

EXAMINERS GENERAL COMMENTS

BREACH OF EXAMINATION INSTRUCTIONS

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

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

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

INADEQUATE COVERAGE OF THE SYLLABUS

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

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FOREWORD

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

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

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

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



NOTE

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

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AT/162/PIII.9 ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA

**ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
PART III EXAMINATIONS – SEPTEMBER 2016
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. In which of the following instances is it permissible for an auditor to disclose the client's affairs to third parties?
 - A. If it is known to the Auditor that the client has committed an offence of treason
 - B. If the client has committed an offence that is contrary to public interest
 - C. If the disclosure is compelled by law
 - D. If the disclosure will attract extra remunerations to him
 - E. If statutory authority exists to back the disclosure

2. Which of the following is **NOT** a responsibility of the Auditor?
 - A. To undertake circularisation of receivables
 - B. To provide an opinion on the truth and fairness of the financial statements
 - 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

3. Which of the following statements is correct?
 - A. Internal auditors should report directly to the shareholders of the company
 - B. Internal auditors should carry-out control testing throughout the year
 - C. Companies are statutorily required to establish and maintain an internal audit function
 - D. An auditor is statutorily required to accept his removal by company's directors in good faith

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- E. An auditor may be removed from office by a minority number of the company's shareholders

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4. For which **TWO** of the following situations should an auditor make voluntary disclosure?
- If an auditor knows or suspects his client is engaged in money laundering
 - Where it is in public interest to disclose
 - If an auditor suspects his client is funding terrorist organisations
 - Where the disclosure is compelled by law
- A. i & ii
B. ii & iv
C. i & iii
D. i & iv
E. iii & iv
5. Which of the following statements relating to Internal and Statutory Auditors is/are true?
- Internal Auditors are required to be members of a professional body
 - Internal Auditors' scope of work are determined by audit committee
 - Statutory Auditors report to those charged with governance
 - Internal Auditors can never be independent of the company
- A. i only
B. i & ii
C. i & iii
D. i, ii & iii
E. i & iv
6. Which of the statements below is a key qualitative characteristic of audit evidence?
- A. Truthfulness and comprehensiveness
B. Timeliness and persuasiveness
C. Appropriateness and persuasiveness
D. Sufficiency and appropriateness
E. Sufficiency and timeliness
7. Which of the following is **NOT** a classification of CAATs?
- A. Inputting the items at the same time
B. Data analysis
C. Os and DBMs security monitoring software/utilities

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- D. Network security monitoring software/utilities
- E. Software and code testing tools

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8. Which of the following is **NOT** a threat to computer file security, reliability and loss?
- A. Losses due to the poor IT project management
 - B. Restricted access to computer
 - C. Excessive heat or cold
 - D. Errors caused by overwriting
 - E. Natural and man-made disasters
9. If the auditor discovers any weakness in the Internal Control System (ICS) of a company, he is required to communicate the conditions to the
- A. Managing Director
 - B. Senior Management and the Board of Directors
 - C. Executive Director
 - D. Audit Committee
 - E. Board of Directors
10. A sampling method in which values of a particular magnitude are selected is referred to as
- A. Random sampling
 - B. Multi-stage sampling
 - C. Haphazard sampling
 - D. Discovery sampling
 - E. Stratified sampling
11. While reviewing the assets of a client, which of the following may the auditor **NOT** consider?
- A. The valuation date and age of the assets
 - B. The alternative usage of the assets
 - C. The remaining economic life of the assets
 - D. The basis of valuation of the assets
 - E. The purpose of the assets
12. The auditor may use the computer to assist him in carrying out the audit of a client in all these situations **EXCEPT** in
- A. Preparation of audit programmes
 - B. Flow charting the clients system
 - C. Evaluation of audit risk
 - D. Accuracy of audit work/assignment
 - E. Analytical procedures
13. The going concern of a business organisation may **NOT** be impaired by which of the following factors?
- A. Political unrest
 - B. Fraudulent practices of management

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- C. Insider dealing
 - D. Management incompetence
 - E. Downward review of employees salaries and emoluments
14. The operations of the office of the Auditor-General for the Federation are regulated by the following **EXCEPT**
- A. Nigeria Civil Service Rules
 - B. Financial regulations
 - C. Federal Financial Memoranda
 - D. The Constitution of your Country
 - E. Acts of the National Assembly/Parliament
15. In the preparation of the financial statements of publicly quoted companies, which of these external influences will least affect the directors?
- A. Users of the financial statements
 - B. Accounting requirements
 - C. Regulatory requirements
 - D. Legislation
 - E. Political environment
16. The **TWO** types of material misstatements of financial statements are
- A. Specific and qualitative
 - B. Quantitative and qualitative
 - C. Specific and quantitative
 - D. Specific and regulated
 - E. Qualitative and regulated
17. Which of the following is **NOT** an objective of internal audit?
- A. Checking compliance with laid down policies and procedures
 - B. Reviewing the company's policies in the light of changing improvements
 - C. Training staff of statutory auditors on technical areas of the company's activities
 - D. Detection and prevention of errors and fraud
 - E. Carrying out special investigations at management's request
18. Areas of cooperation between Internal and Statutory Auditors include the following **EXCEPT**
- A. Advising management on the installation and operation of an internal audit department
 - B. Assisting the Internal Auditor in investigating fraud

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- C. Deploying the substantial knowledge he has of the operations of the company to assist the statutory auditor in his audit work
 - D. Relying on the internal auditor to a large extent on the continuous review and operation of the internal check system of the company
 - E. Accepting work done by the internal auditor in respect of such matters as verification of assets
19. The following are the positions of the Company legislation (CAMA/Company code) on dividends **EXCEPT**
- A. It is the duty of Directors to declare dividends which may be approved at the Annual General Meeting of the company
 - B. The Audit Committee of the company has to approve the date of payments of dividends
 - C. The Annual General Meeting can reduce but cannot increase the amount of dividend recommended by Directors
 - D. Dividends are payable only out of the distributable profits of the company
 - E. Dividends shall not be paid out of the capital of the companies
20. The following persons are disqualified from appointment as auditors of a company **EXCEPT**
- A. A body corporate
 - B. A member of an approved body of accountants
 - C. A person who is a partner of or in the employment of a servant or officers of the company
 - D. An officer or servant of the company
 - E. A person or firm who offers professional advice in a consultancy capacity to the company
21. The document authorising an officer to incur expenditure in a public sector organisation is called a (an)
- A. Vote
 - B. Warrant
 - C. Budget
 - D. Virement
 - E. Imprest
22. The examination of the documentary evidence in support of the transaction of an organisation is referred to as

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- A. Vouching
 - B. Observation
 - C. Physical inspection
 - D. Walk through review
 - E. Verification
23. Which of the following does **NOT** represent an inherent limitation of Internal Control Systems (ICS)?
- A. Fatigue
 - B. Poor working conditions
 - C. Accountability
 - D. Abuse of responsibility
 - E. Fraud
24. Which of the following is **NOT** an example of contingent liabilities?
- A. Legal claims initiated by the client where damages are expected to be awarded
 - B. Product warranty or guarantee
 - C. Pension liability if unfunded
 - D. Guarantee on behalf of subsidiary companies
 - E. Bills discounted with recourse
25. Which of the following is **NOT** a type of Computer Assisted Audit Techniques?
- A. Test Data Packs
 - B. Program code examination
 - C. Tracing software
 - D. Snapshot
 - E. Data collection technique
26. When circumstances involved in an audit is disagreement and the factors involved are material, but not fundamental to the whole financial statement, the auditor is expected to issue a (an)..... report.
- A. Adverse opinion
 - B. Except for opinion
 - C. Subject to opinion
 - D. Disclaimer of opinion
 - E. Emphasis of the matter
27. What is the name of the committee that serves as the cabinet which regulates and controls the finances of local government councils?
-

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- A. Public Accounts Committee
 - B. Audit Alarm Committee
 - C. Finance and General Purposes Committee
 - D. Local Government Finance Committee
 - E. Local Government Treasury Committee
28. The truth and fairness of the representations made in the financial statements are the responsibility of the
- A. Statutory Auditor
 - B. Audit Committee
 - C. Company Secretary
 - D. Client's Management
 - E. Finance Director
29. Which of the following is **NOT** required to be stated by the auditor in the audit report in accordance with Company Legislation?
- A. The accounts agree with the books
 - B. The management has agreed with the auditor's recommendations on internal control
 - C. Proper returns adequate for the purposes of the audit have been obtained from branches not visited
 - D. He has obtained all the information and explanations necessary for the audit
 - E. Proper books of accounts have been kept by the company
30. Which of the following is **NOT** a function of the Auditor-General for the Federation?
- A. To comment on the annual accounts and auditors reports of government corporations
 - B. To audit the accounts of government statutory corporations, commissions and agencies
 - C. To audit and report on the public accounts of the Federation
 - D. To provide a list of auditors qualified to be appointed by government statutory corporations
 - E. To provide guidelines on the level of fees to be paid to external auditors of government statutory corporations

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

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ATTEMPT ALL QUESTIONS

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

1. Technically, the statutory auditor is also referred to as the auditor.
2. What is the term given to the audit procedures deemed necessary to achieve the objectives of an audit?
3. An audit undertaken at the instance of an interested party (e.g. a sole trader) or parties (partners of a partnership) when there is no legal obligation for the audit is referred to as
4. An Auditor's liability for financial damages in respect of offences of misfeasance and breach of trust is deemed
5. Where should a company keep its records as specified by the Company Legislation?.
6. The substantive test of financial information performed by studying, reviewing and comparing relationships among data is known as
7. An audit that could not be classified as final, interim or continuous is called
8. The acronym "CAATs" stands for
9. The external auditor is put on when in the course of his duty, he has a valid reason to doubt a transaction.
10. One of the factors to be taken into consideration when making provisions for "bad and doubtful debt" is of the debt.
11. **TWO** considerations that govern the form and working of audit report qualifications are and
12. An item is if the disclosure or non-disclosure of it will affect the decision of users of financial statements.
13. Which corporate governance entity is statutorily created to review the scope and planning of audit requirements in a public company?
14. A technique whereby the auditor writes a program which is intended to perform the same operation as a clients' program is known as

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15. Who is vested with the authority to audit the accounts of ministries, parastatals and corporations?
16. What relates to transactions and standing data pertaining to each computer based accounting system and are therefore specific to each application?
17. What name is given to a procedure used in ensuring that all relevant matters are attended to before the audit report is signed?
18. A system in government that allows interested parties to make inputs into decision making process is called
19. What opinion should an auditor express when the possible effect of a limitation on scope is so material and pervasive, that the auditor has been unable to obtain sufficient and appropriate audit evidence and accordingly is unable to express an opinion on the financial statements.
20. A report in which the auditor states the reservation which prevents him from giving a wholly affirmative opinion on the truth and fairness given by the financial statements is called a

SECTION B: ATTEMPT ANY FOUR QUESTIONS
(50 Marks)

QUESTION 1

It is important that auditors obtain knowledge of the client's business (KYC) sufficiently enough to enable them identify and appreciate issues that impact on the business of the client. Independent enquiries should also be made in respect of the status of the client company.

Required:

- a. State the areas this knowledge should cover?
(6 Marks)
- b. The auditor's knowledge of new clients should come from many sources. Indentify **THREE** of such sources.
(6¹/₂ Marks)

(Total 12¹/₂
Marks)

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QUESTION 2

- a. State the primary objective of an audit under Company Legislation in your Country.
(5 Marks)
- b. An Auditor may perform other services apart from statutory audit. State **FIVE** of such services.
(7¹/₂ Marks)
- (Total 12¹/₂ Marks)**

QUESTION 3

The following were extracted from the draft Balance Sheet and Profit and Loss Accounts of EVERLASTING COMPANY LIMITED presented to your firm for audit.

**EVERGREEN COMPANY LIMITED
BALANCE SHEET AS AT 31ST DECEMBER, 2015**

	N'000
Fixed assets (NBV)	8,500
Investments	1,800
Current Assets	13,500
Current Liabilities	7,900
Shareholders fund	33,000

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PROFIT AND LOSS ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER, 2015

	₦'000
Revenue	11,300
Cost of sales	8,300
Gross profit	3,000
Total payroll cost	650,000
Financial expenses	33,000

During the course of your audit, the following were among the points observed for audit adjustments and your senior audit manager has assigned you to proffer necessary solutions/information for the adjustments.

