

## 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.

## FOREWORD

# INSIGHT

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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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ATS/122/PIII.9

Examination No:.....

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA  
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA  
PART III EXAMINATIONS - SEPTEMBER 2012  
PRINCIPLES OF AUDITING**

**Time Allowed: 3 Hours**

Insert your Examination number in the space provided above

**SECTION A (Attempt All Questions)**

**PART 1      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.**

1.      The duties of an Internal Auditor **EXCLUDES** ..... audit
  - A.      Value for money
  - B.      Operating
  - C.      Functional
  - D.      Organisational
  - E.      Management
  
2.      Which of the following is **NOT** a function of The Public Accounts Committee?
  - A.      Examines the Audited Accounts of the Government of your country
  - B.      Examines the Accounts and Reports of Ministries, Departments and Agencies of Government
  - C.      Investigates all matters directed to it by the Accountant/Comptroller General of your country
  - D.      Requires any person to produce books or documents as it may deem fit
  - E.      Examines the causes which led to, or might have led to any excess over approved appropriation.
  
3.      Which of the following is **NOT** the “Right of an Auditor”?  
Right of
  - A.      Denial of access to all records, accounts and vouchers
  - B.      Representation
  - C.      Call on directors to summon an EGM
  - D.      Attendance at AGMs
  - E.      Receipt of notice of AGMs
  
4.      Which of the following is **NOT** an element of unqualified audit report?

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- A. A title identifying the addressee
  - B. A paragraph identifying the financial statements audited
  - C. A section dealing with basis of auditor's opinion
  - D. Details of directors' emoluments correctly disclosed
  - E. A section dealing with a clear statement of opinion
5. An Auditor-General can be removed **ONLY** on account of
- A. Pride
  - B. Misconduct
  - C. Arrogance
  - D. Bullheadedness
  - E. Stupidity
6. The best evidence of ownership for Land and Building is
- A. Evidence of insurance premium paid on the asset
  - B. Original certificate of occupancy or deed of conveyance in the company's name
  - C. Electricity bill paid on the asset
  - D. Fire and burglary insurance policy on the asset
  - E. Records in the Minutes book
7. Which of the following is **NOT** an example of situations where external confirmation may be used?
- A. Bank balances and other information from bankers
  - B. Stock held by third parties at bonded warehouses for processing or on consignment
  - C. Loans from lenders
  - D. Staff salaries/wages
  - E. Investment purchased from stockbrokers
8. Positive circularisation is **NOT** normally used where
- A. There are numerous unidentified customers
  - B. There are many bookkeeping errors
  - C. There are weak internal controls
  - D. There are disputed balances on internal records of third party
  - E. Irregularity is suspected
9. When auditing balance sheet transactions for 2011, **ONE** of the following items will **NOT** affect the related balances for the year
- A. Purchase of fixed assets in year 2011
  - B. Contingent liability for the year 2011
  - C. Shares transfer value in the year 2011
  - D. Debtors/Creditors operation in the year 2011
  - E. Net profit for the year 2011

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10. The financial statement that shows whether the company is a “going concern” is
- A. Value Added Statement
  - B. Income Statement
  - C. Cash flow statement
  - D. Statement of changes in equity
  - E. Balance sheet
11. Which of the following is responsible for the appointment of an auditor?
- A. Management
  - B. Shareholders
  - C. Directors
  - D. Creditors
  - E. Government
12. The list of account headings together with relevant account numbers and descriptions is
- A. Audit Trail
  - B. Chart of Accounts
  - C. Audit Package
  - D. Accounting Transactions
  - E. Audit Check
13. IAS 2, Accounting for Inventory, specifies the methods that are allowed for Inventory valuation purposes. Which of the following methods is **NOT** recommended by the standard?
- A. Weighted average
  - B. First in, First out
  - C. Last in, First out
  - D. Standard price
  - E. Replacement cost method
14. An attitude of the mind that is characterised by objectivity and integrity in the approach to audit work is
- A. Independence
  - B. Confidentiality
  - C. Competence
  - D. Consistency
  - E. Honesty
15. The recognition of the economic reality of transaction over its legal form is
- A. Substance over form
  - B. Historical cost
  - C. Consistency concept
  - D. Prudence concept
  - E. Going concern

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16. A Chartered Accountant may **NOT** advertise in the newspapers under which of the following circumstances?
- A. When advertising for skills and proficiency on the job
  - B. When announcing appointment of members into the state executive council
  - C. When announcing the admission of a new partner into the firm
  - D. When acting on behalf of clients in buying and selling of properties
  - E. When being appointed as receiver/manager of a company
17. An auditor may disclose client's confidential information for the following reasons **EXCEPT:**
- A. Disclosure is required by a Court of Law
  - B. There is a public duty to disclose
  - C. The auditor wants to protect his own interest
  - D. The client is involved in criminal activities
  - E. Information is required by the auditor for a similar client in the same industry
18. Which of the following services is **NOT** carried out by a firm of Chartered Accountants?
- A. Recruitment Services
  - B. Corporate Finance Services
  - C. Receivership Services
  - D. Reporting on profit forecast
  - E. Advising two clients on competing subject matter
19. For misconduct of any professional Chartered Accountant.....is **NOT** imposed as punishment.
- A. Expulsion from membership
  - B. Fine
  - C. Reprimand
  - D. Closure of practicing office
  - E. Withdrawal of professional certificate
20. An auditor who is expected to practise the profession should be
- A. A body corporate
  - B. An officer of the company
  - C. A member of a recognised professional accountancy body
  - D. A servant of the company
  - E. A "connected" person
21. During the consideration of internal control in a financial statement audit, an auditor is **NOT** obliged to
- A. Assess the quality of accounting and internal control systems
  - B. Search for significant deficiencies in the operation of the internal control
  - C. Understand the internal control and the information system

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- D. Determine whether the control activities relevant to audit planning have been placed in operation
  - E. Perform procedures to understand the design of internal control
22. The overall attitude and awareness of an entity's Board of Directors concerning the importance of internal control is usually reflected in the entity's
- A. Control environment
  - B. Safeguard over access to assets
  - C. Computer-based controls
  - D. System of segregation of duties
  - E. Organisational structure
23. Segregation of duties entails separation of the functions of
- A. Authorisation, payment, and recording
  - B. Custody, execution and reporting
  - C. Authorisation, recording and custody
  - D. Authorisation, execution and payment
  - E. Recording, custody and payment
24. Which of the following is **NOT** contained in the permanent audit file?
- A. The rules and regulations of the enterprise
  - B. Copies of documents of continuing importance
  - C. List of accounting matters
  - D. An outline history of the organisation
  - E. An audit programme
25. Which of these is **NOT** a function of Internal Control Questionnaires?
- A. Ascertainment of the system
  - B. Review and assessment of the adequacy of the system
  - C. Identify areas of weakness
  - D. Highlight the relationships between different parts of a system
  - E. Design a series of tests
26. Which of the following is **NOT** a problem of real time processing?
- A. Loss of audit trail
  - B. Unhindered access to data file
  - C. Unauthorised access to data file
  - D. Invasion of privacy
  - E. High speed of data processing
27. Which of the following will **NOT** be considered in the use of CAATs?
- A. The effectiveness and efficiency of CAATs
  - B. The auditor's familiarity with IT and CAATs generally
  - C. Timing



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- D. Limitation of use in database system
  - E. The availability of CAATs and suitable computer facilities
28. A letter confirming the acceptance and understanding of the audit assignment is called
- A. Management letter
  - B. Letter of consent
  - C. Letter of comfort
  - D. Representation letter
  - E. Letter of Engagement
29. Which of the following is a disadvantage of judgement sampling?
- A. It is cost effective
  - B. It is unscientific and subjective
  - C. It is easy to use for a small client
  - D. No special knowledge of statistics is required
  - E. It is not ambiguous
30. Computation of ratios, the use of statistics and studying of trends is known as
- A. Analytical review
  - B. Hot review
  - C. Substantive test
  - D. Compliance review
  - E. Parallel review

## PART II: SHORT-ANSWER QUESTIONS

(20 Marks)

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

1. The pictorial representation of the internal control system of any entity with the use of standardised symbol is called.....
2. A quantitative statement that sets out the number of hours to be spent and the anticipated revenue to be generated from the audit is known as .....
3. The procedure of obtaining direct confirmation from a debtor regarding his account balance is referred to as .....
4. The document used by the auditor to assess the strength or weakness of an entity's internal control during system audit is known as .....
5. A person that possesses special skills, knowledge, and experience in a particular field other than accounting is known as .....

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6. Audits that are carried out because the law requires them to be carried out are called.....
7. A transfer of resources or obligations between related parties, regardless of whether a price is charged or not is referred to as .....
8. An audit procedure whereby the auditor selects sample of items from basic source documents and reviews the accounting system to find recording of the transaction is known as .....
9. The use of documentation to support recorded transactions or amounts as an audit process whereby the auditor starts with an account balance and goes backwards through the accounting system to the source document is referred to as .....
10. The procedure that recognises assets and liabilities as of a proper date and accounting for revenue, expense and other transactions in the proper period is referred to as .....
11. A statutory auditor is expected to hold office for a period of .....
12. The independent examination of transactions and balances on a daily basis with the objective of ascertaining the completeness, accuracy and validity of those transactions is called .....
13. The risk that the auditors may unknowingly fail to appropriately modify their opinion on financial statements that are materially mis-stated is called.....
14. The direct financial interest, serving as an officer or trustee, certain loans to or from the firm and various other relationship may collectively impair .....
15. Balance sheet and Income Statement together with such additional statements and notes as are identified as being within the scope of the audit opinion are referred to as .....
16. Audit tests may be classified into ..... and .....
17. Having regard to International Standards on Auditing, an auditor should approach his duties with due professional .....and .....
18. When an accountant has ethical difficulties or is unsure of what course of conduct to follow, he is expected to .....
19. The **TWO** forms of audit evidence are..... and.....
20. Chartered Accountants cannot practise or be auditors unless they have .....

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## SECTION B - ATTEMPT ANY FOUR QUESTIONS MARKS)

(50

### QUESTION 1

“Statistical Sampling technique is a sampling technique which is based on the mathematical laws of probability and entails drawing conclusion about a group of items by examining a number of such items selected in such a way that each item in the group will have a fair chance of being selected”.

#### You are required to:

- List any **FIVE** conditions where a 100% check should still be carried out by an auditor. (5 Marks)
  - List any **FIVE** advantages of Statistical Sampling. (5 Marks)
  - Explain Judgment Sampling. (2½ Marks)
- (Total 12½ Marks)

### QUESTION 2

Explain the following basic concepts which underlie the practice of auditing:

- The true and fair view
- Independence of an auditor
- Materiality
- Responsibility of the auditor
- Audit programme

(12½ Marks)

### QUESTION 3

- Explain Audit risk and its components as they relate to audit assignments? (2½ Marks)
  - Enumerate any **FIVE** internal and **FIVE** external risk factors that can be associated with Client Company. (10 Marks)
- (Total 12½ Marks)

### QUESTION 4

Internal control is not only essential for maintaining the accounting and financial records of an organisation, it is essential for managing the entity.

#### You are required to:

- What is internal control? (2½ Marks)
- Give **FIVE** reasons why internal controls are important. (5 Marks)
- List **FIVE** types of controls in an organisation. (5 Marks)

(Total 12½ Marks)

### QUESTION 5

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An auditor has to ascertain that there is a valid authority for the execution of every transaction being audited. This is very vital in every auditing work.

- a. Briefly explain “authority” and explain its “significance” in the context of auditing.  
(3½ Marks)
  - b. **Vouching** and **Verification** are fundamental to all audit procedures. Define each of these two terms  
(3 Marks)
  - c. List any **THREE** examples of each of the terms in (b) above to highlight their differences.  
(6 Marks)
- (Total 12½ Marks)**

## QUESTION 6

The reports of the auditors of a Limited Liability Company are expected to follow a format dictated by the relevant laws of the various countries.

- a. Discuss the principles that must be followed in drafting a clean audit report.  
(10 Marks)
  - b. When an auditor says a set of accounts give a true and fair view, what does it imply?  
(2½ Marks)
- (Total 12½ Marks)**

## SUGGESTED SOLUTIONS SECTION A

### PART 1 MULTIPLE-CHOICE QUESTIONS

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

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

(30 Marks)

## EXAMINER'S COMMENT

All candidates attempted the Multiple Choice Questions and about 75% of the candidates scored average marks.

Inadequate preparation and non-coverage of the entire subject syllabus accounted for failure of the candidates that scored below pass marks.

## PART II SHORT-ANSWER QUESTIONS

1. System Flow Charts
2. Audit Budget
3. Circularisation
4. Internal Control Evaluation Questionnaire
5. An Expert or a Specialist
6. Statutory Audit
7. Related Party Transactions
8. Tracing
9. Vouching
10. Cut off Procedures
11. One year
12. Continuous Audit
13. Audit Risk
14. Independence
15. Financial Statements
16. Compliance and Substantive Tests
17. Skill, Care and Caution
18. Consult his professional body or seek legal advice
19. Internal and External

20. Licence to practice

## EXAMINER'S COMMENT

**Being a compulsory section, all candidates attempted the Short Answers' Questions but their performances were not encouraging. Failure to have indepth preparation and non-committed to covering of the entire syllabus attributed to dismay performance of the candidates.**

## SECTION B

### SOLUTION 1

1a. **Conditions where a 100% check should be carried out include:-**

- i. Where the number of items are few, but of great significance to the financial statements, e.g. plant and machinery, land and building, share capital.
- ii. Where an Auditor has been put on enquiry by some events e.g. where unexplainable alterations in sales records is noticed, the Auditor should probe the matter to the bottom.
- iii. In high risk areas, the Auditor would carry out 100% check to satisfy himself.
- iv. Circumstances where there is one-off or an extra ordinary item.
- v. Where as part of the engagement, the client requests a 100%, check in some areas.
- vi. An area statutory required to be disclosed. (1 mark each for any 5 points)

b. **Advantages of statistical sampling:-**

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- i. It reduces or eliminates the risk of either examining too few items.
- ii. It tends to lead to uniform standards among different audit firms.
- iii. It is scientific and objective.
- iv. It provides mathematical statements about the probability of the sample being correct.
- v. It invariably produces less detailed testing than judgement sampling.
- vi. It is more reliable.
- vii. Random selection gives every item equal chance of being selected.
- viii. The risk over or under auditing resulting from the selection of two large or too small transactions or sample size.

c. **Judgement sampling:-**

Judgement sampling occurs when an auditor uses his experience, judgement and knowledge of the client to determine his sample. It is simple to apply and less costly than statistical sampling.

