

INSIGHT

EXAMINERS GENERAL COMMENTS

BREACH OF EXAMINATION INSTRUCTIONS

IN SPITE OF THE EXAMINERS' GENERAL COMMENT 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 MANIFEST 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.

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FOREWORD

This issue of **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 and need to improve their knowledge and presentation;
- (iii) Lecturers and students interested in acquisition of knowledge in the relevant subjects contained therein; and
- (iv) The profession in improving pre-examination and screening processes, and so the professional performance.

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.

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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 correspondence about them.

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AT/131/PIII.9

ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME WEST AFRICA (ATSWA)
PART III EXAMINATIONS - MARCH 2013
PRINCIPLES OF AUDITING

Time Allowed: 3 Hours

SECTION A: PART I
Marks)

ATTEMPT ALL QUESTIONS

(30

MULTIPLE CHOICE QUESTIONS

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

- The preparation and presentation of financial statements of an enterprise is the responsibility of which of the following?
 - External Auditor
 - Audit Committee
 - Management
 - Directors
 - Shareholders
- The concept of materiality is of relevance to the auditor in expressing his opinion in relation to the following situations **EXCEPT** to
 - Decide on whether to use negative or positive circularization system
 - Ascertain the period or time that will be required to complete an audit work
 - Determine the type of opinion to be issued
 - Ascertain the sample size
 - Determine the sufficiency of audit evidence required
- The removal of the external auditors of a public company can only be carried out by which of the following?
 - Creditors
 - Audit Committee
 - Shareholders
 - Corporate Affairs Commission
 - Directors
- An auditor is expected to possess some qualities, if he is to be valued by his client. Which of the following does **NOT** qualify as a quality to be possessed by an auditor?

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- A. Craftiness
 - B. Courage
 - C. Honesty
 - D. Tact
 - E. Attention to details
5. The concept that assures the auditor of the continuity of a company into the foreseeable future is
- A. Prudence
 - B. Historical
 - C. Materiality
 - D. Going concern
 - E. Consistency
6. Documentation gathered for the purpose of audit evidence is known as Audit
- A. Evidence
 - B. Working papers
 - C. Memorandum
 - D. Current file
 - E. Planning schedule
7. An audit test carried out to confirm the auditor's understanding of an accounting system is calledtest
- A. Depth
 - B. Substantive
 - C. Compliance
 - D. Walk-through
 - E. Analytical
8. Which of the following does **NOT** affect the contents of audit working papers?
- A. Nature of the engagement
 - B. Nature of the product(s) of the client
 - C. Nature and complexity of the client's internal control system
 - D. Form of the auditor's report
 - E. Direction, supervision and review of work of audit personnel
9. The following are the basic stages of selecting audit samples **EXCEPT**
- A. Planning the sample
 - B. Selecting the items to be tested
 - C. Compliance or substantive test of the items selected
 - D. Applying a parallel test on the items selected
 - E. Evaluating the results of the tests

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10. A data processing method in which there is a delay between the events giving rise to the input of data and updating of the relevant master file and records after a transaction is called system.
- A. Online
 - B. Online real time
 - C. Time sharing
 - D. Batch processing
 - E. Decentralized processing
11. Sources of audit evidence generated internally exclude
- A. Management and staff's evidences
 - B. Accounting systems
 - C. Accounting records
 - D. Documents like minutes book
 - E. Government white papers on industries
12. Audit analytical procedure **EXCLUDES**
- A. Investigating unexpected variations identified by the use of analytical procedures
 - B. Obtaining and substantiating explanations for such variations
 - C. Evaluating the results of an analytical review with other audit evidence obtained
 - D. Trends and ratios analysis
 - E. Internal control evaluation on sampling
13. In auditing, a sample should **NOT** be
- A. Representative
 - B. Random
 - C. Protective
 - D. Analytical
 - E. Unpredictable
14. In Balance Sheet audit, under the current liabilities, which of the following items is **NOT** included in amounts falling due within one year?
- A. Accruals
 - B. Provisions
 - C. Trade creditors
 - D. Debenture
 - E. Bank overdrafts and short term loans payable within the next 12 months
15. Which of the following statements does **NOT** support the audit objectives of wages and salaries?

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- A. To ensure that all wages and salaries are computed in accordance with the records of work performed whether in respect of time, output etc.
 - B. To ensure that no ghost-worker is paid
 - C. To ensure that all cancelled cheques have been accounted for
 - D. To ensure that payrolls are correctly calculated
 - E. To ensure that deductions are correctly accounted for
16. Which of the following is **NOT** a member of the National Council on Public Procurement?
- A. Secretary to the Government of the Federation
 - B. Economic Adviser to the President
 - C. Part-time member representing the Nigerian Medical Association
 - D. Part-time member representing the Nigerian Bar Association
 - E. Minister of Finance
17. Which of the following is **NOT** a basic element of an assurance report?
- A. Subsequent events review
 - B. Auditor's signature
 - C. Date of the report
 - D. Auditor's address
 - E. Statement of negative assurance
18. Which of the following is **NOT** a qualified opinion?
- A. Adverse opinion
 - B. Disclaimer opinion
 - C. Except opinion
 - D. Emphasis of matter
 - E. Limitation of scope opinion
19. There are phases to follow in undertaking value for money audit, which of the following is **NOT** relevant?
- A. Scooping phase
 - B. Proposal phase
 - C. Composition phase
 - D. Implementation phase
 - E. Evaluation phase
20. In Quoted Companies, the law governing Audit Committees specifically stipulates that the Chairman of the Committee must be
- A. A director
 - B. A secretary of the company
 - C. The Managing Director

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- D. The Finance Director
E. A shareholder
21. An auditor must be honest and must not certify what he does not believe to be true. He must take reasonable care and exercise reasonable skill before he believes what he certifies is true. This statement is illustrated in
- A. Re: City Equitable Fire Insurance Co. Ltd (1924)
B. Re: Kingston Cotton Mill Ltd (1896)
C. Re: London and General Bank (1895)
D. Re: Makesson and Robin Inc USA (1939)
E. Re: Thomas Gerrard & Sons Ltd (1967)
22. Which of the following is a professional misconduct?
- A. Mentioning clients' failure to abide with regulatory authorities requirements
B. Giving commission to third parties for introducing clients to the firm
C. Accountant appearing on a radio program and introduced as a Chartered Accountant
D. Mentioning special areas of interest in accounting and other related fields in complimentary cards
E. Preparation of accounting records leading to audit of these records
23. The code of ethics does **NOT** prohibit which of the following?
- A. Receiving loan from a client
B. Giving loan to a client
C. Accepting audit engagement which contributes more than 20% of gross income of the firm
D. Recruiting staff for audit client
E. Accepting gifts or hospitality from the client
24. Which of the following is **NOT** a yardstick to determine fair and reasonable fee being charged by audit firms?
- A. The grade and expense of the staff involved in the audit assignment
B. Position of the client's business in the industry
C. The time expended
D. The degree of work involved
E. The risk inherent in the audit assignment
25. The following are created by the accountancy profession to safeguard the profession **EXCEPT**

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- A. Code of ethics of the profession
 - B. Stabilizing annual subscription paid by members
 - C. Reviewing members activities by the profession
 - D. Auditing standards
 - E. Accounting standards
26. Which of the following is **NOT** a line of communication in a firm of professional Accountants?
- A. Partner
 - B. Manager
 - C. Director of the Auditee
 - D. Audit Clerk
 - E. Audit Senior
27. Which of the following is **NOT** a technique of audit testing?
- A. Observation
 - B. Enquiry
 - C. Analytical review procedures
 - D. Computation
 - E. Walk through test
28. A test carried out by the auditor to obtain evidence as to whether the internal controls put in place by the management are being followed is test.
- A. Rotational
 - B. Substantive
 - C. Analytical
 - D. Compliance
 - E. Acid
29. An auditor's permanent audit file usually includes a copy of
- A. Company's certificate of incorporation
 - B. Schedule of items in the balance sheet
 - C. Minutes of directors' meeting
 - D. Copies of circularization letter written during the year
 - E. Copies of audit planning memorandum
30. The controls that ensure that roles and responsibilities of each person and department are properly specified within an organisation is
- A. Authorisation and approval controls
 - B. Management controls
 - C. Segregation of duties

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- D. Organisation controls
- E. Physical controls

SECTION A: PART II
Marks)

ATTEMPT ALL QUESTIONS

(20

SHORT-ANSWER QUESTIONS

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

1. Audit programme tests can be broadly classified into two. These are
and
2. A written document which sets out the information obtained and decisions reached as a result of audit planning efforts is called
3. A document which consists of questions asking if various controls exist is called
4. The audit approach which ignores what takes place within the computer programs and concentrating only in the input and output is known as
5. A file that contains records and information relating to client's organisation which does not change often is called
6. The functions of the Auditor-General are many. His report is, of necessity, supposed to be well written. To who does the Auditor-General address his report?

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7. The term that is given to the exercise at the end of an audit which is to ensure that all matters that may be used in the report to the Board and management are identified is known as
8. That paragraph in the Auditors' report which should identify the financial statements of the entity that have been audited, including the date and period covered by the financial statements is referred to as
9. One of the problems of Public Accounts Committee is that are examined often in arrears.
10. When the effect of disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements, what type of opinion should be expressed?
11. The audit procedure that independently examines the quality of the policies and procedures of management of an organisation is called
12. The type of internal control that seeks to ensure that no single person or group of persons should treat a particular transaction from beginning to the end without the involvement of another person is called
13. The record that assists auditors to carry out verification of fixed assets is known as
14. The method used to record the system of internal control of an entity in narrative form is known as
15. A situation where two or more practicing firms act as auditors of a company is referred to as
16. The explanatory paragraph placed after the opinion paragraph in an unqualified auditor's opinion which emphasizes a matter related to the entity or its financial statements is called
17. Information gathered from written, printed or electronic sources by the auditor in the course of his work is referred to as
18. The events occurring after the financial year end of an entity that concern conditions not existing at the balance sheet date are known as
19. An Auditor inspects tangible assets to provide reliable audit evidence about their but not necessarily as to their ownership.
20. A document that sets the terms of reference of an audit assignment is called

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- a. Explain the process of auditing through the computer and auditing round the computer.
(5½ Marks)
- b. Enumerate **FIVE** advantages and **TWO** disadvantages of computer audit programs.
(7 Marks)

(Total 12½ Marks)

QUESTION 5

The procedures the auditor is expected to carry out to complete the audit in an orderly and proper manner are many.

Discuss these procedures with respect to:

- a. Final review of draft financial statements. (3 Marks)
- b. Completion of field work. (3 Marks)
- c. Audit completion checklist (3 Marks)
- d. Consideration of desirability of reappointment. (3½ Marks)

(Total 12½ Marks)

QUESTION 6

Audit evidence refers to the information obtained by the auditor and used in arriving at the conclusion on which he bases his opinion on the financial statements.

Explain, with at least an example each, FIVE sources from which the auditor derives his audit evidence. (12½ Marks)

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SUGGESTED SOLUTIONS

SECTION A

PART 1 MULTIPLE-CHOICE QUESTIONS

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

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

EXAMINER'S COMMENT

The questions cover all the areas of the syllabus. About 70% of the candidates scored above half of the allocated marks while others did not do well.

The commonest pitfall is that the candidates who did not do well did not prepare properly for the examination.

Candidates are advised to cover the syllabus in preparing for future examinations.

PART II SHORT-ANSWER QUESTIONS

- 1. Compliance and Substantive Tests
- 2. Audit Planning Memorandum
- 3. Internal Control Evaluation Questionnaire

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4. Audit Round the Computer
5. Permanent File
6. State/National Assembly
7. Debriefing
8. The Opening or Introductory Paragraph
9. Auditor-General Reports
10. Adverse Opinion
11. Management Audit
12. Segregation of Duties
13. Fixed Asset or Plant Register
14. Narrative/System Notes
15. Joint Audit
16. Emphasis of Matter
17. Documentary Evidence/Audit Evidence
18. Non-Adjusting Events
19. Existence
20. Engagement Letter

EXAMINER'S COMMENT

50% of the candidates scored above 50% of the allocated marks while those that did not do well demonstrated lack of adequate preparations for the examinations.

Major pitfall is inadequate preparation and lack of total commitment coupled with not covering the syllabus.

Candidates are advised to cover the syllabus for future examinations.

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SECTION B

SOLUTION 1

- 1(a) An audit is the independent examination of, and expression of opinion on, the financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation.