- a. The nomenclature “Balance Sheet” and “Profit and Loss Accounts” are now obsolete, what are the current names?
(2 Marks)
- b. The company has not provided for employers contribution to staff pension from the data supplied.
calculate the amount chargeable. (2 Marks)
- c. One of the company’s vehicles received as a donation late in 2014 was sold for ₦1.8million that year and the income received added to revenue of that year.
It was discovered that the value of the vehicle was ₦1.5million and this was not reflected in the accounts.
How should the gain on this transaction be adjusted in the 2015 accounts?
(2 Marks)
- d. From the draft calculate the
 - i. Gross Margin (1 Mark)
 - ii. Working Capital ratio (1 Marks)
 - iii. What does the working capital ratio measure?
(1½ Marks)
- e. The company has not prepared the “Directors Report”.

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List **THREE** contents of this report.
(3 Marks)

(Total 12¹/₂

Marks)

QUESTION 4

- a. i. What is a Management Letter?
(1¹/₂ Marks)
- ii. State **FOUR** contents of a Management letter
(6 Marks)
- b. State and briefly explain the objectives of Internal Control Questionnaire (ICQ) and Internal Control Evaluation Questionnaire (ICEQ).
(5 Marks)

(Total 12¹/₂

Marks)

QUESTION 5

The expression “true and fair view” is central to auditing and yet it is an abstraction whose meaning is far from clear. There is no authoritative definition or interpretation of the term, moreso because there can be more than one “true and fair view” of any given situation.

- a. Discuss the circumstances where a “true and fair view” may not be given.
(8 Marks)
- b. The procedures that the auditor is expected to follow, so as to complete the audit in an orderly and proper manner fall under some specific headings.

List these headings.
(4¹/₂ Marks)

(Total 12¹/₂

Marks)

QUESTION 6

Information Technology has brought massive benefits to business operations. It has increased the capacity to input, process, store and retrieve large volume of data to suit varying requirements. However, auditors often face challenges while carrying out audit in a computerised environment.

- a. You are required to discuss **FOUR** challenges that an auditor encounters in computer based audit.
(8 Marks)

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- b. State **THREE** approaches commonly used in Information Technology audit.

(4¹/₂
Marks)

(Total

12¹/₂ Marks)

SOLUTIONS

MCQ

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

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Examiner's Report

Virtually ALL (100%) of the candidates attempted this part of the paper, but those that scored 50% of marks obtainable were about 60%. This picture shows a lack of understanding of the nuances of the subject by those who scored below average.

SAQ

1. Independent/External
2. Scope of Audit
3. A Private/Non Statutory Audit
4. Civil
5. At its registered office
6. Analytic Review
7. Investigation or Investigative Audit
8. Computer Assisted Auditing Techniques
9. Enquiry
10. Age
11. (a) Material, Fundamental
12. Material
13. Audit Committee
14. Parallel simulation
15. Auditor-General
16. Application Controls
17. Audit Completion Checklist
18. Due Process
19. Disclaimer Opinion
20. Qualified Audit Report

Examiner's Report

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All the candidates attempted this part of the paper. But performance here is poorer compared with that of the MCQ. About 40% of the candidates scored above 50% of marks obtainable.

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SOLUTION 1

- a. The Knowledge of a client's business cover the following areas:
 - i. General economic factors
 - ii. Industry conditions affecting the Client's business
 - iii. The entity itself, covering such aspects as board composition, management profile etc.
 - iv. The entity's products, market, supplies, expenses and operations
 - v. The entity's financial performance and condition
 - vi. The reporting environment

- b. Sources of information about new clients include:
 - i. Previous auditors
 - ii. Previous years' financial statements
 - iii. Specific rules and regulations pertaining to the industry
 - iv. The regulations of the Client Company
 - v. Yellow pages
 - vi. Corporate Affairs Commission
 - vii. Trade Journals
 - viii. The internet
 - ix. Private Investigators

Examiner's Report

The question seeks to test candidates' knowledge of the KYC concept on the part of the auditor and sources of the KYC knowledge. About 80% of the candidates attempted this question with performance above average marks obtainable at about 60% of the attemptees.

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SOLUTION 2

- a. The primary objective of an audit under Companies and Allied Matters Act 2004 is for an appointed auditor to:

Express a professional opinion on the financial position of an enterprise as contained in the financial statements prepared by Management so that any person reading and using them can have faith in them.

- b. Other Services apart from statutory auditing include:
- i. Writing and balancing books of accounts
 - ii. Preparing final accounts
 - iii. Taxation Services
 - iv. Liquidation and Receivership work
 - v. Investigations
 - vi. Risk Management
 - vii. Forensic Audit
 - viii. Secretarial Services
 - ix. Due Diligence write-ups.
 - x. Advising Companies seeking quotations on the Nigerian Stock Exchange
(Any Five Items)

Examiner's Report

The question specifically asks candidates to discuss the primary objective of an audit under Company Legislation in a particular country and what other services an auditor renders apart from statutory audit work. One of the most popular in attempt (over 90% of candidates) with performance above average put at 60%.

SOLUTION 3

- a) Balance Sheet is now Statement of Financial Position
Profit and Loss Accounts is now known as Statement of profit or loss and Other Comprehensive income.

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- b) Amount chargeable to staff pension in respect of employer's contribution is
1% of ~~₦~~650,000,000 = ~~₦~~65,000,000
- c) The Gain on sale of vehicles of ~~₦~~300,000 =(₦1.8 - ₦1.5 million)
=is a Prior year adjustment.
~~₦~~1.8m should be removed from the retained earnings brought forward while the gain of ~~₦~~300,000 is to be reflected as part of other income in 2015.
- d) i. Gross Margin = $\frac{\text{Gross profit}}{\text{Revenue}} \times 100 = \frac{3000}{11300} \times 100$
= 26.5%
- ii. Working Capital Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{13500}{7900} = 1.7:1$
- iii. Working capital ratio measures the extent to which the current assets exceed current liabilities and vice versa.
- e) Contents of a “ Directors’ Report” include
- i. Directors Responsibilities
 - ii. Board’s changes
 - iii. Director’s interest
 - iv. Management team
 - v. Summary of the financial result for the year
 - vi. Amount of proposed dividend
 - vii. Principal activities of the Company
 - viii. Corporate Governance Report
 - ix. Amount transferred to reserves
 - x. Plans and prospects of the company

Examiner’s report

This is the only semi-quantitative question on the paper. Attempted by above 60% of candidates, about 40% scored above average marks.

SOLUTION 4

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- a. Management Letter is also referred to as Letter of Weakness or Domestic Report. This is a letter from auditor to the client, highlighting the details of the weaknesses discovered in the client's internal control system and his (auditor's) suggestions for improvement.

The contents of a Management Letter include:

- i. Unsatisfactory accounting practices and internal control weaknesses
 - ii. Previous recommendations not attended to
 - iii. Additional work done as a result of the weaknesses
 - iv. Limitations of the report
 - v. Implications or effects of weaknesses on the total operations of the client
 - vi. Recommendations for improvement
 - vii. Remedial actions.
- b. ICQ is a schedule or checklist, containing a series of questions designed to ascertain and record the accounting and internal control procedures in existence in entity's accounting system. While ICEQ is a schedule or checklist containing a series of questions, which are designed to assess the strength and/or weakness of any entity's internal control system. The objective of an 'ICQ' is to record controls whereas the objective of 'ICEQ' is to evaluate the controls.

Examiner's Report

The question seeks to test candidates' knowledge of the Management Letter and its contents, linked with ICQ and ICEQ. Another very popular question with the candidates (90% attempted). Performance above average is about 60%.

SOLUTION 5

- a. 'True and fair view' may not be given for example where:

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- i. The figures given in the financial statement has not fully and properly disclosed their substance or is misleading or ambiguous
 - ii. The financial statements are prepared on a basis that is not consistent with the previous periods unless there is adequate disclosure.
 - iii. The financial statements do not conform with accounting policies required by CAMA, CAP C 20 LFN 2004, relevant accounting standards or professional guidelines
 - iv. The presentation of the figures in the financial statements is so obscure or complicated that they are difficult to interpret or understand.
 - v. Non-compliance with relevant Accounting Standards
 - vi. The ability of an entity to continue as a going concern, where there are factors that create doubts
- b. The procedures the auditor is expected to carry out to complete the audit in an orderly and proper manner are under the following headings:
- i. Final review of draft financial statements
 - ii. Completion of Audit Report
 - iii. Drafting of Audit Report
 - iv. Issues Documentation
 - v. Signature
 - vi. Reporting to the Board and Management
 - vii. Debriefing
 - viii. Consideration of desirability of appointment

Examiner's Report

The question here seeks to test candidates' knowledge of the "true and fair view" principle and circumstances where the view may not be given.

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Also testing procedures that an auditor must follow to complete an audit in a proper manner.

This is the least attempted question (less than 20%) with performance at the same level for attemptees.

SOLUTION 6

a. Challenges that an auditor can encounter are not limited to the following:

- i. Undue emphasis and reliance on the functioning of hardware and software
- ii. Reduction in human involvement
- iii. Loss of audit trail
- iv. Incidence of systematic errors
- v. Unauthorised access to the system
- vi. Loss of data
- vii. Reduced segregation of duty
- viii. The need for IT experts who could be in short supply
- ix. Documentary evidence of input data may not be prepared on a computer based accounting system, thus the auditor may find it practically impossible to vouch individual transactions in the absence of source documents.

b. The three broad approaches when auditing in an EDP environment are:

- (i) Audit round the computer (Black box approach). The auditor does not directly examine the processing procedures which takes place within the computer. He only obtains assurance regarding the completeness, accuracy and validity of computer processing by reconciling computer output to input.
- (ii) Auditing through the Computer
The auditor obtains assurance regarding the completeness, accuracy and validity of computer processing through a direct examination of the processing procedures which

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take place within the computer. This approach demands computer knowledge and skills and involve the use of CAATS

(iii) Audit within the computer

This approach is characterised by the use of embedded audit facilities such as Integrated Test Facilities (ITF) and System Control Audit Review File (SCARF). This approach avoids the need for special Computer time to perform audit test.

Examiner's Report

This is another fairly unpopular question that seeks to test the knowledge of computer based audit as to what challenges an auditor encounters and the approaches commonly used in the audit. Less than 30% of the candidates attempted the question with performance at the 50% level for those that attempted it.

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AT/162/PIII.10 ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA

**ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
PART III EXAMINATIONS – SEPTEMBER 2016**

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. Cost accounting is concerned with all of the following **EXCEPT**
 - A. Preparing cost statement
 - B. Preparing budget statement
 - C. Preparing Data statement
 - D. Cost data collection
 - E. Applying costs to products

2. The objectives of a corporate entity would **NOT** include **ONE** of the following
 - A. Maximisation of profit
 - B. Minimisation of revenue
 - C. Minimisation of costs
 - D. Maximisation of shareholders' value
 - E. Increase in market share

3. Which of the following is correct?
 - A. Cost accounting is only concerned with financial information
 - B. Cost accountant need not provide non-financial information
 - C. Wide application of estimates and approximation is inevitable in cost accounting
 - D. Cost accounting is mainly a historical record of events and transactions
 - E. Cost accounting focuses on reporting to external users of information

4. Which of the following is **NOT** an appropriate cost unit for a hotel business?
 - A. Meals served
 - B. Guests per night

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- C. Beds occupied per night
 - D. Rooms occupied per night
 - E. Sick guests per night
5. Which of the following is an indirect cost?
- A. Cost of hire of an equipment in executing a job
 - B. Supervisory wages
 - C. Maintenance cost of tools
 - D. Cost of work sub-contracted to a third party
 - E. Cost of time spent in carrying out the audit of a client's books of accounts.
6. Which of the following is **NOT** concerned with cost behaviour?
- A. Definition of cost unit
 - B. Linearity assumption
 - C. Use of statistical methods
 - D. Existence of spare capacity
 - E. Over simplification
7. Which of the following should **NOT** be classified as direct materials?
- A. Raw materials
 - B. Partly finished materials
 - C. Work-In-Process
 - D. Piece parts for assembly
 - E. Consumables
8. Notable examples of step costs would include the following **EXCEPT**
- A. Depreciation of a machine with limited capacity
 - B. Royalties
 - C. Basic pay of employees as output increases
 - D. Rent of a factory building
 - E. Rent of a classroom as students capacity increases.
9. Which of the following would **NOT** be described as an industry where the output produced emerges from a continuous process?
- A. Oil refining
 - B. Beer brewing
 - C. Garri processing
 - D. Road construction
 - E. Paint production

