y
The above will now be converted into a minimization problems as follows:

Objective fn... Minimize... 120R2 + 200R3
Subject to... X constraints... 2R2 + 2R3 ≥ 100
Y constraints... 2R2 + 4R3 ≥ 160

So, 2R2 + 2R3 = 100
2R2 + 4R3 = 160
Shadow price of R3 = N30
2R2 + 2R3 = 100
2R2 + 2(30) = 100
2R2 = 100 - 60
2R2 = 40
Shadow price of R2 = N20

Obj.fn. Minimize... 120R2 + 200R3 = 120(20) + 200(30) = 2400 + 6000 = N8,400
N8,400 as the optimal contribution derived in the maximization problem

The Simplex method
The simplex method is an iterative approach that is used to solve linear programming problems that have more than two unknown variables.

Procedures for adopting the simplex method

• Formulate the problem into a standard form.

• Convert all the inequality signs to equality signs by adding extra variables known as the slack variables. Every constraint will have a slack variable added to its equation. The slack variable is to represent the excess in any constraint that is not fully utilized at the optimal production mix and will therefore have a shadow price of zero.

• Develop a tableau by preparing four columns for the iteration namely:

(i) Solution variable

(ii) Products — a letter to present each of the products to be produced, mixed or blended

(iii) Slack variables

(iv) Solution quantity

• Prepare rows for each of the structural constraints featuring only the coefficients. The last row identified as Z represents the values of the objective function.

• Identify the highest value in the Z row.

• The figures in the solution quantity column are divided by the corresponding figures in the column having the highest figure in the Z — row.

• From above, select the row that gives the lowest result while ignoring rows with zero.

• Asterisk the figure in the identified row and column. This figure is called the pivot number.

• The solution variable of the pivot figure is substituted with the letter representing the product where the pivot number lies.

• Turn the pivot figure into 1 by dividing the row throughout by the pivot figure. This row is now called the new pivot row.

• Turn other figures in the pivot column into zero by multiplying the new pivot row with an equivalent amount such that it will be possible to make addition or subtraction with other rows to give zero in the pivot columns.

• Repeat this procedure until none of the values in the Z-row corresponding to each of the products is positive.

• When there are no positive values in the Z-row, then the optimum solution would have been reached.

• Extract necessary information from the tableau.

Illustration 2

Referring to the illustration 1 under the graphical approach, the simplex approach would now be applied:

(a) Formulate the problem:

Objective fn... Max C... 100x + 160y

Subject to the following constraints:

6x + 2y ≤ 240 ..... R1
2x + 2y ≤ 120 ..... R2
2x + 4y ≤ 200 ..... R3
X, y ≥ 0 ........ Non negativity

(b) Convert inequality signs to equalities by adding slack variables:

6x + 2y + R1 = 240
2x + 2y + R2 = 120
2x + 4y + R3 = 200

(c) Develop a tableau:

<table>
<thead>
<tr>
<th>Solution Variable</th>
<th>Products</th>
<th>X</th>
<th>Y</th>
<th>Slack Variables</th>
<th>Solution Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>R₁</td>
<td>6</td>
<td>2</td>
<td>0</td>
<td>1 0 0</td>
<td>240</td>
</tr>
<tr>
<td>R₂</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>1 0 0</td>
<td>120</td>
</tr>
<tr>
<td>R₃</td>
<td>2</td>
<td>4</td>
<td>0</td>
<td>0 0 0</td>
<td>200</td>
</tr>
<tr>
<td>Z</td>
<td>100</td>
<td>160</td>
<td>0</td>
<td>0 0 0</td>
<td>0</td>
</tr>
</tbody>
</table>

(g) Turn the other figures in the pivot column into zero excluding the pivot unity (I) row R₁:

Multiply Y row by 2 and deduct the result from R₁:

<table>
<thead>
<tr>
<th>6 2 1 0 0 240</th>
</tr>
</thead>
<tbody>
<tr>
<td>-1 -2 -0 -0 -½ -100</td>
</tr>
</tbody>
</table>

(ii) Row R₂:

Multiply Y row by 2 and deduct the result from R₂:

<table>
<thead>
<tr>
<th>2 2 0 1 0 240</th>
</tr>
</thead>
<tbody>
<tr>
<td>-1 -2 -0 -0 -½ -100</td>
</tr>
</tbody>
</table>

(iii) Row Z:

Multiply Y – row by 160 and deduct the result from Row Z:

| 100 160 | 0 | 0 | 0 | 0 |
|----------------|
| 80 160 0 -0 -40 | 8000 |

| 20 0 0 0 40 -8000 |
(a) Determine the new pivot figure:

20 is the remaining positive value. So X is the new pivot column.

(ii) \(140 \div 5 = 28\)

\[
20 \div 1 = 20^* \quad \text{lest result}
\]

\[
50 \div \frac{1}{2} = 100
\]

So, R2 is the new pivot row 20 is the least result.

(iii) The pivot figure is 1, and is therefore asterisked.

(k) Fortunately, we already have 1 as the pivot figure, so the pivot is labeled X as follows:

(i) Since there is still a positive value of 20 in the Z row, it indicates that the result can be improved upon.

(i) Turn the other figures in the pivot column into zero excluding the pivot unity:

Row – R1:
Multiply the X-row by 5 and deduct the result from row R1.

<table>
<thead>
<tr>
<th>Products</th>
<th>X</th>
<th>Y</th>
<th>Slack Variables</th>
<th>Ri</th>
<th>Rj</th>
<th>Solution Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>R1</td>
<td>5</td>
<td>0</td>
<td>1 0 -½</td>
<td>1 0 ½</td>
<td>140</td>
<td>20</td>
</tr>
<tr>
<td>X</td>
<td>1</td>
<td>0</td>
<td>0 0 ½</td>
<td>0 ½ 1</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>Z</td>
<td>20</td>
<td>0</td>
<td>0 0 -40</td>
<td>0 0 -40</td>
<td>8000</td>
<td>8000</td>
</tr>
</tbody>
</table>

(i) Turn the other figures in the pivot column into zero excluding the pivot unity:

Row – R1:
Multiply the X-row by 5 and deduct the result from row R1.

