

## **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.

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## FOREWORD

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

- (i) Candidates preparing to write future examinations of the Institute of Chartered Accountants of Nigeria (ICAN) at an equivalent level;
- (ii) Unsuccessful candidates in the identification of those areas in which they lost marks 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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AT/172/PIII.9

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

**PRINCIPLES OF AUDITING**

**Time Allowed: 3 hours**

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

**ATTEMPT ALL QUESTIONS IN THIS SECTION**

**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 most important benefit of having an annual external audit is to
  - A. Meet the requirement of government policies
  - B. Provide assurance that any existing illegal acts may be brought to light
  - C. Help the client company to plan its tax liabilities
  - D. Provide assurance to stakeholders that the financial statements are reliable
  - E. Enable officers and directors to avoid personal responsibility for any misstatement in the financial statements
  
2. In the private sector in your country an audit committee is
  - A. Composed of members of the assurance team
  - B. Composed of internal auditors
  - C. A committee composed of equal number of shareholders and directors to strengthen the audit function
  - D. Responsible for treating assurance queries that were issued to the management
  - E. A non-statutory committee established by the Companies Law
  
3. Which of the following is **NOT** meant to be a purpose for Letter of Engagement?
  - A. Defining clearly the extent of the auditors' and directors' responsibilities
  - B. Formalising the terms of engagement which helps to minimise the possibilities of any misunderstanding between the assurance team and client

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- C. A written representation by the client that it has fulfilled its responsibility for the preparation of financial statements
  - D. Providing written confirmation of the auditor's acceptance of the appointment
  - E. Confirming in writing verbal arrangements in respect of the scope of the audit and any non- audit service
4. Which of the following is NOT covered by the code of ethics and conduct for members of your professional accountancy body?
- A. Integrity, Objectivity and Independence
  - B. Education and Training of members
  - C. Enforcement of ethical standards
  - D. Association with non-members of the Institute
  - E. Changes in professional appointment
5. Which of the following basic elements is NOT contained in an auditor's report?
- A. Title
  - B. Addressee
  - C. Scope paragraph
  - D. Date of report
  - E. Directors' signature
6. Which of the following circumstances does NOT pose a threat to the objectivity and independence of an auditor?
- A. Undue dependence on an audit client
  - B. Having two or more clients within the same group of companies
  - C. Actual or threatened litigation
  - D. Overdue fees
  - E. Family and other personal relationship
7. Which of the following is NOT a relevant consideration for determining whether a client is of high risk?
- A. Evidence of client engagement in fraudulent activities
  - B. The state of the economic sector in which the client operates
  - C. Diversification of the client's business into new areas to increase profitability

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- D. The competency of the client's management
  - E. Evidence of management intentionally failing to record a material transaction
8. Which of the following procedures need **NOT** be observed in relation to the audit of trademarks?
- A. Review of certificate issued by patent office
  - B. Review of assignment if purchased
  - C. Review of payment of renewal fees
  - D. Review of reasonableness of design costs capitalised
  - E. Depreciation of landed property
9. What is the examination of documentary evidence in support of transactions called?
- A. Vouching
  - B. Observation
  - C. Verification
  - D. Physical Inspection
  - E. Analytical Review
10. What is the primary purpose for obtaining an understanding of a client's business?
- A. To make consulting recommendations to management
  - B. To make decisions regarding the auditor's ability and willingness to undertake the audit
  - C. To determine whether the entity has changed any accounting principles
  - D. To obtain sufficient and appropriate audit evidence for an opinion on the financial statements
  - E. To assist management in marketing its products
11. The main reason why an external auditor gathers audit evidence is to
- A. Evaluate management integrity
  - B. Assess the control environment
  - C. Be used as a basis in arriving at conclusions on which the audit opinion is based
  - D. Provide evidence for future references
  - E. Detect errors and frauds

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12. Which of the following documents is **NOT** required to be kept in the Permanent Audit File?
- A. Addresses of all business locations of the client company
  - B. Client's internal audit and accounting instructions
  - C. A schedule of important statistics e.g sales composition, employment
  - D. The rules and regulations of the enterprise
  - E. Copy of the certificate of incorporation
13. Which of the following is **NOT** an area of common interest to both Internal and External Auditors?
- A. Maintenance of an adequate accounting system
  - B. Forming an opinion on the True and Fair View of the report
  - C. Prevention and detection of errors and frauds
  - D. Safeguarding the assets of the entity
  - E. Adequate management information system
14. What is the main function of Internal Control Evaluation Questionnaire (ICEQs)?
- A. To provide a convenient way of describing the organisation structure
  - B. To give the impression that all controls may be over-ridden
  - C. Time can be wasted by charting areas of audit significance
  - D. To determine whether appropriate control systems exist to prevent specific errors or omissions
  - E. To obtain evidence at the transaction level.
15. Which of the following is **NOT** a factor affecting the nature, timing and extent of the procedures performed by auditor in order to understand the internal control system of an entity?
- A. Form of Auditor's report
  - B. Materiality considerations
  - C. Size and complexity of the entity
  - D. Assessment of inherent risk
  - E. Complexity of the entity's computer system
16. Which of the following is **NOT** a technique of Compliance Testing?
- A. Procedural test
  - B. Walkthrough test

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- C. Vouching test
  - D. Rotational test
  - E. Inspection test
17. Which of the following is NOT a major advantage of Accounting Standards?
- A. Reduce the areas of uncertainty and subjectivity in accounts
  - B. Narrow the areas where different accounting policies can be adopted
  - C. Provide divisions within the profession
  - D. Increase comparability of financial statements
  - E. Interpret the concept of True and Fair view
18. The reliability of audit evidence is dependent on the following general presumptions EXCEPT
- A. Documented evidence is more reliable than oral evidence
  - B. The source of audit evidence is not as important as its use
  - C. Third party evidence is more reliable than evidence obtained from within the entity
  - D. Analysis and physical inspection by the auditor is more reliable than evidence obtained from others
  - E. Audit evidence from original document is more reliable than photocopies.
19. Which of the following describes the type of internal audit that focuses on a particular activity?
- A. Operational audit
  - B. Management audit
  - C. Activity audit
  - D. Programme audit
  - E. Specialized audit
20. What other term best describes compliance audit in relation to Public Sector Assurance?
- A. A performance audit
  - B. A regularity audit
  - C. Internal audit
  - D. Management audit
  - E. Special audit

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21. Which of the following does NOT describe the significance of controls in an IT based system assurance?
- A. Overall performance in sales
  - B. Prevention of loss of data
  - C. Prevention of loss of audit trail
  - D. Errors in software
  - E. Fraudulent manipulation of data
22. Which type of function is usually set up to run and control the day to day operation of the database in order to enhance segregation of duties?
- A. Management function
  - B. Control function
  - C. Administration function
  - D. Database management
  - E. Authorization control
23. Which of the following is NOT an example of Application Control?
- A. Development of computer applications
  - B. Completeness, accuracy and authorization of input
  - C. Maintenance of master files
  - D. Completeness and accuracy of processing
  - E. Compliance with authorisation procedures
24. What is the main objective of setting up the Internal Audit unit in every Ministry or Department?
- A. To supervise the expenditure of government
  - B. To supervise all receipts of public revenue
  - C. Posting and keeping all books of accounts
  - D. Correction of all errors in the books of accounts
  - E. Checking all transactions before payment
25. Which of the following is **NOT** part of the other services rendered by an auditor?
- A. Taxation services
  - B. Liquidation, receivership and trusteeship
  - C. Management services
  - D. Accounting services
  - E. Secretarial services
26. Which of the following standards can be classified as Auditing Standards?
- 1. Operational standard
  - 2. Reporting standard

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3. Personal standard
  4. Ethical standard
  - A. 1, 2 and 3
  - B. 1, 2 and 4
  - C. 2 and 3
  - D. 2, 3 and 4
  - E. 3 and 4
- 
27. Which of the following is ONE of the procedures for Due Diligence?
    - A. Appoint the management staff of an enterprise
    - B. Filing of the financial statements
    - C. Appoint the directors of an enterprise
    - D. Prepare the financial statements of an enterprise
    - E. Review the financial statements of an enterprise
  
  28. Which of the following factors may NOT impair the going concern of a business organisation?
    - A. Management incompetence
    - B. Fraudulent practices of management
    - C. Political unrest
    - D. Ability to meet creditors bill as at when due
    - E. Failure of proper control mechanism and insider abuse
  
  29. An example of error in financial statements is
    - A. Mathematical or clerical mistakes in the underlying records and accounting data
    - B. Misappropriation of assets or theft
    - C. Recording of transactions without substance
    - D. Suppression or omission of the effects of transaction from records or document
    - E. Intentional misapplication of accounting policies
  
  30. The process the auditor is expected to carry out to complete the assurance in an orderly and proper manner is best referred to as
    - A. Issues documentation
    - B. Completion of field work
    - C. Audit completion procedures
    - D. Audit completion checklist
    - E. Audit report drafting

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

**ATTEMPT ALL QUESTIONS IN THIS SECTION**

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

1. Who is responsible for the appointment of the auditor of a public company that has no auditors for a continuous period of three months?
2. When should a letter of Engagement be sent to a prospective client?
3. Which body stands between the external auditors and the directors of the client company which reviews the financial results shown by both management accounts and those presented to shareholders?
4. What name is given to the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated?
5. Whose property is the audit working papers?
6. The information obtained by the auditor in arriving at the conclusions on which his opinion is based is called.....
7. The request for confirmation of balances sent to debtors which requires a reply only if the debtor disputes the balance on the request form is called.....
8. It is the responsibility of management of an enterprise to ensure that the amount at which stocks are shown in the financial statements represents stocks physically in existence and includes all stock owned by the enterprise (True or False)
9. What is the type of internal control procedure required for the custody of assets and in which access to assets is limited to authorised personnel?
10. What procedures represent policies and specific actions taken by an entity to ensure that management's directives are carried out?
11. The internal control assessment and recording technique that is used to highlight precisely the areas of strength and weakness in the system is called.....

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12. What is the internal control arrangement that ensures that the work of a clerk engaged upon a task is subject to an independent verification by another staff?
13. In Public Sector Assurance, the audit of the payroll of a particular Ministry or Department is known as.....
14. In IT based assurance, what does the acronym IDEA stand for?
15. The operations of the internal audit in the public sector that focuses on advising on policies introduced from time to time by a particular ministry or department is called.....audit
16. Which type of CAATs program compare the original specified program to the current program to detect unauthorized amendment?
17. What is the name given to the accounting ratio computed to show the relationship between earnings per share and the stock market price per share?
18. Which law stipulates that all public interest entity companies should have a functioning audit committee?
19. Peer review was introduced for some reasons. Mention TWO of the reasons?
20. The letter of representation is addressed to the.....

**SECTION B:           ATTEMPT ANY FOUR QUESTIONS**  
**(50 Marks)**

**QUESTION 1**

- a. Outline the principal differences between the Internal and External Audit (5 Marks)
- b. What is a Letter of Engagement? (1½ Marks)
- c. State EIGHT matters of importance that should be mentioned in a Letter of Engagement. (6 Marks)

**(Total 12½ Marks)**

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## QUESTION 2

An Auditor employs various tests in arriving at his opinion on Financial Statements during assurance engagements.

**You are required to:**

- a. List and explain **FOUR** tests employed by auditors (8 Marks)
- b. Briefly discuss the procedures involved in **THREE** tests used by auditors. (4½ Marks)

**(Total 12½ Marks)**

## QUESTION 3

- a. State and briefly explain **TWO** audit approaches in an IT based environment. (3 Marks)
- b. Explain how Computer Assisted Audit Techniques (CAATs) assist in obtaining Audit Evidence. (1½ Marks)
- c. State **TWO** practical applications of internal control appropriate to each of the following
  - i. Cash or cheque payments and receipts
  - ii. Wages and salaries
  - iii. Purchases and Trade Payables
  - iv. Sales and Trade Receivables(8 Marks)

**(Total 12½ Marks)**

## QUESTION 4

The composition of the Office of the Auditor-General includes directorates/ departments established under the Office.

