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Three University Students Win ICAN Essay Competition

...Bag ICAN Professional Examination Scholarship

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Editor's Note

To encourage hard work and diligence, three University students were awarded ICAN's Professional Examination scholarship, for their brilliant performance at the Annual Essay Competition organized for students in ICAN Accredited institutions. The topic of the essay was "The Role of Chartered Accountants in Maintaining the Financial Health of Nigeria".

The awards were presented to these students, Miss Busayo Omowunmi Ashade (Obafemi Awolowo University, Ile-Ife); Mr. Chibueze Valentine Ndukwu (University of Calabar) and Mr. Adekunle Oluwaseyi Famosa (Obafemi Awolowo University) at the recently concluded 46th Annual Accountants' Conference of the Institute.

The keenly contested competition earned the students cash prizes, laptops, plaques and ICAN Professional examination scholarship covering tuition, study text and examination fees. The details are contained in this edition.

*You will also read Dr. Ben Ukaegbu's article entitled **"Dividend Policies: To Pay or Not to Pay".** The nitty-gritty of dividend payment in financial management was thoroughly discussed as the author explained the different types of dividend, company dividend policy, traditional view on dividend, why companies pay dividends etc.*

Our regular column - The Examiner - is also featured to serve as guide to students on how to tackle questions and pass their examinations. Your comments and contributions are welcome.

Write to: corporateaffairs@ican.org.ng or aoowolabi@ican.org.ng

Ikorodu District Awards Twelve Scholarships

...organises three catch-them young programmes

In order to attract young minds to the Accounting profession, the Ikorodu & District Society of ICAN awarded twelve scholarships to students in the area while it also organized three catch-them-young programmes for students in secondary schools in Ikorodu and environ.

Mr. Ladi Williams, Vice Chairman of the District, made this disclosure when members of the District paid a courtesy visit to the 52nd ICAN President of the Institute, Deacon Titus Soetan in Lagos recently. He explained that the District is striving to produce as many chartered accountants as possible within the possible time frame, due to a dearth of professional accountants from the region.

He urged the Institute to assist the District to do more in this direction.

Responding, Deacon Soetan promised that the Institute would do all within its power to assist District Societies in their efforts to encourage young hearts in embracing accounting profession.

Speaking further, the President advised members of the District who operate small and medium firms to embrace merger with other firms to form a larger and formidable practice. He explained that if small and medium sized practices merge, it would afford them the opportunity to compete favourably with other big ones in practice.

He also advised members to embrace entrepreneurship programme of the Institute in order to become employers of labour instead of looking for paid jobs.

Three University Students Win ICAN Essay Competition

...Bag ICAN Professional Examination Scholarship

Three University students have been awarded ICAN's Professional Examination scholarship following their brilliant performance in the annual essay competition organized for students in ICAN accredited institutions.

The topic of the essay was "*The Role of Chartered Accountants in Maintaining the Financial Health of Nigeria*".

The three students, Miss Busayo Omowunmi Ashade (Obafemi Awolowo University, Ile-Ife); Mr. Chibueze Valentine Ndukwu (University of Calabar) and Mr. Adekunle Oluwaseyi Famosa (Obafemi Awolowo University) came first, second and third respectively.

Winners of the essay competition

At the end of the competition, cash prizes, laptops, plaques and ICAN Professional examination scholarship (with a value covering tuition, study text and examination fees) were presented to the best three students at a colourful ceremony during the gala nite at the recently concluded 46th Annual Accountants' Conference in Abuja.

Examination Malpractice: Six Students Blacklisted

In line with its discipline and zero tolerance for examination mal-practices, the Institute has blacklisted six students caught cheating during the May 2016 diet of professional examination. The affected students with the following examination and registration numbers are :

Exam. No: 20161/204108/s/5
(Reg. No. 154315)

Exam. No: 20161/208294/s/14
(Reg. No. 129543)

Exam. No: 20161/208558/s/45
(Reg. No. 156337)

Exam. No: 20161/203723/s/14
(Reg. No. 202817)

Exam. No: 20161/201123/s/1456
(Reg. No. 204346)

Exam. No: 20161/100328/F/35
(Reg. No. 167844)

The students were penalized for various offences ranging from caught with written materials, holding of GSM phones in the hall, taking away answer booklet and formula written on calculator.

The students were blacklisted and banned from all the Institute's examinations; de-registered as the Institute's students, while all the papers for the particular examination were cancelled.

Dividend Policies: To Pay Or Not To Pay

By Ben Ukaegbu

Introduction

The payment of dividend is one of the three important decisions for financial managers. The other two are: investment and financing decisions. The overriding objective of financial management is to maximise shareholder's wealth. In order to achieve that sole objective, investment decision has to be made and for investment to be executed it has to be financed. It is when the return generated by the investment is over and above the initial capital outlay and finance cost that shareholder's wealth can be said to have been maximised. Once the task of recovering the initial capital outlay and finance costs are achieved, the next decision is whether to pay or not to pay dividend. Or better still, whether the excess return should be re-invested into the business and save the firm from borrowing thereby reducing cost of capital. For the purpose of this paper our focus will be on dividend payment or distribution.

Definition of Dividend Policy

A company's dividend policy is the proportion of after tax earnings (profits) paid out in cash to shareholders by a company. For listed companies, dividend policy must first be articulated when a company makes an initial public offer (IPO). A dividend policy may undergo changes over time and may be measured by:

(i) Dividend Payout Ratio = Total Dividends/Total Earnings or Dividend Per share/ Earnings per share
(ii) Dividend Yield = Dividend Per share /kobo per share

Dividend payout ratios range from 0% to 100 %. British oriented companies, including Nigerian companies either pay interim and final dividends or quarterly dividends for those quoted on US Stock exchanges. Companies may also occasionally pay special dividends. There are, however, other forms of distribution:

Scrip Dividend

This is where a company issues additional shares to shareholders which are paid out of cash which would otherwise have been used to pay a cash dividend. For instance a company declares a cash dividend of 10k per share. An investor owns 10,000 shares and is therefore entitled to a dividend of N1000. Instead of receiving N1000, the investor chooses to receive shares in lieu of the cash dividend. If the new shares are issued at N5 per share, then the investor will receive 200 (N1000/5) new shares.

Scrip Issue (or capitalisation issue or bonus issue of shares)
A company issues new shares to existing shareholders and 'pays' for such shares by transferring funds from retained earnings, including share premium account to the capital account. Unlike a scrip dividend, a scrip issue does not involve any cash transactions.

Share Repurchase or share buyback
This involves a company reducing its capital by buying back some of its shares on the market, usually after making general offers to all shareholders for such a transaction. Shares repurchased must be kept in treasury and may be re-issued at some point in the future. In Nigeria, there is a restriction placed on public companies both by Companies and Allied Matters (CAMA) and SEC Rules to the effect that the company can only draw the cash needed for the purchase of its own shares from a specific source. Further, the buy-back can only be carried out in a certain manner within a certain frame and a certain proportion.