The associated benefits are:

- i. It serves as a deterrent to fraudulent staff within the firm.
- ii. It serves as basis for determining the net worth of a company in case merger or acquisition.
- iii. It can be used as basis for negotiating loans.
- iv. It helps in gaining the confidence of the tax authorities.
- v. It serves as basis for measuring performance by the would be investors.
- vi. It can be used in presenting a company for listing in the stock exchange.

(b) **The other services are the following:**

- i. **Accounting Services:** This has to do with providing assistance in the maintenance of accounting records and preparation of financial statements for organisations especially for small firms or partnerships, etc.
- ii. **Taxation Matters:** This entails assisting clients with the preparation and agreement of tax returns for the purpose of making claims for taxation relief, computation of capital allowances. Queries raised by the tax office in respect of client's accounts as well as objections and appeals in case of assessment disputes are also handled. Tax clearance certificates may also be processed and procured on behalf of the client.
- iii. **Investigations:** This is with respect to alleged fraud, prospectus reports. The Inland Revenue Service and Board of Internal Revenue may also engage accountants for the purpose of "Back Duty" tax investigations.
- iv. **Liquidations, Receivership and Trusts:** They assist clients in realising their assets under liquidation and also help in collecting amounts due to a company and creditors, thus taking the company out of financial embarrassment. Estates are also managed in fiduciary capacity as trustees.
- v. Pension Fund Managers by establishing and managing staff pension schemes.

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- vi. **Consultancy:** This entails carrying out feasibility studies, secretarial duties, training of staff, mergers and acquisition of companies, advisory services for quotation on stock exchange, loans decisions, etc.

EXAMINER'S COMMENT

This question tests candidates on the meaning of Audit and its benefit to the client; and other services rendered by statutory Auditor. About 40% of the candidates that attempted the question scored half/above the marks allocated. Major pitfalls include inability to define "Audit" in clear terms and failure to identify other services rendered by the Auditor.

Candidates are advised to read and understand the concept of the question.

SOLUTION 2

The definition of Internal Control establishes four objectives as follows:

- a.
 - i. To carry on the business of the company in an orderly and efficient manner.
 - ii. To ensure adherence, to management policies.
 - iii. To safeguard the assets of the organisation.
 - iv. To secure the completeness and accuracy of the records.

- b. **Inherent Limitations that affect the achievement of Internal control objectives;**
 - i. **Human Errors** – Where an officer of an organisation does an operation repeatedly over a period of time, stress and fatigue may set in with attendant errors being committed.
 - ii. **Abuse of authority:** A responsible official in a position of authority may abuse his powers to commit fraud.
 - iii. **Collusion:** Two or more officials of an organisation may collude with each other, thereby, beating the control systems put in place by the client.
 - iv. **Lack of motivation** – Where officers are not well or adequately compensated, they would not discharge their duties with integrity, this creating an avenue to defraud the organisation.

EXAMINER'S COMMENT

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This question tests candidates' knowledge of identification of objectives of internal control and its inherent limitations. About 80% of the candidates attempted the question. The performance by the candidates was average. The major pitfall is candidates' inability to highlight inherent limitations that affect the achievement of internal control systems' objectives.

Candidates are advised to prepare adequately for future examinations.

SOLUTION 3

3(a) **An auditor's independence may be threatened in the following circumstances:**

- (i) All members are advised to discharge their duties with integrity and objectivity. A member should not allow his name to be associated with a document, report or financial statements that is misleading or biased.
- (ii) The auditor should not hold beneficial interest in the equity of a client's company.
- (iii) He should not accept fees, the amount of which is dependent on the success of the assignment.
- (iv) He should not act as an auditor where he currently acts for the client in an executive capacity.
- (v) He should not act for two opposing clients in the course of a negotiation, settlement or claims unless he has been duly appointed under due processes of the law as an arbitrator.
- (vi) He must not give to or receive from, a client company, a loan or financial guarantee unless the client is acting in an ordinary course of business and the terms are not unduly favourable to the auditor.
- (vii) He must not act as an auditor for a company where he is acting as a receiver.
- (viii) The auditor should not derive too great a proportion of his annual re-current fees from a client or a group of connected clients. 25% is regarded as being substantial.
- (ix) Personal relationships, either by blood or marriage may also affect independence.
- (x) Acceptance of goods and services and undue hospitality from a client may also affect independence unless the values are modes.

b. **The potential threats to independence of auditors are:**

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- **Advocacy threat:** There is a threat to the auditor's objectivity, if he becomes an advocate for or against his client's position in any position. There is the possibility that where the auditor takes a proactive stance on behalf of his client, this may be interpreted as being incompatible with objectivity that an audit requires.
- **Intimidation threat:** There is the possibility that the auditor may become intimidated by the dominating personality or other pressures by a director or a client's management staff or some other part.
- **Self-interest threat:** This threat may stem from a financial or another self interest conflict, where for example, the auditor fears of losing a major client.
- **Familiarity or trust threat:** This arises where the auditor may become over-influenced by the personality and qualities of some directors or management staff of the client company, that he may become too sympathetic to their interest.
- **Self review threat:** There is the difficulty of maintaining objectivity and conducting an effective self-review if any judgement of a previous audit assignment or any other non-audit assignment needs to be challenged or re-evaluated in reaching an audit or other non-audit conclusions.

EXAMINER'S COMMENT

The question tests the Candidates knowledge of the circumstances that may threaten an auditor's independence and potential threats an auditor may encounter. 95% of the candidates attempted the question.

The performance was fairly good. Candidates did not do well in identifying potential threats to auditor's independence. The candidates are advised to have adequate knowledge of the syllabus with serious preparation.

SOLUTION 4

1. Auditing through the computer

This approach uses the procedures of ensuring that all inputs find its way to the machines; no processing errors occur in the computer and the computer operator do not tamper with the processing until the final output emerged as expected. Auditing through the computer requires the possession of computer skills and knowledge of the main programs and application packages. (3 Marks)

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Auditing Round the computer

It is a method of processing data whereby the auditors ignore the processing which takes place within the computer programs and concentrates on the initial input and final output.

The auditor checks the validity of input in batches to confirm if they are correctly coded and properly authorised.

The final output will be checked against the source documents and the control totals for accuracy. (2½ Marks)

2. Advantages of computer audit programmes:

- (a) Accuracy of data examination is facilitated.
- (b) It allows auditor to examine data more rapidly.
- (c) It acquaints the auditor with live data.
- (d) It provides the auditor with new opportunities.
- (e) It overcomes loss of audit trail significantly
- (f) It is relatively cheap to use once the set up cost has been incurred.

Disadvantages of computer programs:

- (a) It requires some technical knowledge.
- (b) Variety of programming language is used in business; standard computer audit programmes may not be compatible.
- (c) It may be difficult to obtain computer time, especially in testing.
- (d) It requires detailed knowledge of the system and the programmes.

EXAMINER'S COMMENT

The question tests the Candidates knowledge of “Auditing through the computer” and “Auditing round the computer” their merits and demerits of the two computer terms.

Over 70% of the candidates attempted and their performance was fair but 50% scored below the average mark.

Major pitfall is the inadequate preparation for the examination.

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Candidates are advised to prepare adequately for future examination.

SOLUTION 5

(a) **Final Review of Draft Financial Statements**

The auditor should carry out a final review of the draft financial statement sufficient, in conjunction with the conclusion drawn from other evidence obtained to provide a reasonable basis for the audit opinion.

(b) **Completion of Field Work**

The engagement manager should ensure that all field work has been completed and reviewed, except as indicated in issues documentation before the files are presented for final review by the engagement partner.

The engagement manager should be satisfied that

- adequate working paper review is evident in the files
- all review notes have been satisfactorily dealt with and removed from the files, any documents relating to matters of substance affecting the opinion having transferred to the issues documented.

(c) **Audit Completion checklist**

To help ensure that all relevant matters are attended to before the audit report is signed, it is often useful to provide an “Audit Completion Checklist”. This could be a manual record or use of technology when final issues of documentation is first presented to partners for initial clearance. It is also likely that some of the used e.g. subsequent events review without have been completed. However, the auditor should deal with all matters on the checklist before presenting the issues documentation (with the checklist) for final clearance.

(d) **Consideration of Desirability of reappointment**

The auditor should consider whether the circumstances of the client charged in such a way as to make it undesirable to continue as the client’s auditor. A decision is needed before the auditor signifies willingness to be reappointed at the company’s AGM. It is

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necessary to be alert for condition that might have caused a rejection of the client had they existed when the appointment was initially accepted. In the case of doubt, the engagement partner should contact other partners.

EXAMINER'S COMMENT

The question tests the candidates' understanding of final review of draft financial statements, completion of field work, audit completion checklist and consideration of desirability of reappointment. About 25% of the candidates attempted the question but only 10% of the candidates that attempted the question scored 50% of the marks allocated.

The major pitfall is inadequate preparation by candidates.

Candidates are advised to prepare adequately for future examination.

SOLUTION 6

The auditor derives evidences from these sources:

- (i) **Authoritative external documents:** These are documents issued by other individuals, organisation, experts etc. in evidence of transactions undertaken with the audited work. e.g. stock certificates issued by experts, cash receipt, title deeds etc.
- (ii) **The system of internal control:** This provides a measure of the extent to which accounting records can be taken as reliable. It is usually useful as a source of audit evidence at the stage of deciding on the extent of substantive testing to be done. Example, internal audit reports.
- (iii) **Confirmation by independent parties:** This refers to evidence the auditor can obtain from reliable third parties in confirmation of audit information available within the organisation being audited. Examples include debtors/creditors circularisation replies, bank letters.
- (iv) **Observation:** This consists of the auditor looking at operation and procedures, as they are being performed. Examples include attendance during stock/cash counts, observation of payment procedures on pay-days for casual workers, observation of procedures for receiving into and issues out of stores.
- (v) **Computation by the auditor:** In the process of audit work, the auditor re-performance some calculations done by the client. This provides evidence as to

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the correctness of some figures in the accounts records. Examples:- Tax payable, allowances paid to staff.

- (vi) **External Events:** These refer to the events in the external environment of the business being audited, which affect the result shown in the financial statement. Examples of these include government restriction, economic recession, industry trends or trends analysis gazette etc.
- (vii) **Directives and Responsible officers of the organisation:** In the course of an audit, the auditor obtains evidence for officers of the organisation on aspects of its operation that concern such officers. Examples include letter of representation, responses to ICQ questions.
- (viii) **Post Balance sheets events:** This refers to events which occur after the date as at which accounts being audited were made up but throw some light on some assertions and estimates used in the accounts.

Examples include unexpected disasters, government pronouncements, and court cases.

EXAMINER'S COMMENT

The question tests the candidates' understanding of the source from which the auditor derives his audit evidence.. More than 99% of the candidates attempted the question and their performance was fair. Candidates that failed this question exhibited inadequate preparation and non-coverage of the syllabus.

The major pitfall is inadequate preparation by candidates.

Candidates are advised to prepare adequately for future examination.

