THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
FOUNDATION EXAMINATION
FUNDAMENTALS OF FINANCIAL ACCOUNTING

SECTION A (Attempt All Questions)

PART I  MULTIPLE-CHOICE QUESTIONS  (20 Marks)

1. Which of the following functions listed below is NOT the role of an accountant?

   A. Directing and co-ordinating the work of book-keeping staff.
   B. Taking vital decisions within the organization.
   C. Providing periodic financial statements for decision making.
   D. Safeguarding and controlling the assets of an organization.
   E. Filing tax and annual returns.

2. The bank column in the cash book shows a credit balance of ₦175,000 at the end of a period. This means………

   A. total left-over of ₦175,000 in cash.
   B. total payment of ₦175,000.
   C. gross receipt of ₦175,000.
   D. overdraft of ₦175,000.
   E. left-over of ₦175,000 in the bank.

3. Which ONE of the following, in a classified form, contains permanent records of all transactions?

   A. Cash Book.
   B. Sales Day Book.
   C. Journal.
   D. Ledger.
   E. Purchases Day Book.

4. When a buyer returns damaged goods to the seller, the buyer receives a ……………

   A. credit note.
   B. pro-forma invoice.
   C. debit note.
   D. consignment note.
   E. goods returned note.
5. The overall responsibility for the accounting information contained in the financial statements of a business organization rests with the………..
   A. Accountant.
   B. Financial Controller.
   C. Auditor.
   D. Managing Director.
   E. Board of Directors.

6. A business marks up its cost by 50%. This would mean a gross profit in percentage of
   A. \(33\frac{1}{3}\) on the cost price.
   B. 50 on the selling price.
   C. \(66\frac{2}{3}\) on selling price.
   D. \(66\frac{2}{3}\) on the market price.
   E. \(33\frac{1}{3}\) on the selling price.

7. Pending the location of errors in the books of accounts which affect the agreement of the Trial Balance, the difference disclosed is normally posted to………..
   A. Adjustment Account.
   B. Holding Account.
   C. Control Account.
   D. Suspense Account.
   E. Transit Account.

8. A subsidiary record is a book
   A. of subsidiary entry.
   B. containing the final account.
   C. of final entry.
   D. of original entry.
   E. found in the ledger.

9. Which of the following is ODD to the class below?
   A. An investor.
   B. An entrepreneur.
   C. A proprietor.
   D. A creditor.
   E. A debtor.
Use the following information to answer questions 10-12

<table>
<thead>
<tr>
<th></th>
<th>N\textcurrency{}</th>
<th></th>
<th>N\textcurrency{}</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance b/d</td>
<td>9,100</td>
<td>Balances b/d</td>
<td>602</td>
</tr>
<tr>
<td>Total Sales</td>
<td>53,410</td>
<td>Total Bank Receipts</td>
<td>45,885</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total Discounts</td>
<td>2,415</td>
</tr>
<tr>
<td>Total Dishonoured Cheques</td>
<td>2,450</td>
<td>Total Returns</td>
<td>910</td>
</tr>
<tr>
<td>Balance c/d</td>
<td>644</td>
<td>Purchases Ledger</td>
<td>2,520</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Balance c/d</td>
<td>13,272</td>
</tr>
<tr>
<td></td>
<td>65,604</td>
<td></td>
<td>65,604</td>
</tr>
<tr>
<td>Balance b/d</td>
<td>13,272</td>
<td>Balance b/d</td>
<td>644</td>
</tr>
</tbody>
</table>

10. What is the title of the ledger account shown above?
   A. Purchases Ledger Account.
   B. Purchases Ledger Control Account.
   C. Sales Ledger Account.
   D. Sales Ledger Control Account.
   E. Sales Journal Control Account.

11. The entry “Purchases Ledger” - N2,520 means
   (i) cash purchases during the period.
   (ii) credit purchases during the period.
   (iii) trade debtors’ balances set off against debts on purchases.
   A. i only.
   B. ii only.
   C. iii only.
   D. i and ii only.
   E. i and iii only.

12. The balance of N13,272 represents
   (i) the sum required to balance the account.
   (ii) amount due to customers.
   (iii) amount due from customers.
   A. i only.
   B. ii only.
   C. iii only.
   D. i and ii only.
13. Which **ONE** of the following may have been recorded in the Cash Book and fails to appear in the bank statement?

A. Bank charges and commission.
B. Cheques issued, presented and cashed.
C. Bank lodgements.
D. Payments made by the bank on a standing order.
E. Opening bank overdraft.

**Use the following information to answer questions 14-16.**

A machine costs ₦360,000 and has a useful life span of n years and an expected disposal value of ₦12,000 with annual depreciation of ₦69,600.

14. Using the straight-line method of depreciation, what is the useful life span of the machine?

A. 3 years.
B. 4 years.
C. 5 years.
D. 6 years.
E. 7 years.

15. Using the reducing balance method, what will be the depreciation charged for Year 2 (ignore residual value)?

A. ₦72,000.
B. ₦57,600.
C. ₦51,600.
D. ₦72,500.
E. ₦69,600.

16. Using the reducing balance method, what will be the net book value of the asset at the end of Year 3?

A. ₦230,400.
B. ₦288,000.
C. ₦208,800.
D. ₦151,200.
E. ₦184,320.

17. A sales of ₦7,710 was recorded in the Sales Day Book as ₦7,071. The error is called ..........

A. error of transposition.
B. error of omission.
C. error of principle.
D. error of original entry.
E. compensating error.

18. Outstanding business rent of ₦15,000 was paid by the proprietor from his purse. The effect on the balance sheet is that ………………..
A. both liabilities and assets are increased.
B. both liabilities and assets are decreased.
C. liabilities are increased, while the assets are decreased.
D. liabilities are decreased, while the assets are increased.
E. both liabilities and assets remain unchanged.

19. The framework for the preparation of financial statements by the Nigerian Accounting Standards Board (NASB) gives five qualitative characteristics which make financial information reliable. These five characteristics are ……………
A. prudence, consistency, clarity, correctness and fairness.
B. accrual basis, going concern basis, consistency, prudence and fair view.
C. faithful representation, neutrality, substance over form and completeness.
D. completeness, clarity, correctness, consistency and fairness.
E. completeness, prudence, neutrality, consistency and timeliness.

20. Users of subsidiary books of accounts are ……………
A. Financial Journalists.
B. Risk Analysts.
C. Cost Accountants.
D. Financial Accountants.
E. Financial Consultants.
PART II  SHORT ANSWER QUESTIONS (20 Marks)

1. What does the credit balance in the bank column of the Cash Book indicate?

2. What is the basis of allotting over-subscribed shares of a company to intending shareholders?

3. What is the basis of valuing stock at the Balance sheet date?

4. An alternative name for control account is ............... 

5. State the accounting document produced by a list of balances extracted from the net balances in the nominal ledger at a given date.

6. When partners maintain fixed capital accounts, the correct accounting entries for a partner’s share of profit is ...........

7. The ground rules used by business entities in presenting financial information are called .........

8. Usman returned defective goods worth ₦30,000 to Yaro Enterprises. This transaction will appear in the Trading, Profit and Loss account of Yaro Enterprises as .................

9. Opening balance in debtors account 500,000
   Opening balance in provision for bad debts 5,000
   Bad debts written off in the year 2,500
   Rate of provision for bad debts in the year 2.5%

   Calculate the amount to be charged in the Profit and Loss account for the provision for bad debts in the year.

10. Opening Total Creditors ₦650,000; Closing Total Creditors ₦410,000; Credit purchases ₦2,000,000; discount received ₦30,000 and Sales Ledger contra ₦350,000. How much was paid to the creditors according to the available information?

11. A class of Preference shares in which dividend rights are carried forward is called ...........
Use the following information to answer questions 12 and 13

Baba and Mama are partners without any partnership agreement. Extracts from their books showed

<table>
<thead>
<tr>
<th></th>
<th>Baba</th>
<th>Mama</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Accounts 1/1/2008</td>
<td>800,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Current Accounts 1/1/2008</td>
<td>200,000</td>
<td>150,000</td>
</tr>
<tr>
<td>Drawings during the year</td>
<td>40,000</td>
<td>80,000</td>
</tr>
<tr>
<td>Salaries</td>
<td>150,000</td>
<td>80,000</td>
</tr>
<tr>
<td>Loan to the business</td>
<td>700,000</td>
<td>-</td>
</tr>
<tr>
<td>Motor vehicle taken over</td>
<td>-</td>
<td>350,000</td>
</tr>
<tr>
<td>The net profit for the year</td>
<td>1,400,000</td>
<td></td>
</tr>
</tbody>
</table>

12. Calculate Baba’s share of profit for the year.

13. Calculate the balance in the Mama’s current Account as at 31/12/2008.

14. “Accountants do not count chickens before they are hatched”. This is based on …… Concept.

15. A deduction from the sales price of goods that is allowed off payments made within specified period of time is ………………..

16. The double entry for refund of unsuccessful share application monies is ……………..

17. A system of setting aside fixed amount of money for petty expenses is …………..

18. The capital sum which represents the difference between the assets and liabilities of a not-for-profit organization is …………..

Use the following information to answer questions 19 and 20

An asset was bought on 1 January 2006 for N600,000 and depreciation was provided annually at 20% on reducing balance basis. Depreciation is charged in the year of disposal on pro-rata basis. The asset was sold for N350,000 on 30 October, 2008.

19. What is the net book value of the asset at the time of disposal?

20. What is the profit or loss on disposal?
SECTION B  ATTEMPT ANY FOUR QUESTIONS  (60 MARKS)

QUESTION 1

The area of Accounting concerned with the preparation and presentation of financial statements is referred to as financial accounting which has its origin in book-keeping.

(a) Briefly distinguish between financial accounting and book-keeping.  (3 Marks)

(b) Who prepares financial statements and who is responsible for the accounting information contained in the financial statements of an economic entity?  (2 Marks)

(c) List TWO objectives of financial accounting in order to meet the needs of the various users.  (2 Marks)

(d) Outline FIVE uses of financial information.  (5 Marks)

(e) Enumerate THREE problems associated with providing financial information.  (3 Marks)

(Total 15 Marks)

QUESTION 2

(a) What is “Depreciation”? Classify it and explain the factors to be considered in assessing the rate of depreciation.  (6 Marks)

(b) What consideration should govern the amount to be provided (if any) for depreciation or diminution in the value of the following assets appearing in a balance sheet?

(i) Goodwill.  (3 Marks)
(ii) Leasehold land and buildings.  (3 Marks)
(iii) Plant and machinery.  (3 Marks)

(Total 15 Marks)

QUESTION 3

The following is a summary of the receipts and payments for the year ended 31 December, 2008 of Shadow Social Club:
Receipts:

<table>
<thead>
<tr>
<th></th>
<th>₦</th>
</tr>
</thead>
<tbody>
<tr>
<td>Club subscriptions</td>
<td>3,825,000</td>
</tr>
<tr>
<td>Donations</td>
<td>337,500</td>
</tr>
<tr>
<td>Christmas dance</td>
<td>191,250</td>
</tr>
<tr>
<td>Bar takings</td>
<td>6,075,000</td>
</tr>
</tbody>
</table>

Payments:

<table>
<thead>
<tr>
<th></th>
<th>₦</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates</td>
<td>202,500</td>
</tr>
<tr>
<td>General expenses</td>
<td>5,895,000</td>
</tr>
<tr>
<td>Bar purchases</td>
<td>4,162,500</td>
</tr>
<tr>
<td>Christmas dance expenses</td>
<td>33,750</td>
</tr>
</tbody>
</table>

Other relevant information at the beginning and end of the year are as follows:

<table>
<thead>
<tr>
<th></th>
<th>01/01/08</th>
<th>31/12/08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscriptions due</td>
<td>200,500</td>
<td>135,000</td>
</tr>
<tr>
<td>Subscriptions paid in advance</td>
<td>11,250</td>
<td>22,500</td>
</tr>
<tr>
<td>Rates owing</td>
<td>101,250</td>
<td>112,500</td>
</tr>
<tr>
<td>Bar stock</td>
<td>450,000</td>
<td>562,500</td>
</tr>
<tr>
<td>Club premises (cost ₦11,250,000)</td>
<td>4,500,000</td>
<td>4,050,000</td>
</tr>
<tr>
<td>Furniture (cost ₦2,250,000)</td>
<td>675,000</td>
<td>450,000</td>
</tr>
<tr>
<td>Bank and cash in hand</td>
<td>360,000</td>
<td>495,000</td>
</tr>
</tbody>
</table>

You are required to prepare the Club’s:

(a) Bar Trading Account for the year ended 31 December 2008. (3 Marks)

(b) Income and Expenditure Account for the year ended 31 December 2008 and a Balance Sheet as at that date. (12 Marks)

(Total 15 Marks)

QUESTION 4

(a) What are Debentures? (2 Marks)

(b) Explain the following terms in relation to Limited Liability Company Accounts:
   i. Calls in arrears
   ii. Shares issued at a discount (4 Marks)
(c) In accordance with the Companies and Allied Matters Act LFN 2004, the share premium may be used in certain circumstances. State TWO of such circumstances. 

(2 Marks)

(d) Bond Plc has an authorized share capital of 240,000,000 shares of ₦1.00 each and has issued 2,000,000 ordinary shares each payable as follows:

- 25k per share payable on application
- 20k per share on allotment
- 30k per share on first call
- 25k per share on final call.

Application and all other call monies were received in full on 31 March 2009, 10 May 2009, 30 June 2009 and 2 July 2009.

Prepare the necessary journal entries to record the foregoing transactions. (7 Marks)

(Total 15 Marks)

QUESTION 5

Yaro, Amaechi, and Shola had been trading as partners for many years sharing profits and losses in ratio 7:5:2. Their partnership agreement provided as follows:-

i. That interest should be paid on capital at 7\(\frac{1}{2}\) % per annum.

ii. No salary shall be paid to the partners

iii. Interest on drawings shall be at 12\(\frac{1}{2}\) % per annum

iv. Shola is guaranteed a minimum share of profits (excluding interest on capital) of ₦32,000 per annum.

The trial balance of the partnership as at 31 March 2009 was as follows:

<table>
<thead>
<tr>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Freehold property (at cost)</td>
<td>300,000</td>
</tr>
<tr>
<td>Furniture and fittings (at cost)</td>
<td>156,000</td>
</tr>
<tr>
<td>Cumm. Depreciation on furniture &amp; fittings at 1/4/08</td>
<td>30,000</td>
</tr>
<tr>
<td>Capital: Yaro</td>
<td>240,000</td>
</tr>
<tr>
<td>Amaechi</td>
<td>160,000</td>
</tr>
<tr>
<td>Shola</td>
<td>80,000</td>
</tr>
<tr>
<td>Stock at 1/4/08</td>
<td>128,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>440,000</td>
</tr>
<tr>
<td>Sales</td>
<td>700,000</td>
</tr>
<tr>
<td>Discount received</td>
<td>9,500</td>
</tr>
<tr>
<td>Discount allowed</td>
<td>14,400</td>
</tr>
</tbody>
</table>
General Expenses 26,000  
Salaries 40,000  
Rates 4,000  
Trade debtors and creditors 263,000 120,000  
Provision for bad debts 26,300  
Drawings: Yaro 50,000  
Shola 36,000  
Current account balance 91,600  

1,457,400 1,457,400

The following additional information are relevant:

i. The current account balances were as follows:
   Yaro : ₦71,600 Credit,
   Amaechi : ₦24,800 Debit,
   Shola : ₦44,800 Credit

ii. The drawings for the year were made as follows:
   Yaro : ₦20,000 on 30 June 2008 and the Balance on 30 November 2008
   Shola : Two equal installments on 30 September 2008 and 1 January 2009

iii. Provision for bad debts is to be reduced to ₦15,780

iv. Stock at 31/3/2009 was valued at ₦96,000

v. Depreciation on furniture and fittings is to be provided at 10% on cost.

You are required to prepare:

(a) Trading, Profit and Loss Appropriation Accounts for the year ended 31 March 2009; and

(b) Balance Sheet as at that date. (15 Marks)

QUESTION 6

Ralie and Kadio entered into a joint venture to buy and sell second-hand cars. Profits and losses were to be shared: Ralie three-fifths, Kadio two-fifths. It was agreed that each party would record his own transactions only.

On 23 September 2008, Ralie purchased two cars for ₦322,000 and ₦420,000. He incurred expenditure of ₦98,000 on repairs and on 4 September 2008 sold one of the
cars for ₦469,000. On 10 September 2008 the other car was sold for ₦525,000, paying the proceeds in each case into his own bank account.

On 14 September 2008, he purchased another car for ₦560,000 and sold it on 30 September 2008 for ₦546,000 the amount he paid over to Kadio who paid it into his bank account.

On 25 September 2008, Kadio purchased a car for ₦245,000 on which he incurred expenditure of ₦56,000 and which he sold on 10 October 2008 for ₦350,000; the amount he paid into his bank account. This car was returned by the purchaser on 20 October 2008 and Kadio paid him ₦322,000 for it. As this car was still unsold, on 30 November 2008, it was agreed that it should be taken over by Kadio at a valuation of ₦315,000.