Company's Life Cycle and Dividend Policy

The life cycle of a company may have a considerable influence on its dividend policy because cash flows over a company's life cycle and its funding needs. In a young company, for example, there may be no dividends as investment needs are significant. Companies undergoing rapid expansion are likely to prioritise investment needs to dividend payment and mature companies without the ambition of further growth are more likely to pay dividends while companies in decline are also likely to pay dividend as investment opportunities dry up.

Types of Dividend Policy

(i) No Dividend Payment

Payout ratio is zero. Usually for growth companies. Microsoft for instance did not pay dividends until 2004. It however, had a programme of share re-purchases.

(ii) Constant Payout Policy

The same proportion of earnings is paid out as cash dividend each year. E.g. 30% dividend payout ratio.

(iii) Residual Dividend Policy

Dividends are paid only after all investment projects have been financed. Dividend payments will therefore vary from year-to-year. Growth companies tend to retain and reinvest earnings and mature companies tend to pay high dividends.

Target dividend payout ratio

Lintner (1956) surveyed American managers about dividend policy and found that dividend policy is not subjected to the firm's financing and investment policy. This cast a doubt on the residual dividend policy. More recent US and UK studies have confirmed these findings.

Lintner found that managers usually decide to pay a certain fraction of their earnings as dividends. However since earnings may vary from year to year, the target payout ratio is applied to long-term earnings. Companies therefore move gradually over-time towards their target payout ratio. Lintnertherefore proposed the partial

adjustment model of dividend payments. Fama and Babiak (1968), in an empirical test of Lintner's model found that current and past earnings affect current dividends.

Real Life Companies' behaviour
Most companies aim to pay a level of dividend which they can sustain in the long-run. Companies do not therefore increase dividend dramatically when there is an increase in earnings. There is also a reluctance to cut dividends when earnings are low unless management believes that reduced earnings will continue for several years.

Dividend Policy and Share Price
Does a company's dividend policy affect its share price? This is a question that has long been due for an answer.

Traditional View
The traditional view on how dividend policy affects a company's share price asserted that shareholders prefer dividends to capital gains and so firms should pay dividends.

Graham and Dodd (1934) in their book Security Analysis asserted that ...shareholders prefer liberal dividends as opposed to niggardly ones, i.e., they prefer more cash to less cash dividends and that investors take the company's dividend into account in deciding on which shares to purchase.

Gordon (1959) rationalised this assertion by arguing that since investors are risk averse, they prefer a stream of relatively certain dividend to uncertain capital gains, which may arise from invested earnings. He further argued that: *Since the value of the firm's equity is the discounted value of dividend, a steady dividend payment (certain) is less risky and therefore can be discounted at a lower discounted rate (cost of equity), which will provide a higher value of the firm.*

However, if the investor receives capital gains which is uncertain, it implies that he receives a risky cash flow. A risky cash flow would therefore have to be discounted at a higher discount rate and therefore reduces the value of the firm.
E.g. Dividend = 20k discount rate 10%
Capital Gain =20kdiscount rate 13%
Assume that both dividends and capital gains are perpetual
Price if dividend is discounted = 20/.10 = N2.00 and Price if capital gain is discounted = 20/.13 = N1.67

The traditional view is characterised as the BIRD-IN-HAND fallacy by Bhattacharya (1979),

Bhattacharya argued that the assertion that capital gains are riskier than dividends is fallacious because the riskiness of a firm's cash flows applies to both dividends and capital gains such riskiness depends on the riskiness of the firm's earnings. If the firm's ability to generate earnings varies widely from year to year, its ability to pay cash dividend will also vary from year to year in much the same way as its ability to generate capital gains for investors through share price increases. The riskiness of the firm's earnings depends largely on the riskiness of its projects. Therefore, a firm's ability to generate earnings to pay dividends is as risky as the firm's ability to generate earnings that is invested in new projects to generate more earnings to bring about an increase in its share price. Therefore if we are discounting what shareholders expect from a firm to arrive at the fundamental price of a share, it makes no difference whether we discount dividends or capital gains. Therefore, a firm's share price is not affected, whether it pays dividends or retains earnings to generate capital gains for its shareholders.

Modigliani and Miller on Dividend Policy
An earlier critique of the traditional view of how dividend policy affects share price was offered in 1961 by Modigliani and Miller (MM). MM showed that the value of the firm is derived solely from generated earnings and what the firm will continue to generate in the future as its investment policy unfolds. Hence, as long as the firm accepts all positive NPV projects, it can pay any level of dividend it desires each period. If dividends are paid, the firm must issue new shares to raise the required cash to finance the project. On the other hand, a firm can retain the funds and use such funds to finance the investments. Either value will produce the same total market value for the firm.

Dividend Clientele Effects
Modigliani and Miller (MM) also argued that if dividend policy (payout ratio) matters to investors then firms will supply the desired payout ratios so that in equilibrium a firm will attract to itself the clientele which prefers its dividend policy (there will be different dividend policies ranging from no payout to 100% payout for investors to choose from). This means that in equilibrium no firm can increase its value by following a particular dividend policy.

Information content of dividend
MM argue that their irrelevance proposition is not inconsistent with share prices changing in response to dividend changes. They write:
...where a firm has adopted a policy of dividend stabilisation with a long established and generally appreciated 'target payout ratio', investors are likely to (and have good reason to) interpret a change in the dividend rate as a change in management's views of the future prospects of the firm. The dividend change, in other words, provides the occasion for the price change though not its cause, *the price change still being solely a reflection of future earnings and growth opportunities.*

THE DIVIDEND PUZZLE
In practice, a variety of dividend policies are observed: range from 0% to very high payout ratios.
The question that needs answering is why companies choose to pay dividend given that doing so imposes costs on the company and on shareholders and not consistent with shareholder wealth maximisation.

Paying dividend implies:
(1) A company has to issue new shares at significant transaction costs to finance investment which could have been avoided with the use of retained earnings. Why do companies not use earnings for reinvestment and avoid share issue costs?

(2) Paying dividends also means that shareholders pay taxes on dividends which exceeds the taxes shareholders will pay if shares are repurchased. Why do companies not repurchase shares but instead pay dividends which is costly to shareholders?

The two questions constitute what Black (1976) called the Dividend Puzzle; in other words why do companies use dividends, the most expensive form of returning cash to shareholders to the company and shareholders?

Possible Explanations of why Companies pay Dividends
(i) **Investor Transaction costs**
It is commonly argued that companies pay dividends because it is a less expensive method of getting cash to shareholders compared with investors selling a part of their shareholdings to raise money if the company does not pay dividend but there is an increase in the share price. Is this a satisfactory explanation for the payment of dividends? No. Why?

If dividends are cheaper for shareholders than capital gains, we would expect that if the transaction cost of selling shares plus capital gains taxes together amount to less than the taxes on dividend, then it would in the interest of shareholders for the company not to pay dividends. In such a situation we would observe zero payout ratios. On the other hand if the cost of dividend taxes were less than the combined cost of selling shares and capital gains taxes, then it would be in the interest of companies to pay dividends. This implies most dividend payments would be 100% payout ratio.

