

## **EXAMINERS GENERAL COMMENTS**

### **BREACH OF EXAMINATION INSTRUCTIONS**

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

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

### **INADEQUATE COVERAGE OF THE SYLLABUS**

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

# INSIGHT

---

## FOREWORD

This **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.

# INSIGHT

---

<b>CONTENTS</b>	<b>PAGE</b>
<b>PRINCIPLES OF AUDITING</b>	<b>3 - 23</b>
<b>COST ACCOUNTING</b>	<b>24 - 44</b>
<b>PREPARING TAX COMPUTATION AND RETURNS</b>	<b>45 - 71</b>
<b>MANAGEMENT</b>	<b>72 - 89</b>

# INSIGHT

---

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA  
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA  
PART III EXAMINATIONS - SEPTEMBER, 2018  
PRINCIPLES OF AUDITING**

**Time Allowed: 3 hours**

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

**ATTEMPT ALL QUESTIONS**

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

1. When James Kufor & Co, a firm of Chartered Accountants was engaged to replace Femi Mensah & Co, another firm of Chartered Accountants, it was mandatory that James Kufor & Co should send which of the following letters to Femi Mensah & Co?
  - A. Letter of Engagement
  - B. Letter of Representation
  - C. Letter of Professional Clearance
  - D. Management Report
  - E. Letter of Continuation
  
2. The first auditors of a company are usually appointed by
  - A. Shareholders of the company
  - B. Members of Audit Committee
  - C. Directors of the company
  - D. Corporate Affairs Commission
  - E. Promoters of the company
  
3. Which of the following is **NOT** a responsibility of the Auditors?
  - A. To undertake circularisation of receivables
  - B. To provide an opinion on the truth and fairness of the financial statement
  - C. To conduct an audit in accordance with International Standards on Auditing
  - D. To review the adequacy or otherwise of the client's internal control
  - E. To express an opinion on the client company's going concern status

# INSIGHT

---

4. Which of the following letters confirm the acceptance and understanding of the audit assignment?
  - A. Letter of Representation
  - B. Letter of Consent
  - C. Comfort Letter
  - D. Engagement Letter
  - E. Management Letter
5. Which of the following units/departments are **NOT** normally found in an Audit firm?
  - A. Audit/Assurance
  - B. Management consultancy
  - C. Taxation
  - D. Insolvency
  - E. Legal unit
6. Apart from the statutory qualifications, which of the following qualities and traits should an auditor **NOT** possess?
  - A. Intelligence and tactfulness
  - B. Familiarity with the latest developments affecting audit
  - C. Diligence
  - D. Intimate relationship with the client
  - E. Confidentiality
7. Which of the following **CANNOT** be found in the Permanent Audit File?
  - A. Debenture deeds
  - B. Memorandum and Articles of Association
  - C. Leases
  - D. A copy of the Financial Statements the Auditors are reporting on
  - E. Client's Internal Audit and Accounting Instructions
8. Which of the following assertions is **NOT** correct about the reliability of Audit Evidence?
  - A. Original documents are more reliable than photocopies
  - B. Evidence in the form of written representation is more reliable than oral representation
  - C. Audit evidence directly obtained from the entity's record is more reliable than that obtained from external source
  - D. Audit evidence directly obtained by auditor is more reliable than that obtained by or from the entity

# INSIGHT

---

- E. Client generated computation is less reliable than auditors re-performance of the same
9. Which of the following factors need **NOT** be present before the use of Statistical Sampling can be contemplated?
- A. The population must be sufficiently large
  - B. The system that produces the records to be tested must be sufficiently reliable
  - C. The items within a particular population must be heterogeneous
  - D. All items within the population must be both identifiable and accessible
  - E. The items in the population are all discrete
10. Which of the following is **NOT** required to be documented in the Audit Planning Memorandum?
- A. The timing of the Assurance work
  - B. New businesses undertaken by client in the current year
  - C. The briefing instruction of the client's management to its staff prior to commencement of the audit
  - D. The assessment of the client's Internal Audit department
  - E. The risk areas of the audit
11. Letter of representation should normally be signed by which officers?
- A. Chairman of the Audit committee and the Managing Director
  - B. Chief Executive Officer and Company Secretary
  - C. Chairman of the Board and Chief Executive Officer
  - D. Chairman of the Board and Chief Financial Officer
  - E. Chief Executive Officer and Chief Financial Officer
12. Who is to perform Peer Review of Audit Working Papers as regard the audit of a quoted company?
- A. Auditor General for the Federation/Nation
  - B. Audit review staff of the Securities and Exchange Commission
  - C. Audit review staff of the professional body
  - D. Managing partner of the audit firm carrying out the Assurance Engagement
  - E. An audit senior of the audit firm
13. Which of the following is **NOT** provided by the client's Internal Control system?
- A. Records are valid, complete and accurate

# INSIGHT

---

- B. Transactions are properly classified and valued
  - C. Restricting the opinion of auditors to suit management
  - D. Transactions are recorded at proper time
  - E. Recorded transactions are duly authorized
14. Which form of Internal Control, checks transactions as per the prescribed procedure and safeguarding the assets?
- A. Accounting control
  - B. Internal check
  - C. Budgetary control
  - D. Administrative control
  - E. Organisational control
15. Which of the following is **NOT** an advantage of Internal Control Evaluation documents?
- A. Key control questions are asked which facilitates conclusion
  - B. Material and non material errors are distinguished
  - C. Highlights of fundamental matters are pointed out to auditor
  - D. Highlight areas of detailed test and enhance drafting of management letter
  - E. Detailed areas of audit emphasis
16. How many years is an auditor advised to retain the audit working papers before destruction?
- A. 8 Years
  - B. 6 Years
  - C. 7 Years
  - D. 5 Years
  - E. Keep for ever
17. Which of the following is **NOT** a criterion in assessing the internal audit function?
- A. Scope of function
  - B. Technical competence
  - C. Test of controls
  - D. Organisational status
  - E. Due professional care
18. The following are parts of rules of flowcharting **EXCEPT**
- A. Can only be used when the system to be reviewed cannot be readily understood in words
  - B. Should be kept simple and clear
  - C. The system and its weaknesses must be reflected

# INSIGHT

---

- D. The direction of the flowchart should be from bottom to top
  - E. Use of dotted flow line and marginal bracket should be included
19. Which of the following is **NOT** a consideration for the auditor in Value for Money Audit?
- A. Key performance indicators
  - B. Analytical Procedures
  - C. Minutes of the Board and other committees
  - D. Discussions
  - E. Revenue recognition
20. Which of the following is **NOT** a benefit of the Public Procurement Act?
- A. Promotion of competition
  - B. Openness and transparency
  - C. Direct involvement in the supplies/contract
  - D. Timeliness
  - E. Competitive terms and price
21. Accounting basis generally accepted and used in government ministries is termed as
- A. Entity basis
  - B. Cash basis
  - C. Accrual basis
  - D. Accounting basis
  - E. Fund basis
22. “The independent appraisal activity within an organisation for the review of the accounting, financial and other operations as a basis for protective and constructive service management” is the definition of
- A. Statutory Audit
  - B. Performance Audit
  - C. Management Audit
  - D. Internal Audit
  - E. External Audit
23. Which of the following is **NOT** a challenge encountered by the public accounts committee?



# INSIGHT

---

- A. Financial statements often examined in arrears
  - B. High dependence on foreign aids
  - C. Delay in providing information from expected facilitators
  - D. Resolutions are not always implemented
  - E. Political instability
24. Which of the following is **NOT** a function of the internal auditor in Auditor General's office?
- A. Reviewing financial controls
  - B. Ascertaining the extent of compliance with established policies
  - C. Ascertaining the reliability of data produced
  - D. Preparation of the financial statements
  - E. Appraising the quality of performance of responsibilities
25. When there is a disagreement that is material but **NOT** fundamental to a financial statement, what type of opinion will the auditor express?
- A. Adverse opinion
  - B. Qualified opinion
  - C. Subject to opinion
  - D. Except for
  - E. Disclaimer of opinion
26. Which of the following is **NOT** a content of Current Audit File?
- A. Letter of engagement and minutes of appointment of the auditor
  - B. Audit programme
  - C. Letter of representation
  - D. Schedule of each item in the statement of financial position
  - E. Index to the file
27. Which of the following is **NOT** a content of a Letter of Engagement?
- A. Auditors responsibility and work scope
  - B. Board of directors responsibilities
  - C. Fees and billing arrangements
  - D. A proposed time table for the agreement
  - E. Management letter
28. One of the major functions of an Audit Committee is to
- A. Prepare domestic reports
  - B. Appoint auditors and fix their remuneration

# INSIGHT

---

- C. Facilitate the smooth running of an organisation
  - D. Appoint management staff and fix their remuneration
  - E. Determine the procedure for the audit
29. The term used to describe the continuity of an entity in the foreseeable future is known as
- A. Prudence
  - B. Historical cost
  - C. Going concern
  - D. Consistency
  - E. Matching
30. Which section of the auditor's report state the auditors assertion as to whether the financial statements give a true and fair view?
- A. Opening paragraph
  - B. Scope paragraph
  - C. Opinion paragraph
  - D. Report date
  - E. Director's paragraph

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

**ATTEMPT ALL QUESTIONS**

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

1. The secondary objective of an Audit is .....
2. What happens if the auditor wilfully makes a statement which is false?
3. What will an auditor incur and pay if he is found to be negligent in the performance of his duty and the client suffers a loss as a result?
4. The code of ethics issued by IFAC specifically mentions that independence requires both independence of ..... and .....
5. The person or firm who possess special skill, knowledge and experience whom an auditor may seek his services to arrive at his opinion in an assurance engagement is called .....

# INSIGHT

---

6. The act of examining the underlying documents in support of transactions or events by auditor to ensure conformity of the process is called.....
7. In an audit firm, each audit staff ticks off the section he had completed in the Audit Completion Checklist and therefore the ultimate responsibility for the quality control of audit work in the area rests with him. **TRUE OR FALSE**
8. The two approaches to Sampling in Assurance Engagement are .....and.....  
.....
9. The documentation of Internal Control by way of notes, information generated from enquires and observation is called.....
10. The answer YES to an Internal Control Questionnaire (ICQ) question indicate  
.....  
.....
11. The process of assessing the design of controls and their operation on a timely basis and taking necessary corrective actions is known as.....  
.....
12. What provides a convenient way of describing the authority, responsibility, approval and reporting structure in the organisation?
13. The term used to describe the process that considers whether economically obtained resources are put to efficient use to generate outputs is called.....
14. The procurement method strictly specified for the procurement of public goods and works is called.....
15. The arm of Government which the Public Accounts Committee report to is?
16. Financial Audit is the function of the Auditor General that ensures efficient and operational financial controls. **TRUE OR FALSE**

# INSIGHT

---

17. The auditor can modify his opinion by including a/an ..... paragraph
18. Two of the techniques of a Substantive test are .....and .....
19. The maximum number of members of an Audit Committee is.....
20. Why should an auditor review events after reporting period?

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

**QUESTION 1**

The auditor owes a duty of care to his clients who rely on him to protect their interest. If the auditor is negligent, he will be liable to make good the loss.

**Required:**

- a. What is Auditor's Negligence?  
(2<sup>1</sup>/<sub>2</sub> Marks)
- b. State **FIVE** actions required by an Auditor to minimise the danger of any claim arising from its negligence. (5 Marks)
- c. What are the sanctions available for Auditors' negligence?  
(5 Marks)

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

**QUESTION 2**

- a. Briefly explain an "audit programme"  
(2<sup>1</sup>/<sub>2</sub> Marks)
- b. Itemise constraints that audit programmes can put on the assurance engagement of an auditor.  
(4 Marks)

# INSIGHT

---

- c. List items that may be found in an Audit Programme for payroll. (6 Marks)
- (Total 12½ Marks)**

## QUESTION 3

- a. State **FIVE** examples of general controls in a Computer Based Environment. (2½ Marks)
- b. Define the following data processing methods
- i. On - line system
  - ii. Real - time system
- (2 Marks)
- c. State **FOUR** control problems associated with the real-time systems (2 Marks)
- d. State and briefly explain **FOUR** steps to be taken before making the decision to acquire a computer system or software packages. (6 Marks)
- (Total 12½ Marks)**

## QUESTION 4

- a. Define Value-for-Money Audit (2½ Marks)
- b. Outline the phases involved in Value for Money Audit and discuss each of the phases. (10 Marks)
- (Total 12½ Marks)**

## QUESTION 5

As the auditor to Kodjo Bailey Limited, you have finished the assurance engagement of the company for the year ended 31 March 2017 and you are to report to the Directors of the company.

- a. State **FIVE** assurance completion procedures (5 Marks)

# INSIGHT

---

b. Discuss **FIVE** contents of Assurance Report.

(7½  
Marks)  
**(Total 12½  
Marks)**

## QUESTION 6

a. Discuss briefly the following:

- i. Matters that do not affect auditor's opinion (2  
Marks)
- ii. Matters affecting the auditor's opinion (3  
Marks)

b. Some circumstances may necessitate an auditor to issue a modified assurance report. State the reasons why an auditor will issue a report with:

- i. A Qualified opinion
- ii. An Adverse opinion
- iii. A Disclaimer of opinion (7½  
Marks)

**Marks)**

**(Total 12½**

# INSIGHT

---

## **SOLUTION**

### **MULTIPLE CHOICE QUESTIONS**

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

### **SHORT ANSWER QUESTIONS**

1. Detection of errors and frauds  
Prevention of errors and frauds  
Improvement of clients accounting internal control systems (any 1 point)
2. Guilty of an offence and becomes liable on conviction
3. Liability, damages/fine

# INSIGHT

---

4. Mind, Appearance
5. Expert or Specialist
6. Vouching
7. False
8. Statistical sampling and Non Statistical sampling
9. Narrative Notes
10. Compliance
11. Monitoring
12. Organisation Chart/Organogram
13. Value-for-money audit
14. Tendering
15. National Assembly/Legislature
16. TRUE
17. Emphasis of matter
18. Inspection, Enquiry, Confirmation, Computation, Observation and Analytical review (any two)
19. 6
20. Assessment for reasonable disclosure

## **Section A: Part 1**

The multiple choice questions were of standard quality and many candidates performed very well.

More than 60% scored more than 15 marks.

## **Section A: Part 2**

### **Short Answer Questions**

The questions were of good standard as fundamentals of auditing principles were tested throughout. More than 60% scored more than 10 marks.

### **MARKING GUIDE**

#### **MCQ**

1 mark for each multiple choice question correctly answered      30 marks

#### **SECTION A Part 2**

1 mark for each short answer question correctly answered      20 mark

#### **SOLUTION 1**

- a. Negligence means some act or omission which occurs because the person concerned (e.g. an auditor) failed to exercise that degree of reasonable skill and care which is reasonable to be expected in the circumstances of the case.