- a. List the directorates/departments under the Office of the Auditor-General in your country and explain their individual functions. (8 Marks)
- b. The appointment of the Auditor-General is subject to a formal selection process
  - i. Who appoints the Auditor-General? (1½ Marks)
  - ii. Who makes recommendation for the appointment of the Auditor-General (1½ Marks)

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- iii. Who ratifies the appointment of the Auditor-General (1½ Marks)  
(Total 12½ Marks)

## QUESTION 5

- a. Define Audit completion procedures (1 Mark)
- b. List EIGHT Audit completion procedures (4 Marks)
- c. Briefly discuss what is involved in FIVE Audit completion procedures (7½ Marks)

(Total 12½ Marks)

## QUESTION 6

- a. A written representation is ordinarily more reliable than oral representation as audit evidence. Itemise the forms of written representation (4½ Marks)
- b. State THREE reasons why Peer Review is NOT common in your country (6 Marks)
- c. Define “Organisation chart” as it relates to a company (2 Mark)

(Total 12½ Marks)

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## SOLUTION TO MULTIPLE CHOICE QUESTIONS

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

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## SHORT ANSWER QUESTIONS – SOLUTIONS

1. Registrar – General of Corporate Affairs Commission
2. Immediately the auditor is appointed
3. Audit Committee
4. Audit Risk
5. Auditor
6. Audit Evidence
7. Negative circularisation
8. True
9. Physical Control
10. Internal Control Procedures
11. Internal Control Evaluation Questionnaire(ICEQ)
12. Internal Check
13. Payroll Audit
14. Interactive Data Extraction and Analysis
15. Management
16. Code Comparison Programs
17. Earnings Yield
18. Companies and Allied Matters Act, 1990
19.
  - (i) To monitor and evaluate professional practices
  - (ii) Create a culture of practice excellence as well as identifying improvement opportunities
  - (iii) Perform focused professional practice evaluation for new and existing practices.
  - (iv) Promote quality control
  - (v) Mechanism to receive feed back
  - (vi) Promote team review and learning

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## 20. Independent Auditor

### **SOLUTION 1**

a. The principal differences between Internal and External Auditors can be summarised under the following headings;

(1) **Appointment:** - External Auditors' appointments are governed by the Companies and Allied Matters Act of Nigeria (CAP 20 LFN 2004), they are not employees of the company while internal auditors are employed by the management of the company.

#### **(2) Audit Scope**

The Internal Auditor's scope of audit is as defined by the company's management while the external auditor's scope is as defined by statutes and other relevant regulations.

#### **(3) Audit Objective**

The Internal Auditor's objective is to ensure completeness, accuracy and validity of the company's transactions in the financial records, while the external auditors objective is to ensure that information in the financial records as presented in the financial statements give a true and fair view.

#### **(4) Duties**

External Auditors' duties are laid down by statutes or embodied in the Letter of Engagement while internal auditors' duties are determined by management.

#### **(5) Independence**

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External auditors are independent of management while internal auditors report to management.

**(6) Reporting Responsibility**

External Auditors report to the shareholders while internal auditors report to the management.

**(7) Qualification**

It is not mandatory that the internal auditor must be a chartered Accountant with practising license whereas it is mandatory for external auditors.

**(8) Degree of Detail**

The Internal auditor's work is more detailed than that of external auditors. The external auditor will only do enough to enable him form an opinion on the truth and fairness of the account being examined.

(b) A Letter of Engagement is a letter sent by the auditors to a client at the commencement of an audit setting out the terms of the engagement and forms the basis of the contract.

(c) Specific matters that should be mentioned in a Letter of Engagement are as follows:

- i. The Board of Directors' responsibilities in respect of proper books of accounts and financial statements.
- ii. Auditors' responsibilities to report on the financial statements, the scope and the basis of the audit work to be undertaken.
- iii. Fees and Billing arrangements.

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- iv. Where appropriate, arrangements concerning the involvement of other auditors and experts in some aspects of the audit.
- v. Any agreement for the auditor to provide taxation services.
- vi. Arrangements, if any, to be made with the former auditors
- vii. Restriction of the auditor's liabilities to the client
- viii. A reference to any further agreements between the auditor and the client
- ix. A proposed time-table for the agreement  
A request for written acknowledgement of the letter
- x. A statement setting out other services to be performed in addition to audit.
- xi. A statement that the auditor may request for representations from management on crucial matters affecting the financial statements
- xii. A statement disclaiming the auditors' responsibilities to prevent and detect fraudulent practises and other financial irregularities but that the weaknesses in the system will be brought to management attention.

## **Examiner's Report**

This seeks to test candidates' knowledge of the differences between Internal and External Audit, the letter of Engagement and matters contained therein. More than 80% of the candidates attempted this question with above average Performance (ranging between 8 & 12 Marks)

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## **SOLUTION 2**

Various tests used by auditors are:

- A. (i) Compliance test
- (ii) Substantive test
- (iii) Rotational test
- (iv) Walk through test
- (v) Completeness Test

### **Compliance Test**

A compliance test is a test which seeks to provide audit evidence that the internal control procedures are being applied as prescribed by the management. This is done with a view to reducing the level of audit testing to be done in the process of forming an opinion on the financial statements.

### **Substantive Test**

A substantive test is a test of transactions or balances which seek to provide audit evidence as to the completeness, accuracy and validity of the information contained in the accounting records or financial statements.

It is to confirm if the figures in the accounts on which the financial statements are based are a summary of valid, completely and accurately recorded transactions.

It provides further evidence of the compliance with established internal control procedures.

### **Rotational test**

These are tests carried out on the assumption that the auditor will be in office for several years and can in later years bring to bear special emphasis on a particular area of the affairs of his client or visit particular branches.

### **Walk-Through Test**

This test involves tracing transactions and documents from inception to conclusion observing the incidence of internal control.

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The objective is to ensure that the description of the system accurately describes the system as it is really operated.

b. Procedures involved in tests used by independent auditor:

## **Compliance Test**

1. Decide on the sample to be tested
2. To restrict the sample size to the minimum
3. To determine level of planned reliance
4. To spread the test to cover period under audit
5. To determine the frequency with which the control procedure is carried out

## **Walkthrough test**

6. Recording of the client's system
7. Follow an example of every document from its origin to its final disposition.

## **Substantive Test**

- a. Determine the extent of test which have to be restricted as far as possible
- b. Determine whether any error produced by a weak system could lead to material difference
- c. List out aspect of transactions to be tested.
- d. Tests include vouching, reperforming, confirming from independent third parties and observation.

## **Examiner's Report**

Audit tests and their procedures as employed by Independent auditors is what this question seeks to elucidate. This is another very popular question attempted by more than 90 percent of candidates. Performance though was average with the (b) part being the marks loser.

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## SOLUTION TO QUESTION 3

### a (i) **ROUND THE COMPUTER AUDIT APPROACH**

Under this approach the auditor verifies the completeness, accuracy and validity of the computer processing by reconstructing the computer input data, manually calculating the output and reconciling this with the computer-generated output. The auditor does not directly examine the program processing procedure that occur within the computer and as a result, this approach is also referred to as the “black box” audit approach.

### (ii) **THROUGH THE COMPUTER APPROACH**

Under this approach, the auditor verifies the completeness, accuracy and e computer processing by directly examining the program processing procedures that occur within the computer.

This approach involves the use of various computer assisted audit techniques, which the auditor consequently requires. The auditor consequently also requires special computer skills and knowledge when using this approach. The approach also demands a greater understanding of the client’s accounting application than would normally have been demanded under the round the computer audit approach.

### (iii) **WITHIN THE COMPUTER AUDIT APPROACH**

This approach is a variation of the “through the computer” audit approach. Unlike through the computer audit approach however, this audit approach involves the use of embedded audit facilities such as integrated test facilities and SCARF. This approach avoids the need for specified computer time to perform audit tests. It also

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minimizes the risk of loss of audit trail as the audit of transactions can be performed on a continuous basis using embedded audit programs.

b. **Computer Assisted Audit Techniques (CAATS)**

These are methods of obtaining audit evidence in a computer-based activities systems which is different from a manually based system. The nature of computer based accounting systems is such that the auditors are afforded opportunities to use either the entity's or another computer to assist them in the performance of their audit work

c. **Practical Application of Internal control**

**i. Cash and Cheques**

1. Ensures that cash and cheques are adequately protected and properly accounted for.
2. Determine the person responsible for maintaining records of money received.
3. All cheques and cash received must be paid into the organisation's Account.
4. Regular bank reconciliation
5. Determine the person authorised to sign cheques and limitation of authority.

**ii. Wages and Salaries**

Internal control considerations include the following:

- a) Establishment of a procedure for authorisation of engagement and discharge of employees.

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- b) Establishment of a procedure for authorisation of general and individual changes in rates of pay.
- c) Establishment of a procedure for notifications of changes in personnel and rates of pay are to be recorded and controlled to prevent irregularities and errors in the preparation and payment of wages and salaries.
- d) Establishment of a procedure for deduction from employees pay other than statutory deductions (income tax and Social Security deductions) are to be authorized.
- e) Arrangements should be made for recording hours worked (in the case of hourly paid workers) or work done (in case of piece meal workers), and for ensuring that the records are subject to scrutiny and approval by a responsible official before being passed to the wages department.
- f) Establishment of a procedure to determine Whether advances of pay are to be permitted; if so, how they are to be notified to and be dealt with by the wages and salaries department and how they are to be recovered, including how holiday pay is to be dealt with.
- g) Establishment of a procedure to determine who is to deal with pay queries.

### **iii. Purchases and Trade Payables**

Factors to be considered include:

- a) Establishment of the procedure to be followed when issuing requisitions for additions to and replacements of stocks, and the persons to be responsible for such requisitions.

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- b) Establishment of the procedure for preparation and authorisation of Purchase Orders (including procedures for authorizing acceptance where tenders have been submitted for prices quoted).
  - c) Establishment of the procedure for capital items and any special arrangements as to authorizations required.
  - d) Arrangements for examining goods inwards as to quantity, quality and condition and for evidencing such examination.
  - e) The appointment of a person responsible for accepting goods and procedures for recording and evidencing their arrival and acceptance.
  - f) The procedure to be instituted for checking goods inwards records against authorized purchase orders.
- (iv) **Sales and Trade Receivables**
- a. Procedures to ensure that goods are sold at current prices
  - b. Who should be responsible for accepting customer's orders?
  - c. Who authorises despatch of goods and how such authority is to be evidenced
  - d. Who is responsible for the preparation of invoices and credit notes and procedures to prevent errors and irregularities.

## **Examiner's report**

Question is IT based. Seeks to test Audit approaches in an IT environment with how CAATS can assist in obtaining audit evidence and finally with practical applications of internal control with specific items of accounts. Not very well attempted (less than 50%) and poor performance by those who attempted it (less than 5 marks)

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## **SOLUTION TO QUESTION 4**

- a. Composition of the office of the Auditor-General
  - i. Treasury accounts, which handles the audit of accounts and financial statements.
  - ii. State Accounts which audits the transactions of pay officers operating in various states.
  - iii. Public Enterprises, which oversees the audit of parastatals
  - iv. Project audit which investigates justification to pay officers operating in various states.
  - v. Pension which conducts pre-audit of gratuities and pensions
  - vi. Losses and investigations that handles all cases of loss of funds
  - vii. Annual Reports and Public Accounts Committee (PAC) which handles all reports and links with PAC deliberations.
- b. Appointment of the Auditor-General
  - i. The Auditor-General of the Federation is appointed by the President.
  - ii. The recommendation is made by the Federal Civil Service Commission.
  - iii. The ratification of the Auditor-General's appointment is done by the Senate of the Federal Republic of Nigeria.

### **Examiner's Report**

This question is about the Auditor-General of the Federation. His appointment, confirmation, ratification, the set-up of his office. The (a)

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part of the question (which carries 8 marks) was the marks loser as more of the students were deficient in their answers. The 'B' part though makes up. About only 30% of Candidates attempted the question.

## SOLUTION 5

- a. Audit completion procedures are the procedures which the auditor is expected to carry out to complete the audit in an orderly and proper manner.
- b. Audit completion procedures are:-
1. Final review of draft financial statements
  2. Completion of field work
  3. Drafting the audit report
  4. Issues documentation
  5. Audit completion checklist
  6. Engagement partner sign-off
  7. Debriefing
  8. Reporting to the board and management
  9. Consideration of desirability of reappointment
- c. i. Final review of Draft financial statements  
The auditor should carry out a final review of the draft financial statements in conjunction with the conclusions drawn from other evidence obtained to provide a reasonable basis for the audit opinion. It is the auditors' duty to review all matters relating to the period to ascertain that they have all been properly presented and disclosed in the financial statements. The final review should cover the following:
- That all audit programmes were followed through in each transaction cycle during the audit.

# INSIGHT

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- That audit working papers were complete and properly referenced and cross referenced.
- That all audit queries were attended to
- That exception ratios arising from analytical review were investigated
- That the management letter contains all observations and issues not satisfactorily cleared
- That matters carried forward from prior year have been reviewed and treated
- That comparative figures agrees to prior year financial Statements
- That letter of representation contents were properly appraised and referenced
- That the entity's existence as a going concern is assessed
- That all subsequent events are reviewed.

ii. Completion of field work

The engagement partner should ensure that all field work has been completed and reviewed, except as indicated in issues documentation, before the files are presented for final review. Engagement should be satisfied that, adequate working paper review is evidenced in the file, all review notes have been satisfactorily cleared and have been removed from the files, any documents relating to matters of substance affecting the opinion have been transferred to the issues documentation.