Other expenditure was incurred by the parties as follows:

<table>
<thead>
<tr>
<th></th>
<th>Ralie</th>
<th>Kadio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance</td>
<td>₦17,500</td>
<td>₦3,500</td>
</tr>
<tr>
<td>Garage</td>
<td>₦14,000</td>
<td>₦7,000</td>
</tr>
</tbody>
</table>

On 30 November 2008, the sum required in full settlement as between Ralie and Kadio was paid by the party accountable.

You are required to prepare:

(a) The Joint Venture account as it would appear in the books of Kadio recording his transactions for the joint venture. (5 Marks)

(b) The memorandum account for the joint venture showing the net profit. (10 Marks)

(Total 15 Marks)
SOLUTIONS TO SECTION A

PART I  MULTIPLE-CHOICE QUESTIONS

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

TUTORIALS

14. Life span = (360,000 - 12,000) ÷ 69,600 = 5 years

15. Cost

360,000
<table>
<thead>
<tr>
<th>Year</th>
<th>Dep (20% × 360,000)</th>
<th>72,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>288,000</td>
</tr>
<tr>
<td>Year</td>
<td>Dep (20% × 288,000)</td>
<td>57,600</td>
</tr>
<tr>
<td></td>
<td></td>
<td>230,400</td>
</tr>
<tr>
<td>Year</td>
<td>Dep (20% × 230,400)</td>
<td>46,080</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16.</td>
<td>Net Book Value at end of Year 3</td>
<td>184,320</td>
</tr>
</tbody>
</table>
PART II SHORT ANSWER QUESTIONS

1. Bank – Overdraft
2. Pro-rata
3. Lower of cost and net realisable cost or total accounts
4. General Journal or total accounts
5. Trial Balance
6. Dr. Profit and Loss Appropriation Account
   Cr. Partner’s Current Account.
7. Generally Accepted Accounting Principles (GAAP)
8. Returns Inwards or Sales Returns
9. ₦7,437.50
10. ₦1,860,000
11. Cumulative Preference Shares
12. ₦557,500
13. ₦377,500
14. Conservatism or Prudence
15. Cash Discount.
16. Dr. Application for Shares Account
   Cr. Cash Book (Bank).
17. Imprest or float
18. Accumulated Fund.
19. ₦320,000
20. Profit of ₦30,000

TUTORIALS

9. Total provision \( (500,000 - 2,500) \times 2.5\% = 12,437.50 \)
   Less: Provision brought forward \( (5,000.00) \)
   \( 7,437.50 \)

10. Total payment to Creditors \( ₦(650,000+2,000,000-350,000-30,000-410,000) = ₦1,860,000 \)
12. Without partnership agreement, provisions of Partnership Act 1890 apply:

Interest is chargeable on loans at 5% and profits or losses are shared equally.

\[
\begin{align*}
\text{Net profit} & : \ 1,400,000 \\
\text{Less: Salaries (150,000 + 100,000)} & : \ (250,000) \\
\text{Interest on loan (700,000 x 5\%)} & : \ (35,000) \\
\text{Baba’s share of profit} (1,115,000 \div 2) & : \ 557,500
\end{align*}
\]

13. Mama’s current account balance (150,000 + 100,000 + 557,500 - 80,000 - 350,000) = 377,500

19. Depreciation

\[
\begin{align*}
2006 \text{ Dep. 20\% x 600,000} & = \ 120,000 \\
2007 \text{ Dep. 20\% x (600,000 – 120,000)} & = \ 96,000 \\
2008 \text{ Dep. (Jan to Oct) 20\% x (600,000) ÷ 12 x 10} & = \ 64,000 \\
\text{Net book value} (600,000 – 280,000) & = \ 320,000
\end{align*}
\]

20. Profit on disposal (350,000 - 320,000)  \(\text{₦}30,000\) profit
SOLUTIONS TO SECTION B

SOLUTION 1

(a) Book-keeping is the art of systematic recording of all monetary transactions in permanent form in order to ascertain the financial position of an undertaking and its relationship to both its proprietors and outside persons with minimum trouble and delay.

Financial Accounting is the process of identifying, recording, classifying, analysing, selecting, measuring, interpreting and communicating economic information of an organization in a permanent form to enable the users make informed decisions.

(b) The Accountant prepares the financial statements, while the directors of an economic entity is responsible for the information contained in financial statements.

(c) In order to meet the needs of the various users, financial accounting has the following objectives:-

(i) To provide necessary support to the various users of accounting information in order to make useful economic and related decisions.

(ii) To effectively control, direct and distribute human and material resources of an enterprise.

(iii) To measure management’s performance and ability to utilise organization’s resources effectively in achieving the primary goal of the enterprise.

(iv) To measure how effectively an enterprise is able to carry out its social and environmental responsibilities.

(d) Usefulness of accounting information:

(i) It provides permanent records for all financial transactions;

(ii) It helps to determine the profitability of the business;

(iii) It assists in providing adequate financial control;

(iv) It helps tax authorities to assess tax liabilities;

(v) It shows the assets and liabilities or the financial position of a business;

(vi) It aids management in decision making; and

(vii) It allows for probity and accountability.
The problems associated with providing financial information are:

i. The need to comply with regulatory laws and practice operating at the time of issuing the accounting information.

ii. It is historical in nature, recording of information after the event. Thus information provided may not be current.

iii. It may be difficult to satisfy the needs of all the end users.

iv. Accounting is expressed in monetary terms only. There is no information as to non-monetary aspects.

v. Window dressing. Sometimes accounting information may not present the true financial situation of the enterprise. Financial statements may indicate that an enterprise is financially healthy, only for the business to become insolvent within the following year.

vi. Sometimes the cost of providing accounting information can be enormous. Costs include salaries and wages of accounts department staff, office stationery, office equipment and other allied costs.

SOLUTION 2

(a) Depreciation is the systematic and periodic allocation of the historical cost or revalued amount less estimated residual value of a depreciable asset over its estimated useful life.

Depreciation is the exhaustion of the effective life of a fixed asset owing to wear and tear or obsolescence. It may be computed as that part of the cost of the asset, which will not be recovered when the asset is finally put out of use.

The objective of providing for depreciation is to spread the expenditure incurred in acquiring the asset over its effective lifetime. The amount of the provision made in respect of an accounting period is intended to represent the proportion of such expenditure which has expired during that period.

Depreciation is sometimes divided broadly into two classes:

i. Internal and

ii. External
Internal depreciation arises from the usage of the assets e.g. wear and tear of plant and machinery.

External depreciation arises from the operation of forces apart from the asset itself. e.g. obsolescence of plant and machinery or change in technology and effluxion of time.

In order to assess the rate of depreciation, consideration must be given to three factors; the cost of the asset, its effective life span and its probable residual value when its effective life comes to an end. The effective life has been defined as the period beyond which it does not pay either to keep the asset in use by repair or to renew a part of it.

(b)i. Goodwill
When the goodwill is impaired, i.e. carrying value is lower than value in use, impairment loss is written off.

Any state of affairs likely to cause diminution in the earnings capacity of the business must be considered such as general economic conditions, continuity of management, ruling rate of interest, growth of competition in the class of business and effluxion of time for the amount to be written off.

ii. Leasehold Land and Buildings
Nature of lease (financial or operating), duration or length of lease, terms of lease, appropriate covenants as to repairs, fixtures and dilapidations.
Where the lease is a long one, the current market conditions of the property and the residual value should be considered.

iii. Plant and Machinery
Cost, estimated useful life, residual value, obsolescence, dependence upon outside factors, danger of loss, effectiveness and regularity of repairs and maintenance, the physical nature such as vibration, careless handling and usage.

SOLUTION 3

SHADOW SOCIAL CLUB
BAR TRADING ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2008

<table>
<thead>
<tr>
<th></th>
<th>₦</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>6,075,000</td>
</tr>
<tr>
<td>Less: Cost of goods sold</td>
<td></td>
</tr>
<tr>
<td>Opening stock</td>
<td>450,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>4,162,500</td>
</tr>
</tbody>
</table>
Closing stock
Gross Profit

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2008

INCOME:
Note   £    £
Bar gross profit          2,025,000
Subscriptions (i) 3,748,250
Donations                337,500
Christmas dance (ii) 157,500

EXPENDITURE:
Rates (iii) 213,750
General expenses          5,895,000
Depreciation – premises  450,000
                      – furniture  225,000  (6,783,750)
Deficit                  (515,500)

BALANCE SHEET AS AT 31 DECEMBER 2008

ACCUMULATED

<table>
<thead>
<tr>
<th></th>
<th>COST</th>
<th>DEP.</th>
<th>NBV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Assets</td>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Premises</td>
<td>11,250,000</td>
<td>7,200,000</td>
<td>4,050,000</td>
</tr>
<tr>
<td>Furniture</td>
<td>2,250,000</td>
<td>1,800,000</td>
<td>450,000</td>
</tr>
<tr>
<td></td>
<td>13,500,000</td>
<td>9,000,000</td>
<td>4,500,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current Assets</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bar Stock</td>
<td></td>
<td>562,500</td>
<td></td>
</tr>
<tr>
<td>Subscriptions due</td>
<td></td>
<td>135,000</td>
<td></td>
</tr>
<tr>
<td>Bank and cash</td>
<td></td>
<td>495,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,192,500</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current liabilities</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscriptions in advance</td>
<td></td>
<td>22,500</td>
<td></td>
</tr>
<tr>
<td>Rates accrued</td>
<td>112,500</td>
<td>(135,000)</td>
<td></td>
</tr>
<tr>
<td>Net Current Asset</td>
<td></td>
<td>1,057,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>5,557,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>========</td>
<td></td>
</tr>
</tbody>
</table>
Accumulated Fund
At 31 December 2007 (iv) 6,073,000
Less Deficit for the year (515,500)
5,557,500

WORKINGS
(i) Subscriptions: ₦3,825,000 + ₦11,250 – ₦200,500 + ₦135,000 - ₦22,500
= ₦3,748,250
(ii) Christmas Dance (₦191,250 – ₦33,750) = ₦157,500
(iii) Rates: ₦202,500 – ₦101,250 + ₦112,500 = ₦213,750
(iv) Accumulated Fund: 31 December 2007
₦200,500 + ₦11,250 – ₦101,250 + ₦450,000 + ₦4,500,000 + ₦657,000 + ₦360,000 = ₦6,073,000

SOLUTION 4
(a) Debentures are written acknowledgements of debts by a company, usually under seal and generally containing provisions for payment of interest and repayment of capital.
(b) i. Calls in arrears are yet to be paid for by the applicants.
    ii. Shares issued at a discount are shares issued at a price below the nominal price or par value. The consent of the court is required for shares to be issued at a discount.
(c) Share premium may be applied for the following:
    i. Paying up unissued shares to be issued as fully paid bonus shares.
    ii. Writing off preliminary expenses
    iii. Writing off the expenses of, or commission paid, or discount allowed on issue of shares or debentures.
    iv. Providing any premium payable on the redemption of redeemable preference shares or debentures.
(d) Journal Entries

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.03.09</td>
<td>Bank account</td>
<td>₦</td>
<td>500,000</td>
</tr>
<tr>
<td></td>
<td>Application for shares account</td>
<td></td>
<td>500,000</td>
</tr>
</tbody>
</table>
Being money received on application for issue of shares

10.05.09
Bank account 400,000
Shares Allotment account 400,000
Being money received on allotment of shares

Application for shares account 500,000
Shares Allotment Account 400,000
Share Capital Account 900,000
Being money received on application and allotment transferred to share capital account

30.06.09
Bank Account 600,000
First Call Account 600,000
Being money received on first call

02.07.09
Bank Account 500,000
Final Call Account 500,000
Being money received on last call

First Call Account 600,000
Last Call Account 500,000
Share Capital Account 1,100,000
Being money received on first and last calls accounts transferred to share capital account

SOLUTION 5

YARO, AMAECHI AND SHOLA
TRADING, PROFIT AND LOSS AND APPROPRIATION ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2009

<table>
<thead>
<tr>
<th></th>
<th>₦</th>
<th>₦</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td></td>
<td>700,000</td>
</tr>
<tr>
<td>Less cost of sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening Stock</td>
<td>128,000</td>
<td></td>
</tr>
<tr>
<td>Add Purchases</td>
<td>440,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>568,000</td>
<td></td>
</tr>
<tr>
<td>Less Closing Stock</td>
<td>96,000</td>
<td>472,000</td>
</tr>
</tbody>
</table>
Gross Profit 228,000
Discount received 9,500
Reduction in provision for bad debts 10,520

Less Expenses
Discount allowed 14,400
General expenses 26,000
Rates 4,000
Salaries 40,000
Depreciation on fixtures 15,600

Net profit 148,020

APPROPRIATIONS
Interest on Drawings: Yaro 3,438
Shola 1,688

Interest on Capital: Yaro 18,000
Amaechi 12,000
Shola 6,000

Share of Profits: Yaro 7/12 x 85,146 (49,668)
Amaechi 5/12 x 85,146 (35,478)
Shola (32,000)

BALANCE SHEET AS AT 31 MARCH 2009

<table>
<thead>
<tr>
<th>FIXED ASSETS</th>
<th>COST</th>
<th>DEP</th>
<th>NBV</th>
</tr>
</thead>
<tbody>
<tr>
<td>N’000</td>
<td>N’000</td>
<td>N’000</td>
<td></td>
</tr>
<tr>
<td>Freehold property</td>
<td>300,000</td>
<td>-</td>
<td>300,000</td>
</tr>
<tr>
<td>Fixtures</td>
<td>156,000</td>
<td>45,600</td>
<td>110,400</td>
</tr>
<tr>
<td></td>
<td>456,000</td>
<td>45,600</td>
<td>410,400</td>
</tr>
</tbody>
</table>

Current Assets
Stock 96,000
Debtors less provision (263,000 – 15,780) 247,220
343,220
Less: Creditors 120,000

Net current assets 223,220

23
<table>
<thead>
<tr>
<th>Financed by:</th>
<th>Yaro</th>
<th>Amaechi</th>
<th>Shola</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>₦240,000</td>
<td>₦160,000</td>
<td>₦80,000</td>
<td>₦480,000</td>
</tr>
<tr>
<td>Current a/c (W1)</td>
<td>₦85,830</td>
<td>₦22,678</td>
<td>₦45,112</td>
<td>₦153,620</td>
</tr>
</tbody>
</table>

**Working**

Current account

<table>
<thead>
<tr>
<th></th>
<th>Yaro</th>
<th>Amaechi</th>
<th>Shola</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance b/f</td>
<td>₦71,600</td>
<td>₦(24,800)</td>
<td>₦44,800</td>
</tr>
<tr>
<td>Share of profits</td>
<td>₦49,668</td>
<td>₦35,478</td>
<td>₦32,000</td>
</tr>
<tr>
<td>Interest on capital</td>
<td>₦18,000</td>
<td>₦12,000</td>
<td>₦6,000</td>
</tr>
<tr>
<td>Interest on drawing</td>
<td>₦(3,438)</td>
<td>₦-</td>
<td>₦(1,688)</td>
</tr>
<tr>
<td>Drawings</td>
<td>₦(50,000)</td>
<td>₦-</td>
<td>₦(36,000)</td>
</tr>
<tr>
<td></td>
<td>₦85,830</td>
<td>₦22,678</td>
<td>₦45,112</td>
</tr>
</tbody>
</table>

**SOLUTION 6**

**RALIE AND KADIO**

(a) In the books of Kadio

**JOINT VENTURE WITH RALIE**

<table>
<thead>
<tr>
<th></th>
<th>₦</th>
<th>₦</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases (cash)</td>
<td>₦245,000</td>
<td>₦Sales</td>
</tr>
<tr>
<td>Expenses (cash)</td>
<td>₦56,000</td>
<td>₦Car taken over by Kadio</td>
</tr>
<tr>
<td>Sales return (cash)</td>
<td>₦322,000</td>
<td>₦Cash</td>
</tr>
<tr>
<td>Insurance</td>
<td>₦3,500</td>
<td>₦</td>
</tr>
<tr>
<td>Garage</td>
<td>₦7,000</td>
<td>₦</td>
</tr>
<tr>
<td>Share of profit</td>
<td>₦56,000</td>
<td>₦</td>
</tr>
<tr>
<td>Cash</td>
<td>₦521,500</td>
<td>₦</td>
</tr>
<tr>
<td></td>
<td>₦1,211,000</td>
<td>₦1,211,000</td>
</tr>
</tbody>
</table>

(b) MEMORANDUM JOINT VENTURE ACCOUNT

<table>
<thead>
<tr>
<th></th>
<th>₦</th>
<th>₦</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ralie:</td>
<td>₦</td>
<td>₦</td>
</tr>
<tr>
<td>Purchases</td>
<td>₦1,302,000</td>
<td>₦Sales</td>
</tr>
<tr>
<td>Repairs</td>
<td>₦98,000</td>
<td>₦Kadio:</td>
</tr>
<tr>
<td>Insurance</td>
<td>₦17,500</td>
<td>₦Sales</td>
</tr>
<tr>
<td>Garage</td>
<td>₦14,000</td>
<td>₦Car taken over</td>
</tr>
</tbody>
</table>

24
Kadio:
Purchases  245,000
Sales return  322,000
Expenses  56,000
Insurance  3,500
Garage  7,000

Share of profit:
Ralie 3/5  84,000
Kadio 2/5  56,000  140,000

2,205,000  2,205,000
PART I  MULTIPLE-CHOICE QUESTIONS  (20 Marks)

1. Which of the following is NOT true of revenue expenditure?
   i. It is incurred in one accounting period.
   ii. Its full benefits are consumed in the period incurred.
   iii. It includes items for replacement and repairs.
   iv. It does not include depreciation.
   