AT/131/PIIL.10

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME
PART III EXAMINATIONS - MARCH 2013**

INSIGHT

COST ACCOUNTING

Time Allowed: 3 Hours

SECTION A: PART I
(30 Marks)

ATTEMPT ALL QUESTIONS

MULTIPLE CHOICE QUESTIONS

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

1. What is "Markup" in sales pricing?
 - A. The identification mark on the upper side of a product package
 - B. The percentage on total cost representing profit
 - C. The percentage on selling price representing cost
 - D. The total cost of a product less discount
 - E. The number of units of a product in a carton

2. The term "conversion cost" refers to the cost of converting
 - A. Raw materials into finished or semi-finished products
 - B. Finished products into packaged products
 - C. A product line to an assembly line
 - D. Scraps into good products
 - E. A loss-making business to profitability

3. How is "Prime Cost" computed?
 - A. Production cost + Selling cost
 - B. Direct material + Direct Labour
 - C. Direct Labour + Direct Expenses
 - D. Variable Costs + Fixed Costs
 - E. The total of all direct cost

4. A "Cost Centre" is
 - A. A section of the cost accounting department for ascertaining costs
 - B. A production or service location, function or activity or item of equipment for which costs are accumulated
 - C. The location where actual production takes place

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- D. The central function for approving all costs in an organisation
E. The office where costs are shared.
5. How do you treat a cost that is impossible to identify with a particular cost centre?
- A. Allocate it
B. Distribute it
C. Apportion it
D. Recover it
E. Amortise it
6. Which of the following is **NOT** an objective of a coding system?
- A. To identify items which cannot be easily done by description
B. To avoid ambiguity which arises from the use of descriptions
C. To aid processing, especially with computer-based systems
D. To make it impossible for customers to gain access to company information
E. To reduce data storage because codes are shorter than descriptions
7. Which of the following is **NOT** the duty of the Purchasing Department?
- A. Selection of suppliers
B. Issuance of purchase orders
C. Negotiating prices and terms of supplies with suppliers
D. Taking delivery and keeping of goods
E. Liaising with user departments on stock control levels
8. What does “Perpetual Inventory System” mean?
- A. Stock items are received and supplied every day
B. The stock record is updated after each stock movement
C. The store is open twenty-four hours a day
D. The main store replenishes the sub-store as and when required
E. There is a direct linkage between the store and production line
9. Which of the following is **NOT** a characteristic of JIT Systems?
- A. Everything is online, no human intervention
B. A move towards zero inventory
C. Emphasis on zero defects
D. 100% on-time deliveries
E. Elimination of non-value adding services
10. Which of the following is **NOT** a primary source for labour remuneration?
- A. Job cards
B. Clocking cards
C. Overtime sheet

INSIGHT

- D. Attendance register
 - E. Tax deduction card
11. What does “Job Evaluation” mean?
- A. Evaluating the performance of employees as a basis for salary increase
 - B. Evaluating the cost of errors made by employees during the year
 - C. Evaluating the relative worth of jobs by analysing their contents
 - D. A method of deciding which employees to retrench during periods of recession
 - E. Deciding the contents of a new post to be created
12. Which of these is an income which is recorded only in the financial accounts and not in the cost accounts?
- A. Discounts received
 - B. Sale of scraps
 - C. Dividend received
 - D. Sale of by-products
 - E. Sale of joint products
13. What is a “Control Account”?
- A. Profit and Loss accounts
 - B. Statement of value added
 - C. Trial balance
 - D. The reconciliation of cost accounts with financial accounts
 - E. The account representing the total of all the balances in a subsidiary ledger
14. What differentiates a Contract from a Job?
- A. Contracts relate only to building construction
 - B. Size and value
 - C. Contracts relate only to government while jobs relate to industry
 - D. Contracts are for duration extending beyond 12 months only
 - E. Jobs relate to services while contracts relate to products
15. Why are interim profits derived from contracts before final completion?
- A. To ascertain the amount of profit that can be attributed to the year at the company’s financial year end
 - B. Because the contractor is not patient
 - C. To prevent employees from misappropriating the profits
 - D. To enable the contractor renegotiate terms of the contract
 - E. To facilitate the declaration of dividends
16. What is normal loss in process costing?

INSIGHT

- A. Unavoidable wastage in production
 - B. Compulsory wastage during set-up process
 - C. Necessary wastage to ensure perfect quality
 - D. Deliberate wastage as part of industry convention
 - E. Withdrawals during production for quality assurance
17. Under standard costing, variance is the difference between
- A. The standard and budget
 - B. The budget and the actual
 - C. The ideal and attainable cost
 - D. This year's cost and the previous year's cost
 - E. The actual costs and standard costs
18. What is the effect of any revenue beyond the break-even point?
- A. Profit
 - B. Loss
 - C. No profit, no loss
 - D. Higher costs
 - E. Bankruptcy
19. What is the main characteristic of Zero-Base Budgeting?
- A. Previous year's budget are multiplied by 10
 - B. Previous year's budget are divided by 10
 - C. Previous year's figures are maintained
 - D. Previous year's figures are ignored
 - E. Previous year's figures are reviewed
20. What makes "backflush accounting" unique?
- A. All past records are flushed out
 - B. The normal sequence of accounting is reversed
 - C. Records are reviewed in arrears
 - D. Only the beginning and ending of a process are reckoned with
 - E. Records are destroyed immediately after posting
21. What is "Payback period"?
- A. The time taken to repay a loan taken for projects
 - B. The time it takes a company to recoup its initial capital outlay
 - C. The period it takes a company to recover costs of investing in research and development of a new product

INSIGHT

- D. The time required for the cash inflows from a capital investment project to equal the cash outflows
- E. The period taken to pay a retiring director his entitlements
22. What is a flexible budget?
- A. A budget drawn up to adjust cost levels to suit the level of activity attained
- B. A budget drawn up to accommodate external factors
- C. A budget prepared in the middle of the accounting period
- D. A budget drawn up under conditions of inflation
- E. A budget drawn up to serve a specific purpose
23. Which of these costing methods is likely to be used in a soap-making factory?
- A. Job costing
- B. Contract costing
- C. Mass production costing
- D. Process costing
- E. Batch costing
24. The projected value of a non-current asset at the end of its useful life is called value
- A. Saleable
- B. Residual
- C. Last
- D. Useless
- E. Recovery
25. The document which guides the whole budgeting process is called Budget
- A. Reference Book
- B. Compendium
- C. Guidelines
- D. Booklet
- E. Manual
26. What is a “Quantity Discount”?
- A. An extra number of units given free to customers as an incentive Commission on sales
- B. A reduction in total price for volume purchases
- C. A reduction in the amount owed if customers would pay early
- D. A reduction in the quality to be delivered to the customer
- E. A reduction in the quantity to be delivered to the customer
27. With regard to inventory control, what is “Lead Time”?

INSIGHT

- A. The interval between when an order is placed and materials are received.
 - B. The time it takes the fastest supplier to fulfill an order
 - C. The time it would take to exhaust the current stock quantity
 - D. The time interval between the minimum and maximum stock levels
 - E. The time interval between two separate orders of the same product
28. The underlying assumption of the “Base Stock” method of inventory valuation is that
- A. There must be a strong basis of keeping each stock item
 - B. A predetermined minimum quantity is always held in stock
 - C. A particular quantity should be held in the basement out of the store
 - D. A specified quantity should be ordered each time the stock is exhausted
 - E. A sample stock quantity should be kept for free distribution
29. Electricity bill falls into the category of cost.
- A. Fixed
 - B. Variable
 - C. Semi-variable
 - D. Total
 - E. Period
30. The name given to an equitable rent charged in the accounts for use of own premises is rent.
- A. Nominal
 - B. Fixed
 - C. Annual
 - D. Periodic
 - E. Notional

SECTION A: PART II
(20 Marks)

ATTEMPT ALL QUESTIONS

SHORT-ANSWER QUESTIONS

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

1. The costing method which applies where work of a relatively low value is undertaken to customers’ special requirement is called
2. Costs which remain constant over a specific range of activity for a specific period of time are known as

INSIGHT

3. Costs which will not be affected by a decision are known as
4. Inventories which have become useless with the passage of time and technological changes are called
5. A formal request by an authorised officer to the Purchasing Manager to purchase some materials is known as
6. The document which gives details of goods a supplier is supplying to his customer is called
7. A reduction in the amount due from a customer to encourage prompt payment is termed
8. Whereas the bin card records only quantity of materials..... records both quantity and values.
9. The number of workers which left an organisation during a period as a percentage of the average number of workers during the period is a method of calculating
10. The difference between the time for which workers are paid and the actual time spent on production is known as
11. The aggregate of indirect materials, indirect wages and indirect expenses is called
12. Materials that have been converted during production but **NOT** yet at finished stage are referred to as
13. In contract costing, the difference between value and cost of work certified is known as
14. Where the actual wastage in process is less than the normal loss, the difference is referred to as
15. Two or more products of almost equal economic value which are simultaneously produced from the same manufacturing process and the same raw material are known as
16. An integrated costing system eliminates the need for

INSIGHT

MAIN CODES

SUB – CODES

<u>Non-current Assets</u>	000 – 090	<u>Buildings</u>	
Land	000	Head office	001
Buildings	010	Oregon Branch	002
Motor Vehicles	020	Ibadan Branch	003
Plant & Machinery	030	Residences	004
Furniture & Fittings	040		
<u>Current Assets</u>	100 – 190	<u>Motor Vehicles</u>	
Trade Receivables	100	Delivery Trucks	001
Sundry Receivables	110	Pick-up Vans	002
Inventories	120	Cars	003
Bank	130		
Cash	140	<u>Plant & Machinery/ Furniture</u>	
		Factory Machinery	001
<u>Current Liabilities</u>	200 – 290	Generators	002
Trade Payable	200	Office Equipment	003
Sundry Payable	210	Residence Equipment	004
<u>Long Term Liabilities</u>	300 - 390	<u>Inventories</u>	
Share Capital	300	Raw Materials	001
Deposit for Shares	310	Work in Progress	002
Capital Reserves	320	Finished Goods	003
Revenue Reserves	330	Consumables	004

INSIGHT

		Packaging Materials	005
<u>Revenue</u>	400 – 490	Scraps	006
Cash Sales	400	Stationery	007
Credit Sales	410		
Other Income	420	<u>No sub-codes for the followings</u>	
		1. Revenue	
<u>Production Cost</u>	500 – 590	2. Production Cost	
Direct materials	500	3. Selling/Admin Expenses	
Direct Labour	510	4. Current Assets	
Direct Expenses	520	5. Current Liabilities	
Indirect Materials	530	6. Long Term Liabilities	
Indirect Labour	540		
Indirect Expenses	550		
<u>Selling/Admin Expenses</u>	600 – 690		
Selling Expenses	600		
Admin Expenses	610		

Marverik Limited manufactures yoghurt drinks using sugar, milk and colouring among other raw materials.

You are required to state the account codes to be used in posting the following transactions:

- a. Sales of yoghurt on credit at Oregon Branch

INSIGHT

- b. Consumption of milk in production
- c. Purchase of a new delivery van
- d. Purchase of a new air-conditioner for the Managing Director's residence
- e. Increase in company's share capital
- f. Cash sales at Ibadan Branch
- g. Factory workers' wages
- h. Cost of cleaning materials for factory machinery
- i. Cleaning materials
- j. Salesmen's commission
- k. Sale of used computers
- l. Scraps
- m. Purchase of a new bagging machine at the head office factory
- n. Financial Controller's salary
- o. Purchase of a new set of dining chairs and tables for General Manager's house
- p. Donations received

(12½ Marks)

QUESTION 3

Monami Limited has three production departments namely MIXING, FILLING and SEALING and two service departments: ADMIN and ENGINEERING. The overhead departmental distribution summary shows the following.

MIXING	₦600,000
FILLING	₦500,000
SEALING	₦400,000
ADMIN	₦150,000
ENGINEERING	₦120,000

The service department expenses are allotted on a percentage basis as follows:

	MIXING	FILLING	SEALING	ADMIN	ENGINEERING
ADMIN	40%	30%	20%	-	10%

INSIGHT

ENGINEERING	30%	40%	15%	15%	-
-------------	-----	-----	-----	-----	---

You are required to apportion the expenses of ADMIN and ENGINEERING departments to the production departments using continuous allotment method. Round up to the nearest whole number. (12 ½ Marks)

QUESTION 4

Flazy Industries Limited manufactures a single product, AZZY using four basic raw materials namely: A, Z¹, Z², and Y in a fully automated production process producing 100,000 units per batch.

The following are the basic inputs into a normal batch which takes four hours.

1. 400,000 units of materials A at a standard cost of ₦750,000 per carton of 500,000 units.
2. 250,000 units of raw material Z¹ at a standard cost of ₦180,000 per carton of 100,000 units.
3. 200,000 units of materials Z² at a standard cost of ₦60,000 per carton of 50,000 units.
4. 150,000 units of materials Y at a standard cost of ₦62,500 per carton of 150,000 units.
5. Only two workers are required namely FILLER and PACKER. A FILLER earns ₦1,000 per working day of 8 hours while a PACKER is on ₦800 for the same period.
6. Direct expenses per batch is ₦60,000 while overheads are ₦ 50,000 per batch.

Flazy Industries Limited adds a mark-up of 40% on total standard cost to arrive at the selling price.

You are required to prepare a standard cost card of AZZY. Show your workings and solution up to 3 decimal places. (12 ½ Marks)

QUESTION 5

Hope Manufacturing Industries Limited operates an interlocking system of accounts. The following information is available from the financial accounts for the year ended 31 December 2012.

	₦
Sales	800,000

INSIGHT

Materials purchased	180,000
Direct Factory Wages	250,000
Indirect Wages:	
- Production	40,000
- Administration	25,000
- Sales and distribution	35,000
Production Overheads	75,000
Selling and Distribution Overheads	70,000
Administration Overheads	50,000

The data collected from the cost accounts for the period are as follows:

	₹
Raw materials issued to production as indirect materials	25,000
Stores issued to production as direct materials	120,000
Cost of goods sold at finished goods stock valuation	425,000
Standard rate of production overhead absorption	₹1 per operating hour
Rate of administration overhead absorption	20% of cost of production
Actual operating hours worked	200,000

You are required to prepare the following accounts in the costing books for the year ended 31 December 2012.