In practice, dividend policies are not at either or both extremes. Investor transaction costs cannot therefore be a satisfactory explanation for why companies pay dividends.

(ii) **Asymmetric Information and Signalling**
Signalling models assume that dividends are needed to convey positive information from well-informed managers to poorly informed shareholders in capital markets characterised by asymmetric information. If the managers in a company believe that their company's shares are not properly valued by the market (because the market does not know about the true cash flows of their company), they can use dividend payment to signal the company's quality (prospects and potential cash flows).

Paying dividend imposes costs on the company as well as investors in the form of taxes paid by shareholders; foregone profitable investment opportunities; and transaction costs of raising new funds. Despite such cost, high quality firms will still pay dividends according to the signalling argument in the expectation that the increase in firm value will exceed the costs of signalling. The increase in share value will also benefit shareholders as sellers. Manager's self-interest may also encourage signalling if executive compensation depends on immediate short-run performance and long-run return'.

Is dividend a unique method for signalling? No. Companies can signal with gearing policy as well. It is therefore difficult to use signalling to explain why companies pay dividends since dividend is not the only signal companies can use.

(iii) **Agency cost explanation for Dividend Payment**

Agency cost theory is based on the view that conflicts of interest arise between: shareholders and debt holders and shareholders and managers.

Easterbrook (1984) notes two sources of agency costs: (i) the pursuit of the self-interest of managers including perquisite consumption and (ii) risk aversion on the part of managers which induces managers to undertake less risky projects or finance with retained earnings. A high level of retention enables managers to pursue their self- interest such as perquisite consumption and the pursuit of acquisitions with the availability of free cash flows. Retention also reduces the riskiness of debt below that which was originally used to determine its return at flotation. This reduction in riskiness implies that the return on debt now becomes excessive and hence transfers wealth from shareholders to bondholders. Easterbrook goes on to argue that these agency costs are less serious if the firm pays dividends and then goes constantly to the market for new capital. He writes 'managers who are in the capital market ... have the incentive to reduce agency costs in order to collect the highest possible price for their instruments.' Determining whether there are significant numbers of firms that simultaneously pay dividends and raise new capital may constitute a weak test of the agency cost explanation. A more fundamental question for the theory is the incentives managers have to want to pay dividends and raise new capital.

Rozeff (1982) argues that dividend payment informs outside equity holders that the firm is financing investments with outside funds. Since outside financing requires scrutiny of the firm by investors, current equity holders obtain some new information, in the process more cheaply, than could be obtained from audited financial statements. Since the size of the dividend payment determines how much should be obtained as new funds from the market, he postulates that as dividend payment increases, agency costs reduce. On the other hand, transaction costs of new securities increase as the firm raises funds frequently. An optimal payout ratio that reduces agency costs (and thereby increases firm value) and the cost of issuing new securities may therefore exist.

Others factors that may affect Dividend Payments

(i) Legal constraints on distributable profits:
Accumulated profits, realised profits, so far as not previously utilised (by distribution or capitalisation) less accumulated, realised losses, so far as not previously written off could be used to pay dividends. Paying dividends out of capital would be illegal if doing so reduces the net assets of a company below its aggregate called-up share capital.

(ii) Liquidity(being profitable does not imply liquidity, but paying dividends requires the company to have the liquidity)

(iii) Current debt obligations (debt covenants may limit the amount of dividends companies can pay)

(iv) Investment opportunities (companies can retain and invest since conceptually it does not affect the value of the firm's shares: some companies do not pay dividends)

(v) Earnings volatility (if earnings are volatile, a company cannot set a very high level of dividend to avoid the situation where earnings in a particular year may not be adequate to pay the regular dividend).

Summary

The payment of dividend is one of the most important decisions financial managers have to make. Its importance stems from the fact that shareholders' wealth has to be maximised. However to maximise shareholders' wealth, investment and financing decisions have to be made and the last but not the least is dividend payment. To pay dividend, other things being equal, reduces the amount of cash for investment and likely to raise the cost of capital in the absence of retained earnings. The decision not to pay dividend sends unintended signal to investors because of the information content of signal policies hence it is important for a company to balance to strike a balanced dividend policy.

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Audit and Assurance (INTERMEDIATE - November 2013)

SECTION A: PART 1 (MULTIPLE-CHOICE QUESTIONS)

1. Which of the following is NOT the responsibility of an auditor?
A. Vouch payment vouchers
B. Prevent non-compliance with law or regulations
C. Ensure compliance with accounting standards
D. Ensure compliance with auditing standards
E. Issue audit report

2. A positive external confirmation request expects respondents to
A. Reply only if the debtor disputes the amount shown on the form
B. Reply directly to the management
C. Advise the auditor on what to do
D. Reply directly to the auditor whether in agreement or disagreement with the amount shown on the form
E. Disregard the request because the information is contained in the financial statements

3. Which of the following is NOT an element of a letter of representation?
A. Addressed to the auditor
B. Addressed to management
C. Contains specific financial information
D. Dated
E. Signed

4. The objectives of stocktaking do NOT include:
A. Discovery of fraud in the stock figures
B. Determination of the accuracy of cut-off
C. Ascertainment of the effectiveness of internal control system over stock
D. Determination of the accuracy of stock valuation
E. Provision of the basis for checking the correctness of stock records

5. Prior to the acceptance of an engagement, the auditor should obtain a preliminary knowledge of the client. Which of the following is NOT what an auditor should know?
A. General economic factors and industry conditions affecting the entity's business
B. Number of prospective employees
C. The regulatory framework
D. The effect of new legislation, accounting or auditing pronouncements
E. The accounting policies adopted by the entity and changes in those policies

6. What should an auditor do when he discovers a material misstatement? He should
A. Disregard the material misstatement
B. Correct the error before he writes the final audit report
C. Refer the error to the audit team for proper investigation
D. Issue an unqualified report
E. Communicate the misstatement to the appropriate level of management on timely basis and consider the need to report it to those charged with governance

7. The procedures outlined in an audit programme are mainly designed to
A. Detect errors or irregularities
B. Ensure early completion of the audit
C. Protect the auditor against litigation
D. Highlight movement in the accounts on a year-to-year basis
E. Obtain audit evidence

8. Which of the following is NOT a relevant consideration for the auditor in determining whether or not a client is of high risk?
A. The general abilities of the client's management
B. Evidence of management intentionally failing to record a material transaction
C. Evidence of client's involvement in fraudulent or illegal activities
D. The state of the economic sector in which the client operates
E. Diversification of the client's business into new areas

9. The management of corporate organizations sets up internal controls in the system to ensure all of the following EXCEPT
A. That transactions are executed in accordance with proper authorization
B. To ensure that all debtors that failed to pay are prosecuted
C. All transactions are promptly recorded at the correct values in the appropriate accounts
D. Access to assets is permitted in accordance with authorised procedures
E. Recorded assets are compared physically with existing assets at reasonable intervals and differences reconciled

10. Which of the following is NOT a method used by auditors to ascertain the system of internal control?
A. Examining previous audit work
B. Documenting the client's system
C. Interviewing client's staff
D. Tracing transactions
E. Obtaining the list of transactions for both purchases and creditors