INSIGHT

10. A typical example of a prime cost would **NOT** include
- A. Component parts purchased for a process
 - B. Wages of workers engaged in altering the condition of a product
 - C. Direct cost of sub contractors
 - D. Hire of tools for a job
 - E. Costs of cartons, maintenance, tools and wages of shop clerks.
11. Integrated system of accounting offers the following advantages **EXCEPT**
- A. Better coordination
 - B. Suitable for small concerns
 - C. Wider outlook
 - D. Economical system
 - E. Suitable for mechanized accounting
12. Which of the following important ledgers need **NOT** be maintained under non-integrated system?
- A. Cost ledger
 - B. Finished goods ledger
 - C. Sales ledger
 - D. Stores ledger
 - E. Job ledger
13. How would materials purchased for store on cash basis be posted under non-integrated accounting system.
- A. Dr. Stores Ledger Control Account
Cr. Cash
 - B. Dr. Cost Ledger Control Account
Cr. Stores ledger Control account
 - C. Dr. Purchases
Cr. Cash
 - D. Dr. Cash
Cr. Stores Ledger Control Account
 - E. Dr. Stores Ledger Control Account
Cr. Cost Ledger Control Account
14. Batch costing is used in the following industries **EXCEPT**
- A. Toys manufacturing
 - B. Shoe manufacture
 - C. Readymade garments
 - D. Interior decoration

INSIGHT

- E. Component parts
15. Process costing is applicable in the following industries **EXCEPT**
- A. Confectionaries
 - B. Sugar
 - C. Tyres and tubes
 - D. Cement manufacture
 - E. Plastic manufacture
16. The following are methods of joint cost apportionment **EXCEPT**
- A. Sales Value Method
 - B. Weighted Average Unit Cost Method
 - C. Reverse Cost Method
 - D. Physical Units Method
 - E. Survey Method
17. Material unfavourable usage variance may be caused by all of the following **EXCEPT**
- A. Inefficient purchasing
 - B. Poor workmanship
 - C. Defect in plant and machinery
 - D. Pilferage
 - E. Change in the design of the product
18. Usual reasons for unfavourable labour rate variances include the following **EXCEPT**
- A. Different method of wage payment
 - B. Change in the basic wage rates
 - C. Poor workmanship
 - D. Unscheduled overtime
 - E. Workers not being paid at full rates
19. Idle time variance is due to abnormal idle time. It is calculated by valuing
- A. The difference between standard hours and actual hours at standard rate
 - B. Idle hours at actual rate
 - C. The difference between revised standard hours and actual hours at standard rate
 - D. The difference between standard hours and actual hours at actual rate
-

INSIGHT

- E. Idle hours at standard rate
20. The formula for calculating capacity ratio is
- A. $\frac{\text{Standard hours produced}}{\text{Budgeted labour hours}} \times 100$
- B. $\frac{\text{Standard hours produced}}{\text{Actual labour hours worked}} \times 100$
- C. $\frac{\text{Actual labour hours worked}}{\text{Budgeted labour hours}} \times 100$
- D. $\frac{\text{Actual labour hours worked}}{\text{Standard hours produced}} \times 100$
- E. $\frac{\text{Budgeted labour hours}}{\text{Actual labour hours worked}} \times 100$
21. Which of the following is **NOT** a disadvantage of marginal costing?
- A. Realistic valuation of stocks
- B. Difficulty in application
- C. Improper basis of pricing
- D. Difficulty in analysis
- E. Ignoring fixed costs
22. The difference between actual sales and sales at break-even point where the former is higher than the latter is called
- A. Angle of incidence
- B. Margin of safety
- C. Profit-volume ratio
- D. CVP relationship
- E. Marginal cost
23. Break-even analysis is based on the following assumptions **EXCEPT**
- A. Total fixed cost remains constant
- B. Productivity per worker does not change
- C. There is a change in the general price level
- D. All costs can be separated into fixed and variable components
- E. Selling price per unit does not change as volume changes
24. The following are some of the disadvantages of using payback method as a capital investment appraisal technique **EXCEPT** that it
- A. Does not indicate whether an investment should be accepted or rejected
- B. Ignores cash generation beyond the payback period
- C. Fails to take into account the timing of returns and the cost of capital

INSIGHT

- D. Does not consider the salvage value of an investment
 - E. Does not involve assumptions about future interest rates
25. Cost reduction begins where cost control ends. Which of the following is **NOT** a feature of cost control?
- A. It is a preventive function
 - B. It is a part of cost accounting function
 - C. It lacks dynamic approach to cost improvement
 - D. It is not concerned with finding out new product designs
 - E. It tends to assume that set standards cannot be challenged
26. Budgetary control provides the following advantages **EXCEPT** that it
- A. Is based on estimates
 - B. Provides a yardstick against which actual results can be compared
 - C. Compels managers to think ahead
 - D. Motivates executives to attain the given goals
 - E. Creates cost consciousness
27. Which of the following is **NOT** a functional budget?
- A. Production Cost Budget
 - B. Administrative Cost Budget
 - C. Cash Budget
 - D. Master Budget
 - E. Sales Budget
28. What is the present value of an annuity in the sum of ₦1m from 2017 to perpetuity if the cost of capital remains at 20% per annum?
- A. ₦3,000,000
 - B. ₦4,000,000
 - C. ₦4,500,000
 - D. ₦5,000,000
 - E. ₦5,500,000
29. Which of the following is **NOT** an advantage of cost audit to an equity holder in a company?
- A. Helps in the detection of irregularities
 - B. Improves the quality of cost reports
 - C. Highlights the efficiency or otherwise of the management
 - D. Provides true cost figures to the company
 - E. It is better suited for inter-firm comparison

INSIGHT

30. Which of the following is **NOT** a feature of Kanban Inventory Control System?
- A. It is responsible for ensuring that necessary products are acquired
 - B. It is the heart of the JIT inventory management system
 - C. It controls production through the use of markers or cards
 - D. It shares similar features with Economic Order Quantity (EOQ)
 - E. It is usually placed in a vinyl sack and attached to the container holding the needed parts

**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. An expired cost resulting from a productive usage of an asset is called.....
2. Aggregate of all direct costs is called
3. Fixed cost per unit with increase in the volume of output.
4. The two important factors in fixing the economic order quantity are cost and cost.
5. A method of recording stores balances after each receipt and issue of stock item to facilitate regular checking of stock thus avoiding end of the year stock-taking is called
6. A method of pricing where closing stock is valued at the oldest price paid is known as
7. Time not spent on productive work is referred to as
8. Cost of abnormal idle time is charged
9. The rate of change in the labour force of an organization is known as
10. The basis of apportioning factory rent to various departments in an organisation is called

INSIGHT

11. The allotment of whole items of overhead to cost centres is called
12. The cost of stimulating demand for goods or services is known as
13. The stage of production in process costing at which separate products are identified is called
14. A budget that is designed to furnish budgeted costs for any level of activity actually attained is known as
15. An hypothetical hour which represents the amount of work which should be performed in one hour under stated conditions is called
16. If actual material cost is 5,000 units at ~~₦~~60 per unit and standard material cost is 6,000 units at ~~₦~~50 per unit, what is the material cost variance?
17. What is the break-even point in value where fixed cost is ~~₦~~5m and P/V ratio is 40%?

Use the information provided below to answer questions 18 and 19.

Buoda Soinde Manufacturing Company is considering the purchase of a new machine. Its cost is N30m; its expected useful life is 10 years and it has no salvage value. Income before depreciation and taxes is expected to be N15m. Assume a 40% tax rate.

18. The payback period will be.....
19. The accounting rate of return (ARR) will be
20. A move towards zero inventory and an emphasis on zero defects are features of

SECTION B: ATTEMPT ANY FOUR QUESTIONS
(50 Marks)

QUESTION 1

FAAF Superstore is a mega distributor of one of the manufacturers of Noodles in West Africa. The following information is in respect of the purchases and issues of cartons of Noodles in the last quarter of 2015.

INSIGHT

Date	Particulars	Units	Price per unit (GH¢)
October 2	Purchases	40,000	400
October 20	Purchases	5,000	500
November 5	Issues	20,000	
November 10	Purchases	60,000	600
November 12	Issues	40,000	
December 2	Issues	10,000	
December 5	Issues	20,000	
December 15	Purchases	45,000	550
December 20	Issues	30,000	

You are required to prepare a Stores Ledger Account using LIFO method.

(12½ Marks)

QUESTION 2

a. Explain the following terms:

- i. Interlocking system (1½ Marks)
- ii. Cost Ledger Control Account (1 Mark)
- iii. Reconciliation Statement (1 Mark)

b. OLLY Manufacturing Company presents you with the following Account balances as at 31/12/2015.

	₦
Net Loss as per Financial Records	2,080,450
Net Loss as per Costing Records	1,724,000
Factory overhead under-recovered in Costing	31,200
Administrative overhead recovered in Excess	17,000
Depreciation charged in Financial Records	112,000
Depreciation recovered in Costing	125,000
Interest received not included in Costing	80,000
Obsolescence charged in Financial books	57,000
Income Tax provided in Financial Books	403,000

INSIGHT

Bank interest credited in Financial Books	7,500
Stores adjustments (credited in Financial Books)	4,750
Value of opening inventory in Cost Accounts	526,000
Value of opening inventory in Financial Accounts	540,000
Value of closing inventory in Cost Accounts	520,000
Value of closing inventory in Financial Accounts	496,000
Interest charged in Cost Accounts but not in Financial Accounts	60,000
Preliminary Expenses written off in Financial Accounts	8,000
Provision for Doubtful Debts in Financial Accounts	1,500

Required:

Prepare a statement to reconcile the figures shown in the Costs and Financial Accounts as at 31/12/2015.

(9 Marks)

Total (12½ Marks)

QUESTION 3

The following information was extracted from the books of Sharon Limited in respect of its product named SSB3

Raw materials 1	8400 units @ L\$400
Raw material 2	L\$592,400
Direct wages	L\$800,000
Overheads	L\$800,000
Actual output	7500 Units
Normal loss	15%
Value of scrap per unit	L\$100 per unit

You are required to prepare the following accounts from the information so provided

INSIGHT

- (a) Process Account (7½ Marks)
- (b) Abnormal Gain Account (2½ Marks)
- (c) Normal Loss Account (2½ Marks)
- (Show your workings) (Total 12½ marks)**

QUESTION 4

Tiger Industries uses a standard absorption costing system to control the manufacturing costs of its product. The information below was extracted from its books in the month of February 2016:

	₹/Unit
Direct Material 4 kg @ ₹6 per kg	24
Direct Labour 1 hr @ ₹7 per hour	7
Fixed Overheads	<u>9</u>
Total production cost	<u>40</u>

The fixed overhead standard cost per unit is based upon a budgeted monthly production of 8,000 units.

Actual results for February 2016 were:

Production	8,600 units
Direct material	₹212,000 for 35,000kg
Direct Labour	₹65,600 for 9,200 hours

Additional information:

Only 9,000 hours were worked.

Fixed Overheads is ₹70,000.

You are required to calculate the following variances:

- a. Direct Material Price (2 Marks)
- b. Direct Material Usage (2 Marks)
- c. Direct Labour Rate (2 Marks)

INSIGHT

- d. Idle Time (2½ Marks)
- e. Direct Labour Efficiency (2 Marks)
- f. Fixed Overhead Expenditure (2 Marks)
- Total (12½ Marks)**

QUESTION 5

SONGA LABAN Limited commenced business on 1st June making one product called “ADAMA”, the standard cost per unit is as follows:

	N
Direct Material	80
Direct Labour	50
Variable Production overhead	20
Fixed Production overhead	<u>50</u>
Standard Production Cost	<u>200</u>

The fixed production overhead figure has been calculated on the basis of a budgeted normal output of 36,000 units per annum.

The budgeted fixed selling and distribution expenses of N120,000 are evenly incurred throughout the year.

Variable selling and distribution expenses is 15% of the sales value.

The selling price per unit is N350 and the numbers of units produced and sold for the month of June were:

Production	2,000 units
Sales	1,500 units

You are required to prepare profit statements for the month of June using the following techniques:

- a. Marginal costing (6 Marks)
- b. Absorption costing (6½ Marks)
- Total (12½ Marks)**

QUESTION 6

INSIGHT

- a. What is the present value of an annual sum of N50,000 in perpetuity at the rate of 10% if the cash flow starts
- i. In a year's time (2 marks)
 - ii. Today (2½ marks)

- b. The following cash flows have been estimated for a project:

Year	0	1	2	3	4	5
Cash flows	-20,000	+4,000	+6,000	+7,000	+6,000	+5,000

Assuming a cost of capital of 20%,

- i. You are required to calculate the Net Present Value of the project.
- ii. Should the project be accepted? (8 Marks)

Total (12½ Marks)

INSIGHT

SOLUTIONS

MCQ

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

WORKINGS

Q28 PV of an annuity in perpetuity = $\frac{a}{r}$

$$\begin{aligned} &= \frac{N1,000,000}{.20} \\ &= \text{N}5,000,000 \end{aligned}$$

Examiner's report

All the candidates attempted this part of the question which covers almost the

INSIGHT

whole syllabus. About 70% of the candidates scored 50% and above of the marks

obtainable, therefore we can conclude that performance was good.