- a. Cost Ledger Control Account (3 ½ Marks)
 - b. Material Control Account (2 Marks)
 - c. Wages Control Account (2 ½ Marks)
 - d. Production Overhead Control Account (2 ½ Marks)
 - e. Administration Overhead Control Account (2 Marks)
- (Total 12 ½ Marks)**

QUESTION 6

INSIGHT

In today's highly competitive business environment, it has become absolutely imperative for a business venture to seek to adopt methods of keeping its running costs to the barest minimum. This need has given birth to various cost reduction and cost control measures.

You are required to write short notes on the following:

- | | |
|-------------------------------------|--------------------------|
| a. Value engineering | (3 Marks) |
| b. Value analysis | (4 Marks) |
| c. Cost Audit | (2 Marks) |
| d. Organisation and Methods (O & M) | (3½ Marks) |
| | (Total 12½ Marks) |

SUGGESTED SOLUTIONS

SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

1. B
2. A
3. E
4. B
5. C
6. D
7. D
8. B

INSIGHT

9. A
10. E
11. C
12. A and C
13. E
14. B
15. A
16. A
17. E
18. A
19. D
20. B
21. D
22. A
23. D
24. B
25. E
26. B
27. A
28. B
29. C
30. E

EXAMINER'S COMMENT

This section covers the entire syllabus. All candidates attempted the multiple choice questions. Performance was above average. Candidates are advised to keep up this standard.

SECTION B

INSIGHT

PART II SHORT ANSWER QUESTION

1. Job Costing
2. Fixed Costs
3. Irrelevant Costs
4. Obsolete Stocks
5. Purchase Requisition
6. Waybill/Goods Delivery Note
7. Cash Discount
8. Stock Ledger Card
9. Labour Turnover Rate
10. Idle Time
11. Overheads
12. Work in Progress
13. Notional Profit
14. Abnormal Gain
15. Joint Products
16. Reconciliation
17. Budget Committee
18. Life Cycle Costing
19. Work Study
20. Committed Costs or Irrelevant Fixed Cost

EXAMINER'S COMMENT

Being compulsory, all candidates attempted the short answer question in this section 60% of the candidates scored passmark.

SOLUTION 1

INSIGHT

For cost information to be useful, the following criteria should be used to judge its quality and acceptability.

1. **Economic Reality**

For any cost information to be relevant, it must reflect current economic realities. Since an organization cannot exist in isolation, the economy of the country in which it is located would impact heavily on its fortunes.

For instance, the way an industry would run in a growing economy would differ from that of an underdeveloped economy. Therefore, information which works somewhere may not be relevant elsewhere.

2. **Relevance**

Information must be relevant for particular purposes and particular organizations. The information that is useful in a manufacturing organization is not the same to be applied to a service organization because it would not be relevant. Furthermore, what the store department requires may not be the same as that of the production department.

Also, different situations require different volumes of information. While some may require basic information, some others may need quite some detail.

3. **Timeliness**

Information must be released as fast as possible so that it does not become stale. In a fast changing world of advancement in technology, cost information need to be on-line and real time. It also must be frequently updated to maintain its relevance.

A very good example is budgeting. Variance reports for a month must be released soon after the end of the month before any adverse situation is allowed to continue unchecked into the next month.

4. **Cost effectiveness**

The value of cost information must be weighed against the cost of obtaining same. If the latter is higher than the former, it is not cost-effective and should be discarded.

5. **Ease of Understanding**

The users of cost information are most likely professional in other fields and may not have the flair for financial details. The cost accountant should therefore present his information in as simple a language as possible, by avoiding technical jargons.

Where practicable, pictorial aids like charts, diagrams and pictures may be employed to provide more clarity to the information supplied.

6. **Comparability**

INSIGHT

Sometimes a piece of information may not make much meaning on its own, but would be more relevant if compared with a previous period. By so doing the recipient is able to measure the growth or decline in the business.

One important aid in the area of comparability is the use of ratios, percentages and indices. They tend to provide better comparisons than absolute values.

7. **Objectivity**

Although information may not be completely devoid of the presenter's subjective assessment, it is possible to reduce subjectivity to the barest minimum. By so doing the information would enjoy wider acceptability. Where an information is perceived by most recipients as the narrow view of one person, it is at best treated with inertia if not outright rejection.

8. **Verifiability**

To make cost information more authentic and therefore more acceptable, the presenter should endeavour to provide external sources of verification. The cost accountant must recognize the fact that his reports most times tend to indict others, and such people would initially preoccupy themselves with finding means of discrediting the information. If the information is easily verifiable, that distraction would be avoided.

10. **Reliability**

For information to be reliable, absolute accuracy is a must. Accuracy should be maintained through the means of collection. Data collected and compiled must be checked and cross-checked to ensure that errors are detected and corrected.

For example, machine-generated information may be found to be more accurate than manual information which is largely subject to human errors.

As much as possible, standard documentation of information ensures completeness and consistency rather than information compiled on an ad-hoc basis.

b) **Benefits or Advantages of Cost Accounting Information these include the following:**

- i It helps to identify profitable and unprofitable products and services
- ii It helps to identify efficient and inefficient methods, and helps departments to take corrective measures to improve efficiency
- iii It helps to generate comparative information on jobs, products, services and projects.
- iv It facilitates production control
- v It facilitates stock control

INSIGHT

- vi It aids decision making such as make or buy, delete or retain
 - vii It facilitates accurate estimation of costs of various cost units.
- bii) **Uses of Cost Accounting Information include the following:**
- I To ascertain cost of goods produced or services rendered
 - ii To ascertain the cost of a department or work section
 - iii To facilitate pricing
 - Iv To provide information to assist planning
 - V To provide information for decision making
 - Vi To provide information to aid tool
 - Vii To assist in setting standards of performances
 - Viii To provide feedback information for control purposes
 - Ix For valuation of inventories of goods (raw materials, work-in-progress, finished goods) that are still held in store at the end of a period
 - x To ascertain the profitability of a product, a service, a department, or the organisation as a whole.

EXAMINER'S COMMENT

The question tests Candidates on Benefits and uses of Cost Accounting. 95% of the candidates attempted the question and 75% of these scored 50%. Performance in part (b) was better than in Part (a). Candidates should improve their understanding of the criteria that influence provision of cost information in an organisation

SOLUTION 2

- (i) 410/000
- (ii) 500/001
- (iii) 020/002
- (iv) 040/004
- (v) 300/000
- (vi) 400/000
- (vii) 510/000
- (viii) 530/000
- (ix) 530/004

INSIGHT

- (x) 600/000
- (xi) 420/003
- (xii) 420/006
- (xiii) 030/001
- (xiv) 610/000
- (xv) 040/004
- (xvi) 130/000 or 140/000

EXAMINER'S COMMENT

The question tests candidates' knowledge on how to use account codes in posting company transactions. 75% of candidates attempted the question but 50% of these scored pass mark. Candidates are advised to study well in preparing for future examinations.

SOLUTION 3

ITEMS	MONAMEY LIMITED				
	PRODUCTION DEPARTMENTS			SERVICE DEPARTMENTS	
	MIXING	FILLING	SEALING	ADMIN	ENGINEERING
	₦	₦	₦	₦	₦
Primary Distribution	600,000	500,000	400,000	150,000	120,000
Apportion Admin	60,000	45,000	30,000	(150,000)	15,000
Apportion Engineering	40,500	54,000	20,250	20,250	(135,000)
Apportion Admin	8,100	6,075	4,050	(20,250)	2,025
Apportion Engineering	608	810	304	303	(2,025)
Apportion Admin	122	91	61	(303)	29
Apportion Engineering	9	12	4	4	(29)
Apportion Admin	2	1	1	(4)	0
Total	709,341	605,989	454,670	-	-

EXAMINER'S COMMENT

INSIGHT

The question tests candidates understanding of Continuous Allotment Method of Overhead Absorption. 70% of the candidates attempted the question. 75% of those who attempted the question scored close to maximum marks. Candidates are advised to keep up this standard.

SOLUTION 4

FLOZZY INDUSTRIES LIMITED STANDARD COST CARD

Product Description – OZZY

	N	N
Direct Materials:		
Material O per unit	6.00	
Material Z ¹ per unit	4.50	
Material Z ²	2.40	
Material Y per unit	<u>0.625</u>	13.525
Direct Labour:		
Filler	0.005	
Packer	<u>0.004</u>	0.009
Direct Expenses		0.6
Overheads		<u>0.5</u>
TOTAL STANDARD COST PER UNIT		14.634
Add Mark-Up of 40%		<u>5.854</u>
		<u>20.488</u>

.....
PREPARED BY

.....
AUTHORISED BY

WORKINGS

$$\text{Material O} - \text{N} \frac{750,000}{500,000} = \text{N}1.50 \text{ per unit} \times 400,000 \div 100,000 \text{ in batch} = \text{N}6.00$$

$$\text{Material Z}^1 - \text{N} \frac{180,000}{100,000} = \text{N}1.80 \text{ per unit} \times 250,000 \div 100,000 \text{ in a batch} = \text{N}4.50$$

$$\text{Material Z}^2 - \text{N} \frac{60,000}{50,000} = \text{N}1.20 \text{ per unit} \times 200,000 \div 100,000 \text{ in a batch} = \text{N}2.40$$

$$\text{Material Y} - \text{N} \frac{62,500}{150,000} = \text{N}0.4167 \text{ per unit} \times 150,000 \div 100,000 \text{ in a batch} = \text{N}0.625$$

$$\text{Filler} - \text{N} \frac{1,000}{8} = \text{N}125 \text{ per hour} \times 4 \text{ hours} \div 100,000 \text{ in a batch} = \text{N}0.005$$

INSIGHT

$$\text{Packer} = \frac{800}{8} = \text{₱}100 \text{ per hour} \times 4\text{hrs} + 100,000 \text{ in a batch} = \text{₱}0.004$$

$$\text{Direct Expenses} = \frac{60,000}{100,000} = \text{₱}0.6$$

$$\text{Overheads} = \text{₱}50,000 \text{ for batch of } 100,000 \text{ units} = \text{₱}0.5$$

EXAMINER'S COMMENT

The question tests candidates' knowledge on how Standard Cost Card is prepared. 40% of the candidates attempted the question and half of them scored pass marks. Candidates should prepare adequately for future examination.

SOLUTION 5

CAPE MANUFACTURING INDUSTRIES LIMITED

COST LEDGER CONTROL ACCOUNT

	COST LEDGER CONTROL ACCOUNT		
	₱		₱
Sales A/c	800,000	Material Control A/c	180,000
		Wages control A/c	350,000
		Production overhead Control A/c	75,000
		Admin overhead control A/c	50,000
		Selling & Distribution overhead Control A/c	70,000
		Costing profit & Loss A/c	<u>75,000</u>
	<u>800,000</u>		<u>800,000</u>

(ii) **MATERIAL CONTROL ACCOUNT**

	₱		
	₱		₱
Cost ledger Control A/c	180,000	Production overhead control A/c	25,000
		Work in progress control A/c	120,000

INSIGHT

_____ Closing Stock of Raw material	<u>35,000</u>
<u>180,000</u>	<u>180,000</u>

(iii) **WAGES CONTROL ACCOUNT**

	₦		₦
Cost ledger Control A/c	350,000	Production overhead control A/c	40,000
		Admin overhead control A/c	25,000
		Sales & Distribution Overhead Control A/c	35,000
	<u>180,000</u>	Work in progress control a/c	<u>250,000</u>
	<u>350,000</u>		<u>350,000</u>

(iv) **PRODUCTION OVERHEAD CONTROL ACCOUNT**

	₦		₦
Material Control A/c	25,000	Work-in-progress control A/c	200,000
Wages control A/c	40,000	(200,000 hrs x ₦1)	
Cost ledger control A/c	75,000		
Over/under absorbed	<u>60,000</u>		_____
Overhead A/c	<u>200,000</u>		<u>200,000</u>

(v) **ADMINISTRATION OVERHEAD CONTROL ACCOUNT**

	₦		₦
Wages Control A/c	25,000	Work-in-progress control A/c	
Cost Ledger control A/c	50,000	(20% of ₦425,000)	85,000
Over/under	<u>10,000</u>		_____
Absorbed Overhead A/c	<u>85,000</u>		<u>85,000</u>

EXAMINER'S COMMENTS

INSIGHT

The question tests candidates' knowledge in posting simple ledger accounts in an interlocking system. Common pitfalls of candidates are the problem they had in distinguishing between financial and cost accounting ledger accounts. Only 20% of the 60% of the candidates who attempted the question scored passmark. Candidates should make adequate preparation for future examinations.