# INSIGHT

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iii. Drafting the Audit Reports

The draft financial statements presented to the engagement partner for review should include the draft audit report. The audit report should use the standard wording for an unqualified opinion.

iv. Issues Documentation

To assist the partner in the efficient review of the financial statements and clearance of the audit, it is helpful for the audit team to prepare issues documentation. The engagement partner may evidence clearance of the opinion on the financial statements by signing off the issues documentation.

v) Audit Completion checklist

To help ensure that all relevant matters are attended to before the audit report is signed, it is often useful to provide an "Audit completion checklist". This could be a manual record or use of technology when final issues documentation is first presented to partners for initial clearance, it is likely that some of the matters) e.g. subsequent events review will not have been completed. However, the auditor should deal with all matters on the check list before presenting the issues documentation (with the checklist) for final clearance.

vi) The Engagement Partner's sign-off

It may be useful to record information relating to signature of the master copy of the financial statements. The audit file could also contain a record of the location and movement of

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draft and signed copies, the number required for printing and the persons to whom copies should be sent. The partners' sign-off all and authorise the acceptance for issuance of reports.

vii) Debriefing

This is a meeting in the auditor's office, among the audit team, to share and discuss information on the success or failure of the audit just completed. The objectives of debriefing are:

- To ensure that all matters that may be used in the report to the board and to management are identified and included
- To assist in the assignment, training and development of the audit team
- To improve the efficiency and effectiveness of future audits
- To allow key players to obtain important information that will
- lead to improvement in future performance.

viii) Reporting to the Board and to Management

In addition to considering the audit reports on the financial statements, the auditor should draw together conclusions and other matters appropriate for conclusion in the report to the board and in other reports to engagement. The auditor's report on public limited

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companies goes through the audit committee which stands between the auditors and Board of Directors.

ix)                    Consideration of desirability of reappointment

The auditor should consider whether the circumstances of the client have changed in such a way as to make it undesirable to continue as the client`s auditor. A decision is needed before the auditor signifies willingness to be reappointed at the company`s Annual General Meeting. It is necessary to be alert for conditions that might have caused a rejection of the client had they existed when the appointment was initially accepted. In case of doubt, the engagement partner should consult other partners on case of doubt. The auditor should obtain assurance that subsequent events which were necessary to give a true and fair view have been appropriately dealt with in the financial statements:

Subsequently events assessment provide guidance on the auditor`s responsibility regarding events occurring.

- Between the period end and the date of the auditor`s report
- Between the date of the auditor`s report and the issue of the financial statements.
- Often the financial statements have been issued but before they are laid before the members in the Annual General Meeting

# INSIGHT

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## **Examiner's Report**

This is another not very popular question seeking to test audit completion

procedures. Only about 45% of candidates attempted it. Marks obtained ranges between 4 and 6.

## **SOLUTION 6**

- a. A written representation is ordinarily more reliable audit evidence than an oral representation and can take the form of:
  - a) A representation letter from management;
  - b) A letter from the auditor outlining the auditor's understanding of management's representations, duly acknowledged and confirmed by management; or
  - c) Relevant minutes of meeting of the Board of Directors or similar body or assigned copy of the financial statements.
  
- b.
  - i. Cost can be prohibitive.
  - ii. Legality and confidentiality of allowing others go through clients file.
  - iii. Exposure of procedure and standards to a competing audit firm is inevitable
  
- c. ORGANISATION CHART is a diagram that shows the structure of an organisation and relationship and relative ranks of its parts, position and jobs.

## **Examiner's Report**

Written representation items, Peer Review and Organogram are what this question Tests. Fairly popular (about 75%) attempts) with average marks.

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AT/172/PIII.I0

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

**Time Allowed: 3 hours**

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

**ATTEMPT ALL QUESTIONS IN THIS SECTION**

**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 most important activity where cost reduction may be applied is
  - A. Improvement
  - B. Purchase procedure
  - C. Product design
  - D. Better factory layout
  - E. Cost audit
  
2. Value analysis mainly aims at increasing the
  - A. Use value
  - B. Esteem value
  - C. Cost value
  - D. Exchange value
  - E. Account value
  
3. Labour Productivity may be measured by
  - A.  $\text{Total Labour Hours} \div \text{Total output}$
  - B.  $\text{Total Output} \div \text{Total Machine Hours}$
  - C.  $\text{Actual Labour} \div \text{Standard Labour Hour}$
  - D.  $\text{Total Labour Hours} \div \text{Total Man-Hours}$
  - E.  $\text{Total Output} \div \text{Total Labour Hours}$
  
4. A redesign of an activity, product or service so that value to the customer is enhanced while costs are reduced (or at least increased by less than the resulting price increase) is
  - A. Value Analysis
  - B. Value Engineering
  - C. Value Cost

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- D. Value Distinction
  - E. Value Reduction
5. A set of concepts and tools for getting all employees focused on continuous improvements in the eyes of the customers is called
- A. Total Quality Management
  - B. Just - in- Time Management
  - C. Target Costing Management
  - D. Kanban Techniques Management
  - E. Back flushing Technique Management
6. Which of the following is **NOT** a phase in product life cycle?
- A. Decline
  - B. Growth
  - C. Introduction
  - D. Maintenance
  - E. Maturity
7. Which of the following is **NOT** a function of cost accounting?
- A. The application of cost accounting principles, methods and techniques in ascertaining the cost of units of products, services or process
  - B. The provision of information to management for the purpose of planning
  - C. The provision of information for value added statement
  - D. The provision of information to management for decision making
  - E. Provision of information to control the activities of the business organization
8. Which of the following is always a desirable quality of cost accounting information?
- A. Instant availability
  - B. Complete accuracy
  - C. Brevity
  - D. Understandability
  - E. Voluminous
9. Which of the following statements is **NOT** correct?
- A. Cost accounting can be used for stock valuation to meet the requirement of internal reporting only

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- B. Cost accounting provides appropriate information for decision making, planning, control and performance
  - C. Routine information can be used for both short-term and long-term decisions
  - D. Financial accounting information cannot be used for internal reporting purposes
  - E. Cost accounting is an integral part of management accounting
10. Cost behaviour analysis focuses on how costs
- A. React to changes in profit
  - B. Changes over time
  - C. React to changes in activity level
  - D. React to changes in revenue
  - E. Changes with the level of inflation
11. Which of the following is **NOT** a feature of a good coding system?
- A. Uniqueness
  - B. Brevity
  - C. Distinctiveness
  - D. Indexing
  - E. Non-ambiguity
12. Cost accounting is an integral part of
- A. Financial Accounting
  - B. Forensic Accounting
  - C. Management Accounting
  - D. Treasury Accounting
  - E. Historical Accounting
13. Excess of actual cost over standard cost is treated as?
- A. Favourable variance
  - B. Adverse variance
  - C. Abnormal variance
  - D. Normal variance
  - E. Nil variance
14. The difference between standard cost and actual cost of material is
- A. Profit
  - B. Loss

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- C. Waste
  - D. Variance
  - E. Scrap
15. Material cost variance is equal to
- A. Material yield variance plus material mix variance
  - B. Material price variance plus material usage variance
  - C. Material usage variance plus material mix variance
  - D. Material price variance plus material yield variance
  - E. Material cost variance plus material mix variance
16. Marginal Costing Technique follows **ONE** of the following basis of classification of costs
- A. Element-wise
  - B. Function-wise
  - C. Control-wise
  - D. Behaviour-wise
  - E. Identifiable-wise
17. Margin of safety is
- A. Sales minus fixed cost
  - B. Sales minus contribution
  - C. Fixed cost plus variable cost
  - D. Actual sales minus sales at breakeven point
  - E. Net profit plus fixed cost
18. Variable cost
- A. Remains fixed in total
  - B. Varies per unit
  - C. Remains fixed per unit
  - D. Remains idle per unit
  - E. Remains favourable per unit
19. Integrated Accounts are generally prepared in line with the requirements of
- A. Control account
  - B. Responsibility account
  - C. Financial accounting
  - D. Cost accounting

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- E. Management accounting
20. The comprehensive accounting system with **NO** division between financial and cost accounting is
- A. Traditional costing system
  - B. Interlocking accounting system
  - C. Non-integrated accounting system
  - D. Integrated accounting system
  - E. Combined accounting system
21. The following items of cost or revenue are of no interest to the cost accountant because they are financial accounting items **EXCEPT**
- A. Interest or dividend received
  - B. Discount allowed or received
  - C. Under absorption of overhead
  - D. Dividend paid
  - E. Profit on disposal of fixed assets
22. Which of the following is **NOT** a method used for the purpose of apportionment of joint cost in process costing?
- A. Net residual value
  - B. Physical quantity at split-off point
  - C. Further processing cost of each product
  - D. Residual sales value
  - E. Sales value at split-off point
23. Costing methods refer to the systems of cost finding and ascertainment. Which of the following methods is **NOT** a costing method?
- A. Job costing
  - B. Service costing
  - C. Standard costing
  - D. Batch costing
  - E. Contract costing
24. The cost of providing service is known as
- A. Service orientation
  - B. Transport cost
  - C. Overhead cost
  - D. Operating cost
  - E. Service cost

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25. The production processes of a certain product has a normal loss of 10% of input. During the period, 50,000 units of materials were input and there was an abnormal gain of 1,500 units. What quantity of good production was achieved?
- A. 48,000 units
  - B. 46,500 units
  - C. 45,000 units
  - D. 44, 500 units
  - E. 43,500 units
26. The component of materials include the following **EXCEPT**
- A. Finished Goods
  - B. Work-in-progress
  - C. Loose tools
  - D. Raw materials
  - E. Fixed Assets
27. The document used when orders of materials are received and brought into store is
- A. Material Requisition
  - B. Goods Received Note
  - C. Local Purchase Order
  - D. Materials Issue Note
  - E. Materials Transfer Note
28. Ghost workers are
- A. Employees who are dead
  - B. Employees who were involved in accident whilst working
  - C. Employees who worked as a ghost in an organization
  - D. Employees who always claimed sick leave
  - E. Employees who do not exist but whose salaries are being paid
29. The gross wages of an employee is determined by adding
- A. All deductions from basic wages
  - B. All allowances to basic wages
  - C. Pension deduction to PAYE
  - D. Bonuses and Allowances together

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- E. Twelve months' wages together
30. What distinguishes a profit centre from a cost centre?
- A. Revenue
  - B. Direct Cost
  - C. Indirect Cost
  - D. Profit
  - E. Loss

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

**ATTEMPT ALL QUESTIONS IN THIS SECTION**

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

1. The budget guidelines and budgeting instructions are set out in the .....
2. Value analysis is a powerful tool of .....
3. The continuous and systematic process of measuring one's output and/or work processes against the toughest competitor or those recognised as the best in the industry is known as .....
4. A cost accounting system which focuses on the output of the organization and then works backwards to allocate costs between cost of goods sold and inventory is called .....
5. Job Costing, Batch Costing and Contract Costing constitute classification under .....
6. A costing method applicable where goods or services result from a sequence of production is known as .....
7. Cost of seeking new ideas, materials, methods of production and improved products through the development and design of such ideas is known as .....
8. The cost of resources acquired which are expected to contribute to future revenue is known as .....

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9. If variable cost to sales ratio is 60%, profit volume ratio is .....
10. Marginal cost is variable overhead plus .....
11. Standard cost is not a historical but a ..... cost
12. Labour cost variance is sub-dividend into ..... variance and ..... variance.
13. In process costing, normal material waste is absorbed by good units produced while abnormal loss is charged to .....
14. The basic costing method applicable where the work consists of separate jobs, contract or batches is called .....
15. The continuous operation costing where the organization produces one product only is known as .....
16. The cost accounting system where the financial accounts and cost accounts are kept separately and independent of each other is known as .....
17. In the cost ledger, the control account into which income or expenditure extracted from the financial accounts are posted is called .....
18. The document used in material recording which the store keeper uses in recording the receipts and issues of materials is called .....
19. The product of hours worked and wages rate per hour is known as .....
20. The best way to treat over or under absorbed overhead for a period is to .....

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**SECTION B: ATTEMPT ANY FOUR QUESTIONS (50 Marks)**

**QUESTION 1**

The objective of any costing system should be to collect statistical data for significant operations of the undertaking, to analyse it and make it available to the management in a suitable form with a view to assisting it in taking managerial decisions. Hence, the costing system should be set up for the benefit of the organization.

**You are required to:**

- a. Enumerate **SIX** factors to be considered when installing a costing system. (6 Marks)
- b. MicSoftward Incorporated supplies you with the following information relating to its product called Polymax for the month of October 2016.

Raw materials consumed	₦1,200,000
Direct wages	₦720,000
No. of machine hours worked	500
Machine hour rate	₦400
Office overhead	20% of works cost
Selling overhead	₦40 per unit sold
No. of units manufactured	5,000
No. of units sold	4,000 @ ₦700 per unit

Assume no opening stock

**You are required to:**

Prepare a cost sheet showing the cost and profit for the period.

(6½Marks)

**(Total 12½ Marks)**

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## QUESTION 2

Joromi Jojo Limited wants to install a new machine in place of an existing one which has become obsolete. After extensive enquiry and from the responses received, the company shortlisted two models of machines namely WIZ Model Machine and KID Model Machine.

The two models of machines differ in cost, output and expected net revenue but the estimated useful life of both machines is five (5) years.

There will be no significant value at the end of the fifth year. The following information were also provided:

Machine model	Initial outlay	EXPECTED NET REVENUE				
		Year 1	Year 2	Year 3	Year 4	Year 5
	₦'m	₦'m	₦'m	₦'m	₦'m	₦'m
WIZ	50	-	10	20	15	5
KID	80	20	28	32	34	16

The company's cost of capital is 10%

**You are required** to make an appraisal of the two models of machine using

- a. Pay back period (6 Marks)
  - b. Net Present Value (6½Marks)
- (Total 12½ Marks)**

## QUESTION 3

ASELAGUN NIGERIA Limited is a manufacturing company with no properly defined purchasing policy for its major raw materials, the monthly demand of which is 5,000 units.