11. Which of the following services is NOT carried out by a

Computer Bureau?
A. Parallel simulation
B. Sales of software packages
C. Time sharing
D. Data preparation
E. Designing of application packages

12. The objectives of public audit include the following EXCEPT
A. Ascertainment of the use of public resources
B. Prevention of fraud and defalcations
C. Reporting on the internal control weaknesses
D. Promoting of government policies
E. Alerting the executive and legislature of departures from procedures

13. Audit evidence could be generated within and outside the organization. Which of the following sources of evidence is NOT internal?
A. Accounting systems
B. Documents
C. Suppliers
D. Management and staff
E. Accounting records

14. Information Technology General Control (ITGC) represents the foundation of IT
A. General controls
B. Control structure
C. System
D. Governing control
E. Communication

15. The primary function of the forensic auditor at a trial is to
A. Present the report of his investigation
B. Represent the management in court
C. Give expert evidence at the trial
D. Remain silent
E. Counter the other party in the suit

16. The following steps are adopted by a forensic auditor in performing an audit EXCEPT to
A. Verify compliance with regulatory, legal and evidential matters
B. Review documents related to legal and general business functions
C. Test the organization's motivational and ethical climate
D. Perform substantive and analytical review
E. Identify questionable and exceptional transactions

17. The codes of best practice on corporate governance is treated under 3 sub-headings. Which of the following options best represents the subheading?
A. Board of Directors, Manufacturers Association and Creditors
B. Audit Committee, Shareholders and Debtors
C. Shareholders, Board of Directors and Debtors
D. Board of Directors, Shareholders and Audit Committee
E. Audit Committee, Stakeholders and Debtors

18. Due process in the public sector involves all but ONE of the following:
A. Transparency in accounting for contracts
B. Making use of administrative committees in approving contracts
C. Ensuring that arrangements are in place for dealing with all audit queries
D. Awarding contracts by the Executive after the legislature has given approval
E. Allowing interested parties to provide input into the decision-making process

19. The operations of accounts in Federal Government Ministries, Departments and Agencies are regulated by well defined internal control instruments. Which of the following instruments is used by all the agencies?
A. Financial order
B. Financial circulars
C. CBN financial instructions
D. Financial regulations
E. General financial instructions

20. Which of the following is NOT an element of internal control as defined in auditing standards and guidelines?
A. Carrying out the business of the company in an orderly and efficient manner
B. Ensuring adherence to management policies
C. Ensuring adherence to continuous audit
D. Safeguarding the assets
E. Securing the completeness and accuracy of the records.

SECTION A: PART II (SHORT-ANSWER QUESTIONS)

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

1. The term used in auditing as a measure of the quality of audit evidence is...........................
2. The process adopted by an auditor in obtaining representation or information of an existing condition directly from a third party is ....
3. Who signs the management representation letter?
4. State the cost at which an intangible asset should be carried in the balance sheet according to IAS 38.
5. The procedure designed by the auditor to determine whether appropriate control systems exist to prevent specific errors or omissions is..........................
6. The body that examines the audited accounts of the Federation is..................
7. The partner who assumes responsibility for the conduct of the audit and for issuing an auditor's report on the financial statement on behalf of the firm is known as.....................................
8. The audit risk components that the auditor does not have control over are............ and ....

9. The term used to describe transactions which primary purpose is to misrepresent the financial statements is ....

10. Another name given to value for money audit is ....

11. The Committee of Sponsoring Organization (COSO) identifies..............components of internal control

12. The type of opinion that an auditor will express when there is a serious departure from Generally Accepted Accounting Principles (GAAP) is..................

13. What is the name given to a report that either contains an emphasis of matter paragraph or qualified opinion?

14. A sampling method that adopts selection from different groups is ....

15. Another name given to financial audit is ....

16. The two main internal control areas in a computer-based system are...................... and......................................

17. Integrated Test Facilities (ITF) and Systems Control And Review File (SCARF) are two examples of................................

18. In the exercise of his functions under the 1999 Constitution, the Auditor General is subject to the direction and control of ....

19. The controls implemented by management over a computer systems application is known as................................

20. State two types of audit in the public sector.

SECTION B:

Question 1

A young accounting trainee picked up a text book on auditing and came across the concept "True and fair view" and has approached you for its meaning in practice.

You are required to:

(a) Explain the concept "True and fair view" as it relates to financial reporting. *(4 Marks)*

(b) State any THREE Nigerian Standards on Auditing (NSAs). *(6 Marks)*

(c) Outline any FIVE factors affecting materiality in auditing. *(5 Marks)* ***(Total 15 Marks)***

Question 2

Your audit firm has been appointed as auditors to ZOBO Nigeria Limited, a quoted company engaged in food processing. You are expected to take over from the existing auditor who has been relieved of his appointment.

You are required to:

(a) Outline the rules of professional conduct which must be observed in practice when there is a change of auditors.

(b) State THREE factors each to be considered before accepting a new audit under the following headings:
(i) Legal
(ii) Ethical
(iii) Practical *(9 Marks)* ***(Total 15 Marks)***

Question 3

The audit of the accounts of a partnership is not statutorily required, but it is clear that various benefits would accrue to the firm if its accounts are voluntarily audited.

You are required to:

(a) State FOUR reasons which may necessitate the audit of accounts of a partnership firm. *(4 Marks)*

(b) State FIVE important issues that you, as an auditor, would look into while auditing the books of a partnership. *(5 Marks)*

(c) Draft an audit programme to audit the receipts of a school owned by a partnership. *(6 Marks)* ***(Total 15 Marks)***

SECTION C:

Financial Reporting

(SKILL LEVEL EXAMINATIONS - MAY 2015)

Question 1

a. When a parent Company elects not to prepare consolidated financial statements and instead prepares separate financial statements; what are the disclosure requirements stipulated in IAS 27 on Separate Financial Statements? *(6 Marks)*

b. Kerewanta Plc. acquired 60% of the equity shares of Orijinmi Plc. by means of share exchange of three shares in Kerewanta Plc. for four shares in Orijinmi Plc. The market value of the shares of Kerewanta Plc. at the date of acquisition which is 1 April, 2013 was N10 per share.

Kerewanta Plc. would make a deferred cash payment of 70k per acquired share on 1 April, 2014. Kerewanta Plc. cost of capital is 12% per annum. None of the consideration has been recorded in the books of Kerewanta Plc. The following information was extracted from the financial statements of the two companies as at 31 March, 2014.

	Kerewanta Plc.	**Orijinmi Plc.**
	N'm	N'm
Equity shares of N1 each	60,000	20,000
Share premium	15,000	NIL
Retained earnings 1 April, 2013	20,500	11,600

Retained earnings for the year ended 31 March, 2014	9,800	6,700
Property, plant and equipment	50,400	22,900

The following is the additional relevant information:

(i) An equipment had a fair value of N360,000,000 above its carrying amount. At the date of acquisition of Orijinmi Plc. the asset had a remaining life of four years. It is the group's policy to depreciate such asset using the straight line method.