## EXAMINER'S COMMENT

**This question tests candidates' knowledge of conditions where a 100% check should be performed by an auditor, advantages of statistical sampling and explanation on judgement sampling.**

**90% of the candidates attempted this question and did very well. Candidates that failed this question lack proper interpretation of demand of the question and inadequate preparation for the examinations. Candidates are advised to prepare well for future examination.**

## SOLUTION 2

- a. **True and fair view:** This is an important concept to the accountancy profession especially to the auditor. Moreover, the provisions of Companies and Allied Matters Act Cap C20 Laws of Federation of Nigeria LFN 2004 (CAMA) 1990 require the financial statements to show true and fair view but fails to define what is true and fair view.

There is equally no authoritative legal definition and interpretation of the concept. True seems to mean an objective verification that the information contained therein are factual without error. Fair seems to mean the presentation of the right impression and is not misleading.



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When a set of accounts is portrayed to show a true and fair view, it implies the following:

- i. The assets are fairly stated, that they exist, owned by the business and are properly valued.
  - ii. All the liabilities including contingent have been fully disclosed.
  - iii. The results shown in the profit and loss accounts are accurate and fairly stated.
  - iv. There are no material errors or mis-statements in the financial statements.
- b. **Independence of an auditor:** The concept of an auditor's independence is an attitude of the auditor's mind that is characterised by the auditor's integrity and professional approach to his work. In essence, the auditor should not be involved in any relationship with his client which may cast doubts in the minds of users of financial statements and doubt his audit opinion.
- Therefore the auditor should not only be independent of his clients at all times, he must be seen to be independent.
- c. **Materiality:** An item is said to be material where it's non-disclosure, omission or misstatement or otherwise will destroy the truth and fairness of the view shown by the financial statements. Materiality may be considered in the context of a particular item within the profit and loss account or the financial statements as a whole. It may be assessed in relative or absolute terms.
- d. **Responsibility of the auditor:** Auditing commences on the completion of accounting functions. The audit function normally involves the auditor to give his independent opinion whether the accounting functions have been properly carried out and to verify the figures in the accounting books and records to ensure they are reasonable.
- e. **Audit programme:** An audit programme means a list of audit steps or instructions which the auditor intends to address in satisfying himself as to the completeness, accuracy and validity of the transactions in the financial records.

## EXAMINER'S COMMENT

**The question tests candidates' knowledge on the basic concepts which underline the practice of Auditing - the truth and fair view, independence of an auditor, materiality, responsibility of the auditor and audit programme were tested. 90% of the candidates that attempted the question scored below pass marks. The candidates' failure was attributed to lack of adequate preparation for the examinations. Candidates are advised to prepare well for the examinations.**

## SOLUTION 3

- 3a. **Audit risk** is the risk that auditors may give an inappropriate opinion on the financial statement or that the auditor would draw invalid audit conclusions and therefore express invalid audit opinion. It can also be the risk that the auditors give an unqualified opinion on the accounts when they should have given a qualified opinion, or they given an opinion qualified for a particular reason where that reason was not justified.

The components of risks are:

- i. Inherent risk which is the susceptibility of an account balance or class of transactions to material mis-statements either individually or when aggregated with mis-statements in other balances or classes, irrespective of related internal controls.
- ii. Control risk which is the risk that a mis-statement could occur in the account balance or class of transactions, or could be material, either individually or when aggregated with mis-statements in other balances or classes and would not be prevented or detected and corrected on a timely basis by the accounting and material control system.
- iii. Detection risk which is the risk that the auditor's substantive procedures do not detect a mis-statement that exists in an account balance or class of transactions that could be material, either individually or when aggregated with mis-statements in other balances or classes.

Therefore Audit risk = AR = IR X CD X DR

- b. Internal risk factors are:
- i. Failure to modernise products, processes, labour relations etc
  - ii. Employees
  - iii. Board members
  - iv. Failure to achieve standard organisation requirements
  - v. The process of dealing with suppliers or customers
  - vi. Excessive reliance on a dominant Chief Executive

- vii. Cash flow problems including over trading
  - viii. Gearing
  - ix. Related parties
  - x. Inappropriate acquisitions
  - xi. Excessive reliance on one of a few products, customers, suppliers etc
  - xii. Internal controls
  - xiii. Lack of research and development
  - xiv. Computer systems failure
  - xv. Fraud
- c. External factors are:
- i. Changing legislation
  - ii. Changing interest rates
  - iii. Changing exchange rates
  - iv. Public opinion, attitudes, fashions
  - v. Price wars initiated by competitors
  - vi. Import competition
  - vii. Technologies and ideas
  - viii. Natural hazards
  - ix. Bad debts
  - x. Litigations
  - xi. Environmental matters

## EXAMINER'S COMMENT

**The question tests the candidates' knowledge on the explanation on Audit Risk and its components as related to audit assignments, internal and external risk factors that can be associated with Client Company were examined.**

**60% of the candidates attempted the question. Only 30% of the candidates that attempted the question scored average marks of 50%.**

**Candidates are advised to read widely to cover the syllabus for the examinations in future.**

## SOLUTION 4

- a. **Internal Control System** – the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records.

It could also be defined as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable law and regulations and safeguarding of assets against unauthorised acquisition, use or disposition.

- b.
  - i. Prevention of errors and frauds or material mis-statement
  - ii. Detection of errors and frauds or material mis-statement
  - iii. Ensure complete and adequate recording of transactions
  - iv. Ensure that all recorded transactions are real, properly valued, related to the correct period, properly classified, correctly authorised and posted.
  - v. Help to ensure reliable financial reporting and compliance with relevant laws, regulations and standards.
  - vi. Provide management with reasonable assurance that goals and objectives it believes important to the company, which is equally important to the auditor, will be met.
  
- c. Types of internal controls
  - i. Organisational
  - ii. Segregation of duties
  - iii. Physical
  - iv. Authorisation and approval
  - v. Arithmetical and accounting
  - vi. Personnel
  - vii. Supervision
  - viii. Management
  - ix. Acknowledgement of performance
  - x. Budgeting

## EXAMINER'S COMMENT

**The question tests the candidates' knowledge of the definition of Internal Control, reasons why internal controls are important and types of controls in an organisation were tested.**

**90% of the candidates attempted this question, the candidates did very well by having a good percentage of the marks allocated. Candidates are advised to maintain this trend for future examination.**

## SOLUTION 5

- a. Authority is a control measure expected in a business with the aim to ensure that all transactions are duly authorized by responsible officials within predetermined authority limits.

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Authority from an audit point of view means that transactions in which a client company had been involved had the backing of officials in position to commit the company into those transactions.

- b. Vouching is an audit test in which the auditor ensures that a particular transaction had been duly authorised, supported with relevant and reliable documents and correctly processed in the accounting system.

Verification on the other hand is the process of gathering reliable and sufficient audit evidence to satisfy an auditor as to the ownership, value and existence of the client's assets and liabilities shown in the financial statements. It also means ensuring that the assets and liabilities shown in the financial statements have been properly presented in compliance with the relevant accounting standards and statutes.

- c. The examples will include:

Vouch

- Salaries payments
- Petty cash payments
- Creditors' payments
- Cost of purchases
- Cost of capital expenditure
- Purchase of investments

Verify

- Value of closing stocks
- Value of tangible non-current assets
- Existence of debt balances
- Bank balances
- Cash balances
- Value of investments

## EXAMINER'S COMMENT

**The question tests the candidates' knowledge on the understanding of the terms like "authority" and its significance, vouching and verification and examples of vouching and verification were treated.**

**60% of the candidates that attempted the question did well and those that failed this question did not prepare adequately for the examinations. Candidates are advised to read widely for future examination.**

## SOLUTION 6

- a. The principles to be followed when issuing a clean audit report should be in compliance with International Standard on Auditing (ISA) No 700 on audit report as follows:
- State the title of the report
  - Introductory paragraph
  - Respective responsibilities of the Directors and Auditors
  - Basis of opinion
  - Opinion
  - The report should be signed
  - Dated
  - Location of the practice
- b. When an auditor says that a set of accounts give a true and fair view, that is issuing a clean audit report it implies that the auditor does not have reservations about the concept of truth and fairness view. In effect, the client's financial statements show a true and fair view of the client's state of affairs at the balance sheet date and of the profit or loss and statement of cash flows for the year ended on the balance sheet date.

## EXAMINER'S COMMENT

The question tests the candidates' knowledge on the principles guiding the drafting of a clean audit report and implications of "a true and fair view" were tested. 80% of the candidates attempted this question and performed poorly. Lack of understanding of the question, non coverage of the relevant sections of the syllabus, inadequate preparation for the examinations attributed to dismal performance of the candidates on this question.

Candidates are advised to prepare well for future examination.

AT/122/PIII.10

Examination No:.....

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA  
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA  
PART III EXAMINATIONS - SEPTEMBER 2012  
COST ACCOUNTING**

**Time Allowed: 3 Hours**

Insert your Examination number in the space provided above

**SECTION A (Attempt All Questions)**

# INSIGHT

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## PART 1      MULTIPLE CHOICE QUESTIONS Marks)

(30

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

1.      The amount of expenditure incurred on, or attributable to, a special thing or activity is termed
  - A.      Price
  - B.      Value
  - C.      Expenses
  - D.      Cost
  - E.      Costing
  
2.      Which of the following is **NOT** an application of Cost Accounting Information?
  - A.      Executing
  - B.      Planning
  - C.      Evaluating
  - D.      Controlling
  - E.      Decision Making
  
3.      All the following are qualities of good information, **EXCEPT**
  - A.      Relevance
  - B.      Mobility
  - C.      Brevity
  - D.      Timeliness
  - E.      Cost Effectiveness
  
4.      The followings are the practical objectives of an organisation
  - I.      Maximise profits
  - II.     Minimise cost
  - III.    Increase Market Share
  - IV.    Minimise Sales demand
  - A.      I and II
  - B.      I, II and IV
  - C.      III, and IV
  - D.      I, II and III
  - E.      I, II, III and IV

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5. Sales value less the cost of materials and services which represents the costs that vary proportionately with the level of activity is termed
- A. Value Added
  - B. Contribution
  - C. Marginal Cost
  - D. Profit
  - E. Conversion Cost
6. Which of the following basis is suitable for apportioning Building Depreciation Overhead?
- A. Number of Employees
  - B. Book Value of Equipment
  - C. Space Occupied
  - D. Number of Unit/Department
  - E. Weight of Materials
7. The arrangement of items in logical groups having regard to their nature or purpose is termed.
- A. Classification
  - B. Coding
  - C. Symbolisation
  - D. Decoding
  - E. System
8. Store keeping includes the following activities
- I. Efficient and speedy issue of required materials
  - II. Receipt of spare parts and materials from goods reception
  - III. Organising storage in logical sequence,
  - IV. Securing the stores from pilfering, theft and fire.
- A. I, II and III
  - B. I and III
  - C. III and IV
  - D. I, II, III and IV
  - E. I, III, and IV
9. A typical Material Requisition Note contains the following information, **EXCEPT**
- A. Quantity



# INSIGHT

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- B. Part Number and description
  - C. Job to be charged
  - D. Authorisation
  - E. Invoice Number
10. Which of the following is **NOT** an example of the lead times associated with making and selling a product?
- A. Queuing time
  - B. Transport time
  - C. Inspection time
  - D. Storage and Processing time
  - E. Ordering time

**Use the following information to answer questions 11 and 12**

Efosa Limited adopts differential piece rate system of remunerating its workers. The following piece rates are determined at various levels of output

	Production Units	Rate Per Unit
First	30	₦100
Next	31 to 60	₦170
Next	61 to 90	₦260
	Above 90	₦330

Stated below are the details of output of three workers for week 4

Yemi - 45 units;      Kofi - 82 Units;      Yetunde - 125 units

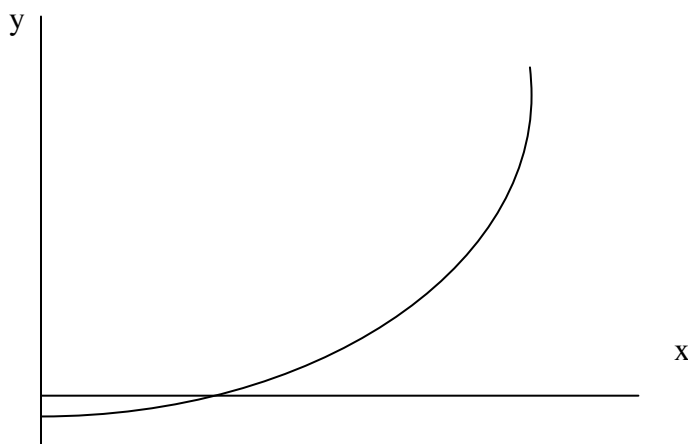
11. Calculate the earnings of Kofi for the period.
- A. ₦27,060
  - B. ₦13,820
  - C. ₦21,320
  - D. ₦15,100
  - E. ₦15,920
12. Yetunde's earnings for week 4 amounted to
- A. ₦32,500
  - B. ₦41,250
  - C. ₦21,250
  - D. ₦27,450
  - E. ₦40,700

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13. A production or service location, function or activity for which cost and revenue can be ascertained is termed..... centre.
- A. Investment
  - B. Revenue
  - C. Profit
  - D. Business
  - E. Cost
14. Which of the following is **NOT** a functional classification of overhead?
- A. Variable overhead
  - B. Production overhead
  - C. Administration overhead
  - D. Distribution overhead
  - E. Selling overhead
15. Cost Ledger Control Account is used to record all the accounts in the financial accounting books which are not included in the corresponding cost accounting books. Control accounts include all the following **EXCEPT**..... Account.
- A. Material Control
  - B. Cost of Sales Control
  - C. Production Control
  - D. Wages Control
  - E. Work-In-Progress Control

16.