SAQ

1. Depreciation
2. Prime cost
3. Decreases
4. (i). Ordering, (ii) storage/holding/carrying
5. Perpetual inventory system(continuous)
6. LIFO(Last in first out)
7. Idle time
8. Costing P&L Account
9. Labour Turnover
10. Area Occupied/floor area occupied
11. Cost Allocation
12. Selling Overhead
13. Split off stage/Post-separation stage/Further processing stage
14. Flexible budget
15. Standard hour
16. 0 (Nil)
17. ₦12,500,000
18. 2.94 years
19. 24%
20. JIT(Just In Time)

Workings

$$\begin{aligned} 16. \text{ Material Price Variance} &= (\text{SP}-\text{AP}) \times \text{AQ} \\ &= (50-60) \times 5000 \\ &= -10 \times 5000 \\ &= -50,000 \\ &\quad 50,000 \text{ Adv.} \end{aligned}$$

$$\begin{aligned} \text{Material usage variance} &= (\text{SQ} - \text{AQ}) \text{ SP} \\ &= (6000 - 5000) 50 \\ &= (1000) 50 \\ &= 50,000 \text{ FAV} \end{aligned}$$

$$\begin{aligned} \text{Material Cost Variance} &= \text{MPV} + \text{MUV} \\ &= (-50,000) + (50,000) \end{aligned}$$

INSIGHT

= 0

$$\begin{aligned} 17. \text{ BEP (₦)} &= \frac{F}{P/Vratio} \\ &= \frac{5,000,000}{40\%} \\ &= \text{₦}12,500,000 \end{aligned}$$

18. Payback Period

	₦
Income before depreciation and taxes	15,000,000
Less: Depreciation (30,000,000 ÷ 10 years)	<u>3,000,000</u>
Income before taxes	12,000,000
Less: income taxes (40%)	<u>4,800,00</u>
Net Income	7,200,000
Add: Depreciation	<u>3,000,000</u>
Annual cashflow from operations	10,200,000

$$\text{Pay back period} = \frac{30,000,000}{10,200,000} = 2.94 \text{ years}$$

19. Accounting Rate of Return

$$\begin{aligned} \frac{\text{Net Income}}{\text{Original Investment}} &= \frac{7,200,000}{30,000,000} \\ &= 24\% \end{aligned}$$

Examiner's Report

All the candidates attempted this part of the question. Performance was average as about 50% of the candidates scored 50% and above of the marks obtainable.

INSIGHT

SOLUTION 1

FAAF SUPER STORES STORES LEDGER ACCOUNT

Date	Receipts			Issues			Balance		
	Quantity	Rate	Value	QTY	Rate	Value	Qty	Rate	Value
2015	Units	₦	₦'000	Units	₦	₦'000	Units	₦	₦'000
Oct 2	40,000	400	6,000				40,000	400	16,000
Oct 20	5,000	500	2,500				40,000	400	16,000
							5,000	500	2,500
Nov 5				5,000	500	2,500	25,000	400	10,000
				5,000	400	6,000			
Nov 10	60,000	600	6,000				25,000	400	10,000
							60,000	600	36,000
Nov 12				0,000	600	24,000	25,000	400	10,000
							20,000	600	12,000
Dec 2				0,000	600	6,000	25,000	400	10,000
							10,000	600	6,000
Dec 5						6,000	15,000	400	6,000

INSIGHT

				0,000	600				
				0,000	400	4,000			
Dec 15	45,000	550	24,750				15,000	400	6,000
							45,000	550	24,750
Dec 20				0,000	550	16,500	15,000	400	6,000
							15,000	550	8,250

Examiner's Report

This question tests candidates' ability to prepare Stores Ledger Accounts and determine the value of closing stocks using Last In First Out method.

The question was attempted by about 95% of the Candidates. Performance was very good as more than 80% of those who attempted the question scored above 50% of the marks. In fact, not less than 202 candidates scored all the marks.

SOLUTION 2

a.(i) Interlocking System

This is a system of accounting where the financial accounts and cost accounts are kept separately and independent of each other but are reconciled on a regular basis. Where this system operates, cost department and financial department operate separate ledgers.

ii. Cost Ledger Control Account

This is an account which summarises all the financial receipts and payment transactions and all the transfer transactions from cost books to financial books.

iii. Reconciliation Statement

This is a statement which reconciles the profit or loss as per Cost Accounts with the profit or loss as per Financial Accounts by showing all causes of differences between the two. This is also known as Memorandum Reconciliation account.

a. OLLY MANUFACTURING COMPANY

RECONCILIATION STATEMENT AS AT 31 DECEMBER 2014

	₦	₦	
Net Loss as per Cost Accounts		(1,724,000)

INSIGHT

Add: Back:

Over-Recovered Admin Overheads as per Cost Accounts	17,000	
Depreciation over-recovered in cost Account (125,000-112,000)	13,000	
Interest received not included in cost Accounts	80,000	
Bank Interest credited in financial accounts	7,500	
Stores adjustment credited in financial accounts	4,750	
Interest charged in Cost Accounts but not in financial accounts	<u>60,000</u>	<u>182,250</u>
		(1,541,750)

Less:

	<u>₹</u>	<u>₹</u>
Factory Overheads under - recovered in Cost Accounts	31,200	
Obsolescence Loss charged in Financial Accounts	57,000	
Income- tax provided in financial Books	403,000	
Under valuation of opening inventory in cost accounts (540,000 - 526,000)	14,000	
Over valuation of closing inventory in Cost Accounts (520,000 - 496,000)	24,000	
Preliminary Expenses written -off in financial Accounts	8,000	
Provision for Doubtful debts in Financial Accounts	1,500	
		<u>(538,700)</u>
Net Loss As per Financial Accounts		<u>(2,080,450)</u>

ALTERNATIVE SOLUTION

OLLY Manufacturing Company Reconciliation Statement

	₹	₹
Net loss as per Financial records		(2,080,450)
Add items debited only in Financial accounts		

INSIGHT

Obsolescence charges	57,000	
Income tax provided	403,000	
Preliminary expenses	8,000	
Provision for doubtful debt	<u>1,500</u>	
		469,500
Less items Credited only in Financial accounts		
Interest received	80,000	
Bank interest	7,500	
Stores adjustments	<u>4,750</u>	
		(92,250)
Other items charged at different amounts		
Deprecation		
F - C (112,000 - 125,000)	(13,000)	
Factory overhead under recovered	31,200	
Admin overhead over recovered	(17,000)	
Interest charged in cost account	<u>(60,000)</u>	
		(58,800)
Inventory movements:		
Opening = F - C (540,000 - 526,000)	14,000	
Closing: = C - F (520,000 - 496,000)	<u>24,000</u>	
		<u>38,000</u>
Net loss as per Costing records		<u>(1,724,000)</u>

Examiner's Report

This questions tests candidates' understanding of reconciliation of profit figures shown by the costs and financial Accounts.

The question was attempted by 25% of Candidates. Performance was poor as only 25% of those who attempted the question scored 50% and above of the marks obtainable.

Candidates are advised to spend more time on this core topic as it cannot be wished away.

SOLUTION 3

Sharon Limited Preparation of SSB 3 Process Account PROCESS ACCOUNT

Particulars	Units	Cost	Value	Particulars	Units	Cost/	Value
-------------	-------	------	-------	-------------	-------	-------	-------

INSIGHT

		/ Units				units	
		₦	₦			₦	₦
Raw material 1	8,400	400	3,360,000	Normal loss			
Raw Material 2			592,400	(15% of 8,400)	1,260	100	126,000
Direct wages			800,000				
Overheads			800,000	Finished goods	7,500	760	5,700,000
Abnormal Gain	360	760	<u>273,600</u>	750 x 760			
	<u>8,760</u>		<u>5,826,000</u>		<u>8,760</u>		<u>5,826,000</u>

Abnormal Gain Account

Particulars	Units	Cost / Units	Value	Particulars	Units	Cost/ units	Value
		₦	₦			₦	₦
Normal loss Acct	360		36,000	Process acct	360		<u>273,600</u>
Costing P& L Acct	-		<u>237,600</u>				
	<u>360</u>		<u>273,600</u>		<u>360</u>		<u>273,600</u>

Normal Loss Account

Particulars	Units	Cost / Units	Value	Particulars	Units	Cost/ units	Value
		₦	₦			₦	₦
Process Account	<u>1,260</u>		<u>126,000</u>	Bank	900		90,000
				Abnormal Gain	<u>360</u>		<u>36,000</u>
	<u>1,260</u>		<u>126,000</u>		<u>1,260</u>		<u>126,000</u>

Workings

$$\begin{aligned}
 \text{Abnormal Gain} &= \text{Input} - \text{Normal loss} - \text{Actual Output} \\
 &= 8400 - 1260 - 7500 \\
 &= - 360 \text{ units}
 \end{aligned}$$

Value of Abnormal Gain

$$\begin{aligned}
 &(\text{Total Cost incurred} - \text{scrap value of NL}) \div (\text{Input} - \text{NL}) \times \text{AG} \\
 &= (5552400 - 126000) \div (8400 - 1260) \times 360
 \end{aligned}$$

INSIGHT

$$= 5426400 \div 7140 \times 360$$
$$= \text{N} 273,600$$

Other working notes

3) Computation of Total cost

	L\$
Raw material 1	3,360,000
Raw material 2	592,400
Direct wages	800,000
Overheads	<u>800,000</u>
	<u>5,552,400</u>

4) Computation of Abnormal Gain

	(Units)
Quantity processed	8,400
Less normal loss (15%)	<u>(1,260)</u>
Expected output	7,140
Less actual output	<u>(7,500)</u>
Abnormal Gain	<u>(360)</u>

5) Scrap value of Normal Loss

$$\text{Normal loss (L\$100} \times 1,260 \text{units)} = \text{L\$126,000}$$

6) Cost per unit = $\frac{\text{Total cost} - \text{Scrap value of normal loss}}{\text{Expected output}}$

$$= \frac{\text{L\$5,552,400} - \text{L\$126,000}}{7,140 \text{units}}$$
$$= \text{L\$760}$$

7) Valuation of stocks

	L\$
Actual output (L\$760 x 7,500units)	5,700,000
Normal loss	126,000
Abnormal Gain (L\$760 x 360units)	<u>(273,600)</u>
Total cost	<u>5,552,400</u>

Examiner's Report

This question tests candidates' knowledge of process costing with emphasis on normal and abnormal gain and loss account.

About 75% of the candidates attempted the question. Performance was poor as only about 30% of those who attempted the question scored 50% and above of the marks obtainable.

INSIGHT

Candidates should realise that this topic is a critical one in Cost Accounting, therefore they should increase their study in this area.

SOLUTION 4

(i) Direct material Price Variance

AQ (SP - AP)

	N
Standard cost 35,000 units x N6	210,000
Actual Cost	<u>212,000</u>
	<u>2000A</u>

(ii) Direct material Usage variance

SP(SQ - AQ)

	kg
Standard usage 8600 units x 4kg	34,400
x	
Actual usage	<u>35,000</u>

600 @ N6 = 600A
= N3600 A

(iii) Direct Labour Rate Variance

AH (SR - AR)

	N
Standard Labour cost (9200 hrs x N7)	64,400
Actual Labour Cost	<u>65,600</u>
	<u>1,200</u>
	<u>(A)</u>

(iv) Labour Idle Time Variance

Idle Time x SR

	Hrs
Actual hours paid	9,200
Actual hours worked	<u>9,000</u>
	<u>200</u>
	<u>(A)</u>

200A @ N7 PER HOUR = N1,400 A

INSIGHT

(v) Direct Labour Efficiency Variance
SR (SH - AH)

	Hrs
Standard of Actual hours 8,600 units @ 1 hr/unit	8,600
Actual hours	<u>9,000</u>
	<u>400A</u>

400A @ ₦7 = ₦2,800 A

(vi). Fixed Overhead Expenditure Variance
BFOHC - AFOHC

	₦
Budgeted FOE	72,000
Actual FOE	<u>70,000</u>
	<u>2000F</u>

Examiner's Report

This question tests candidates understanding of variance analysis. It was attempted by about 80% of the candidates and performance was just above average as about 60% of them scored 50% and above of the marks obtainable

Candidates should obtain good quality textbooks in this topic in future.

