

EXAMINERS GENERAL COMMENTS

BREACH OF EXAMINATION INSTRUCTIONS

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

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

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

INADEQUATE COVERAGE OF THE SYLLABUS

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

INSIGHT

FOREWORD

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

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

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

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

NOTE

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

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**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
PART III EXAMINATIONS – MARCH 2017
PRINCIPLES OF AUDITING**

Time Allowed: 3 hours

**SECTION A: PART I MULTIPLE-CHOICE QUESTIONS
(30 Marks)**

ATTEMPT ALL QUESTIONS

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

1. The formal process of auditing financial statements prepared by management in order to express an opinion on their truth and fairness to shareholders is known as
 - A. Internal Audit
 - B. Statutory Audit
 - C. Forensic Audit
 - D. Ad-Hoc Audit
 - E. Corporate Audit

2. The appointment of auditors to a company requires..... at the Company's Annual General Meeting
 - A. A simple majority of shareholders
 - B. A full house of shareholders
 - C. A simple majority of Directors
 - D. The entire directorate of the company
 - E. A simple majority of the company's top Management Staff

3. According to the Code of Conduct and Guide for members of your Institute, members in public practice must **NOT**
 - A. Accept fees of an amount that is based on the turnover of the company for which he is an Auditor
 - B. Carry out work as an Auditor and as an Executive Director of the company
 - C. Give or take loans from clients
 - D. Necessarily be computer literate
 - E. Establish family or personal relationships with client company

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4. Which of the following is entitled to act as external auditors to either a private or public company?
- A. A member of a recognised professional body who has been duly licenced to practice
 - B. An officer of the company or of any Associated Company
 - C. An undischarged bankrupt
 - D. A person found by a competent court to be of unsound mind
 - E. A person who is a partner or in the employment of an officer of the company
5. Which of the following should **NOT** be included in an audit engagement letter?
- 1. Objective and scope of the audit
 - 2. Results of previous audits
 - 3. Management's responsibilities
 - 4. Need to maintain professional scepticism
- A. 1 and 2
 - B. 1 and 3
 - C. 1 and 4
 - D. 2 and 3
 - E. 2 and 4
6. Auditors are **NOT** protected from the risk of liability for the content of their reports where
- A. The disclosure is made in the public interest
 - B. Such disclosure is made to an approved and appropriate body or person
 - C. The disclosure was made in their capacity as auditors of the entity concerned
 - D. The disclosure was not in the interest of the nation
 - E. There is no malice motivating the disclosure
7. Analytical review of audited financial statements is a type of
- A. Compliance test
 - B. Walk through test
 - C. Rotational test
 - D. Substantive test
 - E. Test of controls

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8. Which of the following is **NOT** a technique of gathering audit evidence?
- A. Inspection
 - B. Observation
 - C. Permutation
 - D. Enquiry
 - E. Computation
9. The duties of the Internal Audit department of a company does **NOT** include
- A. Being concerned with the implementation of social responsibility policies adopted by the management
 - B. Being a major link between the management and Audit Committee
 - C. Acting as a training officer in internal control matters
 - D. Auditing the information given to management particularly interim accounts and management accounting policies
 - E. Ensuring that company policies are strictly adhered to by management
10. Auditors are **NOT** minimizing their potential liability for professional negligence when they
- A. Fail to understand the laws, codes and regulations guiding their duties and engagements
 - B. Obtain an indemnity from the client or third party
 - C. Take on work they are proficient at
 - D. Limit or exclude liability by the terms in their engagement letter or to third parties by a disclaimer in a report
 - E. Identify the authorised recipients of reports in the engagement letter and in a report
11. Confirmation that the responsibility for the preparation of the financial statements rests with the Directors is expressly stated in a letter of
- A. Consent
 - B. Weakness
 - C. Representation
 - D. Engagement
 - E. Comfort

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12. Whenever the financial statements are **NOT** prepared in conformity with generally accepted accounting principles, the auditor is expected to include in his report a/(an)
- A. Unqualified opinion
 - B. "Except for" opinion
 - C. Disclaimer of opinion
 - D. Adverse opinion
 - E. Disagreement opinion
13. Anybody indicted in the report of the Auditor-General of your country is required to appear for public hearing conducted by
- A. Public Hearing Committee
 - B. House Committee on Audit
 - C. Audit Alarm Committee
 - D. Public Accounts Committee
 - E. Code of Conduct Tribunal
14. Presenting financial statements in order to portray a state of affairs better than its real worth is called
- A. Misrepresentation
 - B. Maladministration
 - C. Teaming and Lading
 - D. Window Dressing
 - E. Misappropriation
15. The loss of audit trail can be overcome through any of the following techniques **EXCEPT**
- A. Special Printout
 - B. Use of Computer Bureau
 - C. Use of Test Packs
 - D. Computer Programmes
 - E. Alteration Test
16. Applicable Companies Acts have been passed in some jurisdictions that require an audit of annual financial statements. Such audits are known as
- A. Corporate Audits
 - B. Internal Audits
 - C. Public Limited Liability Audits
 - D. Statutory Audits
 - E. Forensic Audits

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17. Which of the following is **NOT** a procedure for evaluating internal control systems?
- A. Obtaining an understanding of the client's business and its environment
 - B. Determination of the nature of irregularities that may arise
 - C. Assessment of any weaknesses in the client's controls
 - D. Planning the nature and extent of audit test to be performed
 - E. Reporting weaknesses to the management
18. The Principle of Confidentiality imposes an obligation on members in Public Practice to
- A. Refrain from using confidential information acquired in the course of audit work for personal or third party advantage
 - B. Maintain confidentiality even in the social environment
 - C. Maintain confidentiality of information disclosed by a prospective client or employer
 - D. Refrain from producing documents or other evidence in the course of legal proceedings
 - E. Respect the need to maintain confidentiality of information within the client's company
19. Which of the following is **NOT** within the rights of Auditors?
- A. Have access at all times to books of accounts and records of the company
 - B. Attend any general meeting of the company
 - C. Apply to the court for directions in relation to any matter arising in connection with the performance of their functions
 - D. Communicate with a retiring Auditor before accepting appointment as Auditors of a company
 - E. Be involved in the appointment processes of the Executive Directors of the client company
20. Which of the following circumstances may **NOT** pose a threat to objectivity and independence of an Auditor in the discharge of his duties?
- A. Allowing overdue fees to be converted to loans for the Auditor
 - B. Threatened litigation in relation to a client
 - C. Undue dependence by the Auditor on a client
 - D. Refusal to accept or perform audit work for which he is not competent or knowledgeable to perform

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- E. The Auditor holding beneficial interest in the shares or other forms of investments in the client company
21. Which of the following is **NOT** important in audit planning?
- A. Helping to ensure that the audit work is completed expeditiously
 - B. Establishing the intended means of achieving the objectives of the audit
 - C. Helping to ensure that attention is devoted to critical aspects of the audit
 - D. Identifying the legal frameworks
 - E. Assisting in the direction and control of the audit work
22. The Auditor is **NOT** liable for which of the following?
- A. Willfully making a statement in any material particular, knowing it to be false
 - B. Expressing “a true and fair view” in his report
 - C. Disclosing confidential information to unauthorised persons
 - D. Negligence of duties to his clients
 - E. Wrongful performance of his fiduciary duties
23. As part of the effective control in a Limited Liability company, Company Legislation specifies the statutory books to be maintained by a company. Such books **EXCLUDE**
- A. A cashbook and general ledger
 - B. A register of Directors and Secretary
 - C. A register of charges
 - D. A record of the assets and liabilities of the company
 - E. Annual register of all members of staff
24. Internal controls are procedures that ensure all transactions, assets and liabilities are recorded correctly. Which of the following is **NOT** an objective of an internal control arrangement?
- A. To safeguard the assets of the organisation
 - B. To ensure that staff and auditors are adequately compensated
 - C. To secure completeness and accuracy of the records
 - D. To ensure adherence to management policies
 - E. To carry on the business of the company in an orderly and efficient manner

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25. What should an auditor do if he discovers facts that are material after the date of his audit report but before the Annual General Meeting?
- A. Report to the audit committee
 - B. Report the issue to the Corporate Affairs Commission
 - C. Request the audit team to review the entire audit
 - D. Report to the board of directors to take appropriate action
 - E. Report to the shareholders to take appropriate action
26. The procedure for the final audit does **NOT** include:
- A. Investigation
 - B. Representations
 - C. Confirmations and verification
 - D. Reviews
 - E. Comparisons
27. Directors' responsibility as for the preparation of financial statements is emphasised in a
- A. Letter of representation
 - B. Management letter
 - C. Bank letter
 - D. Comfort letter
 - E. Circularisation letter
28. The appointment of the Auditor-General for your country is confirmed by
- A. The Civil Service Commission
 - B. The Ministry of Finance
 - C. The Senate
 - D. The Parliament/Legislature
 - E. The Council of State
29. Which of the following is **NOT** a type of Computer Assisted Audit Techniques (CAAT)?
- A. Snapshot
 - B. Tracing software
 - C. Program Code Examination
 - D. Data Collection Technique
 - E. Test Data Packs
30. Which of the following is **NOT** a function of the Audit Committee?

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- A. Strengthening the role of non-executive directors from being misled by management
- B. Increasing the credibility of audited financial statements
- C. Confirming the appointments of the statutory auditor
- D. Preventing fraudulent financial reporting
- E. Helping the Board of Directors in meeting their responsibilities

**SECTION A: PART II SHORT-ANSWER QUESTIONS
(20 Marks)**

ATTEMPT ALL QUESTIONS

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

1. What name is given to the audit that is compulsorily required by law to be carried out by a business entity?
2. The Independent examination of financial statements undertaken by non-employees of a business entity is referred to as
3. The appointment of the first auditors of a company and the filling of any casual vacancy in the office of the auditor of a public company is carried out by
4. By what means can a company remove an auditor before the expiration of his term of office?
5. The letter sent by the auditors to a client at the beginning of any audit that forms the basis of the contract is known as
6. The examination of transactions of a company together with the documents and other evidence of sufficient validity to satisfy the auditor that such transactions are in order, properly authorised is technically referred to as
7. What is the other name for “petty cash” system?
8. The formula below is very important to a company. What is it used to measure?

$$\frac{\text{Operating profit after interest, tax and preference dividends}}{\text{Number of issued shares}}$$

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9. For inventory valuation purposes, inventories are recorded at lower of cost or
10. The audit approach which involves evaluation of internal control system established within the enterprise is called
11. A situation whereby an auditor is unable to trace an individual transaction through the system from the originating document to the financial statements is known as
12. Who is responsible for the appointment of the Auditor-General for your country?
13. What type of auditors' opinion will be issued when the client's business is not clearly "a going concern"?
14. Observations or points raised by the Auditor-General in particular transactions seeking further clarifications are termed
15. **TWO** circumstances that will make an auditor to issue a qualified audit opinion are and
16. What is the name given to a set of documents which the auditors prepare, obtain and retain in connection with the performance of their audit work?
17. An arrangement where an auditor surrenders his records to a colleague for scrutiny and validation is referred to as
18. An activity conducted by an auditor in order to establish costs, authorization, value, existence, beneficial ownership and presentation of a financial transaction in the accounts is tagged a
19. What is the name given to a document that contains supplier's name, date of purchase, original cost, estimated useful life of assets owned by a company?
20. A convenient way of describing the line of authority, responsibility, approval and reporting relationships that exist in an organisation is referred to as

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SECTION B: ATTEMPT ANY FOUR QUESTIONS (50 Marks)

QUESTION 1

You are the External Auditor of Hire & Fire Limited, a general merchandising company based in Lagos, Nigeria. In the course of the 2015 audit, you discovered that Chief Ego, the Managing Director of the company had been withdrawing funds from the business which he refused to disclose as Director's remuneration in the financial statements. You are obliged to qualify your audit opinion because of its materiality. This made Chief Ego to decide to remove you as the Auditor.

Required:

- a. State **TWO** main inseparable duties of an auditor during an audit. (4 Marks)
- b.
 - i. State how an auditor may be removed from office. (2 Marks)
 - ii. State **FOUR** statutory rights of an auditor. (4 Marks)
- c. State the impact of the actions and attitudes of Chief Ego in the above stated situation. (2¹/₂ Marks)

(Total 12¹/₂ Marks)

QUESTION 2

- a. Briefly explain the following terms
 - i. Contingent Liability
 - ii. Contingent Asset (3¹/₂ Marks)
- b. List **THREE** circumstances that may give rise to contingent liabilities. (3 Marks)

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- c. State how you will obtain audit evidence that all contingent liabilities have been reflected in the financial statements.

(6 Marks)

(Total 12½ Marks)

QUESTION 3

It is not possible to detail the procedures for verifying all possible liabilities. However, some general principles can be applied according to the particular circumstances encountered during an audit.

List and briefly explain **EIGHT** of such principles.

(Total 12½ Marks)

QUESTION 4

The following are among the important methods of inventory valuation:

Base Stock (BS), Last In and First Out (LIFO) and First In and First Out (FIFO).