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- Which of the following best describes the above graph?
- A. Linear Variable costs
  - B. Semi-Variable costs
  - C. Total Variable costs
  - D. Non-linear Variable costs
  - E. Step costs
17. The difference between expected units of raw materials and the actual output units of raw materials in a particular production process is
- A. Abnormal loss/gain
  - B. Normal loss
  - C. Spoilage loss
  - D. Waste
  - E. Scrap
18. In a process cost accounting system, how would you treat scrap in an accounting period? It is charged to
- A. Scrap Account
  - B. Product cost
  - C. Cost of Sales
  - D. Process Account
  - E. Income Statement
19. In Capital Investment Appraisal context, the discount rate which gives zero Net Present Value is
- A. Account Rate of Return (ARR)
  - B. Payback
  - C. Discount Cash Flow (DCF)
  - D. Discounting
  - E. Internal Rate of Return (IRR)
20. Which of the following is **NOT** a cause of material price variances?
- A. Paying higher or lower prices than budgeted
  - B. Losing or gaining quantity discount buying in varied quantity than planned
  - C. Greater or lower yield from material than planned
  - D. Buying lower or higher quality than planned
  - E. Buying substitute material due to unavailability of planned material

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21. When overtime is due to abnormal factors like accident, power failure and machine breakdown, it should be charged to
- A. Costs of Product
  - B. Abnormal Costing Overhead
  - C. Customer's Account
  - D. General Income Statement
  - E. Wages Account
22. Given that value of work certified ₦10,000,000; cost of work not yet certified ₦1,750,000; cost of work to date ₦9,500,000; progress payment received ₦7,600,000; and the degree of project completion 80%. Calculate the estimated profit/loss of project to be transferred to the Income Statement.
- A. ₦1,140,000
  - B. ₦1,800,000
  - C. ₦400,000
  - D. ₦2,250,000
  - E. ₦500,000
23. An accounting system that uses separate cost accounts which periodically are reconciled with the financial accounts is known as
- A. Integrated Accounting System
  - B. Control Cost Accounting
  - C. Standard Cost Accounting System
  - D. Activity Based Accounting
  - E. Inter-locking Accounting System
24. Decision making involves
- A. Preparation of a scale of preference
  - B. Choosing from alternative courses of action under consideration
  - C. Opportunity costs of alternative forgone
  - D. Allocation of scarce resource
  - E. Items of information that are relevant to an action
25. A rule for identifying the relevant cost of a scarce resource is that the total relevant cost of the resource consists of
- I. The contribution or incremental profit forgone realisable from the next-best opportunity offered by the scarce resources
  - II. Collection and analysis of relevant data about alternative courses of action

- III. The marginal cost of the scarce resources
- A. I only
  - B. II and III
  - C. III only
  - D. I, II and III
  - E. I and III
26. Which of the following is **NOT** a distinguishing feature of service costing?
- A. Services may be for internal consumption or revenue earning.
  - B. Costs are generally analysed into fixed and variable costs for collection and control purposes.
  - C. Costs of direct materials are often a greater proportion to the total costs.
  - D. Generally, a multiple cost unit is adopted like Kilowatt hour and Tonne-kilometre.
  - E. The procedure for recording different costs will vary according to the nature of service.
27. A secondary product which incidentally results from the manufacture of main product and also from the same process is a/an
- A. Finished Good
  - B. Joint Product
  - C. Co-product
  - D. By-product
  - E. Inferior product
28. Where C = Capital Cost of a project, M = annual maintenance cost, E = Energy Cost; R = Replacement Cost and S = Salvage Value of a system, and PW indicates Present Worth of each factor. Then Life-Cycle Cost (LCC) of a project can be calculated using the formula:
- A.  $LCC = C - Mpw + Epw + Rpw + Spw$
  - B.  $LCC = C - Mpw + Epw + Rpw - Spw$
  - C.  $LCC = Mpw - C + Epw - Rpw + Spw$
  - D.  $LCC = Mpw + C - Epw + Rpw - Spw$
  - E.  $LCC = C + Mpw - Epw + Rpw + Spw$
29. Cost Accounting can be defined as
- A. Ascertainment of costs after they have been incurred.
  - B. The practice of charging all costs, both variable and fixed, to operations, processes or products.
  - C. The use by several undertakings of the same costing to their common characteristics.

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- D. The application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and ascertainment of profitability.
  - E. The allotment of whole items of cost to cost centres or units.
30. The degree of influence that a specific manager has over the costs or revenues of an organisation is referred to as
- A. Discretionary power
  - B. Veto power
  - C. Authority
  - D. Responsibility
  - E. Controllability

## PART II - SHORT ANSWER QUESTION

(20 MARKS)

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

1. The means of raising the production efficiency (productivity) of an operating unit by the reorganisation of work is.....
2. A budget which, by recognising different cost behaviour patterns, is designed to change as the volume of activity changes is known as.....
3. Production and cost data have been recorded for two years of 2010 and 2011, thus

Year	Production	Total
2010	20,000 units	₦680,000
2011	21,600 units	₦699,200

Calculate the fixed and variable costs to the nearest naira, using high and low method of cost separation.

4. The extension of decision-making power to the lowest possible levels of an organisation is known as.....
5. The collection of cost data in an organised way through cost accounting system is termed.....
6. The band of activity (or volume) in which a specific form of budgeted sales and cost (expenses) relationships will be valid is known a.....
7. What is the stage in the production process where joint products and by-products become individually identifiable?

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8. The difference between standard selling price and standard variable cost is known as.....
9. State **ONE** objective of material pricing.
10. Conversion costs consist of..... and .....
11. Any group of individual costs is known as a.....
12. What are the **TWO** notional charges that differentiate the cost accounts from the financial accounts?
13. A cost expert analysed the cost data/profile of a project and arrived at a conclusion that the variable cost behaved in a fashion represented by the following function: Cost = bx + cx<sup>2</sup> + dx<sup>3</sup>. Where: b = 10, c = 0.6, d = 0.05, x = production units  
Calculate the cost when production is 500 units.
14. Control ratios are often used by management to control operations. Which type of control is expressed by the following formula:
- $$\frac{\text{actual hours worked}}{\text{budgeted hours}} \times 100$$
15. The factor in the activities of an organisation, which at a particular point in time or over a period will limit the volume of output is termed.....
16. The **TWO** methods by which breakeven analysis may be performed are.....and.....
17. A system that is effective in managing costs in new-product design and development is called .....
18. In the context of capital budgeting, which method of investment appraisal is described as “compounding in reverse”?
19. A general expression encompassing techniques such as Automated Production Technology, Computer Assisted Design (CAD), Flexible Manufacturing Systems (FMS), Robotics, Total Quality Management and the likes is known as .....
20. An extract from the Personnel Records of Adebola Limited shows:
- |  |   |     |
|--|---|-----|
| Labour Turnover rate (based on Separation)   | - | 12% |
| Labour Turnover rate (based on Replacements) | - | 10% |
| No. of Employee Replacements during the year | - | 15% |

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What is the average number of employees in the organisation?

## SECTION B - ATTEMPT ANY FOUR QUESTIONS MARKS)

(50

### QUESTION 1

Ayory Limited produces a single product. In process 1, materials needed are fully added at the beginning of work. Opening balance, which was 33⅓% completed in terms of labour and 66⅔% in terms of overheads, were 6750 units. The cost of the opening Work-In-Progress are given as follows:

Material	₦8,370
Labour	₦1,827
Overhead	₦540

Normal loss is expected to be 1,350 units in the month of August 2011.

During the month of August, 22,500 units were introduced into the production process. At the end of the month 4,500 units were unfinished, and this was 60% completed in terms of conversion cost. The output transferred to Process 2 were 22,500 units. All the process was 100% completed.

The following were the cost data extracted from the ledger of Ayory Limited.

<u>Cost Elements</u>	<u>Cost Incurred (₦)</u>
Material	131,130
Labour	13,833
Overhead	17,010

### You are required to:

- Calculate the cost per equivalent units. (5 Marks)
  - Determine the value of units completed. (2 Marks)
  - Determine the value of closing inventory. (2 Marks)
  - Show the Process Account. (3½ Marks)
- (Total 12½ Marks)**

### QUESTION 2

Alzey Herbals Limited produces three different herbal mixtures, from the same facilities. The required labour is available in large quantity at C44 per hour for all products. However, the supply of Aloe Vera herb, an imported raw material used in production is limited to 60,900 kg



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with buying price of ₪45 per kg. The variable overheads are ₪30.80 per hour. The fixed overheads are ₪5,925,500. Sales commission of 8% is given on each of the products sold.

The following cost information relates to the company's operations for the 3<sup>rd</sup> quarter of 2010

Product	Selling Price per unit (₪)	Market Demand (Unit)	Raw Materials Demand per Unit (kg)	Labour hours required per units
Atura	295	44,000	0.6	2
Hero	350	33,000	0.5	3
Kebey	300	27,500	1.0	1.25

**You are required to prepare a statement showing the:**

- Contribution and Ranking of the products (6 Marks)
- Allocation of Raw Materials for the most profitable product mix (2½ Marks)
- Profitability of the suggested product mix (4 Marks)  
**(Total 12½ Marks)**

## QUESTION 3

**You are required to:**

- Compare and contrast Job Evaluation with Merit Rating. (5½ Marks)
- Give **FIVE** advantages of Straight Time Rate System. (5 Marks)
- State **TWO** circumstances that may lead to working overtime. (2 Marks)  
**(Total 12½ Marks)**

## QUESTION 4

“Cost reduction is a planned positive approach to reducing expenditure.”

**You are required to write short notes on the following two methods of cost reduction.**

- Organisation and Methods stating:

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- i. Definition or explanation of the technique (2 Marks)
  - ii. Its sphere of influence and coverage, and (2 Marks)
  - iii. **THREE** of the benefits claimed for it (3 Marks)
- b. Value Engineering, stating
- i. Its definition (2 Marks)
  - ii. Philosophy of the approach (1 Mark)
  - iii. Steps involved in its operation (2½ Marks)
- (Total 12 ½ Marks)**

## QUESTION 5

“Successful management of any organisation depends on information”

**In light of the above quotation, you are required to discuss briefly**

- a. Any **THREE** ways cost information can aid management in decision-making. (3½ Marks)
  - b. Any **FOUR** qualities of good cost accounting information (4 Marks)
  - c. Any **FIVE** ways computers can be valuable tools in generation, evaluation and presentation of cost accounting information. (5 Marks)
- (Total 12½ Marks)**

## QUESTION 6

**From the information given below, you are required to prepare a monthly cash budget for Super Study Enterprises for the first quarter of 2012.**

- a. Balance in bank at close of business on 31 December 2011 is ~~N~~48,586

b.

	Nov. 2011	Dec. 2011	Jan. 2012	Feb. 2012	Mar. 2012	Apr. 2012
	N	N	N	N	N	N
Sales	108,000	126,000	114,000	102,000	144,000	96,000
Purchases	48,000	54,000	60,000	42,000	64,000	78,000
Salaries	12,000	12,000	14,000	15,000	12,000	14,000
Office Expenses	8,000	10,000	9,000	12,000	8,000	10,000

- c. 25% of sales proceeds are realised in cash, 60% of the balance are recovered during the next month less 5% discount, and the remainder a month later.

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- d. Purchases are paid for in two equal monthly instalments, the first being due 30 days after the month of purchase, and the second, 60 days after purchase.
- e. Both salaries and office expenses are paid for during the month they are incurred.
- f. A new investor is expected to inject ₦250,000 into the business in February 2012 to enable the company pay off a term loan of ₦320,000 that same month.
- g. A new staff bus is expected to be purchased in March 2012 for ₦280,000. The car dealer would be willing to accept the old bus at a trade-in value of ₦65,000.
- h. The company will pay dividends of ₦75,000 in March 2012.