SOLUTION 5

PROFIT STATEMENT USING MARGINAL COSTING FOR THE MONTH OF JUNE

	₦	₦
Sales (1,500 x ₦350)		525,000
Less Marginal Cost		
Opening Stock		-
Direct Material	160,000	
Direct Labour	100,000	
Variable Production overhead	<u>40,000</u>	

INSIGHT

	300,000	
Less closing stock (500 x ₦150)	<u>75,000</u>	
	225,000	
Variable selling exp.	<u>78,750</u>	<u>303,750</u>
CONTRIBUTION		221,250
Less: Fixed Production Cost		
	150,000	
Selling and Distribution Exp.	10,000	<u>160,000</u>
Net Profit		<u>61,250</u>

PROFIT STATEMENT USING ABSORPTION COSTING FOR THE MONTH OF JUNE

	₦	₦
Sales		525,000
Less Cost of Production		
Opening Stock	-	
Direct Material	160,000	
Direct Labour	100,000	
Variable Production overhead	40,000	
Fixed Production Overhead	<u>100,000</u>	
	400,00	
	0	
Less closing stock (₦200 x 500)	<u>100,000</u>	
	300,000	
Under absorption(1000 x ₦50)	<u>50,000</u>	<u>350,000</u>
Gross Profit		175,000
Less Selling and Distribution Variable	78,750	
	<u>10,000</u>	<u>88,750</u>
Fixed		
Net Profit		<u>86,250</u>

Workings:

Marginal Costing & Absorption

(i) Valuation of Closing Stock

	₦	
Direct Material	80	
Direct Labour	50	
Variable Overhead	<u>20</u>	
	<u>150</u>	

INSIGHT

Closing Stock (150 x 500) = 75,000

(ii) Fixed Production overhead based on normal output of 36,000 units per annum

$$= \frac{36,000}{12} \times 50 = \text{N}150,000$$

(iii) Variable selling and Distribution expenses accrued evenly throughout the year

$$\frac{\text{N}120,000}{12} = \text{N}10,000$$

(iv) under absorption:

Normal Output	3,000
Actual output	<u>2,000</u>
	1,000
Valued at	<u>N50</u>
	<u>N50,000</u>

(v) Valuation of Closing stock – Absorption

	N
Direct Material	80
Direct Labour	50
Variable Production OH	20
Fixed Production OH	<u>50</u>
	<u>200</u>

Examiner's Report

This question tests candidates understanding of the differences between absorption and marginal costing.

The question was attempted by about 80% of the candidates and performance was above average as more than 60% of those who attempted it scored 50% and above of the marks allocated.

The only pitfall was in the area of calculation of fixed production overhead.

INSIGHT

AT/162/PIII.11 **ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA**

**ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
PART III EXAMINATIONS – SEPTEMBER 2016
PREPARING TAX COMPUTATION AND RETURNS**

Time Allowed: 3 hours

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

ATTEMPT ALL QUESTIONS

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

1. Which of the following is **NOT** exempted from Value Added Tax (VAT)?
 - A. Basic food items
 - B. Baby products
 - C. Plant and machinery used in the production of textiles
 - D. Plant and machinery used in Export Processing Zone
 - E. Agricultural equipment and products and veterinary medicine

2. Under Capital Gains Tax, disposal is deemed to have taken place in the underlisted circumstances **EXCEPT**
 - A. Any capital sum received in employment
 - B. Any capital sum received in return for refraining from exercising rights
 - C. Any capital sum received as consideration for use or exploitation of any asset
 - D. Any capital sum received under a policy of insurance and the risk of any kind of damage or injury to or loss or depreciation of assets
 - E. Any capital sum received in connection with or arising by virtue of any trade, business, profession or vocation.

3. Which of the following is **NOT** a principle of taxation?
 - A. Equity
 - B. Certainty
 - C. Convenience
 - D. Materiality
 - E. Economy in collection cost

INSIGHT

4. Which of the following is charged with the responsibility for the collection of rates and fines in a local government?
 - A. Local Government Revenue Service
 - B. Local Government Revenue Service Commission
 - C. Local Government Taxes Commission
 - D. Local Government Revenue Collection
 - E. Local Government Revenue Committee
5. What is the penalty for a company that fails to file returns in the first month in which the failure occurs?
 - A. ₦5,000
 - B. ₦10,000
 - C. ₦15,000
 - D. ₦20,000
 - E. ₦25,000
6. Which of the following is **NOT** contained in a Tax Clearance Certificate?
 - A. Overpaid tax
 - B. Tax paid
 - C. Tax payable
 - D. Chargeable income
 - E. Tax outstanding
7. Which of the following tax authorities assesses partnership income?
 - A. State Internal Revenue Service
 - B. Federal Internal Revenue Service
 - C. Local Government Revenue Service
 - D. Federal Capital Territory Revenue Service
 - E. Joint Tax Board
8. In Value Added Tax, which of the following is **NOT** required to be on a tax invoice issued on purchases?
 - A. Name and address
 - B. Taxpayer's Identification Number
 - C. Date of supply
 - D. Name of the staff of the supplier that handled the transaction
 - E. Tax charged and rate applied
9. The general administration of Personal Income Tax under the Personal Income Tax (Amendment) Act, 2011 is vested in the

INSIGHT

- A. Board of Inland Revenue
 - B. Minister of Finance
 - C. Joint Tax Board
 - D. State Board of Internal Revenue
 - E. Federal Inland Revenue Service Board
10. The Capital allowances claimable by a manufacturing company against Assessable profit is
- A. 50%
 - B. $66\frac{2}{3}\%$
 - C. 75%
 - D. 80%
 - E. 100%
11. On which of the following is Tertiary Education Tax imposed?
- A. All Nigerian companies which supply educational books only
 - B. Foreign companies operating in Nigeria only
 - C. All Nigerian educational institutions
 - D. All companies registered in Nigeria
 - E. Petroleum exploration companies only
12. Which of the following is **NOT** a type of tax assessment?
- A. Additional Assessment
 - B. Revised/Amended Assessment
 - C. Self Assessment
 - D. Original Assessment
 - E. Repeated Assessment
13. Withholding Tax is meant to
- A. Reduce tax liability
 - B. Reduce tax evasion
 - C. Reduce tax avoidance
 - D. Increase tax liability
 - E. Increase tax avoidance
14. Minimum Tax is levied on a business where
- A. The tax assessment is not done
 - B. The tax payer fails to file returns
 - C. There is no Total Profit
 - D. The tax provision is not acceptable to the tax authority
 - E. The turnover is not up to ₦1,000,000
15. Which of the following does **NOT** apply to minimum tax to be levied where a company's turnover is ₦500,000 or below and the

INSIGHT

- company has been in operation for a minimum of **FOUR** calendar years?
- A. 0.50 % of Gross Profit
 - B. 0.25% of Turnover for the year
 - C. 0.25% of Paid-up Capital
 - D. 0.50% of Net Assets
 - E. 0.20% of Working Capital
16. A document sent by a tax payer to the relevant tax authority stating the grounds for disputing the tax assessment served on him urging the tax authority to review and revise the assessment is known as
- A. Notice of Objection
 - B. Notice of Assessment
 - C. Notice of Appeal
 - D. Notice of Valuation
 - E. Notice of Collection
17. Capital Allowance granted to a company which has incurred qualifying expenditure on plant and equipment given once in the year the asset is first put to use and **NOT** deducted when computing the tax written down value is
- A. Initial Allowance
 - B. Annual Allowance
 - C. Balancing Allowance
 - D. Investment Allowance
 - E. Starting Allowance
18. Under the commencement rules, a tax payer has the option to be assessed on actual year basis for years of assessment.
- A. First and second
 - B. First and third
 - C. Second and third
 - D. Second and fourth
 - E. Third and fourth
19. What is the basis period for the first Year of Assessment under the Companies Income Tax Act Cap C21 LFN 2004 (CITA)?
- A. Date of commencement of business to 31 December of that year
 - B. Date of commencement of business to the accounting year end
 - C. Date of commencement of business to date of cessation

INSIGHT

- D. Date of commencement of business to the penultimate year end
 - E. Date of commencement of business to date of change in accounting year end
21. The following are exempt from Withholding Tax **EXCEPT**
- A. Dividend paid out of pioneer profit
 - B. Technical fees
 - C. Dividend from wholly export-oriented companies
 - D. Dividend from small companies
 - E. Dividend paid out of taxed petroleum profit.
21. The allowance usually granted in lieu of depreciation for tax purposes is
- A. Personal allowance
 - B. Allowance deduction
 - C. Capital allowance
 - D. Department allowance
 - E. General allowance
22. Roll-over relief can only be granted on disposal of an asset if the sales proceeds of the asset is re-invested in the acquisition of another asset of the same class within a period of before or after the disposal of the old asset.
- A. 6 months
 - B. 12 months
 - C. 15 months
 - D. 18 months
 - E. 24 months
23. Which of the following functions is **NOT** performed by a Commissioner of Stamp Duties?
- A. Stamping of Instruments
 - B. Custody of dies and adhesive stamps
 - C. Adjudication
 - D. Assessing instruments
 - E. Approving the use of die of new design
24. A company which has incurred an expenditure on its qualifying building, plant and equipment in an approved manufacturing activity in an Export Processing Zone is entitled tocapital allowance in any year of assessment

INSIGHT

- A. 75%
B. 80%
C. 85%
D. 90%
E. 100%
25. The rate of Rural Investment Allowance for a company that is located at least 20 kilometres away from where there is electricity is
- A. 15%
B. 20%
C. 30%
D. 50%
E. 100%
26. Which of the following are **NOT** under the tax jurisdiction of the Federal Inland Revenue Service?
- A. Residents of the Federal Capital Territory
B. Foreign Affairs Officers
C. Police Officers
D. Civilians in the Police and Military
E. Non-residents
27. Tax is evaded through the following ways **EXCEPT**
- A. Refusing to register with the relevant tax authority
B. Failure to furnish returns
C. Incorporating a sole proprietorship into Limited Liability Company
D. Entering into artificial transactions
E. Overstating expenses so as to reduce taxable profit
28. The Pre-operation levy payable by a company for the first year for **NOT** commencing business after at least 6 months of incorporation is
- A. ₦10,000
B. ₦15,000
C. ₦20,000
D. ₦25,000
E. ₦30,000
29. The following conditions are necessary before donations can be allowed under CITA **EXCEPT**

INSIGHT

- A. It must be made out of Profit
- B. It must not exceed 10% of an Assessable Profit
- 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 a political party

30. The examples of Instruments assessed by fixed Stamp Duties include the following **EXCEPT**

- A. Proxy forms
- B. Payment receipts
- C. Bank notes or bills payable at sight
- D. Property valuation
- E. Guarantor form

**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. Capital gains on the disposal of a landed property through forced acquisition by government is
2. The type of tax which is assessable directly on the taxpayer who is required to pay tax on his property, income or profit is called.....
3. All disputes between States as regards tax matters especially on residence and remittance are settled by
4. The year in which a company permanently ceases to carry on a trade or business is referred to as the year
5. Dividend received by a company after deduction of Withholding Tax at source by the paying company is known as
6. When Federal Inland Revenue Service makes an estimated assessment where the returns filed by a company is rejected or the

INSIGHT

- company has failed to file returns, the assessment is known as.....
7. A deliberate act on the part of a tax payer not to pay tax due is referred to as
 8. Failure to submit VAT returns attracts for every month in which the default continues.
 9. Under the Personal Income Tax (Amendment) Act, 2011 (as amended), the total of wages, salaries, allowances (including benefits in kind), gratuities, superannuation and any other income derived solely by reason of employment is called.....
 10. The date which marks the end of an accounting period is referred to as
 11. Under the commencement rules, the basis period for the second year of assessment is the first months of trading.
 12. A form of capital allowance granted for each year of assessment in the basis period for which an asset is used for the purpose of a tax payer's trade or business is known as.....
 13. The profit of a company for each year of assessment before taking into account balancing charge, loss relief and capital allowances is known as
 14. The government's financial year during which tax is assessed is called.....
 15. Capital gains for individuals is administered by
 16. The administrative and technical head of Stamp Duties Office is known as
 17. The Notice of an Appeal must always be in
 18. A loss sustained in a trade or business which can no longer be carried forward due to the cessation of the trade or business is known as

INSIGHT

19. A person who is not domiciled in Nigeria or who stays in Nigeria for less than 183 days in a twelve-month period but derives income or profit from Nigeria is a
20. Tax collected by a taxable person from other parties for goods and services supplied is called.....