# INSIGHT

---

- b. Actions which an auditor should take to minimise the danger of any claim against negligence:
- i. The auditor should adhere strictly to the principles laid down in auditing standard and guidelines.
  - ii. The precise terms of audit work should be agreed with the client and documented in an engagement letter.
  - iii. The management should be notified of all material weaknesses discovered in internal control system through management letter.
  - iv. If during the audit, the auditor comes across any suspicious circumstances, he should probe the matter to the bottom until he is reasonably satisfied.
  - v. The auditor should use a written audit programme and maintain a proper record of work done.
  - vi. Auditors should not give a snap advice.
  - vii. If the scope of work is restricted in any manner, the auditor should qualify his report thereby limiting his liability.
  - viii. If the auditor encounters technical problem during the audit, he should consult his professional colleagues or the technical committee of the Institute and document their views.
  - ix. Audit firms should take sufficient professional indemnity insurance.
  - x. Auditor should exercise reasonable care, skill and caution in the performance of his duty.
- c. Sanctions available under Nigerian Laws for auditor's negligence:

Where a company suffers loss or damages as a result of the failure of the auditor to discharge the Fiduciary duty imposed on him, he shall be liable for negligence and the directors may institute an action for negligence against him in court.

Sanctions available are:

1. If the auditor wilfully makes a statement which is false, he shall be guilty of an offence and liable on conviction in High Court to imprisonment for a term of two years or

On conviction in lower court to a fine of ₦1,000 or to imprisonment for a term of 4 months or to both fine and imprisonment.

# INSIGHT

---

2. If the auditor circulates or publishes any written statement or account which to his knowledge is false in material particular in order to deceive or defraud any person to invest in such a company shall be guilty of felony and liable to imprisonment of **seven** years.

## EXAMINER'S REPORT

The question tests negligence in professional assignments the auditor is involved in. Actions to mitigate the effects of negligence were also tested. The performance was poor.

Marking Guide	Mark	Total
a. Correctly explaining Auditor's Negligence	2½	
b. Stating FIVE actions required by an Auditor to minimize the danger of any claim arising from his negligence	5	
c. Correctly explaining sanctions available for Auditor's negligence	5	
<b>Total</b>		<u>12½</u>

## SOLUTION 2

- a. Audit programme is a set of pre-listed schedule of work to be carried out by the auditor which guides him in the assurance process and provides for the recording of both the tests carried out and conclusion arrived at.
- b. Constraints that audit programme can put on an assurance engagement of an auditor includes:
- Part of the work may be executed without regards to the whole assignment
  - It could lead to rigidity in the audit approach
  - Initiative may be stifled
  - If the work is performed to a predetermined plan, client staff may become aware of the process. This can facilitate fraud.
  - A fixed audit programme tends to inhibit auditors prompt action when put on enquiry

# INSIGHT

---

c. Audit Programme for Payroll:

- Select a sample of employees from different periods in the year
- Ensure that the payroll has been properly authorised
- Check for authorisation of overtime and bonus payment
- Check PAYE and Pension deductions for correctness
- Trace a sample of net wages to cashbook
- For payments in cash, inspect the signatures of staff on the vouchers as acknowledgement of receipt
- Review payroll cost and investigate any unusual variations
- Check that authorisation of payroll is evidenced
- Trace a sample of joiners and leavers to payroll ensuring that payments commence and end in the correct period
- Test payroll to letter of employment
- If there are significant amounts paid in cash, then consider attending to observe pay-out procedures.

## EXAMINER'S REPORT

The question requested simple definition of audit programme.

Itemisation of constraints of audit programme to the assurance engagement of an auditor were also tested. Candidates' performances were poor.

### Marking Guide

	<b>Mark</b>	<b>Total</b>
	<b>s</b>	
a. For explaining what an "audit program" is	2½	
b. For itemizing any four constraints that audit program can put on the assurance engagement of an auditor	4	
c. For correctly itemizing any 6 items that may be found in an Audit Programme for payroll	<u>6</u>	
<b>Total</b>		<u>12½</u>

## SOLUTION 3

- a.
  - i. Controls over development of computer application.
  - ii. Controls to prevent or detect unauthorised changes to programs
  - iii. Controls to ensure that all program changes are adequately tested and documented
  - iv. Controls to prevent or detect errors during program execution
  - v. Controls to prevent unauthorised amendment to data files
  - vi. Controls to ensure that systems software is properly installed and maintained
  - vi. Controls to ensure that proper documentation is kept

# INSIGHT

---

- viii. Control to ensure Continuity of operation
  - b.
    - i. On-line system provides the facilities for the data to be passed to and from the central computer via remote terminals.
    - ii. Real-time system is a further development of on-line systems and permit immediate updating of computer held files.
  - c. Control problems associated with real-time systems
    - i. Segregation of duties – The same person is responsible for producing and processing of same information.
    - ii. Data file security - Ability of a person using a remote terminal gaining access to databases without proper authorisation.
    - iii. Programme Security - Application interconnection which may be linked to gaining access to the databases.
    - iv. Back-Ups –Attempts to open a file during back-up process can sometimes corrupt the process and transaction posted after back-up has been made could be lost.
  - d.
    - i. **Authorisation**

A feasibility study should be carried out, consider the requirement, costs and the benefits, to ensure that the expenses are justified. All interested parties within the organisation should be identified and involved throughout the whole procedures of acquisition.
    - ii. **Suitability**

There is the risk that the organisation may not have the expertise to evaluate the relative advantages of the systems which may restrict future development. The software package to be acquired must fit precisely the organisation's business activities.
    - iii. **Support Facilities**

The support facilities to be offered by the supplier and or software house should be considered and a maintenance or after sales service contract entered.
    - iv. **Standards**

Standards covering controls and accounting principles to which all procedures regarding hardware and software should conform.

## EXAMINER'S REPORT

The question required examples of general controls in a computer based environment. The Definition of On-line and Real-time systems. Problem associated with real-time systems and steps required to be taken before acquiring a computer system or software packages are required from the candidates.

### Marking Guide

	<b>Total</b>
<b>Mark</b>	

# INSIGHT

---

	<b>S</b>
a. Correctly stating 5 examples of general controls in a Computer Based Environment (1/2 mark each)	2½
b. For correctly defining the following data processing methods	
i. On-Line System (1 mark)	2
ii. Real-Time System (1 mark)	
c. For correctly stating four control problems associated with the real-time systems (1/2 mark each)	2
d. - Correctly stating four steps to be taken before making the decision to acquire computer system or software packages (1/2 mark each)	2
- Briefly explaining four steps to be taken before making the decision to acquire a computer system or software packages (1 mark each)	4
<b>Total</b>	<u>12½</u>

## **SOLUTION 4**

a. Value-for-money audit (VFM) is when an entity is acquiring, managing or utilizing its resources in the most economical and efficient manner. It is generally taken to mean the pursuit of economy, efficiency and effectiveness.

### **b. Phases of Value-for-money audit**

#### **i. Proposal phase**

It aims at justifying the study of a particular area, authorise initial resources and determine further considered initial analysis of financial statistics, audit costs and other performance indicators.

#### **ii. The Scooping phase**

It aims at gathering sufficient details. It embraces gathering working information, studying related legislations and testing controls act.

At this stage there will be comprehensive management systems and objective review.

#### **iii. Planning phase**

It aims at planning to fully develop identified potentials. The planning and control processes are properly analysed and methods of reviewing operating results are examined through analysis of control and reporting systems.

# INSIGHT

---

v. **Evaluation phase**

It aims to evaluate the audit result, methodology and performance of the audit staff. The focus here will be assessment of efficiency and effectiveness review. Value for money audit aims to identify ineffectiveness in the system and under-utilisation of resources.

iv. **Implantation phase**

It aims at reporting the audit results to those responsible for receiving or acting on them.

**EXAMINER'S REPORT**

The question tested candidates' understanding of Value-for-money audit and phases involved in value-for-money audit. Performance was average as many candidates failed to define Value-for-money audit correctly.

**S/No Marking Guide**

	<b>Mark</b>	<b>Total</b>
.	<b>s</b>	
a. For correctly defining Value-for-money Audit	2½	
b. For correctly outlining any five phases involved in Value-for-money Audit (½ mark each)	2½	
c. For correctly discussing any five phases involved in Value for-Money Audit (1½ marks each)	7½	
<b>Total</b>		<u>12½</u>

**SOLUTION 5**

a. In order to complete the audit in an orderly and proper manner, the following assurance completion procedures are to be carried out by the auditor:

- i. Final review of draft financial statement
- ii. Completion of field work
- iii. Drafting the audit report
- iv. Issues documentation
- v. Audit completion checklist
- vi. The engagement partner sign-off
- vii. Debriefing
- viii. Reporting to the board and to management
- ix. Consideration of desirability of reappointment

b. The contents of Assurance Report are as follows:

i **Title:** Auditor's report should have an appropriate title. The phrase "Independent Auditor" should be used in the title to

# INSIGHT

---

distinguish the auditor's report from those that might be issued by others, such as the entity's officers, board of directors or other auditors who may not have to abide by the same ethical requirements as the independent auditor.

- ii. **Addressee:** Auditor's report should be appropriately addressed as required by the engagement circumstances and local regulations.

The report is ordinarily addressed to the shareholders of the entity whose financial statements are being audited.

- iii. **Opening or Introductory Paragraph:** Auditor's report should identify the financial statements of the entity that have been audited including date and period covered by the financial statements. The report should include a statement that the financial statements are the responsibility of the entity's management and a statement of responsibility that the auditor is to express an opinion on the financial statements based on the audit.

- iv. **Scope Paragraph:** Auditor's report should describe the scope of the audit by stating that the audit was conducted in accordance with ISA or relevant national standard or practices as appropriate. "Scope" refers to auditor's liability to perform audit procedures deemed necessary in the circumstances. The report should include a statement that the audit was planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Auditor's report should describe the audit as including:

- Examining on a test basis, evidence to support the financial statement amounts and disclosures;
- Assessing the accounting principles used in preparation of the financial statement;
- Assessing the significant estimates made by management in the preparation of the financial statement; and
- Evaluating the overall financial statement presentation.

The report should include a statement by the auditor that the audit provides a reasonable basis for opinion.

- v. **Opinion Paragraph:** The opinion paragraph should clearly indicate the financial reporting framework used to prepare the financial statement (including identifying the country of origin of the financial reporting framework when the framework used is not IFRS). The paragraph should state the auditor's opinion as to whether the financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with that financial framework and, where appropriate, whether the financial statements comply with statutory requirements. The terms used to express the Auditor's opinion are "give a true and fair view" or "present fairly in all material respects"

# INSIGHT

---

In addition, the auditor's report may need to include an opinion as to whether the financial statements comply with other requirements specified by relevant statutes or law.

- iv. **Auditor's Signature:** The report should be signed in the personal name of the engagement partner. The Auditor's report is ordinarily in the name of the firm because the audit firm assumes responsibility for the audit and the firm's letter head is used. The auditor follows the following procedure in signing the assurance report.
- The engagement partner/auditor signs
  - Put his full name
  - Includes his FRC number
  - States the name and city of the firm
  - Affixes the Institute's stamp
  - Affixes his seal
- vii. **Auditor's Address:** The report should name a specific location, which is ordinarily the city where the auditor maintains the office that has responsibility for the audit.
- viii. **Date of Report:** The auditor should date the report as of the completion date of the audit. This informs the reader that the auditor has considered the effect on the financial statements and on the reports of events and transactions of which the auditor became aware and that occurred up to that date. The auditor should not date the report earlier than the date on which the financial statements are signed or approved by management.

## EXAMINER'S REPORT

The first part of the question required stating FIVE assurance completion procedures while the second part is on discussion on contents of assurance report. Candidates' performance was good.

### Marking Guide

	<b>Mark s</b>	<b>Total</b>
a. For correctly stating any FIVE assurance completion procedures (1 mark each)	5	
b. For correctly discussing FIVE contents of Assurance Report (1½ marks each)	<u>7½</u>	
<b>Total</b>		<u>12½</u>

## SOLUTION 6



# INSIGHT

---

## a.i. **Matters that do not affect the auditor's opinion - Emphasis of Matter**

An auditor's report may be modified by adding an emphasis of matter paragraph to highlight a matter affecting the financial statements which is included in a note to the financial statements that more extensively discusses the matter. The addition of such an emphasis of matter paragraph does not affect the auditor's opinion and would preferably be included after the opinion paragraph ordinarily referring to the fact that the auditor's opinion is not qualified in this respect. Example of Emphasis of Matter is: - Addition of a paragraph emphasising a going concern problem or significant uncertainty is ordinarily adequate to meet the auditor's reporting responsibility regarding such matters.

## ii. **Matters affecting the auditor's opinion:** An auditor may not be able to express an unqualified opinion when either of the following circumstances exists:

- Limitation on the scope of auditors work, or
- Disagreement with management regarding the acceptability of the accounting policies selected, method of their application or the adequacy of financial statement disclosures. The two circumstances results in a modified opinion.

## b.i. **A Qualified opinion:** A qualified opinion would be given when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management or limitation on scope is not so material and pervasive as to require an adverse opinion or disclaimer of opinion. A qualified opinion should be expressed as being "except for" the effects of the matter which the qualification relates.

## ii. **An Adverse opinion:** This should be expressed when the effect of a disagreement is so material and pervasive to the financial statement that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

## iii. **A Disclaimer of opinion:** This opinion should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements.

## **EXAMINER'S REPORT**

The question required the candidates to distinguish between matters that do not affect auditor's opinion and matters affecting the auditor's opinion.

# INSIGHT

---

Reasons necessitating auditor issuing qualified auditor's opinion in his report.

Reasons for issuing an adverse opinion and a disclaimer of opinion are required.

Candidates' performance was average.

**General:** It is recommended that candidates should make use of the Study Pack on Principles of Auditing as the pack adequately covers the syllabus.

