

# **INSIGHT**

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## **EXAMINERS GENERAL COMMENTS**

### **BREACH OF EXAMINATION INSTRUCTIONS**

**IN SPITE OF THE EXAMINERS' GENERAL COMMENT 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 REQUIRED IN EACH PAPER; AND**
- B) BY ATTEMPTING MORE QUESTIONS THAN REQUIRED IN EACH SECTION.**

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

**IT HAS BECOME MANIFEST 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 and need to improve their knowledge and presentation;
- (iii) Lecturers and students interested in acquisition of knowledge in the relevant subjects contained therein; and
- (iv) The profession in improving pre-examination and screening processes, and so the professional performance.

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.

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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/141/PIII.9

ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA  
ACCOUNTING TECHNICIANS SCHEME  
PART III EXAMINATION - MARCH 2014  
PRINCIPLES OF AUDITING

Time Allowed: 3 Hours

SECTION A: PART I      ATTEMPT ALL QUESTIONS      (30 Marks)

**MULTIPLE CHOICE 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. For the purpose of an audit, the auditor does **NOT** need to employ one of the following as an expert:
  - A. Lawyers
  - B. Accountants
  - C. Stockbrokers
  - D. Geologist
  - E. Valuers
  
2. The following are types of audit, **EXCEPT**
  - A. Social audit
  - B. Value for money audit
  - C. Technical sampling audit
  - D. Transaction audit
  - E. Management audit
  
3. The purpose of preparing audit budget does **NOT** include
  - A. Providing a basis for measuring subsequent performance and giving reasons for inefficiency
  - B. Providing a basis for planning future audit
  - C. Determining audit fee increase
  - D. Obtaining and review copies of past audited accounts
  - E. Establishing a basis for controlling the expenditure of resources for the audit assignment

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4. The loss of audit trail can be overcome through any of the following **EXCEPT**
- A. Special printout
  - B. Computer program
  - C. Alteration test
  - D. Use of test pack
  - E. Use of Computer Bureau
5. Techniques for a value-for-money audit does **NOT** include
- A. Review of the management policies and mission
  - B. Management and system review
  - C. Analysis of planning and control processes
  - D. Efficiency Assessment
  - E. Effectiveness review
6. Which of the following circumstances may **NOT** necessarily influence the auditor's opinion?
- A. Failure to comply with relevant legislation
  - B. Disagreement as to the extent of disclosure of facts in the financial statements
  - C. Disagreement over the audit fees
  - D. Inappropriate accounting policies
  - E. Non-compliance with Financial Reporting Standards
7. Which date should appear on the Auditor's Report?
- A. The date fieldwork is completed
  - B. The date fiscal period audit ended
  - C. The date review of the working papers was completed
  - D. The date report was delivered to the client
  - E. The date financial statement was approved by the board of directors
8. Which of the following is **NOT** likely to be indicative of a going concern issue when reviewing the financial statements of a client's company?
- A. Low liquidity ratios
  - B. Existence of large overdue debtors
  - C. Dividends in arrears
  - D. Default on loan agreement
  - E. Closing down of major production plants during the year

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9. An adverse opinion would be issued by the auditor if
- A. The audit was taken over from an independent auditor who had resigned without giving reasons
  - B. An unqualified audit opinion cannot be given because of auditor's lack of independence
  - C. Restriction on the scope of audit was significant
  - D. The statement taken as a whole do not represent the financial position of the company
  - E. There is a disagreement that is material and pervasive
10. Which **ONE** of the following is **NOT** mandatorily required to be reported by the auditor?
- A. Whether the books of accounts are in agreement with the financial statements
  - B. Whether all necessary information and explanations have been received for the purpose of the audit
  - C. Whether the company has kept proper books of accounts
  - D. Whether the company has complied with applicable provisions of Law
  - E. Whether the information given in the directors' report is consistent with the accounts
11. What is the main objective of conducting a statutory audit of a limited liability company?
- A. To prevent fraud and error
  - B. To ascertain material misstatement in the accounts
  - C. To express an opinion on whether the financial statements show a true and fair view
  - D. To detect error and fraud
  - E. To report fraudulent activities of the directors to shareholders
12. What name is given to a holding company's external auditor that is responsible for the audit opinion on the group's financial statements?
- A. Universal auditor
  - B. Tertiary auditor
  - C. Secondary auditor
  - D. Primary auditor
  - E. Energetic auditor