<table>
<thead>
<tr>
<th>Products</th>
<th>X</th>
<th>Y</th>
<th>Slack Variables</th>
<th>Ri</th>
<th>Rj</th>
<th>Solution Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>R1</td>
<td>5</td>
<td>0</td>
<td>1 0 -½</td>
<td>1 0 ½</td>
<td>140</td>
<td>20</td>
</tr>
<tr>
<td>X</td>
<td>1</td>
<td>0</td>
<td>0 0 ½</td>
<td>0 ½ 1</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>Z</td>
<td>20</td>
<td>0</td>
<td>0 0 -40</td>
<td>0 0 -40</td>
<td>8000</td>
<td>8000</td>
</tr>
</tbody>
</table>

(ii) Row Y:
Multiply the X-row by \(\frac{1}{2}\) and deduct the result from Row Y:

<table>
<thead>
<tr>
<th>Slack Variables</th>
<th>Ri</th>
<th>Rj</th>
<th>Solution Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>R1</td>
<td>½ 1 0 0 ¼</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Y</td>
<td>-½ -0 -0 -½ -¼ -10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Z</td>
<td>0 0 0 -½ ½ 40</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Row Z:
Multiply the X — row by 20 and deduct the result from row — Z

<table>
<thead>
<tr>
<th>Slack Variables</th>
<th>Ri</th>
<th>Rj</th>
<th>Solution Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>R1</td>
<td>0 0 0 -40</td>
<td>-8000</td>
<td></td>
</tr>
<tr>
<td>X</td>
<td>-5 -0 -0 -20 -10 -400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y</td>
<td>0 0 -30 -8,400</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(m) The results of the iterative process are compiled into the following tableau:

(n) Since there are no positive values on the z — row, an optimal solution has been arrived at.

(o) The solution is interpreted as:

(i) Optimal production mix = 20 of x; and 40 of Y

(ii) Maximized contribution = N8,400

(iii) Shadow prices are….R2 = N20; and ……R3 = N30

(iv) Excess capacity in R1 = 40units
## LIST OF RECOGNISED ICAN TUITION CENTERS

<table>
<thead>
<tr>
<th>RECOGNISED TUITION CENTRES</th>
<th>ADDRESSES</th>
<th>E-MAIL</th>
<th>TELEPHONE</th>
<th>VALID TILL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 3A Professional Tutors Limited</td>
<td>3A Professional Tutors Limited, Doseg Int’l College, 41B Akin Street, By GT Bank, Lively Estate, Amuwo Odofin, Lagos</td>
<td>info3a33Professionaltutors.com</td>
<td>07030003251, 08033757234</td>
<td>March, 2023</td>
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<tr>
<td>2 Able God Professionals College</td>
<td>47, Ikotun/Egan Road, Market Bistro, Iyagand, Lagos</td>
<td><a href="mailto:agilecentres@yahoo.com">agilecentres@yahoo.com</a></td>
<td>234-8035388818, 08033531527</td>
<td>March 1, 2022</td>
</tr>
<tr>
<td>3 ABUAD Tuition Centre</td>
<td>Department of Accounting, ABUAD Ado -Ekiti</td>
<td></td>
<td></td>
<td>April, 2021</td>
</tr>
<tr>
<td>4 Accountancy Training Centre, Makurdi</td>
<td>Uni-Agric Road, Opposite First Gate, Makurdi, Benue State</td>
<td><a href="mailto:geoffred@yahoo.com">geoffred@yahoo.com</a></td>
<td>07039608666, 08053599666</td>
<td>2018</td>
</tr>
<tr>
<td>5 Accuracy Tutors, Abia</td>
<td>Immaculate Girls Secondary School, Umunagwa, Aba, Aba State</td>
<td><a href="mailto:igmacp@yahoo.co.uk">igmacp@yahoo.co.uk</a></td>
<td>08068413835, 08030544434</td>
<td>Aug-21</td>
</tr>
<tr>
<td>6 Achievers Tuition Nig. Ltd.</td>
<td>Junior Secondary School Phase 3, Gwagwalada, Abuja</td>
<td><a href="mailto:abiranzwo@gmail.com">abiranzwo@gmail.com</a></td>
<td>18133469846</td>
<td>April, 2020</td>
</tr>
<tr>
<td>7 Alternative School, Port Harcourt</td>
<td>Plaza 21, Alon Road, By Welcome U Supermarket Woji, Port Harcourt</td>
<td>gateleministeryschool.com</td>
<td>08117604423, 0817604424</td>
<td>October 2022</td>
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<tr>
<td>8 Assurance Success Point</td>
<td>22, Ijele Road, Ilamija, Ilorin</td>
<td><a href="mailto:assurancesuccesspointassociates@gmail.com">assurancesuccesspointassociates@gmail.com</a></td>
<td>07034608759, 08077959821</td>
<td>May, 2022</td>
</tr>
<tr>
<td>9 Best Option Tuition Centre, Makurdi</td>
<td>9, kashim Ibrahim Road, Makurdi, Benue State</td>
<td><a href="mailto:kerecherdog@yahoo.com">kerecherdog@yahoo.com</a></td>
<td>08034920686</td>
<td>2017</td>
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<tr>
<td>10 Best-Ranked Dynamic Professionals</td>
<td>1, Institute of Continuing Education, off Wire Road, Benin City, Edo State</td>
<td><a href="mailto:fsayosaacca@yahoo.com">fsayosaacca@yahoo.com</a></td>
<td>234-7033322328</td>
<td>April, 2021</td>
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<tr>
<td>11 Brance Management Solution</td>
<td>Proactive Chamber, 131 Ofada road, Mowe, Ogun State</td>
<td><a href="mailto:wallakabi@yahoo.com">wallakabi@yahoo.com</a></td>
<td>0823509888, 08023099872</td>
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<tr>
<td>12 Brany Professional Academy</td>
<td>2nd &amp; 4th Floor, ANCE Building, Magazine road, Jericho, Ibadan, Oyo State</td>
<td><a href="mailto:stanuf.adeogo@yahoo.com">stanuf.adeogo@yahoo.com</a></td>
<td>09723.247.198.04.01.00.00</td>
<td>March, 2022</td>
</tr>
<tr>
<td>13 Brahm Training Centre Limited</td>
<td>Ground Floor, National Library Building, Adjacent Rez Continental Hotel, Central Area, Abuja</td>
<td><a href="mailto:hjian@brahm.com">hjian@brahm.com</a></td>
<td>08059125988, 08034040384</td>
<td>2019</td>
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<tr>
<td>14 CIP Consulting Ltd</td>
<td>Solid Rock International, FHA, Lugbe, FCT, Abuja</td>
<td><a href="mailto:cipconsulting204@yahoo.com">cipconsulting204@yahoo.com</a></td>
<td>234-8096726262</td>
<td>Jan, 2022</td>
</tr>
<tr>
<td>15 Crest Professional Tutors, Jeshotedo, Lagos</td>
<td>Florida House, Plot 133 Apapa/Oshodi Expressway, beside GTBank, Agungi Ibeja’s Jeshotedo</td>
<td><a href="mailto:crestprofessional@gmail.com">crestprofessional@gmail.com</a></td>
<td>08056243941, 07023289695, 08033721559</td>
<td>2019</td>
</tr>
<tr>
<td>16 Crown Academy</td>
<td>14, Abdulsalam Street, Off old Akure Road, Oawowo, Iju, Lagos State</td>
<td><a href="mailto:crownacademyng@gmail.com">crownacademyng@gmail.com</a></td>
<td>08031812420</td>
<td>Sep-21</td>
</tr>
<tr>
<td>17 Deo-Grata Professional Tutors, Oshogbo</td>
<td>25, Oyerdun Street, Ago-Wando, Oke -Orilea Road, Oshogbo, Osun State</td>
<td>deogradapapt <a href="mailto:tutors@gmail.com">tutors@gmail.com</a></td>
<td>08060053469</td>
<td>2019</td>
</tr>
<tr>
<td>18 Dynamic Study Professional Ltd, Ibadan</td>
<td>28, Adebayo Street, Kongi Layout, New Bodija, Ibadan</td>
<td><a href="mailto:dynastudyprofessionalstutors@gmail.com">dynastudyprofessionalstutors@gmail.com</a></td>
<td>08060404411, 08061938278, 08055721346 (ASM)</td>
<td>2020</td>
</tr>
<tr>
<td>19 Edge Educational Services &amp; Logistics</td>
<td>47, Arthur Eze Avenue (Emmuas House), Akwa, Anambra State</td>
<td><a href="mailto:edgeweschool15@gmail.com">edgeweschool15@gmail.com</a></td>
<td>0833036184</td>
<td>2018</td>
</tr>
<tr>
<td>20 Eric Wuye School of Professional</td>
<td>75/69, Arthur Eze Avenue, by Unizik Temp-Site junction, Akwa, Anambra State</td>
<td><a href="mailto:edgewewe@gmail.com">edgewewe@gmail.com</a></td>
<td>08039848227, 08063333399</td>
<td>2018</td>
</tr>
<tr>
<td>21 Ethbam International Consultancy Ltd</td>
<td>172, Idrum Road, Abule-Otun Bus stop, Idrum., Lagos</td>
<td><a href="mailto:ethbamcommunityconsultants@gmail.com">ethbamcommunityconsultants@gmail.com</a></td>
<td>08066759663</td>
<td>Dec, 2021</td>
</tr>
<tr>
<td>22 Equatorial Tuition Limited</td>
<td>Iboni Grammar School, behind Way Assurance, Iboni</td>
<td><a href="mailto:sabarmudauf@gmail.com">sabarmudauf@gmail.com</a></td>
<td>08091162222</td>
<td>May, 2022</td>
</tr>
<tr>
<td>23 Excel Professional Centre</td>
<td>11, Queen Elizabeth Road, Mokola, Ibadan, Oyo State</td>
<td><a href="mailto:excelprofessionalkentree@yahoo.com">excelprofessionalkentree@yahoo.com</a>, <a href="mailto:mooldwakya@yahoo.com">mooldwakya@yahoo.com</a></td>
<td>07081488611</td>
<td>2016</td>
</tr>
<tr>
<td>24 Excellent Associates Tutors</td>
<td>African Church Model College, College Road, Ifako-Ijaye, Ogba Lagos</td>
<td><a href="mailto:excellentassociates@yahoo.co.uk">excellentassociates@yahoo.co.uk</a></td>
<td>08025112972, 07060616996</td>
<td>2019</td>
</tr>
<tr>
<td>25 First access Associate Ltd</td>
<td>Gobi Plaza, 221/223 Idrum Road, Egbeda</td>
<td><a href="mailto:firstaccess483@gmail.com">firstaccess483@gmail.com</a></td>
<td>08032032873</td>
<td>Mar-22</td>
</tr>
<tr>
<td>26 First Attempt Associates</td>
<td>15, Udotung Ubo Street, Off Akpab road, Uyo Akwa-Ibom State</td>
<td><a href="mailto:sunnymanfok@yahoo.com">sunnymanfok@yahoo.com</a></td>
<td>0802138851</td>
<td>Sept, 2021</td>
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<tr>
<td>27 First Class Associate Tutors</td>
<td>Milbank Hall Secondary School, 26 LASU Isiheri road, Agbonkro, Bus Stop, Ojo, Lagos</td>
<td><a href="mailto:fcetutor@gmail.com">fcetutor@gmail.com</a></td>
<td>08026407233, 08131672267</td>
<td>Nov, 2020</td>
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<tr>
<td>28 Foresight Professional Institute</td>
<td>24 Road Opposite H Close, Festac Town, Lagos</td>
<td><a href="mailto:foresight_professional@yahoo.com">foresight_professional@yahoo.com</a></td>
<td>08063034504, 08024145121</td>
<td>2019</td>
</tr>
<tr>
<td>29 Galaxy Professional Tutor &amp; Consultant</td>
<td>L.E.A Primary School, by Mopil Junction, Opposite Diamond Bank Plc., Niger Ijeh, Abia State</td>
<td><a href="mailto:galaxytutortutors11@yahoo.com">galaxytutortutors11@yahoo.com</a></td>
<td>08063513106, 08056922440</td>
<td>October, 2022</td>
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<tr>
<td>30 GANP Tuition house</td>
<td>Bamidele Ajala House, Plot 8-9, State Residential Estate, Ise road, Ikere Ekiti</td>
<td><a href="mailto:registrant@pumpuitionhouse.com">registrant@pumpuitionhouse.com</a></td>
<td>08034098765</td>
<td>Apr-22</td>
</tr>
<tr>
<td>31 Hodge Professional Services Ltd</td>
<td>Suite 323, Luchiama Plaza, Opposite GSS Garri Area 10, Abuja FCT</td>
<td><a href="mailto:hodge223@gmail.com">hodge223@gmail.com</a></td>
<td>08030381244, 08038312878</td>
<td>Aug. 2021</td>
</tr>
<tr>
<td>32 Horizon Business School</td>
<td>13, Edeodo Street, Owerri, Imo State</td>
<td><a href="mailto:info@horizonbusinessschool.com">info@horizonbusinessschool.com</a></td>
<td>08024214699</td>
<td>April, 2021</td>
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<tr>
<td>33 ICANI Minia Tuition centre</td>
<td>Women Day College, Opposite Keystone Bank, Bosso Shiroc road, Minia</td>
<td><a href="mailto:mohammadsaja@yahoo.co.uk">mohammadsaja@yahoo.co.uk</a></td>
<td>08095929225, 08035875196</td>
<td>March, 2022</td>
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<tr>
<td>34 Ideal Professionals Tuitors, Ago-Iwey</td>
<td>Along OOU Mini campus road, Adjacent, Limba Fuel Station, Ago-Iwey</td>
<td><a href="mailto:adesahwartwad@yahoo.com">adesahwartwad@yahoo.com</a>, <a href="mailto:adesahwarweb@yahoo.com">adesahwarweb@yahoo.com</a>, <a href="mailto:adesahwarweb@gmail.com">adesahwarweb@gmail.com</a></td>
<td>08035484329, 08056182940, 081318059914</td>
<td>2019</td>
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<tr>
<td>35 Insight Professional Mgt &amp; Consulting</td>
<td>St. Brigid’s Convent School, Mokota, Ibadan, Beside St. Gabriel Catholic Church, Mokota</td>
<td><a href="mailto:ashliiiz32@yahoo.com">ashliiiz32@yahoo.com</a></td>
<td>0703105968</td>
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<tr>
<td>36 Integrity Professional Academy, Warr</td>
<td>253 Warr Sapere Road, Warri, Delta State</td>
<td><a href="mailto:port10guy@yahoo.com">port10guy@yahoo.com</a></td>
<td>0802600080, 08026008132</td>
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<tr>
<td>37 IG BYTE, Ijapa Lagos</td>
<td>Towngate Private School, Fadola Street, Of Church Bistro Ipaja, Lagos</td>
<td><a href="mailto:nico12ybase@yahoo.com">nico12ybase@yahoo.com</a>, <a href="mailto:igbyprofesional@yahoo.com">igbyprofesional@yahoo.com</a></td>
<td>08026934169, 08171890482</td>
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<tr>
<td>38 Knight Business School, Gyingba</td>
<td>80, Murtal Mohammed Way, Ebute-Metta</td>
<td><a href="mailto:braingos@gmail.com">braingos@gmail.com</a></td>
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<tr>
<td>39 Legacy Associate Limited</td>
<td>Chinyan HSEILegacy HSE, 296/295, Ikorodu Rd, Ikorodo Bishop, Maryland, Lagos</td>
<td><a href="mailto:legacyassociates@gmail.com">legacyassociates@gmail.com</a></td>
<td>08079087931, 08032236891</td>
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<tr>
<td>40 Legend Business School</td>
<td>105, Ogbaru Road, Off Abraham Adesanya Estate Round about, Lekki-Ajah</td>
<td><a href="mailto:benceisa@yahoo.com">benceisa@yahoo.com</a></td>
<td>234-8023200577</td>
<td>Jan, 2022</td>
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<td>No.</td>
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<td>Leikki Professional &amp; Associate List</td>
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<td>London College of Science &amp; Tech Management Education &amp; Training List</td>
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<td>Maximus Professionals</td>
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<td>MSL, School of Accountancy &amp; Mat. Studies</td>
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<td>Top Professional Solutions, Port Harcourt</td>
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<td>Topclass Tutors Limited</td>
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<td>Topnotch Learning Centre Ltd, Abuja</td>
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<td>TopTalented Tutors, Leikki</td>
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<td>Treasurer Fund Training, Fetcac, Lagos</td>
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<td>Triumph Dynamics Professional Limited</td>
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<td>Wides-Range Professional Ltd, Aspel Ogun</td>
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<td>82</td>
<td>Wyss Associates Limited</td>
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</table>
Our goal is to ensure success in ICAN exams. We have, therefore, provided solutions to some past questions to guide candidates in future exams. Although these suggested solutions have been published under the Institute’s name, they do not represent the views of the Council of the Institute. ICAN will, therefore, not enter into any correspondence about them.