   A. i and iii only.
   B. i and ii only.
   C. ii only.
   D. iii only.
   E. iv only.

Use the following information to answer questions 2 and 3
Onike and Yaba were in partnership sharing profits and losses in the ratio 3:2. Their capitals were N800,000 and N400,000 and their drawings were N36,000 and N24,000 respectively. Net Profit for the year was N1,080,000 before charging 5% interest on capital and 2% interest on drawings.

2. Calculate Onike's share of profit
   A. N612,000
   B. N648,000
   C. N612,720
   D. N720,000
   E. N408,480.

3. Calculate the balance carried down on Onike's Current Account
   A. N572,400
   B. N608,000
   C. N572,000
   D. N616,000
   E. N573,920.
4. Net profit is for Profit and Loss Account, while Surplus is for
   A. Receipt and Payments Account
   B. Receipts and Expenditure Account
   C. Income and Expenditure Account
   D. Club's Trading Account
   E. Revenue and Payment Account.

5. The correct concept of double entry book keeping states that
   A. for every goods received on credit, the seller becomes your creditor
   B. for every debit entry, there must be a corresponding credit entry
   C. for every seller, there must be a buyer
   D. one party receives and another party gives value
   E. purchases and sales are stated separately.

Use the following information to answer questions 6 – 10

<table>
<thead>
<tr>
<th>Raw materials</th>
<th>₦'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening stock</td>
<td>?</td>
</tr>
<tr>
<td>Purchases</td>
<td>2,400</td>
</tr>
<tr>
<td>Cost of raw materials available</td>
<td>2,800</td>
</tr>
<tr>
<td>Closing stock</td>
<td>?</td>
</tr>
<tr>
<td>Cost of raw materials consumed</td>
<td>?</td>
</tr>
<tr>
<td>Direct labour</td>
<td>800</td>
</tr>
<tr>
<td>Direct expense</td>
<td>800</td>
</tr>
<tr>
<td>Factory overhead</td>
<td>480</td>
</tr>
<tr>
<td>Manufacturing cost</td>
<td>4,560</td>
</tr>
</tbody>
</table>

Use the following information to answer questions 6 – 10

<table>
<thead>
<tr>
<th>Raw materials</th>
<th>₦'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening stock</td>
<td>400</td>
</tr>
<tr>
<td>Factory cost of Goods b/f</td>
<td>4,560</td>
</tr>
<tr>
<td>Sales</td>
<td>?</td>
</tr>
<tr>
<td>4,960</td>
<td></td>
</tr>
<tr>
<td>Less: Closing stock</td>
<td>(480)</td>
</tr>
<tr>
<td>4,480</td>
<td></td>
</tr>
<tr>
<td>Gross Profit (20% on sales)</td>
<td>1,120</td>
</tr>
</tbody>
</table>

6. What is the value of raw materials consumed?
   A. ₦4,560,000
   B. ₦2,480,000
   C. ₦2,480,000
   D. ₦2,800,000
   E. ₦2,080,000.
7. What is the Prime Cost?
   A. N3,120,000
   B. N2,400,000
   C. N3,120,000
   D. N4,840,000
   E. N4,080,000.

8. What is the cost of finished goods sold?
   A. N8,100,000
   B. N4,480,000
   C. N5,360,000
   D. N2,400,000
   E. N5,630,000.

9. What is the gross profit for the period?
   A. N9,420,000
   B. N1,320,500
   C. N1,120,000
   D. N9,120,000
   E. N1,152,000.

10. What is the total sales for the period?
    A. N6,800,000
    B. N6,800,500
    C. N7,000,500
    D. N7,000,000
    E. N5,600,000.

11. Which of the following should be included in calculating the adjusted Cash Book balance while preparing a bank reconciliation statement?
    A. Bank charges, commission, and dishonoured cheques
    B. Cheques issued, presented and cashed
    C. Uncredited lodgements and unpresented cheques
    D. Standing orders
    E. Unpresented cheques and credit notes.
12. Which of the items listed below is odd?

A. Furniture & Fittings Account
B. Stock Account
C. Motor Vehicles Account
D. Cash/Bank Account
E. Salaries & Wages Account.

13. When Provision for Depreciation Account is maintained, the annual charge for depreciation shall be………….. 

A. debited to Provision for Depreciation Account and credited to Profit and loss Account
B. debited to Asset Account and credited to Profit and Loss Appropriation Account
C. debited to Asset Account and credited to Profit and Loss Appropriation Account
D. debited to Profit and loss Account and credited to Provision for Depreciation Account
E. debited to Profit and Loss Account and credited to Asset Account.

14. If the opening stock is understated…………..

A. goods available for sale and gross profit would be understated
B. goods available for sale would be overstated and gross profit understated
C. goods available for sale and gross profit would be overstated
D. goods available for sale would be understated and gross profit overstated
E. cost of goods sold would be overstated and gross profit understated.

15. An office equipment bought on credit would first be entered by the purchaser in the………….. 

A. Returns Outward Book
B. Purchase Day Book
C. Journal Proper
D. Sales Day Book
E. Returns Inward Book.
16. Payment of salaries to partners is...........
   A. an appropriation of items on current account
   B. an appropriation of items on capital account
   C. an appropriation of divisible profit
   D. a charge to Trading Account
   E. a charge to Profit and Loss Account.

17. Which of the following will a supplier send to a customer whose invoice was undercast?
   A. Notification Note
   B. Way Bill
   C. Credit Note
   D. Debit Note
   E. Invoice.

18. Subscription received in advance is classified in the Balance Sheet of a club as...........
   A. Tangible asset
   B. Intangible asset
   C. Long-term liability
   D. Fixed asset
   E. Current liability.

Use the following information to answer questions 19 and 20
A sole proprietor paid rent of ₦54,000 for 15 months ending 31 May, 2009. He prepares his final accounts to 31 December.

19. How much out of the rent paid is chargeable to the Profit and Loss Account for the year ended 31 December, 2008.
   A. ₦54,000
   B. ₦36,000
   C. ₦43,200
   D. ₦32,000
   E. ₦28,000.

20. The portion carried forward in the Balance Sheet as at 31 December, 2008 is ₦...... and disclosed as a .......
   A. ₦10,800; Fictitious asset
   B. ₦18,000; Current liability
C.  ₦10,800; Current asset  
D.  ₦18,000; Current asset  
E.  ₦18,000; Tangible asset.

**PART II  SHORT ANSWER QUESTIONS (20 Marks)**

1. The opening and closing Capital of Zona Enterprises is ₦1,000,000 and ₦1,200,000 respectively. The proprietor made drawings of ₦150,000 during the year. What is the profit or loss made for the year?

2. What is the document prepared by a current account customer of a bank in order to agree and explain the reasons for the difference between the cash book and bank statement balances as at a particular date?

3. Customer’s cheque not paid by the paying Bank is called………..

4. The term used in describing the reduction in the quantity of available deposits of a wasting asset, as they are being extracted is…………

5. In accounting for goods on consignment, the consignee that guarantees the consignor that all the trade debts will be collected and, should any prove to be bad, that he [consignee] will bear the loss is…………

6. What type of concession that deals with special freedom granted by an inventor of technological innovation to others at an agreed fee for a specific period?

7. What are the necessary accounting entries to record cash withdrawn for personal use by the owner of a business?

8. State the primary source of entry into the Debtors ledger.

9. Given a purchase invoice showing 5 items at ₦4,000 each, less trade discount of 5% and cash discount of 2½%. The amount to be paid by the customer within the credit period is…………

10. Mallam Musa bought goods worth ₦8,000 and sold at a margin of 20% on selling price. How much did he sell the goods?

**Use the following information to answer questions 11 and 12**
A Motor Vehicle bought for N1,600,000 has a scrap value of N200,000. Its annual depreciation is N280,000, using straight-line method. If the asset is sold for N730,000 at the end of the third year:

11. What is the expected useful life span of the Motor Vehicle?

12. What is the Profit or loss on disposal of the Motor Vehicle?

13. What effect will wrong classification of revenue expenditure as Capital expenditure have on Net profit of a profit making Organization?

**Use the following information to answer questions 14 and 15**

A business whose assets consisted of stock N1,500,000 and Debtors N800,000 was bought by issuing 4,000,000 Ordinary Shares of 50k each at a premium of 20%.

14. What is the purchase consideration?

15. What is the amount of goodwill on the business purchased?

16. The person who is responsible for the formation of a company is called the……..

17. The accounting term used to describe the excess of current assets over current liabilities is .............

18. In accounting for containers, what are the accounting entries necessary to record the purchase of new containers for cash in the books of the manufacturer using the stock approach?

19. What are the necessary accounting entries to record cash stolen from branch takings in the books of the Head Office?

20. A Company issued 15,000 8% Debentures at 98. What is the interest payable on the debentures per annum?
SECTION B - ATTEMPT ANY FOUR QUESTIONS (60 MARKS)

QUESTION 1

The role of an Accountant within an economic entity is vital and cannot be brushed aside, as he produces the Financial Statements to meet the requirements of various users.

(a) What do you understand by ‘an economic entity’? Give relevant examples. (5 Marks)

(b) List FOUR important roles of an accountant within an economic entity. (4 Marks)

(c) List THREE characteristics each of Financial Statements as to the contents and presentation of information therein. (6 Marks)

(Total 15 Marks)

QUESTION 2

“Inventories should be valued at the lower of cost and net realizable value” - SAS 4 - Stocks.

(a) Discuss FOUR methods of valuing stock. (8 Marks)

(b) Distinguish between ‘Cost’ and ‘Net realizable value’. (8 Marks)

(c) Write a short note on “replacement” cost emphasizing its applicability or otherwise in these days of rising prices. (3 Marks)

(Total 15 Marks)

QUESTION 3

“Once the Trial Balance agrees, it is assumed that it contains no arithmetical errors or mistakes. At times the Trial Balance may agree and yet contain arithmetical errors”.

(a) Define Trial Balance. (3 Marks)

(b) What do you understand by the statement in quote above? (2 Marks)

(c) Briefly explain the five major errors that do not affect the balancing of the Trial Balance. (10 Marks)

(Total 15 Marks)
**QUESTION 4**

The following balances were extracted from the books of Atlas Enterprises for the year ended 30 September, 2009:

<table>
<thead>
<tr>
<th></th>
<th>₦</th>
<th>₦</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock … 1 October 2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw materials</td>
<td>105,500</td>
<td></td>
</tr>
<tr>
<td>Finished goods</td>
<td>347,000</td>
<td></td>
</tr>
<tr>
<td>Work-in-progress</td>
<td>76,000</td>
<td></td>
</tr>
<tr>
<td>Purchases: Raw materials</td>
<td>227,000</td>
<td></td>
</tr>
<tr>
<td>Motor Vehicle expenses</td>
<td>11,000</td>
<td></td>
</tr>
<tr>
<td>Depreciation:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant &amp; machinery</td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td>Motor Van</td>
<td>8,000</td>
<td></td>
</tr>
<tr>
<td>Factory expenses</td>
<td></td>
<td>50,000</td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td>1,800,000</td>
</tr>
<tr>
<td>Wages</td>
<td></td>
<td>254,500</td>
</tr>
<tr>
<td>Rent &amp; rates</td>
<td></td>
<td>40,000</td>
</tr>
<tr>
<td>Salaries</td>
<td></td>
<td>35,000</td>
</tr>
<tr>
<td>Selling expenses</td>
<td></td>
<td>6,800</td>
</tr>
<tr>
<td>Market value of goods produced</td>
<td></td>
<td>700,000</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td></td>
<td>65,000</td>
</tr>
</tbody>
</table>

**Additional information:**

25% of Rent and rates is for the office; 30% of Salaries is for the foreman in the factory.

Stocks as at 30 September, 2009: Raw materials ₦87,700; Finished goods ₦320,000; Work-in-Progress ₦65,000

**Required:**
Prepare the firm’s Manufacturing, Trading, Profit and Loss Accounts for the year ended 30 September, 2009 in **vertical form.** (15 Marks)

**QUESTION 5**

Desco Ltd issued 100,000 ordinary shares of ₦1.00 each at ₦1.40 per share payable as follows:

(i) 35 kobo on application
(ii) 65 kobo on allotment (including premium)
(iii) 40 kobo on first call.

All the monies were received on due dates except for 10,000 shares not paid on first call. The holders of 10,000 shares failed to pay up and after some reminders, the shares were forfeited. The shares were re-issued at 75 kobo per share and all the monies were received.
Required:

(a) Prepare Journal entries to record the above transactions. (11 Marks)
(b) State the purposes for which the share premium account may be applied. (4 Marks)
(Total 15 Marks)

QUESTION 6

Babariga acquired the rights to run a quarry from a parcel of land owned by Ajonibode.

The agreement provided for:

(a) Payment of royalty of ₦40 per tonne of granite quarried.
(b) A minimum payment of ₦2 million per annum.
(c) Recoupment rights (for short workings) to be extinguished at the end of the third year.

During the first four years of the contract, the following quantities of granite were produced:

<table>
<thead>
<tr>
<th>Year</th>
<th>Tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>40,000</td>
</tr>
<tr>
<td>2006</td>
<td>48,000</td>
</tr>
<tr>
<td>2007</td>
<td>54,000</td>
</tr>
<tr>
<td>2008</td>
<td>56,000</td>
</tr>
</tbody>
</table>

Babariga’s accounting year ends on 31 December and payment to Ajonibode is made on the 1 January following the year end.

You are required to prepare:

(i) The Royalty Accounts. (4 Marks)
(ii) Ajonibode Accounts. (7 Marks)
(iii) The Short Working Recoverable Account. (4 Marks)
(Total 15 Marks)
SOLUTIONS TO SECTION A

PART 1  MULTIPLE-CHOICE QUESTIONS

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

2. Net profit  
   Interest on Drawings (720 + 480)  
   5% interest on capital (40,000 + 20,000)  
   Profit available for sharing  
   1,080,000  
   1,200  
   (60,000)  
   1,021,000  
   
   Share of profit: Onike (3/5x1,021,200) = 612,720

3. Onike Current Account (612,720 + 40,000) - (36,000 + 720) 616,000

6. Value of raw materials consumed  
   = manufacturing cost – direct labour – direct expense – factory overhead  
   = N(4,560 – 800 – 800 – 480) x 1000 = 2,480,000

7. Prime cost = manufacturing cost – overheads  
   = 4,560,000 – 480,000 = N4,080,000

8. Cost of finished goods sold  
   = opening stock of finished goods + factory cost of goods – closing stock  
   = (400 + 4560 – 480) x 1000 = N4,480,000

9. Gross Profit = 20%  
   = \( \frac{20}{80} \times 100\% \) of cost = 25% of cost  
   = 25% of cost of finished goods sold  
   = \( \frac{25}{100} \times 4,480,000 \) = N1,120,000

10. Total sales = cost of goods sold + Gross profit  
    N4,480,000 + N1,120,000 = N5,600,000

19. N54,000 ÷ 15 months = N3,600 per month.

   For 2008 = N3,600 × 10 months = 36,000
PART II SHORT ANSWER QUESTIONS

1. Profit of N350,000
2. Bank reconciliation statement
3. Dishonoured Cheque
4. Depletion.
5. Del-credere consignee or agent
6. Patents / Franchise
7. Dr: Drawings Account   Cr: Cash Book
8. Sales Invoices
9. N18,525
10. N10,000
11. 5 years
12. Loss of N30,000
13. Overstates the profit
14. N2,400,000
15. N100,000
16. Promoter
17. Working Capital/Net Current Assets
18. Dr: Containers Stock Account  and Cr: Cash Book
19. Dr: Defalcations Account and  Cr: Branch Stock Account
20. N120,000
TUTORIALS:

1. \[(1,200,000 + 150,000 - 1,000,000) = 350,000\]

9. \[4,000 \times 5 \times 95\% \times 97.5\% \rightarrow 18,525\]

10. 20\% on selling price = 25\% on cost; 25\% of N8, 000 = N2, 000

   Selling Price = N8, 000 + N2, 000 = N10, 000

11. \[(1,600,000 - 200,000) \div 280,000 = 5\]

12. \[730,000 - [1,600,000 - (280,000 \times 3)] = -30,000\]

14. \[4,000,000 \div 2 \times 1.2 = 2,400,000\]

15. \[2,400,000 - 1,500,000 - 800,000] = 100,000

20. \[15,000 \times 100 \times 8\% = 120,000\]
SOLUTIONS TO SECTION B

SOLUTION 1

(a) **An economic entity** is a separate and distinct organization within the society e.g. banks, companies, government parastatals, student organizations, and charitable organizations. There are two types of economic entities; profit motivated entities, e.g. banks, retail stores and not-for-profit motivated entities, e.g. churches, mosques, NGOs. The entities of the first type are referred to as business entities, the second not-for-profit entities.