As a cost accountant, you have been informed by the purchasing manager that the purchasing cost of the materials for a month's consumption is ₦50,000 and the annual carrying cost per unit is 10% of the cost of material while the ordering cost is ₦1,200 per order.

**You are required to calculate:**

- i. Economic order quantity (3 Marks)
- ii. The number of orders per year (1½Marks)
- iii. The total ordering cost for the material per year (1½Marks)
- iv. The total carrying cost for the material per year (1½Marks)

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- v. The total frequency of order (1½Marks)
  - vi. The total monetary cost per annum (2Marks)
  - vii. The relevant total cost of ordering and carrying the raw material for the year (1½Marks)
- (Total 12½ Marks)**

## QUESTION 4

- a. It is difficult to make a distinction between cost audit and financial audit from the practical point of view though in principle the difference does exist.

**You are required to:**

Distinguish between cost audit and financial audit in **SIX** areas. (6 Marks)

- b. Modern management is becoming increasingly cost-conscious and is constantly in search of new ways of controlling costs and eliminating wastages.

**You are required to:**

- i. Define cost control and cost reduction (3½Marks)
- ii. Determine how cost control can be carried out within an organization. (3Marks)

**(Total 12½ Marks)**

## QUESTION 5

- a. Distinguish between
- i. Efficiency ratio and
  - ii. Activity ratio (2 Marks)
- b. You are given the following information about SAM Limited for the last quarter of 2016 for the assembly and finishing shops.

<b>Assembly Shop:</b>	<b>Unit A</b>	<b>Unit B</b>
Budgeted output	18,000 units	4,000 units
Standard minutes per unit	10	15
Actual output	15,000 units	10,000 units

Actual clock time for units A and B is 6,250 hours

# INSIGHT

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## Finishing Shops:

Budgeted man hours	4,200
Actual man-hours	3,600
Standard man-hours	3,780

## Required:

Compute an efficiency and activity ratio for the assembly and finishing shops.

(10½Marks)

**(Total 12½ Marks)**

## QUESTION 6

Kangolo Limited incurred the following expenses for Job No. X194 during the year ended 31 December 2016:

	Le
Direct materials	120,000
Direct wages	160,000
Chargeable expenses	40,000
Factory overheads	80,000
Selling & distribution overheads	80,000
Administrative overheads	120,000

Selling price for the above named job was Le720,000

## You are required to:

- Prepare a statement showing the profit or loss earned during the year ended 31 December 2016 from Job No. X194.
- Prepare an estimated price of Job No. X520 which is to be executed during the year ending 31 December 2017, charging the same percentage of profit on sales as it was during the previous year.

Materials, wages and chargeable expenses required for the job are Le 200,000; 280,000; and 80,000 respectively.

The various overhead should be recovered on the following basis while calculating the estimated price:

- Factory overheads as a percentage of direct wages
- Administrative and selling and distribution overheads as a percentage of factory cost.

**(Total 12½ Marks)**

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## SOLUTION TO MCQ

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

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- 24. D
- 25. B
- 26. E
- 27. B
- 28. E
- 29. B
- 30. A

Q.25

Input 50,000 units

$$\text{Normal loss } 10\% = \frac{10}{100} \times \frac{50000}{1} = 5000 \text{ points}$$

Therefore expected output = 50,000 - 5000 = 45,000

Abnormal gain	<u>1,500</u>
Good production (Actual)	<u>46,500</u>

Examiner's Report

Questions adequately covered the syllabus. The questions are clearly worded and are of professional standard. All the candidates attempted the questions, however, 70% of them scored above average.

## **SOLUTION TO SAQ**

1. Budget Manual
2. Cost Reduction
3. Benchmarking
4. Back flush Accounting
5. Specific Order Costing/Costing methods
6. Process Costing/Continuous Operation Costing
7. Research and Development Overhead

# INSIGHT

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8. Unexpired Product Costs/Relevant Cost
9. 40%
10. Prime Cost/Direct Costs
11. Predetermined/Estimated Cost
12. Labour rate and Labour Efficiency
13. Statement of Profit or Loss (Profit or Loss Account)
14. Specific Order Costing
15. Output Costing
16. Interlocking system
17. Cost Ledger Adjustment/Cost Ledger Control Account
18. Bin Card
19. Basic Wages
20. Write it off to statement of Profit or Loss (Profit or Loss Account)

## Workings

	%
Sales	100
Variable cost	<u>60</u>
P.V. Ratio	<u>40</u>

## Examiner's Report

The questions are clearly stated, covered the syllabus but performance is just average. All the candidates attempted the question, however, about 55% of the candidates scored above the average marks allotted to the section of the paper.

# INSIGHT

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## SOLUTION TO QUESTION 1

- a. Installation of a costing system.  
In designing and installation of a good cost accounting system the following factors should be considered.
- i. The information needs of the management and the level of details needed.
  - ii. The frequency of the information to be provided
  - iii. The factory layout and production process, method of production and type of processes
  - iv. The level of control to be exercised over production & cost centres
  - v. The nature of raw material and labour used in the process
  - vi. The organization structure and degree of decentralization
  - vii. The speed and accuracy in requirement of information
  - viii. The information needs of different cost centres
  - ix. The relative size of the cost units and cost centres.
  - x. The level of integration of cost and financial accounts desired
  - xi. The expenses of the costing should commensurate with the benefits of installation i.e cost versus benefits
- b. Mic Softward Incorporated  
Cost sheet for the October, 2016

	TOTAL	COST/UNIT
No. of Units produced	<u>5,000</u>	
Raw material consumed	₦	₦
	1,200,000	240.00
Direct wages	720,000	<u>144.00</u>
PRIME COST	1,920,000	384.00
Factory OH (500 @ ₦400)	200,000	<u>40.00</u>
WORKS COST/COST OF PRODUCTION	2,120,000	<u>424.00</u>
CLOSSING STOCK (WEEK 1)	<u>(424,000)</u>	
COST OF SALES	<u>1,696,000</u>	424.00
ADD OFFICE O'HEAD 20% OF WORK COST	424,000	106.00
Selling O'HEAD (4,000 @ ₦40)	<u>160,000</u>	<u>40.00</u>
TOTAL COST	2,280,000	570.00
SALES (4,000 @ 700	2,800.000	<u>700.00</u>
PROFIT	<u>520,000</u>	<u>130.00</u>

# INSIGHT

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Week 1

Calculation of closing stock value

Closing stock (units) = No of units - No of units sold manufactured  
= 5,000 - 4,000 = 1,000 (units)

Valuation of closing stock =  $\frac{1000}{5000} \times 2,120,000 = \text{N}424,000$

OR

1000 units @ ~~N~~ 424.00 = ~~N~~424,000

## Examiner's Report

Part A of the question tested installation of costing system while part B tested ability to prepare a cost sheet. About 90% of the candidates attempted the question but only 40% of them scored above the average marks allotted to the questions.

Common pitfalls include:

- i. lack of understanding of the requirements of the question, and
- ii. Poor presentation.

For future examinations, candidates should pay attention to the requirements of examination questions before providing answers to the respective question.

## SOLUTION TO QUESTION 2

Pay Back Period

WIZ Machine Model

Year	Item	Cashflow	Cumm cash flow
0	I.O	<del>N</del> ,000 (50,000)	<del>N</del> ,000 (50,000)
1	C.F	-	(50,000)
2	"	10,000	(40,000)
3	"	20,000	

# INSIGHT

			(20,000)
4	“	15,000	(5,000)
5	“	5,000	-

PBP = 5 years  
Kid Machine Model

Year	Item	Cashflow	Cumm Cashflow
0	I.O	₦,000 (80,000)	₦,000 (80,000)
1	C.F	20,000	(60,000)
2	“	28,000	(32,000)
3	“	32,000	-
4	“	34,000	
5	“	16,000	-

PBP = 3 years

NPV Machine Model

Year	Item	Cashflow	DF@10%	Present Value flow
0	I.O	₦,000 (50,000)	1.000	₦,000 (50,000)
1	C.F	-	0.909	-
2	“	10,000	0.826	8,260
3	“	20,000	0.751	15,020
4	“	15,000	0.683	10,245
5	“	5,000	0.621	3,105
Net Present Value				(13,370)

Kid Machine Model

Year	Item	Cashflow	DF @10%	Present Value
0	I.O	₦,000 (80,000)	1.000	₦,000 (80,000)
1	C.F	20,000	0.909	18,180
2	“	28,000	0.826	23,128
3	“	32,000	0.751	24,032
4	“	34,000	0.683	23,222

# INSIGHT

5	“	16,000	0.621	<u>9,936</u>
Net Present Value				<u>18,498</u>

Recommendation:

The management of Joromi Jojo Ltd is advised to install Kid machine model since its payback period is shorter than that of Wiz machine model

## ALTERNATIVE SOLUTION (4 Significant figures)

### Calculation of Net Present Value (NPV) for the two machine model

#### Wiz Machine Model

Year	Items	Cash flow  ₦000	DCF @ 10%	PV  ₦000
0	Initial Outlay	(50,000)	1	(50,000)
1	Expected Net Revenue	0	0.9091	0
2	Expected Net Revenue	10,000	0.8264	8,264
3	Expected Net Revenue	20,000	0.7513	15,026
4	Expected Net Revenue	15,000	0.6830	10,245
5	Expected Net Revenue	5,000	0.6209	<u>3,104.50</u>
	<b>Net Present Value</b>			<b><u>(13,360.50)</u></b>

#### Kid Machine Model

Year	Items	Cash flow  ₦000	DCF @ 10%	PV  ₦'000
0	Initial Outlay	(80,000)	1	(80,000)

# INSIGHT

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1	Expected Net Revenue	20,000	0.9091	18,182
2	Expected Net Revenue	28,000	0.8264	23,139.20
3	Expected Net Revenue	32,000	0.7513	24,041.6
4	Expected Net Revenue	34,000	0.6830	23,222
5	Expected Net Revenue	16,000	0.6209	<u>9,934.4</u>
	<b>Net Present Value</b>			<b><u>18,519.20</u></b>

## Recommendation:

Based on above computation, Kid machine model should be installed since it generates a positive NPV while Wiz machine model generates negative NPV.

## Examiner's Report

The question tested capital budgeting techniques. About 80% of the candidates attempted the question and not less than 75% of those who attempted the question scored above average marks. Candidates are advised to be acquainted with all the techniques of appraising investments and the contents of the entire syllabus while preparing for future examinations.

## SOLUTION TO QUESTION 3

ASELAGUN NIG. LIMITED

- i. Economic order quantity

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$$EOQ = \sqrt{\frac{2Doc}{Cc}}$$

Determination of Annual Demand  
= 5000 units x 12mths = 60,000 units

Determination of annual carrying cost  
=  $\frac{50,000}{5000} \times 10\% = \text{N}1$

Material purchase cost percent =  $\frac{50,000}{5000} = \text{N}10$

$$EOQ = \sqrt{\frac{2 \times 60,000 \times 1200}{\text{N}1}}$$

EOQ = 12000 units

ii. Number of orders per year  $\frac{\text{Annual Demand}}{EOQ}$

$$D/Q = \frac{60,000}{12000} = 5 \text{ times}$$

iii. Total ordering cost for the material per year.

ToC =  $\frac{\text{Annual Demand}}{EOQ} \times \text{ordering cost per order}$

$$\frac{60,000}{12000} \times \text{N}1200 = \text{N}6000$$

iv. Total carrying cost for the material per year

TCC =  $\frac{EOQ}{2} \times \text{carrying cost}$

$$TCC = \frac{12000}{2} \times \text{N}1 = \text{N}6,000$$

v. The total frequency of orders.

# INSIGHT

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$$= \frac{\text{Annual Demand}}{\text{EOQ}}$$

$$= \frac{60,000 \text{ units}}{12,000 \text{ units}}$$

$$= 5 \text{ times}$$

vi. Total monetary cost per annum

	<del>₦</del>
Material Purchase Cost ( <del>₦</del> 10 x 60,000 units)	600,000
Total ordering cost	6,000
Total covering cost	<u>6,000</u>
	<u>612,000</u>

vii. The relevant total cost of ordering and carrying the raw material for the year.

	<del>₦</del>
Total carrying cost ( $\frac{Q}{2} \times c_c$ ) = $\frac{1200}{2} \times \text{₦}1$	6,000
Total ordering cost ( $\frac{D}{Q} \times c_o$ ) = $\frac{60,000}{12,000} \times 12,000$	<u>6,000</u>
	<u>12,000</u>

## Examiner's Report

The question tested Economic Order Quantity (EOQ). About 90% of the candidates attempted the question and a sizeable number of them appear not to have a good knowledge of EOQ model as well as the related concepts. Thus 45% of those who attempted the question scored above the average of marks allocated to the question. A good coverage of the entire syllabus is advised for future examinations.

