

INSIGHT

EXAMINERS GENERAL COMMENTS

BREACH OF EXAMINATION INSTRUCTIONS

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

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

- B) BY ATTEMPTING MORE QUESTIONS THAN ALLOWED IN EACH SECTION.

INADEQUATE COVERAGE OF THE SYLLABUS

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

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FOREWORD

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

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

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

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

NOTE

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

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AT/211/PIII.9

EXAMINATION

NO:.....

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME
PART III EXAMINATION – SEPTEMBER 2011
PREPARATION AND AUDIT OF FINANCIAL STATEMENTS**

Time allowed: 3 hours

Insert your Examination number in the space provided above

SECTION A (Attempt all Questions)

PART I MULTIPLE-CHOICE QUESTIONS

1. Which of the following is **NOT** necessary for preparing a bank reconciliation statement?
 - A. Bank Teller
 - B. Bank Statement
 - C. Cash Register
 - D. Cash Book
 - E. Cheque Stubs

2. What would happen if the balance on a suspense account is of material amount?
 - A. It should be written off the accounts
 - B. It should be written off the balance sheet
 - C. Find the error(s) before publishing the final accounts
 - D. It should be carried forward to the next accounting period.
 - E. It should be written off the profit and loss account

3. The Companies Act of your country requires a company to keep the following books **EXCEPT**:
 - A. Proper accounting records
 - B. A register of directors and secretaries
 - C. A register of charges
 - D. A register of creditors and debtors
 - E. An indexed register of members

4. **ONE** of the following is **NOT** correct about a letter of engagement.
 - A. To define clearly the extent of auditor's responsibilities
 - B. To minimise misunderstandings between the audit firm and client
 - C. To inform and educate the auditors
 - D. To confirm in writing verbal arrangements
 - E. To inform and educate the client

5. Which of the following is **NOT** a limitation of Internal Control?
 - A. Internal control tends to be directed at routine transactions
 - B. Abuse of responsibility
 - C. Human cleverness

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- D. Segregation of duties
 - E. Management override of controls
6. A good management letter contains the following **EXCEPT**:
- A. A note of the purpose of the letter
 - B. A note of the purpose of internal control investigation
 - C. A list of weaknesses inherent in the system
 - D. A list of the strengths inherent in the system
 - E. Recommendations for improvement
7. SAS4/IAS2 recommends the following methods for accurate determination of cost of inventory **EXCEPT**:
- A. First-In-First-Out
 - B. Average cost
 - C. Last In-First-Out
 - D. Standard cost
 - E. Weighted Average Cost
8. **ONE** of the following is **NOT** an application control.
- A. Input control
 - B. Operators control
 - C. Processing control
 - D. Output control
 - E. Master-file control
9. Auditing round the computer is a technique whereby an auditor concentrates his examination to
- A. Check the input and data validation only
 - B. Check the input, output and processing
 - C. Check the input, output and ignoring the processing
 - D. Use test packs or computer programs to test the processing
 - E. Check the processing and the output
10. **ONE** of the following is **NOT** a factor to consider when estimating the amount of doubtful debts
- A. The age of the debts
 - B. The behaviour of some debtors
 - C. The political climate of the country
 - D. Bankruptcy of a debtor
 - E. The economic environment in the country

PART II SHORT-ANSWER QUESTIONS (30 MARKS)

- 1. The accounting ratio that is computed to show the relationship between earnings per share and the stock market price per share is called.....
- 2. The risk that material misstatements that could occur will **NOT** be prevented or detected by internal controls is known as.....

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3. Auditing activities that focus on detecting or deterring a wide variety of fraudulent activities is called.....audit.
4. The auditor's record of the work performed and the conclusions reached on the audit is.....
5. A confirmation request to which the recipient responds if he or she agrees with the amount or information stated is known as.....
6. The residual between the total assets and liabilities in a company is called.....
7. A qualified opinion that relates to material limitation of scope is referred to as.....
8. Fundamental disagreement with an accounting treatment will result in the auditor issuing.....opinion
9. The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction is.....
10. The amount at which an asset is recognised and stated in the records after deducting any accumulated depreciation (amortization) and accumulated impairment losses thereon is.....
11. What are biological assets?
12. Accounting Profit is the profit before tax, ascertained in the Profit and Loss account, whereas the profit figure on which the tax authorities base the calculation of company tax liability is.....
13. What criteria determine whether assets should be classified as current or fixed?
14. The formula below depicts.....ratio
$$\frac{\text{Dividend per share} \times 100}{\text{Earnings per share}}$$
15. An audit undertaken at the instance of an interested party or parties, even though there is no legal obligation that an audit be executed is.....audit.
16. Usually, who appoints the auditors of a public limited liability company?
17. Financial information is.....if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.
18. The documents and matters of continuing importance which will be required for more than one audit are usually kept infile

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19. All working papers are the property of the..... They are not a substitute for the entity's accounting records
20. The document that outlines the formal relationships existing in an organisation is known as.....
21. The term or technique used by auditors to highlight precisely the areas of strength and weakness in internal control is called.....
22.is all the information used or obtained by the auditor in arriving at the conclusions on which the audit opinion is based.
23.is the process by which auditors seek confirmation of the existence, ownership, cost/valuation and appropriate presentation/disclosure of assets and liabilities.
24. In computer assisted auditing, what is "SCARF"
25. A shareholder of a limited company receives his reward in the form of a share of the profit, known as.....
26. The systems that provide the facilities for data to be passed to and from the central computer via remote terminals is known as.....
27. Under cash-flow statement,.....are the activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.
28.involves the application of audit procedures to less than 100% (total population) of items within a class of transactions or account balances, such that all items in the population have a chance of being selected.
29. What is the implication or meaning of a Cash Book (Bank Column) having a credit balance (assume that all entries are correct)
30. The fact that net profit is said to be the difference between "revenues and expenses" rather than between "cash receipts and expenditure" is known as the.....concept

SECTION B – Attempt Four Questions in All (60 Marks)

PART I: FINANCIAL ACCOUNTING ATTEMPT ANY TWO QUESTIONS

QUESTION 1

According to IAS 1 "Presentation of Financial Statements". Financial statements should provide information about an entity's financial position, performance and cash flows that are useful to a wide range of users for economic decisions.

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You are required to:

(a) State **FIVE** minimum information to be shown on the face of the Balance Sheet in respect of each of the following.

(i) Assets (5 Marks)

(ii) Liabilities (5 Marks)

(b) Explain the following

(i) Current Assets (2¹/₂Marks)

(ii) Current Liabilities (2¹/₂

Marks)

(Total 15

Marks

QUESTION 2

(a) Below is an extract from the Trial Balance of VOLTAC's Ltd as at 31st December 2009:

	N
Sundry Debtors	1,295,760
Bad Debts	19,140
Provisions for doubtful debts (1 January 2009)	45,657

At the end-of-year review of financial statements, the management agreed on the following measures:-

(i) Additional ~~N~~4560 of the debts were declared bad

(ii) A general provision of 4% was required against the remainder of the debts (after adjustment for additional bad debts written off.)

You are required to reflect the end of year's reviews in the appropriate Ledgers and show the Balance Sheet extract of the transactions as at the end of the year.

(10

Marks)

(b) Distinguish between "Kiting" and "Teeming and Lading" (5 Marks)

(Total 15

Marks)

QUESTION 3

Ratio analysis is one of the techniques that is very widely used in analysing financial statements. However, despite its extensive use, there are limitations to its usefulness.

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Required:

List and explain any **SIX** of the limitations in the usefulness of ratio analysis

(15 Marks)

PART II: AUDITING

ATTEMPT ANY TWO QUESTIONS

QUESTION 4

(a) Discuss **FOUR** roles of an Internal Audit Department in a large organisation.

(8 Marks)

(b) State to whom, in your opinion, the Internal Auditor should report in a Public Company.

(3 Marks)

(c) Compare the roles mentioned in (a) above with that of an external auditor.

(4 Marks)

(Total 15 Marks)

QUESTION 5

List and explain **TEN** Audit Procedures for Vouching PURCHASES.

(15 Marks)

QUESTION 6

(a) Write short notes on the composition of an Audit Committee

(5 Marks)

(b) Explain any **FIVE** functions of an Audit Committee

(10 Marks)

(Total 15 Marks)

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SECTION A

PART I

MULTIPLE CHOICE SOLUTIONS

1. C
2. C
3. D
4. C
5. D
6. D
7. C
8. B
9. C
10. C

MULTIPLE CHOICE QUESTIONS

The questions are generally straight-forward without any ambiguity. Surprisingly, more than 50% of the candidates scored below pass marks of 50%.

PART II SHORT ANSWER SOLUTION

1. Earnings Yield/Price Earnings Ratio
2. Control Risk
3. Forensic
4. Audit working papers/Audit documentation
5. Positive confirmation
6. Equity OR Shareholders' Fund
7. Disclaimer opinion
8. Adverse Opinion
9. Fair value
10. Carrying amount OR Depreciated Cost or Net Book Value
11. Biological assets are living animals and plants that are controlled by an enterprise as a result of past events.
12. Taxation/Chargeable profit
13. The Cost (if material in the company's policy) and life span of the asset.

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14. Dividend payout
15. Private
16. Shareholders of the company
17. Material
18. Permanent
19. Auditors
20. Organisation Chart OR Organogram
21. Internal Control Questionnaire (ICQ)
22. Audit evidence
23. Verification
24. System Control And Review File
25. Dividends
26. On-line System
27. Financing Activities
28. Sampling Technique
29. Overdraft OR the Entity has overdrawn its account
30. Accrual

SHORT ANSWER QUESTIONS

The questions set are within the Syllabus and without any ambiguity. Candidates' performance was poor due to inadequate preparations for the examination and non-coverage of Syllabus for the said examination. Question II which tested "biological assets" with one mark allocation is out of the syllabus. The mistake/ error had no serious impact on failure pass rate of the candidates.

SECTION B

SOLUTION 1

PART I - FINANCIAL ACCOUNTING

All the minimum information to be shown on the face of the Balance Sheet in respect of Assets and Liabilities.

- (1) **ASSETS:-**
 - (i) Property, plant and equipment
 - (ii) Investment property
 - (iii) Intangible assets
 - (iv) Financial assets
 - (v) Investments accounted for by the equity method
 - (vi) Biological assets
 - (vii) Deferred tax assets

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- (viii) Inventories
- (ix) Trade and other receivables
- (x) Current tax assets
- (xi) Cash and cash equivalents
- (xii) Assets held for sale
- (xiii) Assets included in disposal groups held for sale

2) **LIABILITIES:**

- (i) Trade and other payables
- (ii) Provisions
- (iii) Financial liabilities
- (iv) Current tax liabilities
- (v) Deferred tax liabilities
- (vi) Reserves
- (vii) Non-controlling Interests
- (viii) Parent shareholders' equity
- (ix) Liabilities included in disposal groups held for sale.

b (i) **Current assets are:-**

- (a) Assets expected to be realized or intended for sale or consumption in the entity's normal operating cycle
- (b) Assets held primarily for trading
- (c) Assets expected to be realized within 12 months after the balance sheet date
- (d) Cash or cash equivalents unless restricted in use for at least 12 months.