- a. Briefly explain BASE STOCK and the likely effect it has on the profit of a company, where such Base Stock is large. (3½ Marks)
- b. Briefly explain FIFO and LIFO methods of inventory valuation. (3 Marks)
- c. Using FIFO and LIFO methods, calculate the gross profit and closing inventory from the data stated below. (6 Marks)

(Total 12½ Marks)

Marks)

Purchases	₤
3/1/2015 - 200units @	20
18/1/2015 - 200units @	25
30/1/2015 - 200units @	30
Revenue	
360 units @	60

QUESTION 5

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In order to strengthen Corporate Governance in Public Companies, Company Law prescribes the establishment of an Audit Committee for every company.

a. You are required to State **SIX** functions and responsibilities of an Audit Committee. (9 Marks)

b. What is the statutory number of a company's Audit Committee and who chairs the committee? (3½ Marks)

(Total 12½ Marks)

QUESTION 6

The main duty of an auditor is to report to the shareholders of the company on the financial statements laid before them at an Annual General Meeting.

You are required to state:

a. What the auditor is required to report on? (3½ Marks)

b. What circumstances may necessitate the auditor to qualify his opinion? (9 Marks)

(Total 12½ Marks)

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SUGGESTED SOLUTION ON PRINCIPLE OF AUDITING

MULTIPLE-CHOICE QUESTIONS

SECTION A: PART 1

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

Examiner's Report

Being a compulsory part of the paper, the candidates attempted this and it proved the saving grace for those that passed.

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SECTION A PART B SOLUTION TO SHORT-ANSWER QUESTIONS

1. Statutory Audit
2. External Audit
3. The Directors
4. Ordinary Resolution
5. Letter of Engagement/Engagement Letter
6. Vouching
7. Imprest
8. Earnings per share
9. Net realizable value
10. Systems Audit
11. Loss of audit trail
12. The President
13. Disclaimer of opinion
14. Audit queries
15. Uncertainty and Disagreement
16. Audit working papers
17. Peer review
18. Verification exercise
19. Noncurrent Assets/PPE Register
20. Organizational chart/Organogram

Examiner's Report

Well attempted by quite a good number of candidates (over 90%) and it was a marks booster.

SOLUTION TO QUESTION 1

- a. Two main inseparable duties an auditor during an audit are as follows:
 - (i) To make a report to the members of the company on all accounts and financial statements of the company or group of companies.

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- (ii) To state whether the financial statements of the company show a true and fair view and have been properly prepared in accordance with the provisions of the law.

- b.
 - i. An auditor may be removed from office by the shareholders of the company passing ordinary resolution notwithstanding any agreement between the auditor and the shareholders.

 - ii. Four statutory rights of an auditor.
 - Right of access at all times to books of accounts and vouchers of the company
 - Right to attend general meetings of the company and to receive notices of and other communication relating to the meeting which concerns him as the auditor.
 - Right to be heard at the meeting
 - Right to be notified in writing in the event of an intended resolution to remove him or appoint other person in his stead
 - Right to communicate with a retiring auditor
 - Right to acquire from the officers including directors' explanations relating to the audit.

- c. Impact of the actions and attitudes of the Managing Director
 - ✓ The profit of the company has been overstated since the directors remuneration has not been reflected as part of company's expenses
 - ✓ The director's action portrays a threat to auditors' independence(intimidation threat) as he has threatened to remove the auditor if he qualifies his audit report.
 - ✓ The director failed in his fiduciary duties towards the company.

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Examiner's Report

Well attempted by more than 90% of the candidates. The question tests a fundamental part of the syllabus and those who attempted it scored well.

SOLUTION TO QUESTION 2

A. CONTINGENT LIABILITY

i. A contingent liability is a potential liability that occur depending on the outcome of an uncertain future event. A Contingent Liability is recorded in the accounting records if the contingency is probable and the amount of liability reasonably estimated.

ii. CONTINGENT ASSET

A contingent asset is a potential asset associated with a contingent gain. Unlike contingent liabilities and contingent losses, contingent assets and gain are not recorded in the accounts, even when they are profitable and the amount can be reasonably estimated.

B. Circumstances that may give rise to contingent liabilities include:

- i. Restructuring by sale of an operation
- ii. Restructuring by closure or re-organisation
- iii. Warranty
- iv. Land Contamination
- v. Customers' refunds
- vi. Offshore oil rig must be removed and seabed restored
- vii. Abandoned leasehold
- viii. Major overhaul or repairs
- ix. Overseas loss on contract
- x. Future operating losses.

Procedures relating to obtaining audit evidence to confirm/ascertain contingencies include:

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- i. Review the client's system of recording claims and the procedure for bringing this to the Board and Management's attention.
- ii. Arrange contact with Solicitors responsible for legal matters
- iii. Examine Board Minutes and or other executive or other committee meetings for references to, or indications of possible claim.
- iv. Examine Solicitor's Bills and correspondence with them, where they will be expected to furnish Bills or estimates of charges to date, or to confirm that they have no unbilled charges.
- v. Collect a list of matters referred to Solicitors from the appropriate director or official with estimates of possible ultimate liabilities
- vi. Obtain written assurances from appropriate directors or officials that they are not aware of any matter referred to Solicitors other than those disclosed
- vii. Check for contingencies from last year that may still be applicable
- viii. Check for which nature of the clients business that may make certain contingencies likely (e.g warranty claims)

Examiner's Report

The question was not well attended. Quite fundamental and contemporary yet candidates boycotted it. Less than 5% attempted it and they did not score well at all.

SOLUTION TO QUESTION 3

Some verification procedures for liabilities include:-

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- i. Schedule: Request or make a schedule for each liability or a class of liabilities
- ii. Cut off: Verify cut-off. For example, a trade creditor should not be included unless the goods were acquired before the year end.
- iii. Reasonable: Consider the reasonableness of the liability as stated
- iv. Internal control: Determine, evaluate and test internal control procedures
- v. Previous date clearance: Consider the liabilities at the previous account date. Have they all be cleared?
- vi. Authority: The authority for liabilities should be sought
- vii. Description: Ensure that the description in the accounts of each liability is adequate
- viii. Documents: Examine all relevant documents. These will include invoices, correspondences, debenture title deeds etc according to the type of liability.
- ix. Vouching: The creation of each liability should be vouched. e.g receipt of a loan.
- x. Accounting Policies: The auditor must satisfy himself that appropriate accounting policies have been adopted and applied consistently.
- xi. Disclosure: All matters which need to be known to reflect a true and fair view must be disclosed.
- xii. External Verification: Verify the liability directly with creditors
- xiii. Materiality: This comes into all accounting and auditing decisions.
- xiv. Post Financial Position Events: Very important in this area than others
- xv. Accounting Standards: Liabilities must be accounted for in accordance with the relevant accounting and auditing standards.

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xvi. Risk: Assess the risk of misstatement

Examiner's Report

Another question well avoided by the candidates, less than 10% attempted this question and those who did performed poorly.

SOLUTION TO QUESTION 4

- a. This method implies that a basic amount of inventory is considered to be purchased and retained for the period. All subsequent purchases are treated as recurring.

Base stock increases the total amount of closing inventory when it is large. Thus, a large base stock of high closing inventory will lead to increase in profit. However, where such base stock becomes obsolete the resultant profit (net profit) shall reduce because obsolete stock is expected to be written off.

- b. FIFO (First-In-First Out) method of inventory issues the earliest inventory received to production thereby charging the earlier cost of materials to cost of sales under this method, the closing inventory is valued using the last cost of materials.

LIFO (Last - in-first-out) method of inventory valuation issues the latest or recent cost of materials to charge materials out of store and the closing inventory is valued using the earliest cost of materials.

- c. Computation of Gross Profit using FIFO

	-N
Revenue (360 units x 21,600 N60)	
Cost of sales (wk i)	<u>(8,000)</u>
	<u>13,600</u>

Workings (i)

	FIFO		N
Cost of Sales Using 1/1/2015	Purchase	200 units @ N20	4,000
		=	

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18/1/2015	Purchase	<u>160</u> units @ N25	<u>4,000</u>
		=	
		<u>360</u> Units	<u>8,000</u>

Closing inventory using FIFO

					N
18/1/2015	Purchase	40units	@ N25	=	1, 000
30/1/2015	purchase	200 units	@ N30	=	<u>6, 000</u>
					<u>7, 000</u>

Computation of gross profit using LIFO

					N	N
Revenue (360 units x N60)					21, 600	
<u>Cost of sales</u>						
30/1/2015	purchase	200 units	@ N30	=	6,000	
18/1/2015	purchase	160 units	@ N25	=	<u>4,000</u>	(10, 000)
			Gross profit		<u>11, 600</u>	

Closing inventory using LIFO

					N
18/1/2015	40 units	@ N 25	=	1, 000	
3/1/2015	200 units	@ N 20	=	<u>4, 000</u>	
				<u>5, 000</u>	

Examiner's Report

Well attempted (over 90%) but performance was just slightly above average

SOLUTION TO QUESTION 5

The functions and responsibilities of an audit committee include the following

1. To ascertain whether the accounting and reporting policies of the company are in accordance with legal requirements and agreed ethical practices.
2. To review the scope and planning of audit requirements
3. To review the findings on management matters in conjunction with the external auditor and responses thereon.
4. To keep under review the effectiveness of the company's system of accounting and internal control

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5. To make recommendations to the Board in regard to the appointment, removal and remuneration of the external auditors of the company and
6. To authorise the internal auditor to carry out investigations into any activities of the company which may be of interest or concern to the committee.

b. COMPOSITION OF THE AUDIT COMMITTEE

Membership of audit committee usually consists of an equal number of directors and representatives of the shareholders of the company (subject to maximum of six members and independent shareholder always chairs the committee).

Examiner's Report

Another contemporary question. This should have been a mark booster. A good number of the candidates attempted the question (more than 90%) but performance was very poor (less than average).

SOLUTION TO QUESTION 6

- a. According to Section 35 9(1) of Companies and Allied Matters Act LFN Cap C20 Laws of the Federation of Nigeria (2004), the Auditor shall report on the following:

The auditor is required to report to the Shareholder on the truth and fairness view presented by the financial statement examine by him. These include:

- i. Whether proper accounting records have been kept by the company and proper returns have been received from branches not visited by him.

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- ii. Whether the company's statement of financial position and profit or loss and other comprehensive income are in agreement with the accounting records and returns.
 - iii. Whether the Auditor has obtained all information and explanation which are thought necessary for the purpose of our audit; and
 - iv. Whether the information in the directors' report is consistent with the financial statements.
- b. The circumstances that may necessitate the auditor to qualify his opinion can be classified into two categories:
- i. Uncertainty
 - ii. Disagreement

Uncertainty

The circumstances leading to uncertainty can be classified into:

a) Limitation in audit scope

This is a situation where the auditor's scope has been limited in any way. Examples include:

- i. Absence of proper accounting records in the company
- ii. The auditor's inability to obtain information and explanations considered necessary for audit purposes
- iii. Inability to perform audit tests and procedures considered necessary

b) Inherent Uncertainties

Situation arises where it is not possible for the Auditor to arrive at an objective conclusion about the outcome of a particular situation due to the prevailing circumstances. Examples include:

- i. Doubts about the ability of a company to continue as a going concern
- ii. Doubts about the outcome of a major litigation

Disagreement

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This situation arises where the auditor forms an opinion on a particular matter, but this conflicts with the opinion of Company's management as reflected in the accounts. Examples include:

- a) Disagreement as to facts or amounts in the financial statements
- b) Disagreement as to the extent of disclosure of facts or amounts in the financial statements
- c) Disagreement as to compliance with the Companies and Allied Matters Act 1990 statute and other relevant regulations
- d) Departures from relevant accounting standards or where the client adopts inappropriate accounting policies.

Examiner's Report

Well attempted questions (above 80%) with average performance (below 40%)

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**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
AT/171/PIII.10 ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
PART III EXAMINATIONS – MARCH 2017
COST ACCOUNTING**

Time Allowed: 3 hours

**SECTION A: PART I MULTIPLE-CHOICE QUESTIONS
(30 Marks)**

ATTEMPT ALL QUESTIONS

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

1. The following extracts was taken from the production cost budget of XYZ Limited

Production	2,000	3,000
(units)		
Production cost	11,100	12,900
(₦)		

The budget cost allowance for an activity level of 4,000 units is

- A. ₦ 7,200
B. ₦13,240
C. ₦14,700
D. ₦17,200
E. ₦22,200
2. The actual output of 162,500 units and actual fixed costs of ₦87,000 were exactly as budgeted. However, the actual expenditure of ₦300,000 exceeded budget by ₦18,000. What was the budgeted variable cost per unit?
- A. ₦1.20
B. ₦1.31
C. ₦1.42
D. ₦1.45
E. ₦1.85
3. An organization currently produces one product which sells for GH¢130 per unit. The cost per unit of the product is as follows:

	GH¢
Direct Materials	22
Direct Labour	15
Direct Expenses	3
Variable Overheads	<u>10</u>

INSIGHT

Variable cost per unit 50

Total fixed costs for the period is GH¢1,600,000.

How many units will be produced and sold to generate a profit of GH¢250,000?

- A. 20,000 units
 - B. 20,555 units
 - C. 21,252 units
 - D. 23,125 units
 - E. 26,428 units
4. Prime Cost is
- A. All costs incurred in manufacturing a product
 - B. The material cost of a product
 - C. The cost of operating a department
 - D. The cost of all indirect expenses
 - E. The total of direct costs
5. The following data relate to inventory item CDX 156
- | | |
|--------------------|------------------------|
| Ordering costs | Le100 per order |
| Stockholding costs | Le4 per unit per annum |
| Annual demand | 5,000 units |
- What is the Economic Order Quantity?
- A. 250 units
 - B. 354 units
 - C. 500 units
 - D. 1,000 units
 - E. 1,250 units
6. The following information applies to a factory where Wale, Xeon, Yaya and Zacheous work:
- | | |
|--------------------------|---------|
| Normal rate per hour | L\$5 |
| Standard output per hour | 5 Units |
- In order to produce 200 units, time taken in hours was as follows:
Wale = 10, Xeon = 20, Yaya = 30 and Zacheous = 40.
- Using Halsey Premium Scheme, what is the total earning of Yaya?