**Show all workings**

## SUGGESTED SOLUTIONS

### Section A

#### PART I MULTIPLE-CHOICE QUESTIONS

**(30 Marks)**

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

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

## Workings

- a. Q 11 B  
Kofi's Earnings

	N
First 30 units @ N100 per unit	3,000
Next 30 units @ N170 per unit	5,100
Last 22 units @ N260 per unit	<u>5,720</u>
	<u>13,820</u>

## Workings

- b. Q 12 D  
Yetunde's Earnings

	N
First 30 units @ N100 per unit	3,000
Next 30 units @ N170 per unit	5,100
Next 30 units @ N260 per unit	7,800
Last 35 units @ N330	<u>11,550</u>

27,450

## Workings

- c. Q 22 A  
Calculation of Profit taken to P&L Account

	N
Value of Work certified	10,000,000
Cost of work not yet certified	<u>1,750,000</u>
	11,750,000
Less cost of work to date	9,500,000
Notional profit	2,250,000

$$\begin{aligned} \text{Profit taken to P\&L a/c} &= \frac{2}{3} \times \text{Notional Profit} \times \frac{\text{Progress Payment}}{\text{Value of Work Certified}} \\ &= \frac{2}{3} \times \text{N}2,250,000 \times \frac{7,600,000}{10,000,000} \\ &= \text{N}1,140,000 \end{aligned}$$

## EXAMINER'S COMMENT

**Thirty questions on various topics of the syllabus provided with five suggested answers, only one of which is either correct or most acceptable.**

**This section, with short answer questions, covers the whole syllabus and gives ample opportunity to well-prepared candidates to prove their mettle. General performance was very encouraging, ranging from about 30% to 80% of maximum marks.**

## SHORT-ANSWER QUESTIONS

1. Work Study
2. A flexible budget
3. 2010 costs in 'real time' =  $\frac{\text{N}734,160}{1} \times \frac{100}{105} = \text{N}699,200$

Year	Production Units	Total Costs  N
2010	21,600	699,200
2009	20,000	680,000
Difference	1,600	19,200

Variable cost /unit =  $\text{N}19,200/1,600 = \text{N}12$

Total Variable Costs =  $20,000 \times \text{N}12 = \text{N}240,000$

Total Fixed Costs =  $\text{N}680,000 - 240,000 = \text{N}440,000$

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4. Decentralisation
5. Cost Accumulation
6. Relevant range
7. Split-off point
8. Standard contribution
9. (a) To charge to production on a consistent and realistic basis the cost of materials used, or  
(b) To provide a satisfactory basis of valuation for inventory on hand
10. Direct labour costs and factory overhead
11. Cost classification
12. (Interest on capital employed and rent charged for use of own premises) i.e Notional Interest and Notional Rent.
13.  $\text{Cost} = bx + cx^2 + dx^3$   
 $= 10(500) + 0.6 (500)^2 + 0.005 (500)^3$   
R780,000
14. Capacity Ratio
15. A limiting or key factor
16. Algebraic calculation and Graphic presentation
17. Target Cost Management
18. Discounting
19. Advance Manufacturing Technology (AMT)
20. 150 Employees

Labour Turnover Rate (based on Replacements)

$$= \frac{\text{No of Replacement}}{\text{Average No of Employees}} \times 100$$

$$\therefore 10\% = \frac{15}{\text{Average No.of Employees}} \times \frac{100}{1}$$

$$\text{Average No. of Employees} = \frac{15}{0.10} = 150$$

## EXAMINER'S COMMENT

Twenty different statements, most of which require to be completed with short phrases.

**SOLUTION 1 (There are two methods, EITHER FIFO method OR, Weighted Average Method)**

**FIRST- IN-FIRST-OUT METHOD**

**COMPUTATION OF COST PER EQUIVALENT UNIT OF PRODUCTION**

i. Equivalent units of Production

	Material (Units)	Labour (Units)	Overhead (Units)
Finished goods	22,500	22,500	22,500
Add closing WIP	<u>4,500</u>	<u>2,700</u>	<u>2,700</u>
	27,000	25,200	25,200
Less Opening WIP	<u>6,750</u>	<u>2,250</u>	<u>4,500</u>
	20,250	22,950	20,700
Normal loss	-	-	-
	20,250	22,950	20,700
Add Abnormal loss	<u>900</u>	<u>900</u>	<u>900</u>
Equivalent units of production	<u>21,150</u>	<u>23,850</u>	<u>21,600</u>

ii. Computation of Total Cost

	Material	Labour	Overhead
		₦	₦
Cost incurred in August	131,130	13,833	17,010

iii. Computation of cost per equivalent unit

Material = ₦ 131,130 ÷ 21,150 units = ₦ 6.20

Labour = ₦ 13,833 ÷ 23,850 units = ₦ 0.58

Overhead = ₦ 17,010 ÷ 21,600 units = ₦ 0.7875

10 ticks x ½ = (5 Marks)

B. Computation of Finished Goods – 22,500 units

	₦	₦
Opening WIP-6,750 units:		
Initial cost:		
a. Material	8,370	
Labour	1,827	
Overhead	<u>540</u>	10,737

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b. Cost of Completion:

Material-

Labour (~~₦~~0.58 x  $\frac{2}{3}$  x 6,750 units) 2,610

Overhead (~~₦~~0.7875 x  $\frac{2}{3}$  x 6,750 units) 1,772      4,382

15,119

Quantity started and completed -15,750 units

Material (6.20 x 15,750 units) 97,650

Labour (~~₦~~0.58 x 15,750 units) 9,135

Overhead (~~₦~~0.7875 x 15,750 units) 12,403

119,188

Value of finished goods 134,307

Value of closing inventory -4,500 units

₦

Material (6.20 x 4,500 x 100%) 27,900

Labour (~~₦~~0.58 x 4,500 x 60%) 1,566

Overhead (~~₦~~0.7875 x 4,500 x 60%) 2,126

31,592

## PROCESS 1 ACCOUNT

	Qty (Units)	₦		Qty (Units)	₦
Bal b/d	6,750	10,737	Normal loss	1,350	-
Material	22,500	131,130	Abnormal loss	900	6,811
Labour	-	13,833	Process II	22,500	134,307
Overhead	-	<u>17,010</u>	Bal c/d	<u>4,500</u>	<u>31,592</u>
	<u>29,250</u>	<u>172,710</u>		<u>29,250</u>	<u>172,710</u>
 Bal b/d	 4,500	 31,592			

## ALTERNATIVE SOLUTION (II)



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## II. AVERAGE COST OR WEIGHTED AVERAGE METHOD

### a. COMPUTATION OF COST PER EQUIVALENT UNIT OF PRODUCTION

#### i. Equivalent unit of production

	Material (Units)	Labour(units)	Overhead(Un its)
Finished goods	22,500	22,500	22,500
Add closing WIP	4,500	2,700	2,700
	<u>27,000</u>	<u>25,200</u>	<u>25,200</u>
Normal loss	-	-	-
	27,000	25,200	25,200
Add Abnormal loss	900	900	900
Equivalent units of production	<u>27,900</u>	<u>26,100</u>	<u>26,100</u>

#### ii. Computation of Total Cost

	Material N	Labour N	Overhead N
Cost of opening WIP	8,370	1,827	540
Cost incurred in August	<u>131,130</u>	<u>13,833</u>	<u>17,010</u>
	<u>139,500</u>	<u>15,660</u>	<u>17,550</u>

#### iii. Cost per equivalent unit of production

Material	<u>N139,500</u>				
	27,900 units	=		N5	
Labour	<u>315,660</u>				
	26,100 units	=		N0.60	
Overhead	<u>N17,550</u>	=			
	26,100 units	=		N0.6724	

#### b. Values of units completed – 22,500 units

	N
Material (N5 x 22,500)	112,500
Labour (N0.60 x 22,500)	13,500
Overhead (N0.6724 x 22,500)	<u>15,129</u>
	<u>141,129</u>

#### c. Values of closing inventory of work-in-progress- 4,500 units

	N
Material (N5 x 4,500 units x 0.6)	= 22,500
Labour (N0.60 x 4,500 units x 0.6)	= 1,620
Overhead (N0.6724 x 4,500 units x 0.6)	= <u>1,816</u>

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25,936

## PROCESS 1 ACCOUNT

d.	Qty (units)	₦		Qty (Units)	₦
Bal b/d	6,750	10,737	Normal loss	1,350	-
Material	22,500	131,130	Abnormal loss	900	5,645
Labour	-	13,833	Process II	22,500	141,129
Over head	-	17,010	Bal c/d	4,500	<u>25,936</u>
	<u>29,250</u>	<u>172,710</u>		<u>29,250</u>	<u>172,710</u>

## WORKING NOTES

### I. Computation of Abnormal loss

	Units
Quantity processed in August	22,500
Add: Opening WIP	<u>6,750</u>
	<u>29,250</u>
Less: Closing WIP	4,500
Normal loss	<u>1,350</u>
	<u>5,850</u>
Expected output	23,400
Actual output	<u>22,500</u>
Abnormal loss	<u>900</u>

### 2. Valuation of Abnormal loss-900 units

a. First-In-First-Out Method	₦
Material ( <del>₦</del> 6.20 x 900 units)	5,580
Labour ( <del>₦</del> 0.58 x 900 units)	522
Overhead ( <del>₦</del> 0.7875 x 900 units)	<u>709</u>
	<u>6,811</u>

b. <u>Average cost Method</u>	₦
Material ( <del>₦</del> 5 x 900 units)	4,500
Labour ( <del>₦</del> 0.60 x 900 units)	540
Overhead (0.6724 x 900 units)	<u>605</u>

# INSIGHT

5,645

## EXAMINER'S COMMENT

This Question, demands computations of cost per equivalent units, values of units completed and closing inventory.

50% of the candidates attempted the question. Their average performance fell below pass mark because of their inability to compute equivalent units.

## SOLUTION 2

a. Statement showing the contributions and Ranking of the products

Description	ATURA	HERO	KEBEY
i. Selling price per unit	€295.00	€350.00	€300.00
Less: Variable cost per unit:	€	€	€
Direct material @ €45 per kg	27.00	22.50	45.00
Direct Labour @ €44 per hour	88.00	132.00	55.00
Variable overheads @ €30.80 per hour	61.60	92.40	38.50
Sales Commission @ 8%	<u>23.60</u>	<u>28.00</u>	<u>24.00</u>
ii. Total variable costs	200.20	274.90	162.50
iii. Contribution per unit (C) (I-II)	94.80	75.10	137.50
iv. Raw material required per unit (kg)	0.6 kg	0.5 kg	1.0 kg
v. Contribution per kg of material (III/IV)	€158.00	€150.20	€137.50
vi. Ranking	1	2	3

b.

Statement showing the Allocation of Raw Materials for the most profitable mix

Total Raw Material available	Kg
	60,900
Less: Materials used for producing ATURA(44,000 x 0.6)	<u>26,400</u>
Balance available for HERO & KEBEY	34,500
Less: Materials used for producing Hero (33,000 x .5)	<u>16,500</u>
Balance left for producing KEBEY (18,000 x 1.0)	18,000

c.

Statement showing the Profitability of suggested Product Mix

Description	ATURA	HERO	KEBEY	TOTAL
i. Units produced	44,000 kg	33,000 kg	18,000kg	
ii. Contribution per unit	€94.80	€75.10	€137.50	
iii. Total Contribution (i x ii)	€4,171,200	€2,478,300	€2,475,000	€9,124,500
iv. Less: Fixed cost				<u>€5,925,500</u>
v. Profit (iii-iv)				<u>€3,199,000</u>

## EXAMINER'S COMMENT

The question tests technique of using Contribution per limited factor to identify most profitable mix of products. More than 60% of candidates avoided this question and less than five (5) percent of them performed well.

## SOLUTION 3

### a. JOB EVALUATION

Job evaluation is a technique which attempts to show the relative worth of jobs in a reasonable and objective manner. It analyses the contents of each job under various categories e.g. the personnel required, the training required, degree of responsibility, working conditions, the various types of decisions involved and so on. It will then give a point score for each factor. The total for the point scores of each factor is then used to determine scales, pay rating and normal salary for each job. The advantage is that it makes objective ranking of jobs. However, the job evaluation studies the job but not the person doing the job.

### MERIT RATING

Merit rating is concerned with the individual employee. It attempts to rate the worker's performance so as to establish whether the worker should receive a merit award, promotion bonuses, demotion, etc. It performs this under many categories e.g. attendance, initiative, innovation, willingness, dedication etc. It is considered to be of value in providing a reasonably standardized basis to the difficult task of the individual appraisal.

### b. ADVANTAGES OF STRAIGHT TIME RATING SYSTEM

- i. It is simple to understand.
- ii. It is easy to administer.

- iii. It simplifies wages negotiation
  - iv. It simplifies the computation of incentive schemes such as overtime, bonus for time saved etc.
  - v. It helps to easily measure the efficiency of workers.
  - vi. Computation of workers' efficiency variance is made easier.
  - vii. Volume, capacity and efficiency utilization of facilities can easily be computed.
  - viii. It is claimed to provide higher-grade workers.
- c. **CIRCUMSTANCES LEADING TO WORKING OVERTIME**
- i. When time based job cannot be performed within the official hours of the organization.
  - ii. When a specialized labour will be required on a job
  - iii. When contract job is involved where the worker will move to contract Site.
  - iv. Accident
  - v. Machine breakdown
  - vi. Power failure

## **EXAMINER'S COMMENT**

**The question tests Labour Management in the areas of Job Evaluation, Merit Rating, Straight Time Rate System and requirement for working overtime.**

**90% of the candidates attempted this question, but general performance was below average. This was mainly because many candidates were unable to give any advantage of Straight Time Rate System.**

**Students are advised to read Theory Topics as many times as possible just the same way as they should practise computational ones well when presenting themselves for examinations.**

## **SOLUTION 4**

- a. **Organisation and Methods (O&M)**
  - i. This is a term for those techniques which include methods and study, and work measurement. The techniques are applied to examine the effectiveness of clerical,

administrative and management procedure and organization so as to effect improvement.

ii. Organisation and Methods is a specialized branch of work study as it is deployed to address issues relating to work and its allied spheres, such as :

- a. Organisation
- b. Duties
- c. Integration of functional activities, office lay out
- d. Staffing
- e. Methods of procedures and documentation, the design of forms
- f. Office mechanization
- g. Collection and use of work measurement data

iii. Benefits of Organisation and Methods

- Provides a means of measuring the effectiveness of clerical and administrative procedures
- It enables the management decide on the most efficient methods of getting work done
- It establishes the standard time required for any given task or work
- It reduces costs in that the more efficient methods and tighter standards improve efficiency and productivity
- Fair work allocation, economic staffing and incentives

## b. Value Engineering (VE)

i. Definition- Value Engineering is a process of making certain that each element of a product design serves a necessary function and thereby contributes value from the standpoint of time sequence. Value Engineering occurs before production. Therefore, Value Engineering is a technique for cost avoidance or cost prevention before production.

The basic philosophy of value engineering as an approach to cost reduction is that the best place to control price is at the concept stage of designing a new product. Afterall, why not do it right the first time?

ii. Steps involved in Operation of Value Engineering technique

- a. Identification and definition of the problem involved. At the initial stage value analysis team is formed and a product selected and defined. The product and all its components are examined in detail in order to obtain a thorough understanding of their nature.