NOVEMBER 2019 DIET FOUNDATION LEVEL EXAMINATIONS

SECTION A: MULTIPLE-CHOICE QUESTIONS (20 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER ALL QUESTIONS IN THIS SECTION

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

1. Which of the following documents will a supplier send to a customer whose invoice was understated?
   A. Pro-formal invoice
   B. Debit note
   C. Credit note
   D. Statement of account
   E. Cheque stub

2. In which of the following books of prime entry will trade discount be recorded?
   A. Pro-forma note
   B. Sales day book
   C. Purchases day journal
   D. Cash account
   E. Petty cash book

3. Which of the following combinations of accounting concepts are the fundamental assumptions in the preparation of financial statements?
   A. Accrual and double entry
   B. Going concern and entity
   C. Materiality and consistency
   D. Accrual and going concern
   E. Going concern and offsetting

4. In accordance with the requirements of IAS-8 - Accounting Policies, Estimates and Errors, which of the following change in method does not give rise to changes in accounting policy?
   A. Measurement of PPE from cost to revaluation model
   B. Presentation of depreciation from cost of sale to administrative expense
   C. Calculation of depreciation from straight line to sum of digit method
   D. Recognition of an expense from capitalisation to expensing
   E. Reclassification of non-current asset to current asset

5. Which of the following information CANNOT be revealed by a statement of cash flow?
   A. The entity’s short-term solvency
   B. Operating cash position
   C. Financial position of the entity
   D. Liquidity position of the entity
   E. Investing activities of the entity

6. In accordance with IAS1-Presentation of Financial Statements, which of the following is not a component of financial statement?
   A. Statement of financial position
   B. Statement of value added
   C. Statement of changes in equity
   D. Statement of cash flows
   E. Statement of profit or loss