(ii) **Current liabilities are:**

- Liabilities expected to be settled in the entity's normal operating cycle
- Liabilities held primarily for trading
- Liabilities due to be settled within 12 months after the balance sheet date

EXAMINER'S COMMENT

The Test centred on "Presentation of Financial Statements" in accordance with IAS 1. Most of the candidates attempted the question and the pass rate was above average.

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SOLUTION 2

(a)

VOLTAC LTD'S BOOKS Sundry Debtors Account

	₦		₦
Balance b/d	1,295,760	Bad debts	4,560
		Balance c/d	1,291,200
	<u>1,295,760</u>		<u>1,295,760</u>
Balance b/d	1,291,200		

Bad Debts Account

	₦		₦
Balance b/d	19,140	Profit & Loss	23,700
Trade Debtors	<u>4,560</u>		
	<u>23,700</u>		<u>23,700</u>

Provision for Doubtful Debts Account

	₦		₦
Balance c/d	51,648	Balance b/d	45,657
		Profit & loss A/c	5,991
	<u>51,648</u>		<u>51,648</u>

VOLTAC LTD Balance Sheet (Extract) as at 31 December, 2009

	₦
<u>Current Assets:</u>	
Sundry Debtors	1,291,200
<u>Less provision for Debts</u>	<u>51,648</u>
	<u>1,239,552</u>

Workings:

Calculation of General Provision for Doubtful Debts

$$4\% \times (\text{₦}1,295,760 - 4,560)$$

$$= \text{₦}51,648.00$$

(b)

KITING:-

This is the process of covering a cash shortage by transferring money from one bank account to another and recording the transactions improperly in the books.

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Teeming and lading is where money received from debtors has been misappropriated. It is common to find that, in order to prevent the debtors' account appearing overdue, cash received subsequently from other debtor is placed to the credit of the debtor whose remittance was originally misappropriated, this process being continued indefinitely.

EXAMINER'S COMMENT

This question tested the knowledge of candidates on End-of-Year Adjustments. Few candidates attempted the question and the performance was average. The candidates failed the question as a result of non-mastery of double entry principles and Control Accounts, Entries that should be debit entries were erroneously put in credit side of the Account and definitions of "Teeming & Lading" and "kiting" were out of the memories of the candidates.

SOLUTION 3

LIMITATIONS OF RATIO ANALYSIS:-

- Some Accounting figures are estimates
- Accounting figures are prepared under conventions and principles
- Effect of inflation makes comparison between the same organization (over time) misleading if no adjustment.
- Management of Business for complex and dynamic to be managed by few ratios
- Many ratios to choose from
- Appropriate meaning and interpretation to be drawn from the ratios
- Qualitative factors also affect health and progress of enterprises
- Few organizations are equal to many respects interfirm comparison may mislead
- Adjustment may be required between or for interfirm comparison.

EXAMINER'S COMMENT

Limitations in the usefulness of ratio analysis were tested and a good number of candidates attempted the question and scored very well. Candidates failed the question because of inadequate preparation and failure to understand the requirements of the question tested.

SOLUTION 4

(i) **Roles of Internal Audit Department in a large organization**

Internal Audit as a managerial control tool, its role will be defined largely by the requirements of the management. However, the scope of internal audit has widened considerably in the recent past to cover areas such as management and business efficiency. A typical internal audit department would normally be expected to perform work in the following areas:

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- (a) Review and assessment of the internal control procedure in operation in order to ensure that they are cost-effective, adequate and in line with managerial criteria.
 - (b) Special investigations e.g study of asset wastage and efficiency of operating units.
 - (c) Review and assessment of management information to ensure its effectiveness for decision- making
 - (d) Verification of the accuracy of financial records
 - (e) Review of internal and external financial statements and the accounting policies employed.
- (ii) The internal auditor should be as independent as possible from the day-to-day running of the business. If the company operates an audit committee, it would be advisable for the internal auditor to report to it, if not, to report to the board. If the internal auditors report to an individual, then the chairman or managing director might be suitable but not the financial director.
- (iii) The roles of external and internal auditors have some areas of overlap. Both of them are interested in examining the accounting system and the internal controls in operation although the external audit is mainly interested in whether there are sufficiently adequate and reliable records to produce true and fair financial statements.

However, there are some basic differences between the two. The external auditor reports to shareholders and therefore must be independent of management to fulfil his functions. The internal auditor reports to management, although he may attain some degree of independence if he is to report to audit committee or directly to the board. The scope of work of external auditor is covered by the statutes while that of the internal auditor is defined by the management. The external auditor must establish whether the financial statements are true and fair while the internal auditor's approach will be aimed at meeting the management objectives.

EXAMINER'S COMMENT

Most candidates answered question on discussion of the role of an Internal Audit Department in a large organization, who Internal Auditor report to in a Public Company and compare the roles of Internal Auditor with that of External Auditor. Candidates performed woefully due to inadequate preparations and lack of understanding of the requirements/demand of the question.

SOLUTION 5

The following Audit procedures are to be followed in vouching the purchases:

- (a) Review the operation of internal control including internal checks covering purchases
- (b) Check entries in the Purchases Day Book with the suppliers, Invoices, and other supporting documents such as delivery notes
- (c) Check that no items of capital nature are debited to purchase account

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- (d) Compare entries in the Purchases Day Book with the goods receipts notes, inspection report and stock ledger
- (e) Examine cut-off transactions i.e entries recorded in the books /registers towards the year end and at the beginning of the next financial year in order to establish that purchases relating to the financial year under audit have been properly accounted for and have not been carried to the following year.
- (f) Verify invoices and supporting documents have been stamped as “PAID” at the time of making payment to supplier.
- (g) Check that direct ancillary expenses relating to purchases such as handling charges, freight custom duties etc are debited to purchases account since they are direct costs to purchases.
- (h) Compare sundry creditors accounts with the suppliers, statements of account. Obtain direct confirmations from the suppliers of purchases if heavy amounts are involved.
- (i) Ensure that the goods purchased were related to the activity of the company
- (j) Check and verify the correctness of Purchases Day Book and Sundry creditors, ledger balances.
- (k) Ensure compliance with purchase credit terms, and if discounts, rebates etc are given, ensure its appropriate accounting treatments
- (l) Examine that purchases returns, if any, during the year were properly made, Debit Note raised and no dispute on that account remained with the supplier.

EXAMINER’S COMMENT

This question centred on Audit procedures for vouching Purchases. Not more than 15% of the candidates attempted the question and scored average marks in neighbourhood of 40% of the allocated marks. Indepth preparations and coverage of the syllabus would assist students in better performance in future examinations.

SOLUTION 6

- (a)
 - (i) Audit Committee is a body established under section 359(3) of the Companies and Allied Matters Act 2004.
 - (ii) Composition of the Audit Committee consists of equal Audit Committee consists of equal numbers of directors and shareholders of the public company with a maximum of six members.
 - (iii) The members of the Audit Committee are not entitled to remuneration

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- (iv) Any member of a company may nominate a shareholder as a member of the Audit Committee if a notice of at least twenty-one days before the Annual General Meeting is given by that member to the company's secretary.
- (v) The Auditor of a company has an additional duty to report to members of the Audit Committee.

(b) **FUNCTIONS OF AUDIT COMMITTEE:**

According to section 359 (6) of Companies and Allied Matters Act 2004, the functions of the Audit Committee shall be to:

- (i) Ascertain whether the accounting and reporting policies of the company comply with legal requirements and agreed ethical practices
- (ii) Review the scope and planning of audit requirements.
- (iii) Review in conjunction with the External Auditors the findings on management letters and the Companies responses on them.
- (iv) Keep the effectiveness of the Company's system of accounting and internal control under constant review.
- (v) Authorise the Internal Auditor to carry out investigations into any activities of the Company that are of interest or concern to the Committee.
- (vi) Make recommendations on the appointment, removal and remuneration of the External Auditors of the company to the Board of Directors.

EXAMINER'S COMMENT

All candidates attempted question on Composition of an Audit Committee and its functions. Candidates that managed to pass the question scored half of the marks allocated while those that failed the question exhibited shallow preparations for the topic.

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AT/211/PIIL.10

EXAMINATION NO:.....

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME
PART III EXAMINATION – SEPTEMBER 2011
COST ACCOUNTING AND BUDGETING**

Time allowed: 3 hours

Insert your Examination number in the space provided above

SECTION A- (Attempt all questions)

PART I MULTIPLE-CHOICE QUESTIONS (10 Marks)

1. **ONE** of the following is **NOT** a function of a costing system
 - A. It distinguishes profitable from unprofitable activities
 - B. It provides the management with means of controlling overall costs
 - C. It provides data for financial accounting
 - D. It identifies sources of wastages or loss
 - E. It provides information for fixing selling price

2. In designing a good cost accounting system **ONE** of the following must be borne in mind
 - A. Careful study of the business is necessary in order to know how information can be presented
 - B. Production cost
 - C. The system must be able to integrate full computerisation
 - D. The objective of the system must not be weighed against the cost of the system
 - E. Physical stock taking must be one of the objectives of the costing system

3. Semi fixed costs contain
 - A. Product and period costs
 - B. Avoidable and unavoidable costs
 - C. Controllable and uncontrollable costs
 - D. Fixed and variable costs
 - E. Direct and avoidable costs

4. Control systems within an organization will include the following **EXCEPT**
 - A. Quality control
 - B. Production control
 - C. Financial control
 - D. Price control
 - E. Inventory control

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5. Types of Bonus and incentive schemes EXCLUDE ONE of the following
- A. High day rate system
 - B. Group incentive scheme
 - C. Tax payment by the employees
 - D. Profit sharing scheme
 - E. Premium bonus scheme
6. Using the following data, calculate the overhead absorption rate using prime cost as the basis. The budgeted production overheads and other budget data are:

Items	Budget
Overhead cost	₦360
Direct material cost	₦320
Direct labour cost	₦400
Machine hours	100 hours
Direct labour hours	180 hours

- A. 50%
 - B. 75%
 - C. 90%
 - D. 112.5%
 - E. 150%
7. **ONE** of the following items will **NOT** appear on the credit side of Raw Materials Control Ledger Account
- A. Credit purchases
 - B. Work in progress
 - C. Stock loss
 - D. Production overhead
 - E. Returns
8. **Odeku Ltd** manufactures a product known as ARB. The total cost of making 8,000 units is ₦40,000. The total cost of making 40,000 units is ₦80,000. Fixed cost remains unchanged

What is variable cost per unit

- A. ₦0.80
 - B. ₦ 1.20
 - C. ₦ 1.25
 - D. ₦ 1.80
 - E. ₦ 2.00
9. Which of the following is **NOT** a functional budget?
- A. Sales budget
 - B. Production cost budget

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- C. Selling cost budget
- D. Distribution cost budget
- E. Master budget

10. An ideal standard is

- A. Attainable under perfect working conditions
- B. Not attainable
- C. Attainable if all are dedicated
- D. Easily attained
- E. Attainable in big companies

PART II SHORT-ANSWER QUESTIONS (30 MARKS)

1. The technique or method used to analyse the impact of change in activity level and cost behaviour on profitability is called
2. List **TWO** costing methods
3. Cost Accounting mainly uses historical information. True or false?
4. Non manufacturing costs which are incurred and charged against profit for a period is known as.....
5. ABC Ltd spent ₦60m to process some fruits into canned juice . The ₦60m is known as.....cost
6. Differentiate between prime cost and production cost
7. In a production system, the cost of employing a repair and maintenance engineer iscost
8. The cost of placing an order is L\$750, the annual demand is 5,000 units while the annual carrying cost is L\$800. Calculate the approximate number of orders to be made in a year
9. The following relates to a Stock item. Normal usage: 55 units per day, Maximum usage: 70 units per day, Minimum usage: 25 units per day. Lead time: 12-15 days
Calculate the Re-Order level
10. The worth of an individual worker is assessed using.....
11. Which costing method is used to determine the production cost of a unit of output of a brewing process?
12. The budget principal factor is also known as.....