- b. Collecting information and analysis of functions

Information about the product or each operation process in such areas as drawing and design, tolerance specification, material specification, direct and other costs, market etc are collected. Also, each of the function performed by the product in question need to be specified, and a cost allocated to each one.

- c. Development of Alternatives. This aspect concerns the examination of the methods used to provide this function and to explore alternative approaches. The feasible ideas are converted into various alternative proposals.
- d. Analysis of Alternatives. The aim of this stage is to evaluate, criticize and test the alternatives generated.
- e. Implementation of the proposal selected. At this stage, a choice is made among the alternatives presented. One or more choices are selected for implementation, and the line managers in the team then become responsible for incorporating the necessary changes into the production system.

## EXAMINER'S COMMENT

**The question tests major areas of Cost Reduction methods of Organisation and Methods, and Value Engineering. 60% of the Candidates attempted the question and average scores were around 40%.**

## SOLUTION 5

- a. **Ways Cost Information aid management in decision making**

Quality of Financial and non-financial information is a factor that determines success or otherwise of the management of an organization. Cost information, both financial and non-financial have to be monitored carefully, recorded accurately and taken into account for them to be relevant to management in making decisions.

Essentially, cost accounting provides financial information to aid planning, control and monitoring and decision making. However, non-financial information is needed to buttress and clarify most of the contents in the cost accounting information.

For information to be useful and usable as aids to management in its planning, control and decision making function, it has to be appropriate and relevant. The value of information depends on the type of response it elicits when received.

- b. **Qualities of Good Cost Accounting information**

- (i) **Cost and Benefit Analysis:** The benefits obtained from the information must exceed the cost incurred in generating the information.

# INSIGHT

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- (ii) **Clarity:** Cost Accounting information must not lend itself to several interpretations and therefore be misleading.
- (iii) **Brevity:** A good cost accounting information must not be unnecessarily lengthy and therefore be boring to its users.
- (iv) **Relevance:** Cost accounting information must appropriately address the purpose for which it is needed
- (v) **Factual:** Information must present a state of fact supported by adequate and reliable data.
- (vi) **User- friendly:** A good cost accounting report must consider peculiarity of the users at the encoding stage.
- (vii) **Trust:** Cost information must earn the confidence and trust of the users as being reliable and relevant to the purpose for which it is needed .
- (viii) **Completeness:** Cost information must be able to provide all the facts required by the users to provide solutions to management problems.
- (ix) **Presentation:** A good cost accounting report must be presented to the users in such a way that all the essential parts are easily understood and accessible to the users.

- c. Ways Computers can be valuable tools in the generation, evaluation and presentation of Cost information:

Information technology is synonymous with computer, and perhaps, the internet. Information technology is applied to various facets of cost accounting to aid the management in decision making.

Computer is a valuable tool for costing purposes, the same way it is useful to other aspects of business. Computer has a great positive impact on the generation, evaluation and presentation of cost information and it has effect in such areas as speed and accurate data processing, filing and retrieval capabilities, calculating and decision making capabilities, input and output facilities.

The impact of Computer on the generation, evaluation and presentation of cost information can be viewed along the following realms:

- a. **Timely generation and presentation of Reports**

All aspects of computer operation related to cost data processing, information generation, evaluation and report presentation take place at a very high speed, thereby saving management time.



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b. **Accurate reports are often generated:** Since all computers have inbuilt mechanism or program that ensures, for all practical purpose, 100% accuracy, cost accountants and managers have confidence and trust in the validity and completeness of reports generated by computers.

c. **Filing and Quick Retrieval of Cost Information generated:**

Computer files are maintained on some type of disc storage. The application software dedicated to file handling, permits rapid updating, amendment, cross referencing and retrieval of huge volume of cost data. Therefore cost data or information can be retrieved for evaluation, updating and amendment, after which it will be stored in the computer back-up storage. This enables Cost Accountants have more and more information rapidly available for instantaneous display on their terminal or have them printed out.

d. **Calculating and decision making capability:**

With the use of computer, calculations required for costing purpose, which are usually stressful and tedious with manual systems, are done very modestly. Related to the calculating power of computer is the testing of different values contained in the cost information generated and taking different actions depending on the results.

e. **Cost data input and cost information output facilities:**

Cost data are fed into computer and processed. The final result is the cost information ready for use or for further analysis. Computer can read, sort and search files and then generate and present the information in hard copy (Print out) or display the information on the VDU at a very high speed. With modern software, reports can be altered at will, their contents evaluated and the final reports displayed using a range of diagrammatic and physical displays.

## EXAMINER'S COMMENT

**This question tests the dependence of successful management of an organization on good cost accounting information and indispensability of the computer. 90% of the candidates attempted the question and a good number of them scored fair marks.**

## SOLUTION 6

### SUPER STUDY ENTERPRISES CASH BUDGET FOR JANUARY TO MARCH 2012

	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>
RECEIPTS	₦	₦	₦

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Sales	114,765	112,035	113,805
New Investment	-	250,000	-
	<u>114,765</u>	<u>362,035</u>	<u>113,805</u>

## PAYMENTS

Purchases	51,000	57,000	51,000
Salaries	14,000	15,000	12,000
Office Expenses	9,000	12,000	8,000
Term Loan	-	320,000	-
Staff Bus	-	-	215,000
Dividends	-	-	75,000
	<u>74,000</u>	<u>404,000</u>	<u>361,000</u>

Net Cash Inflow	40,765	(41965)	(247,195)
Balance B/Fwd	<u>48,586</u>	<u>89,351</u>	<u>47,386</u>
Balance c/fwd	89,351	47,386	(199,809)

## WORKINGS

	NOV	DEC	JAN	FEB	MAR
	₦	₦	₦	₦	₦
Sales/25% Cash	27,000	31,500	28,500	25,500	36,000
75% x 60% x 95%	-	46,170	53,865	48,735	43,605
75% x 40%	-	-	<u>32,400</u>	<u>37,800</u>	<u>34,200</u>
	<u>27,000</u>	<u>77,670</u>	<u>114,765</u>	<u>112,035</u>	<u>113,805</u>
Purchases					
1 <sup>st</sup> Installment	-	24,000	27,000	30,000	21,000
2 <sup>nd</sup> Installment	-	-	<u>24,000</u>	<u>27,000</u>	<u>30,000</u>
	<u>-</u>	<u>24,000</u>	<u>51,000</u>	<u>57,000</u>	<u>51,000</u>

## EXAMINER'S COMMENT

The question tested Cash Budget preparation. 95% of the candidates attempted the question and 50% of them scored pass marks.

AT/122/PIIL.11

Examination No:.....

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA  
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA  
PART III EXAMINATIONS - SEPTEMBER 2012  
PREPARING TAX COMPUTATIONS AND RETURNS**

**Time allowed: 3 hours**

Insert your Examination number in the space provided above

# INSIGHT

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## SECTION A - ATTEMPT All Questions in this section VERSION)

(NIGERIA

### PART 1 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.

1. A quorum is formed at any meeting of the State Board of Internal Revenue where there is in attendance the Chairman
  - A. And three other members
  - B. Or a Director and two other members
  - C. Or a Director and four other members
  - D. And seven other members
  - E. Or a Director and five other members
  
2. The State Board of Internal Revenue is comprised of the following **EXCEPT**
  - A. The Executive Head of the State Internal Revenue Service as Chairman
  - B. A Director from the State Ministry of Finance
  - C. The Legal Adviser from the State Internal Revenue Service
  - D. The Secretary of the State Internal Revenue Service
  - E. The Internal Auditors of the State Local Government
  
3. Local Government Revenue Committee is made up of the Chairman,
  - A. Three local government councillors as members and two other persons experienced in revenue matters nominated by the chairman
  - B. And two local government councillors
  - C. And two other persons experienced in revenue matters to be nominated by the chairman
  - D. And three other persons nominated by the chairman
  - E. And four local government councillors
  
4. An Appeal Commissioner shall hold office for a period of..... years from the date of his appointment
  - A. 3
  - B. 4
  - C. 5
  - D. 2
  - E.  $3\frac{1}{2}$
  
5. In Nigeria, donations may be made as provided by Schedule 5 of the Companies Income Tax Act CAP C21 LFN 2004 to the following **EXCEPT**

- A. The Nigerian Institute of Trypanosomiasis Research
  - B. The Nigerian Museum
  - C. The Nigerian Institute for Oil Palm Research
  - D. Donation to former Accountant for loss of office
  - E. The Nigerian Red Cross
6. Which of the following taxes is **NOT** administered by the Federal Inland Revenue Service?
- A. Companies Income Tax
  - B. Education Tax
  - C. Withholding Tax of a sole trader
  - D. Capital Gains Tax for a Company
  - E. PAYE of an officer of the Nigerian Airforce
7. The head of a Federal Board of Inland Revenue is the
- A. President
  - B. Secretary
  - C. Officer
  - D. Chairman
  - E. Governor
8. Which of the following levies and taxes is **NOT** collectible by a Local Government?
- A. Market Permit
  - B. Liquor Licence fee
  - C. Tenement rates
  - D. Cattle tax
  - E. Value Added Tax
9. A newly incorporated company must register with the Federal Inland Revenue Service or Revenue Agency Governing Board within
- A. Six months of its incorporation
  - B. Twelve months after commencement of business
  - C. Eighteen months from incorporation or six months after the end of its first accounting period
  - D. Twelve months from incorporation or six months after the end of its first accounting period
  - E. Ten months after commencement of business
10. A limited liability company is expected to file its tax annual returns

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- A. At the beginning of every tax year
  - B. When a notice of request from the revenue office is received
  - C. Not later than the end of March every year
  - D. At the end of every year
  - E. Not later than six months after the end of an accounting year
11. Income derived from employment is described as.....income.
- A. Earned
  - B. Excess
  - C. Derived
  - D. Unearned
  - E. Useful
12. Under Personal Income Tax laws, which **ONE** of the following is **NOT** taxable?
- A. Individuals
  - B. Communities
  - C. Officers of Nigerian foreign service
  - D. Trustees
  - E. Executors
13. Where it is impracticable to apportion with certainty the income accrued to a community, the tax authority will charge
- A. The individuals
  - B. Each family in the Community
  - C. The Community as one entity
  - D. Nothing since the income will be exempted from tax
  - E. Half of the income will be taxed
14. Which of the following deductions is **NOT** tax exempt?
- A. Life Assurance Premium
  - B. Gratuities
  - C. National Health Insurance Scheme
  - D. Contribution to unregistered Co-operative Society to which the tax payer belongs
  - E. National Housing Fund Contribution
15. The tax law governing income from a Partnership business in Nigeria is the
- A. Companies Income Tax Act CAP C21 LFN 2004

- B. Partnership Tax Act
  - C. Capital Gains Tax Act CAP C1 LFN 2004
  - D. Business Income Tax Act
  - E. Personal Income Tax Act CAP P8 LFN 2004
16. Which of the following is **NOT** a source of tax laws?
- A. Constitution
  - B. Court judgement
  - C. Community decision
  - D. Legislation
  - E. Jurisprudence
17. The tax free period of a company engaged in agricultural business is ..... years
- A. 7
  - B. 4
  - C. 3
  - D. 6
  - E. 5
18. Capital Allowance excludes ..... allowance
- A. Balancing
  - B. Investment
  - C. Set-Off
  - D. Annual
  - E. Initial
19. A Capital Expenditure with Annual Allowance rate of 20% will have a life span of..... years
- A. 10
  - B. 7
  - C. 4
  - D. 5
  - E. 15
20. Which of the following bodies/items is **NOT** exempted from Companies Income tax?
- A. The Boys Brigade of Nigeria
  - B. The National Library
  - C. Institute of Chartered Accountants of Nigeria
  - D. Donation for Research and Development

- E. Money brought to Nigeria by a Foreign Company
21. Which of these is **NOT** information to be provided in filing returns for withholding tax on goods and services?
- A. Nature of Contract
  - B. Total amount estimated to be payable
  - C. Approval for the award of contract
  - D. Name and address of the recipient
  - E. Tax withheld
22. Which of these is **NOT** subject to Withholding tax?
- A. Management services
  - B. Building construction
  - C. Director's fees
  - D. Earned Income
  - E. Consultancy services
23. The relevant tax authority responsible for the collection and assessment of withholding tax from individuals is
- A. Federal Inland Revenue Service
  - B. Trustee
  - C. Local government authority
  - D. State Board of Internal Revenue
  - E. Federal Board of Internal Revenue
24. Withholding tax rate on the Commission of a non-corporate body is .....percent.
- A. 10
  - B. 5
  - C. 15
  - D. 2
  - E. 20
25. Which of these is **NOT** correct?
- A. Withholding tax is deducted at source
  - B. Withholding tax is an advance payment of tax
  - C. Withholding tax is charged on dividend
  - D. Failure to remit withholding tax attracts penalty
  - E. Investment income are not subject to withholding tax
26. Which of the following is **NOT** exempted from Value Added Tax?