(b) **The Accountant** performs the following roles within an economic entity:-

(i) Directing and co-ordinating the work of the book-keeping staff.

(ii) Designing and maintaining accounting systems and procedures adequate for the need of the particular business.

(iii) Providing information such as periodic financial statements in a form which will be of assistance to the management, not only in appraising past results, but also in formulating future policies and strategies.

(iv) Advising the management of any organization. By careful and scientific analysis of accounting records, he can bring to light significant facts which will enable errors in management policies to be rectified and economic reforms carried out.

(v) Safeguarding the assets of the organization by providing necessary controls that will prevent and possibly detect fraud.

(vi) Completing and filing necessary returns with relevant government authorities and agencies.

(c) **The Characteristics of Financial Statements**

• With regards to content of financial statements the three main attributes are:

(i) **Relevance:** To be useful, information must be relevant to the decision making needs of users at a particular point in time. Information has the quality of relevance when it has the ability to influence the decision of users by helping them evaluate past, present or future events or confirming or correcting their past evaluations. Some financial information
are relevant because they help to make predictions about the future, whereas some are relevant because of what they convey about the past. Past information is only truly relevant if it helps users make predictions. Information which provides confirmation of previously made predictions will certainly help in this task.

(ii) **Materiality:** Information that is not material cannot be useful. Information is said to be material if it could influence users’ decisions taken on the basis of the financial statements. This quality requires the accountant to put himself in the minds of potential users and make judgements about their decision needs.

(iii) **Reliability:** Reliable information must tell the comprehensive truth. The truth must be of such nature that users can be reasonably assured of its verifiability. Information has the quality of reliability when it is free from material error and bias and can be depended upon by the users to represent faithfully what it either purports to represent.

• **With regards to presentation:**

Faithful representation may be regarded as describing the closest that accountants can come towards total accuracy. The degree of uncertainty associated with an item must not be so great as to warrant its exclusion from the financial statements. Should accountants have only two choices: give their “best guess” or simply “leave it out”? One criterion for reliable information should be “that users should be able to assess what degree of confidence may be reposed in it”. Verifiability is a characteristic that is essential in the minds of more knowledgeable users of financial statements. Users’ confidence in the information provided by financial statements is enhanced by the knowledge that it has been verified by a qualified independent observer [auditor] who is independent of the person responsible for the presentation of the financial statements. The credibility of information is enhanced if it is independently verified. Hence faithful representation should include the following:

(i) **Substance over form:** It describes the need to define a transaction or event in term of its commercial reality even when this differs from the strict legal position, e.g. an enterprise recognising as a liability an amount yet to be due on hire purchase transaction and regarding the asset as its own.

(ii) **Neutrality:** The information presented should be unbiased, in that it should meet all users’ needs. The perception of the measurer should be neutral so as not to be biased towards the interest of any user group. Financial statements
are not neutral if they include information that has been presented in such a way as to influence the making of an economic decision in order to achieve a predetermined result.

(iii) **Prudence:** This is the inclusion of a degree of caution in the exercise of the judgement needed in making estimates required under conditions of uncertainty, such that income or assets are not overstated and expenses or liabilities are not understated.

(iv) **Timeliness:** In some cases it may take some time for all aspects of a transaction or an event to be known, but to defer the report until all is known will make it arrive too late for necessary action to be taken. Accounting information must be presented in time to meet the needs of the users. Late information is useless.

(v) **Completeness:** Information in financial statements must be complete within the bounds of materiality and cost.

(vi) **Comparability:** The ability of users to compare the results of an enterprise over time (time series analysis), and to compare the result of different enterprises (cross-sectional analysis). The second of these desirable attributes is in part achieved by adherence to accounting standards, but accounting still involves choice and, in making choices, the accountant must be aware of the wish of users to be able to make comparison.

(vii) **Consistency:** To enhance comparability, presentation of information in the financial statements must be consistent. This requires that the measurement and display of financial effects of like transactions must be carried out in a similar way from one accounting period to the next. Undue rigidity should, however, be avoided as the desire for consistency should not be used as an excuse to fail to implement new accounting policies, should these be more appropriate to circumstances of the enterprise. Users should be made aware of the change and given an estimate of the effect of the change on the financial statements.

(viii) **Disclosure:** Entities should disclose the accounting policies used in the preparation of financial statements and, if a policy is changed, the financial effect of that change. Users need to compare results over time. It is necessary for financial statements to show corresponding information for one or more accounting periods.
(ix) **Understandability:** An essential quality of the information provided in the financial statements is that it should be readily understandable by users. An understandable presentation requires that items are aggregated and classified in an appropriate way. The Companies and Allied Matters Act LFN 2004 specifies the format of the published financial statements. Accounting standards also specify the structure of the financial statements. Understandability calls for the provision, in the clearest possible form, of all the information which more knowledgeable users can make use of and the parallel presentation of the main features for the use of the less knowledgeable users. The judgment about appropriateness depends on the extent to which disclosure of more detailed information is useful to users, and the aim should be to ensure that the appropriate use of aggregation is to produce financial statements to convey information.

(x) **Cost and Benefit:** There is a need to balance the benefit of providing information against the cost. Accounting legislations and standards must also consider the cost of producing information as well as the conflicting needs of the different interest groups.

**SOLUTION 2**

(a) Cost consists of all outlays incurred in bringing items to their present location and condition. The following are some of the methods of valuing stock:

(i) **Specific identification**
   Items of stock are specifically identified by particular attributes and assigned values.

(ii) **Weighted Average**
    Closing stock is assigned a value determined by a weighted average of the cost of opening stock and all acquisitions during the period. Calculations may be made on a continuous basis after each acquisition or at fixed intervals.

(iii) **First-In-First-Out (FIFO)**
    This is a method of computing the value of closing stock based on the assumption that the first items in stock acquired are the first ones used in production or consumed.

(iv) **Last-In-First-Out (LIFO)**
    This is a method of computing the value of closing stock based on the assumption that the last items purchased are the first issued or consumed.
(v) **Standard Cost**
This method values closing stock using carefully selected parameters to pre-determine what cost should be.

For this method to reflect actual cost as far as possible, a system of allocating variances as well as review of the standard cost must be in constant use.

(vi) **Base Stock**
Under this method, minimum level of stock, carried at the historical cost of acquisition, is held at all times. However, any additions to or excesses over the base stock are carried at different bases, e.g. FIFO, LIFO.

(vii) **Latest Purchase Price**
Under this method, the value of closing stock is determined by applying the cost of the latest item purchased to the number of items on hand.

(viii) **Adjusted Selling Price (Retail Inventory Method)**
This is a method of determining the value of closing stock by estimating the historical cost using the gross profit margin percentage on the retail value of items or group of items in stock. The amount so determined is then deducted from the retail price to arrive at the value of the stock.

(b) Cost as determined above can easily be distinguished from the corresponding net realizable value because the latter is the estimated proceeds of sale less all additional cost incurred up to the point of completion, marketing, selling and distribution of an item of stock. All things being equal, cost should be less than ‘net realizable value’. But where market conditions reverse this situation then stock should be valued at ‘net realizable value’ rather than cost. This accords with the generally accepted accounting principle of prudence, i.e. recognizing potential losses and accounting for them at the earliest opportunity whilst not taking profit until earned.

(c) Replacement cost is the amount at which an identical stock could be bought or manufactured having regard to normal purchasing or production quantities and conditions. It is not usual to use replacement cost in valuing stock even in times of rising prices but it provides a very useful guide to management in determining the stock levels and thereby assisting in better working capital management. If items of stock have been held for some time and prices have risen considerably, it is often useful to ‘revalue’ usually using replacement cost and putting the valuation surplus in a capital reserve which should be depleted as the stock item is consumed or otherwise disposed of.
SOLUTION 3

(a) A Trial Balance is a list of net balances extracted from the General Ledger at a particular date in order to ascertain the arithmetical accuracy of entries in the accounts.

(b) Once a Trial Balance agrees, it is assumed that it contains no arithmetical errors or mistakes. At times the Trial Balance may agree and yet contain arithmetical errors. It means an agreed Trial Balance is therefore said to give only a prima facie proof of accuracy. The following errors do not affect the balancing of the trial balance.

(i) Error of Omission. This error occurs when a transaction is completely omitted from the books of accounts. That is, the transaction was not recorded in the subsidiary books, completely omitted from the General Ledger and thus not included in the Trial Balance.

(ii) Error of Original Entry. This error occurs where the original figure is incorrect, yet double entry is still observed using this incorrect figure. That is, an incorrect figure being extracted from source documents to books of original entry (e.g. from an invoice to the Purchases Day Book), and from there posted to the credit side of the Creditors account and the debit side of the Purchases account in the General Ledger.

(iii) Error of Commission. This type of error occurs when the correct amount is entered but in the wrong person’s account. That is, when two persons have the same name, e.g. J. Moses of Kano is being debited with goods supplied to S. Moses of Lagos. It will be noted that the correct class of account was used, both the accounts concerned being personal accounts.

(iv) Compensating Error. Where errors cancel each other out. If a debtor [debit] account was added up to be N5,000 more and a creditor [credit] account was also added up to be N5,000 more, these two errors would cancel out in the Trial Balance. This is because the totals of both the debit and credit sides of the Trial balance will be N5,000 more. This is where the debit and the credit sides of accounts are overstated or understated by the same amount.

(v) Error of Principle. This error commonly occurs as a result of failure to appreciate the difference between capital and revenue expenditure. That is, when an item is entered in the wrong class of account, e.g. if purchase
of a fixed asset such as a van is debited to an expense account such as motor expenses account.

(vi) **Complete Reversal of Entries.** Where the correct accounts are used but each item is shown on the wrong side of the account. This is when an item is posted to the wrong side of an account, i.e. a credit entry posted to the debit side and vice-versa. Suppose a cheque was received from Lere Dauda a debtor, the double entry of which is debit Cash Book [Bank] and credit Lere Dauda with the amount. In error, it is entered as credit Cash Book and debit Lere Dauda with the amount. The Trial Balance totals will still agree.

**SOLUTION 4**

**ATLAS ENTERPRISES**  
**MANUFACTURING, TRADING, PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 SEPTEMBER, 2009**

<table>
<thead>
<tr>
<th>Category</th>
<th>N</th>
<th>N</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td></td>
<td></td>
<td>1,800,000</td>
</tr>
<tr>
<td>Raw Materials:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening stock</td>
<td>105,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>227,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: Closing Stock</td>
<td>87,700</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Materials Used</td>
<td>244,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages</td>
<td>254,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prime Cost</td>
<td>499,300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overheads:</td>
<td></td>
<td>100,500</td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent &amp; Rates</td>
<td>30,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary: Foreman</td>
<td>10,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation: Plant &amp; Machinery</td>
<td>10,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of production</td>
<td>599,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work-in-Progress - 1 Oct.</td>
<td>76,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work-in-Progress - 30 Sept.</td>
<td>(65,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of goods manufactured</td>
<td>610,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing Profit</td>
<td>89,200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market value of goods manufactured</td>
<td>700,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Finished Goods:
Opening Stocks 347,000
Manufactured 700,000
1,047,000
Less: Closing stock 320,000 727,000
Gross Profit 1,073,000
Manufacturing Profit 89,200 1,162,200
Rent & Rates 10,000
Admin Expenses 65,000
Salaries 24,500
Vehicle Expenses 11,000
Selling Expenses 6,800
Depreciation: Motor Vans 8,000 125,300
Net Profit 1,036,900

Notes:

Factory Office
Rent & Rates [75% x N40,000] 30,000 [25% x N40,000] 10,000
Salaries [30% x N35,000] 10,500 [70% x N35,000] 24,500

SOLUTION 5

(a) DESCO LTD – JOURNAL ENTRIES

Bank Account
DR CR
Application and Allotment Account 35,000
Application and Allotment account 35,000
Ordinary share capital account 35,000
Being application money transferred to ordinary share capital account

Application and allotment account 65,000
Ordinary share capital account 25,000
Share premium account 40,000
Being allotment of 100,000 ordinary shares
<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank account</td>
<td>65,000</td>
</tr>
<tr>
<td>Application and allotment account</td>
<td>65,000</td>
</tr>
<tr>
<td>Being amount received on allotment of 100,000 shares</td>
<td></td>
</tr>
<tr>
<td>First call account</td>
<td>40,000</td>
</tr>
<tr>
<td>Ordinary share capital account</td>
<td>40,000</td>
</tr>
<tr>
<td>Being amount called-up on 100,000 shares</td>
<td></td>
</tr>
<tr>
<td>Bank account</td>
<td>36,000</td>
</tr>
<tr>
<td>Call in arrears account</td>
<td>4,000</td>
</tr>
<tr>
<td>First call account</td>
<td>40,000</td>
</tr>
<tr>
<td>Being amount received on first call and the amount of default.</td>
<td></td>
</tr>
<tr>
<td>Forfeited shares account</td>
<td>4,000</td>
</tr>
<tr>
<td>Call in arrears account</td>
<td>4,000</td>
</tr>
<tr>
<td>Being forfeiture of 10,000 shares for non-payment of 1st call money</td>
<td></td>
</tr>
<tr>
<td>Share capital account</td>
<td>10,000</td>
</tr>
<tr>
<td>Forfeited shares account</td>
<td>10,000</td>
</tr>
<tr>
<td>Being amount called up on 10,000 shares before forfeiture</td>
<td></td>
</tr>
<tr>
<td>Forfeited shares account</td>
<td>10,000</td>
</tr>
<tr>
<td>Share capital account</td>
<td>10,000</td>
</tr>
<tr>
<td>Being re-issue of shares earlier forfeited</td>
<td></td>
</tr>
<tr>
<td>Bank account</td>
<td>7,500</td>
</tr>
<tr>
<td>Forfeited shares (re-issue) account</td>
<td>7,500</td>
</tr>
<tr>
<td>Being amount received on re-issue of forfeited shares.</td>
<td></td>
</tr>
<tr>
<td>Forfeited shares account</td>
<td>3,500</td>
</tr>
<tr>
<td>Premium account</td>
<td>3,500</td>
</tr>
<tr>
<td>Being premium on reissue of forfeited shares</td>
<td></td>
</tr>
</tbody>
</table>

(b) Share premium account may be applied as follows:

1. Paying up unissued shares to be issued as fully paid bonus shares.
2. Writing off preliminary expenses.
3. Writing off the expenses of, or commission paid, or discount allowed on issue of shares or debenture.
4. Providing any premium payable on the redemption of redeemable preference shares or debenture.
# SOLUTION 6

**Babariga books of accounts**

**Royalties Payable Account**

<table>
<thead>
<tr>
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<th>Year</th>
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**(ii) **

**Ajonibode’s Account**

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|         |              | 4,240,000 |

49
### Short Workings Recoverable Account

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SECTION A (Attempt All Questions)

PART I  MULTIPLE-CHOICE QUESTIONS  (20 Marks)

1. The three arms of government are the
   A. House of Assembly, House of Representatives and Senate.
   B. Executive, Legislative and Judiciary.
   C. High Court, Court of Appeal and Supreme Court.
   D. President, Chief Justice of Nigeria and Local Government Chairman.
   E. Magistrate, Police and Military.

2. The 1999 Constitution of the Federal Republic of Nigeria is
   A. written.
   B. unwritten.
   C. fluid.
   D. type written.
   E. hand written.

3. A Tort is a
   A. civil wrong.
   B. crime.
   C. wrong under international law.
   D. juristic personality wrong.
   E. wrong under the repugnancy doctrine.

4. An Offer may be revoked anytime
   A. before the death of the offeror.
   B. before the death of the offeree.
   C. before acceptance.
   D. before termination.
   E. after acceptance.

5. The display of goods in a supermarket is
   A. an offer.
6. Which of the following is the legal term for an unconditional and absolute agreement with the terms of an offer?
   A. Concurrence
   B. Conjugal
   C. Cohabiting
   D. Coincidence
   E. Acceptance.

7. An agent who can do all acts on behalf of the principal is called a/an …………… agent.
   A. nominal.
   B. authorized.
   C. complete.
   D. overall.
   E. general.

8. Which of the following is not an essential formality in a contract of Sale of Goods?
   A. An account with a bank
   B. A seller who is an owner
   C. Goods which are movable or severable
   D. Transfer of property but not necessarily possession
   E. A buyer who is capable of buying.

9. A Hire Purchase agreement is a contract of hire coupled with
   A. a commitment to purchase
   B. an undertaking to purchase
   C. an option to purchase
   D. a desire to purchase
   E. a license to purchase.

10. For which ONE of the following is insurance a mechanism?
    A. Prevention of accident
    B. A means whereby the insured is assured of some payment or
compensation in the event of the occurrence of loss
C. Enhancement of the value of the insured interest
D. Payment of premiums for future income
E. Support for the police in security management.

11. What is the name of the meeting which a public company must hold within six months of incorporation?
A. Annual General Meeting
B. Class Meeting
C. Statutory Meeting
D. Extra Ordinary General Meeting
E. Shareholders’ Meeting.

12. A proxy is
A. a person appointed to act on behalf of a member of a meeting.
B. a friend of the Directors.
C. an absent Shareholder.
D. a Liquidator of a Company.
E. a Promoter of the Company.