(ii) Orijinmi Plc. had deferred tax liability of N10,000,000 as at 31 March, 2014 which had not been recorded. The company's goodwill is not impaired.

(iii) Non-controlling interests are to be valued at fair value at the date of acquisition of Orijinmi Plc. The fair value of the shares of Orijinmi Plc. held by non-controlling interests at the date of acquisition is N6 per share.

Required:
Calculate the following as at 31 March, 2014:

i. Equity
ii. Non-controlling interests
iii. Consolidated goodwill
iv. Property, plant and equipment *(14 Marks)*

(Total 20 Marks)

Question 2

IAS 38 - Intangible Assets, specifies the criteria that must be met before an intangible asset can be recognised by an entity in its Financial Statements. Intangible assets are identifiable non-monetary assets without physical substance and include goodwill, brands, copyright and research and development expenditure. They could be purchased and/or internally generated.

Required:

a. Identify any TWO characteristics of goodwill which distinguish it from other intangible assets? *(2 Marks)*

b. Explain THREE differences between purchased goodwill and non-purchased goodwill. *(3 Marks)*

c. Identify any THREE conditions that must be met under IAS 38 for development expenditure to be recognised as an intangible asset. (3 Marks)

d. State any FOUR factors to be considered when determining the useful life of an intangible asset. *(4 Marks)*

e. Calculate the goodwill on consolidation from the information below:

	N'000
Parent's cost of investment in subsidiary	299,700
Net asset at acquisition date (parent)	986,600
Net asset at acquisition date (subsidiary)	345,800
Fair value of non-controlling interest at acquisition date	169,500
Net asset at reporting date (subsidiary)	316,400
Impairment of goodwill	62,200

Parent has 80% interests in subsidiary *(3 Marks)*

(Total 15 Marks)

SECTION D:

Business Communication & Research Methodology

(INTERMEDIATE - NOVEMBER 2013)

Question 1

A committee has been set up by the President, Institute of Chartered Accountants of Nigeria (ICAN) to:

(i) Investigate reasons why there is increase in the number of candidates seeking to become professional accountants through ICAN.

(ii) Collate the needs of students taking ICAN professional examinations.

(iii) State the challenges faced by candidates taking ICAN examinations.

(iv) Make recommendations to reposition ICAN to consolidate her position as the leading professional accounting body in Nigeria and Africa.

The committee has been given eight weeks to undertake this assignment.

Required:
As the Secretary of the committee, present the outline/structure of your report. ***(15 Marks)***

Question 2

A recent survey report in your company has identified:
(i) Workers' attitude

(ii) Language

(iii) Timing

as communication factors responsible for the low productivity of the company.

You are required to:
Identify and explain briefly the relevant issues in relations to the THREE factors stated in the report in order to improve the company's productivity. ***(15 Marks)***

Question 3

Research provides insight into every functional area of business. It can be classified according to the procedure of investigation. You are required to:

Explain any FIVE classifications of research in behavioural sciences by methods. ***(15 Marks)***

Audit and Assurance

(INTERMEDIATE - November 2013)

Suggested Solution To Multiple-Choice Questions

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

Examiners' Report

The questions cover a large spectrum of the syllabus. All the candidates attempted the questions. Performance was generally above average.

Suggested Solution To Short-Answer Questions

1. Appropriateness
2. External Confirmation/Third party confirmation
3. Managing Director/CEO and Financial Director
4. Cost less any accumulated amortization and any accumulated impairment losses
5. Internal Control Evaluation Questionnaire
6. Public Accounts Committee of the National Assembly
7. Audit engagement partner
8. (i) Inherent Risk and
   (ii) Control risk
9. Window dressing
10. Economy and efficiency audit
11. Five
12. Adverse opinion
13. Modified or Qualified Auditors report/Qualified opinion
14. Stratified sampling
15. Transaction audit
16. General Controls, Application controls
17. Computer Assisted Audit Technique/Embedded Audit Facilities
18. No authority or person
19. Application controls
20. - Compliance/regulatory audit
    - Financial audit
    - Value for money audit

Suggested Solution To Section B
Question 1

(a) Concept of "True and fair view"

(i) Meaning of "True"
• There is no statutory or judicial definition of the word "true."
• For accountants, truth is not absolute while in the sciences, truth means a fact that is fixed and will never change.
• For accountants, the word "true" means truth in accordance with the facts available at the time of signing a financial statement or auditor's report.
• For accountants, truth means an objective verification that the information contained in the financial statements is factual and without error.

(ii) Meaning of "fair"
• Fairness implies that relevant values have been applied impartially and objectively, considering the interest of all stakeholders.
• Fairness means that the financial statements presented create the right impression and not intended to mislead the users.

(iii) Meaning of "True and fair"
"True and fair view" requires compliance with the legislation and all the applicable accounting standards and regulations. Therefore, when a practitioner says that a set of accounts shows a true and fair view, it implies that:
• The auditor has requested for and obtained all information and explanations considered necessary for his audit.
• Proper books of accounts have been kept and the financial statements are in agreement with the books.
• Adequate returns have been received from branches not visited where applicable.
• The financial statements comply with statutory provisions and other relevant regulations and pronouncements.
• The assets are fairly stated, that is, they exist, are owned by the business and are properly valued.
• All the liabilities have been fully disclosed.
• There are no material errors or misstatements in the financial statements.
• Fundamental accounting concepts have been followed in the preparation of the accounts.
• The accounting policies adopted have been fully disclosed as required by International Financial Reporting Standards (IFRS).

• The financial statements have been properly presented.

(b) The current Nigerian Standards on Auditing are

S/N	NSA	Code Name of Standards (ISA/NSA)
1.	NSA 1	Overall objectives of the Independent Auditor and the conduct of an audit in accordance with International Standards on Auditing
2.	NSA 2	Agreeing the Terms of Audit Engagements
3.	NSA 3	Quality Control for an Audit of Financial Statements
4.	NSA 4	Audit Documentation
5.	NSA 5	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
6.	NSA 6	Consideration of Laws and Regulation in an Audit of Financial Statements
7.	NSA 7	Communication with those charged with Governance
8.	NSA 8	Communication Deficiencies in Internal Control to those charged with Governance and Management
9.	NSA 9	Planning an Audit of Financial Statements
10.	NSA 10	Identifying and Assessing the risks of material misstatement through understanding the entity and its environment
11.	NSA 11	Materiality in planning and performing an audit
12.	NSA 12	The auditor's responses to assessed risks
13.	NSA 13	Audit considerations relating to an entity using a service organization
14.	NSA 14	Audit evidence
15.	NSA 15	Audit evidence – specific considerations for selected items
16.	NSA 16	External confirmations
17.	NSA 17	Initial audit engagements – Opening balances
18.	NSA 18	Analytical procedures
19.	NSA 19	Audit sampling
20.	NSA 20	Audit accounting estimates, including fair value accounting estimates and related disclosures
21.	NSA 21	Related parties
22.	NSA 22	Subsequent events
23.	NSA 23	Going concern
24.	NSA 24	Written representations
25.	NSA 25	Special considerations – Audits of group financial statements (including the work of component auditors)
26.	NSA 26	Using the work of internal auditors
27.	NSA 27	Using the work of an auditor's expert
28.	NSA 28	Forming an opinion and reporting on financial statements
29.	NSA 29	Modifications to the opinion in the indepen -dent auditor's report
30.	NSA 30	Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report
31.	NSA 31	Comparative information – corresponding figures and comparative financial statements
32.	NSA 32	The auditor's responsibilities relating to other information in documents concerning audited financial statements
33.	NSA 33	Special considerations – audits of financial statements prepared in accordance with special purpose frameworks
34.	NSA 34	Evaluation of misstatements identified during the audit
35.	NSA 35	Special considerations – audits of single financial statements and specific elements, accounts or items of a financial statement
36.	NSA 36	Engagements to report on summary financial statements

(c) The factors affecting the materiality of financial information include:

(i) The magnitude of the item compared with the overall view presented by the financial statements.