- A. Basic food items
  - B. Medical products
  - C. Luxury cars
  - D. Baby products
  - E. Books and educational materials
27. Which of the following is **NOT** a duty of the Value Added Tax Technical Committee?
- A. Settle disputes among states
  - B. Consider all the tax matters that require technical expertise and make recommendations to the Board
  - C. Advise the Board on the duties on management and administration of VAT
  - D. Attend to such other matters as the Board may from time to time refer to it
  - E. Organise meetings of technical importance on VAT matters with the Board
28. Which of the following is **NOT** a record to be maintained by registered persons for the purpose of accounting for Value Added Tax?
- A. Tax invoices received
  - B. Copies of all tax invoices issued
  - C. Documentation relating to the importation and exportation of goods and services
  - D. Balance Sheet for the business at year-end
  - E. A VAT account to show total output tax, total input tax and the amount due or refundable for each month
29. Gains from sale of .....is **NOT** exempted from Capital Gains Tax.
- A. Government security
  - B. Personal chattel
  - C. Motor vehicle used for goods
  - D. Motor vehicle used for passenger
  - E. Houses inherited from direct parents
30. Which of the following is **NOT** an objective of taxation?
- A. Redistribution of profits
  - B. Mobilisation of economic resources
  - C. Combating inflation
  - D. Redistribution of wealth
  - E. Influencing the level of economic activities



## PART 11: SHORT ANSWER QUESTIONS

(20 MARKS)

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

1. What is the time limit for a limited liability company to file its tax returns after the end of its accounting year?.....
2. The members of the Joint Tax Board (JTB) are appointed by the.....
3. Where a tax payer is aggrieved by a notice of assessment, he should raise a/an .....
4. Where the decision of the High Court is not satisfactory to either parties, the right of appeal may be exercised within ..... days.
5. How many members constitute the Federal Board of Inland Revenue?
6. All appeals before the Tax Appeal Tribunal shall be held.....
7. The first assessment raised on a tax payer in a particular year of assessment which may be the subject of an objection and appeal procedure is called.....
8. Education tax is charged at 2% of ..... profit.
9. What is the relevant Act governing taxation of Individuals, Communities and Families?
10. A person is deemed to be resident in Nigeria for taxation purposes if he stays in the country for a period of.....
11. A tax payer who performs his working activities in several territories within a year of assessment is called an..... worker.
12. The allowance granted to companies established in rural areas lacking infrastructural amenities is called.....
13. The relevant tax authority for Director's fees is ....., while the relevant tax authority for Royalty is.....
14. When the rules of taxation are applied to accounting profit, the result obtained is called.....
15. A person obliged to withhold tax on behalf of government is called.....

# INSIGHT

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16. Withholding tax rate on Royalties is.....
17. The difference between the cost of acquisition and the amount rolled over is .....
18. Value Added Tax is charged at.....
19. The continuous failure of a company to submit returns attracts a penalty of .....every month after the first month.
20. Stamp duties on a document should be paid as it is being prepared before its .....

**SECTION B: Attempt any FOUR questions**

**(50 Marks)**

**QUESTION 1**

Education Tax is administered by the Tertiary Education Trust Fund whose Board is usually appointed by the President.

**You are required to:**

- a. List **FIVE** objectives of the Tertiary Education Trust Fund. (5 Marks)
- b. Explain **FIVE** responsibilities of the Board of the Tertiary Education Trust Fund.

(7<sup>1/2</sup> Marks)

**(Total 12<sup>1/2</sup> Marks)**

**QUESTION 2**

The Personal Income Tax (Amendment) Act 2011 is quite explicit on where a person is deemed to be resident in a particular year of assessment.

**You are required to:**

- a. State the principal place of residence of:
  - i. A pensioner
  - ii. An individual who has a source of earned income other than a pension

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- iii. Persons on leave from Employment at 1 January
  - iv. Armed Forces Personnel (5 Marks)
  
  - b. i. Explain “Place of Residence”
  - ii. State what “Place of Residence” **EXCLUDES?** (4<sup>1</sup>/<sub>2</sub> Marks)
  
  - c. List the **THREE** main types of Assessment. (3 Marks)
- (Total 12<sup>1</sup>/<sub>2</sub> Marks)**

## QUESTION 3

Wunmi, Olu and Ade are in partnership. They have been trading for several years and make their accounts to 31 December of each year.

Their profit sharing ratio is 5: 3: 2: Below is the Income Statement for the year ended 31 December 2011.

	₦	₦
Gross Profit		577,000
Salaries and Wages	200,000	
Stationery	13,000	
General expenses	30,000	
Depreciation	20,000	
Interest on loan - Ade	10,000	
Interest on capital	60,000	
Transport and Travelling	52,000	
Advert	20,000	
Rent	36,000	
Repairs	24,000	
Motor Vehicle expenses	15,000	
Loss on Sale of Machine	3,000	
Bad debts	2,000	
Leave Passage - Wunmi	4,000	
Olu	4,000	
Ade	<u>4,000</u>	<u>497,000</u>
Net Profit for the year		<u><u>80,000</u></u>

Additional Information:-

i.	Salaries and Wages:-	₦
	Wunmi	60,000
	Olu	80,000
	Office Staff	45,000
	Houseboys for Partners	10,000
	Olu’s Gardener	<u>5,000</u>
		<u>200,000</u>

# INSIGHT

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ii. The bad debts provision is for specific debts.

iii. Interest on Capital:-	₦
Wunmi	25,000
Olu	15,000
Ade	<u>20,000</u>
	<u>60,000</u>

**You are required to:**

- a. Calculate the computed income of the partnership for the year ended 31 December 2011. (4 Marks)
- b. Compute the income tax of each partner from the partnership. (8<sup>1</sup>/<sub>2</sub> Marks)  
**(Total 12<sup>1</sup>/<sub>2</sub> Marks)**

## QUESTION 4

Garuba Nigeria Plc has been carrying on business since 2002. During the year ended 31 December 2011, the Company's activities are as follows:

GARUBA NIGERIA PLC  
Balance Sheet as at 31 December 2011

Assets Employed:	₦	₦
Fixed Assets		150,000,000
Current Assets	410,000,000	
Less Current Liabilities	<u>240,000,000</u>	<u>170,000,000</u>
		<u>320,000,000</u>
Financed by:		
Share Capital		120,000,000
Statutory Reserves		40,000,000
General Reserves		90,000,000
Long-term Loans		<u>70,000,000</u>
		<u>320,000,000</u>

# INSIGHT

Notes:

- i. The turnover of the Company during the year ended 31 December 2011 was ₦150 million.
- ii. Gross Profit was ₦31 million.
- iii. Assessable Profit for 2012 Year of Assessment was ₦5.5 million.
- iv. Unrelieved capital allowances brought forward from 2011 Year of Assessment was ₦550,000.
- v. Capital allowance for the 2012 Year of Assessment was ₦635,000.

**You are required to compute the income tax liability of the company for the relevant year of assessment. (12<sup>1</sup>/<sub>2</sub> Marks)**

## QUESTION 5

- a. Describe Artificial and Fictitious transactions under Capital Gains Tax Act. (5 Marks)
- b. Kunle Kayode is a business merchant who engages in various contracts and supplies under a trade name Chuckwudemy. The company was awarded a building contract of ₦250 million in 2011. In the same year, the company was awarded a contract for the supply of stationery worth ₦15 million by Golden Academy. From various contracts executed by the company in the past, it was able to invest ₦5 million in shares in year 2010 and dividend of ₦450,000 (net) was paid on the amount invested. A rent of ₦2.5 million was received in year 2011.

**You are required to:**

Compute the Withholding taxes due for the relevant years of assessment. (7<sup>1</sup>/<sub>2</sub> Marks)  
(Total 12<sup>1</sup>/<sub>2</sub> Marks)

## QUESTION 6

Jolayemi Company Limited engages in catering and hotel services. The company prepares accounts up to 31 December every year and it is a registered Value Added Tax (VAT) agent of Federal Inland Revenue Service.

The VAT account for the year 2011 show the following:

VAT ACCOUNT	
₦'000	₦'000
VAT paid on food materials 4,400	VAT charged on foods and drinks 7,700
VAT paid on drinks for sale 500	VAT charged on accommodation 12,550
VAT paid on furniture 625	VAT charged on services 4,550
Amount remitted to FIRS 10,000	
Balance c/d at 30/12 <u>9,275</u>	
<u>24,800</u>	<u>24,800</u>

# INSIGHT

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**You are required to:**

- a. Compute the total amount of VAT due for 2011 tax year. (9½ Marks)
- b. Ascertain the balance of VAT not yet remitted as at 31 December 2011. (3 Marks)
- (Total 12½ Marks)**

## NIGERIA TAX RATES

1. CAPITAL ALLOWANCES

	<b>Initial %</b>	<b>Annual %</b>
Office Equipment	50	25
Motor Vehicles	50	25
Office Buildings	15	10
Furniture & Fittings	25	20
Industrial Buildings	15	10
Non-Industrial Buildings	15	10
Plant and Machinery - Agricultural Production	95	NIL
- Others	50	25

2. INVESTMENT ALLOWANCE 10%

3. RATES OF PERSONAL INCOME TAX:

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.

	<b>Taxable Income</b>	<b>Rate of Tax</b>
	<b>₦</b>	<b>%</b>
First	300,000	7
Next	300,000	11
Next	500,000	15

# INSIGHT

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Next	500,000	19
Next	1,600,000	21
Over	3,200,000	24

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

4.	COMPANIES INCOME TAX RATE	30%
5.	EDUCATION TAX	2% (of assessable profit)
6.	CAPITAL GAINS TAX	10%
7.	VALUE ADDED TAX	5%

## SUGGESTED SOLUTIONS

### SECTION A

#### PART I MULTIPLE-CHOICE QUESTIONS

1. C
2. E
3. A
4. A
5. D
6. C
7. D
8. E
9. A
10. E
11. A
12. C

# INSIGHT

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

## EXAMINER'S COMMENT

**The Multiple Choice Questions covered the entire syllabus. All the candidates attempted the questions, and the general performance was fair.**

## PART II SHORT-ANSWER QUESTIONS

1. Six months
2. The Chairman is appointed by the President, while other members are nominated by the respective States' Commissioners for Finance.



# INSIGHT

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3. Notice of objection
4. 30
5. 15 members; in accordance with the provisions of the Federal Inland Revenue Service (Amendment) Act 2007.
6. Public
7. Initial/original assessment
8. Assessable profit
9. Personal Income Tax Act, Cap P8 LFN 2004 (as amended to date)
10. 183 days or more
11. Itinerant
12. Rural Investment Incentive/Rural Investment Allowance
13. State Board of Internal Revenue/ Federal Inland Revenue Service Board
14. Adjusted Profit
15. Tax agent
16. 15%
17. Carrying Cost
18. 5%
19. ₦5,000
20. Execution

## EXAMINER'S COMMENT

**These questions covered all aspects of the syllabus. The overall performance of the candidates was poor. More than 75% of the candidates scored below 20% of the allocated marks. Candidates are advised to read and prepare for every aspect of the examination syllabus in future.**

## SECTION B

### SOLUTION 1

- a. **The following are the objectives of the Tertiary Education Trust Fund (TETFUND):  
Provision and maintenance of:**
- i. Essential physical infrastructure for teaching and learning;
  - ii. Instructional materials and equipment;
  - iii. Research and publication;
  - iv. Academic staff training and development; and
  - v. Any other need which, in the opinion of the Board of Trustees, is critical and essential for the improvement of quality and maintenance of standards in the higher educational institutions.
- (b) The Board shall be responsible for the following:
- i. Monitor and ensure collection of tax by the Federal Inland Revenue Service and ensure transfer of same to the fund.
  - ii. Manage and disburse the tax imposed by the Act.
  - iii. Liaise with the appropriate Ministries or bodies responsible for collection and safe keeping of the tax.
  - iv. Receive requests and approve projects after due consideration.
  - v. Ensure disbursements of funds to various public tertiary educational institutions in Nigeria.
  - vi. Monitor and evaluate execution of projects.
  - vii. Invest fund in appropriate and safe securities.
  - viii. Update the Federal Government on its activities and progress through annual and audited reports.
  - ix. Review progress and suggest improvements within the provisions of the act, and

- xi. Do such other things as are necessary or incidental to the objects of the Fund under the Act or as may be assigned by the Federal Government?
- xii. Make and issue guidelines, from time to time, to all beneficiaries on disbursement from the Fund on the use of monies received from the Fund; and
- xiii. Generally to regulate the administration, application and disbursement of monies from the Fund under this Act.

## EXAMINER'S COMMENT

**This question tests the candidates' understanding of the Education Tax with particular reference to the Tertiary Education Trust Fund. 65% of the candidates attempted the question and the general performance was good. All candidates are advised to study the provision of relevant tax laws in preparing for future examinations.**

## SOLUTION 2

### (a) PRINCIPAL PLACE OF RESIDENCE

- i. For a pensioner with no other source of Income, it is that place where he usually resides.
  - ii. For an individual who has a source of earned income other than a pension in Nigeria, his principal place of residence is that place within a relevant day that is nearest to his place of work. For an individual who has a source or sources of unearned income in Nigeria, the principal place of residence is that place or places in which he usually resides.
  - iii. Persons on leave from Employment at 1<sup>st</sup> of January in a year of assessment shall be deemed to be resident for that year by reference to his place or principal place of residence immediately before the commencement of his leave.
  - iv. Persons employed in the Armed Forces (in Combatant capacities) are deemed to be resident in the Federal Capital Territory (FCT) for that purpose in a year of assessment.
- b. A place of residence means a place available to a person for his domestic use in Nigeria on a relevant day.

It does not include:

- i. Any hotel
- ii. Rest house

- iii. Other temporary place of abode unless no permanent place is available for his use on that day.
- c. The following are types of assessment:
- i. Self assessment
  - ii. Best of Judgment or Government Assessment
  - iii. Provisional Tax Assessment
  - iv. Final Assessment
  - v. Additional Assessment
  - vi. Revised Assessment

## EXAMINER'S COMMENT

**This is a question on Personal Income Tax Act, testing candidates' understanding of the 'Residence Rule' and the 'types of Assessment'. About 99% of the candidates attempted the question. The general performance was above average. The major pitfall was lack of proper understanding of the term 'Place of Residence'.**

**Candidates are advised to prepare well for future examinations especially on the provisions of the Personal Income Tax Act.**

## SOLUTION 3

a.