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13. Which **ONE** of these is **NOT** part of the books that must be kept by a registered company in line with the Company/Business Association Law of your Country?
- A. A register of directors and secretary
  - B. A register of members
  - C. Minutes of meetings of the company
  - D. Register of contingencies
  - E. A register of charges
14. The following are the contents of an audit report prepared by an external auditor to the shareholders, **EXCEPT**
- A. Title of the report
  - B. Addressee
  - C. Emphasis of the matter
  - D. The basis of charging audit fees
  - E. Opinion paragraph
15. Which **ONE** of the following signifies the ability of a company to continue to exist for a foreseeable future time without curtailing its line of business?
- A. Consistency
  - B. Going concern
  - C. Materiality
  - D. Prudence
  - E. Restriction
16. The following are contents of Audit Planning Memorandum, **EXCEPT**
- A. The staff and time budget
  - B. The timing of the audit work
  - C. Agreed audit fee
  - D. Instructions to the audit team
  - E. Changes in the clients business since the last audit
17. A basis under which financial transactions are recorded right from the boardroom where management takes decision to spend money is called
- A. Modified cash Basis
  - B. Modified Accrual Basis
  - C. Cash Basis
  - D. Accrual Basis
  - E. Commitment Basis

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18. Which **ONE** of these is **NOT** an element of an assurance engagement?
- A. A subject matter
  - B. A suitable criteria
  - C. An engagement process
  - D. A conclusion
  - E. Analytical review procedure
19. Due process in public sector involves **ONE** of the following
- A. Transparency in accounting for contracts
  - B. Making use of committee in approving contracts
  - C. Making adequate arrangements in treating all audit queries
  - D. Allowing interested parties to provide input into the decision making process
  - E. Awarding contracts to registered contractors
20. The committee that reviews the report of the Auditor General of your Country and invites any person indicted in the report to appear for public hearing at the National Assembly/Legislature is the
- A. Audit Committee
  - B. Audit Alarm Committee
  - C. Survey Committee
  - D. Public Accounts Committee
  - E. Ad-hoc Committee
21. Which **ONE** of the following is **NOT** a component of an entity's internal control system?
- A. Control environment
  - B. Risk assessment process
  - C. Control activities
  - D. Monitoring of controls
  - E. Management perspective
22. Which **ONE** of the following is **NOT** a criteria for assessing the internal audit function in an organisation?
- A. Resources available
  - B. Due professional care
  - C. Scope of function



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- D. Technical competence
  - E. Number of staff in the internal audit function
23. All of the following but **ONE** are the disadvantages of the Internal Control Questionnaire
- A. Ensures quick preparation
  - B. Controls may be overstated
  - C. Large number of irrelevant controls may be involved
  - D. Gives the impression that all controls are of equal weight
  - E. May not include unusual controls
24. Which **ONE** of the following is an inherent limitation of internal control system?
- A. Fraud
  - B. Management override
  - C. Fatigue
  - D. Accountability
  - E. Poor working conditions
25. The method of recording the systems of internal control **EXCLUDES ONE** of the following:
- A. Narrative notes
  - B. Gantt Chart
  - C. Organisation chart
  - D. Internal control questionnaire
  - E. Flow Chart
26. Those documentations that are prepared or obtained by the auditor and usually retained by him in connection with his performance of his audit are
- A. Audit records
  - B. Audit documents
  - C. Audit marking papers
  - D. Audit Planning Memorandum
  - E. Audit evidence