Use the information below to answer questions 7 and 8

The following is an information extract from the books of accounts of Walling Parking Enterprises, a sole trader:
Trade receivables balance for the period N1,300,000
The chance of collecting 2% of the receivables figure is remote
It is virtually certain that 95% of the balance of the receivables is collectable

7. What is the amount of allowance recognised in the statement of profit or loss?
   A. N26,000
   B. N63,700
   C. N89,300
   D. N89,700
   E. N98,700

8. What is the net amount of trade receivables recognised in the statement of financial position?
   A. N1,110,000
   B. N1,201,000
   C. N1,210,300
   D. N1,274,000
   E. N1,300,000

Use the following information to answer questions 9 and 10

The extract from the financial statements of Benchmark Ventures for the year ended September 30, 2019 is as follows:
Capital
Net profit
Drawings
Cash and cash equivalent
Accounts payables
Inventory
Accounts receivables

9. Determine the amount of the current assets
A. N32,000
B. N37,000
C. N 64,000
D. N67,000
E. N107,000

10. Calculate working capital of the business
A. N17,000
B. N30,000
C. N38,000
D. N50,000
E. N67,000

11. Which of the following is not an element of financial statements?
A. Asset
B. Liability
C. Equity interest
D. Income
E. Profit

12. Which of the following is not a book of prime entry?
A. Cash book
B. Purchases journal
C. Trial balance
D. Returns inwards day book
E. Sales day book

13. An Accounts officer extracted a trial balance for the year ended October 31, 2019 and discovered that the debit side exceeded the credit side by N30,000. Which of the following could explain the reason for the imbalance?
A. Sales of N30,000 was omitted from the sales journal
B. Returns inwards of N15,000 was posted to the debit side of the trial balance
C. Discounts received of N15,000 were posted to the credit side of the trial balance
D. The bank ledger account did not agree with the bank statement by a debit of N30,000
E. N30,000 spent on repairs of office equipment was debited to office equipment account

14. The following explains the imprest system of operating petty cash, EXCEPT
A. Weekly expenditure cannot exceed a set amount
B. The exact amount of expenditure is reimbursed at intervals to maintain a fixed float
C. The petty cashier collects revenue on behalf of the organisation
D. A petty cashier receives cash, makes expenses of relatively small amount and maintains records for the transactions
E. Regular equal amounts of cash are transferred into petty cash at regular intervals

15. Your company’s statement of profit or loss for the year ended October 31, 2019 showed a profit of N836,000. It was later discovered that N180,000 paid for the purchase of motor van had been debited to motor expenses account. It is the company’s policy to depreciate motor van at 25% per annum on a straight line basis, with full depreciation charged in the year of purchase. What will be the net profit after adjusting for this error?
A. N656,100
B. N701,000
C. N791,000
D. N971,000
E. N1,016,100

16. Which of the following represents members’ interest in a Society or Club?
A. Recurrent fund
B. General reserve
C. Working capital fund
D. Unwinding fund
E. Accumulated fund

17. In which of the following segments of statement of financial position of Institute of Professional Accountants is students’ subscription received in advance recognised?
A. Non-current assets
B. Fictitious assets
C. Current assets
D. Current liabilities
E. Intangible assets

18. Which of the following will not affect the agreement of cash book balance and bank statement bank balance?
A. Dishonoured lodgement
B. Cash payments
C. Bank charges
D. Standing order for the payment of annual subscription
E. Error in the bank statement

Use the following information to answer questions 19 and 20
Obi and Ora are partners, trading under the name, Obiora & Co. and sharing profits or losses equally.

The extract from the partnership books for the period ended September 30, 2019 is as follows

<table>
<thead>
<tr>
<th></th>
<th>Obi</th>
<th>Ora</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening capital balances</td>
<td>200</td>
<td>100</td>
</tr>
<tr>
<td>Opening current account balances</td>
<td>40</td>
<td>80</td>
</tr>
<tr>
<td>Drawings</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>Salary</td>
<td>28</td>
<td>24</td>
</tr>
<tr>
<td>Interest on capital 10%</td>
<td>10%</td>
<td></td>
</tr>
</tbody>
</table>

Profit for the period amounted to N240,000
19. What is Obi's share of profit for the year?
A. N20,000
B. N28,000
C. N39,000
D. N79,000
E. N89,000

20. What is the balance in Ora's current account at the end of the reporting period?
A. N79,000
B. N82,000
C. N101,000
D. N115,000
E. N163,000

SECTION B: OPEN-ENDED QUESTIONS
(80 MARKS)
INSTRUCTION: YOU ARE REQUIRED TO ANSWER ANY FOUR OUT OF SIX QUESTIONS IN THIS SECTION

QUESTION 1
a. Explain the term trial balance (2 Marks)

b. The balancing of a trial balance does not necessarily mean that such trial balance is error free.

Required:
Using a two-column tabular format, highlight FOUR errors that do not affect the trial balance and FOUR errors that affect the trial balance. (8 Marks)

c. Using the following list of balances extracted from the ledger accounts of John Thomas Enterprises, the MD/CEO wants you to confirm if the various double entries passed by the newly employed accounts officer were arithmetically correct:

<table>
<thead>
<tr>
<th>N'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
</tr>
<tr>
<td>Purchases</td>
</tr>
<tr>
<td>Property, Plant and equipment: - Cost</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
</tr>
<tr>
<td>Inventory as at July 1, 2018</td>
</tr>
<tr>
<td>Interest expense</td>
</tr>
<tr>
<td>Administrative expenses</td>
</tr>
<tr>
<td>Accrued expenses</td>
</tr>
<tr>
<td>Distribution cost</td>
</tr>
<tr>
<td>Retained earnings</td>
</tr>
<tr>
<td>Bank overdraft</td>
</tr>
<tr>
<td>Cash and cash equivalent</td>
</tr>
<tr>
<td>Accounts receivables</td>
</tr>
<tr>
<td>Finance cost</td>
</tr>
<tr>
<td>5% Loan note</td>
</tr>
<tr>
<td>Share capital</td>
</tr>
<tr>
<td>Other components of equity (OCE)</td>
</tr>
<tr>
<td>Accounts payables</td>
</tr>
</tbody>
</table>

Required:
Extract a trial balance for the period ended June 30, 2019 (10 Marks)

(Total 20 Marks)

QUESTION 2
The objective of IAS-16 Property, Plant and Equipment (PPE), is to make a clear distinction between capital and revenue expenditure, formulate accounting policy for the recognition of PPE and promote consistency in the application of the policy.