INSIGHT

- A. L\$160
 - B. L\$175
 - C. L\$185
 - D. L\$200
 - E. L\$250
7. The scheme where monetary incentives is paid in addition to wages and workers are entitled to a portion of the gains of the business at an agreed rate is
- A. Co-partnership Scheme
 - B. Merit Rating Scheme
 - C. Accelerated Premium Scheme
 - D. Group Bonus Scheme
 - E. Profit Sharing Scheme
8. The process of gathering, analyzing and synthesizing information regarding the operations, duties and responsibilities of a specific job is
- A. Job Specification
 - B. Job Description
 - C. Job Analysis
 - D. Job Evaluation
 - E. Job Identification
9. Which of the following is **NOT** applicable to Marginal Costing Principles?
- A. Pricing decision
 - B. Make or buy decision
 - C. Own or lease decision
 - D. Ascertainment of job cost
 - E. Supplying or export order
10. The specific order costing under which each assignment is treated as a cost unit and costs are accumulated and ascertained separately for each assignment is
- A. Process costing
 - B. Batch costing
 - C. Job costing
 - D. Service costing
 - E. Continuous costing

INSIGHT

11. The portion of a contract work completed which has not been approved by the contractee's architect is
- A. Work specification
 - B. Work done
 - C. Work certified
 - D. Work completed
 - E. Work uncertified
12. XYZ Limited presents the following data:
- | | |
|------------------------|-------------|
| | Process 1 |
| Input | 2,000 units |
| Output to next process | 1,700 units |
| Normal loss | 10% |
- What is the Abnormal loss in units?
- A. 100
 - B. 110
 - C. 120
 - D. 150
 - E. 160
13. The type of Accounting system where separate financial and cost accounts are kept is
- A. Integrated system
 - B. Interlocking system
 - C. Financial system
 - D. Costing system
 - E. Back flushing system
14. The account which summarises all the financial receipts, payments and other transfer transactions from cost books to financial books is
- A. Cost of Sales Account
 - B. Stores Ledger Control Account
 - C. Finished Inventory Ledger Control Account
 - D. Cost Ledger Control Account
 - E. Costing Profit or Loss Account
15. The result of the operating activities of the firm during a particular accounting period as per cost book is
- A. Costing Profit or Loss Account

INSIGHT

- B. Cost of Sales Account
C. Finished Stock Ledger Control Account
D. Administration Overheads Control Account
E. Production Overheads Control Account
16. The payback period of a project where the company's initial outlay on Plant and Machinery is ₦500,000 and annual profit is ₦50,000 with depreciation rate of 10% is
- A. 3 years
B. 4 years
C. 5 years
D. 6 years
E. 7 years
17. Determine the Profit/Volume Ratio where:
- | | |
|------------|-------|
| | GH¢ |
| Fixed cost | 2,000 |
| Profit | 400 |
| Sales | 6,000 |
- A. 20%
B. 25%
C. 40%
D. 50%
E. 60%
18. Which of the following is **NOT** an example of a decision situation where variable costing can be used?
- A. Acceptance of a special order
B. Company merger and acquisition
C. Make or buy
D. Dropping of a special order
E. Choice of product involving a limiting factor
19. The instrument used for planning and controlling the sources and uses of cash to ensure the availability of cash at a time when it is needed is
- A. Receipts & Payments Budget
B. Cash Budget

INSIGHT

- C. Sales Budget
 - D. Administrative Cost Budget
 - E. Capital Expenditure Budget
20. A budget prepared and operated for a defined time horizon before a new budget is prepared for the timeframe following the end of the earlier budget period is called
- A. Cash Budget
 - B. Zero-Based Budget
 - C. Planning, Programming and Budgeting System
 - D. Incremental Budget
 - E. Periodic Budget
21. Flexible Budgeting is a method of budgeting where
- A. The budget period is not fixed
 - B. Actual performance is worked to the budget
 - C. Managers are allowed to operate without stringent conditions
 - D. Budget is developed for different and alternative production levels
 - E. Revisions are permitted on a monthly basis
22. The type of variance that results from machine breakdown, power outages and work stoppages is
- A. Electricity wastage variance
 - B. Idle time variance
 - C. Direct labour efficiency variance
 - D. Machine breakdown variance
 - E. Material wastage variance
23. The purpose of computing variances is to
- A. Punish inefficient managers
 - B. Maintain good records
 - C. Settle long-standing records
 - D. Detect fraud
 - E. Investigate why standards are not met and take corrective actions
24. The investment appraisal technique that uses cash flows and automatically recognizes the time value of money is
- A. Profitability index
 - B. Payback period

INSIGHT

- C. Discounted cash flow
D. Internal rate of return
E. Accounting rate of return
25. Determine material cost variance from the following information
- | | Standard | Actual |
|--|-----------------------|-----------------------|
| Output | 100 units | 200 units |
| Quantity of material required per unit of output | 2kg per unit | 3kg per unit |
| Price | ₹ 4 per kg | ₹ 3 per kg |
- A. 200 (Favourable)
B. 200 (Adverse)
C. 300 (Adverse)
D. 300 (Favourable)
E. 320 (Adverse)
26. Which of the following does **NOT** represent the techniques of cost reduction?
- A. Value Engineering
B. Inventory Control Techniques
C. Market Research
D. Labour Control Techniques
E. Zero-Based Planning Control
27. “Demand Pull” in relation to Just-in-Time system, means
- A. The system is based purely on demand and supply
B. Goods are produced before demand
C. The production chain is activated real-time by demand
D. Production deadlines are strictly monitored
E. Each process in production is linked to the other
28. The following represents objectives of Cost Accounting **EXCEPT** to
- A. Assist in planning
B. Investigate fraud
C. Provide information for control purposes
D. Provide information for decision making
E. Ascertain cost and facilitate pricing
29. Cost Accounting is an integral part of
- A. Forensic Accounting

INSIGHT

- B. Financial Accounting
 - C. Management Accounting
 - D. Historical Accounting
 - E. Treasury Accounting
30. A product cost estimate derived by subtracting a desired profit margin from a competitive market price is
- A. Marginal cost
 - B. Full cost
 - C. Target cost
 - D. Variable cost
 - E. Fixed cost

**SECTION A: PART II SHORT-ANSWER QUESTIONS
(20 Marks)**

ATTEMPT ALL QUESTIONS

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

1. Costs may be classified in different ways but the most fundamental method of classification is into and
2. The costs of turning purchased materials into finished or semi-finished products is
3. Grouping of costs relating to a particular activity in an activity-based costing system is called
4. The arrangement of items in logical groups having regard to their nature or purpose is called
5. A system of symbols designed to be applied to a classified set of items, to give a brief accurate reference facilitating entry, collation and analysis is referred to as.....
6. An internally generated document which is necessary to support the supplier's invoice for payment is known as
7. A system, which objective is to produce or to procure products or components as they are required by a customer or for use, rather than for stock is called
8. A stock allowance to cover errors in forecasting the lead time or the demand during the lead time is
9. The technique which seeks to show in a reasonably objective manner, the relative worth of jobs is

INSIGHT

and completed a job for which the standard time was 48 hours for each worker.

Calculate the individual labour cost under:

- i. Halsey method.
 - ii. Rowan method of incentive plan payments.
(show all workings) (7 Marks)
- (Total 12½ Marks)**

QUESTION 2

MAAL Limited, a radio manufacturing company, which commenced business on 1 April 1995 supplies you with the following information and asked you to prepare statement showing the profit per radio set sold. Wages and materials are to be charged at actual cost, factory overhead at 75% of wages and administrative overheads at 30% of factory cost. There were no radio sets in stock or in the course of manufacture on 31 March 2015. The number of radio sets sold during the year was 540 and the details of costs and selling price per set are given below:

	Le
Material per set	2,400
Wages per set	800
Selling price per set	6,000

Required:

- a. Prepare the necessary statements, showing the actual profit or loss for the year, if the works expenses were Le321,600 and the office expenses were Le618,000.
(4½ Marks)
- b. Prepare a statement reconciling the profit as shown by the cost accounts with the profit shown by Profit or Loss Account for the year ended 31 March 2015 and also show the statement of profit or loss per radio set sold.

(8 Marks)

(Total 12½ Marks)

QUESTION 3

INSIGHT

LAN CONSTRUCTION COMPANY LTD. has undertaken the construction of a multi-storey building for a contract sum of GH¢25million. The retention money agreed is 20% and the contractee is to make payment for 80% of the work certified by the Architect. The following are the details as shown in the books on 31 March 2016:

	GH¢
Materials sent directly to site	8,400,000
Materials issued from stores	2,124,000
Labour on site	8,100,000
Hire and use of plant	242,000
Materials destroyed at site (cost)	100,000
Direct expenses	460,000
General expenses allocated to contract	742,000
Materials sold at site at a profit of 20% on selling price	400,000
Materials at hand on 31 March 2016	126,000
Wages accrued on 31 March 2016	156,000
Direct expenses accrued on 31 March 2016	32,000
Work not yet certified at cost	330,000
Work certified by the Architect	22,000,000
Cash received from contractee	17,600,000

You are required to prepare:

- a. Contract Account (8 Marks)
- b. Contractee's Account (3 Marks)
- c. Work-in Progress Account (1½ Marks)

(Total 12½ Marks)

Marks)

QUESTION 4

- a. Briefly explain the following terms:
- i. Standard cost (1 Mark)
- ii. Standard cost card (1 Mark)
- iii. Standard hour (1 Mark)

INSIGHT

iv. Ideal standard (1 Mark)

v. Basic standard (1 Mark)

b. BOLTON Manufacturing Company has the following standard cost sheet for one of its products:

	L\$
Direct materials (6kg @ L\$5)	30
Direct Labour (1.5 hrs @ L\$10)	15
Variable overhead (1.5 hrs @ L\$4)	6
Fixed overhead (1.5 hrs @ L\$2)	<u>3</u>
	<u>54</u>

During year 2016, the following actual results were recorded:

Production	12,000 units
Fixed Overhead	L\$33,000
Variable Overhead	L\$69,000
Direct Materials (71,750kg purchased)	L\$361,620
Direct Labour (17,900 hrs)	L\$182,580

You are required to compute the following:

i. Direct Material Cost Variance (1½ Marks)

ii. Direct Material Price Variance (1½ Marks)

iii. Direct Material Usage Variance (1½ Marks)

iv. Direct Labour Efficiency Variance (1½ Marks)

v. Direct Labour Rate Variance (1½ Marks)

Marks)

(Total 12½

QUESTION 5

INSIGHT

a. Briefly explain the term “Limiting Factor”. (1½ Marks)

b. Yaro Limited which is engaged in the manufacture of two products A and B gives you the following information:

	Product A	Product B
		Le
	Le	
Selling price per unit	120	200
Direct materials per unit	40	50
Direct wages per unit @ Le0.50 per hour	20	30
Variable overhead	100% of direct wages	
Fixed overhead	Le20,000 per annum	
Maximum capacity	1,000 units	

Required:

Compute the contribution of each of the products A and B, and recommend which of the following sales mix should be adopted:

- i. 300 units of Product A, and 600 units of Product B
- ii. 450 units of Product A and 450 units of Product B
- iii. 600 units of Product A and 300 units of Product B

(11
Marks)
(Total 12½

Marks)

QUESTION 6

DUNCAN LIMITED produces a standard product. The expenses budgeted for production of 10,000 units in a factory are given below:

	Per Unit
	₦
Materials	70
Labour	25
Variable overheads	20
Fixed overheads (₦100,000)	10
Variable expenses (direct)	5
Selling expenses (10% Fixed)	13
Distribution expenses (20% Fixed)	7

ATSWA PART III MARCH 2017 DIET

INSIGHT

Administration expenses	_____5
(N50,000)	
Total cost of sales per unit	____ <u>155</u>

The company uses marginal costing approach and it is assumed that administration expenses are constant at all levels of activity.

Required:

- a. Prepare flexible budget for the production of 6,000 and 8,000 units for the period of 31 December 2016.