SECTION B: ATTEMPT ANY FOUR QUESTIONS
(50 Marks)

QUESTION 1

Salewa Limited has been in business for some years. The accounts are usually made up to 31 December every year.

For the year ended 31 December 2015, the accounts of the business submitted for tax purposes are as stated below:-

	₦	₦
Gross Profit		5,000,000
Salaries and wages	520,000	
Rents and Rates	500,000	
Donations	20,000	
Legal fees	60,000	
Preliminary Expenses	70,000	
Repairs- buildings	125,000	
Bad debts	100,000	
Depreciation	70,000	
Loss on sale of fixed assets	30,000	
Provision for income tax	220,000	
General Expenses	50,000	
Other Allowable expenses	1,950,000	(3,715,000)
Net Profit		<u>1,285,000</u>

Additional information:-

- (i) The amount agreed to be admissible for tax purposes out of the legal fees was ₦45,000.
- (ii) Donations included a small generator donated to an approved body at ₦10,000.
- (iii) Bad debts: Proved to have become bad - ₦50,000
- (iv) General provision - ₦20,000

INSIGHT

(v) Specific provision	-	₦30,000
(vi) Repairs included construction of fence at-		₦35,000
(vii) Capital allowances agreed	-	₦400,000
(viii) Loss relief brought forward	-	₦250,000

Required:

- a. Compute the Assessable Profit for the year ended 31 December 2015.
(8½ Marks)
- b. Compute tax payable for the relevant Year of Assessment. (4 Marks)

**(Total 12½
Marks)**

QUESTION 2

- a. List the first **TWO** steps to be adopted by a company that changes its accounting year end date for tax purposes.
(2 Marks)
- b. Baba Enterprises has its accounting year end date as 30 June of every year. The accounting date year end was changed to 31 December of every year. Below are the adjusted profits of the relevant years:-

	₦
Year ended 30 June 2012	2,000,000
Year ended 30 June 2013	2,400,000
6 months ended 31 December 2013	1,500,000
Year ended 31 December 2014	2,800,000
Year ended 31 December 2015	3,300,000

Required:

- i. Compute assessable profits for the relevant years of assessment

(9½
Marks)

INSIGHT

- ii. State the assessable profits that will be chosen by the tax authority for the three years for tax purposes.

(1 Mark)

(Total 12½

Marks)

QUESTION 3

- a. List **FOUR** allowable expenditure under Capital Gains Tax ACT Cap CI LFN 2004.
(4 Marks)
- b. Beautiful Events Nigeria Limited is an events management outfit. The company is a registered Value Added Tax (VAT) agent. Its accounts are usually made up to 31 December of every year.

An extract of the financial records for year ended 2014 are as follows:

VAT Accounts	Input	Output
	₦	₦
Paid on materials for Kitchen	2,000	
Charged on food		4,600
Charges on drinks sold		350
Charged on accommodation		1,110
Paid on Lightings for the offices	200	
Amount remitted to FIRS	3,520	
Charged on other services		1,220
Balance as at 31December	<u>1,560</u>	<u> </u>
	<u>7,280</u>	<u>7,280</u>

Required:

- i. Compute the total amount of VAT due to Federal Inland Revenue Service (FIRS) for 2015 tax year.

(6½ Marks)

- ii. Ascertain balance remittable for the year

(2 Marks)

(Total 12½
Marks)

QUESTION 4

- a. List **FOUR** members of the State Board of Internal Revenue.
(4 Marks)

INSIGHT

- b. State **THREE** duties of the State Board of Internal Revenue.
(3 Marks)
- c. What constitutes a quorum for a meeting of the State Board of Internal Revenue. (1/2 Marks)
- d. List **FIVE** taxes and Levies collectible by a State Government.
(5 Marks)

(Total

12½ Marks)

QUESTION 5

- a. List **FIVE** dividends exempted from Withholding Tax.
(2½ Marks)
- b. State **FOUR** offences and penalties for late, non-remittance or non-deduction of Withholding Tax?
(6½ Marks)
- c. State **SEVEN** functions of the Board of Trustees of the Tertiary Education Tax fund.
(3½ Marks)

(Total 12½

Marks)

QUESTION 6

Dayo, Bala and Audu are in partnership. The partnership accounts are prepared up to 31 December of every year. The Appropriation Account for the year ended 31 December 2015 is as follows:

	₦'000	₦'000
Net Profit		1,500
Interest on drawings		
- Dayo		90
- Bala		40
- Audu		30
Interest on Capital		
- Dayo	40	
- Bala	35	
- Audu	25	

Salaries

INSIGHT

i. Dayo	250		
ii. Bala	160		
iii. Audu	150		
Share of Profit			
iv. Dayo ($\frac{5}{10}$)	500		
v. Bala ($\frac{3}{10}$)	300		
vi. Audu ($\frac{2}{10}$)	<u>200</u>	<u> </u>	
	<u>1,660</u>	<u>1,660</u>	

Additional
Information:-

-Leave Allowance

Dayo - ₹30,000

Bala - ₹30,000

Audu - ₹30,000

Depreciation

₹80,000

Required:

Prepare the Adjusted Profit of the business and the Assessable Income of each partner.

(Total 12½ Marks)

INSIGHT

NIGERIAN TAX RATES

1. CAPITAL ALLOWANCES

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

2. INVESTMENT ALLOWANCE

10%

3. RATES OF PERSONAL INCOME TAX

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

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

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

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

INSIGHT

SOLUTION TO MCQ

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

Examiner's Report

The questions covered the entire syllabus. All the candidates attempted the questions. The general performance was above average.

INSIGHT

SOLUTION TO SAQ

1. Exempted from Capital Gains Tax
2. Direct tax
3. Joint Tax Board
4. Ultimate Year
5. Franked Investment Income
6. Best of Judgment
7. Tax Evasion
8. N5,000
9. Gross Emolument
10. Accounting Year End
11. Twelve
12. Annual Allowance
13. Adjusted Profit / Assessable Profit
14. Year of Assessment
15. State Board of Internal Revenue
16. Commissioner for Stamp Duties
17. Writing
18. Terminal Loss
19. Non-resident individual
20. Output VAT

Examiner's Report

The questions are standard and well spread. All the candidates attempted the Short Answer Questions and the general performance was satisfactory.

INSIGHT

SECTION B

SOLUTION 1

- a. **SALEWA NIGERIA LIMITED**
Adjusted Profit for the year Ended 31 December 2015

	₦	₦
Net Profit as per account		1,285,000
Add expenses Disallowed:		
Legal fees	15,000	
Preliminary expenses	70,000	
Repairs - Construction of fence	35,000	
Bad debts-General provisions	20,000	
Donations - Generators	10,000	
Depreciation	70,000	
Loss on sale of fixed assets	30,000	
Provision for income tax	<u>220,000</u>	<u>470,000</u>
Assessable profit		<u>1,755,000</u>

- b. **Tax payable for 2016 year of Assessment**

	₦	₦
Assessable Profit		1,755,000
Loss brought forward		<u>(250,000)</u>
		1,505,000
<u>Less: Capital allowances</u>	400,000	<u>(400,000)</u>
Total profit		<u>1,105,000</u>
Company Income Tax payable 30%		<u>331,800</u>
Tertiary Education Tax payable 2% of assessable profit		<u>35,100</u>

Examiner's Report

This is a straight forward question on the computation of assessable profit of a limited liability company. About 90% of the candidates attempted the question. The general performance was average.

INSIGHT

SOLUTION 2

a. 1st step

Identify the year in which the business fails to make up its accounts to the previous year date. The two years that follow must also be identified.

2nd step

Compute the assessments of the first, second and third years using the old accounting date as basis period,

b.	Computation using old accounting date		
Year	Basis Period	Assessable Profit	
2014	01/07/2012 - 30/06/2013	2,400,000	
2015	01/07/2013 - 30/06/2014	2,900,000	
2016	01/07/2014 - 30/06/2015	<u>3,050,000</u>	
		<u>8,350,000</u>	
 Based on New Accounting date			
Year	Basis Period	Assessable Profit	
2014	01/01/2013 - 31/12/2013	2,700,000	
2015	01/01/2014 - 31/12/2014	2,800,000	
2016	01/01/2015 - 31/12/2015	<u>3,300,000</u>	
		<u>8,800,000</u>	

bii. Decision:

The assessable profit that would be chosen by the relevant tax authority for 2014, 2015 and 2016 assessment years shall be assessable profit derived by applying the new accounting dates of the company because it gives the higher profit of ~~₹~~8,800,000

Workings

i. ₹ 1,500,000	+	(₹ 2,800,000 × $\frac{6}{12}$)	=	
				₹2,900,000
ii. (₹ 2,800,000 × $\frac{6}{12}$)	+	(₹3,300,000 × $\frac{6}{12}$)	=	
				₹3,050,000
iii. (₹ 2,400,000 × $\frac{6}{12}$)	+	₹1,500,000	=	
				₹2,700,000

INSIGHT

Examiner's Report

This is a two-part question. Part (a) is a theory question on change of Accounting year, whilst part (b) is a computation of assessable profit. About 90% of the candidates attempted the question. The general performance was below average. The major pitfall was lack of adequate knowledge of change of accounting date and basis period. Students should study extensively in order to have a good understanding of all aspects of the syllabus.

SOLUTION 3

a. Allowable Expenditure

- i. Cost of acquisition or purchase price including all costs incidental to the purchase
- ii. Improvement costs wholly exclusively and necessarily incurred
- iii. Cost wholly, exclusively and necessarily incurred in establishing or defending the owner's title to a right over the asset
- iv. Incidental costs of disposal
 - Fees, Commissions or remuneration paid for professional services of survey or on valuer, auctioneer accountants, agent and or legal adviser
 - Advertisement cost to find a seller/buyer
 - Cost reasonably incurred to make any valuation or apportionment required for the purpose of computation of capital gains including expenses in ascertaining market value where required.

b i. **Beautiful Events Nigeria Limited** **Computation of Total amount of VAT due for 2015 Tax year**

	N'000
Charged on food	4,600
Charges on drinks sold	350
Charged on accommodation	1,110
Charged on other services	<u>1,220</u>
	7,280

INSIGHT

Less: VAT input:	
Paid on materials for kitchen	<u>2,000</u>
Total VAT due	<u>5,280</u>

ii. Balance remittable for 2015 Tax year

	₦'000
Amount due	5,280
Amount earlier remitted	<u>(3,520)</u>
Balance remittable	<u>1,760</u>

Examiner's Report

This is a simple question on Capital Gains Tax. About 90% of the candidates attempted the question. The general performance was above average.

SOLUTION 4

a) Composition and Duties of State Board of Internal Revenue

Composition

- i. The executive Head of the State Internal Revenue Service as chairman, appointed by the Governor of the State.
- ii. The Directors and Heads of Departments within the Internal Revenue Services
- iii. Three other persons nominated by the commissioner for Finance in the State on their personal merits.
- iv. A Director from the State Ministry of Finance
- v. A legal Adviser from the State Ministry of Justice
- vi. The Secretary of the State Internal Revenue Service who shall be an ex-officio member

b) Duties

INSIGHT

- i. Ensuring the effectiveness and optimum collection of all taxes and penalties due to the Government under the relevant tax laws.
 - ii. Doing all such things as may be deemed necessary and expedient for the assessment and collection of the tax, accounting for all amounts so collected in a manner to be prescribed by the Commissioner
 - iii. Issuing instructions or directives on technical aspects of assessment including interpretation of Income tax to their various officers
 - iv. Advising the government through the Commissioner for Finance on tax matters which include amendments to the tax laws.
 - v. Appointing, promoting, transferring and imposing disciplinary measures on employees of the state Service.
- c) **Quorum:** Any five members of the State Board of whom one must be the Chairman or a Director.
- d) **Taxes and Levies collectible by a State Government**
- i. Personal Income tax in respect of people resident in the state
 - ii. Withholding tax for individuals only
 - iii. Capital Gains Tax for individuals only
 - iv. Stamp duties on instruments executed by individuals
 - v. Pools betting and lotteries, gaming and casino taxes
 - vi. Business premises registration fees
 - a. Urban areas as defined; by each state, maximum of
 - i) N10,000 for registration, and,
 - ii) N5,000 for renewal of registration and
 - b. Rural areas
 - i. N2,000 for registration and
 - ii. N1,000 per annum for renewal of registration
 - vii. Development levy(individuals only)

INSIGHT

- viii. Naming of street registration fees in the state capital
- ix. Right of Occupancy fees on lands owned by the state government on urban areas of the state
- x. Market taxes and levies where state finance is involved

Examiner's Report

This is a standard theory question. It tested candidates' knowledge on the composition, duties as well as the taxes and levies collectible by state government. About 80% of the candidates attempted the question. The general performance was above average.