13. The document of incorporation that creates a contract between the company and its members is called
A. Memorandum of Association.
B. Register of Directors.
C. Articles of Association.
D. Register of Shareholders.
E. Minutes of Meeting.

14. The Object Clause of a company is found in the
A. Memorandum of Association.
B. Articles of Association.
C. Certificate of Incorporation.
D. Register of Charges.
E. Directors’ Service Contracts.

15. In which of the following situations can a partner not bind the partnership and other parties?
A. Give a guarantee in the firm’s name
B. Instruct a solicitor to recover the firm’s debts
C. Engage staff for the firm
D. Give receipts on behalf of the firm
E. Borrow money on the firm’s credit.

16. A retiring partner may be discharged from being liable for the firm’s existing debts only by ……..

A. an agreement.
B. an agreement between the partners.
C. an agreement between the retiring partners, the remaining partners and the firm’s creditors.
D. an agreement between the retiring partner and the firm’s creditors.
E. a novation by all the partners.

17. The main objective of the Money Laundering Act 2004, is to ……..

A. discourage infusion of illegal drug money into genuine regular financial transactions.
B. discourage stealing of public funds.
C. prevent banks from becoming illiquid.
D. discourage bank managers from becoming corrupt.
E. make EFCC’s investigation less cumbersome.

18. Title in a negotiable instrument may pass by ……

A. delivery only.
B. signing only.
C. sealing only.
D. being signed and sealed.
E. delivery coupled with sealing.

19. Who of the following cannot be appointed a trustee?

A. Individual persons
B. An infant
C. Trust corporations
D. Public trustee
E. Judicial trustee.

20. In bankruptcy, which of the following is the meaning of Adjudication order?

A. An order restraining the creditor from seizing the goods of debtor
B. An order of the court which makes the debtor bankrupt and causes his property to vest in a trustee for the benefit of his creditors
C. An order which empowers the creditors to attach the property of the debtor
D. An order empowering the official receiver to sue the debtor
E. An adjunct treaty.
PART II  SHORT ANSWER QUESTIONS (20 MARKS)

1. The Court of Appeal is bound by the decision of the

2. The doctrine of judicial precedent means that all subordinate courts, while deciding similar matters, are bound to follow decisions of

3. Holding a master liable for the primary liability established against his servant, is known as

4. State the type of contract which is valid in all respects but upon which the parties cannot sue themselves in court due to failure to follow some technical legal procedures or requirements.

5. State the type of contract which is signed, sealed and delivered, witnessed and upon which an action for breach must be brought within twelve years.

6. What is the legal contractual status of advertisements in newspapers offering goods and services for sale?

7. The insanity or of the principal or the agent are circumstances that will terminate an agency relationship.

8. Goods to be manufactured, identified and agreed upon or acquired by the seller after making the contract are called

9. Where the hirer relies on the skill and judgment of the owner, there is generally an implied condition about the goods as to

10. An insurance contract is one in which the insurer agrees to pay money or to provide in cash or kind on the happening of the insured contingency or event.

11. The document that governs the external relationship of a company and defines the extent of its power and range of activities is the

12. A contract entered into by a company before its registration is known as

13. A list of the registers and documents which every company is required to keep under Companies and Allied Matters Act (CAMA) is called
14. The securities of a company are…………….,and………….

15. For how long may a partnership in contravention of registration carry on business before falling into penal default?

16. How would you describe a partnership with the main object of smuggling rice into Nigeria?

17. How many parties are there to a Bill of Exchange?

18. A Bill of Exchange drawn on a banker payable on demand is called ………….

19. State any ONE way by which a trust may be created.

20. Certainty of words and certainty of objects are essentials of a…………….
QUESTION 1

(a) Chandi, an Indian, has been carrying on business in Nigeria for over ten years. Recently, he was discovered to have imported several goods into Nigeria without paying the appropriate Custom and Excise duties on the goods. He was arrested, detained and tried before the Federal High Court. In his defense, he stressed that since he is not a Nigerian, he ought not to be tried under Nigerian laws, but rather the Indian laws should be applied to him simply because he had stayed over ten years in Nigeria. In addition, since India and Nigeria are both Commonwealth countries, they have a common source of laws.

Advise Chandi. (6 Marks)

(b) State any THREE rules of statutory interpretation. (6 Marks)

(c) List the THREE essential elements of the tort of negligence. (3 Marks)

(Total 15 Marks)

QUESTION 2

(a) Define counter-offer and enumerate any FOUR methods of terminating an offer. (6 Marks)

(b) Chief Obelawo and Otunba Dawodu are prominent businessmen residing at Ibadan and Kano respectively. On 1 August 2009, Chief Obelawo phoned Otunba Dawodu to make inquiries about the availability of certain chemical components required in one of his factories and requested that the terms of the sale be posted to him as soon as possible. On 3 August 2009 Otunba Dawodu caused a letter of offer in respect of the goods to be posted to Chief Obelawo which was received on 15 August 2009 and he immediately replied. The letter of acceptance was duly posted on 16 August 2009. In the meantime, a very close personal and business friend of Otunba Dawodu in Kano required the same type of chemical components urgently and the Otunba sold all the available ones to him on 9 August 2009. On the second day, 10 August 2009, Otunba Dawodu sent a letter of revocation of the offer to Chief Obelawo. The letter of Chief Obelawo’s acceptance was received on 25 August 2009 while the Chief Dawodu’s letter of revocation was received on 20 August 2009.

You are required to determine whether or not there was a valid and binding contract between Chief Obelawo and Otunba Dawodu. (9 Marks)

(Total 15 Marks)
QUESTION 3

(a) List any FIVE types of agent. (5 Marks)

(b) State FIVE kinds of authority that an agent may have. (5 Marks)

(c) What is non-indemnity insurance? (2 Marks)

(d) List any THREE categories of indemnity insurance. (3 Marks)

(Total 15 Marks)

QUESTION 4

A new company that pays attractive dividends to its members has caught the attention of Chief Oloto and members of his family. Chief Oloto wants your advice on how he (Chief Oloto) can become a member of the company.

Required:

(a) State any THREE ways Chief Oloto can become a member of the company. (6 Marks)

(b) In what TWO ways can Chief Oloto pay for his shares, if eventually made a member? (4 Marks)

(c) List TWO types of shares that Chief Oloto can subscribe for, stating for each, their main characteristics. (5 Marks)

(Total 15 Marks)

QUESTION 5

(a) State any FIVE circumstances which will result in the dissolution of a partnership without an order of court. (10 Marks)

(b) The partnership business of Umukoro and Umoto can now only be carried on at a loss as a result of a new regulation by the Central Bank of Nigeria;

i. What effect would this have on the partnership? (3 Marks)

ii. Advise the partners on how to achieve this effect. (2 Marks)

(Total 15 Marks)

QUESTION 6

(a) The Money Laundering Act 2004 imposes a duty on every financial institution to extract information, from every individual customer, involved in cash transactions of sums greater than ₦1,000,000.00.
State any **THREE** specific information which a financial institution must extract from a customer in compliance with this provision. *(4 Marks)*

(b) If the financial institution decides to carry out the above transaction involving over ₦1,000,000.00, what are the three steps required of it by the Act? *(6 Marks)*

(c) List **FIVE** main duties of a Trustee under a Trust. *(5 Marks)*

*(Total 15 Marks)*
SOLUTIONS TO SECTION A

PART 1 MULTIPLE-CHOICE QUESTIONS

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

1. Supreme Court of Nigeria
2. Superior Courts
3. Vicarious liability.
4. Unenforceable contracts
5. Specialty contract
6. Invitation to treat
7. Death
8. Future goods
9. fitness for purpose
10. Compensation
11. Memorandum of Association
12. Pre-Incorporation Contract
13. Statutory Books
14. Shares and Debentures
15. 14 days
16. An illegal partnership
17. Three
18. A cheque
19. By declaration or By conveyance or By will
20. Valid trust
SOLUTIONS TO SECTION B

SOLUTION 1

(a) This question involves a discussion of the laws applicable in Nigeria and whether or not Nigerian Laws are binding on foreigners like Chandi.

A foreigner is bound by Nigerian laws any time he is within the territory of Nigeria, and he must comply with the provisions of Nigerian laws.

Indian laws are not part of Nigerian laws, and are never among the sources of Nigerian laws. Therefore, they are inapplicable here in Nigeria, even though both countries are members of the Commonwealth.

The length of time a person stayed in a country has no relevance to the laws that will be applicable to him in that country.

Chandi is bound by Nigerian laws, and as such was properly tried under the Nigerian laws.

(b) The rules of statutory interpretation include the following:
   i. literal rule
   ii. golden rule
   iii. mischief rule
   iv. general or miscellaneous rule
   v. *ejusdem generis* rule

(c) The three essential elements of the tort of negligence are:
   i. the existence of a duty of care
   ii. the breach of that duty of care, and
   iii. damage suffered as a result of the breach of duty of care.

SOLUTION 2

(a) A counter-offer is any material modification of the original offer and it destroys that offer.

An offer may be terminated by any of the following:
(i) Revocation;
(ii) Lapse of time;
(iii) Death of either party;
(iv) Rejection;
(v) Counter-offer; and
(vi) Non-Acceptance.

(b) The issue in this question is revocation of an offer.

An offer may be revoked anytime before acceptance.

Where an offer is made by post, the mode of acceptance is also deemed to be by post. An acceptance by post becomes effective when the letter of acceptance, which is properly addressed and stamped, is dropped in the post office box whether or not it gets lost on the way.

A revocation by post becomes effective only when it is actually received by the offeree.

In this case, the acceptance became effective on 16 August 2009, when Chief Obelawo posted his letter of acceptance, while Otunba Dawodu’s revocation became effective on 27 August 2009 even though it was dated 10 August 2009.

There was, therefore, a valid and binding contract between Chief Obelawo and Otunba Dawodu since effective acceptance pre-dated revocation.

**SOLUTION 3**

(a) The following are different types of agent:
   (i) Special agent
   (ii) An auctioneer
   (iii) A factor agent
   (iv) General agent
   (v) An estate agent
   (vi) A del-credere agent
   (vii) A broker.

(b) The following are different kinds of authority of an agent:
   (i) Actual authority
   (ii) Usual authority
   (iii) Customary authority
   (iv) Apparent authority
   (v) Presumed authority
(c) Non-indemnity insurance is long-term insurance represented by life assurance.

(d) Indemnity insurance is short-term insurance and the various categories are as follows:

(i) Fire insurance;
(ii) Motor vehicle;
(iii) Marine and aviation;
(iv) General accident; and
(v) Oil and gas.

**SOLUTION 4**

a. Chief Oloto can become a member of the new company in the following ways;

(i) By applying for shares in the company;
(ii) By the transfer of shares to Chief Oloto, by an existing member of the company followed by registration of the shares; and
(iii) If the new company inadvertently enters in the register of members the name of Chief Oloto, and he gives his consent.

b. Chief Oloto can pay for the shares in the new company by

(i) payment of cash or
(ii) a valuable consideration other than cash.

c. The two types of shares Chief Oloto can subscribe to are:

(i) **Preference Shares**: This will entitle Chief Oloto to a fixed preferential dividend.

(ii) **Ordinary Shares**: This carries the remaining of distributed profits after the preference shareholders have been paid their fixed dividend.

**SOLUTION 5**

The following circumstances will result in the dissolution of a partnership without a court order:

(a)(i) If entered for a fixed period, at the expiration of the period;

(ii) If entered into for a single transaction, at the completion of the transaction;

(iii) By notice of a partner to the others to dissolve it;

(iv) Bankruptcy of any of the partners;

(v) Death of any of the partners;
(vi) Where a partner causes his share of the partnership property to be charged for his separate debts; and
(vii) At the occurrence of an event which renders the partnership an unlawful undertaking.

b(i) The effect of the new regulation by the Central Bank of Nigeria on a partnership where its business can only be carried on at a loss, is to dissolve the partnership.

(ii) The partners are advised to apply to a court for an order dissolving the partnership.

SOLUTION 6

(a) The specific information which a financial institution must extract from an individual customer in relation to a transaction involving a sum greater than ₦1,000,000.00 under the Money Laundering Act, 2004 are:

i. The origin of the funds;
ii. The destination of the funds;
iii. The aim of the transaction; and
iv. The identity of the beneficiary.

(b) If the financial institution decides to carry out the transaction, the Act requires it to:

i. Draw up a written report containing all the relevant information on the transaction together with the identity of the principal and of the beneficiary;
ii. Take appropriate action to prevent the laundering of drug money; and
iii. Send a copy of report and action taken to the Central Bank of Nigeria.

(c) The main duties of a Trustee under a Trust are:

(i) **To bring the trust property into his possession:**
   The Trustee should search for the property of the settlor and keep them for the benefit of the beneficiaries;

(ii) **To choose authorized investments:**
    The Trustee is under a duty to exercise reasonable care and diligence in the choice of investments. He must not exceed the power conferred on him by the trust instrument;

(iii) **To keep accounts and produce them to the beneficiaries when required:**
The Trustee must show evidence of prudent management of the trust property;

(iv) **Not to delegate his duties:**

The Trustee must carry out his duties under the trust instrument personally; and

(v) **Not to profit from the trust property:**

The Trustee must not engage in any activity in which he will derive personal profit at the expense of the beneficiaries of the trust.
1. The 1999 Constitution of the Federal Republic of Nigeria can be described as
A. rigid.
B. flexible.
C. flexibly rigid.
D. rigidly flexible.
E. fluid.

2. The 1999 Constitution of the Federal Republic of Nigeria became operative on
A. June 12, 1999.
B. October 1, 1999.
C. January 1, 1999.
D. December 31, 1999.
E. May 29, 1999.

3. To say that a wrong is actionable *per se* means
A. it is incapable of any financial remedy.
B. the courts will not grant any injunction in the matter.
C. nominal damages will be awarded without proof of damage.
D. exceptional remedies will be awarded upon presentation of receipts for losses suffered.
E. the wrong is statute barred.

4. An acceptance of a contract which is made subject to a condition will become effective when the condition is
A. terminated.
B. fulfilled.
C. abated.
D. changed.
E. agreed upon.
5. A mis-directed offer will become effective when the
   A. offer is made.
   B. offer is posted.
   C. offer is actually received.
   D. offer has not lapsed.
   E. offeror phones the offerree.

6. Which of the following has been defined as some right, interest, profit or benefit accruing to one party or some forbearance, detriment, loss or responsibility given, suffered or undertaken by the other?
   A. Consideration
   B. Offer
   C. Acceptance
   D. Invitation to tender
   E. Agreement.

7. Where one person purports to act for another person and that other person later accepts responsibility for his action in relation to third parties, the type of agency created is known as…………
   A. estoppel agency.
   B. express agency.
   C. agency by ratification.
   D. operation of law.
   E. special agency.

8. Existing goods which have been identified and agreed upon at the time the contract is made are called
   A. ascertained goods.
   B. specific goods.
   C. valuable goods.
   D. non-perishable goods.
   E. Existing goods.

9. A hirer who returns the goods hired under a hire purchase agreement is under no liability to
   A. pay further instalments.
   B. enter into a fresh contract.
   C. negotiate a new price.
D. manage the goods hired.
E. conclude another transaction.

10. The first basic characteristic of insurance is the element of

A. assurance.
B. losses.
C. failure.
D. suspense.
E. uncertainty.

11. The word “Company” is generally used to refer to a body or an association of persons with

A. distinct legal personality.
B. dealings with Corporate Affairs Commission.
C. dealings with Directors of a company.
D. partners in a partnership.
E. insured interest in a contract of Insurance.

12. Apart from Companies and Allied Matters Act (CAMA), which is the other main source of our Company Law?

A. Customary Law
B. Rules of common law and equity
C. Criminal law
D. Land use Decree
E. Maritime Law.

13. The liability of a member in a Limited Liability Company is limited to

A. the amount, if any, unpaid on his shares.
B. the amount which he has agreed to contribute.
C. the amount decided by directors of the company.
D. an amount which the Corporate Affairs Commission decides.
E. an amount imposed by the court.

14. The minimum number of members required by law for a public limited liability company is

A. 2.
B. 7.
C. 10.
D. 50.
E. Infinity.

15. A partner who has retired from a partnership can avoid liability for the debts of the partnership on the ground of his being held out as a partner by ..........

A. giving notice to all remaining partners.
B. writing letters to all active partners.
C. an advertisement in a gazette.
D. a circular letter to all staff of the firm.
E. ensuring that the partnership is dissolved.

16. Partners may be entitled to interest on their capital in the absence of an agreement thereto, only ........

A. when they are dormant partners.
B. when they are active partners.
C. when it is a limited partnership.
D. when profits have been ascertained.
E. before the ascertainment of profits.

17. Every Bank in Nigeria must forward to the Central Bank of Nigeria its Balance Sheet and Profit and Loss Account duly signed within

A. six months after the end of its financial year.
B. four months after the end of its financial year.
C. three months after the end of its financial year.
D. two months after the end of its financial year.
E. one month after the end of its financial year.