## Marking Guide

	<b>Mark s</b>	<b>Total</b>
a. i. For being able to discuss briefly matters that do not affect auditor's opinion	2	
ii. For being able to discuss briefly matters affecting the auditor's opinion	3	
b. i. For being able to state the reasons why an auditor will issue a report with a qualified opinion	2½	
ii. For being able to state the reasons why an auditor will issue a report with an adverse opinion	2½	
iii. For being able to state the reasons why an auditor will issue a report with a disclaimer of opinion	2½	
<b>Total</b>		<u>12½</u>

# INSIGHT

---

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA  
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA  
PART III EXAMINATIONS - SEPTEMBER 2018  
COST ACCOUNTING**

**Time Allowed: 3 hours**

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

**ATTEMPT ALL QUESTIONS**

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

1. A cost driver is
  - A. An item of production overhead
  - B. An activity which generates costs
  - C. The cost of operating a department
  - D. A common cost which is shared over cost centre
  - E. Any cost relating to transport
2. Which of the following is **NOT** an example of selling cost?
  - A. Remuneration of sales director
  - B. Advertising and publicity expenses
  - C. Cost of catalogues, price lists and samples
  - D. Salaries, commissions and travelling expenses to sales staff
  - E. Factory rent
3. The costs relating to the product or service that are computed in advance of production or rendering service, on the basis of a specification of all the factors affecting the cost is called
  - A. Selling cost
  - B. Pre-determined cost
  - C. Cost data
  - D. Historical cost
  - E. Patent cost
4. If OKE Hospital requires an additional nurse for every ten patients, then this is an example of
  - A. Fixed cost
  - B. Total cost
  - C. Variable cost
  - D. Mixed cost
  - E. Step cost

# INSIGHT

---

5. From the manufacture of product XYZ, the cost of producing 5,000 units is ₦240,000. While the cost of 7,000 is ₦296,000. What will be the budget cost for 9,500 units?
- A. ₦100,000
  - B. ₦266,000
  - C. ₦366,000
  - D. ₦466,000
  - E. ₦166,000
6. The following are classifications of cost by function **EXCEPT**
- A. Production cost
  - B. Semi-fixed cost
  - C. Administration cost
  - D. Selling and Distribution cost
  - E. Advertising cost
7. Which of the following is **NOT** an objective of material control?
- A. To minimise the total cost of material
  - B. To avoid the situation of under/over stocking
  - C. To provide information about the company's objectives
  - D. To avoid wastage and losses during usage and storage
  - E. To maintain proper and up-to-date records of inventory
8. A document used in material recording, which contains list of materials, with specifications, material codes and quantity of materials required for a particular job, process or production unit is
- A. Bill of material
  - B. Purchase Requisition Note
  - C. Material Returned Note
  - D. Purchase Order
  - E. Material Transfer Note
9. Standard Output of a product is 0.75 unit per hour. A labourer worked for 30 hours producing 60 units. What is the time saved?
- A. 7 hrs 30 mins
  - B. 11 hours 30 mins
  - C. 15 hours
  - D. 15 hours 30 mins
  - E. 16 hours 30 mins
10. Which of the following is **NOT** a method of remuneration under the incentive payment by result scheme?
- A. High day rate system
  - B. Premium Bonus system
  - C. Profit sharing system
  - D. Monthly salary payment system

# INSIGHT

---

- E. Weekly payment system
11. In determining overhead absorption rates, under/over recovery of overheads occurs. What is the accounting treatment of under/over recovery of overhead?
- A. Share it among the entire job worked during the period
  - B. Write off by treating it as a period cost
  - C. Add it to stock valuation
  - D. Disregard under/over recovery of overhead
  - E. Carry the cost forward to future accounting periods
12. A system in which the cost accounts are distinct from financial accounts, the two sets of accounts being kept continuously in agreement by the use of control accounts or made readily reconciled by other means is called
- A. Non-integral system
  - B. Integral system
  - C. Control accounting system
  - D. Marginal accounting system
  - E. Cost control accounting system
13. Which of the following is **NOT** contained in the main/principal ledger in cost books?
- A. Store Ledger Control Account
  - B. Work-in-Progress Ledger Control Account
  - C. Finished Goods Ledger Control Account
  - D. Cost Adjustment Account
  - E. Cost Ledger Control Account
14. Joshy Manufacturing Limited operates an integrated accounting system. The accounting entries for an issue of direct materials to production would be
- A. DR-Finished Goods Account      CR- Stores Control Account
  - B. DR - WIP Control Account      CR-Stores Control Account
  - C. DR-Store Control Account      CR-WIP Control Account
  - D. DR - WIP Control Account      CR-Finished Goods Account
  - E. DR-WIP Control Account      CR-Overhead Control Account
15. The following are characteristics of job costing **EXCEPT**
- i. Customer-driven production
  - ii. Costs are allocated to each job at the end of its completion
  - iii. Homogenous products

# INSIGHT

---

- A. i
  - B. ii
  - C. iii
  - D. i and ii
  - E. ii and iii
16. In contract costing, the value of work certified and cost of work not yet certified less amount received from contractee is known as
- A. Value of work uncertified
  - B. Notional loss
  - C. Anticipated loss
  - D. Work-in-progress
  - E. Notional charges
17. An unavoidable loss which occurs due to the inherent nature of the materials and production process under normal condition is
- A. Normal Loss
  - B. Abnormal Loss
  - C. Abnormal Gain
  - D. Normal Gain
  - E. Mixed Loss
18. Which of the following is **NOT** an objective of transport costing?
- A. To determine the cost driver
  - B. To ascertain the operating cost of running a vehicle per kilometer
  - C. To fix the hire charges where vehicles are given on hire
  - D. To determine what should be charged to departments which use internal transport facilities
  - E. To compare the cost of using own vehicles with that of using alternative mode of transport
19. Which of the following is **NOT** a factor to be considered when preparing capital expenditure budget?
- A. Asset replacement plans
  - B. Availability of long-term funds
  - C. Expected future earnings
  - D. Salesmen production expenses
  - E. Capital development plans of the firm
20. A budget which recognises the difference between fixed, semi-variable and variable cost and is designed to change in relation to the level of activity attained is

# INSIGHT

---

- A. Mixed Budget
  - B. Variable Budget
  - C. Control Budget
  - D. Fixed Budget
  - E. Flexible Budget
21. The portion of material cost variance which is due to the difference between the standard price specified and the actual price paid is
- A. Direct material Usage Variance
  - B. Direct Material Yield Variance
  - C. Direct Material Price Variance
  - D. Direct Material Mix Variance
  - E. Direct Material Cost Variance
22. The historical costs which have already been incurred by decision made in the past and **CANNOT** be changed by any decision in the future is
- A. Sunk cost
  - B. Opportunity cost
  - C. Relevant cost
  - D. Development cost
  - E. Selling cost
23. Discretionary cost can be referred to as the
- A. Cost of next best alternative of resources
  - B. Cost which arises from periodic decisions regarding the maximum outlay to be incurred
  - C. Increase/decrease in the total cost due to change in the level of activity
  - D. Written down value of material already purchased
  - E. Cost which are classified according to their behaviour
24. A capital expenditure project has an initial investment followed by constant annual returns. How is the payback period calculated?
- A.  $\text{Initial Outlay} \div \text{Estimated Profit}$
  - B.  $\text{Initial Outlay} \div \text{Constant Cash inflow}$
  - C.  $(\text{Initial Outlay} - \text{Scrap Value}) \div \text{Estimated Profit}$
  - D.  $(\text{Initial Outlay} - \text{Scrap Value}) \div \text{Constant Cash inflow}$
  - E.  $(\text{Initial Outlay} - \text{Estimated Profit}) \div \text{Constant Cash inflow}$
25. An example of a cost control technique is
- A. ABC Analysis
  - B. Marginal Costing Technique

# INSIGHT

---

- C. Absorption Costing Technique
  - D. Overhead Analysis
  - E. Material Analysis
26. The verification of cost accounts and a check on the adherence to the cost accounting plan is
- A. Cost Control
  - B. Cost Reduction
  - C. Cost Audit
  - D. Cost Pool
  - E. Cost Avoidance
27. ABC and AMT stands for
- A. Activity Based Concept and Advance Manufacturing Techniques
  - B. Actual Based Costing and Advanced Manufacturing Techniques
  - C. Activity Based Costing and Advanced Manufacturing Techniques
  - D. Activity Based Costing and Automated Manufacturing Techniques
  - E. Activity Based Control and Advanced Manufacturing Techniques
28. The following are the characteristics of Just-In-Time System
- (i) A move towards zero inventory
  - (ii) Elimination of value added activities
  - (iii) An emphasis on perfect quality
- A. i
  - B. i and ii
  - C. iii
  - D. i and iii
  - E. i, ii and iii
29. Life cycle costing tracks and accumulates the actual cost from the beginning to the end of a
- A. Period
  - B. Process
  - C. Product
  - D. Posting
  - E. Pricing
30. Cost control and cost reduction
- A. Mean the same thing
  - B. Are the opposite of each other



# INSIGHT

---

- C. Are two distinct management tools
- D. Are used during crisis situations
- E. Are aimed at exposing fraudulent managers

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

**ATTEMPT ALL QUESTIONS**

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

1. A group of employees or machines dedicated to performing a specific manufacturing task, or group of related tasks to which cost may be ascertained is known as .....
2. The process involved in the ascertainment of the cost of producing a product or providing a service is termed .....
3. In relation to classification of cost according to responsibility, a profit centre manager responsibility covers ..... and .....
4. A cost which is not normally incurred at a given level of output in the conditions in which that level of output is normally attained is known as .....
5. An internal instruction issued to a buying office to purchase goods or services, stating the quantity, descriptions and elicits a purchase order is called.....
6. The process of gathering, analyzing and synthesizing information regarding the operations, duties and responsibilities of a specific job is known as .....
7. The aggregate of indirect material cost, indirect labour cost and indirect expenses which cannot be conveniently identified with and directly allocated to a particular cost centre is called .....
8. Special charges made in the cost accounts but not in the financial accounts to reflect the use of the company's assets is known as .....
9. A cost accounting recording system designed to reduce or eliminate detailed accounting entries is called .....

# INSIGHT

---

10. In process costing, a product of relatively small value which emerges incidentally in the course of manufacturing is called .....
11. The portion of the value of work certified which is paid by the contractee and expressed as a percentage of work certified is known as .....
12. The form of operation costing which applies where standardised services are rendered either by an undertaking or by a service cost centre within an organisation is .....
13. The establishment of budgets relating to the responsibilities of executives to the requirements of a policy and the continuous comparison of actual with budgeted results either to secure by individual action the objective of that policy is called .....
14. The standard hours equivalent to the work produced and usually expressed as a percentage of actual hours spent in production is known as .....
15. The maximum contribution that is forgone by using the scarce resources for a particular purpose is termed .....
16. A technique which uses cost behaviour theory to identify the activity level at which there is neither a gain nor loss is known as .....
17. A technique of cost accounting whereby a target cost is set by subtracting a desired profit margin from a competitive market price is called .....
18. An attempt to reflect more accurately in product costs those activities which influence the level of support overhead is called.....
19. Quality assurance comprises of the twin functions of quality control and .....
20. A cost accounting system which focuses on the output of an organisation by working in reverse order to allocate cost between cost of goods sold and inventory is known as .....

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

**QUESTION 1**

# INSIGHT

Cost accounting is a set of procedures used for refining raw data into usable information for management decision making, for ascertainment of cost of products and services and its profitability. Despite all the usefulness of cost accounting to an organisation, it also has some limitations.

a. You are required to highlight **SIX** limitations of cost accounting? (6 Marks)

b. Mall Envy Limited provides the following information:

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Production (units)	134,200	142,600	151,200	150,200
Maintenance Cost (GH¢)	675,000	720,360	780,450	794,750
Cost Inflation Index (%)	100	103.5	107.5	110

**You are required:**

- To determine a linear function for maintenance cost per annum using the range method.  
(4<sup>1/2</sup> Marks)
- Using the cost function, forecast the maintenance cost in 2017 based on a volume of 155,000 units and a cost inflation index of 112.5%? (2 Marks)

**(Total 12<sup>1/2</sup>**

**Marks)**

## QUESTION 2

The costing officer of Havilla-Genesis is in the process of preparing its budget for 2017 for the business. The following data has been gathered:

(i) Budgeted sales and Inventory estimates:

Product	Annual Budgeted Sales (Units)	Opening Inventory (Units)	Closing Inventory (Units)
XAVIK	36,000	8,000	Equivalent to 2 months sales
YAVIK	24,000	10,000	Equivalent to 3 months sales

# INSIGHT

ZAVIK	48,000	18,000	Equivalent to 4 months sales
-------	--------	--------	------------------------------

(ii) Budgeted Labour Requirement:

Product	Hours per units	Hourly Rate (₦)
XAVIK	6	60
YAVIK	5	30
ZAVIK	4	45

(iii)

Budgeted Direct Material Requirement:

Type of material	USAGE IN PRODUCTION			Price Unit (₦)
	XAVIK	YAVIK	ZAVIK	
AAA	3	1	3	300
BBB	4	6	3	200
CCC	5	7	3	250

(iv) Production overhead is applied at the rate of ₦50 per direct labour hours.

**You are required to prepare:**

a. Production Budget

(3<sup>1</sup>/<sub>2</sub> Marks)

b. Direct Material Purchases Budget

(7<sup>1</sup>/<sub>2</sub> Marks)

c. Direct Labour Budget

(1<sup>1</sup>/<sub>2</sub>

Marks)

(Total 12<sup>1</sup>/<sub>2</sub>

Marks)

## QUESTION 3

The following data relates to the machine shop of Kelly Mbappe Engineering Company for the year ended 31 December 2016. The machine shop has 3 cost centres namely - Assembling, Blending and Capturing, each having 3 distinct sets of machine.

	Total	Assembling	Blending	Capturing
No. of Workers	1,600	400	400	800
No. of Machine Hours	160,000	50,000	50,000	60,000
Percentage of Horse Power (HP)	100	40	25	35
Value of Machine (L\$'000)	8,500	2,000	3,500	3,000
Direct Wages (L\$'000)	60,000	16,000	20,000	24,000

# INSIGHT

Indirect Wages (L\$'000)	18,000			
Superior Salaries (L\$'000)	7,000			
Depreciation (L\$'000)	8,500			
Insurance (L\$'000)	4,250			
Electricity Charges (L\$'000)	12,000			
Welfare Expenses (L\$'000)	9,000			
Office & Other Expenses (L\$'000)	16,000			

**You are required:**

Determine the machine hour rate for each cost centres (showing the basis of apportionment of expenses among the cost centres)

**(Total 12½ Marks)**

**QUESTION 4**

The facilities of KKM Hospital consists of 20 beds. The hospital usually opens for 300 days in a year. The facility is operated at full capacity for 200 days and the balance of 100 days, it has an average of 16 beds only (which is 80% of full capacity) occupied per day.

The following are the expenditure of the hospital:

	R	
Rent (fixed)	75,000	per month
Repairs and maintenance (fixed)	50,000	
Food supplied to patients (Variable)	140,000	
Laundry Charges (Variable)	180,000	
Medicines (Variable)	160,000	
Other Expenses (Fixed)	730,000	
2 Supervisor (each Salary)	10,000	per month
4 Nurses (each Salary)	8,000	per month
2 Wards Staffs (each salary)	3,000	per month
Fuel and Oil (Fixed)	12,000	per month

The hospital engaged two expert doctors from outside to attend to the patients and the fees were paid to each of them on an average of R50,000 per month

# INSIGHT

---

The fees of expert doctors were paid on the basis of number of patients attended to by them.