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27. The application of audit procedures to less than 100% of the population of an account balance is
- A. Auditing investigation
  - B. Limited audit
  - C. Special audit
  - D. Time saving audit
  - E. Audit sampling
28. The probability that an auditor would draw an audit conclusion and express an audit opinion that is invalid is
- A. Audit probability
  - B. Audit opinion
  - C. Audit sampling
  - D. Audit risk
  - E. Audit conclusions
29. The possibility that a material misstatement due to error or fraud in a financial assertion will not be prevented or detected by the client's internal control is
- A. Sampling risk
  - B. Non-sampling risk
  - C. Control risk
  - D. Detection risk
  - E. Inherent risk
30. The risk that the auditor's substantive procedures will not detect a misstatement or error that may exist in an account balance or class of transactions which is material is
- A. Inherent risk
  - B. Detection risk
  - C. Central risk
  - D. Sampling risk
  - E. Audit risk

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SECTION A: PART II

ATTEMPT ALL QUESTIONS

(20 Marks)

## SHORT-ANSWER QUESTIONS

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

1. What is FIFO as a stock valuation method?
2. The letter written to agree the terms of an audit assignment is called.....
3. The letter written to agree the terms of an audit assignment is called.....
4. What is the acronym IPSAS?
5. Give another name for “letter of control weakness.”
6. Itemise two types of audit reports
7. List two circumstances that can lead to an audit report qualification
8. To whom should the external auditor address his audit report?
9. What kind of audit opinion should be expressed by the auditor when he concludes that the financial statements are presented fairly in all material respects in accordance with the identified financial reporting framework?
10. The paragraph that states the factual statement of what the auditor carried out in the audit of financial statements is called ..... paragraph
11. What does an auditor use to assess risks?
12. Misstatements including omissions, which could reasonably be expected to influence the economic decisions of users, is considered to be.....
13. What type of audit report is issued for a large organisation which displays fundamental and material weaknesses?
14. Whom does auditing help to assure that the business enterprise is being run and managed in his interest?
15. What type of audit is carried out because the law requires them?



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## QUESTION 3

- a. Distinguish between:
- i. Auditing and Accounting (3½ Marks)
  - ii. Internal and external audits (3 Marks)
- b. i. Enumerate **FOUR** advantages of audit planning (4 Marks)
- ii. List **TWO** factors that may hinder the successful implementation of an audit plan. (2 Marks)
- (Total 12½ Marks)**

## QUESTION 4

Sequel to your Country's decision to adopt IPSAS in line with the current reform in government financial accounting.

**You are required to:**

- a. Outline the benefits to be derived from the adoption of IPSAS (4½ Marks)
- b. Briefly explain the following terms:
- i. Electronic payment system (2 Marks)
  - ii. IPPIS (2 Marks)
  - iii. IFMIS (2 Marks)
  - iv. Treasury Single Account (TSA) (2 Marks)
- (Total 12½ Marks)**

## QUESTION 5

- a. Over the years, professional negligence against auditors is increasingly taking different dimensions.

You are required to discuss this statement with reference to decision in the following cases:

- i. Candler V Crane Christmas & Co (1951) (2½ Marks)
- ii. Jeb Fasteners Limited V Marks Bloom & Co (1981) (2½ Marks)

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- b. The Managing Director of your company does not see any reason why internal control system should be instituted in the company.

You are required to enumerate any **FIVE** advantages of having internal control systems put in place for the company.

(7½ Marks)

**(Total 12½ Marks)**

## QUESTION 6

In gathering audit evidence, it is not possible for the auditor to ascertain that all items in a set of accounts are wholly correct. The auditor is only required to give an opinion on the truth and fairness of the contents of the financial statements.

### Required:

- a. Distinguish between judgement and statistical sampling. (3½ Marks)
- b. Itemise **THREE** reasons why 100% check is not possible in auditing. (3 Marks)
- c. Explain **FOUR** areas where 100% check is still applicable. (6 Marks)

**(Total 12½ Marks)**

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## SUGGESTED SOLUTIONS

### SECTION A

#### PART I MULTIPLE-CHOICE QUESTIONS

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

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

## **EXAMINER'S COMMENT**

The questions were quite standard and reflected a good coverage of the syllabus. Candidates' performance was average.