(10½ Marks)

- b. Determine the cost per unit at every level of activity. (2 Marks)

(Total 12½ Marks)

SUGGESTED SOLUTIONS ON COST ACCOUNTING

MULTIPLE CHOICE SOLUTIONS

SECTION A: PART 1

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

INSIGHT

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

WORKINGS:

6. Halsey Premium	=	Time taken x Rate per hour + ½ Time
Saved		
Actual hours	=	30
Standard hours	=	200 units ÷ 5 = 40
Time saved (hours)	=	10
Bonus (Hrs) - ½ (40 - 30)	=	5 hours
Rate per hour	=	₤5
Basic pay	=	30 hours x ₤5 = 150
Bonus ½(10) x ₤5		=

25

INSIGHT

175

XYZ LIMITED

	Units	Production Cost (N)
High	3,000	12,900
Low	(2,000)	<u>11,100</u>
Difference	<u>1,000</u>	<u>1,800</u>

$$\text{Variable cost per unit} = \frac{1800}{1000} = \text{N}1.80$$

Total fixed cost at Highest level of Activity

$$\begin{aligned} \text{TFC} &= \text{Total cost} - \text{Total variable cost} \\ &= 12900 - 1.8(3000) \\ &= \text{N}7,500 \end{aligned}$$

Budget cost accordance for an activity level of 4000 units

$$\begin{aligned} &= 7,500 + 1.8(4000 \text{ units}) \\ &= \text{N}14,700 \end{aligned}$$

P/V Ratio is: $-\frac{\text{Fixed Cost} + \text{Profit}}{\text{Sales}}$

$$\frac{2000 + 4000}{6000} \times \frac{100}{1} = 40\%$$

INSIGHT

Question 2

	N
Actual Expenditure	300,000
Less: Over Budget	<u>(18,000)</u>
	282,000
Less: Fixed Costs	<u>87,000</u>
Total variable costs (Budgeted)	<u>195,000</u>

$$\begin{aligned} \text{Budgeted variable cost per unit} &= \frac{195,000}{162,500 \text{ units}} \\ &= \text{N}1.20 \end{aligned}$$

Question 3

	N
Sales price per unit	130
Variable cost per unit	<u>(50)</u>
Contribution margin	<u>80</u>

Units to produce and sell to generate a profit of N250,000

$$\begin{aligned} &= \frac{\text{Fixed Cost} + \text{Target Profit}}{\text{Contribution margin}} \\ &= \frac{1,600,000 + 250,000}{50} = \frac{1,850,000}{50} \\ &= 23125 \text{ units} \end{aligned}$$

$$\begin{aligned} 5. \quad \text{EOQ} &= \sqrt{\frac{2DO_c}{CC}} \\ &= \sqrt{\frac{2 \times 5000 \times 100}{4}} \\ Q &= 500 \text{ units} \end{aligned}$$

INSIGHT

12.

Input =	<u>2000</u> units
Normal loss %	<u>10</u>
Normal loss (units)	200 units
Actual loss	<u>300</u> units
Abnormal loss	<u>100</u> units

16.		₹
	Plant & machinery (cost/initial outlay)	500,000
	Depreciation @ 10%	50,000
	Profit annually	50,000
	Cash inflow = (50,000 + 50,000)	100,000
	Payback period = $\frac{\text{Initial outlay}}{\text{Annual constant cash inflow}}$	
	= $\frac{500,000}{100,000}$	= 5years

Examiner's Report

The questions were simple, professional and covered the entire syllabus. All the candidates attempted the questions. About 80% of the candidates scored above average.

SHORT ANSWER SOLUTIONS

SECTION A: PART II

1. Direct and indirect cost
2. Conversion cost
3. Cost pool
4. Cost classification
5. Coding system/Cost coding
6. Goods received note
7. Just - in - Time System
8. Safety or buffer stock or minimum stock
9. Job evaluation
10. Merit rating
11. Overhead absorption rate

INSIGHT

12. Obsolescence
13. Interlocking cost accounting system
14. Integrated cost accounting system
15. Job costing
16. Architect certificate
17. Marginal costing system/ Variable costing
18. Variance/Range method
19. High and low method
20. Net Present Value

Examiner's Report

The questions were straightforward and covered the entire syllabus. Over 75% of the candidates scored above average.

SOLUTION TO QUESTION 1

- (a) Labour turnover is a measure of the number of employees leaving and being replaced within a particular period, usually a year, expressed as a percentage of the total labour force of the beginning of the period.
- (b) Causes of labour turnover are:
- Low wages/Poor salary
 - Dissatisfaction with job
 - Unsatisfactory working conditions
 - Inadequate medical facilities
 - Lack of training facilities/Career development
 - Lack of recreational facilities
 - Unfair methods of promotion
 - Dissatisfaction with working conditions
 - Illness or accident
 - Retirement or death
 - Personal betterment/Greener Pastures
 - Dismissal due to incompetence
 - Dismissal
 - Domestic responsibilities in case of female workers
 - Relocation
 - Marriage

INSIGHT

- Retirement
- Better opportunity at some other place
- Redundancy

(c)

ROLA NIGERIA LIMITED STATEMENT OF LABOUR COST

Time allowed	48 hours	
Time taken	40 hours	
Time saved	8 hours	
Labour cost under:		
i. Halsey method		
Basic pay =	40 hours x N200	8,000
Bonus =	$\frac{1}{2} \times \text{Time saved} \times \text{Day Rate}$	
	$\frac{1}{2} \times 8 \text{ hours} \times \text{N200}$	<u>800</u>
		<u>8,800</u>
ii. Rowan method		
Basic pay =	40 hours x N200	8,000
Bonus =	$\frac{\text{Time taken}}{\text{Time allowed}} \times \text{Time saved} \times \text{Day Rate}$	
	$= \frac{40 \text{ hours}}{48 \text{ hours}} \times 8 \text{ hours} \times \text{N200}$	<u>1,333</u>
		<u>9,333</u>

Examiner's Report

The question tests labor turnover. The question though simple was adjudged professional. About 80% of the candidates attempted the question. Over 75% of those that attempted scored above 50% of the marks allotted to the question.

SOLUTION TO QUESTION 2

MAAL LIMITED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31ST MARCH 2015

	Le	Le
Sales (Le6,000 x 540 sets)		3,240,000
Less: Direct costs of sales		
Material consumed (Le2,400 x 540 sets)	1,296,000	
Wages (Le800 x 540 sets)	<u>432,000</u>	<u>(1,728,000)</u>
Gross profit		1,512,000

INSIGHT

Less: Other costs		
Factory overheads	321,600	
Admin. overheads	618,000	<u>939,600</u>
Net profit		<u>572,400</u>

STATEMENT OF COST PROFIT OR LOSS

	Le	Le
Direct material (Le2,400 x 540 sets)		1,296,000
Direct wages (Le800 x 540 sets)		<u>432,000</u>
Prime cost		1,728,000
Factory overheads (working 1)		324,000
Factory costs		2,052,000
Admin Overheads (working 2)		<u>615,600</u>
Total cost of production		2,667,600
Profit		<u>572,400</u>
Sales (Le6,000 x 540 sets)		<u>3,240,000</u>

STATEMENT OF RECONCILIATION

	Le	Le
Profit as per Cost Accounts		572,400
Add: Over-Absorbed factory overheads		
Cost Account	324,000	
Financial Account	<u>3,216,000</u>	<u>2,400</u>
		574,800
Less: Under Absorbed Admin Overhead		
Financial Accounts	618,000	
Cost Accounts	<u>(615,600)</u>	<u>(2,400)</u>
Profit as per Financial Accounts		<u>572,400</u>

Workings

- (i) Computation of Factory Overheads
75% on wages i.e.
 $75\% \times 800 \times 540 \text{ sets} = \text{Le}324,000$
- (ii) Computation of Admin Overheads
30% on factory cost
 $30\% \times 2,052,000 = \text{Le}615,600$

Examiner's Report

The question tests Cost book keeping-reconciliation of cost and financial accounts. Although the question is rated simple and straight forward but only about 40% of the candidates attempted the question and more than

INSIGHT

70% of those that attempted the question performed poorly. The seemingly avoidance of the question vis a vis the poor performance suggest that students do not have the required understanding of the topic. Future examinations should cover this topic.

SOLUTION TO QUESTION 3

LAN CONSTRUCTION COMPANY LIMITED CONTRAT ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2016

Dr

Cr

	N	N		N
Materials direct to site		8,400,000	Materials destroyed	100,000
Materials from store		2,124,000	Sales of materials (W1)	500,000
Labour on site		8,100,000	Material c/d	126,000
Hire and use of plant		242,000	Cost of date c/d	19,930,000
Direct expenses	460,000			
Accrued direct expense	<u>32,000</u>	492,000		
General expenses		742,000		
Accrued wages		156,000		
Cost of materials sold at site		400,000		
		<u>20,656,000</u>		<u>20,656,000</u>
Cost to date b/d		19,930,000	Value of work certified	22,000,000
Profit or Loss a/c			Cost of work not yet certified	330,000
$\frac{2}{3} \times 2,400,000 \times \frac{80}{100}$ (Working II)		1,280,000		
Work in progress		<u>1,120,000</u>		
		<u>22,330,000</u>		<u>22,330,000</u>

	N		N
Value of work certified	22,000,000	Contract account	1,120,000

INSIGHT

Cost of work not yet certified	<u>330,000</u>	Balance c/d	<u>21,210,000</u>
	<u>22,330,000</u>		<u>22,330,000</u>
Balance b/d	<u>21,210,000</u>		

Dr **Work-In-Progress Account**
Cr

Dr **Contractee Account**

Balance c/d	<u>17,600,000</u>	Bank	<u>17,600,000</u>
		Balance b/d	<u>17,600,000</u>

Cr

Workings

- i. Sales value of materials sold at the site

$$\frac{400,000}{80} \times 100 = \text{GH}\text{c}500,000$$

- ii. Profit or Loss account

Value of work certified		22,000,000
Cost of work not yet certified	<u>330,000</u>	22,330,000
Less: Cost to date	<u>19,930,000</u>	<u>2,400,000</u>
$\frac{2}{3} \times 2,400,000 \times 80\%$	=	1,280,000

Examiner's Report

The question tests Cost book keeping-reconciliation of cost and financial accounts. Although the question is rated simple and straight forward but only about 40% of the candidates attempted the question and more than 70% of those that attempted the question performed poorly. The seemingly avoidance of the question vis a vis the poor performance suggest that students do not have the required understanding of the topic. Future examinations should cover this topic.

SOLUTION TO QUESTION 4

INSIGHT

- (i) **Standing cost**
This is the pre-determined cost based on technical estimates for materials, labour and overheads for a selected period for a prescribed set of working condition.
- (ii) **Standard cost card**
This is a record of standard material, labour and overheads costs for a particular product or service.
- (iii) **Standard hour**
Standard hour is a hypothetical hour which represents the amount of work which should be performed in one hour under stated conditions.
- (iv) **Ideal standards**
These are standards which can only be attained under the most favourable working conditions. Ideal standards are based on optional operating conditions.
- (v) **Basic standards**
These are long term standards remaining unchanged over several years. They are standard established for use over a long period from which a current standard can be developed.

BOLTON MANUFACTURING COMPANY

- (i) Direct Material Cost Variance (DMCV)
(Standard Quantity @ Actual Output x Standard Price) - Actual Quantity x Actual Price
$$= (6\text{kg} \times 5 \times 12,000) - 361,620 = 360,000 - 361,620$$
$$= 1,620 \text{ (Adverse)}$$
- (ii) Direct Material Price Variance (DMPV)
(Standard Price - Actual Price) Actual Quantity
$$\left(5 - \frac{361,620}{71,750}\right) 71,750 = 2,870 \text{ (Adverse)}$$

i.e. $(5 - 5.04) 71,750 = 2,870 \text{ (Adverse)}$
- (iii) Direct Material Usage Variance (DMUV)
(Standard Quantity BOAO- Actual quantity) Standard Price
$$(6\text{kg} \times 12,000 - 71,750) 5$$
$$(72,000 - 71,750) 5 = 1,250 \text{ (Favourable)}$$

INSIGHT

- (iv) Direct Labour Efficiency Variance (DLEV)
 (Standard hours BOAO – Actual hours) Standard Rate
 (1.5hrs x 12,000 – 17,900) 10
 (18,000 – 17,900) 10 = 1,000 (Favourable)
- (v) Direct Labour Rate Variance (DLRV)
 (Standard Rate – Actual Rate) Actual hours worked
 $(10 - \frac{182,580}{17,900}) 17,900$
 (10 – 10.2) 17,900 = 3,580 (Adverse)

Examiner’s Report

The question tests the candidates understanding of standard costing. About 98% of the candidates attempted the question. Less than 20% of those who attempted the question scored above 50% suggesting that candidates lack basic understanding of standard costing despite the simplicity and straightforwardness of the question.

SOLUTION TO QUESTION 5

- (a) Limiting factor is also known as key factor and it is a factor which limits production and/or sales and thus prevents the manufacturing concern from earning unlimited profits. The limiting factors or key factors may be shortage of Raw-materials, shortage of skilled labour and machine capacity market for sales etc.
- (b)

YARO LIMITED
Calculation of Total Contribution and profit
OPTION I: 300units of ‘A’ and 600units of ‘B’

	A	B	Total
	N	N	N
Product A (300 units x N40)	12,000	-	12,000
Product B (600 units x N90)	-	54,000	54,000
Total contribution			66,000
OPTION II: 450 Units of Product ‘A’ and 450 Units of Product ‘B’			
	A	B	Total
	N	N	N
Product A (450 units x N40)	18,000	-	18,000
Product B (450 units x N90)		40,500	40,500
Total contribution			58,500

INSIGHT

OPTION III: 600 Units of Product 'A' and 300 Units of Product 'B'			
	A	B	Total
	₦	₦	₦
Product A (600 units x ₦40)	24,000	-	24,000
Product B (300 units x ₦90)	-	27,000	<u>27,000</u>
Total contribution			51,000

Workings

Statement of Marginal Cost Per Unit

	Product A	Product B
	₦	₦
Direct Material	40	50
Direct wages	20	30
Variable overhead	<u>20</u>	<u>30</u>
Marginal cost	80	110
Selling price/unit	<u>120</u>	<u>200</u>
Contribution per unit	<u>40</u>	<u>90</u>

Recommendation

Option I, where sales mix of 300 units of product 'A' and 600 units of product 'B' is more profitable as it gives maximum total contribution and profit of ₦63,000 and ₦43,000 respectively.