**You are required to:**

- a. Determine the charges per day per patient to earn a profit of 100% on cost.

(10<sup>1</sup>/<sub>2</sub>  
Marks)

- b. Determine the number of patients per day required by the hospital to breakeven, assuming the above charges per patient per day. (2 Marks)

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

**Marks)**

**QUESTION 5**

As a trainee Accounting Technician, the Managing Director of Lady Sneh Limited approached you. “I have got a problem” “My Financial Accountant tells me we have made a profit of ₦180,000 for the month of October, 2016 but my Cost Accountant insists that the figure should be ₦240,000. Which is right?”

From your investigations, you ascertained that the company keeps its financial and cost accounts separately and the following information were observed:

	Financial Account	Cost Account	
	₦	₦	
Raw material - Opening	300,000	240,000	(ii)
	360,000	330,000	
Finished Goods - Opening	750,000	765,000	
	900,000	922,500	
	0		

The following items do not appear in the cost accounts:

	₦
Donations to SOS Children Village	15,000
Profit on sales of Datsun car	30,000
Rent Receivables	9,000
Discount Allowed	7,500
Exchange rate losses	37,500
Bad debt written off	7,500
Discount Received	6,000

# INSIGHT

---

**You are required to:**

Prepare a statement reconciling the two profit figures, starting with cost account. **(Total 12½**

**Marks)**

## QUESTION 6

Chi-Boi Incorporated produces three products namely – Pox, Qox and Rox from the same raw material using the same production facilities.

The requisite labour is available at Le56 per hour for all products.

The raw materials is imported from a neighbouring West African Country at Le56 per kg and is limited to 72,800 kgs for the month of June, 2017.

The variable overheads are Le39.20 per direct hour. The fixed overheads are Le350,000 for the month.

The selling commission is 10% on sales.

The following information were also provided.

Product	Market Demand (Units)	Selling Price per Unit (Le)	Labour Hours Required per Unit (Hour)	Raw Materials Required per Unit (kg)	
Pox	56,000	210	1	0.7	
Qox	42,000	280	2	0.4	
Rox	35,000	350	1.5	1.5	<b>You</b>

**are required to:**

Suggest the most suitable sales mix, which will maximize the firms profit and also determine the profit that will be earned at that level.

**(Total 12½  
Marks)**

## COST ACCOUNTING SOLUTION TO MCQ

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

# INSIGHT

---

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

## Examiner's report

MCQs covered all the areas of the syllabus. All the candidates attempted the questions. Over 70% of the candidates scored above the average marks allotted to this portion of the examinations.

## SOLUTION TO SAQ

1. Cost Centre
2. Cost Accounting/Costing
3. Revenue and Cost
4. Abnormal cost
5. Purchase Requisition
6. Job Analysis/Job Description
7. Overheads/overhead cost
8. Notional charges/Notional Costs/Imputed Cost
9. Integrated Accounting System



# INSIGHT

---

10. By-products
11. Cash received or progress payments
12. Operating costing/Service Costing
13. Budgetary control
14. Efficiency Ratio
15. Opportunity Cost
16. Break-even Analysis OR
17. Cost Volume Profit Analysis
18. Target Costing
19. Activity Based Costing
20. Quantity Planning
21. Back flush accounting/costing

## **Examiner's Report**

The questions tested candidates understanding of the syllabus. All the candidates attempted the questions. About 60% of the candidates scored below the average marks allotted to this part of the examination.

## **SOLUTION TO QUESTION 1**

- a. Limitations of Cost Accounting
  - i. It presents the base for taking the best decisions, but it does not give outright solution to the problem.
  - ii. Cost varies with purposes. Therefore, cost called for a certain purpose will not be suitable for other purposes.
  - iii. Costing accounting is not an exact science. It involves inherent elements of judgment.
  - iv. It takes uniform procedures
  - v. A suitable system is to be devised for each individual concern and it would be time consuming and expensive.
  - vi. Most of cost accounting techniques are based on some presumed notions.
  - vii. Different views are held for inclusion of certain items of cost in ascertainment of total cost.
  - viii. Many formalities are to be observed to obtain benefit from costing system. Small and medium concerns may not be in a position to install a costing system.
  - ix. If the system is not revised as per the changing circumstance, it will become a matter of routine forms and statements
  - x. Existence of numerous methods of cost technique, methods of cost separations, division of cost into controllable and uncontrollable costs, validation of inventory methods, provision for depreciation

# INSIGHT

etc may lead to cost differences and it is difficult to ascertain true cost of product or service.

- xi. The production of basic data requires the filling of many forms, sometimes inaccurate data is provided. Under such conditions the foundation of subsequent analysis is weakened.
- xii. In most of the cases, cost accounting is based on estimation and the previously collected data.

b. Mall Envy Ltd  
 Determination of Linear function  
 Using High & Low Method (Range method)

Year	Units	Cost	Adjustments	Adjusted cost
2013	134,200	675,000	$\frac{100}{100} \times 675,000 =$ 100	675,000
2014	142,600	720,360	$\frac{100}{103.5} \times 720,360 =$ 103.5	696,000
2015	151,200	780,450	$\frac{100}{107.5} \times 780,450 =$ 107.5	726,000
2016	150,200	794,750	$\frac{100}{110} \times 794,750 =$ 110	722,500

	Unit	M'tce Cost
High	151,200	726,000
Low	(134,200)	(675,000)
	<u>17,000</u>	<u>51,000</u>

Variable Cost/Unit =  $\frac{51,000}{17,000} = \underline{\underline{\text{N}3/\text{unit}}}$

From the formula  $y = a + bx$ , determine fixed cost (a)

<u>At high point</u>	at low point
$726,000 = a + 3(151,200)$	$675,000 = a + 3(134,200)$
	0
$a = 726,000 - 453,600$	$a = 675,500 - 402,600$
$a = \underline{\underline{272,400}}$	$a = \underline{\underline{272,400}}$

- i. Linear/cost function =  $272,400 + 3x$
- ii. 2017 maintenance cost at 155,000 units & 112.5% cost Inflation Index

$$y = 272,450 + 3(155,000)$$

$$= 272,400 + 465,000$$

# INSIGHT

Real Term = 737,400

In money terms maintenance cost  

$$= \frac{112.5}{100} \times 737,400$$

$$= \underline{829,575}$$

**Examiner’s Report**

The question tested introduction to Cost Accounting and cost estimation techniques. About 70% of the candidates attempted the question and performance was poor. 50% of those who attempted the question scored below the average marks allotted to the question. The major pitfall is the lack of understanding of the requirement of the question.

**SOLUTION TO QUESTION 2**

**OPTIMUS LIMITED**

a. Preparation of Production Budget

STEP 1 - Calculation of Closing Inventory

Product	Basis	Annual Sales Units	Monthly Sales Units	Multiplier	Closing Inventory
XAV1K	2 Months sales	36,000	3,000	2	6,000
YAV1K	3 Months sales	24,000	2,000	3	6,000
ZAV1K	4 Months sales	48,000	4,000	4	16,000

STEP 2- Preparation of Production Budget

	XAV1K	YAV1K	ZAV1K
	UNITS	UNITS	UNITS
Sales	36,000	24,000	48,000
Closing Inventory	6,000	6,000	16,000
	42,000	30,000	64,000
Less Opening Inventory	(8,000)	(10,000)	(18,000)
	34,000	20,000	46,000

Marking Guide: 1/2 Mark each for 3 ticks (Half mark for 3 ticks for maximum of 21 ticks gives 3.5 Marks)

b. Preparation of Direct Material Purchase Budget

	AAA	BBB	CCC
--	-----	-----	-----

# INSIGHT

XAV1K 34,000	3 102,000	4 136,000	5 170,000
YAV1K 20,000	1 20,000	6 120,000	7 140,000
ZAV1K 46,000	3 138,000	3 138,000	3 138,000
Total Quantity	260,000	394,000	448,000
Cost per unit (N)	300	200	250
Total purchase cost (N)	78,000,000	78,800,000	112,000,000

c. Preparation of Direct Labour Budget

Product	Production Qty	Hours/Unit	Total Hours	Rate/Hour (N)	Total Labour Cost (N)
XAV1K	34,000	6	204,000	60	12,240,000
YAV1K	20,000	5	100,000	30	3,000,000
ZAV1K	46,000	4	184,000	45	8,280,000
<b>Total</b>					<b>23,520,000</b>

Examiner's Report

The question tested preparation of functional budget. 85% of the candidates attempted the question and 70% of those that attempted the question scored half of the mark allotted to the question. Inability to arrive at the correct value of the closing inventory appears the major pitfall. Candidates are advised to adequately prepare for future examinations using ATSWA study text, Insight and the recommended Textbooks.

## SOLUTION TO QUESTION 3

Kelly Mbappe Engineering Company

# INSIGHT

COST ITEM	BASIS OF APPORTIONMENT	ASSEMBLING L\$'000	BLENDING L\$'000	CAPTURING L\$'000	TOTAL L\$'000
Indirect Wages	No of workers	4,500	4,500	9,000	18,000
Superior Salaries	No of workers	1,750	1,750	3,500	7,000
Depreciation	Value of machine	2,000	3,500	3,000	8,500
Insurance	Value of machine	1,000	1,750	1,500	4,250
Electricity Charges	Percentage of Horse Power (HP)	4,800	3,000	4,200	12,000
Welfare Expenses	No of workers	2,250	2,250	4,500	9,000
Office & Other Expenses	No of workers	4,000	4,000	8,000	16,000
		<b>20,300</b>	<b>20,750</b>	<b>33,700</b>	<b>74,750</b>
	No of Machine Hours ('000)	50	50	60	
	<i>Rate/Machine Hour (L\$)</i>	<b>406.00</b>	<b>415.00</b>	<b>561.67</b>	

### Examiner's Report

The question tested apportionment of overhead cost - 70% of the candidates attempted the question. About 55% of those who attempted the question score half of the mark allotted to it. Candidates are advised to make use of the recommended text books. ATSWA study text and insight while preparing for future examinations.

### SOLUTION TO QUESTION 4

KKM Hospital

Determination of charge per day per patient

	₦	₦
Total Variable Cost		
Food supplied to patients	140,000	
Laundry charges	180,000	
Medicines	160,000	
Expert Doctors fee (N50,000 x 2 x 12)	1,200,000	1,680,000
Total Fixed Cost: Repairs & Maintenances	50,000	
Fuel & oil (N12,000 x 12)	144,000	
Rent (N75,000 x 12)	900,000	
Other fixed expenses	730,000	
Supervisor's salary (N10,000 x 2 x 12)	240,000	
Nurse's salary (N8,000 x 4 x 12)	384,000	
Ward staff's salary (3,000 x 2 x 12)	72,000	2,520,000

# INSIGHT

TOTAL COST		4,200,000
Profit margin (100% of Total Cost)		4,200,000
TOTAL REVENUE REQUIRED/EXPECTED		8,400,000
No of patient in a year		
Full capacity of hospital = 00 days x 20 patients =	4,000	
80% capacity (Balance of Days) 100 days x 16 patience	<u>1,600</u>	
Total Nos. of patient =	<u>5,600</u>	

$$\begin{aligned} \text{Charge per day per patient} &= \frac{8,400,000}{5,600} \\ &= \underline{\underline{\text{N}1,500/\text{day per patient}}} \end{aligned}$$

b. Breakeven point

$$\text{Variable cost/patient} = \frac{1,680,000}{5,600} = \underline{\underline{\text{N}300}}$$

$$\text{Contribution/patient} = \text{N}1500 - 300 = \underline{\underline{\text{N}1,200}}$$

$$\text{Breakeven point} = \frac{2,520,000}{1,200} = \underline{\underline{2,100 \text{ patient days}}}$$

### Examiner's report

The question tested candidates understanding of service costing. About 50% of the candidates attempted the question while 40% of those who attempted the question scored a little above the average mark allotted to it. Lack of understanding of the requirements of the question appear the major pitfall.

### SOLUTION TO QUESTION 5

Lady Sneh Limited

Reconciliation statement for the month of October 2016

	N	N
Profit as per Cost Account		240,000
Add: Difference in Inventory valuation		
Raw material closing (360,000 - 330,000)	30,000	
	15,000	
	30,000	
	9,000	
	6,000	
		<u>90,000</u>
		330,000
Loss: Difference in Inventory validation		

# INSIGHT

RM Opening (300,000 – 240,000)	60,000	
FG closing (922,500 – 900,000)	22,500	
Donations to SOS children village	15,000	
Discount Allowed	7,500	
Exchanges rate losses	37,500	
Bad Debt written off	<u>7,500</u>	<u>(150,000)</u>
Profit as per Financial Account		<u>180,000</u>

## Examiner’s Report

The question tested candidate understanding of reconciliation of costing profit with accounting profit. About 80% of the candidates attempted the question but only 40% of those who attempted the question had a good understanding of the question.