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## **PART II SHORT-ANSWER QUESTIONS**

1. First in First Out
2. Letter of Engagement
3. Letter of Engagement
4. International Public Sector Accounting Standards
5. Management Letter
6. Qualified/Clean or Unqualified Audit Report
7. Uncertainty/Disagreement
8. Shareholders
9. Unqualified Opinion/Clean Report
10. Scope
11. Professional Judgement
12. Material
13. Adverse Opinion
14. Shareholders
15. Statutory Audit
16. Audit Committee
17. Vote book
18. Benchmarking

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19. The Auditor General of the Federation
20. International Public Sector Accounting Standards

## EXAMINER'S COMMENT

The short answer questions also reflected a good coverage of the syllabus. Candidates' performance was average.

## SECTION B

### SOLUTION 1

- a. Joint audit exists in a situation where two firms combine together to audit the financial statements of a company.
- b. Advantages
  - i. Audit risks will be greatly minimised.
  - ii. Enhancement of audit quality as a result of the synergy of two firms working together.
  - iii. It is most ideal for a group audit situation.
  - iv. It is also required for companies with high volume transactions and limited time reporting requirement.
  - v. It is also required for companies with large number of branches.
  - vi. It facilitates effective and detailed coverage of an audit assignment.
  - vii. Damages in case of professional negligence will be borne by two firms instead of one.

#### Disadvantages

- i. Audit approaches of the firms may differ.

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- ii. There may be disagreement on the reviews of certain balances in the account viz-a-viz their treatment in the account.
- iii. There may be disagreement over the sharing of fees if the basis was not agreed initially.
- iv. There may be disagreement on the division of the audit work.
- v. There may be a tendency on the part of the firms to field less qualified and inexperienced staff.
- vi. Liability is joint and several. This implies that firm A in a joint audit with B may suffer from the negligence of B notwithstanding that firm A was professional in his own aspect of the audit.
- vii. The time spent on the audit may be unduly prolonged and may lead to increased audit cost.

## EXAMINER'S COMMENT

This question is testing the concept of joint audits with candidates required to clearly list FIVE advantages and disadvantages. It was attempted by more than 90% of the candidates and performance was above average.

## SOLUTION 2

- (a). The following basic elements that must be included in an Auditor's Report are:
  - i. Title
  - ii. Addressee
  - iii. Opening or introductory paragraph identifying the financial statements audited.
  - iv. Statement of the responsibility of the Directors.
  - v. Statement of the responsibility of the Auditor.

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- vi. A reference in the statute and professional standards under which the audit was carried out.
- vii. The Auditor's opinion
- viii. The Auditor's signature
- ix. The date of the Report
- x. The Auditor's name and address.

(b) Whenever the auditor has reservations about the concept of truth and fairness view on a client's financial statements, a qualified audit report will be issued.

Basically there are four main types of audit qualifications. These are

- i. **Subject to opinion:** This is applicable to matters on which the auditor is uncertain. Issues are material but not fundamental.
- ii. **Disclaimer of Opinion:** The auditor states that he is unable to form an opinion as to whether the financial statements give a true and fair view. Issues here are material and fundamental.
- iii. **Except Opinion:** The auditor expresses an adverse opinion on an aspect only in the financial statements which is material but not fundamental to the whole financial statements. The nature of the circumstance leads to disagreement.
- iv. **Adverse Opinion:** The auditor states that in his opinion, the financial statements do not show a true and fair view. The issues concerned are material and fundamental.

## EXAMINER'S COMMENT

The question is testing the elements to be included in an auditor's report as well as the types of audit qualifications available. More than 90% of the candidates attempted the question and more than 60% performed above average. For those that did poorly, they did not quite grasp the intricacies of the contents of an audit report.

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## SOLUTION 3

### a. (i) DISTINCTION BETWEEN ACCOUNTING AND AUDITING

Accounting is the process of recording, analysing, forecasting and interpreting the financial information of an organisation. The law places the preparation of financial statements squarely at the doorsteps of the directors of the organisation.

There are two major types of accounts to prepare; Management Accounts and Financial Accounts.

Management Accounts are prepared to assist management in decision making and to enable them see the nuances in the indices of revenue and costs and determine what practical steps to take to increase profitability.