Examiner's Report

The question tests optimum product mix. About 50% of the candidates attempted the question. About 40% of those who attempted scored above 50%. Although the question is adjudged straightforward and simple, the major pitfall appears the inability of candidates to determine contribution per unit of each product.

SOLUTION TO QUESTION 6

(i)

DUNCAN LIMITED

Preparation of flexible budget for the period of 31/12/16 using Marginal Costing Approach

	Particulars		6,000 units		8,000 units
a.	Variable costs		₦		₦
	Materials	₦70 x 6000 units	420,000	70 x 8,000 units	560,000

INSIGHT

	Labour	₦25 x 6000units	150,000	₦25 x 8,000units	200,000
	Direct expenses	₦5 x 6000units	<u>30,000</u>	₦5 x 8,000units	<u>40,000</u>
	PRIME COST		600,000		800,000
	Variable overheads	₦20 x 6000units	120,000	₦20 x 8,000units	160,000
	Selling overheads (wk I)	₦11.70 x 6000 units	70,200	₦11.70 x 8,000units	93,600
	Distribution overheads (wk II)	₦5.6 x 6000units	<u>33,600</u>	₦5.60 x 8,000units	<u>44,800</u>
	Total variable costs		<u>823,800</u>		<u>1,098,400</u>
b.	Fixed cost		₦		₦
	Fixed overheads		100,000		100,000
	Admin overheads		50,000		50,000
	Selling overheads		13,000		13,000
	Distribution overheads		<u>14,000</u>		<u>14,000</u>
	Total fixed costs		<u>177,000</u>		<u>177,000</u>
	Production costs (Total)	A + B	1,000,800		1,275,400
		Total cost	<u>1,000,800</u>		<u>1,275,400</u>
		Budgeted output	<u>6,000unit</u>		<u>8,000unit</u>
			<u>s</u>		<u>s</u>
	Cost per unit		<u>₦166.80</u>		<u>₦159.40</u>

WORKINGS

(i) Determination of both fixed and variable selling expenses

	₦
Selling expenses per unit	<u>13</u>
10% fixed (10% x 13)	<u>1.30</u>
90% variable (90% x 13)	<u>11.70</u>

Total variable selling expenses:

	6,000units	8,000units	10,000units
Variable selling expenses	11.70	11.70	11.70
Total variable selling expenses	70,200	93,600	117,000

(ii) Determination of variable distribution expenses

	₦
Distribution expenses	<u>7.00</u>
20% fixed (20% x 7)	<u>1.40</u>

INSIGHT

80% variable (80% x 7)			<u>5.60</u>
Total variable distribution expenses			
	<u>6,000units</u>	<u>8,000units</u>	<u>10,000units</u>
Variable distribution	<u>5.60</u>	<u>5.60</u>	<u>5.60</u>
Total variable distribution	<u>33,600</u>	<u>44,800</u>	<u>56,000</u>

Examiner's Report

The question tests flexible budget in a simple and professional manner. About 60% of the candidates attempted the question and around 20% of these candidates scored above average.

INSIGHT

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA**

PART III EXAMINATIONS – MARCH 2017

PREPARING TAX COMPUTATION AND RETURNS

Time Allowed: 3 hours

**SECTION A: PART I MULTIPLE-CHOICE QUESTIONS
(30 Marks)**

ATTEMPT ALL QUESTIONS

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

1. A person who withholds tax from a payment shall issue a receipt for the tax so deducted and the receipt will contain the following information **EXCEPT**
 - A. The name and address of the person from whom the tax was deducted
 - B. The gross amount paid or payable
 - C. The amount of tax deducted
 - D. The period to which the payment relates
 - E. A statement of postponement of remittance of the tax deducted

2. Which of the following is **NOT** a content of a partnership agreement/deed?
 - A. Capital contribution by each partner
 - B. Sharing of profits and losses
 - C. Partners' drawings
 - D. Partners' income from other sources
 - E. Partners' remunerations

3. Which of the following services is **NOT** exempt from Value Added Tax (VAT)?
 - A. Medical Services
 - B. Services rendered by mortgage institutions
 - C. Plays and performances conducted by educational institutions
 - D. All exported services
 - E. Services rendered by Accountants in public practice

INSIGHT

4. Which of the following is **NOT** a condition required to be met before donations could be allowed under CITA?
 - A. It must not exceed 10% of the Assessable Profit
 - B. It must not be capital in nature
 - C. It must have been made to one of the approved bodies
 - D. It must have been made out of profit
 - E. It must have been made to a popular political party
5. Which of the following does **NOT** affect a Partnership structure?
 - A. Retirement of an old Partner
 - B. Admission of a new Partner
 - C. Death of a Partner
 - D. Amalgamation of two or more Partnerships
 - E. Relocation of a partner to another town
6. Failure to deduct Withholding Tax attracts a fine of
 - A. Amount not deducted plus 10% interest
 - B. 125% of the tax not deducted
 - C. 160% of the tax not deducted
 - D. 200% of the tax not deducted
 - E. 250% of the tax not deducted
7. A quorum is formed at any meeting of the State Internal Revenue Service where there is in attendance
 - A. The Chairman and three other members
 - B. The Chairman or a director and two other members
 - C. The Chairman or a director and four other members
 - D. The Chairman and seven other members
 - E. The Chairman and one director
8. Payment of Value Added Tax (VAT) should be made not later than following the month of transaction
 - A. 10 days
 - B. 14 days
 - C. 20 days
 - D. 21 days
 - E. 28 days
9. Which of the following is **NOT** a qualifying capital expenditure, as defined in paragraph 1 of schedule 2 of CITA Cap C21 LFN 2004?
 - A. Buildings
 - B. Industrial buildings
 - C. Mining
 - D. Directors private car
 - E. Plant and Machinery

INSIGHT

10. Allowance usually granted in lieu of depreciation for tax purposes is called
- A. Depreciation allowance
 - B. Capital allowance
 - C. Personal allowance
 - D. General allowance
 - E. Specific allowance
11. An individual who works in more than one place in Nigeria or who earns daily wages, for tax purposes, is called
- A. Casual worker
 - B. Itinerant worker
 - C. Statutory worker
 - D. Unestablished worker
 - E. Junior worker
12. Which of the following is **NOT** a Benefit-In-kind?
- A. Free Company car
 - B. Rented or hired equipment in the use of employment
 - C. Assets in the accommodation provided by the employer
 - D. Electricity bills paid by the employer
 - E. Personal Life Assurance Premium of Employee
13. Which of the following is **NOT** covered by the Personal Income Tax in Nigeria?
- A. Taxation of Estate, Trusts and Settlements
 - B. Taxation of Employees
 - C. Taxation of Partners
 - D. Taxation of Sole Traders
 - E. Taxation of Limited Liability Companies
14. Which of the following is **NOT** chargeable to tax in the hands of a partner in a Partnership?
- A. Interest on Capital
 - B. Salaries of Partners
 - C. Withdrawals from Capital
 - D. Leave passages
 - E. Share of Profit or Loss
15. The members of a Technical Committee of a State Board of Internal Revenue consist of the following **EXCEPT**
- A. Chairman of the State Board of Internal Revenue
 - B. The Directors within the State Service
 - C. The Legal Adviser to the State Service
 - D. The Secretary of the State Service
 - E. The Accountant-General of the State

INSIGHT

16. Which of the following expenses is **NOT** admissible under the Capital Gains Tax Act CAP CI LFN 2004 (as amended)?
- A. Any selling expenses such as advertisement cost
 - B. Any professional cost such as solicitor's fee
 - C. The cost of acquiring the asset disposed
 - D. Any cost of refurbishing the chargeable asset prior to disposal
 - E. Any donation to social club
17. Which of the following is **NOT** an example of indirect taxes?
- A. Value Added Tax
 - B. Tertiary Education Tax
 - C. Custom duties
 - D. Excise duties
 - E. Stamp duties
18. Capital Gains Tax on companies is payable to
- A. Joint Tax Board
 - B. State Internal Revenue Service
 - C. Federal Inland Revenue Service
 - D. Committee of Ministers
 - E. Central Bank of Nigeria
19. The annual return to be filed with the Federal Inland Revenue Service should contain the following **EXCEPT**
- A. Self-assessment return
 - B. The audited financial statements
 - C. Tax and capital allowances computations
 - D. An undertaking that the information contained in the return is true
 - E. An application for a Tax Clearance Certificate
20. Which of the following is **NOT** a qualification for a person to be appointed as an Appeal Commissioner?
- A. He must be a Legal Practitioner
 - B. He must be a Chartered Accountant
 - C. He must be a Tax Practitioner
 - D. He must be a person experienced in business administration
 - E. He must be a retired School headmaster

INSIGHT

21. Which of the following is **NOT** a source of tax laws?
- A. Department and official circular
 - B. Court judgment until overruled
 - C. Opinion of a member of House of Assembly of any State
 - D. Constitution of the Federal Republic
 - E. Accepted recommendations of Commission of Enquiry
22. Which of the following is a levy collectible by a Local Government in Nigeria?
- A. Pay-As-You-Earn
 - B. Capital Gains Tax
 - C. Value Added Tax
 - D. On-off liquor licence fee
 - E. Fire arms licence fee
23. Which of the following is **NOT** a method of Stamping Instruments for Stamp Duties purposes?
- A. Affixing adhesive stamps
 - B. Affixing postage stamps in lieu of adhesive stamps
 - C. Embossing with dies
 - D. Printing on the Instrument
 - E. Use of rubber stamp with ink
24. Which of the following goods is **NOT** exempted from Value Added Tax (VAT)?
- A. Exported goods
 - B. Basic food items
 - C. Baby products
 - D. Medical products
 - E. Imported food items
25. Which of the following is a condition for disclosing information on a tax payer by a person under the obligation of secrecy?
- A. If the information is necessary by government for purpose of double taxation relief
 - B. If the taxpayer fails to file returns
 - C. If the taxpayer makes late payment of tax
 - D. If the taxpayer files late returns
 - E. If the taxpayer is not ordinarily resident in Nigeria
26. Which of the following is **NOT** a content of annual tax return to be submitted to a State Internal Revenue Service?
- A. Year of assessment

INSIGHT

- B. Name of employer
 - C. Name of employee
 - D. Employee's reference number
 - E. Name of next of kin of employee
27. Which of the following is **NOT** a merit of self assessment?
- A. It enhances the pace of tax collection
 - B. It is democratic in nature
 - C. It gives the taxpayer a sense of belonging and responsibility
 - D. It reduces the cost of collection
 - E. It ignores high level of understatement of tax liability
28. Tax Clearance Certificate is used for the following purposes **EXCEPT**
- A. Application for government loan for industry or business
 - B. Application for transfer of real properties
 - C. Application for transfer of shares held in quoted companies
 - D. Application for firearms licence
 - E. Application for Certificate of Occupancy
29. The Notice of Appeal to a Tax Appeal Tribunal, which must be in writing, must contain the following **EXCEPT**
- A. The name and address of the applicant
 - B. The official number and the date of the relevant notice of assessment
 - C. The precise grounds of appeal
 - D. Address for services of any notice or other document to be given to the applicant
 - E. Tax Clearance Certificate issued by relevant tax authority
30. Which of the following is **NOT** an example of direct taxes?
- A. Personal Income Tax
 - B. Capital Gain Tax
 - C. Petroleum Profits Tax
 - D. Companies Income Tax
 - E. Value Added Tax

**SECTION A: PART II SHORT-ANSWER QUESTIONS
(20 Marks)**

ATTEMPT ALL QUESTIONS

INSIGHT

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

1. Wages, salaries and allowances including benefits in kind, gratuities, superannuation or pension schemes and any other income derived solely by reason of employment is known as.....
2. The relevant tax authority shall issue a to a person whenever it is of the opinion that tax assessed on the income of that person, for the three years “immediately” preceding the current year of assessment, has been fully paid.
3. Where rent becomes due or payable to a person, the payer of the rent shall, at the date when the rent is paid or credited, which ever first occurs, deduct therefrom tax at the rate of and pay over to the relevant tax authority.
4. What is the penalty for failure to file tax returns by a limited liability company in the first month in which the failure occurs?
5. A tax in which the rate of tax increases as the income of the tax payer increases is called
6. Any individual or body of individuals having any income which is chargeable to tax under provisions of the Personal Income Tax Act Cap P8 LFN 2004 is referred to as a
7. The relevant tax authority for Withholding Tax deducted at source by the authorised withholding tax agent from the income of an individual is
8. Capital Gains Tax relating to a limited liability Company is payable to
9. The Tertiary Education Tax imposed is due and payable withinafter the Federal Inland Revenue Service has served Notice of the Assessment on a limited liability company.
10. The process of determining the correct amount of duty by the Commissioner of Stamp Duties is known as.....