**WUNMI, OLU AND ADE  
COMPUTATION OF PARTNERSHIP INCOME  
FOR THE YEAR ENDED 31 DECEMBER, 2009**

	₦	₦
Net profit for the year		80,000
Depreciation	20,000	

# INSIGHT

Loss on sale of machine	3,000	
Houseboys for partners	10,000	
Olu's gardner	<u>5,000</u>	<u>38,000</u>
Computed Income		<u>118,000</u>

Computation of Partners' Income for the year ended 31<sup>st</sup> December 2009

	WUNMI	OLU	ADE	TOTAL
	₦	₦	₦	₦
Computed Income	59,000	35,400	23,600	118,000
Salaries	60,000	80,000	-	
Leave passage	4,000	4,000	4,000	
Interest on loan			10,000	
Interest on Capital	<u>25,000</u>	<u>15,000</u>	<u>20,000</u>	
Total Income from partnership	148,000	134,400	57,600	

### Workings:

Share of computed income:

Wunmi	-	$\frac{5}{10} \times \text{₦ } 118,000$	=	₦59,000
Olu	-	$\frac{3}{10} \times \text{₦ } 118,000$	=	₦ 35,400
Ade	-	$\frac{2}{10} \times \text{₦ } 118,000$	=	₦ 23,600

b. **WUNMI, OLU AND ADE**  
**COMPUTATION OF PARTNERS INCOME TAX FOR 2012 TAX YEAR**

	WUNMI	OLU	ADE
	₦	₦	₦
Computed Income	148,000	134,400	57,600
Less: Consolidated Relief Allowance			
20% of Earned Income (EI) + Higher of 1% of EI and ₦ 200,000	<u>(229,600)</u>	<u>(226,880)</u>	<u>(209,520)</u>
Taxable Income	<u>(81,600)</u>	<u>(92,480)</u>	<u>(151,920)</u>
Minimum Tax @ 1% of Computed Income	<u>1,480</u>	<u>1,344</u>	<u>576</u>

### EXAMINER'S REPORT

# INSIGHT

This question tests candidates knowledge on the computation of partnership tax. About 95% of the candidates attempted the question. The general performance was below average. The major pitfall was lack of knowledge of computation of partner's income .

Candidates are advised to prepare adequately for future examination on partnership income tax computation.

## SOLUTION 4

**GARUBA NIGERIA PLC  
COMPUTATION OF INCOME TAX LIABILITY  
FOR 2012 YEAR OF ASSESSMENT**

	₦	₦
Assessable Profit		5,500,000
Less Capital allowance:		
Balance brought forward	550,000	
For the year	635,000	<u>(1,185,000)</u>
		<u>4,315,000</u>
Company Income Tax @ 30%		1,294,500
Education Tax @ 2% Assessable profit		<u>110,000</u>
Total Tax		<u>1,404,500</u>
Minimum Tax		<u>1436,875</u>

### Note:

The Company will be subject to minimum tax because it is higher than the corporate tax.

### Workings:

#### 1. Computation of Minimum Tax

	₦	₦
Turnover base: ₦500,000		
Higher of:		
a. 0.5% of Gross profit (31,000,000 x 0.5%)	155,000	
b. 0.5% of Net Assets (320,000,000 - 70,000,000) x 0.5%	1,250,000	1,250,000
c. 0.25% of Turnover base (500,000 x 0.25%)	1,250	
d. 0.25% of paid up capital (120,000,000 x 0.25%)	300,000	
Plus: Excess Turnover @ 00.125%		
(150,000,000 – 500,000 x 0.125%)		<u>186,875</u>
Minimum Tax		<u>1,436,875</u>

### EXAMINER'S COMMENT

# INSIGHT

This question tests candidates' knowledge of the computation of company Income Tax Liability particularly minimum tax. 60% of the candidates attempted the question and the general performance was fair. Candidates are advised to practice enough exercises before examinations in future.

## SOLUTION 5

- a. Artificial and Fictitious Transactions under the Capital Gains Tax Act are transactions or disposition which in the opinion of the Board (i.e. Federal Inland Revenue Service Board or State Board of Internal Revenue) reduces or would reduce the amount of any capital gains tax. The Board would disregard such disposition and may direct that such adjustment be made with respect to the liability of any person for the payment of capital gains tax as it considers appropriate. This would counteract the reduction of liability to capital gains tax effected and any person concerned with such transaction shall be assessable accordingly.

b.

**CHUKWUEDEMY**  
**COMPUTATION OF WITHHOLDING TAXES**

Year of assessment	Type of Transaction	Gross amount ₦	Withholding tax rate %	Withholding tax (WHT) ₦
2012	Building contract	250,000,000	5%	12,500,000
2012	Contract of supply	15,000,000	5%	750,000
2011	Dividend	500,000	10%	50,000
2012	Rent	2,500,000	10%	250,000

Dividend workings:

$$\begin{array}{r} \text{Dividend paid:} \\ \text{Gross } \underline{450,000} \\ \quad 0.9 \\ \hline \end{array} \quad \begin{array}{r} \text{₦} \\ = \underline{500,000} \end{array}$$

$$\text{WHT } (500,000 - 450,000) = \underline{50,000}$$

(9½ Marks)  
**(Total 12½ Marks)**

## EXAMINER'S COMMENT

# INSIGHT

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This is a two-part question. Part (a) deals with Capital Gains Tax while Part (b) is on withholding tax. 75% of the candidates attempted the question. The general performance was below average. The major pitfall was lack of proper understanding of the part (a) of the question, which is on 'Artificial and fictitious transactions under Capital Gains Tax Act. Candidates are advised to study and understand basic tax terminologies in future examinations.

## SOLUTION 6

a.

**JOLAYEMI COMPANY LIMITED  
COMPUTATION OF TOTAL AMOUNT OF VAT  
DUE  
TO FEDERAL INLAND REVENUE SERVICE  
BOARD (FIRSB)**

	N'000	N'000
VAT on foods	7,700	
VAT on accommodation	12,550	
VAT on services	<u>4,550</u>	
		24,800
Deduct:		
VAT on food materials	4,400	
VAT on drinks for resale	<u>500</u>	
		<u>(4,900)</u>
VAT due to FIRSB		<u>19,900</u>

b.

**COMPUTATION OF VAT OUTSTANDING BALANCE  
AS AT 31 DECEMBER, 2011**

N'000



# INSIGHT

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ii	Total amount on VAT due	19,900
	Deduct amount already remitted	<u>(10,000)</u>
	Outstanding Balance to be remitted	<u>9,900</u>

## EXAMINER'S COMMENT

**This is a question on Value Added Tax (VAT). 90% of the candidates attempted the question and the overall performance was fair.**

**Candidate should remember that questions on VAT are very common in taxation papers at this level and as such prepare well.**

AT/122/PIIL.12

EXAMINATION NO:.....

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA  
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA  
PART III EXAMINATIONS - SEPTEMBER 2012  
MANAGEMENT**

**Time Allowed: 3 Hours**

Insert your Examination number in the space provided above

## SECTION A (ATTEMPT ALL QUESTIONS)

**PART 1      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.**

1. The.....motivation theory suggests that individuals have certain basic and acquired needs whose satisfaction motivates them to work hard.
  - A. Maslow
  - B. McClelland
  - C. Content
  - D. Process
  - E. Reinforcement
  
2. Which of the following statements represents formal communication?
  - A. Transmission of information through channels endorsed by management of the organisation
  - B. Transmission of information through channels set up by employees to themselves

# INSIGHT

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- C. Transmission of information from the bottom of the organisation hierarchy to the top
  - D. Transmission of information among people on the same level of the organisation
  - E. Diagonal flow of information among employees at different levels of the organisation
3. All of the following are reasons for joining groups **EXCEPT**
- A. To satisfy social needs
  - B. Security
  - C. Self Esteem
  - D. To gain power
  - E. To provide good leadership
4. Which of the following is an advantage of conflict in organisations?
- A. It stimulates creativity
  - B. It brings new ideas into the group
  - C. It improves the quality of decision-making
  - D. It creates general mistrust among members of the group
  - E. It provides an outlet for bottled up tension to be released
5. The part of Management which is responsible for human side of an enterprise rather than finished goods is
- A. Production Management
  - B. Research and Development
  - C. Marketing Management
  - D. Human Resource Management
  - E. Finance Management
6. The process of studying and collecting information relating to the operations and responsibilities of a specific job is
- A. Job identification
  - B. Job analysis
  - C. Job specification
  - D. Job interview
  - E. Job Evaluation
7. A step by step procedure designed to ensure that the personnel needs of an Organisation will be constantly and appropriately met is known as
- A. Training
  - B. Employment
  - C. Manpower Planning
  - D. Human Relations
  - E. Industrial Relations

# INSIGHT

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8. At the inception of a business venture the most important factor to be considered is
- A. Finance
  - B. Profit
  - C. Product
  - D. Personnel
  - E. Competitor
9. Which of the following is a shortcoming of a sole proprietorship business?
- A. Privacy
  - B. Flexibility of operation
  - C. Ease of dissolution
  - D. Limited financial resources
  - E. Minimum legal restriction
10. A business that is affected negatively by innovation on the part of competitors can be said to be affected by ..... environment.
- A. Political
  - B. Legal
  - C. Initiative
  - D. Technological
  - E. International
11. An enterprise with an independent Board of Directors appointed by government is called
- A. Cooperative society
  - B. Partnership
  - C. Public Corporation
  - D. Joint Stock Company
  - E. Sole Proprietorship
12. The following are of concern to practitioners of Business ethics with the exception of
- A. Fair Competition
  - B. Advertising
  - C. Consumer autonomy
  - D. Public relations
  - E. Consumer behaviour
13. Which of these is a secondary stakeholder
- A. Suppliers
  - B. Former employees
  - C. Shareholders
  - D. The customers of the business
  - E. The Government

14. A mental process requiring the use of intellectual faculties, imagination, foresight and judgement to decide in advance as to what is to be done and the expected end result is called
- A. Decision making
  - B. Rational decision
  - C. Rational judgement
  - D. Planning
  - E. Intellectualism
15. Which of these is **NOT** a decision making model or process?
- A. The rational
  - B. The non-rational
  - C. The satisfying
  - D. The Religious
  - E. The Political
16. A person's pattern of living as expressed in his or her psychographics, that affects his buying decision is
- A. Age
  - B. Lifestyle
  - C. Occupation
  - D. Economic situation
  - E. Personality
17. In the selling process, the step in which the salesman asks the customer for an order is
- A. Approach
  - B. Presentation
  - C. Closing
  - D. Handling objectives
  - E. Pre-approach
18. An Office is a place set aside for
- A. Handling information
  - B. Performing technical duties
  - C. Performing clerical duties
  - D. Handling committee matters
  - E. Handling top management decisions
19. The visual display unit of a computer is known as:
- A. Central Processing Unit (CPU)

# INSIGHT

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- B. Monitor
  - C. Computer Software
  - D. Keyboard
  - E. Input devices
20. The characteristics of good information do **NOT** include
- A. Relevance
  - B. Accuracy
  - C. Enlargement
  - D. Timeliness
  - E. Completeness
21. The Employees safety will be enhanced with the provision of
- A. Noise-infested environment
  - B. Water-logged work environment
  - C. First-aid boxes
  - D. Sharp objects in work place
  - E. Faulty equipment
22. The following are actively involved in occupation safety and health of workers **EXCEPT**
- A. The organisation
  - B. The employees
  - C. The government
  - D. The debenture holder
  - E. The management
23. The process of evaluating employee's performance relative to established performance standards is performance
- A. Analysis
  - B. Appraisal
  - C. Plans
  - D. Feedback
  - E. Based compensation
24. A strategic management tool used to evaluate the firm by identifying its strengths and weaknesses and its opportunities and threats is called ..... analysis.
- A. SMART
  - B. SWOT
  - C. PERT
  - D. SWET
  - E. TEWS

# INSIGHT

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25. The analysis of general environmental factors that may directly or indirectly be relevant to the firm's future is termed
- A. Scanning
  - B. Identifying
  - C. Assessing
  - D. Forecasting
  - E. Monitoring
26. The arrangement and structuring of work to accomplish an organisation's goal is
- A. Organising
  - B. Organisational structure
  - C. Organisational design
  - D. Controlling
  - E. Coordinating
27. The process of integrating the objective and activities of the separate units of an organisation in order to achieve the predetermined goal effectively and efficiently is called
- A. Cooperating
  - B. Coordinating
  - C. Collaborating
  - D. Strategy
  - E. Supervising
28. The type of controlling process that monitors ongoing operations to ensure that plans are attained is called ..... control.
- A. Concurrent
  - B. Strategic
  - C. Financial
  - D. Technical
  - E. Structural
29. Work teams composed of individuals from various functional specialties is
- A. Cross-functional teams
  - B. Customer departmentalisation
  - C. Process departmentalisation
  - D. Product departmentalisation
  - E. Geographical departmentalisation
30. The obligation to perform assigned duties is
- A. Chain of Command

# INSIGHT

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- B. Span of control
- C. Responsibility
- D. Unity of Command
- E. Universality

## SECTION A

### PART II: SHORT ANSWER QUESTIONS

(20 Marks)

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

1. The technique in which members of a group, usually between five and ten sitting around a table, spontaneously suggesting ideas to solve a problem is called.....
2. The obligation of a corporate body to seek actions that protect and improve the welfare of society along with its social interest is called .....
3. The aspect of Maslow's Hierarchy which emphasises the desire for respect and self confidence is known as .....
4. The process by which the receiver extracts some meaning out of the message received is known as .....
5. A stage in group formation and development which is characterised by conflict, dissent and hostility towards leaders and task at hand is known as .....
6. The theory of motivation which arranges human needs in order of hierarchy is associated with .....
7. A compensation plan in which the employee is paid according to the time spent on the job is .....
8. Financial rewards given to employees for their efforts toward an objective of a business is known as .....
9. A company which restricts publication of its statement of account is .....
10. Business in a capitalist economy places emphasis on .....
11. The government agency which is responsible for registration of business in your country is .....
12. The process of measuring and evaluating the result of marketing strategies and plans and taking corrective action to ensure that objectives are achieved is known as .....