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13. The difference between overhead incurred and overhead absorbed is known as.....
14. When apportioning canteen service overhead cost among departments in an organisation, what basis of apportionment would be most appropriate?
15. The point at which joint products become separately identifiable in a processing operation is
16. Actual quantity at standard price less standard quantity at standard price gives.....
17. The standard cost of producing a unit of product is Le2000. The actual production cost incurred is Le2100. The calculated variance is described as
18. A system that targets to produce the required items or services, of high quality, exactly at the time they are required is known as.....
19. Zee Ltd has a market for 60 tonnes of its product but could only produce 35 tonnes due to shortage of experts to operate the machines. What is the principal budget factor for the company?
20. A financial statement prepared in relation to a defined future period of time which estimates the timing of cash receipts and payments is
21. What is the decision rule in profitability index when used to assess projects?
22. Standard costing involves forecasting which is subjective, with the inherent possibility of error. True or False?
23. A favourable direct material price variance implies paying exactly the same amount budgeted. True or False?
24. The **TWO** main categories of remuneration methods are.....and
25. A budget that is drawn without recourse to historical data is

Use these data to answer question 26 and 27.

Product	Sales	Contribution
	₦	₦
A	75,000	15,000
B	20,000	10,000
C	<u>30,000</u>	<u>12,500</u>
Totals	<u>125,000</u>	<u>37,500</u>

Total fixed cost is ₦25,000

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26. Calculate the overall Contribution Margin Ratio (CMR)
27. Calculate the breakeven point
28. The difference between the Standard price and the actual price is otherwise known as.....
29. Calculate the bonus earned by a worker under HALSEY WEIR System where
- Time allowed = 15 hours
Time taken = 12 hours
Rate per hour = ₺1,000
30. A situation where the actual loss is less than normal or expected loss is known as.....

SECTION B- Attempt any Four Questions (60 Marks)

QUESTION 1

JONATHAN LIMITED had 4,500 employees on its payroll on 1 January and 4,800 employees on 31 December. During the year, 940 employees left the company.

The company operates premium bonus scheme payable in December based on the hours worked in November. The time allowed for the production in November was 864,000 hours while the time taken was 700,000 hours.

The policy of the company is to share the bonus equally among the employees. No employee left the company in the last two months of the year. The wage rate per hour was Le2,000.

Required:

- (a) Calculate the Labour Turnover rate for the year. (2 Marks)
- (b) Calculate the bonus that will be paid to each employee using:
- (i) Halsey bonus scheme. (3 Marks)
(ii) Halsey Weir bonus scheme. (3 Marks)
(iii) Rowan bonus scheme. (3 Marks)
- (c) (i) List **FOUR** unavoidable reasons for Labour Turnover. (2 Marks)
(ii) List **FOUR** Labour replacement costs. (2 Marks)

(Total 15 Marks)

QUESTION 2

- (a) List **TWO** expense heads under each of the following costs:
- (i) Direct materials cost. (2 Marks)

INSIGHT

- (ii) Direct labour cost. (2 Marks)
(iii) Direct expenses. (2 Marks)
(iv) Indirect materials cost. (2 Marks)
(v) Indirect labour cost. (2 Marks)
- (b) Cost information should be useful for decision making, control and planning. State **FIVE** points to be considered to ensure the usefulness of information produced by the costing system. (5 Marks)
- (Total 15 Marks)**

QUESTION 3

FEMMIT Industries Ltd reports its factory operations to management monthly. The following is included in the company's report for the month of October.

	Budgeted	Actual
Production quantity	72,000 kg	78,000 kg
Variable overheads	₦18,204,000	₦16,800,000
Fixed overheads	₦9,324,000	₦10,800,000
Direct Materials:		
Material X	0.65kg (₦1,150 per kg)	48,000 kg purchased @₦1,100 per kg
Material Y	0.55kg (₦1,350 per kg)	42,000kg purchased @ ₦1,400 per kg
Direct labour hours:	37 mins (₦4,880 per hour)	48,000 hours @ ₦5,000/hr

Production overhead is absorbed on the basis of direct labour hours.

Required:

Calculate any **THREE** of the following group of variances:

- (a) Material variances.
(b) Labour variances.
(c) Variable overhead variances.
(d) Fixed overhead variances.

(Total 15 Marks)

QUESTION 4

The following data are available in ISAACO Manufacturing company for a yearly period.

	€'000
Variable Expenses (at 50% of Capital):	
Materials	10,850
Labour	10,200
Other expenses	3,950
Semi-Variable Expenses: (at 50% of capacity)	
Maintenance and repairs	1,750
Indirect labour	3,950
Sales and administrative expenses	3,300

INSIGHT

Fixed Expenses:

Wages and salaries	4,750
Rent and rates	3,300
Sundry administrative expenses	<u>6,950</u>
	<u>49,000</u>

Assume that the fixed expenses remain constant for all levels of production, semi-variable expenses remain constant between 50% and 60% of capacity, increasing by 10% between 60% and 75% of capacity and by 20% between 80% and 100% capacity.

Sales at various capacity levels are:

	₦'000
50% capacity	50,000
60% capacity	60,000
75% capacity	75,000
90% capacity	90,000
100% capacity	100,000

Required:

Prepare flexible budget for the year and forecast the profits at 60%, 75%, 90% and 100% of capacity. **(15 Marks)**

QUESTION 5

The information given below relates to Sunlight Sundry Works in respect of Job XY 657

Materials ₦12,030

Wages:

Dept. J	180 hours @ ₦40 per hour
M	120 hours @ ₦30 per hour
K	60 hours @ ₦70 per hour

Overhead expenses for these departments were estimated as follows:

Variables overheads

Dept. J	₦15,000 for 5,000 labour hours
M	₦9,000 for 3,000 labour hours
K	₦6,000 for 3,000 labour hours

Fixed overheads: Estimated at ₦60,000 for 10,000 normal working hours.

You are required to calculate:

- (a) The cost of job XY657 **(13 Marks)**
- (b) The price to give profit of 25% on selling price **(2 Marks)**
- (Total 15 Marks)**

INSIGHT

QUESTION 6

A research project is undertaken on behalf of a manufacturing company by an educational institution.

You have been asked to review the project because the project's total cost has been estimated at €9.6 million (this is made up of €4 million already incurred and estimated future cost of €5.6 million) which exceeds the contracted value of €7 million for the completed research.

The future cost has been estimated as follows:

Material	= €2 million
Labour	= €1.2 million
Overhead	= €2.4 million

The overhead comprises depreciation of plant and equipment (€800,000) and an allocation of general overhead incurred by the business of 80% of Material cost.

Additional information:

- (i) If the project is abandoned, the Institution will be compensated with €3 million.
- (ii) A special type of material that has no alternative use has been contracted. If not used, it will cost €300,000 to dispose it off.
- (iii) Included in the labour cost is the salary of two highly skilled researchers totaling €1million. If the project is discontinued, these research workers will receive €200,000 as compensation.
- (iv) A specialized plant and equipment having no alternative use was bought for €1.6million at the commencement of the project. Included in this amount is €800,000 which is the estimated amount of depreciation in the second year. Estimated scrap value of the plant:

If disposed of immediately is €200,000

If disposed of in a year's time is €80,000

Required:

- (a) Recommend whether the project should be continued or abandoned (on financial ground). Give reasons for inclusion/exclusion of each item of expenditure in your calculation (13 Marks)
- (b) State non-financial factors (if any) which would be given consideration in taking a decision to abandon the project. (2 Marks)

(Total 15 Marks)

INSIGHT

SECTION A

PART I MULTIPLE-CHOICE SOLUTIONS

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

EXAMINER'S COMMENT

The questions test ten topics in the syllabus. All candidates attempted this section and performance was good.

PART II SHORT-ANSWER SOLUTIONS

1. Break Even Analysis/Cost-profit-volume Analysis
2. Job/Batch, Contract, Process & Service (Any 2)
3. False
4. Period Costs
5. Conversion Cost
6. Prime cost is the total direct cost while production cost is prime cost plus production overhead.
7. Indirect
8. 52 Orders $EOQ = \sqrt{\frac{5000 \times 750 \times 2}{800}} = \sqrt{\frac{2 \text{ Co D}}{CC}} = 97$

$$\therefore \text{No. of Orders reqd.} = \frac{5000}{97} = 52$$

INSIGHT

9. 1050 units i.e Re-order Level = Max Usage x Max Lead time
= 70 x 15 = 1050
10. Merit Rating
11. Process Costing
12. Budget Limiting factor
13. Under or Over absorbed overhead
14. Number of Employees
15. Split – off point
16. Material Usage Variance
17. Adverse Cost Variance
18. Just in Time
19. Labour
20. Cash Budget
21. Accept any project with profitability index greater than 1
22. True
23. False
24. Time base and Output base
25. Zero Based Budget
26. $\text{Cmr} = \frac{\text{Contribution}}{\text{Sales}} = \frac{37500}{125000} = 0.3$ Or 30%
27. $\text{BEP} = \frac{\text{FC}}{\text{cmr}} = \frac{25000}{0.3} = \text{N}83,333$
28. Sales Price Variance
29. Bonus = N1000 (i.e $\frac{1}{3}$ Timesaved x Rate = $\frac{15-12}{3} \times \text{N}1000$)
30. Abnormal Gain

INSIGHT

EXAMINER'S COMMENT

These questions test a wide area of the syllabus. All the candidates attempted this section and about 60% of them did well in it.