## SOLUTION TO QUESTION 4

a. Difference between Cost Audit and Financial Audit

# INSIGHT

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The basic nature of audit is checking and it holds good for both the cost audit as well as the financial audit. However the following are points of difference between these two audits:

SN	Area of Differences	Financial Audit	Cost Audit
1	Legal Requirements	Audit of the financial account is compulsory under the provisions of CAMA	Audit of the cost account is optional
2	Objective	The objective of financial account audit is to see whether the account of business have been properly maintained and whether the statement of Financial position and the Statement of Income shows a true and fair view	The objective of cost audit is to examine whether the expenditure involved has been wisely incurred or not and to find out the cost of manufacture of each unit of items.
3	Degree of Details	Financial auditor has to examine the financial accounts e.g capital, debtors, asset etc and does not go into the details of the cost records.	Cost Auditors has to go into the details of the cost records to detect errors and manipulation in cost account
4	Valuation of Inventory	The financial auditor has to see whether it has been correctly valued for the purpose of inclusion in the accounts.	The cost auditors has to see whether the inventory is excessive/otherwise keeping in view the need of the business
5	Scope of Work	The financial auditor examines the financial aspects.	The cost auditors examines the cost aspects
6	Arithmetical Accuracy	The financial auditor certifies the arithmetical accuracy of the transactions in proper books of account	Cost auditor certifies the fact relating to the utilization of material, labour and other services
7	Definition	Financial Audit is an	Cost Audit is the

# INSIGHT

		independent, objective evaluation of an organization's financial reports and financial reporting processes with the primary purpose of giving regulators, investors, directors, and managers' reasonable assurance that financial statements are accurate and complete.	verification of the cost accounting records such as the accuracy of the cost accounts, cost reports, cost statements, cost data and costing technique and examination of these records to ensure that they adhere to the cost accounting principles, plans, procedures and objectives
8	Expression of opinion	Financial Auditor has to comment upon the accuracy of the transactions recorded.	The Cost Auditor has to comment upon the correctness and otherwise of the decisions taken in production of items
9	Instance	Financial audit is conducted at the instance of the shareholders	Cost audit is an internal audit process/or requirement
10	Appointment	Financial Audit is appointed normally by the shareholders in the general meeting.	The Cost Auditor is appointed at the instance of the person that initiates the cost audit
11	Recurrence	Financial Auditor is conducted every year	A Cost Audit may be done in the year in which it is required by the government or any other agency

## bi. Cost Control

This is the guidance and regulation by executive action of the costs of operating an undertaking particularly where such action is guided by cost

# INSIGHT

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accounting. It comprises of all procedures and measures by which the cost of carrying out an activity is kept under check and aims at ensuring that cost do not go beyond a certain level.

Cost Control can also be described as a technique which provides the necessary information to the management that actual costs are aligned with the budgeted costs or not. Cost control technique comprises standard costing, budgetary control and capital expenditure.

## **Cost Reduction**

ICMA, London defines cost reduction to be the achievement of real and permanent reduction in the unit costs of goods manufactured without impairing their suitability for the use intended.

Cost Reduction can also be described as a technique used to save the unit cost of the product without compromising its quality. The major reason behind cost reduction is that the cost control established is not sufficient to enable a firm to survive the economy recession. Cost reduction technique includes JIT system, Target costing, Activity based management, Life cycle costing, Business process re-engineering, Total Quality Management (TQM) etc.

## **ii. Tools and Techniques of Cost Control**

Cost Control can be exercised by adopting the following tools and techniques.

- a. Material Control
- b. Labour Control
- c. Overhead Control
- d. Budgetary Control
- e. Standard Control
- f. Capital Expenditure Control

## **Examiner's Report**

Part A of question 4 tested financial and cost audit, while part B tested cost reduction and control. About 85% of the candidates attempted the question and about 50% of those who attempted the question scored above the average marks allocated to the question. Common pitfalls include:

# INSIGHT

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- i. Inability to differentiate between cost and financial audit. Candidates misconstrued financial and cost accounting for cost and financial audit.
- ii. Candidates could not differentiate between cost control and cost reduction.

For future examination, candidates are advised to cover the entire syllabus and also pay attention to cost concepts and terminologies.

## SOLUTION TO QUESTION 5

- ai. Efficiency Ratios: This is the relationship of work done in terms of total standard time and the total actual hours worked. It can also be defined as the standard hour equivalent to the work produce, expressed as a percentage of the actual hours spent in providing that work,

calculated as

$$\text{Efficiency ratio} = \frac{\text{Standard hours produced}}{\text{Actual labour hours worked}} \times 100$$

- ii. Activity or production volume ratios compare the number of standard hours equivalent to the actual work produced and budgeted hours.

It can also be described as the number of standard hour's equivalent to work produced expressed as a percentage of the budget or standard hours. This is thus calculated as

$$\text{Activity ratio} = \frac{\text{Standard hours produced}}{\text{Budgeted labour hours}} \times 100$$

## COMPUTATION OF RATIOS

Assembly Shop	Units Std minutes Per unit	(Total hours) Standard
Actual output A	15,000 x 10	2,500
B	10,000 x 15	<u>2,500</u>
		<u>5,000</u>

# INSIGHT

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$$\text{Assembly shop: Efficiency ratio} = \frac{\text{Standard hours}}{\text{Actual hours worked}} \times \frac{100}{1}$$

$$= \frac{5,000}{6,250} \times \frac{100}{1} = 80\%$$

$$\text{Finishing shop} = \frac{3,780}{3,600} \times \frac{100}{1} = 105\%$$

Assembly shop	Budgeted units	Standard min per unit	Budgeted hours
Budgeted units A	18,000	10	3,000
B	4,000	15	<u>1,000</u>
			<u>4,000</u>

Assembly shop

$$\text{Activity ratio} = \frac{\text{Standard hours produced}}{\text{Budgeted hours}} \times \frac{100}{1}$$

$$= \frac{5,000}{4,000} \times \frac{100}{1} = 125\%$$

$$\text{Finishing shop} = \frac{3,780}{4,200} \times \frac{100}{1} = 90\%$$

## Examiner's Report

Question 5 tested standard costing. About 45% of the candidates attempted the question and 65% of those who attempted question scored above the average marks allocated to the question. The low patronage of the question may imply that candidates are avoiding questions from this part of the syllabus.

## SOLUTION TO QUESTION 6

a. Kangolo Limited

Job No x 194 cost sheet for the year ending 31<sup>st</sup> December,

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ATSWA PART III SEPTEMBER 2017 DIET

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# INSIGHT

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2016

	Le
Direct Materials	120,000
Direct Wages	160,000
Chargeable Expenses	<u>40,000</u>
<b>PRIME COST</b>	<b>320,000</b>
Factory Overheads	<u>80,000</u>
Factory Costs	400,000
Administrative Overheads	<u>120,000</u>
<b>TOTAL COST</b>	<b>520,000</b>
Selling & Distribution Overhead	<u>80,000</u>
Selling Cost (a)	600,000
Profit (b=c-a)	<u>120,000</u>
Selling Price(s)	<u>720,000</u>

b.

Estimated price for Job X 520  
For the year ending 31<sup>st</sup> December, 2017

	Le
Direct Materials	200,000
Wages	280,000
Chargeable Expenses	<u>80,000</u>
<b>PRIME COST</b>	<b>560,000</b>
Factory Overhead (50% x 280,000)	<u>140,000</u>
<b>FACTORY COST</b>	<b>700,000</b>
Administrative overheads (30% x 700,000)	<u>210,000</u>
<b>TOTAL COST</b>	<b>910,000</b>
Selling and Distribution OH(20% x 700,000)	<u>140,000</u>
<b>SELLING COST</b>	<b>1,050,000</b>
Profit (16 <sup>2</sup> / <sub>3</sub> % x 1,050,000)	<u>175,000</u>
<b>Selling Price</b>	<b><u>1,225,000</u></b>

## Workings

<p>a. <math>FOH = \frac{FOH}{DLC} = \frac{80,000}{160,000} \times 100</math>  <math>= \underline{50\%}</math></p>	<p style="text-align: right;">S&amp;D (OH)</p> <p>c. <math>S\&amp;D\ OH = \frac{S\ \&amp;\ D}{FC} \times 100</math>  <math>= \frac{80,000}{400,000} \times 100 = 20\%</math></p>
<p>b. <math>Amin.\ OH = \frac{AdmOH}{FC} \times 100</math></p>	<p>d. <math>\% \text{ profit on sales} = \frac{profit}{SP} \times 100</math></p>

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$$= \frac{120,000}{400,000} \times 100 = \underline{30\%} \quad = \frac{120}{720} \times 100 = 16\frac{2}{3} \%$$

## **Examiner's report**

Question 6 tested Job Costing. The question is simple, straight forward but of professional standard. About 85% of the candidates attempted the question of which 70% of those that attempted the question scored above average marks allocated to the question.

# INSIGHT

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AT/172/PIII.11

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

**PART III EXAMINATIONS – SEPTEMBER 2017**

**PREPARING TAX COMPUTATIONS AND RETURNS**

**Time Allowed: 3 hours**

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

**ATTEMPT ALL QUESTIONS IN THIS SECTION**

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

1. Which of the following is **NOT** an objective of taxation?
  - A. To provide income for government to meet social responsibility
  - B. To provide fiscal tool for stimulating economic growth and development
  - C. To redistribute income/wealth in order to reduce inequality
  - D. For revenue generation to meet the needs of the government
  - E. To promote competition among the different tiers of government
  
2. Which of the following is **NOT** a source of Nigerian Tax Laws?
  - A. Federal Government Acts and State Government Laws on taxation
  - B. Court judgment until over ruled/Judicial Precedent
  - C. Customary Laws
  - D. Constitution
  - E. Companies and Allied Matters Act
  
3. Which of the following is **NOT** a merit of indirect tax?
  - A. It is a good source of revenue to government
  - B. It can be adjusted easily
  - C. The collection cost may be reasonable
  - D. It is more difficult to evade
  - E. It can be used to protect infant industries
  
4. The basis of assessment for an old business is
  - A. Continuity basis
  - B. Succeeding year basis

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- C. Preceding year basis
  - D. Actual year basis
  - E. Accrual year basis
5. Which of the following is **NOT** a member of the Technical Committee of the State Board of Internal Revenue?
- A. Chairman of the State Board of Internal Revenue as Chairman
  - B. The Accountant-General of the State
  - C. The Directors within the State Service
  - D. The Legal Adviser to the State Service
  - E. The Secretary of the State Service
6. The administration of the following taxes fall under the jurisdiction of the Federal Inland Revenue Service **EXCEPT**
- A. Companies Income Tax
  - B. Petroleum Profit Tax
  - C. Value Added Tax
  - D. Road Tax
  - E. Tertiary Education Tax
7. A Tax Clearance Certificate discloses the following in respect of the last three years of assessment **EXCEPT**
- A. Tax payable
  - B. Project income
  - C. Chargeable income
  - D. Tax paid
  - E. Statement to the effect that no tax is due
8. Which of the following is **NOT** a source of income of an individual that is liable to tax?
- A. Gains or profit from trade, business, profession or vocation
  - B. Emoluments from employment
  - C. Dividend, interest or rent
  - D. Any charge or annuity
  - E. Refund of tax credit
9. The administration of Personal Income Tax in Nigeria covers the following **EXCEPT**
- A. Partnership Assessment
  - B. Taxation of Employees
  - C. Taxation of Sole Traders
  - D. Taxation of Estate, Trusts and Settlements
  - E. Taxation of Private Limited Liability Companies

# INSIGHT

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10. Which of the following expenses is **NOT** an allowable deduction in computing the gain or profit for rental income for tax purposes?
  - A. Depreciation of the building
  - B. Tenement rate of land use charge
  - C. Water rate
  - D. Cost of advertising for tenants
  - E. Bad debt incurred
  
11. Which of the following does **NOT** form part of a partner's income in a partnership business?
  - A. Interest on Capital
  - B. Salary
  - C. Private passage cost
  - D. Share of the profit
  - E. Entertainment cost on behalf of the partnership
  
12. The responsibility for taxation of all Limited Liability Companies in Nigeria is vested in
  - A. Stamp duties office
  - B. Federal Inland Revenue Service
  - C. Internal Revenue Office
  - D. Joint Tax Board
  - E. State Board of Internal Revenue
  
13. Which of the following is **NOT** exempted from taxation?
  - A. Dividend from a Trust Scheme
  - B. Dividend received from a pioneer company
  - C. Dividend received by a company from another one
  - D. Dividend from ordinary course of business
  - E. Dividend received by way of a bonus issue of shares
  
14. The Capital Gains Tax is chargeable at the rate of
  - A. 15%
  - B. 10%
  - C. 5%
  - D. 25%
  - E. 20%
  
15. Tertiary Education Trust Tax is imposed on which of the following
  - A. All Nigerian companies which supply educational books only
  - B. Foreign companies operating in Nigeria
  - C. Educational institutions only
  - D. All companies incorporated in Nigeria