## SOLUTION TO QUESTION 6

Chi-Boi Incorporated

Optimal Product (sales) Mix for the month of June, 2017

Product	POX		Qox		Rox
	Le	Le	Le	Le	Le
Selling Price	210:00		280:00		350:00
Less Total variable cost:					
Direct Materials	39:20		22:40		84:00
Direct Labour	56:00		112:00		84:00
Variable Overhead	39:20		78:40		58:80
Sales Commission	21:00 <u>(155:40)</u>		28:00 <u>(240:80)</u>		35:00 <u>(261:80)</u>
CONTRIBUTION (a)	<u>54:60</u>		<u>39:20</u>		88:20
Limiting factor – RM (b)	0.7		0.4		1.5
Contribution/LF (c=a/b)	78		98		58.8
Ranking	2 <sup>nd</sup>		1 <sup>st</sup>		3 <sup>rd</sup>
Market Demand (Units) (d)	<u>56,000</u>		<u>42,000</u>		<u>35,000</u>
Allocation of RM –					

# INSIGHT

72,800kgs (e = bxd)	<u>39,200</u>	<u>16,800</u>	Bal <u>16,800</u>
Sales Mix (f)	<u>56,000</u>	<u>42,000</u>	<u>11,200</u>
Total Contribution (g=Ax4)	<u>3,057,600</u>	<u>1,646,200</u>	<u>987,840</u>

### Statement of profit

Total contribution (3,057,600+1,646,200+987,840)	=5,691,640
Less fixed overheads	<u>(350,000)</u>
Net Profit	<u>5,341,640</u>

### Examiner's Report

The question tested candidates understanding of short term decision making. 65% of the candidates attempted the question while 50% of those who attempted the question scored above half of the mark allotted to question. The major pitfall is candidates' inability to correctly treat the fixed cost element in the question

### MARKING GUIDE

SN		Marks	Total
1a.	6 limitations of Cost Accounting (6 Ticks)		6
bi.	Determination linear function:		
	Adjusted Cost (Inflation factor) 4 ticks	2	
	Variable per unit 1 ticks	1	
	Determination of Fixed Cost 2 ticks	1	
	Linear/cost function 1 ticks	1/2	4 1/2
ii.	Maintenance cost forecast:		
	Real term 2 ticks	1	
	Money term 1 tick	1	2
	<b>Total</b>		<b>12 1/2 Marks</b>
2a.	Preparation of Production Budget (7 ticks)		3 1/2
b	Preparation of Direct Material Purchase Budget (15 ticks)		7 1/2
c.	Preparation of Direct Labour Budget (3 ticks)		1 1/2
	<b>Total</b>		<b>Marks 12 1/2 Marks</b>
3a	Heading		



# INSIGHT

---

	Assembling 8 Ticks x $\frac{1}{3}$	$2\frac{2}{3}$	
	Basis of appointment x $\frac{1}{3}$	$2\frac{2}{3}$	
	Blending 8 Ticks x $\frac{1}{3}$	$2\frac{2}{3}$	
	Capturing 8 Ticks x $\frac{1}{3}$	<u><math>2\frac{2}{3}</math></u>	11
	Rate/Machine Hour		1 $\frac{1}{2}$
			Marks
	<b>Total</b>		<b>12<math>\frac{1}{2}</math></b>
			<b>Marks</b>
4a	Determination of Charges per day per patient (21 ticks)		10 $\frac{1}{2}$
b	No. patients per day to breakeven		
	Calculation of variable cost/patient (1 tick)	$\frac{1}{2}$	
	Calculation of contribution/patient (1 tick)	$\frac{1}{2}$	
	Calculation of Breakeven point (1 tick)	1	2
	<b>Total</b>		<b>12<math>\frac{1}{2}</math> Marks</b>
5	Heading		$\frac{1}{2}$
	Main Computation:		
	Profit as per Cost Account		$\frac{1}{2}$
	Items to be added:		
	II ticks at $\frac{1}{2}$ marks per tick	$5\frac{1}{2}$	
	Items to be Deducted:		
	II ticks at $\frac{1}{2}$ mark per tick	$5\frac{1}{2}$	11
	Profit as per Financial Account		$\frac{1}{2}$
	<b>Total</b>		<b>12<math>\frac{1}{2}</math></b>
			<b>Marks</b>
6	Items under Pox: II Ticks at $\frac{1}{3}$ per ticks	$3\frac{2}{3}$	
	Items under Qox: II Ticks at $\frac{1}{3}$ per ticks	$3\frac{2}{3}$	
	Items under Rox: II Ticks at $\frac{1}{3}$ per ticks	$3\frac{2}{3}$	11
	Statement of profit:		
	3 Ticks at $\frac{1}{2}$ mark per tick		$1\frac{1}{2}$
	<b>Total</b>		<b>12<math>\frac{1}{2}</math> Marks</b>

# INSIGHT

---

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA  
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA  
PART III EXAMINATIONS – SEPTEMBER 2018  
PREPARING TAX COMPUTATIONS AND RETURNS**

**Time Allowed: 3 hours**

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

**ATTEMPT ALL QUESTIONS**

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

1. The following are the sources of tax laws EXCEPT
  - A. Opinion of income tax experts
  - B. Court judgments until overruled
  - C. Constitution
  - D. Accepted recommendations of Commissions of Inquiry
  - E. Opinion of a member of House of Assembly of any State
2. Which of the following is NOT an example of an indirect tax?
  - A. Value Added Tax
  - B. Import Duties
  - C. Sales Tax
  - D. Capital Gains Tax
  - E. Excise Duties
3. The effect of a tax on the production or consumption of the product being taxed is
  - A. Tax Impact
  - B. Tax Incidence
  - C. Tax Burden
  - D. Tax Shift
  - E. Tax Effect
4. The composition of the Technical Committee of a State Board of Internal Revenue consists of the following EXCEPT
  - A. Chairman of the State Board of Internal Revenue as Chairman
  - B. The Directors within the State Service
  - C. The Legal Adviser to the State Service
  - D. The Accountant-General of the State
  - E. The Secretary of the State Service

# INSIGHT

---

5. Within how many days can an appeal be made to the Tax Appeal Tribunal against an assessment from the date of service of the Notice of Refusal to Amend?
  - A. 21 days
  - B. 30 days
  - C. 45 days
  - D. 60 days
  - E. 90 days
  
6. The form of assessment that is based on an estimate of the tax paid by the taxpayer in the preceding year of assessment is
  - A. Self-Assessment
  - B. Best of Judgement Assessment
  - C. Provisional Assessment
  - D. Original Assessment
  - E. Additional Assessment
  
7. An outright dishonest action whereby the taxpayer seeks to minimise his tax liabilities through an illegal act is known as tax
  - A. Allowance
  - B. Avoidance
  - C. Deduction
  - D. Evasion
  - E. Chargeable
  
8. A tax deduction card issued by the tax authority to an employer based on the information already given on an employee contains the following, EXCEPT
  - A. Year of assessment
  - B. Name of the employer
  - C. Name of the employee
  - D. Employee's reference number
  - E. State of origin of the employee
  
9. Pre-operation levy applies to a company which is yet to commence business in Nigeria after at least ..... months of incorporation
  - A. 3
  - B. 5
  - C. 6
  - D. 9
  - E. 12

# INSIGHT

---

10. The Personal Income Tax (Amendment) Act, 2011 listed the following as “tax-exempt”, EXCEPT
- A. Gratuities
  - B. Overtime
  - C. Life Assurance Premium
  - D. National Housing Fund Contribution
  - E. National Health Insurance Scheme Contribution
11. Which of the following is NOT covered by the Personal Income Tax in Nigeria?
- A. Taxation of employees
  - B. Taxation of sole traders
  - C. Taxation of small and medium- sized limited liability company
  - D. Partnership assessment
  - E. Taxation of estate, trusts and settlements
12. Under the Personal Income Tax (Amendment) Act 2011, income derived from investment or portfolio is called
- A. Net income
  - B. Earned income
  - C. Gross income
  - D. Free income
  - E. Unearned income
13. The following information relates to James Okpobo for the year ended 31 December 2017

	₦
Salary	2,160,000
Proceeds from lottery	240,000
Profit from the sale of shares	120,000
Employer’s contribution to Pension Fund	125,000

The Gross income of James Okpobo for 2017 Year of Assessment is

- A. ₦2,160,000
- B. ₦2,400,000
- C. ₦2,520,000
- D. ₦2,645,000
- E. ₦2,395,000

# INSIGHT

---

14. Which of the following is NOT chargeable to tax in the hands of a partner in partnership?
- A. Interest on capital
  - B. Leave passages
  - C. Salaries of partners
  - D. Share of profit or loss
  - E. Entertainment expenses on behalf of partnership
15. "Child" in respect to settlements, trusts and estates includes all the following, EXCEPT
- A. Step child
  - B. Adopted child
  - C. Brother
  - D. Own child
  - E. Illegitimate child
16. The two types of loss relief are
- A. Current year loss relief and carry forward loss relief
  - B. Adjusted loss relief and company loss relief
  - C. Terminal loss relief and permanent loss relief
  - D. Current year loss relief and last year loss relief
  - E. Ultimate loss relief and Penultimate loss relief
17. The applicable rate of tax for a business with a revenue of ₦1,000,000 or less per annum as contained in the Companies Income Tax Act, 2004 (as amended) is
- A. 0%
  - B. 10%
  - C. 15%
  - D. 20%
  - E. 30%
18. Which of the following condition is NOT necessary before a donation is allowed for tax purposes under the Companies Income Tax Act, 2004 (as amended)?
- A. It must have been made out of profit
  - B. It must not exceed 10% of the Total Profit before the deduction of the donation
  - C. It must not be capital in nature
  - D. It must have been made to one of the approved bodies
  - E. It must be made to the ruling political party

# INSIGHT

---

19. The basis of assessment for an old established company is
- A. Actual year basis
  - B. Preceding year basis
  - C. Succeeding year basis
  - D. Accrual basis
  - E. Continuity basis
20. Tax Clearance Certificate (TCC) for limited liability companies is a certificate issued by
- A. Federal Inland Revenue Service
  - B. The Presidency
  - C. Ministry of Finance
  - D. State Internal Revenue Service
  - E. Joint Tax Board
21. Tax Acceptance Certificate only applies to a capital expenditure which is over
- A. ₦300,000
  - B. ₦400,000
  - C. ₦500,000
  - D. ₦600,000
  - E. ₦1,000,000
22. The Withholding Tax rate on Director's fees is
- A. 5%
  - B. 10%
  - C. 15%
  - D. 20%
  - E. 30%
23. Failure to deduct Withholding Tax in Nigeria attracts a fine of
- A. 50% of the withheld tax plus interest at prevailing commercial rate
  - B. 100% of the withheld tax plus interest at prevailing commercial rate
  - C. 150% of the withheld tax plus interest at prevailing commercial rate
  - D. 10% of the withheld tax plus interest at prevailing commercial rate
  - E. 300% of the withheld tax plus interest at prevailing commercial rate

# INSIGHT

---

24. If a taxpayer decides to dispose of his personal dwelling house, then the Capital Gains Tax rate applicable on the disposed property is
- A. Nil
  - B. 5%
  - C. 10%
  - D. 15%
  - E. 20%
25. Incidental costs of disposal as provided in Section 14 of Capital Gains Tax, 2004 (as amended) include the following, EXCEPT
- A. Fees, commissions or remuneration paid for professional services
  - B. Cost of transfer or conveyance
  - C. Advertisement cost to find a seller/buyer
  - D. Insurance premium on the asset disposed
  - E. Cost reasonably incurred to make any valuation or apportionment required for the purpose of computing the gains.
26. Capital Gains Tax on an individual property is payable to
- A. Federal Inland Revenue Service
  - B. Joint Tax Board
  - C. State Internal Revenue Service
  - D. Federal Ministry of Finance
  - E. Local Government Revenue Committee
27. The Value Added Tax Act, 2004 (as amended) makes provision for VAT Technical Committee, which comprises the following as members, EXCEPT
- A. Chairman of the Federal Inland Revenue Service Board
  - B. A representative of the Minister of Finance
  - C. All Directors in the Federal Inland Revenue Service
  - D. A Director in the Nigeria Customs Service
  - E. Three representatives of the State Government, who are members of the Joint Tax Board
28. Which of the following service is NOT VAT exempt in Nigeria?
- A. Medical services
  - B. Services rendered by Community Banks and Mortgage Institutions
  - C. Plays and performances conducted by educational learning institutions
  - D. All exported services

# INSIGHT

---

- E. Engineering services
29. Which of the following is NOT example of instruments that attract ad-valorem duties?
- A. Promissory notes
  - B. Policy of life assurance
  - C. Cheque leaves
  - D. Share capital of company
  - E. Bills of exchange
30. Tertiary Education Tax payable by a limited liability company for any year of assessment is 2% of
- A. Assessable Profit
  - B. Gross Profit
  - C. Total Profit
  - D. Taxable Profit
  - E. Chargeable Profit

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

**ATTEMPT ALL QUESTIONS**

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

1. A tax system usually involves a tripartite aspect, namely the policy, the tax laws and .....
2. The type of tax that is levied directly on a taxpayer's income is referred to as .....
3. The Chairman of the Local Government Revenue Committee in Nigeria is .....
4. An old company is expected to file its tax returns, audited financial statements, income tax and capital allowances computation with the relevant tax authority within .....
5. The administration of income tax in each State of the Federation is vested in .....
6. In Nigeria, if a taxpayer disputes an assessment, he may apply to the relevant tax authority by putting up a letter of objection stating precisely .....
7. The basis period for the determination of Assessable Profit for the second year of assessment of a new company is .....



# INSIGHT

---

8. An appeal to the Federal High Court based on the decision of the Tax Appeal Tribunal can be made only on points of.....
9. Unutilised capital allowances of a business that ceased operation can be carried backward for .....
10. An individual (except a member of the armed forces) who works in more than one place in Nigeria is referred to as.....
11. Where a partner retires,.....rule applies to the retiring partner.
12. Income derived from employment or profession or vocation is known as.....
13. Capital gains on the disposal of a landed property through ..... acquisition by government is exempted from Capital Gains Tax.
14. In the determination of profit or loss derived by a foreign company in respect of loading of passengers, mails, livestock or goods into an aircraft or a ship in Nigeria, the Adjusted Profit Ratio is important. State the formular for Adjusted Profit Ratio.
15. In line with the provision of Companies Income Tax Act, 2004 (as amended), every company operating in any Export Processing Zone or Free Trade Zone is exempted from tax on their profits provided that the company is .....
16. The penalty for a VATable business outfit that fails to register for VAT purposes within the stipulated time is .....
17. The process of determining the correct amount of duties to be paid on an instrument by the Commissioner of Stamp Duties is .....
18. Capital Gains Tax will apply only when the asset is.....
19. The Relevant Tax authority that is statutorily empowered to assess and collect Tertiary Education Tax from each company is .....

# INSIGHT

---

20. The time limit for individuals for the remittance of Withholding Tax to the Relevant Tax Authority in Nigeria is ..... days.

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

**QUESTION 1**

- a. Proportional, Progressive and Regressive taxes are ways in which burden of tax is distributed among taxpayers.

**You are required to explain the following:**

i. Progressive Tax (1 Mark)

ii. Proportional Tax (1 Mark)

iii. Regressive Tax (1 Mark)

- b. State FOUR major sources of tax laws in Nigeria. (2 Marks)

- c. Explain briefly the composition and duties of the Joint Tax Board (7½ Marks)

**(Total 12½ Marks)**

**QUESTION 2**

- a. The main significance of “minimum tax provisions” is to ensure the payment of tax by companies regardless of the profit or loss level.

You are required to:

State TWO conditions upon which “minimum tax provisions” are applicable to a company.