SECTION B SOLUTION 1

(a) Calculation of Labour Turnover Rate

$$\begin{aligned} \text{LTR} &= \frac{\text{Number of Employees Left}}{\text{Average Number of Employee in the year}} \times \frac{100}{1} \% \\ &= \frac{940}{(4,500+4800) \div 2} \times \frac{940}{(4500)} \% \\ &= \underline{20,22\%} \end{aligned}$$

(b) Time Allowed 864,000 Hours
Time Taken 700,000 Hours
Time Saved 164,000 Hours

(i) Halsey Bonus Scheme

$$\begin{aligned} \text{Total Bonus} &= \frac{1}{2} (\text{Time saved} \times \text{Hourly Rate}) \\ &= \frac{1}{2} (164,000 \times 2000) \\ &= \frac{1}{2} \times \text{N}32,800,000 \\ &= \text{N}16,400,000 \end{aligned}$$

$$\begin{aligned} \text{Bonus per Employee} &= \frac{\text{N}16,400,000}{4,800} \\ &= \underline{\text{N}34,166.67} \end{aligned}$$

(ii) Halsey Weir Bonus Scheme

$$\begin{aligned} \text{Total Bonus} &= \frac{1}{3} (\text{Time saved} \times \text{Hourly Rate}) \\ &= \frac{1}{3} (164,000 \times \text{N}200) \\ &= \frac{1}{3} \times \text{N}32,800,000 \\ &= \text{N}10,933,333.33 \end{aligned}$$

$$\begin{aligned} \text{Bonus per Employee} &= \frac{\text{N}10,933,333.33}{4,800} \\ &= \underline{\text{N}22,777.78} \end{aligned}$$

(iii) Rowan Bonus Scheme

$$\begin{aligned} \text{Total Bonus} &= \frac{\text{Time Taken} \times \text{Time saved} \times \text{Hourly Rate}}{\text{Time Allowed}} \\ &= \frac{700,000 \times 164,000 \times \text{N}2000}{864,000} \\ &= \frac{700,000}{864,000} \times \text{N}328,000,000 \\ &= \text{N}265,740,740.74 \end{aligned}$$

INSIGHT

$$\begin{aligned}\text{Bonus Per Employee} &= \frac{\text{N}26,574,074.07}{4,800} \\ &= \underline{\text{N}55,362.65}\end{aligned}$$

(c)

(i) Unavoidable Reasons for Labour Turnover

- Retirement
- Accidents, illness or death
- Family Reason
- Relocation

(ii)

- Cost of advertising for vacancy
- Cost of selection and placement
- Cost of training the new employees
- Loss of output due to delay in new worker becoming available
- Possible increase in wastages and spoilage due to lack of expertise among new staff.

EXAMINER'S COMMENT

This question tests candidates' knowledge on labour turnover theory and bonus computations. More than 90% of the candidates attempted it, and scored above average marks. The major problem of those who did not do well was the use of wrong formulae.

SOLUTION 2

(a)

(1) Direct Material Costs

- (i) Raw materials
- (ii) Component parts
- (iii) Work-in-progress
- (iv) Primary packing materials
- (v) Lubricating oil
- (vi) Consumables
- (vii) Cleaning materials

(2) Direct Labour Costs

- (i) Factory workers wages
- (ii) Factory workers overtime
- (iii) Factory workers bonuses

(3) Direct Expenses

- (i) Cost of hiring special equipment for a particular production order
- (ii) Cost of maintaining special equipment for particular orders
- (iii) Royalties
- (iv) Cost of travelling to and from contract sites

INSIGHT

(4) Indirect Material Costs

- (i) Lubricating oil
- (ii) Stationery
- (iii) Cleaning materials

(5) Indirect Labour Costs

- (i) Salary of factory supervisor
- (ii) Salary of stores employees
- (iii) Salary of stores employees

(b) POINTS TO BE CONSIDERED TO ENSURE USEFULNESS OF COST INFORMATION

- (1) The costing system should be appropriate to the organisation the way services are provided or goods are manufactured.
- (2) The reports, statements and analyses produced by the costing system should contain the relevant information for the intended purpose.
- (3) The reports and statements should be produced at appropriate intervals and early enough to be effective.
- (4) The reports and statements should be addressed to the person responsible for planning/decision making/control
- (5) The information should be produced in a relevant format and to a sufficient degree of accuracy for the intended purpose.

EXAMINER'S COMMENT

This question tests classification of elements of cost and necessary criteria for usefulness of cost information. About 95% of the candidates attempted the question, but some of them were unable to adequately supply sufficient details to earn good marks.

SOLUTION 3

(a) Direct Material Cost Variances

i. Direct Material Price Variance

(Actual Price – Standard Price) x Actual Quantity

Material X:	(N1100–1150) x 48,000kg	2,400,000 (F)
Material Y:	(N1400–1350) x 42,000kg	<u>2,100,000 (A)</u>
		<u>300,000 (F)</u>

INSIGHT

- ii. Direct Material Usage Variance
(Actual Quantity – Standard Quantity) x Standard Price

Material X:	(48,000 – 50,700) x ₦1150	3,105,000 (F)
Material Y:	(42,000 – 42,900) x ₦1,350	<u>1,215,000 (F)</u>
		<u>4,320,000 (F)</u>

Standard Quantity (Mat. X) = 78,000kg x 0.65 = 50,700kg
 (Mat Y) = 78,000kg x 0.55 = 42,900kg

- iii. Direct Material Total Cost Variance
(Standard Material Cost of Production – Actual Cost of Material Purchased)

Material X:	(78,000 x 0.65 x ₦1,150) – ₦52,800,000	5,505,000 (F)
Material Y:	(78,000 x 0.55 x ₦1,350) – ₦58,800	<u>885,000 (A)</u>
		<u>4,620,000 (F)</u>

Check

Direct Material Price Variance	₦ 300,000 (F)
Direct Material Usage Variance	<u>4,320,000 (F)</u>
	<u>4,620,000 (F)</u>

(b) Labour Cost Variances

- i. Direct Labour Rate Variance
(Actual Rate – Standard Rate) x Actual Hours Worked
(₦5,000 – 4,880) x 48,000hrs = ₦5,760,000 (A)
- ii. Direct Labour Efficiency Variance
(Actual Hours Worked – Standard Hours Allowed) x Standard Price
(48,000 – 48,100) x ₦4,880 = ₦488,000 (F)
- iii. Direct Labour Total Cost Variances
(Standard Direct Labour Cost – Actual Direct Labour Cost)
(48,100Hrs x ₦4,880) – (48,000Hrs x ₦5,000)
₦234,728,000 – 240,000,000 = ₦5,272,000 (A)

(c.) Variable Production Overhead Cost Variances

- i. Variable Overhead Expenditure Variance
Actual Variable Overhead Cost – (Actual Hrs Worked x VOAR)
₦16,800,000 – (48,000Hrs x ₦410) = ₦2,880,000 (F)

INSIGHT

ii. Variable Overhead Efficiency Variance
 (Actual Hrs Worked – Standard Hrs Allowed) x VOAR
 $(48,000 - 48,100) \times \cancel{N410} = N41,000 \text{ (F)}$

iii. Variable Production Overhead Cost Variance
 (Standard Variable Overhead Cost – Actual Variable Overhead Cost)

$$\left[78,000\text{kg} \times \frac{18,204,000}{72,000\text{kg}} \right] = \cancel{N16,800},$$

$$N19,721,000 - \cancel{N16,800,000} = \underline{N2,921,000 \text{ (F)}}$$

Workings

$$\text{Budgeted Labour Hours} = \frac{37}{60} \times 72,000\text{kg} = 44,400 \text{ Hours}$$

$$\text{VOAR} = \frac{\text{Budgeted Overhead Cost}}{\text{Budgeted Labour Hrs}} = \frac{N18,204,000}{44,400} = \cancel{N410/\text{Hr}}$$

(d) Fixed Production Overhead Variance

i. Fixed Production Overhead Expenditure Variance
 Budgeted Fixed Overhead – Actual Fixed Overhead Cost
 $N9,324,000 - \cancel{N10,800,000}$
 $= \underline{N1,476,000 \text{ (A)}}$

ii. Fixed Production Overhead Cost Variance
 Actual Fixed Overhead Cost – Standard Fixed Overhead Cost
 Standard Fixed Overhead Cost = Standard Hrs Allowed x FOAR
 $= 48,100 \times 210 = N10,101,000$

$$\text{Variance} = \cancel{N10,800,000} - 10,101,000$$

$$= \underline{N699,000 \text{ (A)}}$$

$$\text{Standard Hrs Allowed} = \frac{37}{60} \times \frac{78,000}{1} = 48,100\text{Hrs}$$

$$\text{FOAR} = \frac{\text{Budgeted Fixed Overhead}}{\text{Budgeted Hour}}$$

$$= \frac{N9,324,000}{44,400}$$

$$= \cancel{N210} / \text{Hour}$$

INSIGHT

EXAMINER'S COMMENT

This question tests computation of Production Cost Variances. It was attempted by about 65% of the candidates but only about 10% of them scored above average. Candidates' general approach to the question betrayed a lack of adequate understanding of the topic. **STUDENTS HAVE NO CHOICE BUT TO MASTER ALL AREAS OF THE SYLLABUS BEFORE COMING FORWARD FOR THE EXAMINATION.**

SOLUTION 4

Flexible Budget for the Year and Profit Forecast

	Capacity Level				
	50%	60%	75%	90%	100%
	N'000	N'000	N'000	N'000	N'000
i	<u>50,000</u>	<u>60,000</u>	<u>75,000</u>	<u>90,000</u>	<u>100,000</u>
ii	Variable Expenses (wi)				
Materials	10,850	13,020	16,275	19,530	21,700
Labour	10,200	12,240	15,300	18,360	20,400
Other expenses	<u>3,950</u>	<u>4,740</u>	<u>5,925</u>	<u>7,110</u>	<u>7,900</u>
Total	<u>25,000</u>	<u>30,000</u>	<u>37,500</u>	<u>45,000</u>	<u>50,000</u>
iii	Semi-Variance Expenses (W2)				
Maintenance and repairs	1,750	1,750	1,925	2,100	2,100
Indirect Labour	3,950	3,950	4,345	4,740	4,740
Sales/Administrative expenses	<u>3,300</u>	<u>3,300</u>	<u>3,630</u>	<u>3,960</u>	<u>3,960</u>
Total	<u>9,000</u>	<u>9,000</u>	<u>9,900</u>	<u>10,800</u>	<u>10,800</u>
iv	Fixed Expenses:				
Wages and Salaries	4,750	4,750	4,750	4,750	4,750
Rent and Rates	3,300	3,300	3,300	3,300	3,300
Sundry admin. Expenses	<u>6,950</u>	<u>6,950</u>	<u>6,950</u>	<u>6,950</u>	<u>6,950</u>
	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>
v	Total Cost (ii + iii + iv)				
	<u>49,000</u>	<u>54,000</u>	<u>62,400</u>	<u>70,000</u>	<u>75,800</u>
	Profit (i –v)				
	<u>1,000</u>	<u>6,000</u>	<u>12,600</u>	<u>20,000</u>	<u>24,200</u>

Workings

1. Variable Expenses

Materials	60%	75%	90%	100%
	$\frac{N10,850}{1} \times \frac{60}{50}$	$\frac{N13,020}{1} \times \frac{75}{60}$	$\frac{N16,275}{1} \times \frac{90}{75}$	$\frac{N19,530}{1} \times \frac{100}{90}$
	= N13,020	= N16,275	= N19,530	= N21,700

The same computational step applies to Labour and Other expenses

2. SemiVariable	10% Increase	20% Increase
Maintenance & Repairs	N1,750 x 1.10	N1,750 x 1.20
	= N1,925	= N2,100

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EXAMINER`S COMMENT

This question tests preparation of profit forecasts at different levels of activity using flexible budgets.

About 70% of the candidates attempted the question and average scores impressive. About 10% of those who attempted the question even scored full marks. The major pitfall encountered by some of the candidates is the calculation of the semi-variable expenses.

SOLUTION – QUESTION 5

Calculation of Variable Overhead rate per labour hour.