SOLUTION 5

a. Dividends exempted from Withholding Tax

- i. Dividends paid out of Pioneer profit
- ii. Dividends paid by issuing bonus shares
- iii. Dividends from small companies
- iv. Dividends paid out of taxed petroleum profit
- v. Dividends from companies in petrochemical and liquefied natural gas industry
- vi. Dividends from wholly export oriented companies

b. Offences for Corporate Bodies

Offences	Penalties
a. Failure to deduct	Fine of 200% of tax not deducted plus payment of amount not deducted and interest at the prevailing rate
b. Failure to remit	Fine-200% of tax not remitted payment of tax not remitted and interest at the prevailing rate
c. Rate remittance of withholding tax	10% per annum for the tax not remitted
d. Under remittance of withholding tax	10% per annum of the amount not remitted

For Individuals

Offences

Penalties

INSIGHT

- a. Failure to deduct ₦5,000 fine, payment of tax not deducted plus interest at the prevailing rate
- b. Failure to remit ₦5,000 fine, payment of tax not deducted plus interest at the prevailing rate
- c. **Functions of the Board of Trustees of Tertiary Education Tax**
 - i. Monitor and ensure collection of Tertiary education tax by the FIRS and ensure transfer to the fund.
 - ii. Manage and disburse the fund
 - iii. Liaise with the appropriate Ministries or Bodies responsible for collection or safekeeping of the tax
 - iv. Receive requests and approve admissible projects after due consideration.
 - v. Ensure disbursement of funds to various public Tertiary Education Institutions in Nigeria
 - vi. Monitor and evaluate execution of the projects
 - vii. Invest funds in appropriate and safe securities
 - viii. Update the Federal Government on its activities and progress through annual and audited reports
 - ix. Review progress and suggest improvement
 - x. Make an issue guidelines from time to time to all beneficiaries on disbursement from the fund and the use of monies received from the fund
 - xi. Regulate the administration, application and disbursement of monies from the fund
 - xii. Do such other things as are necessary or incidental to the objects of the TET Fund under the Act or as may be assigned by the Federal Government of Nigeria

INSIGHT

Examiner's Report

This is a good question on withholding tax and the Tertiary Education Tax Fund. About 60% of the candidates attempted the question. The general performance was below average. The major pitfall was lack of knowledge of offences and penalties for late and non-remittance of withholding tax. Candidates should be advised to always study all topics in the syllabus when preparing for examinations.

SOLUTION 6

Dayo, Bala and Audu COMPUTATION OF ADJUSTED PROFIT

	₦'000	₦'000
Net profit		1,500
Add expenses disallowed		
Depreciation	80	
Interest on drawings	160	<u>240</u>
		1740
Less		
Partners' salaries	560	
Interest on capital	<u>100</u>	<u>(660)</u>
Adjusted profit		<u>1,080</u>
Share of profit	₦	
Dayo $\frac{5}{10} \times$	= 540,000	
₦1,080,000		
Bala $\frac{3}{10} \times$ ₦1,080,000	= 324,000	
Audu $\frac{2}{10} \times$	= <u>46,000</u>	
₦1,080,000		
	<u>1,080,000</u>	

Assessable Income of Partners for 2015 Year of Assessment

	Total ₦'000	Dayo ₦'000	Bala ₦'000	Audu ₦'000
Salaries	560	250	160	150
Interest on capital	100	40	35	25
Leave allowance	90	30	30	30
Share of profit	<u>1,080</u>	<u>540</u>	<u>324</u>	<u>216</u>
	<u>1,830</u>	<u>860</u>	<u>549</u>	<u>421</u>

Examiner's Report

INSIGHT

This is a straight forward question on Partnership. It tested candidate's knowledge on computation of adjusted profit of the partnership business and the assessable income of partners. About 80% of the candidates attempted the question. The general performance was below average. The major pitfall was lack of adequate knowledge of adjusted profit.

INSIGHT

SOLUTION 6

(a) Present value of an annuity in perpetuity = $\frac{a}{r}$

Where a = the annuity sum
r = discount rate

i. PV of an annuity in a year's time to perpetuity = $\frac{a}{r}$

$$= \frac{\text{N}50,000}{0.10}$$

$$= \text{N}500,000$$

ii. PV of an annuity from today to perpetuity is given by the formula

$$a + \frac{a}{r}$$

$$= 50,000 + \frac{50,000}{.10}$$

$$= 50,000 + 500,000$$

$$= \text{N}550,000$$

Year	Cashflow N	Df @20%	Present Value N
0	-20,000	1	-20,000
1	+4,000	.8333	3,333
2	+6,000	.6944	4,166
3	+7000	.5787	4,051
4	+6000	.4822	2,893
5	+5000	.4018	<u>2,009</u>
			<u>-3,548</u>

NPV = N - 3548

The project has a negative NPV of N3,548 and so the project should be rejected.

Examiner's Report

This question tests candidates' knowledge of investment appraisal techniques with emphasis on Net Present Value. It was attempted by about 80% of the candidates and performance was average as about 50% of those who attempted it scored 50% and above of the marks allocated.

This topic was brought into the new syllabus recently from management Accounting therefore candidates need to get used to it as soon as possible.

INSIGHT

AT/162/PIII.12
WEST AFRICA

ASSOCIATION OF ACCOUNTANCY BODIES IN

ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
PART III EXAMINATIONS – SEPTEMBER 2016

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. Which of these is a force in the task environment of a business?
 - A. Natural/Physical Environment
 - B. Ownership Structure
 - C. Competitors
 - D. Organisational Culture
 - E. Associated Background

2. Which of these management theorists **CANNOT** be classified as classical management theorists?
 - A. Frederick Winslow Taylor
 - B. Lyndall Urwick
 - C. James Watt, Jr.
 - D. Henry Gantt
 - E. Max Weber

3. Who amongst the following categorised organizational activities into **SIX**, for successful operations?
 - A. Andrew Ure
 - B. Henry T. Towne
 - C. Henri Fayol
 - D. Mathew Robertson Boulton
 - E. Chester Barnard

4. A course of action or inaction selected to meet the requirements of a solution to a particular problem is known as a (an)
 - A. Way forward
 - B. Strategy
 - C. Decision
 - D. Opportunity

INSIGHT

- E. Indecision
5. The industries that are involved in the creation of wealth through the taking of material that are useful for human existence from the soil and sea is called
- A. Generic Industries
 - B. Synthetic Industries
 - C. Husbandry Industries
 - D. Extractive Industries
 - E. Manufacturing Industries
6. Which of these is **NOT** an external recruitment source?
- A. Employee referrals
 - B. Internet websites
 - C. Archival files of potential candidates kept at the organisation
 - D. Promotion to higher level positions
 - E. Employment agencies
7. What is the business philosophy that harps on the belief that anything that can be produced can be sold, particularly if the cost of production is low?
- A. Product concept
 - B. Production concept
 - C. Selling concept
 - D. Marketing concept
 - E. Societal marketing concept
8. Which of these is a hygiene factor in the Frederick Herzberg **TWO** factor theory?
- A. Work itself
 - B. Responsibility
 - C. Company policy and administration
 - D. Personal growth
 - E. Nature of work
9. A leader who secures its leadership position by what he or she does is a (an)
- A. Traditional leader
 - B. Situational leader
 - C. Expert leader
 - D. Functional leader
 - E. Charismatic leader
10. Which of the following is **NOT** an Internal triggers of change?
- A. Planned changes in strategy

INSIGHT

- B. Efforts to make better use of resources
 - C. Efforts to improve productive efficiency
 - D. Needs to respond to the development of new products
 - E. Merger of the business with another
11. Which of the following is **NOT** one of the importance of office machines and equipment?
- A. High quality of work as a result of use of office machines
 - B. Less resistance to pressure
 - C. Quick error correction
 - D. Good standardization of office work
 - E. Reduction in workers fatigue
12. Which of the following is **NOT** used in the classification of a business?
- A. Size
 - B. Types of goods
 - C. Types of industry
 - D. Ownership structure
 - E. Location of factory
13. Those factors within the firm that affect the abilities of the managers to pursue certain actions and strategies are termed
- A. Internal environment
 - B. External environment
 - C. Five forces
 - D. SWOT analysis
 - E. Physical environment
14. Doing things right is otherwise known as
- A. Effectiveness
 - B. Strategy
 - C. Leading
 - D. Disseminating
 - E. Efficiency
15. Which of these is the determination of the essential characteristics of a job in order to produce job specification and job description?
- A. Selection
 - B. Training and development
 - C. Performance appraisal
 - D. Labour relations
 - E. Job analysis

INSIGHT

16. Which of the following management functional areas focuses on recording and summarising business transactions and activities designed to accumulate, measure, and communicate financial information about economic entities for decision making purposes?
- A. Accounting
 - B. Marketing
 - C. Production
 - D. Human Resource
 - E. Purchasing
17. Which of the stages of group development involves members of the group getting to know each other and putting forward their views?
- A. Forming
 - B. Storming
 - C. Norming
 - D. Performing
 - E. Adjourning
18. Which level of managers requires more conceptual skill than others?
- A. Lower level
 - B. Middle level
 - C. Top level
 - D. Operational level
 - E. Supervisory level
19. The proper arrangement of furniture, equipment and fittings in the office with the intention of maximizing the space available is termed
- A. Factory layout
 - B. Office layout
 - C. Facility layout
 - D. Production layout
 - E. People
20. Positive economic, political, social and technological changes are referred to as
- A. Strengths
 - B. Weakness
 - C. Opportunities
 - D. Threats
 - E. Possibilities

INSIGHT

21. Which of the following is **NOT** an advantage of a sole proprietorship?
- A. Low organisational cost
 - B. Few legal barriers
 - C. Secrecy
 - D. Slow technological progress
 - E. Tax savings
22. The management perspective that emphasizes understanding human behaviour, needs and attitudes in the work place is termed
- A. Hawthorne studies
 - B. Scientific management perspective
 - C. Administrative management perspective
 - D. Human relations perspective
 - E. Management science perspective
23. The process of preparing alternative courses of action that may be used if the primary plans do **NOT** achieve the objectives of the organization is known as
- A. Strategic planning
 - B. Tactical planning
 - C. Operational planning
 - D. Contingency planning
 - E. Planning functions
24. The performance of planning, leading and controlling activities which are seen as circular and continuous is known as a(an)
- A. System approach
 - B. Closed system approach
 - C. Process approach
 - D. Contingency approach
 - E. Open system approach
25. A group decision-making format in which group members are brought face to face to pursue a specific agenda and decision goal is called a/(an)
- A. Nominal group
 - B. Delphi group
 - C. Group think
 - D. Interactive group

INSIGHT

E. Devil's advocate

INSIGHT

26. Control that consists of monitoring ongoing employee activities in order to ensure their consistency with established standard is called
- A. Concurrent control
 - B. Feedforward control
 - C. Feedback control
 - D. Bureaucratic control
 - E. Decentralised control
27. The listing of duties as well and the desirable qualifications for a particular job is termed
- A. Selection
 - B. Validity
 - C. Job description
 - D. Recruiting
 - E. Realistic
28. Factors that influence job satisfaction based on fulfillment of high-level needs such as achievement, recognition, responsibility and opportunity for growth is known as
- A. Hygiene factors
 - B. Motivators
 - C. Expectancy theory
 - D. Valence
 - E. Reinforcement theory
29. Messages transmitted from the lower to the higher level in the organisation's hierarchy is called
- A. Upward communication
 - B. Downward communication
 - C. Horizontal communication
 - D. Informal communication
 - E. Management by wandering around
30. The hardware, software, telecommunication database management and other technologies used to store, process and distribute information are known as
- A. Management Information Systems
 - B. Operative Information Systems
 - C. Information Technology
 - D. Process Control Systems
 - E. Office Automation Systems

INSIGHT

**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. Those complex laws, regulations and government agencies and their actions which affect all kinds of enterprises to a varying degree are termed
2. The commonest and oldest form of business ownership is called.....
3. The management function concerned with assigning tasks, grouping tasks into departments and allocating resources to departments is known as
4. A subfield of the classical management perspective that emphasizes management on an impersonal and rational basis through such element as clearly defined authority, responsibility, formal record keeping, separation of management and ownership is called a
5. The action steps by which an organization intends to attain its strategic goals is known as
6. The systematic reduction in the number of managers and employees to make a company more cost efficient and competitive is called
7. A forecast that predicts the cash inflows and outflows in future periods is known as
8. A partner who invests money in the business but does not have management responsibility or liability for losses beyond the investment is a
9. The pre-classical theorist that perceives the managers role as that of reform is
10. The management skills that relate to the knowledge of how to use the tools, procedures or techniques in a particular specialized field is regarded as a skill.