(2 Marks)

- b. Books and More Nigeria Limited has traded as distributors of published materials for over ten years. The abridged Statements of

# INSIGHT

Comprehensive Income and Financial Position for the year ended 31 December 2016 are as follows:

## Statement of Comprehensive Income

	₦
Revenue	20,800,000
Cost of Sales	<u>(16,000,000)</u>
Gross Profit	4,800,000
Administrative expenses	<u>(1,600,000)</u>
Net Profit for the year	<u><u>3,200,000</u></u>

The following information is provided:

- i) Administrative expenses include Depreciation ₦200,000
- ii) Capital allowances as agreed with the relevant tax authority 50,000 ₦

## Statement of Financial Position

	₦	₦	₦
Non-current Assets			50,000,000
Preliminary expenses			<u>3,000,000</u>
			53,000,000
Current Assets:			
Inventories		1,680,000	
Cash and Cash equivalents		2,000,000	
Receivables		<u>1,920,000</u>	
		5,600,000	
Current Liabilities:			
Payables	990,000		
Sundry Payables	<u>425,000</u>		
		<u>(1,415,000)</u>	4,185,000
Net Current Assets			<u><u>57,185,000</u></u>
Financed by:			
Share Capital			10,000,000
Revenue Reserves			10,185,000
Long-term Loan			<u>37,000,000</u>
			<u><u>57,185,000</u></u>

**You are required to:**

# INSIGHT

Prepare the tax liabilities of Books and More Nigeria Limited for 2017 Year of Assessment, having regard to the provisions of the minimum tax.

(10½ Marks)

(Total 12½

Marks)

## QUESTION 3

Mr. Olympus Tolu retired as a Director of Finance in the Public Sector in 2015. In order to remain active after retirement, he took up employment with a private company, Wonder Nigeria Limited, with effect from 1 January 2016.

The following details relate to Mr Tolu for the years ended 31 December 2016 and 2017:

	2016	2017
	₦	₦
(i) Salary	2,100,000	2,400,000
Commission	52,500	60,700
Interest on fixed deposit (gross)	240,000	320,000

- (ii) Tolu is married with four wives and twelve children. All the children are attending various public institutions of learning in the State of his residence.
- (iii) Tolu contributes ₦20,000 monthly towards the upkeep of his aged Uncle.
- (iv) He holds a Life Assurance Policy on his life and pays ₦25,000 monthly premium. The capital sum assured is ₦20million.
- (v) His employer provided a car which cost the organisation ₦2million for Tolu's use.
- (vi) Tolu contributes to the National Housing Fund (NHF)

The rate of NHF is 2½% of the consolidated income.

**You are required to:**

Compute the income tax payable by Mr. Tolu for 2017 Year of Assessment.

(Total 12½

Marks)

# INSIGHT

---

## QUESTION 4

- a. List FOUR exempt chargeable gains under the Capital Gains Tax Act, 2004 (as amended)  
(4 Marks)
- b. Chief Agba Togun purchased an acre of land at Lekki, Lagos State, at a cost of ₦25,000,000 in 2005. He sold a portion of the land to his “best friend” for ₦28,000,000 in 2016. Professional estate valuer put the cost of the portion of the land disposed at ₦35,250,000, while the part undisposed was put at ₦7,500,000.

Chief Togun incurred the following additional expenses:

	₦
(i) Estate valuer’s professional fee	250,000
(ii) Cost of advertisement to find buyer	30,000
(iii) Cost of conveyance	180,000
(iv) Insurance premium paid on the land	120,000

**You are required to:**

Calculate the Capital Gains Tax payable by Chief Agba Togun for the Relevant Year of Assessment.

(8½ Marks)

(Total 12½

Marks)

## QUESTION 5

- a. State the procedure for filing and remitting of Withholding Tax in Nigeria. (3 Marks)
- b. List FOUR information items in Withholding Tax returns. (2 Marks)
- c. It is of crucial importance for businesses that are VATable to comply with the requirements of the Value Added Tax Act, 2004 (as amended), since non-compliance may lead to sanctions.

**You are required to:**

Explain FIVE offences and associated penalties that are specifically listed in the principal Act.

(7½ Marks)

(Total 12½

Marks)

# INSIGHT

## QUESTION 6

- a. In relation to Tertiary Education Trust Fund (Establishment) Act, 2011, briefly discuss:
- i. The Assessment and collection of Tertiary Education Tax in Nigeria. (2 Marks)
  - ii. The Rate and payment of Tertiary Education Tax. (2 Marks)
- b. Stand Well Well Limited has been in operation as a manufacturing outfit for many years. The abridged Statement of Comprehensive Income for the year ended 31 December 2015 is as follows:

	₦	₦
Gross profit for the year		22,480,000
Expenses		
Salaries	5,480,000	
Depreciation	2,660,000	
Rent of the premises	350,000	
Advertisement	428,500	
General expenses	750,200	
Donation	250,000	
Bad debts	620,000	
Interest	1,135,000	
Entertainment	550,000	
		<u>(12,223,700)</u>
Net Profit		<u>10,256,300</u>

The following information is also available:

- (i) Bad debts include general provision of ₦130,000
- (ii) Donations made to:

	₦
Political party	140,000
National Library	75,000
Wonder Worship Centre	35,000

- (iii) Capital allowances as agreed with the Relevant Tax Authority for the assessment year amounted to ₦ 1,200,000.

**You are required to:**

# INSIGHT

---

Determine the Tertiary Education Tax payable by the company in the relevant assessment year.  
(8½ Marks)

**Marks)**

**(Total 12½**

# INSIGHT

## NIGERIAN TAX RATES

### 1. CAPITAL ALLOWANCES

	Initial %	Annual %
Building Expenditure	15	10
Industrial Building Expenditure	15	10
Mining Expenditure	95	Nil
Plant Expenditure(excluding Furniture and Fittings)	50	25
Manufacturing Industrial Plant Expenditure	50	Nil
Construction Plant expenditure (excluding Furniture and Fittings)	50	Nil
Public Transportation Motor Vehicle	95	Nil
Ranching and Plantation Expenditure	30	50
Plantation Equipment Expenditure	95	Nil
Research and Development Expenditure	95	Nil
Housing Estate Expenditure	50	25
Motor Vehicle Expenditure	50	25
Agricultural Plant Expenditure	95	Nil
Furniture and Fittings Expenditure	25	20

### 2. INVESTMENT ALLOWANCE

10%

### 3. RATES OF PERSONAL INCOME TAX

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

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

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

### 4. COMPANIES INCOME TAX RATE

30%

### 5. TERTIARY EDUCATION TAX

(2% of Assessable Profit)

### 6. CAPITAL GAINS TAX

10%

### 7. VALUE ADDED TAX

5%



# INSIGHT

---

## SOLUTION TO MULTIPLE CHOICE QUESTIONS

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

### **Examiner's report**

The Multiple Choice Questions (MCQ's) covered the entire syllabus. All the candidates attempted the questions and the general performance was above average.

# INSIGHT

---

## SOLUTIONS TO SHORT ANSWERS QUESTIONS

- 1 Tax Administrator
- 2 Direct tax
- 3 Supervisor for finance
- 4 Six (6) months after the end of the company's accounting year
- 5 State Board of Internal Revenue
- 6 Grounds of objection
- 7 From the date of commencement of business to the next 12 months
- 8 Law
- 9 5 assessment years before year of cessation
- 10 An itinerant worker
- 11 Cessation
- 12 Earned income
- 13 Forced or compulsory
- 14 Adjusted profit Ratio =  $\frac{\text{Adjusted Profit}}{\text{Worldwide Income}} \times \frac{100}{1}$
  
- 15 100% export -oriented
- 16 ₦10,000 for the first month in which the failure occurs and ₦5,000 for each subsequent month
- 17 Adjudication
- 18 Disposed off
- 19 Federal Inland Revenue
- 20 30 days

### Examiner's report

The Short Answer Questions (SAQs) are straightforward. All the candidates attempted the questions. 98 percent of the candidates did very well in the question

# INSIGHT

---

## SOLUTION 1

ai. Progressive tax:

A tax is progressive if the rate increases as the income increases. The burden of tax falls on those with higher income. The rich pays a greater percentage than the poor. The Nigerian current Personal Income Tax table is an example of progressive tax because it is a tax whose objective is redistribution of income and wealth.

ii. Proportional tax

A tax is proportional if the rate of tax is constant irrespective of the amount of the tax base. The current company income tax rate is an example of a proportional tax system.

iii. Regressive tax: This is a tax system whereby percentage tax rate decreases

as the tax base increases. A high - income person pays less tax than low- income person in a regressive tax system.

b. Major sources of tax laws in Nigeria

- Practices of the Revenue Department
- The constitution of the Federal Republic of Nigeria
- Department and official circulars
- Opinion of income tax experts and authors in so far as the courts take judicial notice of them
- Accepted recommendations of commission of inquiry
- Court judgments which decide income tax cases and establish income tax principles which are binding and must be followed in similar cases until over ruled
- The various income tax laws, the state and federal Laws including the federal Government Acts and the State Government Laws.

a. Composition of the Joint Tax Board (JTB)

- (i) Chairman of the Federal Inland Revenue service Board, who is also the Chairman

# INSIGHT

---

- (ii) One member from each state, being a person experienced in income tax matters nominated by the commissioner of Finance of the State
- (iii) Secretary who is not a member but only in attendance for purpose of maintaining records of the Board's proceedings.
- (iv) Legal Officer, who is not a member but attends meetings in advisory capacity

## Duties

- (i) To settle disputes between the states as regards tax matters especially disputes as to residence and remittance
- (ii) To promote uniformity both in the application and incidence of the provisions of tax laws in individuals throughout the country.
- (iii) To advise the government on request in respect of double taxation arrangements, rate of capital allowances and other tax matters.
- (iv) To impose its decisions on matters of procedure and interpretation of the Act on any state for purposes of conforming to agreed procedure or interpretation.

## **Examiner's Report**

This is a three-part question. Part 'a' tested the candidates' knowledge of types of taxes. Part 'b' and 'c' on tax laws and Joint Tax Board respectively. About 97 percent of the candidates attempted the question. The general performance was good.

## **SOLUTION 2**

- a. Conditions upon which "Minimum tax provisions" are applicable to any company are:
  - (i) When a company has no total profits as a result of the capital allowances and losses incurred
  - (ii) The company must have carried on business for not less than four years

# INSIGHT

- (iii) When a minimum tax liability is higher than the tax liabilities arising from the normal tax computations.

**b. BOOKS & MORE NIGERIA LIMITED**  
**Computation of Tax liabilities for 2017 Year of Assessment**

	N
Net Profit b/f	3,200,000
Add Depreciation:	<u>200,000</u>
Adjusted/ Assessable Profit	3,400,000
Less : Capital Allowance	<u>(50,000)</u>
Total / Taxable Profit	<u>3,350,000</u>
Tertiary Education Tax payable (2% of N3,400,000)	<u>68,000</u>
Companies Income Tax payable (30% of N3,350,000)	<u>1,005,000</u>

(i) Minimum tax computation

- 0.5% of Gross Profit of N4,800,000 = N24,000
- 0.5% of Net Assets (N57,185,000 - 37,000,000) = N100,925
- 0.25% of paid up capital of N10,000,000 = N 25,000
- 0.25% of revenue for the ear of N20,800,00 = N52,000

In the case of companies with turnover of more than N500,000 the minimum tax is derived by adding up the highest value of the four computations above (N100,925) plus

$$\begin{aligned}
 & (\text{actual turnover less N500,000}) \times 0.125\% \\
 & = \text{N}20,800,000 - \text{N}500,000) \times 0.125\% \\
 & = \text{N}20,300,000 \times 0.125\% \qquad \qquad \qquad \underline{25,375} \\
 & \qquad \qquad \qquad \qquad \qquad \qquad \qquad \underline{126,300}
 \end{aligned}$$

In view of the above computations, Books & More Nigeria Limited will pay the normal tax assessment of N1,005,000 since it is greater than the minimum tax of N126,300 for the 2017 tax year.

# INSIGHT

---

## Examiner's Report

This is a standard question on Minimum Tax Provisions. About 95 percent of the candidates attempted the question but the general performance was below average. The major pitfall was lack of in-depth knowledge of provisions of minimum tax. Students should study and understand the provisions of all tax laws in the syllabus.

## SOLUTION 3

### MR OLYMPUS TOLU PERSONAL INCOME TAX LIABILITY FOR 2017 YEAR OF ASSESSMENT

	N	N
<b>Earned Income</b>		
Salary		2,400,000
Commission		60,700
Benefits in Kind(5% of N2M)		<u>100,000</u>
		2,560,700
<b>Unearned Income:</b>		
Interest on fixed deposit		<u>240,000</u>
<b>Gross Total income</b>		<b>2,800,700</b>
Less: Consolidated Relief Allowances		
Consolidated Relief Allowance (N200,000 + 20% of 2,800.700)		<u>760,140</u>
		2,040,560
<b>Less: Tax Exempt</b>		
Life Assurance Policy (N25,000 X 12)		300,000
National Housing Fund contribution (2 <sup>1</sup> / <sub>2</sub> % of N2,800,700)		<u>70,018</u>
		<u>370,018</u>
Chargeable Income		<b>1,670,542</b>
Taxable Incomes		Amount(N)
Rates		
First    N300,000    @		21,000

# INSIGHT

7%			
Next 11%	₦300,000	@	33,000
Next 15%	₦500,000	@	75,000
Next 19%	₦500,000	@	95,000
Next 21%	₦ 70,542	@	<u>14,814</u>
			<u>238,814</u>

The Personal income tax payable by Mr. Tolu for 2017 Year of Assessment is ₦238,814

## Examiner's report

This is a computation question on Personal Income Tax. About 95 percent of the candidates attempted the question but the general performance was below average. The major pitfall was wrong basis (preceding year basis) for treating salary and commission as well as wrong calculation of Consolidated Relief Allowance.

## SOLUTION 4

### a. Exempt chargeable gains

#### (i) Gains accruing to:

- An ecclesiastical, charitable or educational institution of a public character.
- Any statutory or registered friendly society
- Any cooperative society registered under the cooperative societies Law of any State
- Any Trade Union registered under the Trade unions Act

#### (ii) Gains accruing to any Local Government Council

# INSIGHT

---

- (iii) Gains accruing to any company, being a purchasing authority established by or under any law in Nigeria, empowered to acquire any commodity in Nigeria for export from Nigeria
- (iv) Gains accruing on disposal of investments held as part of any superannuation fund or other statutory retirement benefits scheme
- (v) Gains accruing on disposal ;by any person of a decoration awarded for valour or gallant conduct, which he acquires otherwise than for consideration in money's worth.
- (vi) Gains accruing from a disposal of Nigerian Government Securities
- (vii) Gains accruing on disposal of land compulsorily acquired by an authority having and exercising such powers.
- (viii) Gains accruing in connection with the disposal of an interest in or the right under any policy of assurance of contract for a deferred annuity on the life of a person
- (ix) Compensation or damages for any wrong or injury suffered by an individual to his person or in his profession or vocation.
- (x) Gains accruing on disposal of a dwelling house
- (xi) Gains accruing on disposal of tangible and movable assets if the total value of the consideration does not exceed N1,000 in a year of assessment.
- (xii) A motor vehicle for carriage of passengers is an exempt asset unless it is of a type not commonly used as private vehicle and is unsuitable to be so used
- (xiii) Assets acquired by way of gift and disposed of in a similar manner
- (xiv) Capital gains accruing to a diplomatic body



# INSIGHT

- (xv) Gains arising from takeover, absorption or merger provided that no cash payment is made in respect of the shares disposed of / acquired
- (xvi) Gains arising in respect of disposals of securities on a unit Trust provided the proceeds are re-invested
- (xvii) Stocks and shares of every description with effect from 1998.