Department

J	N15,000/5,000 L'H	=	N 3
M	N9,000/3,000 L' H	=	N 3
K	N6,000/3.000 L'H	=	N 2

Calculation of fixed O'head per hour

$$= \text{N}60,000/10000 = \text{N}6$$

Cost sheet for JobXY657

Particulars	Amount
	N
Material:	12,030
Wages:Dept J 180 x40	7200
M 120x 30	3600
K 60 x 70	<u>4200</u>
	15,000
Overheads:	
Variable: J 180 x 3	540
M 120 x 3	360
K 60 x 2	<u>120</u>
	1,020
Fixed Overheads 360 x 6	<u>2,160</u>
Total Cost	30,210
Profit [25% on Selling Price	<u>10,070</u>
Sales [or 33 ¹ / ₃ % on cost]	<u>40,280</u>

EXAMINER`S COMMENT

This question test candidates' knowledge on Job costing and pricing. About 95% of the candidates attempted this simple and straightforward question while about 90% of these scored high marks. Only those who could not correctly calculate the overheads had problem with it.

INSIGHT

SOLUTION 6

Benefits of continuation:

	N'000
Contract price	7,000
Penalty (if project is abandoned)	3,000
Total	<u>10,000</u>

Relevant Cost of continuation N'000

Material (if the project is abandoned, cost of Disposal will be saved)	(300)
--	-------

Labour:

Salary of 2 researchers	1,000
Redundancy compensation	(200)

Overheads:

Opportunity Cost – (scrap value)	
₦200,000 – ₦80,000	<u>120</u>
Total relevant cost	<u>620</u>

Net benefit	= ₦(10,000,000 – 620,000)
	= <u>₦9,380,000</u>

Recommendation:

Project should continue

Reasons for inclusion/exclusion of items of expenditure

- (i) All expenditure already incurred are sunk costs so irrelevant here (e.g. material)
 - (ii) The use of material would result in savings of disposal cost ₦300,000.
 - (iii) If project continues – researchers will be paid. If the project is abandoned they will receive compensation. Hence, differential cost is considered.
 - (iv) General overhead is irrelevant cost. Depreciation is an apportionment of sunk cost – irrelevant.
Plant & Equipment has no alternative use, only differential scrap value is relevant.
- (b) Non financial factors to be considered
- i. Loss of goodwill if project is abandoned
 - ii. Loss of skilled staff
 - iii. Effect on morale of research staff
 - iv. Loss of publicity arising out of successful completion of project
 - v. Long-term qualitative benefits if the project is completed.

INSIGHT

EXAMINER'S COMMENT

This question tests candidates knowledge of relevant costing approach to decision making, while also considering qualitative factors.

Apparently not prepared for such question, more than 90% of the candidates avoided it. Out of the remaining 10% who attempted it, only about half of them got appreciable marks.

INSIGHT

AT/211/PIIL.11

EXAMINATION

NO:.....

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME
PART III EXAMINATION – SEPTEMBER 2011
PREPARING TAX COMPUTATIONS AND RETURNS**

Time allowed: 3 hours

Insert your examination number in the space provided above

SECTION A - Attempt All Questions

PART I MULTIPLE-CHOICE QUESTIONS

1. Which of the following is **NOT** a characteristic of a good tax system?
 - A. It is equitable
 - B. It is certain
 - C. It should be convenient
 - D. Should be collected in advance
 - E. Must be administratively efficient

2. Direct tax can best be described as
 - A. Tax levied directly on an individual or organisation
 - B. Tax levied directly on a group of people
 - C. Tax levied on goods and services
 - D. Tax levied on foreign organisation
 - E. Tax levied on luxury goods

3. The relevant tax law that deals with individual person is called
 - A. Company Income Tax Act
 - B. Personal Income Tax Act
 - C. Capital Gains Tax
 - D. Value Added Tax
 - E. Internal Revenue Service Act

4. The following are the objectives of taxation **EXCEPT:**
 - A. To redistribute the wealth of a nation
 - B. To generate more revenue to the government
 - C. To enable government finance its capital and revenue budgets
 - D. To increase the income of every individual in a nation
 - E. To help government achieve its development targets

5. It is compulsory for a new company to file its financial statements after
 - A. Six months
 - B. Nine months

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- C. Eighteen months
 - D. Twelve months
 - E. None of the above
6. The following items are part of annual returns expected to be filed by every company at the Federal Inland Revenue Service/Internal Revenue Service **EXCEPT:**
- A. Audited accounts of the company
 - B. Tax Computation
 - C. Capital allowances computation
 - D. Appointment of Directors form
 - E. Evidence of tax already paid
7. Tax clearance certificate of a company is issued by:
- A. The Board of Internal Revenue
 - B. Federal Inland Revenue Service
 - C. The Joint Tax Board
 - D. Ministry of Finance
 - E. National Revenue Authority
8. Accounting year of a company is
- A. A fiscal year
 - B. The year of commencement
 - C. Year chosen by company to report its financial stewardship
 - D. The year of assessment
 - E. The year of cessation
9. Chargeable profit of a company is
- A. Adjusted profit less all capital allowances
 - B. Accounting profit less capital allowances
 - C. Net profit less depreciation
 - D. Adjusted profit less allowable expenses
 - E. Gross profit less capital allowances
10. Any transaction between connected individuals or group of individuals is known as
- A. Acceptable transaction
 - B. Normal transaction
 - C. Family transaction
 - D. Deferred transaction
 - E. Artificial transaction

INSIGHT

PART II SHORT-ANSWER QUESTIONS (30 Marks)

1. State **TWO** tax laws in your country.
2. List **TWO** disallowable deductions under Personal Income Tax Act/Internal Revenue Service Act.
3. Define Annual Allowance.
4. List **TWO** contents of notice of appeal.
5. State **TWO** offences that may be committed by a tax payer for which penalties are imposed.
6. Explain briefly “Year of Assessment”.
7. State **TWO** intangible assets.
8. Where the sales proceeds of an asset exceed the tax written down value at the time of disposal, the excess is called
9. Value Added Tax is paid by
10. List **TWO** reliefs granted to a tax payer under Personal Income Tax Act/Internal Revenue Service Act.
11. Statutory Total Income is made up of and
12. For an employee leaving employment he/she must have been in service for years to be entitled to collect pension and gratuity.
13. Explain the term “PAYE” as it relates to direct income taxation.
14. What is the withholding tax rate in respect of dividend income?
15. Give **TWO** conditions for granting capital allowance?
16. In what instance can any of the partners in a partnership business be treated as continuing operation after the partnership business ceases operation.
17. Income derived from employment, from business, profession and vocation is known as.....
18. Give **TWO** examples of Indirect Tax?
19. State **TWO** examples of Consumption Tax?
20. The name given to a tax borne by a person other than the one from whom the tax is collected is called.....

INSIGHT

21. Under what scheme can tax be deducted from the income of an employee at source by the employer as provided under the Personal Income Tax Act 1993/Internal Revenue Service Act?
22. Withholding tax on dividend income is considered to be “final tax”. What does “final tax” mean within this context?
23. State the penalty for failure to notify the relevant tax authority of change of registered address.
24. List **TWO** items contained in Value Added Tax Invoice.
25. Indirect tax paid on sales by manufacturers of brewed products and cigarettes which are consumed within your country is called.....
26. State **FOUR** goods exempted from Value Added Tax Act.
27. Under the Capital Gains Tax Act, state **TWO** allowable expenses.
28. Give **TWO** examples of direct tax.
29. State **TWO** commissions or omissions on the part of a tax payer that can be interpreted to mean tax evasion.
30. State **TWO** types of assessment available to a tax payer.

SECTION B - Attempt any FOUR questions (60 Marks)

QUESTION 1

Zube manufacturing company has been finding it difficult to get its raw materials from China; therefore the company is contemplating whether to cease operation permanently on 31 December 2009 or 31 January 2010.

The adjusted profits are as follows:

	Adjusted profit (₦)
Year ended 30 September 2006	950,000
Year ended 30 September 2007	630,000
Year ended 30 September 2008	540,000
Year ended 30 September 2009	420,000
Three months to 31 December 2009	180,000
Four months to 31 January 2010	60,000

Required:

- (a) Compute assessable profit from 2007 tax year to the year of cessation. (12 Marks)

INSIGHT

- (b) Advise the company whether to cease operation on 31 December 2009 or 31 January 2010. (3 Marks)
(Total 15 Marks)

QUESTION 2

Write short notes on the following:

- (a) Personal Allowance (3 Marks)
(b) Dependent Relative Allowance (3 Marks)
(c) Children Allowance (3 Marks)
(d) Life Assurance Premium (3 Marks)
(e) Disabled Person Allowance (3 Marks)
(Total 15 Marks)

QUESTION 3

- (a) List FIVE sources of income that are chargeable to tax under the Personal Income Tax Act 1993/ Internal Revenue Act (as amended). (5 Marks)
(b) Good Favour Limited posted a profit of L\$625,000 after deducting the following:

	L\$
Depreciation	375,000
Bad debt written off	118,125
Donation to Oba for Ceremony	156,250
and adding:	
Dividend from Joy Plc	31,250
Profit on disposal of fixed assets	125,000

Required:

- Compute the tax payable if the capital allowance available is L\$93,750. (10 Marks)
(Total 15 Marks)

QUESTION 4

- (a) The Value Added Tax Act states the offences that may be committed and the attendant penalties. You are required to state five offences and their penalties. (10 Marks)

INSIGHT

- (b) List any **FIVE** problems associated with administration and management of Value Added Tax in your country. (5 Marks)
(Total 15 Marks)

QUESTION 5

Thanny International Plc bought a foundry plant at Agbara at a cost of ₦560 million on 5 February 2002. A section of the plant was sold for ₦160 million. The company incurred ₦8 million as incidental expenses to dispose of the plant. The market value of the remaining plant was ₦585 million on 1 October 2010.

Required:

- (a) Compute the chargeable gain if any of the asset sold. (5 Marks)
- (b) State **FIVE** reliefs available to an individual tax payer. (5 Marks)
- (c) Give **FIVE** conditions to be fulfilled before donations can be allowed in the computation of tax. (5 Marks)
(Total 15 Marks)

QUESTION 6

Dick, Tom and Harry commenced as partners on 1 January 2001 making up accounts to 31 December each year. They share profits and losses in ratio: Dick, Tom, and Harry 7:2:1.

The profit and loss accounts of the partnership for the year ended 31 December 2009 showed the following results:

	¢	¢
Gross Trading Profit		180,000
Expenses		
General Expenses	16,000	
Depreciation	80,000	
Rent on building owned by Dick	24,000	
Interest on loan granted by Tom	4,000	
Salaries and Wages	100,000	
Provision for doubtful debt:		
General	3,200	
Specific	800	
Loss on disposal of delivery van	8,000	
Interest on Capital: Dick	20,000	
Tom	20,000	
Harry	20,000	
		(296,000)
		(116,000)
Profit on disposal of truck		1,200
		<u>(114,800)</u>

INSIGHT

The following additional charges are to be taken into consideration.

	Dick	Tom	Harry
	¢	¢	¢
Private postage cost	3,200	1,200	800
Salaries	-	20,000	24,000

Required:

Compute the adjusted income of the partners for the relevant year of assessment.