SOLUTION 6

(a) Value Engineering

Value engineering is defined as “an organized approach to the identification and elimination of unnecessary cost” In this context, unnecessary cost is cost which provides neither use, nor life, nor quality, nor appearance, nor customer features.

Value engineering practice involves the following tasks:

- (i) Preparing and administering maintenance programmes
- (ii) Forecasting expenditure flows
- (iii) Advising on cost limits and preparing budgets
- (iv) Advising on cash flow forecasting
- (v) Advising on life cycle costing
- (vi) Preparing cost analysis
- (vii) Preparing cost/benefit analysis
- (viii) Preparing estimates
- (ix) Evaluating alternative designs
- (x) Appraising investments
- (xi) Measuring and describing construction work but only in terms of cost planning.

(b) Value Analysis

Value Analysis is an approach to improving the value of a product or process by understanding its constituent components and their associated costs. It then seeks to find improvements to the components by either reducing their cost or increasing the value of the functions.

(c) Cost Audit

This is the verification of Cost Accounts and a check on the adherence to the cost accounting plan.

A typical cost audit programme includes the following:

Comparison of actual production and sales with the budgeted estimates

Analysis of variances interpretation for management attention

A discussion of queries to confirm that actions are taken.

INSIGHT

- (d) Organisation and Methods (O&M)- a systematic investigation of an organisation's structure, procedures and methods, and management and control, from the lowest level of staff to the highest. Its objective is to assess their comparative efficiency in achieving defined organizational aims. Organisation Method concerns itself mainly with administrative procedures (not manufacturing operations) and employs techniques such as operational research, work study and system analysis

The following steps could be followed in an O&M investigation.

- (1) Select the area/ process that requires attention
- (2) Record the current situation
- (3) Examine and analyse the existing situation
- (4) Develop, design and evaluate alternative solutions and recommend improvement opportunities
- (5) Implement the chosen solution
- (6) Monitor and maintain the implemented solution.

EXAMINER'S COMMENT

The question tests candidates' knowledge of Cost Reduction and Cost Control Measures. 80% of the candidates attempted the question, but only 25% of those who attempted it scored pass mark. Candidates are advised to prepare better for future examinations.

INSIGHT

ACCOUNTING TECHNICIANS SCHEME WEST AFRICA PART III EXAMINATIONS - MARCH 2013 PREPARING TAX COMPUTATION & RETURNS

Time Allowed: 3 Hours

**SECTION A: PART I ATTEMPT ALL QUESTIONS (NIGERIA
VERSION)**

MULTIPLE- CHOICE QUESTIONS (30 Marks)

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 a way through which tax evasion can be achieved?
 - A. Understating income and expenditure
 - B. Understating expenditure and overstating assets
 - C. Overstating income and understating expenditure
 - D. Understating income and overstating expenditure
 - E. Overstating income and overstating expenditure

2. Any person who contravenes any provisions of the Federal Inland Revenue Service (Establishment) Act for which no specific penalty was provided, shall be liable on conviction to a fine not exceeding
 - A. ₦50,000
 - B. ₦45,000
 - C. ₦40,000
 - D. ₦35,000
 - E. ₦30,000

3. The duties of the State Board of Internal Revenue include the following **EXCEPT**
 - A. Appointing, Promoting, transferring and imposing disciplinary measures on employees of the state service

INSIGHT

- B. Advising the government through the Commissioner for Finance on tax matters which include amendments to tax laws
 - C. Ensuring the effectiveness and optimum collection of all taxes and penalties due to the Government under the relevant tax laws
 - D. Attending to all tax matters referred to it by the Board from time to time
 - E. Issuing instructions or directives on technical aspects of assessment including interpretation of Income Tax Acts to their various officers
4. The levies and dues collectible by Local Governments in Nigeria include the following **EXCEPT**
- A. Radio and TV license fees
 - B. Slaughter slab fees
 - C. Pools betting and casino fees
 - D. Merriments and road closure levy
 - E. Motor pack fees
5. A quorum is formed at any meeting of the State Board of Internal Revenue by the Chairman other members.
- A. and three
 - B. or a Director and two
 - C. or a Director and three
 - D. or a Director and four
 - E. or a Director and seven
6. The notice of a Tax appeal must state precisely the following grounds of objection **EXCEPT**
- A. The reference number and date of assessment
 - B. The amount of tax on the assessment under dispute
 - C. Why the assessment is considered excessive
 - D. Only the portion the taxpayer wants to pay
 - E. The location of the taxpayer's office
7. An itinerant worker under the Personal Income Tax Act is defined as an individual who
- A. Works in two states within a year
 - B. Resides in the Federal Capital Territory
 - C. Works as tax inspectors
 - D. Does not have a permanent principal place of residence in a year of assessment
 - E. Does not have a chargeable income for a relevant year of assessment

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8. In relation to a partnership for a year of assessment the relevant tax authority for tax assessment is the
- A. State of origin of the partners
 - B. Places in which the partners reside on 1 January of the year of assessment
 - C. Place nearest to the partner's place of work
 - D. Principal office of business on the first day of that year
 - E. Places of residence of partners at year-end
9. Which of the following administers the income accruing to a partner under a partnership agreement?
- A. Federal Inland Revenue Service
 - B. The Joint Tax Revenue Service
 - C. The Federal Ministry of Finance
 - D. State Ministry of Finance
 - E. The State Board of Internal Revenue Service
10. Under the Personal and Companies Income Tax Acts, which of the following statement is **TRUE**?
- A. Capital allowances for other businesses are restricted to 70%
 - B. Capital allowances for manufacturing businesses are now restricted to 75%
 - C. Capital allowances for agricultural businesses are granted in full
 - D. Capital allowances are the same thing as personal reliefs
 - E. Capital allowances are not restricted at all
11. What is the estimated tax life of a qualifying capital expenditure with annual allowance rate of 10%?
- A. Fifteen years
 - B. Twenty years
 - C. Ten years
 - D. Five years
 - E. Twenty five years
12. Which of the following represents the ultimate year of assessment?
- A. The year of cessation
 - B. The year preceding the year of accounting change

INSIGHT

- C. The year of change of accounting date
 - D. The year of commencement of business
 - E. The year preceding the year of cessation
13. Lolipop Limited, commenced business on 1 October 2010 and has chosen 31 December as its year-end. Which of the following is the correct basis period for assessable profit for the second Year of assessment?
- A. 1/10/2009 – 30/9/2010
 - B. 1/10/2010 – 31/12/2010
 - C. 1/10/2010 – 30/8/2010
 - D. 1/1/2011 – 31/12/2011
 - E. 1/10/2010 – 30/9/2011
14. Which of the following is **FALSE** regarding investment allowance?
- A. Rural investment allowance may be claimed where a taxpayer locates his business where there is no normal facilities
 - B. Plant and machinery in use by agricultural business attracts 10% Investment allowance
 - C. Production machinery attracts 10% Investment allowance for Manufacturing business
 - D. Locally fabricated small tools, attract 15% Investment allowance
 - E. Plant and Machinery in use by agricultural business attracts 40% Investment allowance
15. Ola-Ola Associates bought a set of furniture for ₦950,000, the tax written down value of the asset was ₦320,000. It was disposed for ₦210,000. What is the balancing adjustment?
- A. Balancing allowance ₦110,000
 - B. Balancing charge ₦110,000
 - C. Balancing allowance ₦630,000
 - D. Balancing charge ₦630,000
 - E. Investment allowance ₦740,000
16. Which of the following professional charges is allowable as an expense for tax purposes?
- A. Fees paid to a lawyer to handle tax disputes
 - B. Legal charges to enter into agreement on short and long-term lease for the first time

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- C. Fees to renew lease equal to or less than fifty years
D. Fees to renew long-term lease
E. B and C above
17. An action whereby a tax payer minimizes the tax liabilities through illegal means is known as tax
- A. Allowance
B. Avoidance
C. Shifting
D. Evasion
E. Incidence
18. Tertiary Education Tax is imposed on which of the following?
- A. All Nigerian companies that supply educational books
B. Foreign companies operating in Nigeria
C. All Nigerian Educational Institutions
D. All companies registered in Nigeria
E. Petroleum exploration companies
19. A partnership business made a net profit of ₦400,000. The partners, A, B, and C share profits and losses in the ratio 3: 3: 2 respectively. What is the income derived by C from the partnership business?
- A. ₦150,000
B. ₦50,000
C. ₦100,000
D. ₦80,000
E. ₦120,000
20. Life Assurance Allowance is
- A. ₦40,000
B. 50% of premium paid
C. ₦100, 000
D. Actual premium paid
E. Actual premium paid or ₦100, 000 whichever is lower
21. The following are features of withholding tax **EXCEPT**

INSIGHT

- A. It is applicable to all investment income.
 - B. It is charged at the rate of 20%.
 - C. It is deducted at source.
 - D. It enhances voluntary tax compliance.
 - E. It reduces incidence of tax evasion.
22. Which of the following is **NOT** an allowable expense under the Capital Gains Tax Act.
- A. Cost of acquiring the asset.
 - B. Cost of enhancing the value of the asset
 - C. Expenditure incurred in establishing right over the asset
 - D. Expenditure deductible for income tax purposes under Personal Income Tax Act and Company Income Tax Act.
 - E. Incidental cost of making the disposal.
23. Withholding tax is deducted
- A. Gradually
 - B. Annually
 - C. Quarterly
 - D. Periodically
 - E. At source
24. What is the withholding tax rate on consultancy and professional services for non – corporate bodies?
- A. 15%
 - B. 10%
 - C. 7%
 - D. 5%
 - E. 25%
25. Which of the following enhances voluntary tax compliance?
- A. Stamp Duty
 - B. Companies Income Tax
 - C. Value Added Tax
 - D. Capital Gains Tax
 - E. Education Tax

INSIGHT

26. Which of the following is **FALSE**?
- A. VAT is not chargeable on goods and services that are exempted
 - B. VAT is charged at 0% on goods and services that are zero-rated
 - C. VAT input is refundable on a zero-rated supply
 - D. VAT input is refundable on an exempted item only
 - E. VAT input is not refundable on an exempted item
27. The cost of manufacturing a finished product is ₦750,000 and the product is sold for ₦1,140,000, assuming all figures are net of VAT, Compute the VAT payable.
- A. ₦22,500
 - B. ₦12,850
 - C. ₦19,500
 - D. ₦42,500
 - E. ₦37,500
28. Which of the following is **NOT** expected to be on a VAT invoice?
- A. Customer's name and address
 - B. Rate of VAT
 - C. Year of incorporation and registration for VAT purposes
 - D. VAT registration number of the tax payer
 - E. Tax payer identification number
29. Ad-valorem does **NOT** apply to which of the following?
- A. Share capital of companies
 - B. Life insurance policies
 - C. Promissory notes
 - D. Property Valuation
 - E. Proxy form
30. Which of the following is **NOT** a document on which a fixed duty may be imposed?
- A. Guarantor form
 - B. Bills of Exchange
 - C. Payment receipts
 - D. Bills payable at sight
 - E. Admission as solicitor or Notary Public

INSIGHT

SECTION A: PART II
Marks)

ATTEMPT ALL QUESTIONS

(20

SHORT ANSWER QUESTIONS

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

1. The assessment raised where the tax payer has neither filed returns nor registered for tax purposes is called
2. A legal document called a is normally drawn up to define the rights, duties and interest of the partners.
3. The right of election is vested in the tax authority under cessation while such right is vested in the tax payer under
4. The power to adjudicate between a tax payer and the relevant tax authority in the event of a dispute concerning assessments is vested in
5. The judgment of the Zonal VAT Tribunal is equivalent to the judgment of a
6. An advance tax on income deducted at source is called
7. Amended assessment is also called assessment.
8. Tax levied on locally manufactured goods is called
9. Under the commencement rule, a tax payer has the option to be assessed to tax on actual year basis for the second and Years of Assessment.
10. Capital allowance computation is usually based on the life of an asset.
11. Granting capital allowance means a of taxable profit.
12. Statutory total income is made up of earned and income
13. How should depreciation be treated in the computation of tax of a trading business?
14. What basis of assessment applies to the income that accrues to a partner from a partnership business?
15. Capital gains tax rate is on any capital gain obtained.