18. The person who originates a bill of exchange is the

A. drawer.
B. drawee.
C. payee.
D. acceptor.
E. deliverer.

19. Which of these is not a type of Trust?

A. Public Trust
B. Express Trust
C. Constructive Trust  
D. Resulting Trust  
E. Oral Trust.

20. The person who benefits from a Will is known as

A. beneficiary.  
B. trustee.  
C. executor *de son tort.*  
D. testator.  
E. witness.
PART II SHORT ANSWER QUESTIONS (20 MARKS)

1. The reasoning, principles or grounds upon which a decision in a case is arrived at is called.................

2. Chapter 4 of the 1999 Constitution of the Federal Republic of Nigeria deals with fundamental ..............

3. People who jointly commit a tort are called..................

4. State the date when a revocation letter dated 6 January and received on 17 January would be effective, even though the offeree had accepted the offer on 14 January.

5. What is the effect of the death of the offeree on an offer which has not been accepted before the death?

6. Apart from the offeree himself, who else may communicate an acceptance to the offeror?

7. Since agency relationship falls under contract ‘uberrimae fidei’, it means the agent owes a general duty of ............. and care.

8. In the case of unascertained goods, the overriding rule is that __________ does not pass to the buyer until the goods are ascertained.

9. Under a hire purchase agreement, the owner is under an obligation to have a good ............. to the goods.

10. A husband has an .......... interest in his wife under the Insurance Law.

11. A written acknowledgement of indebtedness by a company, setting out the terms and conditions of the indebtedness and creating a charge on the assets of the company is known as ..................


13. The type of meeting held by a company to discuss issues that cannot wait until the next Annual General Meeting is called..................

14. What is the minimum number of directors which a private limited liability company must have?
15. For purposes of liability, what is the difference between a partner and his firm?

16. The primary reason why a partnership exists is ...........

17. The process of transferring a Bill of Exchange from one person to another so that the transferee becomes the holder of the Bill is known as............

18. A person who originates a negotiable instrument upon a deemed promise that the instrument will be accepted on due presentation is called........

19. A person who is neither an Executor nor an Administrator but assumes control and starts to administer the estate of the deceased is called an ...................

20. A Trustee appointed by the Settlor at the creation of a Trust is known as an.............
SECTION B - ATTEMPT ANY FOUR QUESTIONS (60 MARKS)

QUESTION 1

(a) State any **TWO** of the methods of proving customary law. (4 Marks)

(b) Olu married Titi under the native law and custom. He paid the dowry and did all the necessary marriage formalities. But prior to the marriage, Titi already had two children for another man, John, but she was never married to John. Olu claimed that under native law and custom, the two children born by Titi for Olu, belonged to him because John did not pay any dowry over Titi. John equally wants the children.

Advise the parties. (8 Marks)

(c) What do you understand by Vicarious Liability? (3 Marks)

(Total 15 Marks)

QUESTION 2

(a) Enumerate three of the circumstances when past consideration will be regarded as good and acceptable consideration. (6 Marks)

(b) Mr. Okonkondem is a very wealthy businessman. On a Sunday evening, he was driving along Ikorodu Road on his way to Lagos International Club when a man dashed across the road. He swerved violently to avoid hitting the man without success.

The man later died in the hospital. In the meantime, the Police arrested Mr. Okonkondem and charged him to Court for dangerous driving and manslaughter.

Haruna and Tope were the only two witnesses to the incident but they refused to come to court to give evidence in favour of Mr. Okonkondem. The Police, therefore, applied for and obtained a subpoena to compel them to appear in court. In addition, Mr. Okonkondem promised each of them ₦100,000.00. After this, they appeared in court and Mr. Okonkondem was discharged and acquitted but later reneged on his promise. They have decided to sue him for breach of contract.

Advise Mr. Okonkondem. (9 Marks)

(Total 15 Marks)
**QUESTION 3**

(a) List **FIVE** categories into which goods can be classified.  

(5 Marks)

(b) Maritime Fisheries Limited ordered some consignments of stockfish from Fishtrade Limited. It was stated in the sale contract that the stockfish were to be delivered in June and July. Fishtrade could not deliver the stockfish until September. Maritime Fisheries Limited has rejected the stockfish but Fishtrade wants to sue for the price of the fish.

Advise the parties.  

(5 Marks)

(c) Exotic Cars Limited hired a car to Mr. Benson on hire purchase terms. Mr. Benson defaulted in paying the instalment for two months.

Exotic Cars Limited has resumed the possession process of the car and want to sue Mr. Benson, not only for the amount of instalments outstanding, but also the balance of the purchase price.

Advise the parties.  

(5 Marks)

**QUESTION 4**

Kofi, a Togolese, Tunde and Segun are desirous of forming a company for the purpose of constructing low cost houses for interested members of their community in Nigeria. The three friends have chosen the name KTS Building Society Limited as the name of the company.

**Required:**

(a) State **FIVE** legal requirements which the foreigner, Kofi, must comply with before he can join in the formation of the company.  

(10 Marks)

(b) Advise the parties on the propriety of choosing the name KTS Building Society Limited.  

(3 Marks)

(c) What steps should be taken if the company intends to change its name after registration?  

(2 Marks)

**QUESTION 5**

Sam is the managing partner of a firm where the other partner, Mike, is dormant. The Articles of Partnership provide that “a partner acting in the partnership business shall be entitled to reasonable remuneration”.  

(15 Marks)
Sam, a month ago, in annoyance, introduced Alfred as a new managing partner following Mike’s refusal to sign cheques for Sam’s salaries on the ground that Section 6 of the Partnership Act provides that “no partner shall be entitled to remuneration for acting in the partnership business.”

**Required:**
(a) Comment on the validity of the introduction by Sam of a new managing partner. (5 Marks)
(b) Is Mike right in refusing to sign cheques for Sam’s salaries? Explain. (5 Marks)
(c) Would the answer to (b) above be different if there was no Partnership Agreement between the parties? Give reasons. (5 Marks)

**(Total 15 Marks)**

**QUESTION 6**

(a) Differentiate between a Cheque and a Bill of Exchange, by listing any **THREE** ways in which they are different. (6 Marks)
(b) What do you understand by a Bearer Cheque and an Order Cheque? (5 Marks)
(c) Explain the term, Personal representative. (4 Marks)

**(Total 15 Marks)**
SOLUTIONS TO SECTION A

PART 1 MULTIPLE-CHOICE QUESTIONS

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

1. *ratio decidendi*
2. Rights
3. Joint tort – feasors
4. 17 January
5. Termination of the offer/End of the transaction
6. Any person authorized by him
7. Good faith
8. Property/Ownership
9. title
10. Insurable
11. Debentures
12. Board of Directors and Shareholders in General Meeting
13. Extraordinary General Meeting
14. Two
15. None
16. Profit-making
17. Negotiation
18. A drawer
19. Executor *de son tort*
20. Original Trustee
SOLUTIONS TO SECTION B

SOLUTION 1

(a) The methods of proving customary law include:

(i) By judicial Notice
(ii) By evidence through witnesses
(iii) Through books or manuscripts
(iv) Through Assessors by the Court.

(b) The native law and custom should be subjected to the repugnancy rule, that is, is the law in consonance with natural justice, equity and good conscience?

A law which gives a man’s children to another man who is not their natural father, as his own children, is not a good law.

Such law is repugnant to natural justice, equity and good conscience, irrespective of the reasoning.

Payment of dowry/bride price is not a good ground to take over somebody else’s children.

Any native law and custom that is repugnant to natural justice, equity and good conscience will not be applicable in any decent society. The natural father of those children should have them back.

(c) Vicarious liability occurs when an employer is held liable for the fault of his employee(s). The employee must have done a wrong or, he must have been negligent while acting in the course of his employment.

The employer has not committed any wrong, or, he has no fault himself.

However, if the employee is on a frolic of his own or, he has completely abandoned his employer’s duty/business, then, the employer will not be vicariously liable.

SOLUTION 2

(a) The circumstances when past consideration will be regarded as good and acceptable consideration include the following, where:
(i) It has been agreed that the plaintiff would receive compensation before his performance;

(ii) The transaction involves a Bill of Exchange;

(iii) The transaction involves a written acknowledgement of a statute-barred debt; and

(iv) Services have been rendered at the express or implied request of the defendant who subsequently promised a reward.  

(b) The issue involved in this case is sufficiency of consideration.  

Consideration is one of the essential ingredients generally required for a valid contract. 

However, the consideration must be sufficient, that is, it must be one that is acceptable in law as a valid consideration since performance of a duty imposed by law is not a sufficient or valid consideration. 

Since Haruna and Tope were subpoenaed and therefore had a duty in law to give evidence in court, the performance of that duty did not constitute a sufficient consideration for Chief Okonkondem’s promise to pay them N100,000 each. They cannot, therefore, succeed in their proposed action.  

SOLUTION 3

(a) Goods can be classified into five categories as follows:
   i. Existing goods;
   ii. Specific goods;
   iii. Future goods;
   iv. Ascertained goods; and
   v. Unascertained goods.

(b) Since the parties agreed that the delivery would be in June and July, Fishttrade Limited is under an obligation to deliver the stockfish within that period. In the case of Amadi V. Thomas Aplin & Co. Limited (1972), consignments of stockfish were to be delivered in Port Harcourt in June and July. The goods could not be delivered as stipulated. The Supreme Court held that the plaintiff was entitled to reject the goods and repudiate the contract. In this case, Fishttrade is advised not to sue Maritime Fisheries Limited because the company has acted according to law.
(c) The issue in this case is the right of the owner to recover the possession of the goods on hire under a hire purchase agreement upon default by the hirer.

Under the hire purchase law, the owner can only retake or resume possession of the goods and claim the outstanding instalments. He cannot insist on having the balance of the hire purchase price since not all the instalments are due.

Thus, where the owner resumes possession of a motor car after the hirer had defaulted in paying the instalments, and he sues the hirer not only for the amount of instalments outstanding, but also for the balance of the purchase price; the court held that, in resuming possession of the motor car, the owner has satisfied himself against the hirer. 

(G. B Ollivant v. Akinsanya (1930)

Therefore, Exotic Cars Limited can only resume possession of the car claim the outstanding instalments; but it cannot sue for the balance of the purchase price.

SOLUTION 4

(a) Kofi, a foreigner, must satisfy the following requirements before he can join in the formation of the company.

i. Apply for and obtain a Business Permit.
ii. Apply for and obtain Approved Status which enables him to repatriate his profit.
iii. Get approval for Expatriate Quota.
iv. Obtain Residence Permit.
v. Comply with the provisions of Securities and Exchange Commission Act.
vi. Comply with the provisions of the Nigerian Enterprises Promotion Act.

(b) The Company can only use the name KTS BUILDING SOCIETY LIMITED if it obtains the consent of the Corporate Affairs Commission. This is so, because such a name will come under the category of names regarded as restrictive names under the Companies and Allied Matters Act (CAMA).

(c) The company can change its name after registration by taking the following steps:

i. The company must pass a special resolution to that effect; and
ii. The approval of the Corporate Affairs Commission in writing must be obtained.

(Total 15 Marks)
**QUESTION 5**

(a) The Partnership Act forbids the introduction by any person of a new partner to a partnership without the consent of all existing partners. (Section 7). The introduction, by Sam of a new managing partner is without the consent of Mike and, therefore, in breach of the provision of the Partnership Act, which makes it invalid.

(b) The general position of the law on partnerships is that no partner is entitled to remuneration for acting in the partnership business. This may, however, be varied by agreement of the parties in the Partnership Deed, as in this case.

Therefore, since the Articles of Partnership between Sam and Mike has expressly varied the law by providing that a partner acting in the business of the partnership shall be entitled to reasonable remuneration, Mike cannot refuse to sign the cheques for Sam’s salaries on the grounds that Section 6 of the Partnership Act forbids remuneration to partners. Mike’s refusal is not right.

(c) The answer to (b) above, would be different if there had been no Partnership Agreement between the parties. This is because the Partnership Act which forbids remuneration to partners acting in the business of the partnership would then regulate the situation. In that case, Mike’s refusal would be right.

**QUESTION 6**

(a) The differences between a Cheque and a Bill of Exchange include:

(i) There is no need for the acceptance of Cheque as the drawee of a Bill of exchange would, since the bank on whom a Cheque is drawn is under duty to honour its customer’s Cheque, every other thing in respect of the Cheque being in place;

(ii) Only cheques can be crossed. A Bill of Exchange needs no crossing;

(iii) Cheques are drawn only on banks while a Bill of Exchange may be drawn on anybody;

(iv) Cheques are used in domestic trade while Bills of Exchange are used in international trade; and

(v) A banker is protected by law against forged and unauthorized endorsements of a Cheque; the drawee of a Bill of Exchange is not.
(b) A Bearer Cheque is one payable to the person bearing the cheque and not because his name is on the cheque. It is a cheque endorsed in blank and payable to no particular person.

On the other hand, an Order Cheque is a cheque drawn payable to a named person or his nominee or one endorsed payable to a named person or his nominee.

c) **Personal Representative.**
A personal representative is a person upon whom a dead person’s property devolves for the purpose of its administration. He is called an Executor or Executrix where he has been named in a Will and an Administrator or Administratrix where he has been appointed to take over the Estate of a person who died intestate.
SECTION A (Attempt All Questions)

PART I  MULTIPLE-CHOICE QUESTIONS  (20 Marks)

1. What type of approach is adopted when economists observe, classify and attempt to examine any causal relationship between or among facts?
   A. Deductive approach
   B. Inductive approach
   C. Positive approach
   D. Normative approach
   E. Scientific approach.

2. A graph showing the relationship between an individual’s income and his demand for a particular commodity is known as
   A. demand curve.
   B. indifference curve.
   C. engel curve.
   D. income consumption curve.
   E. veblen curve.

3. An example of secondary production activities is
   A. planting of wheat.
   B. processing of flour into bread.
   C. the distribution of bread to retailers.
   D. the production of cement.
   E. the production of iron and steel.

4. In economics, a market is
   A. an arrangement by which buyers and sellers are brought together to fix the price of the goods in the market.
   B. an arrangement whereby goods are displayed for sale and buyers have the opportunity to buy them.
   C. an arrangement by which buyers and sellers are brought into contact with each other for the purpose of transacting economic businesses.
   D. a particular place where people sell and buy goods.
   E. a particular place where people can hawk their goods in the open market.
5. Which **ONE** of the following correctly defines **Gross Domestic Product at factor cost**?
   A. The total value of goods and services produced in a year less capital depreciation.
   B. The total value of goods and services produced in a country in 2 years.
   C. The total value of goods and services produced in a country in a year.
   D. The total value of goods and services produced in a country in a year. excluding subsidies and taxes on goods and services.
   E. The total value of goods and services produced in a country in a year plus subsidies and taxes imposed on goods and services.

6. In an open economy where the marginal propensity to consume is 0.75 and the marginal propensity to import is 0.2, if the investment expenditure increases by ₦270m, the increase in national income will be
   A. ₦600m.
   B. ₦750m.
   C. ₦1,000m.
   D. ₦250m.
   E. ₦900m.

7. Which **ONE** of the following is **NOT** typical of the structural changes that are associated with economic development?
   A. An increase in infant mortality rate
   B. A decrease in poverty level
   C. A rise in manufacturing output as a share of GDP
   D. An increase in urbanisation of the population
   E. An increase in industrial gas emission.

8. Which of the following characteristics of money accounted for the recent conversion of ₦5.00, ₦10.00 and ₦50.00 from paper to polymer?
   A. Acceptability
   B. Scarcity
   C. Homogeneity
   D. Recognisability
   E. Durability.

9. The current rate of Value -Added Tax (VAT) in Nigeria is
   A. 10%.
   B. 7.5%.
   C. 5%.
   D. 2.5%.
   E. 0.5%.
10. Which of the following offers soft loan facilities to its member nations?
   A. World Bank
   B. International Development Association (IDA)
   C. International Monetary Fund (IMF)
   D. International Centre for the Settlement of Investment Disputes (ICSID)
   E. Multinational Investment Guarantee Agency (MIGA).

11. Suppose 10 pairs of shoes can be produced with two hours of labour input in China and three hours of labour input in Nigeria, and that 20 shirts can be produced with four hours of labour in both countries, then it is correct to say that
   A. China has a comparative advantage in the production of shirts.
   B. China has an absolute advantage in the production of shirts.
   C. Nigeria has a comparative advantage in the production of shirts.
   D. Nigeria has an absolute advantage in the production of shirts.
   E. both countries have comparative cost advantage in production of shirts.

12. The main reason why one nation trades with another is to
   A. save its natural resources from rapid depletion.
   B. exploit the advantages of specialisation.
   C. eliminate the danger of retaliation from other nations.
   D. improve political alliances.
   E. empower less privileged countries.

13. The following are some of Henri Fayol’s Principles of Management **EXCEPT**
   A. Delegation
   B. Discipline
   C. Authority
   D. Order
   E. Initiative.

14. A schematic model of the sequence of steps in a problem and the conditions and consequences in each step is called
   A. decision tree.
   B. programme evaluation and review technique.
   C. step-wise model.
   D. capacity planning model.
   E. gantt chart.

15. The world-wide system of communicating messages using global network of computer servers is called....
   A. electronic messaging.
   B. telex messaging.
C. electronic mail.
D. world-wide web.
E. websites.