INSIGHT

11. The estimation used by the relevant tax authority as the basis of assessment in a situation where financial records or returns are not submitted by a tax payer to the tax authority is called
12. The basis period for the first year of assessment under Companies Income Tax Act Cap C21 LFN 2004 is.....
13. Under the commencement rule, a tax payer has the option to be assessed to tax on actual year basis for year(s) of assessment.
14. All companies including foreign ones and individuals operating in any Export Processing Zone or Free Trade Zone in Nigeria are exempted from tax on their profits provided that the undertaking is export oriented.
15. The type of stamp duty which varies with the amount involved in the transaction is called.....
16. The adjustment made on Value Added Tax (VAT) when there are changes in price paid such as cash discount granted, sales returns, VAT on cancelled invoices, is known as.....
17. The number of years that an unutilised capital allowance can be carried backward on a cessation of business is years.
18. A Tax Clearance Certificate must be issued within of the demand by a tax payer if there are no reasons for the denial.
19. The responsibility for taxation of all Limited Liability Companies in Nigeria is vested in
20. There must be an approval ofbefore a contribution to a Pension Fund can be allowed as an expense for tax purpose.

INSIGHT

SECTION B: ATTEMPT ANY FOUR QUESTIONS
(50 Marks)

QUESTION 1

Mr. Apena Oganla was an employee of Roamlade Ventures Limited throughout 2015. He received a monthly salary of ₦120,000. His annual bonus of ₦200,000 for the year ended 31 December 2014 was paid on 15 January 2015.

His appointment was terminated on 31 December 2015 and his annual bonus of ₦240,000 for the year ended on that date was paid on 10 January 2016,

Required:

- a. Compute the Assessable Income of Mr. Apena Oganla for 2015 Year of Assessment.
(6½ Marks)
- b. Distinguish between ‘employment’ and “self employment”.
(6 Marks)

**(Total 12½
Marks)**

QUESTION 2

Tertiary Education Trust Fund (Establishment) Act 2011 vested the management and administration of the Fund in the Board of Trustees.

Required:

- d. State **SIX** members of the Board of Trustees of TETFUND (6 Marks)
- e. State **THREE** bodies charged with the administration of taxes in Nigeria (4½ Marks)
- f. Explain the term “Certainty” under the principle of taxation. (2 Marks)

**(Total
12½ Marks)**

QUESTION 3

INSIGHT

- a. State **SIX** instruments subject to Stamp Duties under the Stamp Duties ACT CAP 58 LFN 2004.

(6 Marks)

- b. For the purpose of accounting for VAT, every registered person shall keep records and accounts. State **SIX** records and accounts that should be kept by a vatable person to facilitate the reconciliation of VAT Returns

(6½

Marks)

(Total 12½

Marks)

QUESTION 4

- a. Under the commencement rules, explain the bases of assessment for the first

three years of assessment of a limited liability company.

(4½ Marks)

- b. A tax payer is entitled to change its accounting date if there is need to do so.

Required:

Explain the steps to be taken to arrive at tax assessments of the business that changes its accounting year.

(6 Marks)

- c. Explain the cessation rules as they apply to a Company that ceases operation

(2

Marks)

(Total 12½

Marks)

QUESTION 5

Mammy Wagon Enterprises commenced business on April 1, 2011 and bought a Motor Vehicle at a cost of ₦3.2 million and furniture and fittings at a cost of ₦900,000.

- c. You are required to compute the Capital Allowance claimable for the relevant **THREE** Years Assessment

(10 Marks)

INSIGHT

- d. Determine the Tax Written Down Value of the Motor Vehicle and the Furniture and Fittings.
(1 Mark)
- e. Explain the term Consolidation Relief Allowance
(1¹/₂Marks)

(Total 12¹/₂

Marks)

QUESTION 6

Oloye Agba has a number of land and buildings. On the 1 November 2015, he disposed of one of the buildings that is not his principal or private residence for a sum of ₦14,500,000. The following expenditure were made in connection with the disposal of the land and buildings:

	₦
Solicitor's Fees	150,000
Advertisement cost	125,000
Estate Agent's Commission	180,000

The land and buildings were acquired four years earlier at the cost of ₦7,500,000 and incurred incidental expenses of ₦900,000 before disposal.

Required:

- a. Compute Capital Gains Tax liability of Oloye Agba.
(7 Marks)
- b. Explain the term "Remittance Basis".
(5¹/₂ Marks)

(Total 12¹/₂

Marks)

INSIGHT

NIGERIAN TAX RATES

1. CAPITAL ALLOWANCES

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

2. INVESTMENT ALLOWANCE 10%

3. RATES OF PERSONAL INCOME TAX

Graduates tax rates with consolidated relief allowance of ₦200,000 or 1% of Gross Income whichever is higher + 20% of Gross income.

	Taxable Income	Rate of Tax
	₦	%
First	300,000	7
Next	300,000	11
Next	500,000	15
Next	500,000	19
Next	1,600,000	21
Over	3,200,000	24

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

- | | | |
|----|----------------------------------|---------------------------|
| 4. | COMPANIES INCOME TAX RATE | 30% |
| 5. | TERTIARY EDUCATION TAX | (2% of Assessable Profit) |
| 6. | CAPITAL GAINS TAX | 10% |
| 7. | VALUE ADDED TAX | 5% |

INSIGHT

SUGGESTED SOLUTIONS

MULTIPLE-CHOICE

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

Examiner's Report

The Multiple-Choice Questions covered the entire syllabus. All the candidates attempted the questions. The general performance was good. The pass rate was about 68 percent.

INSIGHT

SHORT ANSWER

1. Gross Emolument
2. Tax Clearance Certificate
3. 10 percent
4. ₦25,000
5. Progressive Tax
6. Taxable Person
7. State Internal Revenue Service
8. Federal Inland Revenue Service
9. Sixty (60) Days
10. Adjudication
11. Best of Judgement Assessment
12. Date of commencement to 31st December of the same year
13. Second and third
14. 100 percent or Totally
15. Ad-valorem Duties
16. VAT Input Adjustment
17. 5 years before cessation
18. 2 weeks or 14 days
19. Federal Inland Revenue Service Board
20. Joint Tax Board

Examiner's Report

These Short Answer Questions reflected the key aspects of the syllabus. The questions were attempted by all candidates and the general performance was above average with success rate of about 65 percent.

INSIGHT

SOLUTION TO QUESTION 1

a.

MR APENA OGANLA
COMPUTATION OF ASSESSABLE INCOME FOR 2015 ASSESSMENT YEAR

	₦	₦
Employment Income:		
Annual Salary (12 months x ₦120,000)		1,440,000
2014's Annual Bonus paid on 15 January 2015		200,000
2015's Annual Bonus paid on 10 January 2016		<u>240,000</u>
Assessable Income		<u>1,880,000</u>

b. The distinction between employment and self-employment can be viewed from the following perspectives:

Employment	Self employment
i. A person is engaged by another person under a contract of employment.	A person is engaged on his own vocation or business.
ii. There is employee/employer relationship.	A person is his/her own employer.
iii. Income taxes are paid under pay-as-you-earn (PAYE) system	Income tax is paid under a direct assessment system
iv. Income taxes are paid monthly in form of deductions from salaries and wages.	Income tax is paid en-bloc upon assessment by the tax authority.
v. Individuals are expected to participate in all contributions, e.g. Nigeria Social Insurance Fund (NSIF), and National Housing Fund Scheme	Not compulsory to participate in these statutory contributions

INSIGHT

Examiner's Report

This is a two-part question. Part 'a' is a simple question on Assessable Income Computation while Part 'b' is a theory question on Employment.

About 90 percent of the candidates attempted the question.

The general performance was satisfactory. About 75 percent scored above average.

SOLUTION TO QUESTION 2

a. Composition of Board of Trustees of TETFUND.

The board comprises the following:

- i. A Chairman;
- ii. Six persons, each representing a geo-political zone in the country
- iii. A representative of the Federal Ministry of Education who shall not be below the rank of a Director;
- iv. A representative of the Federal Ministry of Finance who shall not be below the rank of a Director;
- v. A representative from the Universities;
- vi. A representative from the Polytechnics;
- vii. A representative from the Colleges of Education;
- viii. The Executive Secretary of TETFUND; who shall be the Secretary to the Board of Trustees.

b. The following are the bodies charged with the administration of taxes in Nigeria:

- i. The Federal Inland Revenue Services is in charge of companies Income Tax Act Cap C21 LFN 2004.
- ii. The Board of State Internal Revenue Service is in charge of Personal Income Tax (Amendment) Act 2011.
- iii. The Local Government Revenue Committee Sections of Personal Income Tax (Amendment) Act 2011.

c. Certainty:

INSIGHT

it is important that the tax payer should know the exact amount he/she is expected to pay, the basis of the taxation and the rate of tax applicable and the relevant tax authority to pay to.

Examiner's Report

This is a standard theory question. Parts 'a' and 'b' tested candidates' knowledge on administration of Tertiary Education Trust Fund. Part 'c' is on 'Certainty' under Principle of Taxation.

About 80 percent of the candidates attempted the question. The general performance was fair.

The only major pitfall was lack of adequate knowledge of the composition of Board of Trustees of TETFUND.

SOLUTION TO QUESTION 3

- a. The following are the instruments subject to Stamp duties:
- i. Appraisements
 - ii. Agreements
 - iii. Instrument of apprenticeship
 - iv. Bank Notes, Bill of Exchange and Promisory Notes
 - v. Bills of Lading
 - vi. Contract Notes
 - vii. Conveyances on Sales
 - viii. Other Conveyances
 - ix. Duplicates and Counterparts
 - x. Exchange, Partition or Division
 - xi. Leases
 - xii. Letter or Power of Attorney and Voting Papers
 - xiii. Marketable Securities
 - xiv. Mortgages
 - xv. Notarial Acts
 - xvi. Policies of Insurance
 - xvii. Receipts
 - xviii. Settlements
 - xix. Share Warrants

INSIGHT

- xx. Warrants of Goods
 - xxi. Capital of Companies
- b. The followings records and accounts must be kept by a vatable person to facilitate the reconciliation of VAT Returns:
- 1. VAT account to show total output tax, total input tax and the amount due or refundable for each month;
 - 2. Relevant business and accounting records, including sales and purchase journals, cash books, ledgers and other subsidiary books of account;
 - 3. Copies of all tax invoices issued;
 - 4. Tax invoices received;
 - 5. Documentation relating to the importation and exportation of goods and services;
 - 6. All debit and credit notes or other documents providing evidence of an increase or decrease in the value of goods and services purchased or sold by him; and
 - 7. Such other records as the Commissioner may specify.

Examiner's Report

This is a standard two-part question. Part 'a' is on stamp duties whilst part 'b' is on administration of Value Added Tax (VAT).

About 10 percent of the candidates attempted the question. The general performance was below average.

The major pitfall was lack of proper understanding of VAT accounting. Candidates are advised to always cover the syllabus when preparing for examinations.

SOLUTION TO QUESTION 4

- a. The basis of assessing a new business is as follows:
- i. First tax year. The basis period of assessment is from actual date of commencing business to 31st December following, that is, to the end of the first year of assessment.

INSIGHT

- ii. Second tax year. The basis period for the second year is the first twelve months of trading.
 - iii. Third tax year. The preceding year basis (PYB) of assessment starts from the third tax year. In a case where this cannot be obtained, the second tax year basis period will be repeated for the third year.
- b. Change in accounting date:
- i. The first thing is to identify the year in which the business fails to make up its accounts to the previous year date. The two years that follow must also be identified;
 - ii. The next step is to compute the assessment of those first, second and third years using the old accounting date as basis period;
 - iii. Then, compute the assessments for the three tax years using the new accounting date;
 - iv. The aggregate result obtained using the old accounting date is now compared with the aggregate result obtained using the new accounting date; and
 - v. The relevant tax authority will choose the higher of the two aggregates.
- c. The cessation rule applies in a situation when a business ceases operation. The final year which is called the “Ultimate Year” is first determined. The basis of assessment of the penultimate year is the preceding year basis. However, the tax authority could choose the actual basis if it would result in a higher tax than when using preceding year basis.

Note that the business shall not be deemed to derive assessable profit from such trade or business for the year of assessment following that in which the cessation occurs.

Examiner’s Report

INSIGHT

This is a good question on 'Change of Accounting Date' and 'Cessation of businesses.

About 85% of the candidates attempted the question and the general performance was above average.

INSIGHT

SOLUTION TO QUESTION 5

a.

Mammy Wagon Enterprises
Computation of Capital Allowance Claimable for 2011 to 2013 Years of Assessment

			Motor Vehicle	Furniture & Fittings	Total Capital Allowance
		Rate s:			
		I.A	50%	25%	
		A.A	25%	20%	
YOA		Life	4 Years	5 Years	
			₦	₦	₦
2011	Cost		3,200,000	900,000	4,100,000
	Less:				
	I.A		(1,600,000)	(225,000)	1,825,000
	A.A (9 months)		<u>(300,000)</u>	<u>(101,250)</u>	<u>401,250</u>
	Total allowances		<u>(1,900,000)</u>	<u>(326,250)</u>	<u>(2,226,250)</u>
	T.W.D.V		1,300,000	573,750	<u>2,226,250</u>
2012	Less:				
	A.A		<u>(433,333)</u>	<u>(143,438)</u>	<u>(576,771)</u>
	Total allowances		<u>433,333</u>	<u>143,438</u>	<u>(576,771)</u>
	T.W.D.V		<u>866,667</u>	<u>430,312</u>	<u>576,771</u>
2013	Less:				
	A.A		<u>(433,333)</u>	<u>(143,438)</u>	<u>576,771</u>
	T.W.D.V		433,334	286,874	<u>576,771</u>

b. The Tax Written Down Value of Motor Vehicle and Furniture and Fittings are:

Motor Vehicle	Furniture & Fittings
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INSIGHT

Tax Written Down Value	₦433,334	₦286,874
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- c. The term Consolidated Relief Allowance is an allowance granted to every individual irrespective of gender or marital status. It is granted at the rate of ₦200,000 subject to a minimum of 1% of gross income whichever is higher plus 20% of gross income.