INSIGHT

16. All incomes are subject to withholding tax.
17. Cost incurred in acquiring ownership of a chargeable asset is the money paid and the market value of the property. **TRUE/FALSE?**
18. Under the Value Added Tax Act, the document that must be issued for all supplies is called
19. VAT returns must be rendered on/before day of the month following that in which the purchase or supply of goods or services were made.
20. Fixed Duties and are two forms of stamp duties.

SECTION B: ATTEMPT ANY FOUR QUESTIONS (50 Marks)

QUESTION 1

In line with the Personal Income Tax (Amendment) Act 2011, you are required to:

- a. Define “Gross emoluments”. (1½ Marks)
 - b. State **FOUR** conditions for exemption from Personal Income Tax. (6 Marks)
 - c. List **FIVE** tax exempt incomes. (5 Marks)
- (Total 12½ Marks)**

QUESTION 2

A Tax Clearance Certificate is issued by the relevant tax authority to a tax payer only after complying with the specified requirements of the tax authority.

Required:

- a. Enumerate the contents of a Tax Clearance Certificate. (2½ Marks)
 - b. List **TEN** transactions for which a Tax Clearance Certificate may be required. (10 Marks)
- (Total 12 Marks)**

QUESTION 3

- a. Babs Nigeria Limited purchased a qualifying capital expenditure on hire purchase with an initial deposit of ₦300,000 and an annual instalmental payment of ₦120,000 payable over 4 years. This amount includes annual interest of ₦20,000.

Required:

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Compute the Capital allowance for the first year assuming initial allowance of 15% and annual allowance of 20%. (6 Marks)

- b. BingoBingo Nigeria Limited commenced business on 1 April 2007 and prepares accounts to 30 September each year. Owing to problems of raw materials supply, the company ceased operations on 30 April 2009. The operating profits of the company adjusted for tax purposes are as follows:

Year to 30/9/2007 - ~~₦~~440, 000

Year to 30/9/2008 - ~~₦~~720, 000

Year to 30/4/2009 - ~~₦~~300, 000

You are required to determine the company's assessable profits for the relevant years of assessment.

(6½ Marks)

(Total 12½ Marks)

QUESTION 4

- a. Briefly explain each of the following and their tax implications:

i. Pension (2 Marks)

ii. Gratuities (2 Marks)

iii. Redundancy Benefits or compensation for loss of office (2 Marks)

iv. Distinctions between employment and self employed (4 Marks)

- b. Mr. Lam resigned from one partnership business to join another one. How will he be assessed for tax purposes? (2½ Marks)

(Total 12½ Marks)

QUESTION 5

- a. All expenditure deductible for income tax purposes under Personal Income Tax Act and Companies Income Tax Act are non allowable expenses under the provisions of Capital Gains Tax Act. State the allowable deductions under the provisions of Capital Gains Tax Act. (5 Marks)

- b. Mrs. Dangogo has a storey building in Aja, Lagos State, which was acquired on 21 August 2000 at a cost of ₦15 million. She was approached by a telecommunications company for a small portion of landed property within the building premises for the erection of a booster mast. Mrs. Dangogo decided to sell the whole asset on 31 December 2010 to the Telecommunications Company for the sum of ₦35 million. Cost of

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professional services of Estate Manager and Legal advisers stood at ₦2.2 million and ₦1.8 million respectively.

Required:

- i. Compute the Capital Gains arising from the disposal of the asset. (5 Marks)
- ii. Ascertain the tax payable on the gain on the disposal. (2½ Marks)
(Total 12½ Marks)

QUESTION 6

Some officials of the Federal Inland Revenue Service visited a manufacturing company recently. On arrival at the premises of the company, they met the General Manager who requested for the reason for their visit. The tax officer explained that it was observed that the company changed the prices of its products recently and that they had come to find out how the adjustment was treated in the company's records. The General Manager instructed the Finance Manager to produce the VAT records which showed the Input VAT and the VAT Input Adjustment.

Your are required to explain

- a. VAT Input Adjustment (4 Marks)
- b. Output VAT (8½ Marks)
(Total 12½ Marks)

NIGERIA TAX RATES

1. CAPITAL ALLOWANCES

	Initial %	Annual %
Office Equipment	50	25
Motor Vehicles	50	25
Office Buildings	15	10
Furniture & Fittings	25	20
Industrial Buildings	15	10

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Non-Industrial Buildings	15		10
Plant and Machinery - Agricultural Production	95	Nil	
- Others	50		25

2. INVESTMENT ALLOWANCE 10%

3. RATES OF PERSONAL INCOME TAX:

Graduated tax rates with consolidated allowance of ₦200,000 + 20% of Gross income subject to a minimum tax of 1% of Gross Income whichever is higher.

	Taxable Income	Rate of Tax
	₦	%
First	300,000	7
Next	300,000	11
Next	500,000	15
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
(profit) | 2% (of assessable) |
| 6. CAPITAL GAINS TAX | 10% |
| 7. VALUE ADDED TAX | 5% |

SUGGESTED SOLUTIONS

SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

1. D
2. A
3. D
4. C
5. D

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- 6. D
- 7. D
- 8. D
- 9. E
- 10. C
- 11. C
- 12. A
- 13. E
- 14. E
- 15. A
- 16. E
- 17. D
- 18. D
- 19. C
- 20. D
- 21. B
- 22. D

- 23. E
- 24. D
- 25. C
- 26. D
- 27. C
- 28. C
- 29. E
- 30. B

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EXAMINER'S COMMENT

The multiple choice questions tested basic principles in tax and were drawn from all aspects of the syllabus. All the candidates attempted the questions. More than 90 percent of the candidates displayed adequate understanding of the subsection and scored above 60 percent. Candidates are encouraged to maintain this level of performance.

PART II SHORT-ANSWER QUESTIONS

1. Best of judgment assessment
2. Deed of Partnership
3. Commencement
4. Tax Appeal Tribunal
5. Federal High Court
6. Withholding Tax
7. Revised
8. Excise Duty
9. Third
10. Useful or unexpired
11. Reduction
12. Unearned
13. It should be added back to profit because it is not allowed for deduction
14. Preceding year basis
15. 10%
16. Investment/"Unearned"
17. False
18. Tax Invoice
19. 21st, Vatable
20. Ad Valorem Duties

INSIGHT

EXAMINER'S COMMENT

The Short Answer Questions tested candidates' understanding of current tax issues in the syllabus. All the candidates attempted the questions and 60% scored pass mark. Candidates are advised to make adequate preparation to ensure better performance in future examinations.

SECTION B

SOLUTION 1

- a. Gross emoluments means wages, salaries, allowances (including benefits in kind), gratuities, superannuation and any other incomes derived solely by reason of employment.
- b. **The following are conditions for exemptions from Personal Income Tax**
- Non resident individual who works and stays in Nigeria for less than 183 days
 - Individual without any source of income
 - A situation whereby tax exemption on income arises from bonds issued by Federal, State and Local Governments.

 - A condition in which the interest earned is from bonds issued by the Federal, State and Local Government.

 - A situation whereby the income earned from bonds issued by corporate including supra-nationals.
- c. **Tax exempt income includes:**
- Gratuities received from prior employment
 - Dividend received from a small business for the first five years of operation
 - Dividend received by Nigerian from investment in shares of a company incorporated in Nigeria
 - Pension received from prior employment
 - Refund of medical or dental expenses

Others include:

- Cost of uniform or other protective clothings
- Compensation for loss of office
- Any reasonable removal or relocation expenses
- Any cost of passage to and from Nigeria in respect of expatriates
- Any dividend from pioneer company

EXAMINER'S COMMENT

This question tests candidates' understanding of the Personal Income Tax (Amendment) Act 2011. 50% of the candidates attempted the question. 48% of the candidates scored pass mark. The major pitfall was

INSIGHT

lack of understanding of what constitutes Gross emolument in the 2011 Act. 46% of the candidates did not understand the condition for exemption from Personal Income Tax. Candidates are advised to study the provisions of the 2011 Personal Income Tax (Amendment) Act for proper understanding in future examination.

SOLUTION 2

(a) **A tax clearance certificate shall disclose the following information in respect of the last three years of assessment:-**

- (i) Total profits or chargeable income;
- (ii) Tax payable;
- (iii) Tax paid;

- (iv) Tax outstanding
- (v) Statement that no tax is due
- (vi) Tax years covered
- (vii) Tax Payer's identification number
- (viii) Name of tax payer

(b) **The following transactions attract demand for tax clearance certificate:**

- (i) Application for government loan for industry and business
- (ii) Application for firearms license
- (iii) Application for certificate of occupancy
- (iv) Application for award of contracts by government and its agency
- (v) Application for trade license
- (vi) Application for approval of building plans
- (vii) Application for transfer of real property
- (viii) Application for allocation of plot of land
- (ix) Application for buying agent license
- (x) Application for pools or gaming license
- (xi) Application for registration as contractor
- (xii) Application for distributorship
- (xiii) Application for allocation of market stalls
- (xiv) Stamping of amount of loan capital

EXAMINER'S COMMENT

The question tests candidates' understanding of uses of Tax Clearance Certificate. 80 percent of the candidates attempted the question but about 45% scored pass mark. The major pitfall was lack of adequate knowledge of the transaction for which a Tax Clearance Certificate may be required. Candidates should prepare well for future examination by covering all aspect of the syllabus and understand the requirement for a tax clearance certificate.

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SOLUTION 3

(a)

BABS NIGERIA LIMITED			
COMPUTATION OF CAPITAL ALLOWANCE			
Rate:	Initial allowance	15%	Capital allowance
	Annual allowance	20%	₦
		₦	
	Cost	400,000	
	Deduct:		
	Initial allowance	(60,000)	60,000
	Annual allowance	(68,000)	<u>68,000</u>
	Tax written down value	<u>272,000</u>	
	Total capital allowance		<u>128,000</u>

Workings

i. Computation of annual installment

Annual Installment = Installment – Hire Purchase Interest

$$= \text{₦}120,000 - \text{₦}20,000$$

$$= \text{₦}100,000$$

ii. Initial and Annual allowances computation

$$\text{Initial Allowance (I.A)} = 15/100 \times \text{₦}400,000$$

$$\text{Annual Allowance (A.A)} = \frac{\text{Cost} - \text{Initial Allowance}}{\text{Number of years}}$$

$$\text{A.A} = \frac{\text{₦}400,000 - \text{₦}60,000}{5 \text{ years}}$$

$$= \text{₦}68,000$$

3(b)

BINBINGO NIGERIA LIMITED

COMPUTATION OF ASSESSMENT PROFIT

FOR 2007 TO 2009 YEAR OF ASSESSMENT

Year of Assessment	Basis Period	Assessment Profit	
		₦	₦

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2007		1/4/07 – 31/12/07		620,000
2008				
	PYB	1/4/07 – 31/3/08	800,000	800,000
	AYB	1/1/08 – 31/12/08	615,000	
2009		1/1/09 – 30/4/09		171,429

Workings

a. 2007 assessment profit

Basis period: 1/4/07 – 31/12/07			₤
1/4/07 - 30/9/07	6 months		440,000
1/10/07 – 31/12/07	3 months	(3/12 x 720,000)	<u>180,000</u>
			<u>620,000</u>

b. 2008 assessable profit (PYB)

Basis period: 1/4/07 – 31/12/08			
1/4/07 - 31/12/07	9 months		620,000
1/10/07 – 31/12/07	3 months	(3/12 x 720,000)	<u>180,000</u>
			<u>800,000</u>

2008 assessable profit (AYB)

Basis period: 1/1/08 – 31/12/08			
1/ 1/08 - 30/09/08	9 months	(9/12 x 720,000)	540,000
1/10/08 – 31/12/08	3 months	(3/12 x 300,000)	<u>75,000</u>
			<u>615,000</u>

c. 2009 assessable profit (AYB)

INSIGHT

Basis period: 1/1/09 – 30/4/09 4 months (4/7 x 300,000)

171,429

EXAMINER'S COMMENT

Part (a) tests candidates' understanding of the capital allowance computation whilst part (b) deals with computation of company's assessable profit. 95 percent of the candidates attempted the question; but the general performance showed that only 47% scored pass mark. Candidates are advised to make adequate preparation for future examinations and understand the computation of capital allowances and assessable profit as they relate to companies.

SOLUTION 4

a. i. **Pension**

This is a post employment benefit jointly contributed by both the employee and employer. The employee will not be able to access such income until the attainment of specific age or must have spent five years in employment. In Nigeria, one would not be entitled to access pension until he or she attains the age of 50 years or has spent 35 years in employment.