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- E. Petroleum exploration companies only
16. Tertiary Education Tax is charged on
- A. Unearned Income
  - B. Chargeable Income
  - C. Assessable Profit
  - D. Adjusted Income
  - E. Earned income
17. Rent received in advance covering a period that is more than 5 years will be spread over a period of
- A. 10 years
  - B. 5 years
  - C. 4 years
  - D. 3 years
  - E. 2 years
18. All taxpayers involved in real estate transactions are required to register for Value Added Tax (VAT) with relevant tax authority within ..... of commencement of business
- A. 6 months
  - B. 5 months
  - C. 4 months
  - D. 3 months
  - E. 2 months
19. The means by which an Estate, or part of it is transferred to another person, either through a disposition, trust or covenant, agreement, arrangement or transition of assets by reference to a Trust for the benefit of persons specified is called
- A. Investment
  - B. Annuity
  - C. Estate
  - D. Trust
  - E. Settlement
20. The functions of Commissioner of Stamp Duties does **NOT** include which of the following?
- A. Assessing the instruments and imposing penalties as appropriate
  - B. Responsible for adjudication
  - C. Stamping or embossing the instrument with appropriate stamp denomination

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- D. Takes custody of dies and stamps
  - E. Grant waiver of penalty for an instrument for stamping after the date of execution
21. Which of the following is exempted from stamp duties?
- A. Liquidation transactions
  - B. Treaties and Agreements
  - C. Companies reconstruction
  - D. Companies amalgamation
  - E. Leases
22. Notice of an appeal against an assessment shall contain the following **EXCEPT**
- A. Name and address of the taxable person
  - B. The total amount of assessment, total or chargeable income and of the tax charged
  - C. The precise ground of appeal
  - D. The date on which the taxpayer was served with notice of refusal by the relevant tax authority to amend the assessment
  - E. Net Profit
23. The Withholding Tax for companies on all aspects of construction contract is
- A. 25%
  - B. 20%
  - C. 2½%
  - D. 5%
  - E. 10%
24. The following conditions are necessary before a donation is allowed under Companies Income Tax Act (CITA) **EXCEPT**
- A. It must not be capital in nature
  - B. It must be made out of profit
  - C. It must not exceed 10% of company's total profit before any deduction for donation
  - D. It must be made to a minority political party
  - E. It must have been made to one of the approved bodies
25. Which of the following is a type of balancing adjustment?
- A. General Allowance
  - B. Departmental Allowance
  - C. Balancing Charge
  - D. Investment Allowance

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- E. Personal Allowance
26. Which of the following is **NOT** required for the purpose of accounting for VAT?
- A. Copies of all tax invoices issued
  - B. Tax invoices received
  - C. A VAT account to show total output tax, total input tax and the amount due or refundable for each month
  - D. Documentation relating to the importation and exportation of goods and services
  - E. Documentation relating to depreciation
27. The Revenue's option to revise an assessment to actual basis on cessation of business is for the ..... year of assessment
- A. Accounting
  - B. Pre-penultimate
  - C. Penultimate
  - D. Pre-penultimate and Penultimate
  - E. Cessation
28. Taxpayer's right of election on commencement of business is for
- A. First year of Assessment
  - B. Both the second and third years of Assessment
  - C. Only the second year of assessment
  - D. Only the third year of assessment
  - E. The first three years of assessment
29. Which of the following is an allowable expense?
- A. Income tax provision
  - B. Specific provision for doubtful debt
  - C. Expenditure of capital nature
  - D. Depreciation
  - E. Cost of defending traffic offence
30. The market value may be used in the computation of Capital Gains Tax under the following **EXCEPT**
- A. Where the asset is acquired partly for a consideration that cannot be valued
  - B. Where the asset was acquired by way of gift
  - C. Where the asset is acquired wholly for a consideration that can easily be valued
  - D. Where the asset is acquired as trustee for creditors of the person making the disposal
  - E. Where the asset is acquired wholly for a consideration that cannot be valued

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## SECTION A: PART II (20 Marks)

## SHORT-ANSWER QUESTIONS

### ATTEMPT ALL QUESTIONS IN THIS SECTION

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

1. The general statement of intention which guides the thinking and the action of all concerned towards the realisation of the set goals of taxation is known as .....
2. **ONE** of the purposes of ..... is to raise funds to provide public goods.
3. In tax practice, certain persons are treated as being so closely involved with each other that they have to be viewed as the same person or that transactions between them need to be treated differently from those 'at arms length'. These persons are referred to as.....
4. At any meeting of the Joint Tax Board (JTB), any ..... members or their representatives shall constitute a quorum.
5. The relevant institution vested with the administration of income tax in each State of the Federation/Nation is .....
6. Under Capital Gains Tax where there is a part disposal, the cost of that part of asset disposed and that of the un-disposed part shall be.....
7. Consideration is said to be tainted or fictitious when the transaction is not conducted at .....
8. An individual who works in more than one place in Nigeria and who earns daily wages is called an ..... worker.
9. The non-monetary remuneration of an employee is .....
10. Where a partnership incurs a loss, and a partner also incurs a loss, such a loss is available for .....
11. Withholding Tax enhances.....tax compliance
12. Withholding Tax is an advance .....
13. Any company which fails to file returns shall be liable to pay as penalty an amount of ₦..... in the first month in which the failure occurs.

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14. Loss from any source of earned income can be relieved against ..... under Current Year Loss Relief.
15. In addition to filing of financial statements, banks are expected to submit a return within ..... days after the end of each month specifying the names and addresses of new customers of the bank in respect of the preceding month.
16. Failure to submit Value Added Tax (VAT) returns attracts..... penalty for every month in which the failure continues.
17. Value Added Tax in Nigeria is charged at ..... on VATable goods.
18. Gratifications to local chiefs and heads of families in agricultural business are ..... expenses for the purpose of arriving at total profit.
19. An assessment that is raised to replace an original assessment is called .....
20. Capital Gains Tax for individuals is administered by .....

**SECTION B: ATTEMPT ANY FOUR QUESTIONS  
(50 Marks)**

**QUESTION 1**

- a. While all forms of taxes can be described as levies since they constitute imposition, not all levies can be properly described as tax.

**You are required to:**

Distinguish between taxes and levies. (5½ Marks)

- b. Enumerate **SEVEN** sources of Tax Laws in Nigeria. (7 Marks)

**(Total 12½ Marks)**

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## QUESTION 2

Octopus Limited is a foreign company in air transportation. It is involved in air freight of cargoes and passenger flights between Nigeria and the United Kingdom.

An extract of the financial statements has revealed the following for the year ended 31 December 2016:

	₦'000	₦'000
Income from cargo freight from Nigeria to London		350,000
Income from passengers flown from Nigeria to London		1,205,000
Income from cargo loaded into aircraft on other routes		750,000
Income from passengers flown from London to Nigeria		<u>1,100,250</u>
		3,405,250
Operating expenses:		
Hotels bills for passengers	23,000	
General provision for bad debt	12,500	
Accommodation for airline crew	67,000	
Use of airport facilities	134,000	
Staff salaries	100,700	
Depreciation	<u>20,500</u>	(357,700)
Operating profit		<u>3,047,550</u>

It was agreed with the Revenue Authority that Capital Allowances should be 150% of depreciation.

### You are required to:

Compute Companies Income Tax payable by the company for the relevant assessment year.

**(Total 12½ Marks)**

## QUESTION 3

A Partnership cannot be subjected to taxation. It is the income of individuals making up the partnership that can be separately subjected to taxation under the Personal Income Tax Act LFN 2004 (as amended).

### Required:

- Distinguish between 'Interest on Loan' and 'Interest on Capital' in a Partnership business. (2½ Marks)

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- b. Taiwo, Kehinde and Idowu are Partners in Twin Brothers & Co. Their net trading profit for the year ended 31 December 2015, was ₦7,200,000 after charging the following:

	<b>Taiwo</b>	<b>Kehinde</b>	<b>Idowu</b>
	<b>₦</b>	<b>₦</b>	<b>₦</b>
Interest on Capital	300,000	375,000	425,000
Salary	750,000	875,000	825,000

The Partners have agreed to share profits or losses equally.

**Required:**

Compute the assessable income of each partner for the relevant tax year.

(9 Marks)

- c. Assume that Taiwo and Kehinde are resident in Osogbo, Osun State and Idowu is resident in Ibadan, Oyo State. The principal place of the partnership business is Ibadan.

**Required:**

State the relevant tax authority for the Partnership. (1 Mark)

(Total 12½ Marks)

## QUESTION 4

- a. The Federal Inland Revenue Service administers VAT system in Nigeria. Despite the desire of the government to boost its revenue, it exempted some goods from VAT.

**You are required to:**

State **FIVE** goods exempted from VAT in Nigeria (5 Marks)

- b. Stamp Duties are taxes on written documents. These taxes are usually paid to the Federal or State Governments on documents in order to confer legal authority on such documents.

**Required:**

Explain 'Ad-valorem duties' and give **FOUR** examples. (7½ Marks)

(Total 12½ Marks)

## QUESTION 5

- a. In taxation law and practice, all transactions of capital nature are excluded from income tax. Where gains are made on transactions of capital nature such as disposal of tangible assets, such cannot be included in gains or profits for income tax purposes. Such capital

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gains are subjected to Capital Gains Tax under the Capital Gains Tax Act Cap CI LFN 2004.

**You are required to:**

State the allowable and disallowable expenses under the Capital Gains Tax Act in Nigeria. (8<sup>1</sup>/<sub>2</sub> Marks)

- b. Under the Tertiary Education Trust Fund (Establishment) Act, 2011, a Board of Trustees is vested with the management and administration of Tertiary Education Trust Fund.

**You are required to:**

State **FOUR** specific uses of the Tertiary Education Trust Fund.

(4 Marks)

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

## QUESTION 6

- a. A company makes a loss when its allowable operating expenses exceed its total revenue or earnings.

**Required:**

- i. Explain 'Carry Forward Loss Relief'. (3 Marks)
- ii. State the points to be noted in the application of the rules on loss relief to companies. (3 Marks)
- iii. Abileowo has been trading for many years. His financial records show the following Adjusted Profits/(Loss):

	<b>₦'000</b>
Year ended 31 December 2013	2,500
Year ended 31 December 2014 (Loss)	(3,000)
Year ended 31 December 2015	4,000

**Required:**

Compute the Assessable income showing how the loss will be relieved.

(3 Marks)

- b. Enumerate the rules guiding the payment of minimum tax by a company for any year of assessment. (3<sup>1</sup>/<sub>2</sub> Marks)

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

# INSIGHT

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## NIGERIAN TAX RATES

### 1. CAPITAL ALLOWANCES

	<b>Initial</b>	<b>Annual</b>
	<b>%</b>	<b>%</b>
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.

	<b>Taxable</b>	<b>Rate</b>
	<b>Income</b>	<b>of Tax</b>
	<b>₦</b>	<b>%</b>
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

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## SOLUTIONS TO MULTIPLE CHOICE QUESTIONS

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

### **Examiner's Report**

**The multiple choice questions cover all aspects of the syllabus, and they are of quality standard. All the candidates attempted the questions. The general performance was above average.**

# INSIGHT

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## SOLUTION TO SHORT ANSWER QUESTIONS

1. Tax Policy
2. Taxation
3. Connected persons
4. Seven
5. State Board of Internal Revenue
6. Apportioned
7. Arms length
8. Itinerant
9. Benefits-in-kind
10. Relief
11. Voluntary
12. Payment of tax
13. ₦25,000
14. Unearned Income
15. 7 (Seven)
16. ₦5,000
17. 5%
18. Disallowable
19. Revised Assessment
20. State Board of Internal Revenue

### Examiner's Report

**The short answer questions cut across the entire syllabus. All the candidates attempted all the questions and the general performance was satisfactory.**

### SOLUTION 1

- (a) Distinction between Taxes and Levies
- (i) Tax is a compulsory levy or financial charge imposed on a taxpayer or upon his property by the government to provide security, social amenities and other amenities for the well-being of the society.

The main purpose of taxation is to raise funds to defray the expenses incurred for the common interest of the country without reference to special benefit conferred.

Levy is paid to the government in return for specific service

# INSIGHT

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rendered by the government to the taxpayer.

It is payment to defray the cost of service undertaken by the government in the public interest but conferring a special advantage on tax payer. Another form of levies is fines and penalties.

(b) The following are the sources of Nigerian Tax Laws:

- (i) The Federal Government Acts and the State Governments laws.
- (ii) Opinion of income tax experts and authors in so far as the courts take judicial notice of them
- (iii) Court judgments until overruled;
- (iv) Departmental and official circulars
- (v) Accepted recommendations of Commissions of Inquiry
- (vi) Customary laws
- (vii) Constitution
- (viii) Practices of the Revenue Departments

## Examiner's Report

**This is a two-part theory question. Part (a) tested the candidates' knowledge of differences between taxes and levies, whilst part 'b' is on sources of tax laws in Nigeria. About 98 percent of the candidates attempted the question. The general performance was above average.**

## SOLUTION 2

### OCTOPUS LIMITED COMPUTATION OF TAX LIABILITIES FOR 2012 ASSESSMENT YEAR

	N	N
Income from Cargo Freight from Nigeria to London		350,000,000
Income from Passengers Flight from Nigeria to London		<u>1,205,000,000</u>
		1,555,000,000

# INSIGHT

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## Allowable Expenses:

Hotel Bills for Passengers	23,000,000
Accommodation for Airline Crew	67,000,000
Use of Airport Facilities	134,000,000
Staff Salaries	<u>100,700,000</u>
	<u>324,700,000</u>

Proportion relating to operations in Nigeria

$$= \frac{324,700,000}{3,405,250,000} \times 1,555,000,000$$
$$= 148,273,548$$

**Add: Depreciation allowance as agreed** **30,750,000**  
**(179,023,548)**

**Total Profit** **1,375,976,452**

Companies Income Tax payable  
(30% of ₦1,375,976,452) = ₦412,792,935.60

Minimum tax computation does not apply as 2% of ₦1,555,000,000 which is ₦31,100,000 is less than the companies Income Tax payable.