(Total 15 Marks)

NIGERIA TAX RATES

1. CAPITAL ALLOWANCES

	Initial %	Annual %
Office Equipment	50	25
Motor Vehicles	50	25
Office Building	15	10
Furniture & Fittings	25	20
Industrial Building	15	10
Non-Industrial Building	15	10
Plant and Machinery – Agricultural Production	95	NIL
– Others	50	25

2. INVESTMENT ALLOWANCE

10%

3. TAX – FREE ALLOWANCE:

	Maximum Per Year
	₦
Rent	150,000
Transport	20,000
Utility	10,000
Meal Subsidy	5,000
Entertainment	6,000
Leave	10% of Annual Basic Salary

4. PERSONAL INCOME TAX RELIEFS / ALLOWANCES

- (a) Personal Allowance – ₦5,000 plus 20% of Earned Income
- (b) Children Allowance – ₦2,500 per annum per unmarried child
(Subject to a maximum of four children)

INSIGHT

- (c) Dependent Relative – ₦2,000 each
- (d) Disabled Persons – ₦5,000 or 10% of Earned Income
(which ever is higher)
- (e) Life Assurance – Actual Premium paid

5. **RATES OF PERSONAL INCOME TAX:**

	Taxable Income	Rate of Tax
	₦	%
First	30,000	5
Next	30,000	10
Next	50,000	15
Next	50,000	20
Over	160,000	25

Note: Annual income of ₦30,000 and below is exempted from tax but a minimum tax of 0.5% will be charged on the total income.

- 6. **COMPANIES INCOME TAX RATE** 30%
- 7. **EDUCATION TAX** 2%
- 8. **CAPITAL GAINS TAX** 10%
- 9. **VALUE ADDED TAX** 5%
- 10. **WITHHOLDING TAXES**

Type of payment	Rates (Companies)	Rates (Non- corporate)
Dividend, Interest, Rent	10%	10%
Royalties	15%	15%
Contract supplies	5%	5%
Building construction activities	5%	5%
Consultancy/Professional services	10%	5%
Management services	10%	5%
Commissions	10%	5%
Technical services	10%	5%
Directors fees	10%	10%

INSIGHT

SECTION A

PART I MULTIPLE-CHOICE SOLUTIONS

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

EXAMINER'S COMMENT

The multiple choice questions covered all parts of the syllabus. The questions are simple and straight forward. All the candidates attempted the questions, and the general performance was good. More than 80 percent of the candidates who attempted the questions did very well.

PART II SHORT-ANSWER SOLUTIONS

1.

(a) Personal Income Tax Act 1993	} Any two
(b) Companies Income Tax Act 1990	
(c) Capital Gains Tax Act 1990	
(d) Value Added Tax Act 1993	
(e) Stamp Duties Act 1990	
2.

(a) Private expenses	} Any two
(b) Capital withdrawn from trade	
(c) Capital expenditure	
(d) Payment to unapproved provident fund	
(e) Depreciation of any asset	
3. This is allowance granted over the estimated useful life of a qualifying capital expenditure after the deduction of initial allowance from cost.
4.

(i) The name and address of the applicant	} Any two
(ii) The official number and date of the relevant notice of assessment	
(iii) The amount of assessment	
(iv) The grounds of appeal	

INSIGHT

5. (i) Failure to furnish a return
(ii) Understating estimated tax payable by instalment
(iii) Making false and misleading statement
(iv) Failure to keep books of account
(v) Failure to pay tax on due date } Any two
6. (a) This refers to government's financial year during which tax is levied
(b) It is the national fiscal year, usually a period of one year
7. (i) Copyright
(ii) Trade mark
(iii) Goodwill
(iv) Patent } Any two
8. Balancing charge
9. Consumers
10. (i) Personal allowance
(ii) Children allowance
(iii) Dependent Relative allowance
(iv) Life assurance premium
(v) Disabled person allowance } Any two
11. Earned and unearned income
12. 10 years
13. This is a system where the tax is deducted from the salary of an employee based on the level of income
14. 10%
15. (i) The qualifying asset must be owned by the company or person claiming
(ii) Used wholly by the company or person
(iii) Must be in use at the end of basis period
(iv) The claim must be in writing to the relevant tax authority } Any two
16. If such partner enters into the same trade and business
17. Earned income.
18. Import duty, Export duty,
19. Sales tax, value added tax
20. Indirect Tax
21. Pay –As-You-Earn
22. The dividend income would also not be taxed again after the withholding tax.

INSIGHT

23. Penalty of ₦5,000
24. (i) Tax payer identification number
(ii) Name, address and VaT Registration number
(iii) Customer's name and address
(iv) The Valued Added Tax rate
(v) The total Value Added Tax Payable
25. Excise Duty
26. (i) Animals, livestock and poultry
(ii) Educational items
(iii) Medical supplies
(iv) Transportation
(v) Basic food items
(vi) Crude oil and hydrocarbon products
27. (i) Cost of acquiring the asset
(ii) Incidental cost of making the disposal
(iii) Professional fees or charges paid in course of disposal
(iv) Expenditure incurred to defending the assets
(v) Expenditure incurred for the purpose of enhancing the value of the asset
28. (i) PAYE
(ii) Company Income Tax
(iii) Education tax
29. (i) Refusing to Register
(ii) Failure to furnish a return
(iii) Making an incorrect statement
(iv) Entering into artificial transactions
(v) Overstating expenses
30. (i) Original Assessment
(ii) Revised or Amended Assessment
(iii) Additional Assessment
(iv) Self Assessment
- Any four
- Any two
- Any two
- Any two

EXAMINER'S COMMENT

The short Answers Questions cut across the entire syllabus. All the candidates also attempted the questions. About 75 percent of the candidates who attempted the questions performed satisfactorily.

INSIGHT

SECTION B

SOLUTION 1

Zube manufacturing company
Computation of Assessment Profit from 2007-2010 Year of Assessment

Year of Assessment	Basis Period	Assessable Profit	
		₦	₦
2007	1/10/05-30/9/06		950,000
2008	1/10/06-30/9/7		630,000
2009 PYB	1/10/07-30/9/08	540,000	540,000
AYB	1/1/09-31/12/09	495,000	
2010	1/1/10-31/1/10		<u>60,000</u>
		Total Profit	<u>2,180,000</u>

Zube manufacturing company
Computation of Assessable Profit from 2007 -2009

Yea of Assessment	Basis Period	₦	₦
2007	1/10/05-30/9/06		950,000
2008 PYB	1/10/06-30/9/07	630,000	630,000
AYB	1/1/08-31/12/08	510,000	
2009	1/1/09-31/12/09		<u>495,000</u>
		Total Profit	<u>2,075,000</u>

Summary:

Having computed the two options opened to the Tax Payer,

Option (a)- Ceasing operation at 31/01/2010

Is liable to be assessed to total profit of ₦2,180,000

While option (b)- ceasing operation at 31/12/2009 is liable to

Be assessed to total profit ₦2,075,000

The company is advised to cease operation at 31 December, 2009 i.e 31/12/2009 when he would have made savings of ₦105,000

EXAMINER'S COMMENT

This is a standard question on cessation rule. The question also requires candidates to advise on the best time to cease business. More than 80 percent of the candidates attempted the question, and the general performance was above average.

INSIGHT

SOLUTION 2

- (a) **Personal Allowance**
Every tax payer is entitled to this allowance, which is a fixed amount plus percentage of earned income i.e ₦5,000 plus 20% of Earned Income.
- (b) **Dependant Relative Allowance**
This is an allowance claimable on close relatives who is incapacitated by old age or infirmity. The allowance is, at present ₦2,000 (Subject to a maximum of two dependants) i.e ₦4,000
- (c) **Children Allowance**
The allowance would be claimed by a tax payer on children maintained in preceeding year up to maximum of four (4) children under the age of 16 years old. In a situation, where the age, is more than sixteen, he/she must either be an apprentice in a trade or must be undergoing full-time education. The allowance is now ₦2,500 per annum per child.
- (d) **Life Assurance Premium**
This is a tax relief granted in respect of the premium paid by a tax payer on himself or spouse on life insurance policy. There is no more limit on the amount claimable on life Assurance. Any premium paid is fully allowed.
- (e) **Disabled Person Allowance**
This is an allowance granted to an incapacitated employee who uses special equipment and the services of an attendant in the course of a paid employment. The allowance is at present, the higher of ₦3,000 or 20% of Earned Income

EXAMINER'S COMMENT

This is a simple question, testing candidates knowledge of Personal Income Tax Allowances. More than 98 per cent of the candidates attempted the question. The performance was generally good.

SOLUTION 3

3(a) The various sources of income that are chargeable to tax are:

- (i) Gains or profit of any trade, business, profession and vocation.
- (ii) Remuneration of an employment excluding sum paid to the employee
- (iii) Dividends
- (iv) Interests
- (v) Rent
- (vi) Discounts

INSIGHT

(b)

GOOD FAVOUR LIMITED COMPUTATION OF TAX LIABILITY FOR THE RELEVANT TAX YEAR

	₦	₦
Net profit posted		625,000
Add depreciation	375,000	
Donation to Oba	<u>156,250</u>	
		<u>531,250</u>
		1,156,250
Deduct:		
Dividend from Joy Plc	31,250	
Profit on Disposal Of assets	<u>125,000</u>	
		<u>(156,250)</u>
Adjusted profit		1,000,000
Capital allowance Retrieved	93,750 <u>(93,750)</u>	<u>(93,750)</u>
Capital allowance c/f		
Taxable profit		<u>906,250</u>
Tax payable at 30%		<u>271,875</u>
Education Tax at 2% ₦1,000,000		<u>20,000</u>
Total Tax Liability		<u>291,875</u>

EXAMINER'S COMMENT

This is a two-part question. Part (a) of the question tested the candidate's understanding of the sources of income chargeable to tax under PITA/Internal Revenue Act (as amended), whilst part (b) is a computation question. About 95 percent of the candidates attempted the question. About 70 percent of the candidates did well in 'a' part of the question, and about 60 percent performed satisfactorily in 'b' part.

INSIGHT

SOLUTION 4

(a)

	VALUED ADDED TAX
I	Offences
	Penalties
I	Failure to register within stipulated time
	₦10,000 for 1 st Month in which failure occurs & ₦5,000 in which failure continues
ii	Failure to collect tax
	150% of tax due & uncollected plus interest @ 5% above the CBN rediscount rate
iii	Non-remittance of tax
	A sum equal to 5% p.a plus interest at a commercial rate of the tax remittable
iv	Failure to submit returns
	A fine of ₦5,000 per month in which the failure continues
v	Rendering of false returns
	Conviction or a fine twice the amount under-declared
vi	Evasion of tax
	Fine of ₦30,000 or twice the amount of tax evaded whichever is greater or imprisonment for a term not exceeding 3 years
vii	Failure to keep proper records
	A fine of ₦2,000 for every month in which the failure continues
viii	Failure to issue tax invoice
	Fine of 50% of the cost of the goods and services
ix	Issuance of tax invoice by unauthorized person
	Fine of ₦10,000 or imprisonment for a term of six months
x	Failure to notify the Board of change of address
	Payment of ₦5,000 fine
xi	Aiding and Abetting
	Fine of ₦5,000 or imprisonment for a term of 5 years
xii	Failure to make attribution & if made not informing FIRS
	Penalty of ₦5,000
xiii	Resisting, hindering and obstructing authorized VAT Officer from performing their duty or inspection team
	On conviction, a fine of ₦10,000 imprisonment for a term of 6 months or both.