(ii) The magnitude of the item compared with the magnitude of the item in previous year's financial statements.

(iii) Some items are always material if they are subject to statutory disclosure.

(iv) Departures from generally acceptable accounting standards may necessitate an item being termed material.

(v) The frequency of occurrence of non-recurrent items are often considered more material than recurring items of equal values.

(vi) The impact which an item has on the financial results of the enterprise, for instance, if the item can change a small profit- making enterprise to a loss-making one.

Examiners' Report

The question tests candidates' knowledge on (a) True and Fair View (b) the Nigerian Standards on Auditing, and (c) matters affecting materiality. More than 75% of the candidates attempted the question. Even though the question is straightforward, the understanding of the candidates was poor. Candidates undoing was the exhibition of shallow knowledge and poor interpretation of the requirements of the question.

Candidates should study hard and be current.

Question 2

(a) The auditors are expected to take the following steps:

(i) The incoming auditors should obtain authority from the client to contact the existing auditors.

The auditors should then write to the former auditors seeking information which could influence their decision as to whether or not to accept the appointment.

(ii) If the client fails or refuses to grant the new auditors permission to contact the former auditors, then they should not accept the appointment.

(iii) If permission is granted, the former auditors should communicate in writing to the new auditors stating that no matters exist why they should not accept the assignment.

(iv) Where such matters exist, the former auditors should inform the new auditors of those facts within their knowledge, which in their opinion, the new auditors should be aware of. They should feel free to discuss such matters with the new auditors.

(v) Where the former auditors do not respond within a reasonable time, the new auditors should endeavour to contact them by telephone, facsimile or e-mail. If no reply is received, they should send a final letter by registered delivery service stating that unless they receive a reply within a specified time, they will assume that no matters exist to prevent them from accepting the appointment.

(vi) If the former auditors state some matters of conflict in their reply, the new auditors should discuss with the client on such matters and thereafter decide whether to accept or reject the appointment.

(b) Factors to be considered:

(i) Legal

- The auditors must be duly appointed, for example, by members of the company at a general meeting.
- The auditors must not be an officer or servant of the company or a body corporate.
- The auditors must not be a partner or an employee of an officer of the company.
- The auditors must be a member of a recognised professional body of accountants.

(ii) Ethical

- When the acceptance of the audit will give rise to conflict of interest between the client and the auditor.
- When the audit fees constitute a significant proportion of the total fee income.
- Where the audit fees are payable subject to conditions placed by the management.
- Where the outgoing auditors have not given professional clearance.
- Where the new auditors are prevented from contacting the former auditors.
- Where the auditors take loan or advance from the client and not under normal lending conditions.
- Where the auditors have personal relationship (blood or marriage) with the Directors or Officers of the client's company.
- Where the auditors have financial interest in the enterprise or other business relationship with the Directors of the client's company.
- Where there is an offer of undue hospitality from the client.

(iii) Practical

- Where the auditors lack the skills and experience necessary to carry out the audit.
- Where the client is not willing to pay the fee charged by the auditors.
- Where the time available to carry out the audit work is not enough.
- Where the auditors are in doubt about the integrity of the officers of the client's company.

Examiners' Report
The question tests the candidates' knowledge on professional ethics and the ICAN Code of Conduct. More than 50% of the candidates attempted the question, but general performance was poor, especially in part (b). Their commonest pitfall was misunderstanding of the requirements of the question. Candidates should prepare well for the examinations and exercise due care before answering questions.

Question 3

(a) Reasons for the Audit of Partnership
Audited Accounts:

(i) provide a convenient and reliable means of settling accounts among the partners.

(ii) reduce the possibility of dispute among partners.

(iii) constitute a reliable evidence for computing the amount due from the firm to a retiring or deceased partner.

(iv) admission of a new partner is facilitated if a set of past audited accounts is available for examination.

(v) are relied upon by banks for advancing facilities (loan & over-draft).

(vi) are generally accepted by the tax authority for computing the assessable income of each partner.

(vii) facilitate negotiation for sale or conversion of the firm to a company.

(viii) serve as moral deterrent and checks on the partners against fraudulent practices.

(b) The issues the auditor would look into while auditing the books of a partnership include:

(i) Confirmation of scope of audit
The scope of the audit must be confirmed.

(ii) Examination of partnership deed/articles of partnership

Partnership deed must be examined to ascertain capital contribution, profit sharing ratios, powers and responsibilities of each partner of the firm.

(iii) Examination of minutes book
Examine the minutes book to check for the policy decisions taken by the partners.

(iv) Ascertaining the business of the partnership
Verify that the business in which the firm is engaged is duly authorized and legally allowed by the articles of partnership.

(v) Compliance with the provisions of Partnership Act
Ascertain that relevant provisions of the Partnership Act, as applicable, are complied with.

(vi) Ascertain that profits are shared in the agreed ratio.

(vii) Confirm if professional indemnity insurance policy is in place.

(c) Audit programme for receipts in a school owned by a Partnership

(i) Check the fees received on account of admission and compare them with admission forms.

(ii) Check the names entered in the students' attendance register to ascertain the total number of students enrolled. This should then be compared with students' fee register to verify the amount of fees charged and received.

iii. Ascertain the system of recovery of fines and penalty imposed on account of late payment (if applicable).

iv. Confirm that all hostel dues have been paid by students.

v. Vouch the rental income or interest/dividend income from investments held by the school.

vi. Check grants received from government or donations received from donors (if any).

vii. Check for other incomes received by the school.

viii. Verify that the school operates a system of internal check which ensures that fees are properly raised.

ix. Check fees received by comparing it with the counterfoil of receipts and pay-in-slips through to the bank statements.

x. Ensure that the person receiving cash is not responsible for entries in the cash book and other records.

xi. Where payments are made directly into the bank, check the bank reconciliation statements prepared to ensure completeness in accounting for receipts.

xii. Review the control systems on enrolment and recordings of tuition income.

xiii. Confirm if fidelity insurance policy is in place.

Examiners' Report
The question tests candidates' understanding of the needs and requirements for the audit of a partnership firm.
More than 50% of the candidates attempted the question and performance was generally poor.