# INSIGHT

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13. An unplanned event which occurs within a planned programme and is actually or potentially harmful to employees is called .....
14. Any abnormal condition or disorder caused by exposure to environmental factors associated with employment is .....
15. The total depletion of physical and mental resources caused by excessive striving to reach an unrealistic work-related goal is regarded as.....
16. Markets providing long-term funding to start a business, expand operations, acquire additional assets and run day-to-day activities of a firm are .....
17. Grouping jobs on the basis of functions performed is .....
18. The line of authority extending from upper organisational levels to the lowest levels, which clarifies who reports to whom is called .....
19. The regulation of inputs to ensure that they meet the standards necessary for the transformation process is .....
20. An integrated coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage is .....

## SECTION B Marks)

### ATTEMPT ANY FOUR QUESTIONS

(50

#### QUESTION 1

- a. Explain **SIX** elements used in determining an organisational structure. (9 Marks)
- b. Describe an organisational chart, highlighting its advantages. (3<sup>1</sup>/<sub>2</sub> Marks)  
(Total 12<sup>1</sup>/<sub>2</sub> Marks)

#### QUESTION 2

Identify and explain **FIVE** characteristics of an effective workgroup. (12<sup>1</sup>/<sub>2</sub> Marks)

#### QUESTION 3

- a. Discuss the term “Collective Bargaining Agreement”. (2<sup>1</sup>/<sub>2</sub> Marks)
- b. Enumerate **TEN** of its contents (10 Marks)  
(Total 12<sup>1</sup>/<sub>2</sub> Marks)

#### QUESTION 4



# INSIGHT

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Discuss any **FIVE** elements of the Strategic Management Process (12½ Marks)

## QUESTION 5

- a. What is business? (2½ Marks)
- b. Explain any **FIVE** reasons for business failure. (10 Marks)
- (Total 12½ Marks)

## QUESTION 6

The use of **Business Machines in Companies** continues to gather more and more momentum by the day. You are required to discuss **FIVE** advantages these machines provide. (12½ Marks)

## SUGGESTED SOLUTIONS

### SECTION A

#### PART 1 MULTIPLE-CHOICE QUESTIONS

1. C
2. A
3. E
4. ANY OF THE OPTIONS
5. D
6. B
7. C
8. C
9. D
10. D

# INSIGHT

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

## **EXAMINER'S COMMENT**

**Candidates showed a good understanding of the questions and more than 80 percent of the candidates scored above average.**

# INSIGHT

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It was observed that there was an error in question 4.

The question should have read “which of the following is NOT an advantage of conflict in an organization?” and the correct answer would have been “D”.

However, the question read “which of the following is an advantage of conflict in organization” since, there are four (4) options that answer the question, all the candidates were scored bonus.

## PART II SHORT-ANSWER QUESTIONS

1. Brainstorming
2. Social Responsibility/Corporate Social Responsibility
3. Esteem Needs
4. Decoding
5. Storming
6. Abraham Maslow
7. Time Rate
8. Compensation/Remuneration
9. Private Limited Liability Company
10. Profit
11. Corporate Affairs Commission
12. Marketing Control
13. Accident of Work
14. Occupational Illness
15. Burnout

16. The Securities Market/Capital Market
17. Functional Departmentalisation
18. Chain of Command/Scalar Chain
19. Feedforward Control
20. Strategy

## EXAMINER'S COMMENT

Candidates had a good knowledge of the questions and about 60 percent of them scored above average.

## SECTION B

### SOLUTION 1

a. The elements used in determining an organizational structure are:

i. **Strategy:**

Structure and Strategy exist in a reciprocal relationship with each other. Changes in business environment will lead companies to adjust their strategies. Such changes call for re-examination of the existing structure.

ii. **Size:**

The larger the size or number of employees, the higher the managerial levels. As the size increases there will be greater need for standardization and co-ordination of organizations activities, hence the need to adjust the structure.

iii. **Product Diversity:**

The number of product lines determine the complexity level of the structure. Increase in product line/diversity is usually accompanied by an increase in structural complexity, hence the need to adjust the structure to meet the growing number of product lines.

iv. **Characteristics of Employees:**

Organisational Structure tells on the characteristics or expectation of the workers. Managers should therefore design structure appropriate to meet workers expectation and foster effective performance.

v. **Technology:**

Advancement in technology, transiting from unit to mass and continuous production that result to increase in number of managerial levels, span of control of the first line superior and ratio of managers to other employees has forced the management to adjust and harmonize the structure for effective and efficient performance.

vi. **Environmental Uncertainty:**

The market for an enterprises product changes over time. The market conditions may be stable or turbulent. Mechanistic structure tends to be more superior in stable and well defined market conditions while organic structures work well in dynamic environment.

b. **Solution**

Organization chart is a visual, diagrammatical or a graphic device that shows the various departments and how they relate to one another.

**Advantages of Organizational Chart:**

- i. It helps to modify or improve relationships as line, functional, lateral and staff can be clearly understood.
- ii. It ensures that responsibility is clearly defined. Each member of staff can see at a glance to whom he is responsible and who is responsible to him.
- iii. It provides information for everyone within the organization, from top management to the most junior, thus showing a complete picture of the organization in a way that is understandable.
- iv. The incorporation of grades and numbers of various cadre of staff in an organization chart provides the basis for the control of staff and ensures the maintenance of balance within the various grades.
- v. It shows the lines of communication within an organization.

**EXAMINER'S COMMENT**

**This question tests the candidates' knowledge of organizational structure and organizational chart.**

**40 percent of the candidates attempted the question. Most of the candidates did not have a good understanding of the question. More than 50 percent of those who attempted the**

question scored below average. Candidates are advised to acquaint themselves with this area of the syllabus to increase their chances of passing.

## QUESTION 2

### Characteristics of Effective Workgroups

- i. Common understanding of group aims:  
Members are expected to demonstrate common understanding of the aims of the group.
- ii. **Commitment:**  
Group members are required to show commitment to the objectives and activities of the group. This is achieved through regular participation in the activities of the group.
- iii. **Understanding of Members Role:**  
Each member of the group is required to understand his unique role towards the achievement of the group's objectives.
- iv. **Good Leadership:**  
Leaders are often visionary, people-centered, transparent and committed to the ideals of the group.
- v. **Effective Conflict Handling:**  
Although conflict are inevitable in all groups, they are resolved peacefully and timely in effective groups.
- vi. **Group Norms:**  
Members obey the group's rules and regulations which are applied to all members fairly.
- vii. **Group Cohesiveness:**  
Members demonstrate strong loyalty to the group. Factor which binds the group together are more than those which separate the members from the group.
- viii. **Group Members are satisfied:**  
There is a fair perception of satisfaction by the members of the group.

### EXAMINER'S COMMENT

This question tests the candidates' knowledge on the characteristics of effective work group.

**70 percent of the candidates attempted the question. Majority of those who attempted the question had a little understanding of the question as they could not concretely identify the characteristics of a workgroup. 50 percent of those who answered the question scored averagely. Candidates should read widely to cover all areas of the syllabus.**

## **QUESTION 3**

Collective bargaining has been defined as negotiation about working conditions and terms of employment between an employer and employees with a view to reaching agreement.

Collective bargaining can also be defined as the process of conferring in good faith over wages, working hours and other terms and conditions of employment.

### **FACTORS INCLUDED IN THE AGREEMENT INCLUDE:**

- i. A statement recognizing the union as the sole representative of employees in the organization concerned.
- ii. Definition of various terms used in the agreement.
- iii. Period of validity of the agreement that is often between one and three years.
- iv. How notices for renegotiation of the agreement may be given by either side.
- v. Responsibilities of the parties to the agreement.
- vi. Purpose and intention of both parties in entering into the agreement.
- vii. How employees may be treated.
- viii. Rules and regulation governing salary increment, probations, termination of appointments, promotion etc.
- ix. Remuneration and other financial compensation
- x. Compensation for injuries during the course of employment.
- xi. Rights and privileges of employees while in the service of the firm.
- xii. Benefits and rights accruing to employees leaving the service of the firm through resignation, termination of appointment, redundancy, death and retirement.
- xiii. A statement that the firm shall offer facilities or grant permission for lawful Trade Union activities.
- xiv. Grievance procedures and how disputes may be resolved.

### **EXAMINER'S COMMENT**

**This question tests the candidates' knowledge of collective bargaining agreement and its content.**

**30 percent of the candidates attempted the question. Majority of the candidates had a grasp of the definition of collective bargaining agreement.**

**However, majority of the candidates could not enumerate the basic contents of collective bargaining agreement. 90 percent of the candidates scored below average.**

**Candidates are advised to read more widely to cover all areas of the syllabus.**

## QUESTION 4

### Elements of the strategic management process

i. **Identifying the organization's vision, mission, goals and strategies**

This is the point where the organization's vision is translated into its mission which is a statement of the purpose of an organization. Goals which are the foundation of planning and provide the measurable performance targets that employees are working to meet, are also determined.

ii. **External analysis**

In analyzing the external environment, managers should examine both the specific and general environment to see what trends and changes are occurring. The external analysis will help the organization determine its opportunities and threats. Opportunities are positive trends in external environment factors while threats are negative trends

iii. **Internal Analysis**

Internal analysis provides important information about an organisation's specific resources, capabilities and core competencies. An organisation's resources are its assets that are used to develop, manufacture and deliver goods or services to its customers. Its capabilities are its skills and abilities needed in doing its business. Internal analysis also covers determining the core competencies of the organization which are the major value-creating capabilities and skills, the organisation has over others.

iv. **Formulating Strategies**

The design of approach to achieve the firm's mission. An effectively formulated strategy allocates the internal resources and makes appropriate use of external environmental opportunities.

v. **Implementing Strategies**

This is the stage where formulated strategies are implemented. The organization focuses on how to get to the desired destination of the organization. To implement formulated strategies successfully, company executives must consider organizational structure, human resource strategies etc.

vi. **Evaluating Results**



# INSIGHT

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This is the state where results are evaluated. The company leaders should periodically access the outcome, whether it meets expectations. This information should be used to determine the success or not of the company's strategies.

## EXAMINER'S COMMENT

**This question tests the candidates' knowledge on strategic management process.**

**60 percent of the candidates attempted the question. Over 80 percent of them missed the intent of the question. Some candidates took the question to mean process of planning while some took the question to mean functions of management. The 20 percent who understood the intent of the question performed well. Candidates should cover all areas of the syllabus to be able to distinguish between strategic management and planning process and functions of management.**

**Overall performance was below average.**

## QUESTION 5

Business is the organized efforts of individual to produce and sell, for a profit the goods and services that society's needs.

Business can be defined as all profit directed, economic and commercial activities that provide goods and services necessary to a nation's standard of living.

Business is the human activity of converting resources (Man, Machine, Money and Materials) into goods and services for the purpose of bringing about transactions that will result in a profit to the organization.

## REASONS FOR BUSINESS FAILURE

### 1. **Wrong Choice of Business**

The most important factor affecting business is the choice of the right product, (good or service) to be offered. A company founded on well-chosen product is amazingly hard to kill.

### 2. **Competition**

Rivalry most especially from the multi-national corporation causes business failure. The wealth of experience and fund give the competitive advantage over business.

### 3. **Poor Management**

Lack of Managerial know how required for effective and efficient running of business may cause business failure.

4. **Shortage of Capital**

Most business do not have access to capital. Banks put stringent conditions on the laps of business owners. These make purchase of huge capital equipment and expansion difficult.

5. **Technological Changes**

Most machines used by some firms are largely obsolete. Shortage of fund prevents business from carrying out research and development needed for survival and improvement.

6. **Education and Experience**

Education and experience in the line of work are highly essential to entrepreneurs. Most entrepreneurs do not have the requisite knowledge before venturing into business.

7. **Shortage of Funds**

Shortage of fund prevents business from carrying out research and development needed for survival and improvement. Furthermore, lack of funds to be used as working capital can cause a business to fail.

8. **Poor Financial Control**

Even when funds are available, it is not unusual to find many entrepreneur mixing up personal and business fund.

9. **Lack of Employees' Satisfaction**

Most businesses could not afford to employ competent and skill manpower to run the affairs of the business. Where they do, general condition of service is low.

10. **Government Policy**

Some government policies have negative effects on business. Policies such as exchange rates, tax policy, duties etc.

11. **Lack of Business Connection:**

Most enterpreneurs do not develop fruitful relationship with stakeholders, consumers, creditors, suppliers, competitors etc. This accounts for their failures.

## EXAMINER'S COMMENT

This question tests the candidates' knowledge of business failure.

99 percent of the candidates attempted the question. Response from the candidates showed a good understanding of the question.

Over 75 percent of those who attempted the question performed above average. Candidates should maintain this trend of performance.

## QUESTION 6

a. **Increased Speed of Operation**

The use of machine helps to increase speed of operation and reduces the time and labour costs of performing a unit of work.

b. **Greater Accuracy**

The use of machine avoids mistakes that would have been made if done manually or copied from one document to another.

c. **Neatness and Legibility**

Machines provide information documents and instructions in neat and legible form readily making them understandable, assimilable and impressive.

d. **Cost Saving**

Machine reduces operating costs of labour space and overheads. This increases profit to the firm.

e. **Attractive Presentation of Information**

Machine is capable of presenting information in volume, more accurate, up-to-date and in understandable form.

f. **Efficiency and Effectiveness**

In comparison with manual processing of information, accounting machine is able to perform far more efficiently and effectively.

g. **Simultaneous posting and registration of documents:**

Accounting machine has the capacity of posting, computing and preparing many documents at the same time. Good example is the preparation of the payroll, earnings and tax records at the same time.

# INSIGHT

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## EXAMINER'S COMMENT

This question tests the knowledge of candidates on business machines and it uses.

99 percent of the candidates attempted the question.

65 percent of them scored above average.

However, some of the candidates mixed up business machines with industrial machines. Candidates should deepen their knowledge to be able to distinguish between business machines and industrial machine.