<b>b. Chief Agba Togun</b>			
<b>Computation of Capital Gains tax for 2016 Year of Assessment</b>			
		N	N
	Sales Proceed (Wk1)		35,250,000
	<b>Less: Cost of acquisition (W1)</b>		<u>20,614,035</u>
			14,635,965
	Less: Other incidental expenses		
	Estate Valuer's fee	250,000	
	Advertisement cost	30,000	
	Cost of conveyance	<u>180,000</u>	<u>460,000)</u>
	Capital Gains		14,175,965
	Capital Gains @ 10%		<u>1,417,596.50</u>
	<b>WORKING Note</b>		
	<b>i. Cost of acquisition</b>		
(Wk2)	Cost of part- disposed		
	<u>    A    </u> X C		
	A + B		
	Where:		
	A = Sales proceed of land sold =	N35,250,000	
	B = Market value of unsold land=	N7,500,000	
	C = Cost of the whole land =	N25,000,000	
	Cost of part disposed	= 35,250,000	x
25,000,000			35,250,000 + 7,500,000
		= 35,250,000	x 25,000
			42,750,000
		= <u>N20,614,035</u>	

# INSIGHT

---

## Note

Insurance premiums on the asset are not allowable (section 16). Disposal made to his best friend is a connected transaction, hence the use of the market value (₦35,250,000)

## Examiner's Report

This is a simple question on Capital Gains Tax. About 96 percent of the candidates attempted the question. The general performance was below average. The major pitfall was in wrong computation of partial Disposal of Asset. Students should pay more attention to the principles in the syllabus.

## SOLUTION 5

### a. Procedure for filing and remittance of withholding tax in Nigeria

#### (i) Filing of Withholding Tax

Returns for taxes withheld must be filed with the relevant tax authorities at least by the end of the month following the month of deduction. The evidence of remittance must be attached to the return when filed.

#### (ii) Remittance of Withholding Tax

Withholding tax deducted must be remitted through the designated banks as described below:

1. In case of corporate entities, the withholding tax must be remitted within 21 days after the duty to deduct arose, and
2. In case of unincorporated and individuals, the withholding tax must be remitted within 30 days.

### b. Information items in withholding tax returns

- (i) Name and address of the agent of the government (tax payer)

# INSIGHT

- (ii) Name and address of the relevant tax authority to which remittance is being made
- (iii) Names and addresses of the beneficiaries from whom withholding tax has been deducted
- (iv) Nature of the transaction of each beneficiary
- (v) Gross amount of the transactions
- (vi) The applicable rate of withholding tax
- (vii) The amount of withholding tax deducted

c. Offences and Penalties in Nigeria (VAT)

	Offences	Penalties
i.	Failure to register within the stipulated time	₦10,000 for the first month in which the failure occurs and ₦5000 for each subsequent month
ii.	Non-remittance of tax	A sum equal to 5% per annum plus interest at a commercial rate of the tax remittable
iii.	Rendering false returns	Conviction or a fine twice the amount under declared
iv.	Evasion of tax	Fine of ₦30,000 or twice the amount of tax being evaded whichever is greater, or to imprisonment for a term not exceeding 3 years
v.	Failure to make attribution	Penalty of ₦5,000
vi.	Failure to notify change of address	Penalty of ₦5,000
vii.	Failure to issue tax invoice	Fine of 5% of the cost of the goods and services
viii.	Issue of tax invoice by authorised person	Fine of ₦10,000 or imprisonment for a term of 6 months
ix.	Failure to keep proper records	Penalty of ₦2,000 for every month in which

# INSIGHT

		the failure continues
xi.	Failure to collect tax	Penalty of 150% of the amount not collected plus 5% interest above the rediscount rate
xii.	Failure to submit returns	Fine of ₦5,000 per month in which the failure continues
xiii.	Aiding and abetting	Fine of ₦50,000 or imprisonment for a term of 5 years

## Examiner's report

This is a straight-forward question testing candidates' understanding of Withholding tax and Value Added Tax. About 45 percent of the candidates attempted the question. More than 40 percent of those who attempted the question did not have in-depth knowledge of offences and penalties listed in the Value Added Tax Act, 2004(as amended).

## SOLUTION 6

### Assessment and collection of Tertiary Education Tax

- a. The Federal Inland Revenue Service (FIRS) assesses and collects for each company, tertiary education tax imposed for companies' income tax or petroleum profit tax for an accounting period of the company.

When assessing a company for companies income tax or petroleum profit tax for an accounting period of the company, the FIRS shall also proceed to assess the company for the education tax due.

The provision of the Act relating to the collection of companies income tax or petroleum profit tax shall subject to this Act, apply to the education tax due under the Act.

### ii. Rate and payment of the Education tax

The rate of education tax is 2% of the assessable profit of a company registered in Nigeria

The tertiary education tax imposed is due and payable within 60 days after the FIRS has served notice of the assessment on a company.

# INSIGHT

---

b.

<b>Stand Well Well Limited</b>		
<b>Computation of Tertiary Education Tax (TET) for 2016 Year of Assessment</b>		
	N	N
Net profit as per account		10,256,300
Add back: Disallowable items:		
Depreciation	2,660,000	
<b>Donation:</b>		
Political Party	140,000	
Wonder worship centre	35,000	
Bad debts (general provision)	<u>130,000</u>	
		<u>2,965,000</u>
Adjusted/ Assessable profit		<u>13,221,300</u>
Tertiary Education Tax @ 2% of		
N13,221,300		<u>264,426</u>

## Examiner's Report

This is a standard question on Tertiary Education Tax. About 96 percent of candidates attempted the question. The general performance was above average.



# INSIGHT

---

(a)	Procedure for filing	1 <sup>1</sup> / <sub>2</sub>
Mark		
	Procedure for remitting	1 <sup>1</sup> / <sub>2</sub>
Mark		
(b)	Any 4 points at 1/2 Marks each	2 marks
(c)	Any five offences and penalties mentioned @ 1 <sup>1</sup> / <sub>2</sub> Marks	<u>7<sup>1</sup>/<sub>2</sub></u>
<u>Marks</u>		<u>12<sup>1</sup>/<sub>2</sub> Marks</u>

## Question 6

a(i).	Any 2 points @ 1 mark each	=	2 marks
(ii)	1 mark for correct rate	=	1 mark
	1 Mark for correct answer	=	1 mark
b.	heading		1/2 mark
	6 ticks @ 1 mark each	=	6 marks
	Correct computation of total Education tax	=	<u>2 marks</u>
	Total	=	<u>12<sup>1</sup>/<sub>2</sub> Marks</u>

# INSIGHT

---

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA  
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA  
PART III EXAMINATIONS – SEPTEMBER 2018**

**MANAGEMENT**

**Time Allowed: 3 hours**

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

**ATTEMPT ALL QUESTIONS**

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

1. Growth can place constraints on cashflow through the following **EXCEPT**
  - A. Firm investment in more stocks
  - B. Firm expansion into new locations
  - C. Quantitative and qualitative analysis of situations
  - D. Firm investment in new equipment
  - E. Employment of additional staff
  
2. Which of the following is **NOT** an argument against social responsibility?
  - A. It reduces economic efficiency
  - B. It creates excessive cost for business
  - C. Business people lack the social skill to deal with the problems of society
  - D. It creates a weakened international balance of payment
  - E. It set firms up against governments
  
3. Partnership can be dissolved for any of the following reasons **EXCEPT**
  - A. Court order
  - B. Technical insolvency
  - C. Mutual agreement
  - D. Marriage between partners
  - E. Death of a Partner



# INSIGHT

---

4. The standard of behaviour guiding individual managers in the discharge of their assignments viz a-viz their relationship with one another is referred to as
  - A. Organisational ethics
  - B. Ethics of the workplace
  - C. Managerial ethics
  - D. Managerial efficiency
  - E. Managerial effectiveness
  
5. The two basic principles of corporate social responsibility are
  - A. Charity and stewardship
  - B. Charity and day care
  - C. Service delivery and statesmanship
  - D. Statesmanship and stewardship
  - E. Charity and statesmanship
  
6. The concept which refers to the way an office is arranged to facilitate the flow of work is
  - A. Office apartment
  - B. Office compartment
  - C. Office layout
  - D. Accommodation
  - E. Domicile
  
7. Which of the following factor is NOT taken into consideration in planning the layout of an office?
  - A. Churn rate
  - B. Statutory requirements
  - C. Space availability
  - D. Business needs
  - E. Societal influence
  
6. Which of the following is **NOT** a reason for using office machines and furniture?
  - A. To save space
  - B. To simplify employee works
  - C. To improve work quality
  - D. To attract new business
  - E. To aid the performance of routine functions

# INSIGHT

---

7. Which of the following is **NOT** a type of budgeting in management?
- A. Time budgeting
  - B. Space budgeting
  - C. Purpose budgeting
  - D. Revenue budgeting
  - E. Expense budgeting
8. Which of the following is a process in strategic management?
- A. Managing change
  - B. Organisational change
  - C. Monitoring development
  - D. Developing statement of purposes
  - E. Material management
9. Which of the following types of strategy is crafted by General Managers of each of the organisation's lines of business?
- A. Divisional strategy
  - B. Functional strategy
  - C. Operating strategy
  - D. Corporate strategy
  - E. Business strategy
10. Which of the following is **NOT** an activity under human resource acquisition?
- A. Human resource planning
  - B. Job Analysis
  - C. Recruitment
  - D. Compensation
  - E. Orientation
11. The following are external sources of recruitment **EXCEPT**
- A. Educational institutions
  - B. Websites of organisations
  - C. Employment agencies
  - D. Transfer from one location to another
  - E. Professional associations

# INSIGHT

---

12. Which of the following is **NOT** a step in the human resource planning process?
- A. Development of a plan
  - B. Analyse existing human resources
  - C. Calculate human resource needs for the period
  - D. Development of strategic plan
  - E. Estimate human resource needs
13. All activities directly related to the sale of goods and services to the ultimate consumers is known as
- A. Marketing activities
  - B. Distribution
  - C. Retailing
  - D. Consumer loyalty
  - E. Channels
14. A marketing arrangement where producers enter into special arrangements with specific middlemen to sell directly to them is called
- A. Direct distribution
  - B. Direct sales
  - C. Selective distribution
  - D. Intensive distribution
  - E. Exclusive distribution
15. Credible sources of data in conducting research include the following **EXCEPT**
- A. Libraries
  - B. Structured questionnaire
  - C. Private research institutes
  - D. Public research institutes
  - E. Trade associations
16. The technical relationship between inputs and a desired level of output is called
- A. Production
  - B. Productivity
  - C. Conversion
  - D. Production process
  - E. Product

# INSIGHT

---

17. The transformation of factor-inputs into desired output is known as
- A. Industrialisation
  - B. Conversion
  - C. Process
  - D. Input-output
  - E. Productivity
18. Which of the following is **NOT** a management theory?
- A. Theory of Bureaucracy
  - B. Scientific Management Theory
  - C. Fayol's Administrative Management Theory
  - D. Management Evolution Theory
  - E. System Theory
19. The process of planning, organising, directing and controlling the resources of an organisation in order to achieve its goals efficiently is called
- A. Management Policies
  - B. Management Entrepreneurship
  - C. Management Accounting
  - D. Management
  - E. Office Management
20. Which of the following is **NOT** a resource in an organisation?
- A. Human
  - B. Financial
  - C. Physical
  - D. Information
  - E. Promotion
21. Using resources wisely and in a cost effective manner is called
- A. Process
  - B. Effectiveness
  - C. Purpose
  - D. Goals
  - E. Efficiency

# INSIGHT

---

22. For formal organisation to function properly, ..... must be defined for all organisational members
- A. Authority and responsibility
  - B. Authority
  - C. Responsibility
  - D. Management By Objective
  - E. Hierarchy
23. The function of management that seeks to establish a logical pattern of relationships among the members of an enterprise to achieve efficiency in the utilisation of resources is called
- A. Controlling
  - B. Organising
  - C. Forecasting
  - D. Coordinating
  - E. Directing
24. Plans that define company responses to specific situations, such as emergencies, setbacks, or unexpected conditions is called
- A. Standing plans
  - B. Tactical plans
  - C. Contingency plans
  - D. Scenario building
  - E. Policy
25. The two major dimensions of Managerial Grid are
- A. Concern for product and concern for prediction
  - B. Concern for place and concern for price
  - C. Concern for process and concern for product
  - D. Concern for people and concern for production
  - E. Concern for principles and concern for policy
26. Intrinsic factors of two-factor theory relates with the following **EXCEPT**
- A. Working conditions
  - B. Advancement
  - C. Recognition
  - D. Responsibility

# INSIGHT

---

- E. Achievement
27. A stage in group formation and development which is characterised by conflict, dissent and hostility towards leaders and task at hand is known as
- A. Norming
  - B. Forming
  - C. Storming
  - D. Performing
  - E. Closing
28. Financial reward which is based on time units is
- A. Fringe benefits
  - B. Wages
  - C. Commission
  - D. Bonus
  - E. Salaries

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

**ATTEMPT ALL QUESTIONS**

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

1. Not-for-profit organisations that are not established by government are \_\_\_\_\_ known \_\_\_\_\_ as \_\_\_\_\_  
.....
2. A business is an organised effort or activity of persons utilising resources within an organisational context to produce and ..... goods and services for the purpose of profit making.
3. The need for fairness, transparency, honesty, integrity, sound judgement and accountability by organisations necessitates the adoption of .....practices.
4. The process of worldwide economic integration and communication, which embraces interdependence,

# INSIGHT

---

- interconnectedness through the flow of goods is called .....
5. Information that is written or preserved for future references is referred to as .....
  6. The decision making that involves the use of estimates and hunches to choose among alternative courses of action is .....  
decision making
  7. The process of evaluating employees' current and potential levels of performance to allow managers make objective resource decisions is referred to as.....
  8. The methods of compensating employees on the basis of output is called.....
  9. The process of sub-dividing consumers into smaller homogeneous units is referred to as .....
  10. The motivational force that drives an individual to make purchase decision is called .....
  11. Decisions that are made in response to a unique situation that is unstructured and poorly defined can be referred to as .....decision
  12. Inventory control is a mechanism by which an organisation monitors stocks of raw materials, work- in-progress and .....
  13. A school of management thought which emphasises the importance of social processes at work is .....
  14. A management approach which focuses on the total work of the organisation and the interrelationships of structure and behaviour within the organisation is called .....
  15. The assignment of authority, duties and operating responsibility to another person for carrying out specific activities is called .....
  16. The process of integrating the objectives and activities of the separate units of an organisation in order to achieve the predetermined goals effectively and efficiently is referred to as .....
  17. The snapshot of the health of an organisation which helps in understanding the financial position at a specific time, usually at

# INSIGHT

---

the end of an accounting period is  
.....