Required:
a. Explain briefly the requirements of IAS 16 in relation to subsequent expenditure and subsequent measurement (3 Marks)

b. After the acquisition of item of PPE, an entity continues to incur subsequent expenditure on the item.

Required:
Explain briefly the requirements of IAS 16 in relation to subsequent expenditure and subsequent measurement. (3 Marks)

c. Ahmed Ventures Ltd acquired an item of plant from Judexco Machine Ltd to facilitate its operations.

The schedule of expenditure for the plant is given below:

<table>
<thead>
<tr>
<th>%</th>
<th>N'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase price</td>
<td>48,000</td>
</tr>
<tr>
<td>Trade discount applicable to the purchase price of the plant</td>
<td>8</td>
</tr>
<tr>
<td>Early settlement discount on the payable amount</td>
<td>5</td>
</tr>
<tr>
<td>Straight line depreciation rate</td>
<td>10</td>
</tr>
<tr>
<td>Other Costs: Freight charges</td>
<td>25,000</td>
</tr>
<tr>
<td>Pre-production testing cost</td>
<td>15,000</td>
</tr>
<tr>
<td>One year maintenance contract</td>
<td>12,000</td>
</tr>
<tr>
<td>Staff cost in relation to the use of the machine</td>
<td>8,000</td>
</tr>
<tr>
<td>Electrical installation cost</td>
<td>19,000</td>
</tr>
<tr>
<td>Concrete reinforcement</td>
<td>9,000</td>
</tr>
<tr>
<td>Cost of correcting installation error</td>
<td>17,000</td>
</tr>
<tr>
<td>Dismantling and restoration cost</td>
<td>20,000</td>
</tr>
<tr>
<td>Staff training in the use of the plant</td>
<td>14,000</td>
</tr>
</tbody>
</table>

Required:
Using the format provided below, classify the above plant costs into capital and revenue expenditure respectively.

Classification of cost into capital and revenue expenditure

| Expenditure     | Capital | Revenue |
| N   | N   | N     |

(14 Marks)

(Total 20 Marks)
QUESTION 3

The accounts clerk of Jide Electronics is unsure of the difference between bank statement and bank reconciliation statement and has asked for your assistance in this direction.

Required:

a. Explain to the accounts clerk, the difference between a bank statement and bank reconciliation statement (2 Marks)

b. The accounts clerk also needs your assistance in order to ensure that the cash book balance of her organisation agrees with the bank statement balance for the month ended September 30, 2019;

She has provided you with the following summary of banking transactions for the period under review:

1. A cheque amounting to N280,000 received and paid into the bank was not credited by the bank until after September 30, 2019;

2. The cash book balance of the business showed an overdraft of N200,000, while the bank statement balance on the same date indicated that the business had a credit balance of N1,930,000;

3. A customer made a direct credit transfer into the business bank account amounting to N1,140,000 in settlement of trade debt and this was not known until after the receipt of bank statement;

4. A cheque amounting to N670,000 for the purchase of goods was posted into the cash book as N760,000;

5. A cheque of N1,230,000 dishonoured by the bank remained unreversed in the cash book;

6. Cheque amounting to N2,680,000 issued to a supplier was presented to the bank on October 08, 2019;

7. The bank statement revealed that there was a dividend of N580,000 received as investment income;

8. The bank transferred the sum of N200,000 to ICAN, being the payment on a standing order for annual subscription of staff who were writing professional examinations;

9. A cash payment of N120,000 was posted to the bank column of the cash book;

10. The bank statement indicated that there were charges of N140,000, this being the cost of SMS and other bank charges; and

11. A cheque of N630,000 deposited by Jide was credited to Deji’s account by the bank.

Required:

i. Prepare the adjusted cash book. (11 Marks)

ii. Starting with the balance as per bank statement, prepare bank reconciliation statement for the month ended September 30, 2019. (7 Marks)

(Total 20 Marks)

SOLUTION

MCQ


Tutorials

QUESTIONS 7 AND 8

Trade receivables balance
Allowance for irrecoverable debt
(1,300,000*2%)
Allowance for bad debt
[(1,300,000-26,000)*5%]
Amount recognised in Profit or Loss
Amount recognised in Statement of Financial position

QUESTIONS 9 AND 10

9 Current Assets

Inventory
Accounts receivables
Cash
Cash Equivalent

10 Less Current Liabilities

QUESTION 15

Computation of adjusted net profit

N  N

836,000

Profit as per account
Reversal of carrying amount of motor van:
Cost of motor van
Depreciation thereon
(180*25%)
Carrying amount added back to profit
Adjusted Profit

135,000  135,000  971,000
WORKING FOR QUESTION 19 AND 20

<table>
<thead>
<tr>
<th>TOTAL</th>
<th>N’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current account B/F</td>
<td>240</td>
</tr>
<tr>
<td>Profit for the period</td>
<td></td>
</tr>
<tr>
<td>Interest on capital</td>
<td>(30)</td>
</tr>
</tbody>
</table>

Drawing -
Salaries (52)
Share of Profit (158)

Partner’s Current Account

<table>
<thead>
<tr>
<th>Obi</th>
<th>Ora</th>
<th>N’000</th>
<th>N’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>40</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>Partners’ salary</td>
<td>28</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>Interest on capital</td>
<td>20</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Share of profit 158/2</td>
<td>79</td>
<td>79</td>
<td></td>
</tr>
<tr>
<td>Drawings</td>
<td>(20)</td>
<td>(30)</td>
<td></td>
</tr>
<tr>
<td>Closing balance</td>
<td>147</td>
<td>163</td>
<td></td>
</tr>
</tbody>
</table>

EXAMINER’S REPORT

- The questions covered the entire areas of the syllabus.
- More than 95% of the candidates attempted the question and performance was above average.
- The commonest pitfall was the inability of candidates to correctly answer questions relating to correction of errors.
- Candidates require good understanding of the double entry principle for better performance in future examinations.