Most candidates performed poorly because they are not familiar with the audit programme of schools. It is recommended that candidates should expand their knowledge of various audit programmes.

Suggested Solution To Section C
Question 1

a) DISCLOSURE REQUIREMENTS STIPULATED IN IAS 27 WHERE A COMPANY ELECTS NOT TO PREPARE CONSOLIDATED FINANCIAL STATEMENTS
When a parent company elects not to prepare consolidated financial statements and instead prepares separate financial statements, IAS 27 on Consolidated and Separate Financial Statements states that it shall disclose in those separate financials.

(i) The fact that financial statements are separate financial statements.

(ii) A list of significant investment in subsidiaries, joint venture and associates including:
- The name of those investees
- The principal place of business (and country of incorporation, if different) of those investees
- Its proportion of ownership interest (and its proportion of the voting rights, if different) held in those investees.

(iii) A description of the method used to account for the investment listed under (ii).

b)(i) Equity as at 31 March, 2014

	N'm
Share capital of Kerewanta Plc.	69,000
Share premium	96,000
Retained earnings (Wk 1)	33,360
	198,360

(ii) Non-controlling interests as at 31 March, 2014

	N'm
Added on acquisition at 1 April, 2013	48,000
40% post acquisition on profit (40% x N6,700)	2,680
Deferred tax expenses (N10million x 40%)	(4)
Additional depreciation (1/4 year x N360 x 40%)	(36)
	50,640

(iii) Consolidated Goodwill as at 31 March, 2014

Purchase consideration of Kerewanta Plc.	N'm
Share consideration	90,000
Deferred consideration	7,500

		97,500
Non- controlling interest		48,000
Cost of business combination		145,500
Fair value of identifiable net asset at 1 April, 2013		
	N'm	
Share capital	20,000	
Pre-acquisition reserves	11,600	
Fair value adjustments	360	(31,976)
Full goodwill		113,540

(iv) Property, plant and equipment as at 31 March, 2014

	N'm
Kerewanta Plc.	50,400
Orijinmi Plc.	22,900
Fair value Adjustment	360
Less: Additional depreciation (1/4 years x N360million)	(90)
	73,570

Workings:

Wk1 Retained earnings as at 31 March, 2014

	N'm
Kerewanta Plc. retained earnings (N20,500 + N9,800)	30,300
60% post-acquisition profit (60% x N6,700)	4,020
Finance cost (12% x N7,500million)	(900)
Deferred tax expense (N10million x 60%)	(6)
Additional depreciation (1/4 years x N360million x 60%)	(54)
	33,360

Examiners' Report

The question tests the disclosure requirement necessary for the computation of items in the Consolidated Statement of Financial Position, such as equity, property, plant and equipment.

About 50% of the candidates attempted the question and performance was poor.

The commonest pitfalls observed include the following:

- Inadequate knowledge of the disclosure requirement required for calculating some of the basic Consolidated Statement of Financial Position (CSFP) items highlighted above.
- Failure to show necessary workings as to how the figures were arrived at.
- Omission of N'm configuration in their solution thus, reducing the figures that are expected in million naira to thousand naira.
- Failure to recognize deferred tax liability in their solution as required by the examiner.
- It is apparent that most candidates lack the requisite knowledge of IFRS, hence they could not correctly calculate the relevant items of SFP as required by the examiner.

They are therefore advised to pay more attention to this section of the syllabus as it could feature regularly at this level of the Institute's examinations.

Question 2

a. Characteristics of Goodwill which distinguished it from other intangible assets

i. It is a balancing figure: Goodwill itself is between the fair value of the whole business and the fair value of the separatable net assets of the business. It cannot be valued on its own.

ii. Goodwill cannot be disposed off as a separate asset.

iii. The factors contributing to goodwill cannot be quantified.

iv. The value of goodwill is volatile, i.e. it can only be given a numerical value at the time of acquisition of the whole business.

v. Goodwill exists in perpetuity unless impaired.

b. Differences between purchased and non-purchased goodwill

	Purchased	Non-purchased
i.	Arises when one business acquires another as a going concern.	It's inherent in the business.
ii.	It arises from purchase and consolidation of a subsidiary.	Has no identifiable value.
iii.	Will be recognized in the financial statements as its value at a particular point in time is certain.	It is not recognized in the financial statements.

c. Conditions for recognizing development expenditure as an intangible asset exists where the entity demonstrates the following

i. The technical feasibility of completing the intangible asset so that it will be available for use or for sales;

ii. Its intention is to complete the intangible asset and use or sell it;

iii. Its ability to use or sell the intangible assets;

iv. How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible cost or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

v. The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;

vi. Its ability to measure reliably, the expenditure attributable to the intangible asset during its development.

d. Factors to consider in the determination of the useful life of Intangible Asset include the following

i. The expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team;

ii. Typical product life cycles for the asset and public information estimates of useful lives of similar assets that are used in a similar way;

iii. Technical, technological, commercial or other types of obsolescence;

iv. The stability of the industry in which the asset operates and changes in the market demand for the products of services output from the asset and the entity's ability and intention to reach such a level;

v. The period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases;

vi. Whether the useful life of the asset is dependent on the useful life of other assets of the entity.

e. Calculation of goodwill on consolidation

	N'000
Cost of investment in Subsidiary	299,700
Fair value of non-controlling interest	169,500
	469,200
Net Asset at acquisition date (Subsidiary)	(345,800)
Goodwill on consolidation	123,400
Impairment	(62,200)
	61,200

Examiners' Report

The question tests the principles and application of IAS 38 on Intangible Assets. Candidates are required to differentiate between purchase and non-purchase goodwill, state the conditions required for development cost to be recognized as an intangible asset, factors that must be considered in determining the useful life of an intangible asset and characteristic of goodwill.

About 80% of the candidates attempted the question and performance was above average.

Some of the pitfall of the candidates was their lack of indept knowledge of the provisions of IAS 38.

Candidates are required to pay attention to the provisions of IFRS for better performance in future.

Suggested Solution To Section D
Question 1

1.0 Heading

Report of the committee on reasons why there is increase in the number of candidates seeking to become professional accountants through Institute of Chartered Accountants of Nigeria (ICAN) submitted on 19th November, 2013.

2.0 Introduction

The President of ICAN set up a committee to investigate reasons for increase in number of candidates wishing to become professional accountants through ICAN, analyse their needs, challenges faced by them and make appropriate recommendations.

3.0 Membership

List of members of the committee.

4.0 Methodology/Methods of Investigation

Method(s) of investigation employed in carrying out the assignment e.g. questionnaire/interview, and the method of administering the instrument e.g. random sampling.

5.0 Findings

List findings during investigation

- Rate of increase in candidates' number and what has been responsible for this
- Needs of candidates in terms of availability of study materials in different forms
- Challenges faced by candidates with respect to syllabus, access to tutorials and libraries.