18. The officer directly responsible for cash management in an organisation is.....  
.
19. The physical and psychological attributes that influence the behaviour of a person is.....
20. A group that is formed to perform tasks that are recurrent in nature is called  
.....

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

**QUESTION 1**

- c. State **TWO** key indicators of the size of a business enterprise. (2 Marks)
- d. State **SEVEN** basic actions that a business manager should take to adequately control a growing business concern. (10<sup>1/2</sup> Marks)
- (Total 12<sup>1/2</sup> Marks)**

**QUESTION 2**

Outline and explain the related roles of managers as developed by Mintzberg.

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

**QUESTION 3**

Explain the differences between the following pairs of concepts:

- a. Programmed and non-programmed decisions
- b. Proactive and reactive decisions



# INSIGHT

---

- c. Intuitive and systematic decision making

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

## QUESTION 4

With the aid of a well labelled diagram, describe the steps involved in human resources planning process.

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

## QUESTION 5

- a. Enumerate **TWO** ways by which a team's performance can be evaluated.

(2  
Marks)

- b. List **FIVE** advantages and **TWO** disadvantages of team-based pay.

(10 <sup>1</sup>/<sub>2</sub>  
Marks)

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

## QUESTION 6

- a. Identify **FIVE** factors to be considered in planning the layout of an office.

(5 Marks)

- b. Describe the **THREE** classifications of office records. (7 <sup>1</sup>/<sub>2</sub>  
Marks)

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

## SOLUTION TO MCQ

1. C
2. E
3. D
4. C

# INSIGHT

---

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

## **Examiner's Report**

The questions were well distributed across the subject syllabus. This section was attempted by all candidates being compulsory and 60% of the candidates passed.

## **SOLUTION TO SAQ**

1. Non-governmental Organisation (NGO)
2. Distribute
3. Corporate Governance
4. Globalisation
5. Record

# INSIGHT

---

6. Intuitive
7. Performance Appraisal
8. Piece Rate
9. Market Segmentation
10. Psychological Factors
11. Non-programmed/unprogrammed
12. Finished product/finished good
13. Human Relations Approach
14. System Approach
15. Delegation/Delegating
16. Coordination/coordinating
17. Balance Sheet (Statement of Financial Position)
18. Treasurer/Treasury accountant/Treasury Manager/Treasury Officer
19. Trait
20. Permanent formal group

## Examiner's Report

All the questions were within the scope of the syllabus. Also compulsory and attempted by all candidates. The pass rate was about 52%.

## SECTION B

### Solution 1

- 1a. Two key indicators of the size of a business enterprise
  - i. Value of assets/Total Assets
  - ii. Number of assets
  - iii. Sales turnover
  - iv. Capital Investment
- b. To control a business as it grows, a firm may need to:
  - i. Engage in more elaborate planning

# INSIGHT

---

- ii. Set budgets
- iii. Develop a formal organizational structure
- iv. Use performance appraisal systems
- v. Improve internal communication systems
- vi. Produce Job descriptions
- vii. Decentralize operations and delegate authority
- viii. Install more sophisticated control systems
- ix. Ensure that the cost of control is effectively managed

## **Examiner's Report**

The question was a direct question drawn from the study pack. About 92% of the candidates attempted the question and about 55% passed.

## **Solution 2**

Mintzberg outlined the following roles

### **Interpersonal Roles**

- a. Figure head: In this role, every manager has to perform some ceremonial duties such as attending important ceremonies, entertaining dignitaries and attending to important customers.
- b. Leader: As a leader, his role is to hire, train, motivate and direct the activities of his subordinates towards the accomplishment of organisational goals.
- c. Liaison: This role involves activities by which an executive develops and maintains contact with people and groups outside the organization for the purpose of coordinating efforts to achieve a common goal.

### **Informational Roles**

- a. Monitor: The manager seeks for information and receives unsolicited information relevant to the organization from both internal and external sources.
- b. Disseminator: The role entails the transmission of relevant information to superiors, peers or subordinates who need the information for their work.
- c. Spokesperson: In this role, the manager transmits information to various people and groups outside the organization.

# INSIGHT

---

## Decisional Roles

- a. **Entrepreneur Roles:** This involves the manager generating new ideas, initiating new project/programmes as well as seeking and identifying opportunities to promote improvement and needed change.
- b. **Disturbance handler:** This role requires the manager to take actions needed to solve important, unexpected disturbances.
- c. **Resource Allocator:** This role deals with allocation of scarce resources to the different units of the organization.
- d. **Negotiator:** It requires that the manager negotiates with various stakeholders, both inside and outside.

## Examiner's Report

The question was drawn from the study pack. About 90% of the candidates attempted the question and over 80% passed.

## Solution 3

- a. **Programmed Decisions:** Programmed decisions are those decisions made in routine, repetitive and well structured situations through the use of pre-determined decision rules. The decision rule may be based on habit, computational techniques or established policies and procedures. Decisions are programmed to the extent that they are repetitive and routine.

**Non-programmed Decisions:** Decisions are non-programmed when the problem is unstructured. There are no previously established routines or procedures that can be used as guides. Situations that require non-programmed decisions are poorly defined and unstructured.

- b. **Proactive Decisions:** A decision made in anticipation of a change in the external environment or other conditions. Managers who utilize a systematic, proactive approach anticipate problems and seek to prevent them from occurring or minimizing their impact on operations.

**Reactive Decisions:** A reactive decisions is one made in response to external changes that have already taken place. When a manager initiates action to correct product defects because of persistent

# INSIGHT

customer complaints, he or she is adopting a reactive approach to making decisions.

- c. **Intuitive Decisions:** Intuitive decision making involves the use of estimates, guesses, or hunches to choose among alternative courses of action. Most managers will admit that many of their decisions are influenced to a great extent by their intuitions. Decisions based purely on intuitions can be ineffective and even counterproductive.

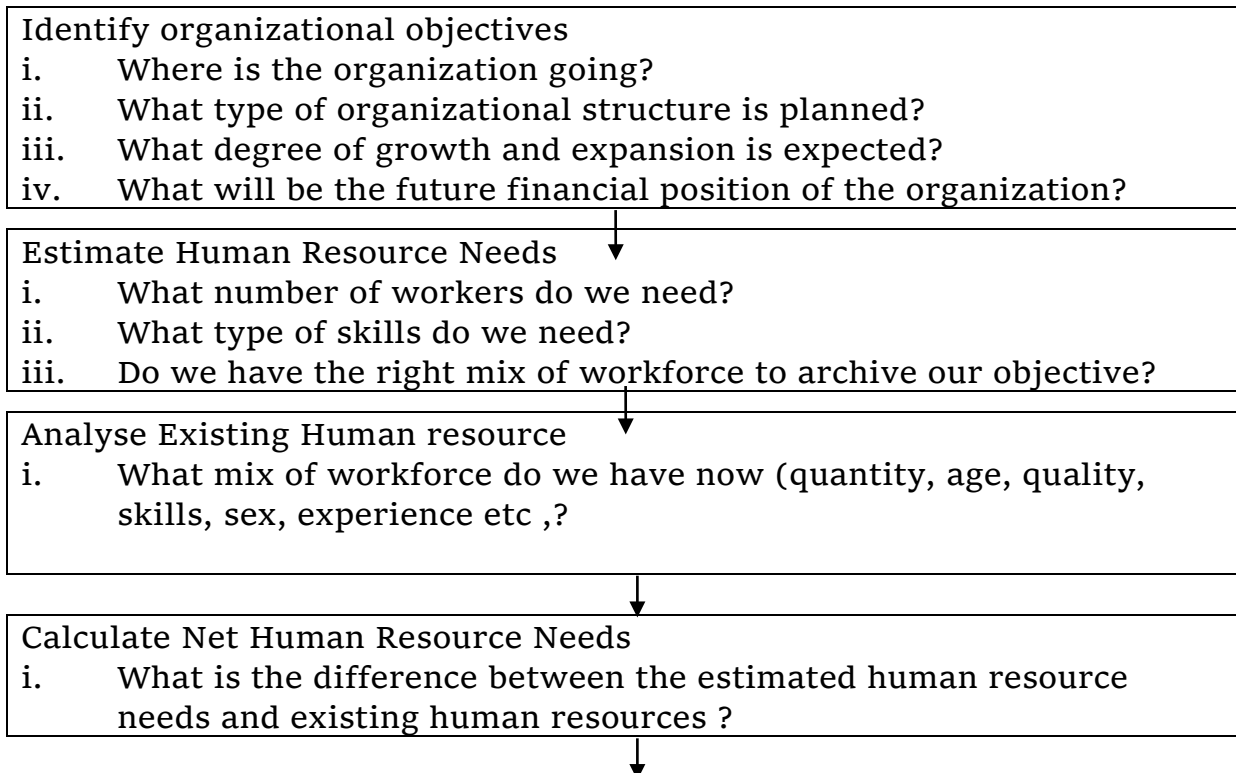
**Systematic Decision Making:** Systematic decision making is an organised, exacting, data-driven process for choosing among alternatives. Systematic decision making requires developing a clear set of objectives, a relevant information based, a team-based, consensus seeking, sharing of ideas and creativity, as well as exacting implementation and assessment.

## Examiner's Report

About 90% of the candidates attempted the question which was drawn from the study pack and presented in a straightforward way. About 80% of the candidates that attempted the question passed.

## Solution 4

Steps involved in the Human resources planning process is shown in the table below:



# INSIGHT

---

---

Develop a plan

- i. How do we meet our human resource needs?
- ii. What sources do we have to use?
- iii. How do we prepare to meet the skills required?

Steps in the Human Resource planning process.

## **Examiner's Report**

The question was attempted by about 65% of the candidates and over 50% of candidates who attempted the question passed. It will be helpful if candidates can make a better use of the study pack in their preparation for the future examination.

## **Solution 5**

- a. Ways to evaluate teams' performance.
  - i. Manager Evaluation: This involves the rating of team performance by a manager or someone of sufficient seniority in the organization
  - ii. 360-Degree feedback: This method relies on group of people within the organization to perform the evaluation. This group may include co-worker, supervisors and colleagues.
  - iii. Objective performance: This involves evaluating team performance on the basis of measurable goals set, typically at the beginning of the evaluation period.
  - iv. Self Evaluation: This is a method where each member of the team is asked to evaluate the performance of other members and the team as a whole.
- b. Advantages of Team - based pay
  - i. It encourages teamwork
  - ii. Aids in the clarification of team goal and priority
  - iii. It encourages acquisition of several skills by individual members of the group.
  - iv. Provides incentive for improvement of collective performance
  - v. It encourages less effective members to contribute more towards improved team performance.

Disadvantages of Team - based pay

  - i. It only works in mature and cohesive teams

# INSIGHT

---

- ii. Risk of resistance by members who feel that their individual contribution to overall team performance is not being adequately rewarded.

## **Examiner's Report**

About 25% of the candidates attempted the question and the pass rate was about 30% of the candidates who attempted the question. It is obvious that candidates were not familiar with the area of the syllabus. It will be helpful if candidates can avail themselves with the study pack.

## **Solution 6**

- a. Factors to be considered in planning the layout of an office
  - i. Churn Rate: The process of change in office layout is known as churn rate and this is expressed as the percentage of staff moved during the year
  - ii. Statutory Requirement: Legal requirements as contained in relevant legislation also affect the planning of the office layout.
  - iii. Business needs: Office layout should provide an environment suitable for the business of the organization.
  - iv. Accommodation standards: Organisations often have a policy on the minimum standard of accommodation for each staff grade.
  - v. Space Availability: Planning an office layout will also depend on the quality and the types of office space available for use.
  - vi. Availability of good lightening and cross ventilation.
- b. Classifications of Office Records
  - i. Vital records: These include records showing proof of ownership e.g certificate of incorporation.
  - ii. Important records: These are documents needed for the operation of the firm e.g financial statements.
  - iii. Useful records: These are documents required for the day to day running of the business e.g memos.
  - iv. Not useful records: These documents include notices for meetings, requests, etc.



# INSIGHT

## Examiner's Report

The question was well attempted as over 96% of the candidates attempted the question and about 70% of these candidates passed the question. The study pack addressed the area robustly and adequately.

## MARKING GUIDE

SN		Marks	Total
1. a.	Listing the 2 indications 1 mark each	2	2Marks
b.	Listing the 7 factors 1½ marks each	10½	10½ Marks
	<b>Total</b>		<b>12½ Marks</b>
2a.	Two major roles 1 mark each	2	
i.	The third major role ½ mark	½	2½
b.	Listing the roles ½ mark each for mentioning any 10 roles 1 mark each for explanation of the 10 roles	5 5	10 Marks
	<b>Total</b>		<b>12½ Marks</b>
3a i.	Explanation of programmed decisions	2 ¼	
ii.	Explanation of non-programmed decisions	2 ¼	4 ½
b.i	Explanation of proactive decisions Explanation of Reactive decisions	2 2	4
c. i	Explanation of Intuitive decision	2	
ii.	Explanation of systematic decision making	2	4
	<b>Total</b>		<b>12½ Marks</b>
4a	Identification of the 5 steps attracts ½ marks each Explanation of the 5 steps attracts 1½ mark each Presentation of a clear diagram	2½ 7½ 2½	2½ Marks 7½ 2½
	<b>Total</b>		<b>12½ Marks</b>
5a	1 mark each for listing and explaining of 2 ways to evaluate team performance	2	2 Marks
b.	1½ marks for identifying five (5) advantages of team-based pay 1½ marks each for identifying two (2) disadvantages of team-based pay.	7½ 3	10½

# INSIGHT

---

	<b>Total</b>		<b>12½ Marks</b>
6a	1 mark each for the identification of five (5) factors to be considered in planning the layout of an office	5	5
b.	2½ marks for each of the three (3) classifications of office records	7½	7½
	<b>Total</b>		<b>12½ Marks</b>