Pension as an income is specifically exempted from tax in the hands of the recipient while to the organization, it is an allowable expense.

ii. **Gratuities**

This is also a post employment benefit payable to staff by an employer who has spent 5 years in the employment of such an organization. Usually, gratuity is viewed as a sort of reward for work performed by employee during his tenure of office.

Gratuities as an income also exempted from tax in the hands of the recipient while to the organization, it is an allowance expense.

iii. **Redundancy benefits of compensation for loss of office**

Redundancy benefit is a post employment benefit to an employee who lost his job at the request of employer.

Any amount received as redundancy benefits is not taxable in the hands of the recipient. However, the sums received as compensation for loss of office exceeding ₦10,000 in any year of assessment is chargeable to Capital Gains Tax.

iv. **Employment and self employment**

Employment is a contract of service while a self employment is a contract for service. One can also distinguish between these terms on the following issues:

INSIGHT

i. **Employer**

In employment, a person is engaged by another person under a contract of employment while he is engaged in his own vocation or business in case of self-employment.

ii. **Relationship**

Under employment, there is employee/employer relationship whereas under self-employment, a person is his/her own employer.

iii. **System of Payment**

In employment, income taxes are paid under pay-as-you-earn (PAYE) system while income tax is paid under a direct assessment system under self employment.

iv. **Mode of Payment**

Under employment, income taxes are paid monthly in form of deductions from salaries and wages while income tax of a self-employed is paid en-block upon assessment, usually through direct assessment, by the tax authority.

- b. Mr. Lam will be assessed to tax on commencement and cessation arising from joining a new partnership and leaving the old one. Capital allowances will be shared accordingly based on the period engaged for both old and new business.

However, where the old partnership business is similar to the new business, Mr. Lam would be assessed to tax as if he never ceases the old business.

EXAMINER'S COMMENT

The question tests candidates' understanding of the concepts of pension and gratuities. 98% of the candidates attempted the question and 50% scored pass mark, while about 40% of the candidates could not differentiate between pension and gratuities. Candidates are advised to study and understand basic concepts in the syllabus for future examination.

SOLUTION 5

- a. Allowable deductions
- i. Cost of acquisition of the asset
- ii. All costs incidental to the purchase of the asset

INSIGHT

- iii. Improved costs – wholly, exclusively and necessarily incurred
- iv. Costs – wholly, exclusively and necessarily incurred in establishing, preserving or defending the owner’s title to a right over the assets.
- v. Incidental costs of disposal – incidental cost of disposal include:
 - Fees
 - Commissions
 - Professional fees
 - Cost of transfer or conveyance
 - Advertisement cost
 - Cost incurred on valuation/apportionment for the purpose of computing the capital gains.

b. Computation of Capital Gain

i.

Sales Proceed	₦	₦
Less:		
Cost of Acquisition		35,000,000
		<u>15,000,000</u>
		20,000,000
Less Expenses:		
Professional fees	2,200,000	
Legal fees	<u>1,800,000</u>	<u>4,000,000</u>
Capital Gain		<u>16,000,000</u>
ii. CGT @ 10%	1,600,000	

EXAMINER’S COMMENT

The part (a) tests candidates’ ability to identify allowable expenses in the computation of capital gains tax. Part (b) required the candidates to ascertain the capital gains tax payable. About 90 percent of candidates attempted the question. 75% of the candidates scored pass mark. Candidates are advised to maintain this level of performance by preparing well for future examinations.

SOLUTION 6

a. **VAT Input Adjustment**

Vat Input adjustment arises from changes in price paid such as cash discount granted, sales returns, VAT on over invoicing and VAT on cancelled supplies. The adjustment schedule records all the adjustment and the net amount is added or subtracted from the input VAT figure.

b. **Output VAT Records**

INSIGHT

This is the output analysis book which is updated from the following source documents, sales invoices, tax invoice and service bills.

The information contained therein usually includes:

- Date of the sales or income
- Type of sale or income
- Name of the buyer or receiver of the goods or service
- VAT invoice collected
- VAT amount collected

EXAMINER'S COMMENT

This question requires the candidates to show their understanding of input adjustment and output records on VAT. About 40 percent of the candidates attempted the question, less than 50% scored pass mark. The major pitfall was lack of proper understanding of VAT Input Adjustment.

Candidates are advised to understand the concept of VAT in preparation for future examinations.

AT/131/PIII.12

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME
PART III EXAMINATIONS - MARCH 2013
MANAGEMENT**

INSIGHT

Time Allowed: 3 Hours

SECTION A: PART I
Marks)

ATTEMPT ALL QUESTIONS

(30

MULTIPLE-CHOICE QUESTIONS

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

1. The passing or giving out of information from an office is referred to as information.
 - A. Disseminating
 - B. Receiving
 - C. Processing
 - D. Recording
 - E. Safeguarding

2. The factors most likely to influence the choice of a particular site for an office **EXCLUDE**
 - A. Availability of transport
 - B. Availability of banking services
 - C. Closeness to customers
 - D. Nearness to post office
 - E. Nearness to a border town

3. The component of the MIS that provides advanced analysis and access to various models is called systems.
 - A. Executive support
 - B. Decision support
 - C. Transaction-processing
 - D. Office Automation
 - E. Intelligence

4. Filing equipment made of metal and fitted with two to five drawers is the
 - A. File jackets
 - B. Shelves
 - C. Cabinet
 - D. Guide Cards
 - E. File Folders

5. In the buyer decision process, the step where the buyer finds facts about the

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products' benefits from friends and current users is

- A. Alternative evaluation
 - B. Need recognition
 - C. Post purchase behaviour
 - D. Information search
 - E. Purchase decision
6. People in an organisation's buying centre who affect the buying decision of others by helping to define specification and also provide information for evaluating alternatives are the
- A. Buyers
 - B. Gatekeepers
 - C. Deciders
 - D. Users
 - E. Influencers
7. Important health provisions in a factory **EXCLUDE**
- A. Cleanliness
 - B. Ventilation
 - C. Lighting
 - D. Sanitary Conveniences
 - E. Faulty Plant & Machinery
8. Safety procedures that employers are required to put in place to ensure workers safety **EXCLUDE**
- A. Keep the factory clean and prevent overcrowding
 - B. Maintain floors, passages and stairs
 - C. Securely fence machinery
 - D. Enhance employees' safety at home
 - E. Provide safe means of access to and from work
9. Welfare provisions in any organisation **EXCLUDE**
- A. Protective Clothing
 - B. Provision of medical services
 - C. Education and technical libraries
 - D. Overcrowding
 - E. Sports and recreational facilities
10. In order to prevent accident, the following should be put in place **EXCEPT**
- A. Sound safety programme
 - B. Improved training

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- C. Preventive maintenance policy
 - D. Safety equipment
 - E. Enhancement of horse play
11. The residual of sales revenue after all business expenses have been deducted is
- A. Dividend
 - B. Profit
 - C. Variable cost
 - D. Margin of safety
 - E. Overheads
12. A person who risks his or her time, effort and money to start and operate a business is a/an
- A. Manager
 - B. Creditor
 - C. Intrapreneur
 - D. Entrepreneur
 - E. Techno preneur
13. Rivalry among businesses for sales to potential customers is known as
- A. Demand
 - B. Competition
 - C. Barter trade
 - D. Specialisation
 - E. Business
14. The organised efforts of an individual to produce and sell, for profit, the goods and services that satisfy society's needs is called
- A. Promotion
 - B. Business
 - C. Barter
 - D. Specialisation
 - E. Supply
15. A form of on-the-job training combined with classroom instructions is
- A. Apprentice training
 - B. Job rotation
 - C. Vestibule training
 - D. Internship
 - E. Group training

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16. A particular type of staff appraisal resulting in pay cut, status, privilege or opportunity is
- A. Lay-off
 - B. Retirement
 - C. Demotion
 - D. Discharge
 - E. Promotion
17. Financial reward which is based on time units is
- A. Commission
 - B. Bonus
 - C. Wages
 - D. Salaries
 - E. Fringe benefits
18. The segment of the environment in which government policies and actions take place and have major effect on firms is
- A. Economic conditions
 - B. Political/legal forces
 - C. Technological forces
 - D. Socio-cultural conditions
 - E. Globalisation
19. Environmental factors that constitute the norms, values and preferences of a society are called factors.
- A. Socio-political
 - B. Socio-cultural
 - C. Economical
 - D. Political
 - E. Technological
20. The formulation and implementation of plans designed to achieve a company's objective is management.
- A. Human Capital
 - B. Quality
 - C. Strategic
 - D. Safety and Health
 - E. Performance
21. Strategic issues require decisions

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- A. Top Management
 - B. Middle Management
 - C. Low Level Management
 - D. Tactical Level Management
 - E. Consultant
22. The formal arrangement of jobs within an organisation is referred to as
- A. Organisation structure
 - B. Organisational design
 - C. Organisation change
 - D. Coordinating
 - E. Controlling
23. The following are causes of coordination problems **EXCEPT**
- A. Differences in functional viewpoints
 - B. Differences in leadership style
 - C. Differences in time pressure
 - D. Poor communication
 - E. Differences in age
24. The control process that ensures that products produced conform to established standards is control.
- A. Quality
 - B. Operational
 - C. Inventory
 - D. Financial
 - E. Strategic
25. The rights inherent in a managerial position to tell people what to do and to expect them to do is
- A. Delegation
 - B. Authority
 - C. Decentralization
 - D. Centralization
 - E. Formalisation
26. An organisation that is highly adaptive and flexible is a/an organisation
- A. Organic
 - B. Mechanistic
 - C. Matrix
 - D. Formal

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- E. Line
27. Which of the following is a Content Theorist of motivation?
- A. Abraham Maslow
 - B. Victor Vroom
 - C. Frederick Herzberg
 - D. David McClelland
 - E. Clayton Alderfer
28. Which of the following are leadership attributes often cited by proponents of the trait approach?
- A. Organic organisation
 - B. Mechanistic organisation
 - C. Matrix organisation
 - D. Formal organisation
 - E. Line organisation
29. A disagreement between the Chief Accountant and the Human Resource Manager is best described as conflict.
- A. Interpersonal
 - B. Inter-group
 - C. Inter-organisational
 - D. Intra-group
 - E. Inter role
30. The transmission of information from the subordinate to the supervisor is communication
- A. Downward
 - B. Lateral
 - C. Upward
 - D. Crosswise
 - E. Horizontal

SECTION A: PART II:
Marks)

ATTEMPT ALL QUESTIONS

(20

SHORT-ANSWER QUESTIONS

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

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1. Any abnormal condition or disorder caused by exposure to environmental factors associated with employment is.....
2. The process by which representatives of the employer and the employees meet at a reasonable time and place to discuss terms and conditions of employment is
3. An unplanned and uncontrolled event which has led to or could have led to injury to persons, damage to plant or other losses is
4. Predicting what is likely to happen in the firm is called
5. The condition in the general environment that may hinder a company's efforts to achieve strategic competitiveness is called
6. All forms of inputs into a firm's production process are called
7. The general guidelines with respect to the values and ethical standards that can be used to guide the decisions and behaviour of employees are called
8. The theory of motivation which distinguishes between satisfiers and dissatisfiers was propounded by
9. One way in which the sender knows if the message has been understood is through
10. The stage in group development in which members are first brought together is known as
11. The basis on which jobs are grouped together is called.....
12. An organisational structure that assigns specialists from different functional departments to work on one or more projects is termed
13. The regulation of ongoing activities that are part of the transformation process to ensure that they conform to organisational standards is
14. The process of developing assumptions or premises about the future that managers can use in planning and decision making is called.....
15. Any group within and outside the organisation, that has a stake in the organisation's performance is called

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16. The definition of management as the art of getting things done by other people was attributed to
17. The management function in which tasks are grouped and managers assigned resources required to carry out a specific job is
18. Managers operating as plant managers, operations managers and division heads are broadly classified as
19. The idea that a company's marketing decision should consider consumers' wants, company's requirements and society's long-run interests is called
20. The type of decision in which pre-determined decision standards cannot be structured because the problems at hand are unique, exceptional and complex is

SECTION B: ATTEMPT ANY FOUR QUESTIONS (50 Marks)

QUESTION 1

- a. What is Corporate Social Responsibility? (2½ Marks)
 - b. What are the **FIVE** main arguments in favour of the involvement of corporate organisations in social responsibility? (10 Marks)
- (Total 12½ Marks)**

QUESTION 2

The process of Strategic Management takes place in a complex environment of business and other influences.