INSIGHT

11. The type of departmentalization in which positions are grouped according to similarity of products, location or place and customer is called a
12. The process of stimulating the market conditions to determine consumer reactions to a new product is termed
13. A leader who centralises power and decision making to himself and exercises complete control over the subordinate is
14. The filing system where all records relating to the various departments of an organization are filed at one place or office is called
15. 'Where every employee receives orders from one superior' describes the term
16. Which concept best describes a process which commences with uncertainty as a result of the existence of two or more possible courses of action from which a choice must be made and that choice will lead to the elimination of uncertainty or doubt?
17. The order size that minimizes the total cost of ordering and carrying inventory is referred to as
18. The approach that assumes leaders are born with certain characteristics which distinguish leaders from followers is called
19. A business strategy that entails branching out into new products and new markets is termed
20. The document that contains the details of the work to be done in the office and other related issues is called

SECTION B:
(50 Marks)

ATTEMPT ANY FOUR QUESTIONS

QUESTION 1

ATSWA PART III SEPTEMBER 2016 DIET

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Discuss **SIX** importance of profit to a business enterprise.

(Total 12½ Marks)

QUESTION 2

- a. List Fayol's **FOURTEEN** Principles of Management. (7 Marks)
- b. Briefly explain **FIVE** of the principles listed in (a) above (5½ Marks)

(Total 12½ Marks)

INSIGHT

QUESTION 3

- a. What is control? (2½ Marks)
- b. Reliable and effective control systems have certain characteristics. Explain **FIVE** characteristics of effective control systems. (10 Marks)
- (Total 12½ Marks)**

QUESTION 4

Production management is the term used to describe all the activities that managers do to help their firms create goods and services.

State and explain **SIX** functions of a typical production department. (Total 12½ Marks)

QUESTION 5

- a. What is communication? (2½ Marks)
- b. Outline **FIVE** factors that constitute barriers to communication. (5 Marks)
- c. State **FIVE** measures for overcoming such barriers. (5 Marks)
- (Total 12½ Marks)**

QUESTION 6

Strategic management are decisions and actions which affect the long term performance of an organization.

- a. Explain **FOUR** importance of strategic management. (6 Marks)
- b. Explain briefly **FIVE** strategic management process. (6½ Marks)

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(Total 12½ Marks)

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SOLUTIONS

MULTIPLE CHOICE QUESTIONS

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

EXAMINER'S REPORT

The Multiple Choice Questions were attempted by all the candidates. About 80% of them scored above 60% of the 30 marks allocated to this part of the examination.

SHORT ANSWER QUESTIONS

1. Political/Legal Environment
2. Sole proprietorship/One man business
3. Organising
4. Bureaucratic organisation
5. Strategic plans
6. Downsizing/Retrenchment

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7. Cash flow forecast/budgets
8. Limited partner
9. Robert Owen
10. Technical
11. Divisional structure
12. Test marketing
13. Autocratic/dictatorial
14. Centralised filing system
15. Unity of command
16. Decision making
17. Economic order quantity (EOQ)
18. Traits approach
19. Diversification
20. Office manual/Manual

EXAMINER'S REPORT

This section was attempted by all the candidates. About 25% of the candidates scored above 50% of the mark allocated. This section tested some management concepts and the candidates' performances suggest they lack understanding in this regard.

SOLUTION 1

Some of the importance of profit to a business organisation are:

- i. It guides an investor as to which type of business to establish.
- ii. It is an objective means of evaluating the performance of business.
- iii. Profit is the critical attraction for venturing into business.
- iv. Profit is the principal factor to firm's survival growth and expansion. It is only when profit is made that the firm can survive, grow and expand.
- v. Profit is the means of boosting the wealth of the owners of the business.
- vi. Profit is one of the parameters used by investors to buy shares in a public limited company.
- vii. Profit enhances the ability of the business to embark on social responsibility with its attendant benefits to the organisation.
- viii. Profit is one of the criteria used for resource allocation in industry.
- ix. Profit is used to set performance standard and by implication it is used to institute control mechanism to organisational activities.
- x. Labour unions use profit as a basis of determining their level of demand.

EXAMINER'S REPORT

INSIGHT

About 80% of the candidates attempted the question. About 65% of them scored above average. Those who performed below expectation could not advance good points rather they were repeating points using similar/alternative terms that conveyed same meaning.

SOLUTION 2

Fayol's 14 Principles of Management include:

- i. **Division of work:** Division of work reduces span of attention or effort for one person or any group. It also helps to develop practice and familiarity.
- ii. **Authority & responsibility:** The right to give orders should not be considered without reference to responsibility.
- iii. **Discipline:** Outward marks of respect in accordance with formal or informal agreements.
- iv. **Unity of command:** One man one superior.
- v. **Unity of direction:** One head and one plan for a group of activities with same objective.
- vi. **Subordination of individual interests to general interest:** The interest of one individual or one group should not prevail over the general good. This is a difficult area of management.
- vii. **Remuneration:** Pay should be fair to both the employee and the firm.
- viii. **Centralisation:** Centralisation concerns restricting delegation of decision making. A high degree of authority is held by managers at or near the top of the organisational hierarchy.
- ix. **Scalar chain:** The line of authority from top to bottom of the organisation. The clearer the line of authority, the clearer will be the responsibility for decision making and the organisational communication will be more effective.
- x. **Order:** A place for everything and everything in its place; the right man in the right place.
- xi. **Equity:** A combination of kindness and justice towards employees. Being fair to all stakeholders.
- xii. **Stability of tenure of personnel:** Employee should be given time to settle into their jobs. A high employee turnover rate is not good for the efficient functioning of an organisation.
- xiii. **Initiative:** Within the limits of authority and discipline, all levels of staff should be encouraged to show initiative. Subordinate should be given the freedom to conceive and carry out their plans.
- xiv. **Esprit de corps:** Harmony is a great strength to an organisation; teamwork should be encouraged.

EXAMINER'S REPORT

INSIGHT

About 90% of the candidates attempted the question. About 70% of them scored above 50% of the mark allocated. The major pitfall was the inability of the candidates to explain some of the points correctly.

SOLUTION 3

Control is the systematic process through which managers regulate organisational activities in order to make them consistent with expectations established in plans, targets and standards of performance.

Characteristics of effective control are:

1. Preservation of accurate information on performance.
2. Information must be collected, routed and evaluated at the appropriate time so that action will be taken in time to produce improvement.
3. Information in a control system must be understandable and seen as the objective by individuals who use them.
4. The cost of implementing the control should be less than or at least equal to the benefit derived from the control.
5. Control system should focus on strategic control points where deviation from standards would lead to greatest harm. That is, control should spot both positive and negative deviation at critical points.
6. The exception principle, manager must concentrate their control effort on exceptional deviations especially, significant deviations which may be good or bad in order to achieve efficient control system.
7. Control system should fit the organisation climate.
8. Control system should be flexible to incorporate changes within the environment. Flexibility of control enables organisation to react quickly to adverse changes or take advantage of new opportunities.
9. Control must be prescriptive and operational. Effective control system must specify the means of correcting deviations in useable form for the person responsible for corrective action.
10. Control system must be communicated to and accepted by organisational members.

EXAMINER'S REPORT

About 90% of the candidates attempted the question. About 70% of them scored above 50% of the mark allocated. The major pitfall was the inability of the candidates to explain some of the points correctly.

INSIGHT

SOLUTION 4

The functions of a typical production department are:

- i. Forecasting the demand for productions and using the forecast to determine the requirements of various factors of production.
- ii. Arranging for the procurement of required factors of production.
- iii. Arranging for services such as maintenance, store keeping, material handling, inspection and quality control as well as would be required to attain the targeted level of production.
- iv. Ensuring effective and efficient utilisation of the factors of production available to produce the product.
- v. Organising the production work by allocating responsibilities to machines and men.
- vi. Ensuring proper layout of the production facilities.
- vii. Active Participation in the location of production facilities.
- viii. Ensuring proper scheduling of production work.
- ix. Managing the inventory.
- x. Active Participation in the product design and development. The production department must be actively involved in the process of product design and development. This will enable management to know what is achievable with the facilities available in the company.

EXAMINER'S REPORT

About 30% of the candidates attempted the question. 65% of them scored above 50% of the mark allocated. The major challenge of the question was the candidates inadequate knowledge of the functional areas of business especially production function.

SOLUTION 5

- (a) Communication is the process by which information is exchanged and understood by two or more people usually with the intent to motivate or influence behaviour.

Communication can also be defined as the transference and the understanding of meaning among individuals. Communication in an organisation may be formal or informal.

Communication can also be seen as the process of passing information from sender (encoder) to the receiver (decoder) through a medium (channel) and getting feedback.

- (b) **Barriers to effective communication**

Barriers refer to factors within the organisation or individual(s) which impede the flow of communication. Examples are:

- i. **Semantics:** This has to do with the use of technical jargons, unfamiliar words, high-sounding words, poor sentence

INSIGHT

structure etc. Semantics is a problem because people attach different meanings to words.

- ii. **Poor listening skills:** Some people may not be able to communicate effectively with others because they don't listen when others are talking.
- iii. **Differences in background:** Differences in age, social status of people communicating with each other could impede communication between them.
- iv. **Conflicts:** Conflicts between individuals or work groups in an organisation could impede communication flow in the organisation.
- v. **Emotional problem:** Such as frustration, poor perception, hostility, anger, fear and mistrust might make it difficult for some people to communicate with others.
- vi. **Communication overload:** Communication may be impeded if managers are "buried" with too much information from several sources and find it difficult to process the information.
- vii. **Lack of planning:** Communication in an organisation may be ineffective where managers fail to plan before communicating.
- viii. **Physical layout of the organisation:** where employees are physically isolated from each other because of the layout of the offices, communication might become ineffective.

Measures for overcoming the barriers:

- i. Improve the general atmosphere for effective communication by adopting an open door style, which encourages employees to communicate without fear.
- ii. Planning before communicating i.e. decide what message you want to get across to the receiver; how to send the message

INSIGHT

and who is receiving the message; when to send the message to the receiver. This analysis helps to choose the right message and the appropriate media of communication.

- iii. Management must provide the right media for communication and make these media accessible to all employees.
- iv. Overload of managers with volumes of irrelevant information must be avoided by regulating the quantity of information flowing to them and encouraging delegation of authority.
- v. Break down physical barriers to communication by designing the office layout in such a way that it makes it possible for employees to interact.
- vi. Management must reduce the use of highly technical jargons especially when communicating with subordinates.
- vii. Develop effective listening skill: Ability to get a feedback to see if the message is being understood.
- viii. Management must use the right media of communication.

EXAMINER'S REPORT

About 90% of the candidates attempted the question. About 70% of them scored above 50% of the mark allocated. The major problem the candidates had was their inability to state relevant points to explain barriers of communication and measures to overcome such barriers.

SOLUTION 6

(a) Importance of Strategic Management

- i. Performance: Strategic Management aids performance of organisations in terms of profitability, growth, market position, competitive advantage and so on.
- ii. Managing change: Strategic Management is a tool for managing changes taking place in the internal and external environments that influence the organisation.
- iii. Effective coordination: It helps coordinate all organisational activities and resources towards achieving overall organisation with objectives and methods of achieving them.

INSIGHT

- iv. **Focus:** It provides the organisation with objectives and methods of achieving them.
- v. It allows an organisation to take advantage of key environmental opportunities and to minimize the impact of external threats.
- vi. It enables an organisation to capitalize on internal strengths and overcome internal weaknesses.

(b) **Strategic Management Process**

- i. **Developing vision:** An organisation develops its vision. A vision is a statement showing destination i.e. what is out to achieve.
- ii. **SWOT analysis:** It is the analysis of the organisation's external and internal environment. It is used to analyse the strength, weakness, opportunities and threats of the firm.
- iii. **Formulation of strategies:** Managers use identified strength, weakness, opportunities and threats to formulate strategies that will lead to the achievement of organisational objectives.
- iv. **Implementation of strategies:** Proper implementation of strategy is a pre-requisite to an effective strategic management process.
- v. **Evaluation:** Evaluation provides the means of determining the impact of implemented strategies. The purpose is to establish whether the strategy is working and if it may need adjustment.

EXAMINER'S REPORT

About 40% of the candidates attempted the question. About 70% of them scored below 6 marks. The major reason for the poor performance was the candidate's inability to list the relevant points expected in answering the question on both the importance and strategic management processes.