INSIGHT

- B(i) The definition of VAT input remains a problem because of the interpretation that has been given to it. In Nigeria, input is limited only to direct input unlike other countries
- (ii) Where a tax payer has more VAT input than VAT output, he is ordinarily entitled to a refund. The refund process in Nigeria is actually non-existent. Such excess of input over output is carried over.
- (iii) There is a problem with the recovery of nonresident tax payers where a non-resident company carries out a contract in Nigeria, the contractor is an agent of the government and is empowered to deduct the VAT charged by the contractor before remitting directly to government. The application is that the non-resident has no opportunity to deduct his VAT input. This is also true for government contractor.
- (iv) Zero-rated items are chargeable to VAT but the rate 0% instead of the normal 5% consequently, where a producer of zero-rated items after a return, he will be in a permanent refund system. This will be in vain as the practice is not to refund in Nigeria.
- (v) Many tax payers register for VAT in order to assist in imposing VAT on their customer but such VAT collected are very rarely remitted to the government. This is because of the difficulty of tracking down all registered VAT payers.

EXAMINER'S COMMENT

This is a standard two-part question on Value-Added Tax (VAT). The 'a' part tested candidates' knowledge of the offences and penalties, whilst part 'b' deals with the problems associated with administration of VAT. Less than 25 percent of the candidates attempted the question. About 60 percent of those who attempted the question did well in 'a' part but the general performance in 'b' part was below average.

SOLUTION 5

- (a) Thanny International Plc.
Chargeable Gains for the 2010 Year of Assessment

	N'000
Sales Proceeds	160,000
Less: cost of sale	<u>8,000</u>
Net proceeds	152,000
Less: cost of partial disposal =	
$\frac{N160M \times 560M}{N160M + N585M}$	(120,268)
Chargeable Gain	<u>N31,732</u>

INSIGHT

(b)

The relief available to an individual taxpayer includes:

- (i) personal allowance of ₦5,000 + 20% of earned income
- (ii) Children allowance of ₦2,500 per child to a maximum of four children who must be attending full time education or apprenticed to a trade and whose age must not exceed 16 years.
- (iii) Dependant relative allowance of ₦2,000 each per annum for a maximum of two dependants whose total income should not exceed ₦1,000 per annum each
- (iv) Losses incurred by an individual may be carried forward for a maximum period of four years before it lapses, except the individual is engaged in Agricultural production where it can be carried forward indefinitely.
- (v) Dividends received from a pioneer business
- (vi) Dividend received from a unit trust scheme
- (vi) Life Assurance Premium
- (vii) Disabled Person Allowance

(c)

Allowable Donations

- (i) Donation must be made out of profit
- (ii) It must be made to one of the recognized institutions in schedule 9 of CITA
- (iii) It must not be capital in nature
- (iv) It must not be more than 10% of the total profit before deducting such donation
- (v) It must be wholly, necessary, reasonably and exclusively made in the course of business

EXAMINER'S COMMENT

This is a three-part question. Part 'a', which is a computation question on capital gain tax was attempted by about 96 percent of the candidates. The performance on this part was above average. Part 'b' is on personal Income Tax Relief/Allowances. This part was also attempted by about 95 percent of the candidates, but the performance was below average due to inability to give full details of the allowances. Part 'C' is on allowable donations. About 94 percent of the candidates attempted the question and the performance was above average.

INSIGHT

SOLUTION 6

DICK, TOM AND HARRY COMPUTATION OF ADJUSTED INCOME FOR 2010 YEAR OF ASSESSMENT ½

	DICK	TOM	HARRY
	₦	₦	₦
Interest on Capital	20,000	20,000	20,000
Salaries	-	20,000	24,000
Rental income	24,000	-	-
Interest on loan private passage cost	3,200	1,200	800
Share of computed loss	<u>(51,800)</u>	<u>(14,800)</u>	<u>(7,400)</u>
Adjusted (Loss)/profit	<u>(4,600)</u>	<u>30,400</u>	<u>37,400</u>

Workings:

Computation of adjust profit of the Firm

	₦	₦
Net loss per account		114,800
Add/(deduct)		
Depreciation	80,000	
General provision for doubtful debt	3,200	
Loss on disposal of delivery van	8,000	
Profit on disposal of truck	<u>(1,200)</u>	<u>90,000</u>
Adjusted profit/ (Loss) of the firm		(24,800)
Determination of computed loss of firm adjusted loss of the firm		
Deduct Salaries:		
Tom	20,000	
Harry	<u>24,000</u>	(44,000)
Private postage cost:		
Dick	3,200	
Tom	1,200	
Harry	<u>800</u>	
Computed loss of the firm		<u>(5,200)</u> <u>(74,000)</u>
Share of computed loss:		
Dick (7/10 x 74,000)	<u>51,800</u>	
Tom (2/10 x 74,000)	<u>14,800</u>	
Harry (1/10 x 74,000)	<u>7,400</u>	
Total computed loss shared	<u>(74,000)</u>	

EXAMINER'S COMMENT

This is a good question on Partnership but, the question was attempted by less than 20 percent of the candidates. The general performance was below average. Some of the candidates could not easily determine the accurate profit to be shared among the partners.

INSIGHT

AT/211/PIII.12

EXAMINATION NO:.....

ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA

ACCOUNTING TECHNICIANS SCHEME

PART III EXAMINATION – SEPTEMBER 2011

MANAGEMENT

Time allowed: 3 hours

Insert your examination number in the space provided above

SECTION A - Attempt All Questions

PART I MULTIPLE-CHOICE QUESTIONS (10 Marks)

1. Selling imports at prices that are below the cost of production and distribution is
 - A. Price discrimination
 - B. Hoarding
 - C. Dumping
 - D. Franchise
 - E. Diversification

2. **ONE** of the following is the process by which people select, organise and interpret information to form a meaningful picture of the situation
 - A. Learning
 - B. Motivation
 - C. Perception
 - D. Belief
 - E. Attitude

3. The medium of advertising with high audience selectivity which allows personalisation is
 - A. Newspapers
 - B. Television
 - C. Internet
 - D. Magazines
 - E. Direct mail

4. The software that enables a group of people on a network to collaborate over long distance at the same time is
 - A. Groupware
 - B. Internet
 - C. Extranet
 - D. Telecommunicating
 - E. Teleconferencing

INSIGHT

5. The first stage in the planning process is
 - A. Evaluation
 - B. Establishment of objectives
 - C. Decision making
 - D. Monitoring
 - E. Implementation

6. The principle which states that activities of every member of any organised group should be confined, as far as possible to the performance of a single function is
 - A. The principle of cordination
 - B. The principle of definition
 - C. The principle of specialisation
 - D. The principle of the objective
 - E. The principle of objective

7. Ratios that measure ability to pay short-term obligations are called
 - A. Current ratios
 - B. Profitability ratio
 - C. Leverage ratios
 - D. Liquidity ratios
 - E. Debt ratios

8. The systematic approach to addressing quality issues that involves an integrated, company-wide commitment to quality is
 - A. Total quality management
 - B. Just-in-time system
 - C. High quality system
 - D. Company-wide quality assurance
 - E. Continuous improvement

9. The ability to perform a specialised task involving a particular method or process is..... skill
 - A. Technical
 - B. Human
 - C. Method
 - D. Process
 - E. Conceptual

10. The aspect of the communication process through which message travel is known as
 - A. Sender
 - B. Message
 - C. Encoding
 - D. Channel
 - E. Noise

INSIGHT

PART II SHORT-ANSWER QUESTIONS (30 Marks)

1. The capital cost of money tied up in inventory and the cost of storing them are known as.....
2. Products that are at intermediate stages of completion in the production process are known as.....
3. A hand or electronically operated machine which prints a form of postage stamp on an envelope or paper strip and thus dispenses with the ordinary adhesive postage stamp is called a.....
4. Written communication between managers within an organisation is referred to as.....
5. The aspect of management that deals with making a choice out of developed alternatives is referred to as.....
6. The act of assigning managerial responsibility to a subordinate and guiding him towards successful accomplishment is referred to as.....
7. The authority, responsibility and reporting relationship of job positions of an entity is pictorially presented by.....
8. A network system using computer and internet technologies to connect selected users inside as well as outside the organisation is.....
9. Plans that specify with precision how strategies will be put into effect is called.....
10. In SWOT analysis, those positive aspects or distinctive attributes or competencies which provide a significant market advantage or upon which the organisation can build is known as.....
11. The manager's duty to perform an assigned task is.....
12. The horizontal basis for organising jobs into units in an organisation is referred to as.....
13. The control principle which suggests that managers should be informed of a situation only if control data show a significant deviation from standards is
14. A system designed to collect, combine, compare, analyse and disseminate data in the form of information is.....

INSIGHT

15. A type of control that focuses on assessing the implementation of tactical plans at departmental levels, monitoring associated periodic results and taking corrective action as necessary is called.....
16. The process of stating in quantitative terms (usually in monetary value) planned organisational activities for a given future period of time is.....
17. A positive feeling about one's job resulting from an evaluation of its characteristics is.....
18. The stage in the recruitment process that deals with reducing the number of applicants prior to conduct of interview is referred to as.....
19. The act of branching out into an additional area of business is.....
20. Mc-Clelland's approach to motivation which emphasise the desire to influence or control other people is known as.....
21. Conflict that stimulates team and organisational performance is called.....
22. The process of building and maintaining profitable customer report is called.....
23. Period of product-life-cycle characterised by slow sales growth and non-existence of profit is.....
24. The type of advertising aimed at creating awareness in the minds of prospective customers of the existence of a product or service is.....
25. The activities of designing and producing the container or wrapper for a product is.....
26. The distribution intermediary who creates contractual relationship between the seller and the buyer is referred to as.....
27. A manager's ability to influence a group towards the achievement of a vision or set of goals is called.....
28. A situation in which each party to a conflict is willing to give up something in order to end the conflict is known as.....
29. The economic reward a principal gives to an agent for services rendered is called.....
30. Efforts made by managers to make jobs more interesting, challenging and rewarding is.....

INSIGHT

SECTION B - Attempt any four questions (60 Marks)

QUESTION 1

- (a) Define Ratio analysis. (3 Marks)
- (b) Describe the following financial ratios most commonly used by organisations for decision making.
- (i) Liquidity Ratios.
 - (ii) Leverage/Gearing Ratios.
 - (iii) Activity Ratios.
 - (iv) Profitability Ratios. (12Marks)
- (Total 15 Marks)**

QUESTION 2

Management is a social process involving acquisition and utilisation of resources to achieve organisational performance.