- a. Define Strategic Management. (2½ Marks)
 - b. Explain **FIVE** key external influences. (10 Marks)
- Total 12½ Marks)**

QUESTION 3

- a. Explain briefly the Scientific Management Theory (2½ Marks)
- b. Explain **THREE** major contributions and **TWO** limitations of Scientific Management Theory? (10 Marks)

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(Total 12½ Marks)

QUESTION 4

- a. Explain the following types of control:
- i. Feed forward
 - ii. Concurrent
 - iii. Feedback
- (4½ Marks)
- b. What are the characteristics of an effective control system? (8 Marks)
- (Total 12½ Marks)

QUESTION 5

Explain **FIVE** measures that can be put in place to prevent or minimize accidents and safety hazards in an organisation. (12½ Marks)

QUESTION 6

- a. Define “a channel of distribution” (2 Marks)
- b. Using examples of common goods and services, describe the channels of distribution (7½ Marks)
- c. Identify **THREE** functions of middlemen? (3 Marks)
- (Total 12½ Marks)

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SUGGESTED SOLUTIONS

SECTION A

PART 1 MULTIPLE-CHOICE QUESTION

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

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

EXAMINER'S COMMENT

This part covered the entire syllabus and candidates showed a good understanding of the questions. 98 percent of the candidates scored above 50 percent. Overall performance was good. Candidates are advised to maintain this level of performance.

SHORT-ANSWER QUESTIONS

- 1. Occupational Illness
- 2. Collective Bargaining
- 3. Accident
- 4. Forecasting
- 5. Threat
- 6. Resources

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7. Code of Ethics
8. Fredrick Herzberg
9. Feed-back
10. Forming
11. Departmentalisation
12. Matrix structure
13. Concurrent controls
14. Forecasting
15. Stakeholder
16. Mary Parker Follet
17. Organising
18. Middle level managers
19. The Societal Marketing Concept
20. Non-programmed Decision

EXAMINER'S COMMENT

This part of the question covered the entire syllabus. The candidates do not seem to have a good understanding of the questions, as less than 50 percent of the candidates scored above 50 percent. The reason for that, was due to the fact that the questions did not allow for guessing.

SECTION B

SOLUTION 1

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(a) **Corporate Social Responsibility**

Corporate Social Responsibility is a sense of obligation on the part of managers to build certain social criteria into their decision making.

OR

A business intention beyond its legal and economic obligation to do-the-right-things and act in ways that are good for the society.

(b) The arguments in favour of corporate organisations' involvement in social responsibility are:

- (i) Public needs have changed leading to changed expectations. Business, it is suggested, receives its charter from society and consequently has to respond to the needs of the society.
- (ii) The creation of a better social environment benefit both the society and the business.
- (iii) Social involvement discourages additional government regulation and intervention. This results in greater freedom and flexibility in decision making for business.
- (iv) Business has a great deal of power, that it is reasoned, should be accompanied by an equal amount of responsibility.
- (v) Modern society is an interdependent system and the internal activities of the enterprise have an impact on the external environment
- (vi) Social involvement may be in the interest of the stakeholders.
- (vii) Social involvement creates a public image.
- (viii) Business has enormous resources to solve social problems and they should do it willingly.
- (ix) It is better to prevent social problems through business involvement than to cure them, it may be easier to help the hard-core unemployed than to cope with social unrest.

EXAMINER'S COMMENT

INSIGHT

The question tests the candidates understanding of the concept of Corporate Social Responsibility, and their advantages.

80 percent of the candidates attempted the question. 50 percent of the candidates scored above average. The commonest pitfall, that candidates mixed up arguments in favour of Corporate Social Responsibility with the activities being pursued to implement social responsibility by Corporate organisations. Overall performance was above average. Candidates are advised to read well to be able to distinguish between the two concepts tested; advantages of CSR and implementation activity of CSR for future examinations.

SOLUTION 2

(a) **Strategic Management is a Process**

Strategic Management is a process directed by top management to determine the fundamental aims or goals of the organisation and ensure a range of decisions which will allow for the achievement of those aims or goals in the long term whilst providing for adaptive responses in the shorter term.

(b) **External influences on business organisations**

- i. **Customers:** These are the individuals or organisations who purchase the goods and services of the organization. Customers are always considered the most important.
- ii. **Competitors:** These are organisations which are producing and supplying similar products or services to a similar range of customers.
- iii. **The industry:** These are the collections of firms and or organisations providing identifiable groups of goods and services to the public.
- iv. **Suppliers:** These are external organisations that are supplying goods and services to the organization. They provide essential resourcing elements for the organisation's own productive effort. They need to be reliable and quality conscious and as well have value for money.
- v. **Shareholders and creditors:** These are the individuals and organisations who have invested or granted loan to the organization in order to receive adequate return in the form of increased share values, regular dividends (share holders) or interest on their loans and repayment of their capital in due course (the creditors e.g. banks). If such groups withdraw their support for a firm, the company may be unable to sustain adequate growth and may likely go bankrupt.

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- vi. **Labour market:** This is the market made up of potential employees which possess knowledge and skills useful to the organization. The state of the labour market is extremely important to organisations who need specialist knowledge and skills.
- vii. **Technology:** Rapid development in technology can exert a powerful influence on all organisations. Organisations which want to maintain a competitive advantage have to be ready to adopt and to adapt technological developments to their productive and administrative procedures in order to stay ahead.
- viii. **Government and the law:** The activities of the state through its legislative and law enforcement agencies impinge considerably on business organisations and are all affected by government fiscal and economic policies.
- ix. **Pressure groups:** These are unofficial bodies which are usually concerned about the impact of organisation's activities on the community.
- x. **Supra – national bodies:** Those are organisations which extend their influence outside that of national governments for example OPEC which influence the production and price levels of crude oil.

EXAMINER'S COMMENT

The question tests the candidate's knowledge of strategic Management Process and the external factors that may affect business organisations.

70 percent of the candidates attempted the question. 60 percent of them scored above average. The candidates had a good understanding of the question. However, the explanations provided on the external influences were shallow and therefore candidate should take particular attention of external factors affecting a business organization.

SOLUTION 3

(a) **Scientific Management Theory**

Scientific management theory is the process of using the scientific method to determine the best way for a job to be done.

Scientific management theory focuses on the physical activities of the work and develop universal scientific principles by means of inductive empirical and detailed study of the job.

(c) **Major contributions of scientific management theory are as follows**

- (i) Development of managerial skill of job design through division of labour and specialisation.

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- (ii) The concept of productivity and wage rate based on productivity of employees.
- (iii) Importance of scientific selection and training of employees.
- (iv) The use of rational and cost reduction techniques to increase efficiency and performance.
- (v) Formulated work standards.

Limitations of scientific management theory are as follows:

- (i) Scientific management methods are applicable only in predictable and stable environment through the division of labour and specialisation.
- (ii) It over-emphasises the economic and rational nature of men and overstates man's desire for money.
- (iii) The scientific management did not attach importance to human behaviour.
- (iv) Over-emphasis on productivity leads some managers to exploit both workers and customers.
- (v) It did not appreciate the social context of work and the needs (beyond pay) of workers.
- (vi) It assumed that workers had no useful ideas and that only managers and experts were capable of coming up with good ideas or innovations.

EXAMINER'S COMMENT

The question tests the candidates understanding of Scientific Management Theory. 45 percent of the candidates attempted the question and about 40 percent of them scored above average. The lack of attention by students on this area was responsible for their low attempt of the question and the poor performance of those who attempted it.

Candidates should pay more attention to this area for subsequent examinations.

SOLUTION 4

a. Types of Control

- i. **Feed Forward Control:** This is a preventive control that aims at preventing the occurrence of a mistake. The primary objective is to ensure that the work is done correctly the first time.
- ii. **Concurrent control:** This is the type of control that takes place just as the product is being made. It takes place while a work activity is in progress.
- iii. **Feedback:** This type of control lets the organization know if their products are of the right quality. It takes place after a work activity is done.

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b. **Characteristics of effective control system**

i. **Accuracy**

Information on performance must be reasonably accurate in order for the organization to take appropriate/corrective action.

ii. **Objective and Comprehensible**

The information used in a control system should be understandable and seen as objective by the individuals involved.

iii. **Timely**

Information must be collected quickly if corrective action is to be taken in time to produce improvements.

iv. **Focused on strategic control points**

The control system should be focused on those areas where deviations from the standard are most likely to take place or where deviations would lead to the greatest harm.

v. **Economically Realistic**

The cost of implementing a control system should be less or at most equal to the benefits derived from the control system.

vi. **Organically Realistic**

For control system to be workable it has to be compatible with organisational realities

vii. **Coordinated with The Organisation's Work Flow**

Control information needs to be co-ordinated with the flow of work through the organisations.

viii. **Flexible**

Controls must have flexibility built into them so that organisation can react quickly to overcome adverse changes and take new opportunities.

EXAMINER'S COMMENT

The question tests the candidates understanding of the types of control and the characteristics that make them effective.

75 percent of the candidates attempted the question. 50 percent of them scored above average. Many of the candidates had no conceptual understanding of the question as they thought the question was on communication because of the feed forward and feedback contained in the

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question. Candidates should expand their studies to be able to differentiate the feed forward and feedback controls from the feedback communication.

SOLUTION 5

Measures to prevent accidents and safety hazards in an organisation

1. **Well-designed premises with a good plant layout**
A well laid furniture and well ventilated environment will be of good assistance. Corridors, stair cases, utility services point should be taken care of, to prevent accident in the work place.
2. **Provision of safe working environment**
Work environment should be devoid of smoke and dust. Personal hygiene on the part of employee will go a long way to providing safe environment.
3. **Installation of preventive maintenance policy**
A good preventive maintenance programme like replacement of equipment, oiling and dusting of equipment will help prevent accident.
4. **Improved training of workers on safety procedure**
Some business organisations do have safety officer who is shouldered with the responsibility of organising training programme for workers. Training on handling, maintenance and operation of equipments will prevent accident in work place.
5. **Improvement on the adoption of safe work processes**
Every stakeholder; workers and employer should be ready to embrace whatever safety programmes put in place. Attention should be paid to programmes to prevent accident.
6. **Improved Supervision**
Close and moderate supervision should be given to workers, most specially on safety programmes. Safety officer or manager should be up and doing.
7. **Provision of Safety Equipments and Devices**
This will help in preventing accident. Equipment such as clothing, gloves, fork lift, crane etc will assist in preventing accident.
8. **Adoption of Sound Safety Programme**
Business organisation should be ready to comply with standards and adopt international safety standards.

EXAMINER'S COMMENT

This question test accidents and safety hazards awareness of candidates.

INSIGHT

99 percent of the candidates attempted the question. Only 35 percent of them scored above fifty percent. The major pitfalls were lack of understanding of the requirements of the question and the inability to explain properly the measures to minimise accident and safety hazards. Overall performance was below average and candidates are advised to read to cover this part of the syllabus for future examination.

SOLUTION 6

(a) **A Channel of Distribution**

A channel of distribution is the route through which goods and services move from the producer to the consumer.

(b) Channel 1: Producer ———→ Consumer

Producer selling direct to consumers
e.g. small scale producers
Industrial/Technical/Expensive products
All services

Channel 2: Producer ———→ Retailer ———→ Consumer

Producer selling through the large scale retailers to the consumers
These retailers perform wholesalers functions
E.g. Automobile selling

Channel 3: Producer ———→ Wholesaler ———→ Retailer ———→ Consumers

Producer selling in bulk to wholesaler who stock for resale to retailers.
Retailer buys from wholesaler in smaller quantity to sell in units or pieces to final consumers e.g. consumer goods.

(c) **Functions of middlemen (Intermediaries)**

(i) **Provision of Variety**

They gather variety of goods from producers and make them available to meet various needs and wants of consumers.

ii. **Matching Products with Consumers' Requirements**

They buy, assemble and pack in the form, volume or quantity the consumers want them.

iii. **Transportation**

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They assist in transferring goods and services from the producer to the final consumer.

iv. **Financing**

They buy and pay upfront to provide funds for further production. They also offer credit facilities to the customers.

v. **Information Passage**

They form the link between the producer and the consumers. They pass information from the producer to consumers and in return give feedback to the producer.

EXAMINER'S COMMENT

The question tests the understanding of candidates' of channel of distribution and functions of middlemen.

98 percent of the candidates attempted the question. About 80 percent of the candidates scored above 50 percent.

The candidates who scored below fifty percent failed to explain or describe the channels properly. Although the performance here is encouraging, candidates should still study well to do better in future examination.