SECTION B

SOLUTION 1

a. TRIAL BALANCE

- A trial balance is a list of all the debit balances and credit balances on the general ledger accounts. If the double entry principles have been applied correctly to all the items in the general ledger, then total of the entries on the debit side should agree with the total on the credit side.
- A trial balance is used to check the arithmetical accuracy of the accounting system. It also serves as

a first step in the preparation of the financial statements.

(b)

S/N ERRORS THAT DO NOT AFFECT TRIAL BALANCE

i. Error of commission
ii. Error of principle
iii. Error of original entry
iv. Compensating error
v. Error of omission
vi. Complete reversal of Entries

ERRORS THAT AFFECT TRIAL BALANCE

i. Error of casting
ii. Error of transposition of figure
iii. Posting of transaction on the wrong side of ledger
iv. Omission of transaction from books of original entry in the ledger
v. Omission of transaction or wrong posting of transactions from ledger to the trial balance.
vi. Omission of opening balance either in the ledger or trial balance.

ERRORS THAT AFFECT TRIAL BALANCE

i. Error of casting
ii. Error of transposition of figure
iii. Posting of transaction on the wrong side of ledger
iv. Omission of transaction from books of original entry in the ledger
v. Omission of transaction or wrong posting of transactions from ledger to the trial balance.
vi. Omission of opening balance either in the ledger or trial balance.

JOHN THOMAS ENTERPRISES
TRIAL BALANCE AS AT 30 JUNE, 2019

<table>
<thead>
<tr>
<th></th>
<th>Debit N’000</th>
<th>Credit N’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>53,000</td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>32,200</td>
<td></td>
</tr>
<tr>
<td>Property, Plant</td>
<td>59,000</td>
<td></td>
</tr>
<tr>
<td>and equipment:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Cost</td>
<td>25,000</td>
<td></td>
</tr>
<tr>
<td>- Accumulated</td>
<td>7,800</td>
<td></td>
</tr>
<tr>
<td>depreciation</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>7,000</td>
<td></td>
</tr>
<tr>
<td>as at July 01, 2018</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>2,400</td>
<td>7,000</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>8,900</td>
<td></td>
</tr>
<tr>
<td>Distribution cost</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>Bank overdraft</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalent</td>
<td>9,000</td>
<td>23,500</td>
</tr>
<tr>
<td>Accounts receivables</td>
<td>5,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Finance cost</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>5% Loan notes</td>
<td>2,400</td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td>Other components of equity (OCE)</td>
<td>5,000</td>
<td>125,300</td>
</tr>
<tr>
<td>Accounts payables</td>
<td>125,300</td>
<td>125,300</td>
</tr>
<tr>
<td>125,300</td>
<td>125,300</td>
<td></td>
</tr>
</tbody>
</table>

EXAMINER’S REPORT

The question tests candidates’ understanding of the meaning of the trial balance, nature of trial balance errors and the extraction of trial balance.

More than 95% of the candidates attempted the question and performance was excellent.

Few candidates use the T-format to prepare the trial balance. Candidates should always remember that financial statements have five elements with asset and expenses being on the debit side while income, equity and liabilities are on the credit side.
Marking Guide | Marks | Total
--- | --- | ---
Definition of trial balance | 1 | 2
Uses of trial balance | 1 | 2
Errors that do not affect the trial balance | 4 | 8
Errors that affect trial balance | 4 | 8
Extraction of trial balance | 1/2 | 10
- Correct title | 1/2 | 10
- Debit and credit entries | 9 | 10
- One of the total amounts | 1/2 | 10

EXAMINER’S REPORT

The question tests candidates’ understanding of the nature of capital and revenue expenditure, measurement of PPE and accounting entries for PPE under IAS 16.

The question was poorly attempted and the candidates’ overall performance was below average.

The candidates exhibited lack of knowledge of the requirements of IAS16 on initial recognition and subsequent measurement of PPE. More than 90% of the candidates could not differentiate between capital and revenue expenditure.

The candidates should be encouraged to have extensive study of past questions and good understanding of the relevant accounting standards.

Marking Guide

(a) Measure PPE initially at cost | 1
- Components of purchase price | 1
- Definition of attributable cost | 1 | 3

(b) Measurement of subsequent expenditure | 1.5
- Measurement of PPT after initial recognition | 1.5 | 3

(c) Capital expenditure | 7
- Revenue expenditure | 5
- Total under capital and revenue expenditure | 2 | 14 | 20

SOLUTION 2

Property, Plant and Equipment (PPE)

a. Requirements of IAS 16 on initial recognition of Property, Plant and Equipment

IAS 16 requires that Property, plant and equipment should be initially measured at cost. Cost of PPE consists of the following.

- The purchase price, excluding trade discount but plus any import taxes or non-refundable sales taxes; Plus
- Directly attributable cost in bringing the asset to its present location and condition, by management, for its intended use. Estimated cost of removing and dismantling the assets and restoring the site.

Requirements of IAS 16 on subsequent expenditure and subsequent measurement

b. Requirements of IAS 16 on subsequent expenditure and subsequent measurement

- Subsequent expenditure on PPE should usually be written off to profit or loss as incurred but subsequent expenditure can only be capitalised if it enhances the economic benefits to be derived from the asset.
- After initial recognition, PPE should be measured at cost or revalued amount less accumulated depreciation and accumulated impairment losses.

Classification of cost into capital and revenue expenditure

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Capital N</th>
<th>Revenue N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase price</td>
<td>480,000</td>
<td></td>
</tr>
<tr>
<td>Trade discount applicable to the purchase price of the plant</td>
<td>(38,400)</td>
<td></td>
</tr>
<tr>
<td>Other costs:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation at 10% (ie, 10% of 529,600)</td>
<td></td>
<td>52,960</td>
</tr>
<tr>
<td>Freight charges</td>
<td>25,000</td>
<td></td>
</tr>
<tr>
<td>Pre-production testing cost</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>One year maintenance contract</td>
<td>12,000</td>
<td></td>
</tr>
<tr>
<td>Staff labour cost in relation to the machine</td>
<td>8,000</td>
<td></td>
</tr>
<tr>
<td>Electrical installation cost</td>
<td>19,000</td>
<td></td>
</tr>
<tr>
<td>Concrete reinforcement</td>
<td>9,000</td>
<td></td>
</tr>
<tr>
<td>Cost of correcting installation error</td>
<td>17,000</td>
<td></td>
</tr>
<tr>
<td>Dismantling and restoration cost</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>Staff training in the use of the plant</td>
<td>14,000</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>529,600</td>
<td>86,960</td>
</tr>
</tbody>
</table>

SOLUTION 3

(a) The issues involved in this case are whether or not a company director is entitled to remuneration and whether or not a director is entitled to be reimbursed for expenses incurred in respect of the company’s operations.