16. Armed Feigenbaum, W.E Deming, J.M. Juran and Ishikawa are associated with
   A. total quality management.
   B. production management.
   C. operations management.
   D. quality control.
   E. quality circles.

17. An organisation that seeks to understand stakeholders needs and using organisational resource, to promote the interest of the stakeholders is adopting
   .................................................approach to social responsibility.
   A. obstructionist
   B. defensive
   C. aggressive
   D. accommodative
   E. proactive

18. In ABC Restaurant, the job of a server is designed in such a way that he/she prepares the food, serves it to customers and packs the plates.
   This is an example of ..........
   A. job rotation.
   B. job enrichment.
   C. job enlargement.
   D. job simplification.
   E. job specialisation.

19. The most complex integrating mechanism in organisations is
   A. liaison role.
   B. task force.
   C. cross functional forces.
   D. direct contact.
   E. matrix structure.

20. The first task in marketing research is
   A. data gathering.
   B. development of hypothesis.
   C. problem definition.
   D. research design.
   E. setting research objective.
PART II: SHORT ANSWER QUESTIONS

1. Economics is concerned with the behaviour of economic agents engaged in the production, exchange and consumption of…………………

2. The sum of the various quantities that would be purchased by every consumer of a commodity at each alternative price is called…………

3. The price of a commodity will ...............when the supply is inadequate relative to demand, all things being equal.

4. The money value of goods and services produced in a country plus the net income from abroad within a given period is known as ....................

5. A situation when a given change in the level of national income produces a more than proportionate change in the level of investment is called .................

6. Unemployment which occurs when there is a permanent decline in the demand for the products of a particular industry is called .................

7. A tin of Peak Milk is priced at ₦90.00. This example illustrates money serving as..........

8. An asset is said to become ............... if there is a rise in the transaction costs of selling it.

9. The opportunity cost of growth is the diversion of resources from ................. to capital formation.

10. The fundamental notion of balance of payments is that all balance of payments transactions have an offsetting ...........

11. The argument that tariff protection is required for the establishment and growth of domestic industries until they become efficient and can withstand foreign competition is known as ................. argument

12. Under a flexible exchange rate system, a deficit in a nation’s balance of payment is automatically corrected by ....................

13. The management and correction of performance to ensure that enterprise objectives are accomplished is called .............
14. The process of comparing the organisation’s standard of performance in one or more key aspects of strategy or operations with that of competitor or comparable organisation is called.................................................. 

15. The predominant value system of an organisation, usually a mixture of implicit beliefs/values and the explicit statement is referred to as...........................................

16. The implementation of an international business strategy based on the idea that the sourcing and manufacture of goods and the provision of services can be undertaken anywhere in the world is called..........................................

17. An attempt to combine a range of both qualitative and quantitative indicators and performance which recognises the various stakeholders is known as ..........................................

18. The combination of product and functional structure is known as ..........................................

19. According to Henry Mintzberg, a manager coordinating work of different departments is engaging in ........................................role

20. A machine that allows the transmission of documents containing both text and graphics is .........................
SECTION B

QUESTION 1

(a) Define an industry. (3 Marks)
(b) Distinguish between location and localization of industry. (4 Marks)
(c) List any FOUR disadvantages of localization of an industry. (8 Marks)

(Total 15 Marks)

QUESTION 2

(a) What is capital market? (3 Marks)
(b) List any FOUR operators in the capital market. (4 Marks)
(c) Highlight the main importance of the capital market. (8 Marks)

(Total 15 Marks)

QUESTION 3

(a) List any FOUR forms of business organizations. (4 Marks)
(b) What do you understand by Joint Stock Company? (2 Marks)
(c) What are the advantages and disadvantages of a Joint Stock Company? (9 Marks)

(Total 15 Marks)

QUESTION 4

The table below shows the output produced by two regions in year 2008.

<table>
<thead>
<tr>
<th>Regions</th>
<th>Pepper</th>
<th>Vegetable</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Central</td>
<td>30</td>
<td>25</td>
</tr>
<tr>
<td>South West</td>
<td>20</td>
<td>15</td>
</tr>
</tbody>
</table>

(a) Which region has an absolute advantage in producing vegetables and why? (5 Marks)
(b) Calculate the opportunity cost of producing each unit of the goods in both regions. (5 Marks)
(c) If these two regions should trade, determine which region should specialize in the production of peppers and vegetables. (5 Marks)
QUESTION 5

The uses of Electronic Mail and Instant Messaging have become popular in the contemporary business environment.

(a) What are Electronic Mails and Instant Messaging? (5 Marks)

(b) State FIVE benefits of Electronic Mail to organisations. (10 Marks)

(Total 15 Marks)

QUESTION 6

(a) State and explain any FIVE key result areas where objectives may be set by an organisation. (10 Marks)

(b) List FIVE major characteristics of a good objective. (5 Marks)

(Total 15 Marks)
SOLUTIONS TO SECTION A

PART I  MULTIPLE CHOICE QUESTIONS

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

TUTORIALS

6. \[ NY = \left( \frac{1}{1 - MPC} + \frac{1}{MPI} \right) \triangle I E \]

Where NY → National Income
MPC → National Propensity to consume
MPI → Marginal Propensity to import
ΔIE → Change in Investment Expenditure

\[ NY = \left( \frac{1}{1 - 0.75} + \frac{1}{0.20} \right) N270m = \left( \frac{1}{0.25} + \frac{1}{0.20} \right) N270m \]

\[ = \left( \frac{1}{0.45} \right) N270m = N600m \]
PART II  SHORT ANSWER QUESTIONS

1. Goods and Services
2. Market demand
3. Rise
4. National income
5. The accelerator principle
6. Structural unemployment
7. A standard of value
8. Less liquid
9. Current consumption
10. Receipt
11. Infant industry
12. Depreciation of its currency
13. Controlling
14. Benchmarking
15. Organisation Culture
16. Globalisation
17. Balanced Score Card
18. Matrix Structure
19. Liaison
20. Fax Machine
SOLUTIONS TO SECTION B

SOLUTION 1

(a) **Definition of an industry**
An industry is a group of firms producing similar products. It is also a term used to refer to any branch of economic activity, such as, the agricultural industry, the manufacturing industry, the mining industry, etc.

(b) **Distinction between location and localization of industry**
Location of industry refers to the establishment of an industry in a particular place for reasons associated with social, political and economic considerations. Localization of industry on the other hand, refers to the concentration of firms producing different or similar products in a particular locality.

(c) **The disadvantages of localization of industry**

(i) **Potential unemployment:**
Where industries are concentrated, there would be mass exodus of working population to the area. This influx increases the supply of labour which may overtime result in excess supply of labour to the area. Besides, a continuous fall in the demand for the products of the localized industries may lead to retrenchment of workers, thus compounding the unemployment problem in the area.

(ii) **High cost of living:**
The influx of people to industrial areas increases the population of the area and also the demand for goods and services in the area. There would be excess demand for goods and services which will push up prices and the cost of living in the area.

(iii) **Vulnerable to attack during disturbances:**
During war or civil strive, the place where industries are concentrated becomes a target for destruction in an attempt to cripple the economy.

(iv) **Social and environmental problems:**
Increase in population of the area can lead to overcrowding and put strains on social facilities. It may also give rise to increase in the rate of crime as the security arrangements may be overwhelmed.
(v) Uneven development:
Developmental efforts are usually concentrated where industries are aggregated. Less attention is given to other locations in the community.

SOLUTION 2

(a) A capital market is a market for mobilizing long-term securities, notably debt and equity. In Nigeria, the market is divided into two, namely: the primary capital market for debt and secondary capital market for equity. The two markets are organised by the Securities and Exchange Commission and Nigerian Stock Exchange respectively.

(b) The operators in a capital market include:
(i) Central Bank of Nigeria
(ii) Commercial banks
(iii) Merchant banks
(iv) Development banks
(v) Insurance companies
(vi) Securities and Exchange Commission
(vii) Stock Exchange and Stock broking firms.
(viii) National Provident Fund

(c) The importance of the capital market includes the following:

(i) **Mobilisation of long-term securities**
The capital market mobilizes funds for firms through its two main securities: debt and equity. The debt instruments are financial claims with an obligation by the issuer to pay interest at stated intervals and to redeem the issue at future dates while equity capital refers to the capital of the owners of the firms. The capital market, through the Securities and Exchange Commission, fixes the price and time at which securities of a company are to be sold to the public either through offer for sale or subscription.

(ii) **Promotion of financial growth**
Long-term capital for both the public and private sectors is obtained through the capital market. The movement of the market acts as a barometer which points to the economic prospects of the country. The capital market indicators are signals to foreign businessmen in their quest to decide the core area of business to invest in and thus expand the financial base of the economy. This gives room for the promotion of the indigenisation of the economy.
Enhancement of the operations and relationships among firms
The market is an avenue for the firms to interact and share ideas, explore possible areas of collaboration and development.

SOLUTION 3

(a) Forms of business organizations. These are:
   (i) Sole Proprietorship;
   (ii) Partnership;
   (iii) Private Limited Liability Company;
   (iv) Public Limited Liability Company; and
   (v) Cooperative Society.

(b) Joint Stock Company
Joint Stock Company is a legal entity with its own existence separate from that of its owners. The company's assets are owned by shareholders who give control of the company to a board of directors. It has shareholding arrangements. The company can be private or public in nature. It is private if it is formed by two to seven people, whereas, at least seven members are needed for it to be a public company.

c) (i) Advantages of Joint Stock Company. These include:
   • Control of the business is separated from the ownership;
   • Perpetual succession is guaranteed;
   • It has a legal entity of its own, (i.e. separate legal entity);
   • Large scale production is possible;
   • There is room for expansion;
   • Capital can be raised from the public in case of the public limited liability companies;
   • Employees may own shares and be part owners, thus having a sense of belonging; and
   • The liability of the shareholders is limited to their equity shares in case of bankruptcy.

(ii) Disadvantages of Joint Stock Company. These include:
   • Its formation involves a lot of legal requirements;
   • Shareholders have no privacy, its affairs are made public;
   • Some of the owners may have very little control over the running of their businesses;
   • A few minority of the members are usually in control of the affairs of the business;
   • Individual initiative is not encouraged;
The real owners usually have no direct contact with the employees; 
There are delays in decision making due to administrative bureaucracy; and 
There may occur rancor and bickering between owners and managers of the business.

**SOLUTION 4**

(a) A region has absolute advantage in production of a product if its output per unit of input is greater than other producing regions. From the table, it is clear that the North central has absolute advantage in production of vegetables. That is, a unit of input can produce a greater number of vegetables in North Central than in the South West.

(b) Opportunity cost of producing a unit of pepper in terms of vegetable (OCpv), is computed thus:

\[ OC_{pv} = \text{output of vegetable divided by output of pepper.} \]

Similarly, to calculate the opportunity cost of producing a unit of vegetable in terms of pepper (OCvp), where \( OC_{vp} = \text{output of pepper divided by output of vegetables.} \)

The unit of pepper that has to be forgone for every unit of vegetable produced and vice-versa, (i.e. opportunity cost) are shown in the table below:

<table>
<thead>
<tr>
<th>Regions</th>
<th>Pepper(bags)</th>
<th>Vegetable(bags)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Central</td>
<td>0.83(25/30)veg</td>
<td>1.20(30/25)pepper</td>
</tr>
<tr>
<td>South West</td>
<td>0.75(15/20)veg</td>
<td>1.33(20/15)pepper</td>
</tr>
</tbody>
</table>

(c) A region is expected to specialise in the production of the product where it has the lower opportunity cost. From the result shown in the table above, South West should specialise in the production of pepper while North Central should specialise in vegetable.

**SOLUTION 5**

a) Electronic Mail (e-mail) is the sending and receiving of text messages between networked personal computers over telecommunication networks. E-mail has become an indispensable way of communication.
Instant Messaging (IM), on the other hand, is essentially real time e-mail. It involves clicking on a name display in a small box on the computer screen, typing in a message, and the message instantaneously pops up onto the recipient’s screen. IM devices such as mobile phones, blackberries, etc, are also getting popular.

b) Benefits of e-mail include:

(i) E-mail messages can be quickly written, edited and stored;
(ii) E-mails can be distributed to one person or more with a click of a mouse;
(iii) E-mail messages can be read in their entirety at the convenience of the recipient;
(iv) The cost of sending e-mail messages to employees is a fraction of what it would cost to print, duplicate and distribute a comparable letter or brochure; and
(v) Documents up to 10 megabytes can be forwarded simultaneously to many recipients, thus providing a medium for marketing of products and services.

SOLUTION 6

The main areas where objectives can be set include:

(a) (i) Market share:
    To increase the market share to 50% of the total market by the end of the year;

(ii) Innovation
    To develop a new product by the end of the year;

(iii) Productivity
    To produce 100 units of product daily;

(iv) Physical and financial resources
    To increase the number of machines to 36 by the end of the year;

(v) Management performance and development
    To train three accountants yearly;

(vi) Profitability
    To earn 20% return on investment in the next year;

(vii) Workers’ performance and attitude
    To reduce the rate of labour turnover to 2% yearly.
(viii) Social responsibility
    To award at least, ten scholarships every year.

(b) The main characteristics of clearly defined objectives are encapsulated in the
    acronym “SMART” which means the objectives should be:

(i) Simple : Concise and easy to be understood by members.

(ii) Measurable: Input in quantitative terms to enable actual performance to be
    ascertained precisely.

(iii) Attainable: Objectives are challenging and realisable given the resources
    available.

(iv) Relevant: Related to the broad goals of the organisation.

(v) Time Bound: There is a clearly stated time period within which objective is to be
    achieved.
SECTION A (Attempt All Questions)

PART 1  MULTIPLE-CHOICE QUESTIONS  (20 Marks)

1. What is the economic term used to describe a course of action that is expected to bring about the realisation of goals or objectives?
   A. Economic model  
   B. Economic theory  
   C. Economic policy  
   D. Fiscal policy  
   E. Monetary policy.

2. For a given per unit price of agricultural commodity, improvement in weather conditions will induce
   A. an upward movement along a supply curve  
   B. a downward movement along a supply curve  
   C. an inward shift of the supply curve  
   D. a total shift of the supply curve  
   E. an outward shift of the supply curve.

3. The cost per unit of output is called
   A. marginal cost  
   B. marginal variable cost  
   C. average variable cost  
   D. average fixed cost  
   E. average cost.

4. Which of the following is NOT true of a perfect market?
   A. Active competition among the sellers in the market  
   B. Buyers freely compete among themselves  
   C. There is a large number of buyers and sellers  
   D. There is competition among the buyers and sellers  
   E. There is a large number of buyers and a few sellers.

5. Disposable income is an equivalence of
   A. National Income minus loans from abroad 
   B. Personal Income minus undistributed profit
C. Personal Income minus taxes plus subsidies  
D. Personal Income minus taxes and subsidies  
E. Personal Income minus transfer payments.

6. The following are the uses of National Income statistics **EXCEPT** that it  
A. measures the performance of the economy over time  
B. serves as an input for planning the economy  
C. helps in research and development  
D. is a measure of the level of corruption in the country  
E. is useful for planning business moves.

7. Economic growth is sustained  
A. increase in employment  
B. increase in money supply  
C. efficient resource allocation  
D. increase in per capita output  
E. increase in population.

8. Which of the following is **NOT** a legal tender in Nigeria?  
A. Bank notes  
B. Fiat currencies  
C. Demand deposits  
D. Token money  
E. Coins

9. By definition, money supply that includes cash (coins and paper money), traveller’s cheques, demand deposits/checking accounts and other checkable deposits in banks and savings institutions is known as  
A. \(M\)  
B. \(M_1\)  
C. \(M_2\)  
D. \(M_3\)  
E. \(M_4\)

10. A country can correctly be described as having a balance of payments deficit if the imbalance in both its current and capital accounts  
A. leads to a decrease in its official reserves  
B. leads to an increase in its official reserves  
C. leaves its official reserve unchanged  
D. forces the country into incurring external debt  
E. allows the country to start lending to others
11. An increase in the demand of an imported commodity subject to a given import quota
   A. reduces the domestic quantity demanded of the commodity.
   B. increases the domestic production of the commodity.
   C. reduces the domestic price of the commodity.
   D. reduces the producer surplus.
   E. increases the consumer surplus.

12. The infant-industry argument is valid when
   A. a new industry is suffering financial losses due to inadequate demand.
   B. a new industry is less efficient than foreign competitors in production of tradable commodities.
   C. the industry's prospective gains are sufficient to repay the social losses incurred while it is being protected.
   D. the industry is not likely to be profitable in the future when the economy is opened.
   E. the economy is underdeveloped and requires inflow of capital and technological infrastructures.

13. The following are principles to be used in the application of Scientific Management EXCEPT...
   A. developing a scientific mindset for management
   B. selecting and training of workers
   C. accurate determination of the correct time and method for carrying out each job
   D. developing rules, decisions and actions for every operation
   E. rewarding employees according to their level of performance

14. Uncertainty in decision making means making decisions....
   A. with information about possible outcomes and their respective degrees of probabilities
   B. without any supporting data
   C. without information about possible outcomes
   D. with information about possible outcomes when there is certainty in their occurrence
   E. under a high degree of risk.