- (a) Describe management as a process. (5 Marks)
- (b) What are the resources employed by organisations? (5 Marks)
- (c) Explain the main dimensions of managerial performance. (5 Marks)
- (Total 15 Marks)**

QUESTION 3

- (a) Distinguish between content and process theories of motivation (8 Marks)
- (b) Explain the contributions of J.S. Adams to the theories of motivation. (7 Marks)
- (Total 15 Marks)**

QUESTION 4

Define the term "Price". Explain the characteristics of pricing strategies for a new product. (15 Marks)

QUESTION 5

- (a) What is an inventory and what are the different forms in which inventory may exist? (12 Marks)
- (b) What is inventory management and what is its objective? (3 Marks)
- (Total 15 Marks)**

QUESTION 6

- (a) What is departmentation? (3 Marks)
- (b) Enumerate and explain the various types of departmentation. (12 Marks)
- (Total 15 Marks)**

INSIGHT

SECTION A

PART 1 MULTIPLE-CHOICE SOLUTIONS

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

EXAMINER'S COMMENT

The candidates showed a clear understanding of the questions and 95 percent of the candidates scored 50 percent and above.

SHORT- ANSWER SOLUTIONS

1. Inventory holding cost OR Inventory carrying costs
2. Work-in-progress OR Work-in-process
3. Franking machine
4. Memorandum
5. Decision making
6. Delegation
7. Organisation chart/Organogram
8. Extranet
9. Action plan
10. Strengths
11. Responsibility
12. Departmentalization
13. Management by exception
14. Management Information System
15. Tactical control
16. Budgeting
17. Job satisfaction
18. Short listing

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19. Diversification
20. Need for power
21. Functional conflict
22. Customer relationship management
23. Introduction
24. Informative advertising
25. Packaging
26. An agent
27. Leadership
28. Compromising
29. Commission
30. Job Enrichment

EXAMINER'S COMMENT

80 percent of the candidates scored below 40 percent. The candidates lacked the necessary management knowledge to answer the questions.

SECTION B

SOLUTION 1

Ratio Analysis seek to extract information from the financial statements in order to assess meaningfully an organisation's financial conditions. It involves showing relationship that exists between/among figures in the financial statements.

Ratio analysis comparisons can be made in the following ways:

- Comparing the present ratio with the past ratio
- Comparing the ratio for your organisation with similar organisations or with the industry.
- Comparing actual ratios with standard ratios to assess performance of an organisation.

The most commonly used ratios are:

- i. Liquidity Ratios:- These are financial ratios that indicate the organisation's ability to meet its current debt obligations.

Examples are: $\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current liabilities}}$

Acid Test or Quick Ratio
 $= \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$

- ii. Leverage/Gearing Ratios:- These refer to the extent to which funding activities are done with borrowed money.

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Such ratios indicate the proportion of debt in the total financial mix of the organisation.

Too much borrowing can put the organisation at risk such that it will be unable to keep up with the repayment of its debt.

Lenders may consider a company with a high debt ratio to be a poor credit risk.

Examples:

$$\text{Debt to Asset Ratio} = \frac{\text{Total Debts}}{\text{Total Assets}}$$

$$\text{Time Interest Earned} = \frac{\text{Profit before (I+T)}}{\text{Total Interest charged}}$$

- (iii) Activity Ratios: These are financial ratios that measure the organisation's internal performance with respect to key activities defined by management.

Examples are:

$$\text{Inventory Turnover} = \frac{\text{Sales}}{\text{Average Inventory}}$$

$$\text{Total Assets Turnover} = \frac{\text{Sales}}{\text{Total Assets}}$$

- (iv) Profitability Ratios:- These are financial ratios that describe the firm's profits in terms of a source of profits such as assets or sales.

Examples:

$$\text{Profit Margin on sales} = \frac{\text{Net Profit}}{\text{Sales}}$$

$$\text{Gross Margin} = \frac{\text{Gross Profit}}{\text{Sales}}$$

$$\text{Return on Investment} = \frac{\text{Net Profit}}{\text{Investment}}$$

EXAMINER'S COMMENT

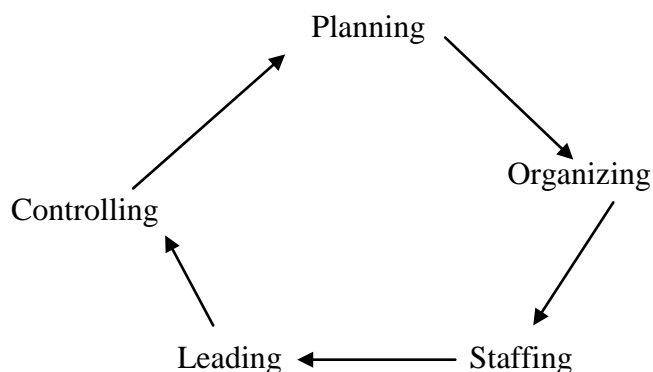
About 90 percent of the candidates attempted the question. However, less than 30 percent of those who attempted the question scored above 50 percent. Most of the candidates could not describe ratio analysis and types plus examples.

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SOLUTION 2

- a. A process is a systematic way of doing things. Management is a social process because all managers irrespective of their aptitudes and skills must acquire and use human and other organizational resources, by engaging in certain interrelated functions in order to achieve the desired goals.

The main functions of management that are interrelated are shown below



- b. The main resources employed by organizations are:
- (i) Men i.e. human resource
 - (ii) Machines i.e. machines and equipment
 - (iii) Materials i.e. raw materials, finished goods, accessories etc
 - (iv) Money i.e. short, medium and long term funds
 - (v) Management i.e. lower, medium and top manager
 - (vi) Method i.e. technology
 - (vii) Information i.e. information for decision making
 - (viii) Market i.e. marketing opportunities
 - (ix) Time i.e. time management
- (c.) Managerial performance can be evaluated from two main perspectives: efficiency and effectiveness. Efficiency is the ability to minimize the use of resources in achieving organizational objectives; “doing things right” Effectiveness is the ability to determine appropriate objectives; “doing the right thing”.

EXAMINER’S COMMENT

About 70 percent of the candidates attempted the question. Majority of the candidates showed a clear understanding of sections (a) and (b). However, sub-section (c) was poorly answered as the majority of the candidates could neither identify nor explain the main dimensions of managerial performance which are efficiency and effectiveness. About 70 percent of the candidates scored above average.

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SOLUTION 3

- a. Content theories emphasize what it is within an individual or his/her environment that energizes and sustains the person's behaviour. They emphasize needs or motives and they include the work of Maslow, McClelland, Alderfer and Herzberg.

Process theories focus on understanding the cognitive processes that act to influence behaviour. Equity and expectancy theories are examples of process theories.

- b. J. S. Adams' Equity Theory:- Equity is a process of motivation which points that people compare their rewards (and inputs) with those of others. The individual is then motivated to engage in behaviour to correct any perceived inequity. At the extreme, feelings of inequity may lead to reduced performance or job turnover.

Equity theory predicts that people who feel either under rewarded or over rewarded for their work will act to restore a sense of equity. The individual will likely engage in one or more of the following behaviours to restore a sense of equity:

- i. Change work inputs
- ii. Change the outcomes
- iii. Leave the situation
- iv. Change the comparison points
- v. Psychologically distort the comparisons
- vi. Take actions to change the inputs or outputs of the comparison person

EXAMINER'S COMMENT

About 60 percent of the candidates attempted the question. The major pitfall was that the candidates could not identify the major differences between content and process theories of motivation. In addition, many of the candidates were unable to explain the specific contributions of J.S. Adams to the general theory of motivation. Less than 50 percent of those who attempted the question scored above average.

SOLUTION 4

PRICE

- Price is the monetary or exchange value attached to a good, service, idea, place or event.
- It is the amount of money needed to acquire a given quantity of goods or services.
- It is the sum of the values that consumers exchange for the benefits of having or using the product or service.

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The Characteristics of:

- a. Market – Penetration Pricing
- Low initial price to enable trial and to encourage purchase
 - Enable firm to penetrate the market, attract many buyers and win large market share.
 - Increased sales volume results in falling price.
 - Low price prevents competitors
 - Producer dominates the market
 - Producer later starts to increase price gradually to pave way for a little margin of profit.
- b. Market-Skimming Pricing:-
- Setting initial high price to appeal to affluent customers who are ready to pay a high price.
 - It generates high initial profit
 - It gives the product a sort of prestige
 - It assists in recouping investment within a short time.
 - The high price is reduced gradually after the affluent had bought so as to draw in price-sensitive segment.
 - The initial sale is small but profit very high.

EXAMINER'S COMMENT

About 55 percent of the candidates attempted the question. Although, majority of the candidates were able to define what price implies, they could not state and explain the two major pricing strategies that can be used at the introductory stage of a new product plus their characteristics. 70 percent of those who attempted the question scored below average.

SOLUTION 5

2(a) An inventory is the stock of items needed to operate the business of an organisation.

Inventory may exist in the following forms:-

- i. Raw materials:- the basic inputs that are transformed into finished goods, e.g. agricultural produce, flour, wheat, etc.
- ii. Work-in-process:- products that are at intermediate stages of completion in the production process. They are otherwise known as semi-finished goods

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and they require further processing to be carried out on them before they become ready.

- iii. Finished Goods:- completely manufactured goods that are ready for sale or consumption.
 - iv. Supplies:- Items that facilitate the production process but which do not become part of the finished goods, e.g., lubricants, tools, cleaning materials, etc.
- (b) Inventory management is the process of making decisions concerning how much inventory to purchase and when they should be purchased. Its objective is to make these two decisions in a manner that will result in the purchase of an optimum quantity of inventory that will minimize the total inventory costs.

EXAMINER'S COMMENT

About 95 percent of the candidates attempted the question. Above 70 percent of those who attempted the question scored above 50 percent. Those who performed poorly took the second part of the question to mean either methods of stock evaluation or different levels of stock.

SOLUTION 6

- (a) Departmentation is the grouping of related jobs or process into major organisational subunits. It is the process of sub-dividing an organisation into smaller units. It is the grouping into department of work activities that are similar and logically connected. It is the clustering of individuals into units and of units into departments and larger units in order to facilitate achievement of organisational goals.
- (b) Types of Departmentation
- i. By Time
 - ii. By Functions
 - iii) By Geographic/Territory
 - iv) By Product
 - v) By Service
 - vi) By Customer
 - vii) By Process
- (i) By Time:- This is grouping of activities on the basis of time. It is applicable where the use of shift duties is practised.
- (ii) By Functions:- This is grouping of work activities on the basis of related functions or specialised activities such as finance related activities are in finance department
- (iii) By Geographic/Territory:- This is the grouping of work activities on the basis of territorial coverage. This is used by organisation that have

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physically dispersed and/or non-interdependent operations or markets to serve e.g. Guinness Plc Regional operations, NB Plc East Regional Operations.

- (iv) By Product:- This is the grouping of work activities into department on the basis of product or product lines being produced and/or sold by the organisation e.g. Brand Manager Soap, NB Plc has Brand Manager Star, Brand Manager Guilder e.t.c.
- (v) By Service:- This is the grouping of work activities that are related into departments on the basis of service rendered e.g. customer service department, current account department, international banking department.
- (vi) By Customer:- This is the grouping of activities to reflect interest of the customer so that their interest and needs can be served better.
- (vii) By Process:- This is the grouping of work activities on the basis of process adopted for the production of the product. For instance, where the process is mechanical it will be called mechanical processing unit.

EXAMINER'S COMMENT

About 95 percent of the candidates attempted the question. 85% of them scored above 50 percent. However, few of the candidates took the question to mean functional departments of an organisation, and this represents a major pitfall in this question.