(b) On the issue of directors’ remuneration, the position of the law is that a company is not bound to pay remuneration to its directors, except it is contained in the company's Articles of Association or there is a written agreement to that effect. Conversely, the position of the law on reimbursement of directors’ expenses is that, a company shall reimburse its directors, all travelling and other expenses related to attending and returning from company meetings.

In this case, YEBA Ltd is not liable to pay remuneration to Bala, as directors’ remuneration is not contained in the Articles of Association and, there was no written agreement on payment of remuneration to its directors.

(b) Factors that influence individual ethical behavior in business environment include the following:

i. Individual family influence and background at early age;
ii. Educational attainment and academic exposure of the individual;
iii. Religious inclination of the individual;
iv. Cultural and ethnic consideration of the individual;
v. Existence of laws that define and regulate societal behaviour;
vi. Peer influences of colleagues and associates;
vii. Nature and structure of the business organisation; and
viii. The existence of clear procedures for punishment for breach of ethical rule.
(c) The legal issues involved relate to frustration of contract and principle of part-performance, also referred to as quantum meruit in law of contract.

Frustration arises when unforeseen circumstances or events, which are beyond the control of the parties, happen, and make it impossible for the parties to perform their contractual obligations under the contract.

Part-performance or quantum meruit is a remedy available to a party who has partly performed his obligation under the contract, to claim the cost he has suffered.

In this case, the contract for furnishing and painting of Chief WADADA’s building by Exclusive Décor Enterprises was frustrated by rain floods, which made it impossible to execute the contract. The contract was thus discharged and both parties are absolved from liability. Exclusive Décor Enterprises cannot succeed in suit to claim the contract sum from Chief WADADA.

However, under the principle of quantum meruit, Exclusive Décor Enterprises, who had incurred costs in delivery of materials to site, all of which were destroyed by rain floods, may succeed to claim the loss suffered on the materials.

EXAMINER’S REPORT
The question tests candidates’ knowledge of director’s remuneration and expenses reimbursement, business ethics and part-performance principle (Quantum meruit) under frustration of contract.

Attempt rate was about 65% and general performance was average at about 50% pass rate.

Candidates’ major pitfalls were lack of understanding of quantum meruit principle and rules of business ethics.

Candidates are advised to read the ICAN study text properly.

MARKING GUIDE Marks

(a)  * State legal issue – director’s remuneration and expenses reimbursement  2
    * Explain legal position on director’s remuneration and expenses reimbursement  2
    * Advise Bala – not entitled to remuneration, but can claim expenses reimbursement  2  8

(b)  State 4 factors affecting ethical behaviour in business environment (1 mark each)  2  4

(c)  * State legal issues – frustration and quantum meruit  2
    * Explain legal position on frustration and quantum meruit  2
    * Apply to case – contract discharged by frustration and parties not liable  2
    * Advice to Exclusive Decor - can claim quantum meruit  2  8  20

SOLUTION 4

(a) The conditions under which an insolvent company may be placed under receivership are as follows:

i. When a company is unable to repay loans borrowed when due or the interest payable falls into arrears;

ii. If the property or assets of the insolvent company is in jeopardy, or when events occur to reasonably conclude that the debenture holders’ interests are under threat;

iii. When the company fails to honour or defaults to fulfill any of its obligations imposed on it by the debenture trust deed;

iv. If any circumstance occurs which prevents the terms of the debenture from realising its assigned or pledged security;

v. If the company is being wound-up as a result of insolvency;

vi. If any creditor of the company issues a process of execution against any of the company’s assets;

vii. If the company ceases to carry on business; and

viii. If secured creditors with amounts that exceed specified amount apply to court for receivership.

(b) Under the Criminal Code, the broad classifications of gratification are as follows:

i. Demand or offer and receipt of things of monetary values.
These include cash gifts, donations of assets, loans, financial rewards, value securities and stocks, discounts, commission, rebates, bonuses, deductions, contracts for supply of goods and services, discharge or liquidation of any loan, financial obligation or liability whether in whole or in part, property or interest in property, whether movable or immovable, any forbearance to demand any money; all with the aim of inducing performance or non-performance of a public official’s normal duties.

ii. Demand or offer and receipt of things of intangible values
These include any offer of employment, grant of public privileges, sexual gratification, award of chieftaincy titles or dignity, benefits in kind, protection from legal proceedings and prosecution, either civil or criminal, etc; all these acts are usually made to induce performance or non-performance of public officials’ normal duties.

(c) Agency contract may be terminated by operation of the law under the following circumstances:

i. Death of either party;

ii. Insanity of either party;

iii. Bankruptcy of the principal;

iv. Frustration of the subject-matter;

v. Subject-matter is illegal ab initio.
vi. Subject-matter no longer exists;  
vii. Expiration or effluxion of time;  
viii. Subsequent legal incapacity of either party; and  
ix. Completion of the work.

(d) The following are essential factors necessary to claim contribution by an insurance company:

i. The subject-matter of the insurance must be the same and common to both the insurer and the assured. It is sufficient if the insured entered into double or multiple insurance and the loss is covered by both insurance policies;

ii. The interest insured must be the same, although both or any of the insurance policies may include other interests, but the loss must be caused by a peril common to both insurance policies;

iii. The same assured must be covered by both insurance policies and which must have been effected by the same assured or by any other person acting for him or on his behalf; and

iv. Both insurance policies must be legally enforceable at the date of the peril or loss. Thus, an expired or invalid insurance policy at the time of the peril will not qualify for contribution.

EXAMINER’S REPORT

The question tests candidates’ understanding of company insolvency and receivership, bribery and corruption, agency termination and contribution under multiple insurance. About 80% of the candidates attempted the question, and performance was good.

MARKING GUIDE

(a) State 4 conditions for receivership.
(b) * Explain gratification  
   * State 2 examples (1 Mark each).
(c) State 6 reasons for agency termination by operation of law  
   (1 Mark each)
(d) Explain 3 essential factors for contribution in multiple insurance  
   (2 Marks each).
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