6.0 Observations

What was observed during investigation

- ICAN remains a market leader in professional examination administration in the field of accounting in Nigeria;
- ICAN maintains a well organised structure with district level activities;
- ICAN presence and visibility on national stage and active defence of members' interests make membership of the Institute a worthwhile choice;
- ICAN's syllabus needs to be broken down into more details in order to make learning and teaching easier.

7.0 Conclusion

Conclusions drawn from findings and observation

- ICAN is a leading professional examination administrator in Nigeria;
- ICAN needs to sustain and strengthen members' participation and benefits;
- ICAN has a wide range of candidates with specific and special needs;
- ICAN needs to continue to fine-tune her activities.

8.0 Recommendations

List of committee's recommendations

- ICAN needs to strengthen her membership sustenance services;
- The Institute is to remain visible at the national level
- The Institute is to initiate the process for expanding the syllabus into detailed document;
- The Institute needs to conduct needs analysis of her candidates;
- The Institute needs to produce her literature in electronic format and make them available as e-books.

9.0 Appendices
Questionnaire administered

10.0 References

11.0 Circulation/Distribution list

Examiners' Report
The question tests candidates' ability to write a report outline. About 60% of the candidates attempted the question. The performance of candidates was very poor as only about 2% of them scored 50% and above of the allocated marks. Candidates' major pitfalls are:

- lack of adequate knowledge of the concept of 'outline';
- ignorance of the components of a report;
- lack of and inadequate idea of what to write under the few components identified by candidates.

Candidates should learn the different parts of a report and know the features of the different parts for better performance in future examinations.

Question 2

The relevant issue in relation to the factors of workers' attitude, language and timing are

(i) Workers' attitude
(a) emotion as a basis of attitude
(b) arrogance of authoritarian communication

(ii) Language
(a) Polysemy or diversity of meanings
(b) Context of use to determine actual meaning
(c) Use of jargon as a communication barrier

(iii) Timing
(a) Right timing of communication
(b) Time of convenience

(i) Workers' attitude
The attitudes of parties in communication in an organisation are among the most important things in achieving effective understanding. No human being is absolutely rational in his/her thinking or actions. Most of the time, people react to situations or communications emotionally. Since emotion is the basis for attitude, the attitude of the communicator can affect the emotion and therefore the attitude of the receiver positively or negatively. Since communication usually originates from the top and vertically flows down to the shop floor workers, the initiator must do everything possible to do away with emotional words and imperative expressions that can trigger emotional reactions from the receivers. A trace of arrogance or authoritarianism in the communication will offend the sensibility of the workforce which may give rise to industrial unrest and consequently a loss of many man-hours and huge profits to the company.

(ii) Language
The language of communication must be understandable. By nature, English words are polysemantic or diverse in meanings. Such words often give rise to ambiguity which the receiver may not be able to resolve. This often leads to reading between the lines. The initiator of communication must use such words in context to disambiguate his message. Where the receiver is not sufficiently skilled or knowledgeable to use the context to determine meaning, poor understanding or outright misunderstanding will occur. The communicator, in order to achieve understanding, must use familiar words.

If a familiar word is used in an unfamiliar manner, the communicator must give the meaning that he intends the receiver to get from the message. The communicator must be ready to explain or avoid every jargon or technical language that may lead to communication breakdown if unexplained. When communication breaks down in an organisation, productivity will be adversely affected and this may lead to the collapse of the organisation.

(iii) Timing
In workplace communication, timing can make or mar the effectiveness of the communication process. An important message delivered too late will become irrelevant and unprofitable. A message delivered at a time the receiver is not receptive is wasted. Good timing is of the essence in communication. Improperly timed communication may lead to reduced effectiveness of the message and interaction. No worker appreciates being given an urgent task that must be finished close to the end of the working hour, particularly on the last working day of the week. Such a task will not be properly executed and may prove costly. Communication received at a time of convenience will receive the attention and cooperation of the receiver. A request should not be placed with someone who is busy with an urgent matter of the moment because that request may generate anger in the intended receiver. This is because the timing is not convenient.

He may do a shoddy job which can prove costly to the company. For example, a bid for a contract may be lost if the bid is sloppily handled because such a bid will project an image of inefficiency.

Examiners' Report

The question tests candidates' ability to identify communication factors militating against productivity in an organisation. About 90% of the candidates attempted the question. Out of this, about 40% scored 50% and above of the allocated marks.

Many candidates did not understand the demand of the question. They were also unable to marshal their points as a result of poor expression.

Candidates should learn how to relate communication concepts to practical life situations. They should also make use of ICAN study pack and past questions for better performance in future.

Question 3

The classification of research by method in behavioural sciences include:

(i) Descriptive Research:
This research entails the assessment and description of certain events or situations using some attributes, properties or characteristics. Descriptive research helps to explain relationship between variables, testing of hypothesis and development of generalization of principles or theories that have universal validity.

(ii) Survey Research:
The survey research method investigates problems which are usually viewed with large population or studying the samples from the population so as to estimate the population parameters. It takes a critical examination of the events with the intent of providing the information about the condition of such situation. Survey research method uses research instruments like questionnaire, interview and observations for data collection. Survey research can be quantitative or qualitative.

(iii) Historical Research:
This research method takes a critical and systematic examination of the past events in order to understand the present and predict the future or occurrence of such events. The major feature of historical research is the records of dates of events and their possible influence of certain phenomena. The findings and conclusions could be subject to the researcher's opinion.

(iv) Ex-post-facto Research:
This is also known as causal comparative research which determines the cause and effect of an event. The Ex-post-facto research establishes relationship between cause and effect of an event by examining the conditions that are traceable to the probable causal factor of the event being studied. In ex-post-facto research, the researcher has no control of the variables because they are already in existence. However, the researcher can carry out further investigation into the effect and determine the causes of the events.

The major characteristic of this type of research is that it specifies the period as well as the population group to be studied.

(v) Case-Study Research:
This research uses a particular event or situation to study the population of interest. In the investigation process, the time frame or period must be clearly defined and the conclusion drawn from the particular event or situation is used to generalise or estimate the behaviour of the population.

The major characteristic of case-study research is the specification of the period of study as well as the population group to be studied.

(vi) Correlational Research:
This is a research study that seeks to establish relationship between given variables and the type of relationship that exists between them. In the process of carrying out a correlational research, the researcher could specify a model relating the given variables. The relationship established can be used for prediction of future values of a given variable. Correlational research could be quantitative or qualitative.

(vii) Experimental Research:
This type of research investigates the possible cause-and-effect relationship between two or more groups. The major feature of this research is that it has a control or manipulating group. The effect of manipulation is achieved by using one or more descriptive methods. This is further achieved by exposing the experimental group (the group to be studied) to one or more treatments and comparing the result with the control group (the group that does not receive any treatment).

Examiners' Report

The question tests candidates' understanding of the basic classification of research methodology. About 80% of the candidates attempted the question. About 52% of this number of candidates who attempted the question scored 50% and above of the allocated marks.

The major pitfall of the candidates was their inability to explain clearly the different types of research methods.

Candidates should learn more about the classification of research methods in order to be able to differentiate between the different types, their uses and applications.

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