## Examiner's report

This is a standard question on computation of tax payable by a company engaged in air transportation business. About 45% of the candidates attempted the question. The general performance was below average. The major pitfall was the difficulty of identifying the proportion relating to operations of airline in Nigeria.

Candidates are advised to study all aspects of the revised syllabus, and they should also make good use of the study text.

# INSIGHT

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## SOLUTION 3

(a) Interest on capital is usually part of income from partnership business. That means it is part of earned income. However, interest on loan could be as a result of an investment which may be outside the partnership business, hence it is an unearned income.

(b)

**TWIN BROTHERS & CO**  
**COMPUTATION OF ASSESIBLE INCOME FOR EACH PARTNER**  
**FOR THE YEAR OF ASSESSMENT 2016.**

	Taiwo ₦	Kehinde ₦	Taiwo ₦
Interest on Capital	300,000	375,000	425,000
Salary	750,000	875,000	825,000
Share of Profit (₦7,200,000 ÷ 3)	2,400,000	2,400,000	2,400,000
	<u>3,450,000</u>	<u>3,650,000</u>	<u>3,650,000</u>

(c) The relevant tax authority for the partnership is Oyo State Board of Internal Revenue.

## Examiner's Report

**This is a good question on Partnership Taxation. About 90% of the candidates attempted the question. The general performance was above average.**

## SOLUTION 4

a) **Goods exempted in Nigeria**

**These include but not limited to:**

- i) All medical and pharmaceutical products;
- ii) Basic food items;
- iii) Books and educational materials;
- iv) Baby products;
- v) Fertilisers locally produced, agricultural and veterinary medicine;
- vi) All exports;

# INSIGHT

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- vii) Plant and machinery imported for use in the Export Processing Zone;
- viii) Plant machinery and equipment purchased for utilisation of gas in down-stream petroleum operations; and
- ix) Tractors, ploughs, agricultural equipment purchased for agricultural purposes.

b) Ad-Valorem Duties

These are duties that vary with the amount involved in the transaction.

Examples of instruments for this assessment include:

- i. Property valuation;
- ii. Policy of life insurance;
- iii. Promissory notes;
- iv. Mortgage and Debenture Loans;
- v. Share Capital of a company; and
- vi. Bills of Exchange.

### Examiner's Report

**This is a two-part question. Part 'a' is on VAT whilst part 'b' tested candidates' knowledge of 'Ad-Valorem Duties. About 90 percent of the candidates attempted the question. The general performance was satisfactory in part '(a)', but they did not perform well in part 'b', which tested candidates' knowledge of 'Ad-Valorem' Duties.**

### SOLUTION TO 5

- a) The allowable deductions under the Capital Gain Tax Act include the following.
- i. Cost of acquisition or purchase price, including all costs incidental to the purchase;
  - ii. Improvement costs wholly, exclusively and necessarily incurred.
  - iii. Cost wholly, exclusively and necessarily incurred in establishing, preserving or defending the owner's title to right over the assets and

# INSIGHT

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iv. Incidental costs of disposal which include:

- ❖ Fees, commissions or remuneration paid for professional services of surveyor or valuer, auctioneer, accountant, agent or legal adviser
- ❖ Cost of transfer or conveyance (including stamp duties)
- ❖ Advertisement cost to find a seller/buyer ; and
- ❖ Cost reasonably incurred to make any valuation or apportionment required for the purpose of computing the capital gains including expenses in ascertaining market value where required.

The disallowable expenses include sums allowable as deductions in computing the profits or gains or losses of a trade for income tax purposes, but insurance premium on an asset is not allowable.

b) The Tertiary Education Trust Fund will be specifically used for the provision or maintenance of the following:

- i) Essential physical infrastructure for teaching and learning;
- ii) Infrastructural material and equipment;
- iii) Research and publications;
- iv) Academic staff training and development; and
- v) Any other need which, in the opinion of the Board of Trustees, is critical and essential for the improvement of quality and maintenance of standards in the higher educational institutions.

## **Examiner's Report**

**This is a quality two-part question. Part 'a' tested candidates' knowledge of allowable and disallowable expenses under capital gains tax Act, whilst part 'b' is on the uses of the Tertiary Education Trust Fund. About 85% of the candidates attempted the question. The general performance was below average.**

# INSIGHT

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## SOLUTION 6

(a) Loss Relief

- (i) \*
- \* Carry Forward Relief is available only against profit from the same source of income where the loss originally occurred.
  - \* It does not require approval before the relief can be granted
  - \* The relief also applies to both individuals and corporate bodies.

(ii) Application of Rules on Loss Relief for companies

1. Trading Loss to be deducted from Assessable profits of an assessment year, shall not exceed the actual loss incurred by the company in the previous assessment year;
2. A loss incurred from a particular line of business can only be relieved in future years from Assessable profits derived from the same source or line of business.
3. When losses incurred in two different years of assessment are being carried forward against future profits, the first loss incurred will be relieved in priority to the subsequent loss;
4. When trade ceases, any terminal loss resulting therefrom, which could not be relieved in the year of cessation due to insufficiency or non-availability of profit, is deemed lost.

# INSIGHT

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a.

iii.

## **Abileowo Computation of Assessable Income**

Year of Assessment	Basis Period	assessable income	
		₦'000	₦'000
2014	1/1/13 - 31/12/13	2,500	
	Less: current Loss Relief	(3,000)	
	Unrelieved loss c/f	(5,000)	NIL
2015	1/1/14 - 31/12/14	(3,000)	NIL
2016	1/1/15 - 31/1/15	4,000	
	Less: unrelieved Loss b/f	(500)	<u>3,500</u>
			<u>3,500</u>

b. Rules on payment of minimum tax

(a) In the ascertainment of Total Assessable Profits from all sources, a loss occurs; or

(b) Tax on Total Profits is less than the minimum tax as determined below:

i. Where revenue is ₦500,000 or below, minimum tax payable shall be the highest of:

0.5% of Gross Profits

0.5% of Net Assets

0.25% of paid-up capital; or

0.25% of Revenue for the year

ii. Where revenue is above ₦500,000, minimum tax payable shall be the sum of :

Highest factor in (i) above, plus 0.125% of revenue in excess of ₦500,000

(c) Minimum tax is not applicable to a company where:

- It is carrying out agricultural trade or business

- At least 25% of its equity is imported; and

- The company has not been in operations for more than four years

# INSIGHT

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## **Examiner's Report**

**This is a standard question on Loss Relief and Minimum Tax. About 55 percent of the candidates attempted the question. The general performance was below average. The major pitfall was lack of adequate knowledge of Loss Relief. Candidates are advised to study more extensively and prepare adequately for future examinations.**

# INSIGHT

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AT/172/PIII.12

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

**MANAGEMENT**

**Time Allowed: 3 hours**

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

**ATTEMPT ALL QUESTIONS IN THIS SECTION**

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

1. Not-for-profit organisations which are **NOT** established by government are known as
  - A. Non-profit organisations
  - B. Consumer organisations
  - C. Non-governmental organisations
  - D. Non-partisan organisations
  - E. Political organisations
  
2. A partner who contributes only a part of the capital of the business but does **NOT** usually take an active part in the management is called
  - A. General partner
  - B. Active partner
  - C. Limited partner
  - D. Dormant partner
  - E. Unlimited partner
  
3. The economic environment of businesses can be assessed through the following **EXCEPT**
  - A. Gross Domestic Product (GDP)
  - B. Government fiscal policies
  - C. Unemployment rate
  - D. Monetary policies
  - E. Budgetary control

# INSIGHT

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4. The environment that is generally regarded as uncontrollable because no single firm can determine or influence it is called
  - A. Internal environment
  - B. Commodity environment
  - C. External environment
  - D. Environmental analysis
  - E. Immediate environment
  
5. Firms can discharge their social responsibility to stakeholders by
  - A. Improving corporate governance
  - B. Providing financial support at all times
  - C. Engaging in land beautification
  - D. Encouraging the use of expertise to solve local problems
  - E. Controlling business activities through political action
  
6. A document with spaces in which contents are written or selected for a series of documents with similar contents is referred to as
  - A. File
  - B. Form
  - C. Manual
  - D. Folder
  - E. Memo
  
7. The general control measures used in handling forms that are classified as security documents include the following **EXCEPT**
  - A. Storage in security safes
  - B. Tracking, using release register
  - C. Producing documents in companies with integrity
  - D. Laminating the original documents
  - E. Bank vault usage
  
8. Which of the following is **NOT** a common source of safety hazard at workplace?
  - A. Slippery floor
  - B. Open cabinets
  - C. Frayed carpets
  - D. Poorly lit stairways

# INSIGHT

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- E. Ventilated office space
9. The process of bringing people together as a group to solve a problem, where seven to ten individuals sit around a table but do not speak to one another is called
- A. Marginal Analysis Technique
  - B. Delphi Technique
  - C. Nominal Group Technique
  - D. Unanimous Technique
  - E. Brainstorming
10. In evaluating alternatives, the decision making process where the decision maker seeks to find the point where the additional revenue is equal to additional cost is
- A. Cost - benefit analysis
  - B. Variable Cost analysis
  - C. Break even analysis
  - D. Marginal analysis
  - E. Economic Order Quantity
11. Which decision making process has some of the following steps?
- i. Establish specific goal and objectives
  - ii. Gather and Analyse the relevant faults
  - iii. Evaluate the alternatives
  - iv. Select an alternative
- A. Heuristic decision making
  - B. Intuitive decision making
  - C. Information driven decision making
  - D. Coordinated decision making
  - E. Rational decision making
12. Which of the following is **NOT** an example of on-the-job training methods?
- A. Demonstration
  - B. Understanding
  - C. Committee assignments
  - D. Project assignments
  - E. Distance learning

# INSIGHT

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13. Which of the following is **NOT** a benefit of training and development?
- A. Reduction of operational problems
  - B. Improved morale
  - C. Review compensation
  - D. Reduced supervision
  - E. Provision of Human Resource needs
14. Which of the following is **NOT** a factor to consider when establishing the general level and structure of wages and salaries in an organisation?
- A. Government minimum wages
  - B. Promotionability
  - C. Job evaluation results
  - D. Terms of collective agreement
  - E. Job enrichment results
15. Which of the following is **NOT** a Marketing concept?
- A. Customer orientation
  - B. Customer satisfaction
  - C. Profitability
  - D. Integrated marketing
  - E. Product concept
16. Which of the following is **NOT** a Consumer decision making process?
- A. Searching
  - B. Purchasing
  - C. Trading
  - D. Consuming
  - E. Evaluating
17. The study of what, why, how and where consumers buy products is known as
- A. Consumer orientation
  - B. Buying concept

# INSIGHT

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- C. Consumer behaviour
  - D. Consumer evaluation
  - E. Consumer decision making
18. Production system involves the following **EXCEPT**
- A. Intermittent flow
  - B. Circular flow
  - C. Continuous flow
  - D. Mass production
  - E. Batch production
19. The production of custom-made item for specific customer is
- A. Batch production
  - B. Repetitive production
  - C. Job production
  - D. Intermittent production
  - E. Special production
20. The following are factors affecting location of an organisation's facilities **EXCEPT**
- A. Proximity to the market
  - B. Government Policy
  - C. Availability of raw materials
  - D. Commercial and social infrastructure
  - E. Characteristics of technology
21. The skill that entails knowledge of and proficiency in activities involving methods, processes and procedures is known as
- A. Technological skill
  - B. Technical skill
  - C. Interpersonal skill
  - D. Decisional skill
  - E. Monitoring skill
22. The management philosophy which is concerned with improving productivity by improving performance standards of individual workers is referred to as
- A. Pre-Scientific Management
  - B. Scientific Management

# INSIGHT

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- C. Administrative Management
  - D. Bureaucracy
  - E. Human Relations Theory
23. Which of the following is the contribution of scientific management?
- A. Development of managerial skill of job design through the division of labour and specialisation of labour
  - B. The concept of productivity and wage rate based on productivity of employees
  - C. Formulation of work standards
  - D. Irrelevance of scientific selection and training of employees
  - E. Review of work standards
24. The concept that systematically concentrates decision making in the hands of managers at the higher levels of the organisations is called
- A. Staff organisation
  - B. Centralisation
  - C. Communication
  - D. Decentralisation
  - E. Organisation
25. The assignment of formal authority and responsibility to subordinates by a superior officer is called
- A. Decentralisation
  - B. Departmentalisation
  - C. Centralisation
  - D. Delegation
  - E. Coordination
26. An Accountant who prepares monthly accounting reports for the consideration of the Board of Directors is called
- A. Treasury Accountant
  - B. Budget Accountant
  - C. Management Accountant
  - D. Chief Accountant
  - E. Chief Internal Auditor

# INSIGHT

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27. The leadership approach that assumes that there is **NO** best style to achieving organisational goal by a manager is called
- A. Free rein
  - B. Transformational
  - C. Autocratic
  - D. Democratic
  - E. Contingency
28. The extent to which members are loyal and committed to the group is known as
- A. Focus
  - B. Scope
  - C. Norm
  - D. Cohesiveness
  - E. Synergy
29. The process by which two or more parties reach agreements on an issue even though they have different preferences regarding the issues is
- A. Collaboration
  - B. Negotiation
  - C. Accommodation
  - D. Socialisation
  - E. Consultation
30. In “Tannenbaum and Schmidt Continuum Theory”, a manager using the ..... style makes the decision alone but endeavours to persuade the subordinates to accept the decision
- A. Tells
  - B. Consults
  - C. Sells
  - D. Joins
  - E. Saves

# INSIGHT

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

### ATTEMPT ALL QUESTIONS IN THIS SECTION

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

1. The individual or group that does not work for the company, but who nevertheless has keen interest in what the company does and who might be able to influence the way in which the company is governed is referred to as.....
2. A document containing organisational laid down guidelines for the organisation's members and the outside public is known as .....
3. The environment which is generally regarded as uncontrollable and no single firm can determine or influence is.....
4. The process used by a manager to monitor events occurring in the external environment of the organisation in order to understand the nature of the environment and the changes therein is known as.....
5. An office where more than one person shares the same room is called .....
6. The type of control carried out by most managers at the middle and lower levels is called .....
7. The type of control that focuses on the behaviour of employees and other stakeholders that the organisation depends on is called .....
8. The totality of management decisions and actions that affect the relationship between the organisation and employees is referred to as .....
9. The process of forecasting future human resource needs of an organisation so that steps can be taken to ensure that these needs are met is called.....