15. Entrepreneurship within an existing business venture is also known as ..........
   A. Super entrepreneurship
   B. Special entrepreneurship
   C. Exceptional entrepreneurship
D. Enterprising
E. Intrapreneurship.

16. An example of primary data sources is

A. accounting record
B. employees record
C. unpublished trade association data
D. report of federal office of statistics
E. a telephone interview.

17. Which of the following is **NOT** a common basis for departmentalization?
A. Function
B. Strategies
C. Product
D. Geography
E. Customer.

18. Which of the following is **NOT** true of organisational stress?
A. It is a disease
B. It can lead to mental ill health
C. It can lead to physical ill health
D. It is a personal experience
E. It may be caused by anxiety and depression.

19. Self actualisation involves the following **EXCEPT**
A. challenging job
B. achievement at work
C. creativity
D. advancement in the organisation
E. recognition.

20. The holding of group meetings or live presentation over the internet is known as........
A. Internet
B. Extranet
C. Web conferencing
D. Web meeting
E. Video conferencing.
PART II: SHORT ANSWER QUESTIONS (20 MARKS)

1. In economics, cost expressed in terms of forgone alternatives is ............

2. The power of consumers to determine the allocation of different goods and services in the market is termed ......................

3. Economists refer to all natural resources as ......................

4. Payment of money made for which no current goods and services are produced is ........................................

5. The largest component of aggregate demand is ......................

6. While in a perfectly competitive market, a producer is faced with an infinitely elastic demand curve, in monopoly market, a producer is faced with ........................

7. What type of money has its face value greater than its value as a commodity?

8. A situation in which the supply of money equals the demand for money is termed ............

9. Economic growth is measured by ............. in real GNP.

10. If a Nigerian citizen buys $25,000 for ₦3,000,000, the rate of exchange for the US dollar is .................

11. A weighted average of the exchange rate between the domestic currency and the currency of the nation’s most important trade partners is called ............

12. The international institution created under the Bretton Woods System for the purpose of ensuring that nations follow a set of agreed rules of conduct in international trade and finance and providing borrowing facilities for countries facing balance of payments difficulties is .............

13. The relationship between people and other living things with their environment is called ........................................

14. The management approach that aims at integrating the organisation’s objectives with those of individuals is called ..............................
15. A third party that acts as a catalyst in bringing about change is called..............

16. The Chief Executive of a company encouraging managers to keep pursuing the growth and survival of the company is performing ................function of management

17. An arrangement whereby one company allows another company to use its brand name, trade mark, technology and other assets in exchange for a royalty based on sales is known as .....................

18. Instantaneous transmission of written messages on linked computers in known as.......  

19. The three basic areas of concern for managerial ethics are the relationship of the firm to the employees, the employees to the firm and....... 

20. The type of environment which includes those external forces that have a direct impact on managers’ decisions and actions and are directly relevant to the achievement of the organisation’s goals is..........
SECTION B

QUESTION 1

Discuss the nature of economic problems under different types of economic systems. (15 Marks)

QUESTION 2

“The prevalence of Sole Proprietorships in Nigeria is a major obstacle to economic development” Discuss. (15 Marks)

QUESTION 3

(a) Define the term “Central Bank”. (3 Marks)
(b) Explain any FOUR functions of the Central Bank of Nigeria (12 Marks)
(Total 15 Marks)

QUESTION 4

The following data refers to the Balance of Payments of Federal Republic of Talomo for the Year 2008

<table>
<thead>
<tr>
<th>Items</th>
<th>$ millions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Account:</strong></td>
<td></td>
</tr>
<tr>
<td>Export of visible items</td>
<td>350</td>
</tr>
<tr>
<td>Import of visible items</td>
<td>230</td>
</tr>
<tr>
<td><strong>Balance of trade</strong></td>
<td>(a)</td>
</tr>
<tr>
<td>Receipts from banking and insurance</td>
<td>(5.5)</td>
</tr>
<tr>
<td>Tourism expenditure</td>
<td>10.0</td>
</tr>
<tr>
<td>Foreign Freight Charges</td>
<td>(7.0)</td>
</tr>
<tr>
<td>Receipts from air services</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Services trade</strong></td>
<td>(b)</td>
</tr>
<tr>
<td>Scholarship received by foreign students at local university</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>Current Account Balance</strong></td>
<td>(c)</td>
</tr>
<tr>
<td><strong>Capital Account:</strong></td>
<td>(5.2)</td>
</tr>
<tr>
<td>Corporate investment</td>
<td>9.2</td>
</tr>
<tr>
<td>Long-term investment</td>
<td></td>
</tr>
</tbody>
</table>
Long-term capital balance
Basic balance
Short term investment
Error and omission

Overall Balance deficit
Exchange reserve in Central Bank

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Required**: Determine the values of a, b, c, d, e, f, and g. in the table above.

(15 Marks)

**QUESTION 5**

Word Processing has become an important tool for most businesses today.

a) Define Word Processing.
   (3 Marks)

b) Outline and explain **FOUR** uses of contemporary word processing packages.
   (12 Marks)
   **(Total 15 Marks)**

**QUESTION 6**

(a) Define the concept of globalisation.
   (5 Marks)

(b) Identify and explain **FOUR** different ways in which organisations may engage in global business.
   (10 Marks)
   **(Total 15 Marks)**
SOLUTIONS TO SECTION A

PART I  MULTIPLE CHOICE QUESTIONS

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

1. Opportunity cost
2. Consumer sovereignty
3. Land
4. Transfer payment
5. Private consumption expenditure
6. Fairly inelastic demand curve
7. Token money
8. Monetary equilibrium
9. Increase
10. ₦120
11. Effective Exchange rate
12. International Monetary Fund (IMF)
13. Ecology
14. Management by Objectives
15. Change Agent
16. Leadership
17. Licensing
18. E-mail/Instant Messaging
19. The firm to other economic agents
20. Direct-action environment

TUTORIAL (Q.10)

\[
\frac{3,000,000}{25,000} = ₦120
\]
SOLUTIONS TO SECTION B:

SOLUTION 1

Nature of economic problems under different types of economic systems
There are three types of economic systems. These are: the market or capitalist economy, the planned or socialist economy and the mixed economy. Every economic system deals with human behaviour in the areas of economic needs. The needs of human beings are numerous and insatiable. All economies are equally faced with inadequate resources relative to numerous wants. However, how each economic system tackles this problem of scarcity differs.

(i) In a Market Economy: the forces of demand and supply (invisible hands) determine how the problem of scarcity is resolved. Resources are owned and controlled by households (individuals). The owners of resources are allowed to use them in response to pecuniary incentives or signals. Government or the State only provides law and order to ensure the smooth running of the system. The problems of what to produce, how to produce, when, where and for whom to produce are solved by individual households and firms. The allocation of scarce resources is done by the price system. It is believed that the price system will efficiently channel economic resources to their areas of need.

Every individual behaves/makes economic decisions with the objective of maximizing his gain and that in taking care of his own interest. Therefore, the collective interest of all is guaranteed. However, it is discovered that resources can sometimes be insufficiently allocated in the system in a lopsided manner in favour of a few individuals because of market failure.

(ii) Planned Economy:
In a planned economy, efforts are made to avoid the problem of market failure. This is done by removing individual’s freedom of choice in his quest to solve the problem of scarcity. Ownership of economic resources is surrendered to the State. The problems of what to produce, how to produce, when, where and for whom to produce are undertaken by the State. Allocation is then centrally planned. The State channels resources to their areas of needs by directives. The objective here is maximisation of social welfare and not individual profit. There is no wastage of resources since production is tailored to order. Unlike in the capitalist system, the issue of inequality is greatly minimised. Everybody is made to be reasonably happy since he is not allowed by the State to suffer from want. However, efficient running of this system requires State coercion. Enforcement increases cost of production and provision of goods and services. Besides, since households and
firms have surrendered their freedom, they are at the mercy of the State officials, who are in charge of allocation. Individuals will have to make do with handouts rather than choice. Another problem is bureaucracy in getting things done. Just like in the market economy, the state too sometimes fails in their allocation, distribution and stabilisation roles.

(iii) **Mixed Economy:**
The third one is mixed economic system. This combines the features of both the market economy and planned economy. Both the State and private sector participate in finding solution(s) to the problems of what to produce, how to produce, when, where and for whom to produce. Here, the government undertakes production and/or allocation of goods and services especially in those sectors of the economy where market forces lead to unsatisfactory performance and allow private sector to operate side by side in other areas. Hence, a mixed economy functions under the invisible platform of the market forces and aided by government policies to produce better overall results.

**SOLUTION 2**

“The prevalence of sole proprietorships in Nigeria is indeed a major obstacle to economic development”.

Sole proprietorship is a form of business unit established, owned, controlled and wholly financed by an individual whose aim is to maximize profit. In Nigeria, this form of business organization is everywhere and dominant in terms of spread.

Economic development on the other hand, can be defined as the improvement in the area of output as it affects both quality and quantity of production. It means technological approach to production with its attendant result of enhanced product quality and productivity. It involves choices among different strategies: agricultural development, specialization based on natural resources, development of import substitution, industrial development of new export industries and cartelization.

Sole proprietorship is the dominant form of business organization in Nigeria because of its peculiar characteristics: the owners who enjoy privacy take quick decisions on business; it is easy to set up because it requires small capital base; easy to manage since the owners who cannot be separated from the business can quickly respond to market situations and bureaucracy is avoided since the owners do not need to consult with any body before taking decisions.
In Nigeria, Sole proprietorship is prevalent in all major areas of economic activities. It offers employment opportunities to very few people other than members of the family of the owners – wives, children, family relations, etc. especially in agriculture and agro-allied industries. However, it offers job opportunities to vast majority on the aggregate. In addition, it provides a range of output especially in wholesale trade, services and industrial sectors.

Given that sole proprietorship dominates the economy, it ought to be the catalyst for economic growth and development. However, as beneficial as it is in terms of employment, output and income generation to vast majority of people, it is seen as an obstacle to economic development. Some of the factors that hinder economic development are low savings, low investments, over dependence on imports, lack of sufficient entrepreneurial drives, inefficient use of resources and low level of technology.

Due to the small size of its capital base, the sole proprietor’s savings is usually low. Its size of business is small and thus the advantages gained by operating on large scale are completely lost in the economy. The dominance of sole proprietorship of the Nigerian economy denied the country of large investments which are needed in many areas. The Nigerian indigenous entrepreneurs prefer to run sole proprietorship because of the advantages highlighted above and thus leave these core areas to the very few foreign investors that show interest. This is detrimental to the economy.

Large scale joint stock company that can propel the economy are left to foreigners who rather than plough back, repatriated their profit and dividend earnings which have to be paid from limited foreign exchange receipts. This no doubt will slow down or worsen the pace of economic development.

Lack of funds made it impossible for sole proprietorships to finance research and development which is a pivot of economic development. Therefore, they utilize the nation’s scarce resources inefficiently.

The survival of the business is built around its owner. Hence, anything that affects the owners adversely (his health, ability to work, judgment or death) leads to the collapse of the business leaving no room for continuity. The inherent rate of failure of sole proprietorships will adversely affect the economic development of the country since, it dominates.

**SOLUTION 3**

(a) The Central Bank is the apex regulatory monetary authority in any country. It is a not-for-profit outfit. It is owned by the Federal/Central Government.
The Central Bank of Nigeria (CBN) has both traditional and developmental functions. Prominent among the functions include the following:

(i) **Currency issue and distribution**: By law, it is only the CBN that can issue and distribute currency and coins in Nigeria. This is to control the supply of money in circulation with a view to preventing inflation. To ease distribution, the CBN has offices in all the states of the federation.

(ii) **The bankers’ bank**: The CBN is the bank to commercial, merchant and development banks as well as other financial institutions in Nigeria. It monitors and supervises the operations of these institutions. It sets up clearing houses for clearing of cheques among the various financial institutions.

(iii) **Banker to the Government**: The Federal Government of Nigeria’s account is kept with the CBN. The bank also provides banking services to State and Local Governments in the country. Furthermore, it is the banker to establishments owned by the Federal Government.

(iii) **Promotion of monetary stability**: The CBN formulates monetary policies. One of the macroeconomic objectives is to promote price stability. Many instruments are deployed to achieve this objective notably: enforcing the reserve requirements, discount rate, open market operations and credit ceilings, among others.

(iv) **Management of the foreign exchange**: The CBN maintains foreign exchange reserves and also stabilises the exchange rate because of its direct link to the economy.

(v) **Supervision of finance houses**: Effective implementation of monetary policies involves many participants, notably the finance houses. The need to supervise these participants cannot be over-emphasised.

(vi) **Managing of Federal Government debts**: Federal Government’s internal and external debts are managed by the CBN.

**SOLUTION 4**

Given the data in the table, the values of (a) to (g) are calculated as follows:

(a) **Balance of trade** is calculated by subtracting import items from the export items. That is, \(350 - 230 = 120\)
(b) Service trade is calculated by summing: receipt from insurance and banking, tourism expenditure, foreign freight charges, receipt from air services (by conventions, items in bracket are negative) = 10+5+(-5.5)+(-7.0) = 2.5.

(c) The Current account balance is summation of Balance of Trade and Services, plus transfers (scholarship received by foreigners at local university) = 120+2.5+2.5 = 125.

(d) Long term Capital account balance equals corporate investment plus other long term investments =9.2+(-5.2) = 4.0.

(e) Basic balance equals current account balance plus capital account balance = 125+4 = 129.

(f) Overall balance equals basic balance plus short term investment and error and omission items= 129+4+ 1 = 134 (Since in this case, the Balance of trade, Current balance and capital account were positive, the overall balance is surplus not deficit).

(g) The exchange reserve with the Central Bank will increase (not decrease as in the case of deficit) by 134. The value of (g) and (f) must be the same. The value (f) is the amount by which the official reserve must change (increase in case of surplus and decrease in case of deficit) to offset the outstanding balance in the BOP account.

The Balance of Payments of Federal Republic of Talomo for the Year 2008 is now presented as follows:

<table>
<thead>
<tr>
<th>Items</th>
<th>$ millions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Account:</strong></td>
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</tr>
<tr>
<td><strong>Balance of trade</strong></td>
<td><strong>120</strong> (a)</td>
</tr>
<tr>
<td>Receipts from banking and insurance</td>
<td>(5.5)</td>
</tr>
<tr>
<td>Tourism expenditure</td>
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<td>5.0</td>
</tr>
<tr>
<td><strong>Services trade</strong></td>
<td><strong>2.5</strong> (b)</td>
</tr>
<tr>
<td>Scholarship received by foreign students at local university</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>Current Account Balance</strong></td>
<td><strong>125</strong> (c)</td>
</tr>
<tr>
<td><strong>Capital Account:</strong></td>
<td></td>
</tr>
<tr>
<td>Corporate investment</td>
<td>(5.2)</td>
</tr>
<tr>
<td>Long-term investment</td>
<td>9.2</td>
</tr>
</tbody>
</table>
SOLUTION 5

(a) **Word Processing** can be defined as the automation or the transformation of ideas and information into a readable form of communication. It involves the use of computers to manipulate text data to produce office communication in the form of documents. Examples of word processing software include MS Word, Lotus WordPro, and WordPerfect.

(b) **Uses of Word Processing packages are as follows:**

(i) Creation, editing, revision and printing of documents (e.g. letters, memos and reports) by electronically processing data (words, phrases, sentences and paragraphs).

(ii) Word processing packages provide helpful features such as spell checkers to identify and correct spelling errors. It also provides thesaurus features to help find better choice of word to express ideas. Grammar and punctuation errors can also be identified, as well as suggestions on possible improvements in writing style and character checker functions.

(iii) Word processing packages can be used in the design and creation of web pages from scratch for the internet or intranet websites.

(iv) Documents can be converted to Hypertext Mark-up Language (HTML) format for publication as web pages on the corporate intranet or the World Wide Web.

(v) Word Processing packages can be used for Desktop Publishing. It can be used in the production of printed materials. This means, they can be used in the design and printing of newsletters, brochures, manuals and books with several styles, fonts, graphics, photo and colours on each page.

(vi) Files of Clip art are also available on word processing packages. Clip art files contain pre-drawn graphic illustrations provided by software packages or
available from other sources. Optical scanners may also be used to input text and graphics from printed materials.

**SOLUTION 6**

(a) Globalisation is the process of integrating, operating and competing in the worldwide economy. Participants in globalisation include private companies, international business organisations, multinational corporations, transnational corporations, etc.

(b) Organisations engage in global business in various ways such as:

(i) **Exporting and Importing**: Exporting of the organisations' products and selling them abroad. Importing involves acquiring products made abroad and selling them domestically.

(ii) **Licensing and Franchising**: These involve an organisation giving another organisation in another country the right to use its brand name, technology or product specification in return for a fee usually based on sales. Licensing is primarily used by manufacturing organisations while franchising is common in service oriented organisations.

(iii) **Strategic alliances**: These are partnerships between an organisation and a foreign company partner or partners in which both share resources and knowledge in developing new products or building production facilities.

(iv) **Joint venture**: This is a specific type of strategic alliance in which a domestic company and a foreign company form a separate independent organisation for some business purposes. The joint venture expired when the objective of setting it up is achieved.

(v) **Foreign subsidiary**: This is setting up of a separate and independent company in another country.