Examiner's Report

This is a standard three-part question on capital allowance computation and 'Consolidated Relief Allowance'.

About 90 percent of the candidates attempted the question.

The general performance was below average. 75% of those who attempted the question did not understand 'Consolidated Relief Allowance. However, about 70% of them scored above average in Part 'a', which is capital allowance computation.

SOLUTION 6

a.

OLOYE AGBA **COMPUTATION OF CAPITAL GAINS TAX LIABILITY**

SALE OF BUILDING

	₦	₦
Sales Proceeds		14,500,000
Less: Allowable Expenses		
Solicitor's Fees	150,000	
Advertisement Cost	125,000	
Estate Agent's Commission	<u>180,000</u>	<u>(455,000)</u>
Net Sales Proceeds		14,045,000
Less:		
Acquisition Cost	7,500,000	
Incidental Selling Expenses	<u>900,000</u>	<u>8,400,000</u>
Chargeable Gains		<u>5,645,000</u>

ATSWA PART III MARCH 2017 DIET

INSIGHT

Capital Gains Tax @ 10%

_____ **564,500**

b. Remittance Basis

Remittance Basis refers to the fact that Capital Gains Tax is chargeable on that part of the gains (if any) received or brought into Nigeria when they are so dealt with.

The amount of the gains chargeable is dependent on the whole or part which is remitted to Nigeria. If there is no remittance to Nigeria, there is no liability to Capital Gains Tax in respect of the disposals of those fixed assets.

The above is in respect of assets outside Nigeria,

- Disposed by Non - Resident individual;
- Trustee of any trust or settlement; and
- A company whose activities are managed and controlled outside Nigeria.

Examiner's Report

This is a good question on VAT computation and Remittance Basis.

About 85 percent of the candidates attempted the question. The candidates demonstrated good knowledge of VAT computation by recording good performance but about 70 percent lacked proper understanding of 'Remittance Basis'.

INSIGHT

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
PART III EXAMINATIONS – MARCH 2017**

MANAGEMENT

Time Allowed: 3 hours

**SECTION A: PART I MULTIPLE-CHOICE QUESTIONS
(30 Marks)**

ATTEMPT ALL QUESTIONS

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

1. The main objective of a business enterprise is to
 - A. Produce goods
 - B. Provide service
 - C. Make profit
 - D. Provide innovation
 - E. Increase productivity

2. Which of the following is **NOT** a reason why businesses fail?
 - A. Poor planning
 - B. Lack of adequate capital
 - C. Time management
 - D. Cash flow management
 - E. Inadequate controls

3. Deciding in advance on what to do, how to do it, who to do it and when to do it, is a description of
 - A. Controlling
 - B. Co-ordinating
 - C. Organising
 - D. Planning
 - E. Staffing

4. The management function that focuses on hiring, retaining and maintaining of employees to achieve organisational goals and objectives is
 - A. Human resources management
 - B. Human relations management
 - C. Recruitment
 - D. Employee welfare

INSIGHT

- E. Discipline
5. The philosophy which recognises the key role of satisfying the needs of the target consumers as a means of achieving long-run company profitability and competitive advantage is called
- A. Production concept
 - B. Producing concept
 - C. Selling concept
 - D. Marketing concept
 - E. Societal marketing concept
6. A view which argues that leaders must alter their style in a manner that reflects the situation is called
- A. Collaborative Leadership View
 - B. Democratic Leadership View
 - C. Contingency Leadership View
 - D. Principle-Centered Leadership View
 - E. Autocratic Leadership View
7. The process through which the transmitter of a message detects whether and how that message has been received and decoded is
- A. Feedback
 - B. Feed forward
 - C. Communication
 - D. Non-verbal communication
 - E. Communication climate
8. The collection of work groups that has been consciously designed by management to maximise efficiency and achieve organisational goals is referred to as
- A. Informal Organisation
 - B. Bureaucracy
 - C. Formal Organisation
 - D. Cyclical Organisation
 - E. Visual Organisation
9. Analysis of an organisation's external and internal environment for the purpose of strategy formulation is called
- A. SPOT Analysis
 - B. SPIN Analysis
 - C. SWOT Analysis

INSIGHT

- D. MIN Analysis
E. PERT Analysis
10. The area of general management that focuses on the policy and legislation covering employee well being at work is called
- A. Health and safety management
B. Human resources policy
C. Logistics policy
D. Security
E. Employee discipline
11. Which of the following is **NOT** responsible for the dissolution of a partnership?
- A. When a new partner is admitted without due process
B. When the objective of its formation has been achieved
C. When a partner travels out of the country and resides in foreign country
D. When a partner dies
E. When government policy frowns at the object of the partnership
12. According to Henry Mintzberg, which of the following is **NOT** a decisional role?
- A. Liaison role
B. Negotiator role
C. Entrepreneurial role
D. Resource allocator role
E. Disturbance handler role
13. The principle that states that all activities within an organisation with the same objective should be grouped together and put under the supervision of a manager is
- A. Centralisation
B. Unity of command
C. Unity of direction
D. Standardisation
E. Stabilisation
14. Which of the following duties does management spend most time on?

INSIGHT

- A. Planning
 - B. Supervising
 - C. Coordinating
 - D. Negotiating
 - E. Investigating
15. The linking together of managers, units and sub-units at similar levels across the organisation for the purpose of common action is
- A. Coordination
 - B. Centralisation
 - C. Horizontal Coordination
 - D. Pooled Coordination
 - E. Vertical Coordination
16. Which of the following is an activity under the hiring role of the human resource management?
- A. Compensation
 - B. Employee relations
 - C. Training and development
 - D. Human resources planning
 - E. Performance appraisal
17. The human endeavour (effort) to produce more and more with less and less input of resources is
- A. Production function
 - B. Production management
 - C. Production
 - D. Productivity
 - E. Production technology
18. Which of these theories **CANNOT** be regarded as a content theory?
- A. Abraham Maslow's Hierarchy of Needs Theory
 - B. Douglas McGregor's Theory X and Y
 - C. David McClelland's Individual Human Needs Theory
 - D. Stacey Adams Equity Theory
 - E. Frederick Herzberg's Two Factor Theory
19. The Path Goal Theory developed by Robert House identified the following leadership behaviours **EXCEPT**

INSIGHT

- A. Directive
B. Supportive
C. Participative
D. Laissez-faire
E. Achievement-oriented
20. The principle of communication that emphasises that the words, phrases and expressions used should be what the speaker/listener truly understands is
- A. Correctness
B. Concreteness
C. Clarity
D. Completeness
E. Courtesy
21. Which of the following **CANNOT** be regarded as a source of safety hazard at the work place?
- A. Poor factory layout
B. Slippery floors
C. Horse play at the workplace
D. Uncontrolled lateness to office
E. Poor Ventilation
22. The dimension of the general environment representing the demographic characteristics, norms, customs and values of the population within which the organisation operates is
- A. Economic dimension
B. Technological dimension
C. Socio-cultural dimension
D. International dimension
E. Legal-Political dimension
23. The process used to accomplish organisational goals through planning, organising, leading and controlling people and other organisational resources is known as

INSIGHT

- A. Planning
 - B. Organising
 - C. Leading
 - D. Management
 - E. Controlling
24. A manager's ability to work with, understand, mentor and motivate others both individually and in groups is
- A. General skills
 - B. Conceptual Skills
 - C. Interpersonal Skills
 - D. Technical Skills
 - E. Political Skills
25. The simultaneous pursuit by an organisation of **TWO** or more of growth, stability and retrenchment strategies is called
- A. Retrenchment Strategy
 - B. Combination Strategy
 - C. Competitive Strategy
 - D. Cost Leadership Strategy
 - E. Stability Strategy
26. A type of technology that involves the production of goods in batches of **ONE** or few products designed to customer specification is
- A. Mass production
 - B. Continuous process production
 - C. Flexible manufacturing
 - D. Small batch production
 - E. Service technology
27. A type of rating error that occurs when an employee receives the same rating on all dimensions regardless of his or her performance is called
- A. Homogeneity
 - B. 360 Degree feed back
 - C. Halo-error
 - D. Performance appraisal
 - E. Performance appraisal interview
28. Products that the consumer wants to purchase frequently with minimum effort is

INSIGHT

- A. Shopping goods and services
 - B. Speciality goods and services
 - C. Unsought goods and services
 - D. Convenience goods and services
 - E. Industrial goods
29. The process by which information is exchanged and understood by **TWO** or more people usually with intent to motivate or influence behaviour is
- A. Channel richness
 - B. Downward communication
 - C. Non-verbal communication
 - D. Communication
 - E. Channel
30. The standardisation of product design and advertising strategies throughout the world is
- A. Multi domestic strategy
 - B. Transnational strategy
 - C. Core competence
 - D. Globalisation
 - E. Corporate-level strategy

**SECTION A: PART II SHORT-ANSWER QUESTIONS
(20 Marks)**

ATTEMPT ALL QUESTIONS

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

1. The option an entrepreneur takes to lose time and money on business that may not prove profitable is

INSIGHT

2. The attainment of organisational goals in an effective and efficient manner through planning, organising, leading and controlling organisational resources is.....
3. A manager who is responsible for several departments that perform different functions is.....
4. The quality of collaboration across departments is
5. The process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create mutually beneficial exchanges is
6. A business formation that is a legal entity endowed with rights, duties and powers of a person by law is called
7. A management approach which is focused on the total work of the organisation and the interrelationships of structure and behaviour and the range of variables within the organisation is referred to as.....
8. The network of relationships between members of an organisation that form their own accord on the basis of common interest and friendship is.....
9. Concerns, problems or complaints that employees raise with their employers is
10. The need for personal fulfilment to develop potential and become everything that one is capable of becoming is
11. Identification of a firm's organisational strengths, weaknesses and of the resources and capabilities that are likely to be sources of competitive advantage is called.....
12. The statement of commitment of the management of an organisation for safety at work is known as

INSIGHT

QUESTION 2

- a. Distinguish between effectiveness and efficiency.
(2¹/₂ Marks)
- b. For managers to carry out their duties effectively and efficiently, they should possess some basic qualities. State **TEN** of such qualities.
(10 Marks)
- (Total 12¹/₂ Marks)**

QUESTION 3

- a. Define decision making.
(2¹/₂ Marks)
- b. Distinguish between programmed decisions and non-programmed decisions.
(4 Marks)
- c. List and briefly explain the rational decision making process.
(6 Marks)
- (Total 12¹/₂ Marks)**

QUESTION 4

- a. Briefly explain marketing channel.
(2¹/₂ Marks)
- b. With the aid of diagrams, show **FOUR** consumer marketing channels.
(4 Marks)
- c. Briefly explain the functions the members of marketing channels perform to the consumers and manufacturers.
(6 Marks)
- (Total 12¹/₂ Marks)**

INSIGHT

QUESTION 5

a. Organisational change is the alteration of organisational components to improve the effectiveness and efficiency of the organisation. State **SIX** reasons that may trigger changes in organisations. (9 Marks)

b. Who are change agents and what are their roles? (3^{1/2} Marks)

(Total 12^{1/2} Marks)

QUESTION 6

Briefly explain the following types of organisational strategies.

- a. Corporate level strategy
- b. Business level strategy
- c. Functional level strategy
- d. Operational level strategy
- e. Growth strategy

(Total 12^{1/2} Marks)

INSIGHT

SUGGESTED SOLUTIONS

(MCQ)

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

Examiner's Report

About 70% of the candidates performed above average in the MCQ. It was observed that the estimated 30% that performed below average did not understand the concepts tested.

INSIGHT

SHORT ANSWER QUESTION

1. Risk
2. Management
3. General Manager
4. Team work/Group Effort
5. Marketing Management
6. Corporation/Limited Liability Company
7. Systems Approach
8. Informal Organisation/Informal Group
9. Grievance
10. Self Actualisation
11. Internal Analysis/Internal Environmental Analysis
12. Health and safety policy
13. Fabrication
14. Social Responsibility/Corporate Social Responsibility
15. Principle of correspondence/Parity of Authority & Responsibility
16. Forecasting
17. Job production system
18. Charismatic
19. Office
20. Net Profit

Examiner's Report

About 65% of the candidates performed above average in the SAQ. It was observed that candidates that performed poorly misinterpreted the concepts tested.

SOLUTION TO QUESTION 1

- a. Corporate Social Responsibility (CSR) is the obligation of the management of an organisation to take decisions and actions that will enhance the welfare and interest of society as well as the organisation.

OR

INSIGHT

CSR is an idea that business has social obligations above and beyond making profit.

b. Arguments for CSR

- i. Business organisations are expected to respond more favourably to the society in terms of its needs because it is suggested that they receive their charter from the society.
- ii. The creation of a better social environment that benefits both society and business. Society gains through better neighbourhood and employment opportunities. Business benefits from a better community as the source of its workforce and the consumers of its products and services.
- iii. Business has a great deal of power that, it is reasoned, should be accompanied by an equal amount of responsibility
- iv. Social involvement discourages additional government regulation and intervention. The result is greater freedom and more flexibility in decision making for business.
- v. Social responsibility in the long run is in the best interest of the stakeholders.
- vi. Social involvement creates a favourable public image. Thus, a firm may attract customers, employees and investors when it creates a good public image.
- vii. A business has the resources. Specifically, a business should use its talented managers, as well as its capital resources to solve some of society's problems.