# INSIGHT

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10. The process involved in creating a unique name and image for a product in the consumer's mind is referred to as.....
11. Business activities related to purchase of products mainly for business use is known as .....
12. The production system suitable for cement manufacturing is.....
13. Having developed a strategic plan for his organisation, Bobby is now ready to implement a specific part of it. To do so, Bobby should develop.....
14. The concept that the whole is greater than the sum of its parts is.....
15. The process that involves setting the right objectives and then choosing the right means for attaining these objectives is .....
16. A ..... is a single-use plan that consists of the same steps as a programme but does not cover a large set of activities
17. The process of grouping activities and resources among people and systematically integrating the groups into a unified system is .....
18. A paperless accounting transaction and reporting system is an example of ..... Accounting System.
19. Anything within an organisation's environment that interferes with the transmission of the message is called.....
20. Communication.....is experienced if managers are burdened with too much information from several sources.

# INSIGHT

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**SECTION B: ATTEMPT ANY FOUR QUESTIONS (50 Marks)**

## QUESTION 1

- a. What is managerial ethics? (2½ Marks)
- b. List and explain **FIVE** ethical tools that managers can use to reduce the level of unethical behaviours among employees. (10 Marks)
- (Total 12½ Marks)**

## QUESTION 2

List and explain **FIVE** benefits of strategic planning. **(Total 12½ Marks)**

## QUESTION 3

Outline and explain **FIVE** features of bureaucracy. **(Total 12½ Marks)**

## QUESTION 4

- a. List **FIVE** areas of accounting which can be computerised (2½ Marks)
- b. Identify **FIVE** basic differences between a Manual Accounting System and a Computerised Accounting System. (10 Marks)
- (Total 12½ Marks)**

## QUESTION 5

List and explain **FIVE** factors influencing change in organisations. **(Total 12½ Marks)**

## QUESTION 6

- a. Identify and explain **FIVE** major filing systems. (7½ Marks)
- b. State **FIVE** steps in Organisation and Methods Study. (5 Marks)
- (Total 12½ Marks)**

# INSIGHT

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## SOLUTION TO MCQ

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

# INSIGHT

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- 20. E
- 21. B
- 22. B
- 23. D
- 24. B
- 25. D
- 26. C
- 27. E
- 28. D
- 29. B
- 30. C

## **Examiner's Report**

**The candidates performed very well in this section of the examination questions. About 65% of the candidates obtained 15 marks and above from the obtainable 30 marks.**

# INSIGHT

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## **SOLUTION TO SAQ**

1. External Stakeholders
2. Memorandum of Association
3. External/Macro/General
4. Environmental Analysis
5. Open Plan Office
6. Operational Control
7. Behavioural Control
8. Human Resource Management
9. Human Resources planning/Manpower planning/Employment planning
10. Branding
11. Wholesaling
12. Continuous/ flow production
13. Tactical Plan
14. Synergy
15. Planning
16. Project
17. Organising
18. Computerised (Automated)
19. Noise
20. Overload

## **Examiner's Report**

**The candidates performed well in this section of the examination questions. About 60% of the candidates obtained 10 marks and above out of the obtainable 20 marks.**

# INSIGHT

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## SOLUTION 1

- a. Managerial ethics refers to standard of behaviour guiding individual managers in the discharge of their work assignment vis-a-vis their relationship with one another and with their organisation.
- b. The ethical tools that managers can use to reduce the level of unethical behaviours among employees are as follows:
  - i. Employee selection: The ethical tools that can be used by managers to detect applicants with unethical disposition and poor moral values are interview, background checks and referees reports.
  - ii. Statement of code of ethics by the business enterprise: By formally stating the code of ethics of the organisation (a statement of ethics, standards and core values of the enterprise), Managers are able to define conducts that are acceptable or not acceptable.
  - iii. Leadership by Senior Managers: Senior Managers should lead by good examples and actions other than by words with a view to reduce unethical behaviours in the enterprise,
  - iv. Rewards and punishment: Unethical behaviours can be considerably reduced through sanctions while acceptable behaviours are rewarded so as to encourage others to put up a better performance.
  - v. Ethics Training: Employees can be trained to become aware of the ethical standards and values of the enterprise, as well as, encouraging them to adopt the standards and values.
  - vi. Support in solving ethical dilemmas: Employees often face ethical dilemmas in the course of their work. Support from Supervisors, Senior Managers, Counsellors etc can help in resolving such dilemma and encourage the employees to do the right thing.

### Examiner's Report

**About 80% of the candidates attempted this question. Most of the candidates (65%) were able to provide acceptable definition of management ethics. The (b) part of the question was however poorly**

# INSIGHT

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answered. This part of the question recorded about 40% pass rate. Perhaps this poor attempt was a result of the candidates not being familiar with the revised study pack.

## SOLUTION 2

Benefits of Strategic Planning are:

- i. Coordination of Efforts
- ii. Preparation for Change
- iii. Development of Performance Standard
- iv. Development of Managers
- v. Allows Managers to be focused
- vi. Motivation and cohesiveness is enhanced

i. **Coordination of Efforts**

Management exists because the work of individuals and groups must be coordinated and strategic planning is one of the important means for harmonising individuals and groups effort in order to contribute meaningfully to the attainment of organisational goals.

ii. **Preparation for Change**

An effective plan of action allows room for change which invariably will enable an organisation to avert business failure. Since strategic planning involves long-term considerations, managers can actually capitalise on anticipated changes for the benefit and growth of their organisation.

Strategic planning requires managers to continuously review and examine their organisations in a different way so that the objectives of the enterprise can be accomplished.

iii. **Development of performance standard**

There is need for the application of strategic planning to develop and improve performance standards of the enterprise in order to achieve organisational objectives.

iv. **Development of Managers**

# INSIGHT

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Planning involves managers and workers in high levels of intellectual activity. Those who plan must be able to deal with abstract and uncertain ideas and information.

Nevertheless, planners must be able to think systematically about the present and future which in turn will lead to effective actions or desired behaviours. The ability to think strategically by managers is reinforced through adequate motivation and better condition of service.

v. **Allows Managers to be focused**

By focusing on the future as well as on present constraints and policies, managers become better equipped to direct resources toward success in the achievement of goals. Managers should focus on long-term benefits other than short-term results.

vi. **Motivation and Cohesiveness is Enhanced**

All individuals in the organisation should have the opportunity of having adequate information so that they will know what is going on, where the organisation is headed, and what is expected of them in achieving organisational objectives.

## **Examiner's Report**

**This question recorded about 39% pass rate which is considered poor. Majority of the candidates that attempted this question highlighted the benefits of planning as against strategic planning as demanded by the question. This is perhaps an indication that the candidates did not pay attention to the study pack on management.**

## **SOLUTION 3**

The features of Bureaucracy are as follows:

- i. Division of Labour
- ii. Authority Hierarchy
- iii. Formal Selection Employed
- iv. Career Orientation
- v. Formal Rules and Controls
- vi. Impersonality

# INSIGHT

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i. **Division of Labour**

This is the breaking down of jobs/tasks into so many smaller parts and each individual assigned to smaller units which invariably brings about specialisation and increased productivity. Each role has a clearly defined set of tasks along with a specified area of jurisdiction and responsibility.

ii. **Authority Hierarchy**

The roles or jobs are organised to form a hierarchy of authority. In this wise, higher level officers with more expertise are empowered to supervise those at the lower levels in the chain of command.

iii. **Formal Selection Employed**

Are expected to be recruited on the basis of their competence and expertise while the progression of employees should be based on seniority and achievement.

iv. **Career Orientation**

Officials of the organisation are not owners of the organisation but are regarded mainly as professionals who have specified duties, tenure and reward and cannot be arbitrarily removed. Organisational property should only be used for the purpose of the organisation and not for personal purposes.

v. **Formal Rules and Controls**

Clearly stated rules regulations and procedures are adhered to thus, written documents and records are essential features of bureaucracy. It enables previous decisions to be used as precedents and for the organisation to monitor its operations effectively.

vi. **Impersonality**

Rules and policies are applied uniformly regardless of personal feelings or needs. Thus, the application of impersonality as it refers to rules produces a higher degree of reliability and predictability in the performance of organisation's operations.

**Examiner's Report**

**The performance of the candidates in the question was poor. About 55% of the candidates attempted the question and only about 35% of these candidates passed the question. Most of the candidates were**

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**not familiar with the features of bureaucracy which is a likely indication of inadequate preparation for the examination.**

## **SOLUTION 4**

- a. Areas of Accounting where the computerised Accounting System can be used are:
- i. Inventory Management
  - ii. Payroll Management
  - iii. Asset Management
  - iv. Trade Receivable Controls
  - v. Reconciliation Management
  - vi. Debt Management
  - vii. Dividend Management
  - viii. Tax Administration and Management
- b. Comparison of Manual and Computerised Accounting System

<b>SN</b>	<b>Manual Accounting System</b>	<b>Computerised Accounting System</b>
1	Based on use of analogue systems	Based on use of digital systems
2	Relatively easier to implement	Implementation Process is more rigorous
3	Initial implementation cost is lower	Initial implementation cost is higher
4	Transactional cost are higher	Transactional costs are lower
5	More prone to errors	Has better accuracy
6	Its control measures are mainly physical	Control measures are mainly electronic
7	It has limited capacity for data analysis	It has greater capacity for analysis of data
8	It becomes cumbersome when transaction is high	It is very efficient in handling large volumes of data
9	It is slower in generating results, especially in cases with high volume of transactions	It is faster in generating results especially in cases with high volume of transaction

### **Examiner's Report**

**The overall performance in the question was very poor. About 80% of the candidates attempted the question. The question recorded about 30% pass rate. It was obvious that majority of the candidates did not understand the question. Candidates should be encouraged to interact more with the study pack.**

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## SOLUTION 5

Factors influencing change in an organisation are:

- i. The market is being constantly bombarded with new technology, new ways of doing things.
- ii. New management policies, roles and organisation structure
- iii. Merger with a different company could trigger changes in both companies
- iv. New work methods and procedures could demand changes in an organisation
- v. Changes in social trends, values and attitudes of the society in which the business operates could influence change in the organisation.
- vi. The marketing activities of competitors could force an organisation to change their product pricing, distribution and promotion strategies
- vii. A new Chief Executive (or changes in management) could bring about changes in strategy and policies.

### **Examiner's Report**

**The performance in the question was poor. About 90% of the candidates attempted the question. The pass rate was about 35%. It was obvious that most of the candidates mis-interpreted the question and did not make adequate use of the revised study pack.**

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## SOLUTION 6

- a. The major filing systems are:
  - i. Alphabetic filling system: In this system letters and other documents are filed in alphabetical order.
  - ii. Numerical filling system: The document or files are allocated numbers and filed in cabinets corresponding to the numbers. This system often requires the use of reference index.
  - iii. Alpha-Numerical filling system: This combines the alphabetical and numerical systems
  - iv. Subject filling system: Documents are filed according to the topic or subject
  - v. Geographical filling system: Documents are filed according to the geographical area where they originated or destination.
- b. Steps involved in organisation and methods study include:
  - i. Selection of the work
  - ii. Recording of the existing method
  - iii. Examination of the existing method
  - iv. Developing the improved method
  - v. Installation of new method
  - vi. Maintenance of the new method

### **Examiner's Report**

**The performance in the question was very good. Over 70% of the candidates attempted the question. The pass rate was about 75%. The candidates that performed poorly in the question were likely not to have studied the study pack adequately.**