Arguments against CSR

- i. The primary task of business is to maximise profit by focusing strictly on economic activities. Social involvement could reduce economic efficiency.

INSIGHT

- ii. Social involvement could create excessive costs for business, which commits its resources to social action.
- iii. Business people lack the social skills to deal with the problems of society. Their training and experience is with economic matters and their skills may not be appropriate to solve social problems.
- iv. Companies pay tax to government and it is the duty of government to develop the community.
- v. Delusion of business primary purpose
- vi. Lack of accountability which makes for business executives responsible for areas where they are not accountable.
- vii. Lack of broad support of shareholders.

Examiner's Report

About 75% of the candidates attempted the question and 80% of those that attempted the question performed above average. The estimated 20% that performed below average were not able to put forward arguments for and against CSR perhaps for lack of understanding of the concept.

SOLUTION TO QUESTION 2

- a. Effectiveness is a central element in the process of management that entails achieving a stated organisational objective.

Effectiveness is the ability of an organisation to achieve its set objectives. It involves doing things right. Effectiveness means achieving results.

Efficiency is a central element in the process of management that balances the amount of resources used to achieve an objective against what was actually accomplished.

Efficiency involves achieving results with minimum cost, energy and time resources. It is doing things right at minimal cost (using limited available resources)

INSIGHT

- b. The following are some of the qualities that make managers perform successfully.
1. Goal getter/ Purposeful/ Tenacity
 2. The ability to communicate effectively both orally and in writing. He should encourage open communication.
 3. Desire for higher responsibility
 4. Ability to handle conflict
 5. Ability to take the right decision at the right time
 6. Intellectual capacity
 7. Ability to be flexible on issues
 8. Ability to establish on-going controls
 9. High propensity to creativity ,information and innovativeness
 10. Team spirit
 11. Self confidence
 12. Administrative skills
 13. Good human/Interpersonal relations
 14. Consistently demonstrate high level of integrity/honesty
 15. Achievement oriented
 16. Ability to earn respect from his superiors and subordinates/Good leadership style.
 17. Ability to assess his performance and that of his subordinates honestly and realistically.
 18. Ability to select the right people to staff the organisation and to develop them

INSIGHT

19. Ability to understand the financial implication of decisions
20. He should have basic management training
21. Analytical skills
22. Tact
23. Perseverance
24. Proactive
25. Good listening ability
26. Ability to delegate authority and responsibility
27. Discipline

Examiner's Report

About 90% of the candidates attempted this question. The question has parts A & B. About 70% of those who attempted the question were able to differentiate between “effectiveness and efficiency” which is ‘A’ part of the question. About 60% of those who attempted question ‘B’ were confused, hence, could not differentiate between roles/responsibilities and qualities of a good manager. On the whole about 65% performed above average.

SOLUTION TO QUESTION 3

- a. Decision making is a process of making choices from among/between alternative courses of action.
Decision making process is a series of related steps that lead to an action.
- b. Programmed decisions: These are decisions that are repetitive and routine in nature. The decision required is faced with conditions of certainty with full knowledge of information needed. In addition, the decisions are not taken in emergency. If a situation occurs often in the same form, a routine procedure will work well in dealing with it.

INSIGHT

Non-programmed decisions: Are decisions reached to handle unstructured problem. There is no established procedure for handling problem because it is complex and mainly unexpected.

Or

Non-programmed decisions are non-routine and non-repetitive decisions. These decisions are not frequently made. As a result there are no detail rules, procedures that guide managers on how such decisions could be made. To make such decisions, managers use rule of the thumb or intuition and their past experiences as guide in making such decisions

c. Steps involved in rational decision making process

Step 1: Identify the problem and recognise the need to make a decision - This is the starting point for making a decision. Firstly problem must exist and must be identified before decision could be made. The problem could be economic, political, social and competitive. Without identifying a problem, you may start solving a problem that does not exist

Step 2: Analyse the problem. The problem should be properly analysed. Why does this problem exist because of A,B or C. To analyse the problem, the problem is critically evaluated and then analysed.

Step 3. Identify alternatives - The alternative courses of action that should be used to solve the problem identified

Step 4: Evaluate the alternatives - The alternative courses of action identified for dealing with the problem should be evaluated in terms of feasibility, probability of success cost implications, resources availability and consonance with corporate mission, vision and strategy.

Step 5: Selecting one of the best Alternative. The best Alternative should be selected and ready for implementation.

Step 6: The chosen strategy should be executed. All the needed resources should be provided to facilitate successful implementation of the chosen alternative.

INSIGHT

Step 7: Taking corrective measures. After the best alternative has been chosen and implemented corrective measures to correct deviation from plans should be taken.

Examiner's Report

More than 80% of the candidates attempted this question and about 65% of those that attempted the question scored above average. Candidates' responses revealed that this question is straightforward. The 35% that scored below average demonstrated lack of understanding of the concepts.

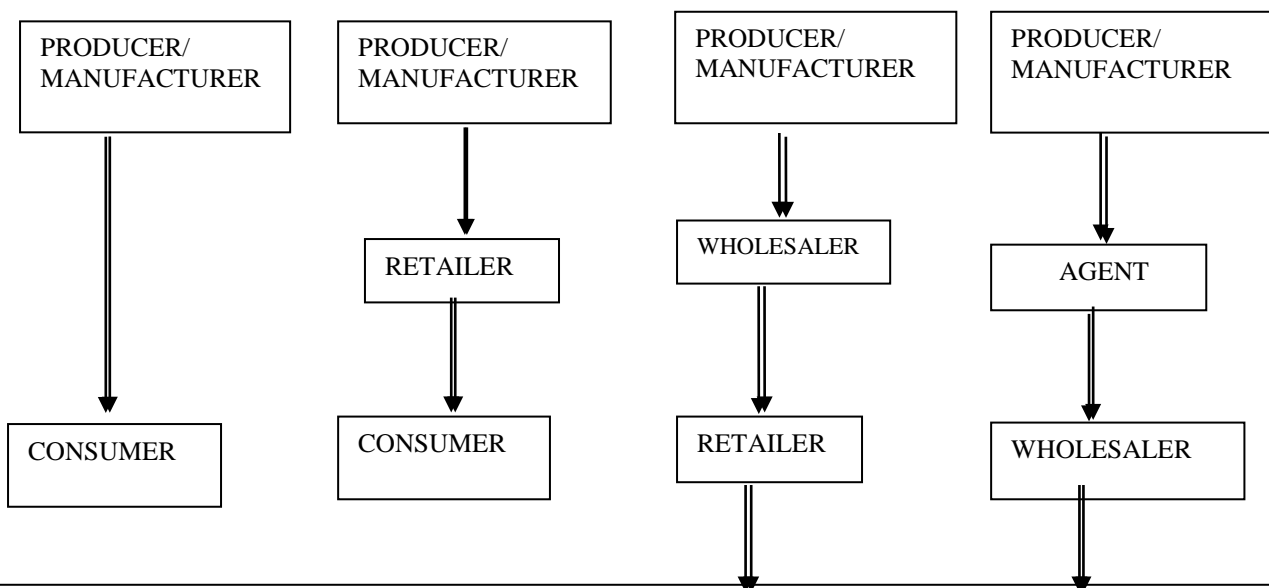
SOLUTION TO QUESTION 4

Marketing/Distribution channel is the pathway that takes products from the place of production to the ultimate consumers.

Channel of distribution are the activities concerned with ensuring that the right product is gotten to the right market segment at the right quantity and at the right time.

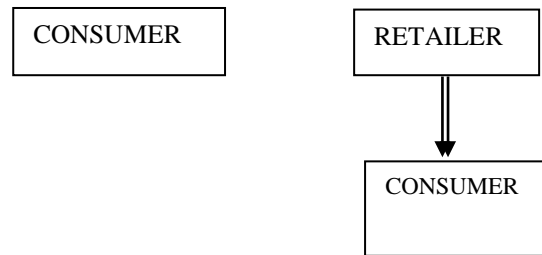
It is a network of interdependent and interrelated institutions that perform all the activities necessary to move products from manufacturers/producers to ultimate consumers.

DIAGRAM CONSUMER MARKETING CHANNEL



ATSWA PART III MARCH 2017 DIET

INSIGHT



FUNCTIONS OF THE MARKETING CHANNEL

1. **Buying** - Intermediaries identify and anticipate the needs of the customers they serve. They buy products and make them available to target markets. They communicate customers' concern to manufacturers, thus helping to satisfy customer's needs.
2. **Selling**: Many manufacturers have limited financial resource and so they are unable to establish all the needed contracts with their target markets. Such manufacturers do use intermediaries as their sales force. This ensures that the cost of selling to customers is reduced.
3. **Information**: Intelligence information both to the producers and the consumers.
4. **Promotion**: Development and spreading persuasive communication
5. **Contact**: Finding and communicating with consumers
6. **Matching**: Shaping and filling the offer to the buyers need including manufacturing, grading, breaking bulk, assembling and packaging.
7. **Negotiation**: Reaching an agreement on price and other terms of the offer so that possession/ownership can be transferred.
8. **Physical Distribution**: Transporting and storing of goods
9. **Financing**: Financing both Manufacturers and Retailers
10. **Risk Taking**: Assuming the risks of carrying out the channel work.

INSIGHT

Examiner's Report

About 60% of the candidates attempted the question, out of which 70% of them scored above 50% of the marks allocated. Those who scored below average mis-interpreted the 'C' part of the question.

SOLUTION TO QUESTION 5

- a. Reasons that may trigger change include;
- i. Changes in demand for the organisation's product or services.
 - ii. Change of senior management. When there is a new senior manager, such as a new chief Executive Officer or Managing Director, the new person in charge might want to introduce change because he has his own ideas about how things should be done
 - iii. Threatening tactics of competitors
 - iv. Arrival of a new entrant with competing product
 - v. Merger of the business with another
 - vi. Acquisition of the business
 - vii. Demergers and divestments. Similarly, when an entity is split up into two separate entities (a demerger) or when a large part of the entity is sold off (a divestment), changes in organisation, management and systems will be necessary.
 - viii. Reorganisation, downsizing and rationalisation. Change might be necessary because the current organisation and systems are no longer appropriate and change is needed. This might happen when a loss-making entity needs to close down an operating division, or needs to reduce the size of its total workforce. Current operational systems might need to change because they are no longer appropriate and have become inefficient or ineffective.
 - ix. Economic reasons for change. Unexpected developments in the economies of various countries might make a change of strategy on foreign sales or expansion into foreign markets.
 - x. Failure of a key supplier to meet organisation's demand
 - xi. Development of new strategies
 - xii. Political changes

INSIGHT

- xiii. Ecological/environmental reasons for change. Change might be driven by ecological change, such as diminishing supplies of fresh water, diminishing supplies of energy or factors related to climate change. These changes might force a company to consider how its businesses will continue to survive in the future, and what changes will be needed to make the business sustainable
 - xiv. Planned changes in strategy
 - xv. Social and cultural changes
 - xvi. Need to improve productive efficiency
 - xvii. Need to improve quality of products
 - xviii. Need to respond to development of new products
 - xix. Need to deploy people where they are most effective
 - xx. Legal reasons for change. New laws on health and safety at work, laws against pollution and laws to protect the environment might have an impact on strategy and procedures
- b. Change agent(s) is (are) person or a small group of people seeking to promote, further, support, sponsor, initiate, implement or help to deliver change within the organisation. Change agents specify who does what, when and how to manage the planned change.

Change agents attempt to create willingness for change by making people aware of the pressure for change. Change Agent drives the change and is responsible for its successful implementation.

Examiner's Report

About 80% of the candidates attempted this question out of which about 60% performed above average. Candidates that did not do well in this question mis-understood reasons that may trigger changes in an organisation for why people resist change.

SOLUTION TO QUESTION 6

- a. Corporate level strategy:
Strategy at this level is typically developed by the top management.

INSIGHT

This is a type of strategy that addresses what business the firm will operate, how the strategies of those business will be coordinated to strengthen firm's competitive position and how resources will be allocated among the businesses.

This is the selection of means by the top management to solve problems and take advantages of opportunities to achieve the long and short-term objectives and goals of the organisation as a whole based on the outcome of surveillance and interpretation of the threats and opportunities in the external environment. It is the overall managerial plan for a diversified company.

- b. **Business level strategy:**
Strategies at this level are aimed at deciding the type of competitive advantage to build, determine responses to competitive conditions.

It is a type of strategy that concentrates on the best means of competing within a particular business while also supporting the corporate level strategy.

- c. **Functional level strategy:** This is a type of strategy formulation that focuses on action plan for various level of management and functional areas such as manufacturing /production, marketing, finance, human resources management, legal research and development.
- d. **Operating level strategy:** It is a strategy that concerns frontline mangers. It is a more specific strategy relating to actions and practices of departmental and supervisory level managers on how they intend to manage the day-to-day requirements of functional level strategy.
- e. **Growth strategy:** This is a grand strategy that involves organisational expansion along some major dimensions. In business organisations, growth typically means increasing sales and earnings.
Growth strategy can be integrative, Intensive and diversification.

Examiner's Report

Over 70% of the candidates attempted the question and the success rate is about 40%. Candidates who did not do well had limited understanding of the concepts