Financial Accounts deals with the process (required by law) by which financial information is displayed to show financial performance and growth. The format is dictated by the laws of the land and recently International Financial Reporting Standards. (IFRS)

AUDITING on the other hand, is primarily an evaluative process which involves gathering and evaluating audit evidence and communicating conclusions about the fairness with which the communication resulting from the accounting process reflects the underlying economic events. It also involves the independent examination of the financial statements of an enterprise (prepared by management) by the auditor whose responsibility is to express an opinion on the accounts.

### ii. Internal Audit and External Audit

Internal audit is an internal appraisal of the activities of an enterprise by its internal auditor. It is a creation of the enterprise established by the management. It is a separate department within the organisation. The internal auditor reports to the highest authority. The Internal auditor may or may not be a professional qualified Accountant but it is desirable if he is qualified.

External audit is that audit that is carried out by people who are not employees of an organisation. They are normally referred to as External Auditors; External

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audit can be private or statutory depending on whether or not they are required by the law.

b.i). Advantages of Audit Planning

- ❖ To enable the auditor to determine his audit approach
- ❖ To clarify audit objectives
- ❖ To determine audit staff requirements
- ❖ To enable the auditor to identify those aspects of the audit in preparing audit programmes
- ❖ To aid the auditor in preparing audit programmes.
- ❖ To enable the auditor to determine whether there is need for expert involvement in a particular audit work
- ❖ To ensure that all aspects of the audit are covered
- ❖ To provide a basis for the control and direction of audit
- ❖ To ensure that the audit is carried out in an economic and expeditious manner
- ❖ To facilitate an early production of audit report by the auditor

ii. Factors that may hinder the successful implementation of an audit plan.

- ❖ Non-availability of the audit staff on which the plan depends due to staff turnover
- ❖ Unexpected changes in accounting and the Internal Control system
- ❖ Significant changes in the operating environment
- ❖ Unexpected changes in the business of the client.

## EXAMINER'S COMMENT

The question tests candidates' knowledge of the distinctions between internal and external auditing and accounting. The "B" part tests audit plan and planning. Virtually ALL candidates attempted the question and the performance was above average.

## SOLUTION 4

4a (i) Benefits to be derived from the adoption of International Public Sector Accounting Standards (IPSAS) are as follows:-

### Political Benefits

Accountability

Transparency

Improved Credibility and Integrity

Political Leverage

International Best Practices and Comparability

Greater Disclosures

Increased Control of Public Agencies

Enhanced implementation of Freedom of Information (FOI) Act 2011

### Economic Benefits

Building confidence in Donor Agencies

Improved Service Delivery

Aggregate Reporting

Enhances Public-Private-Partnership Arrangements

Economic Leverage

Increased cross border activities

b(i) Electronic Payment system

Is a system that involves the arrangements for automated processing of transactions through information technology for finality of payments without recourse to physical evidencing in the first instance. It enables large volumes of transactions to be undertaken and payments effected within seconds, thus

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facilitating government business transactions and commerce in general as well as reducing payment system risks.

ii. IPPIS - Integrated Payroll and Personnel Information System (IPPIS)

This covers the administration of Federal Government of Nigeria's human resources i.e. recruitment, promotion, discipline, transfer, career movement, training and development, performance management, disengagement and all the financial transactions related to personnel emoluments.

iii. GIFMIS - Government Integrated Financial Management Information System

Is an IT based system for budget management and accounting that is being implemented by the Federal Government of Nigeria to improve Public Expenditure Management Processes, enhance greater accountability and transparency across ministries and agencies.

iv. Treasury Single Account (TSA)

This is a unified structure of government bank accounts that provide a consolidated view of government cash resources and position at any point in time. It is an essential tool for consolidating and managing governments' cash resources, thus minimizing borrowing cost.

## EXAMINER'S COMMENT

The question tests candidates' understanding of IPSAS and its benefits.

This is the most unpopular question in the paper. Less than 10% of the candidates attempted the question and those that attempted it performed woefully.

Candidates totally avoided the questions, obviously because of the contemporary topic being tested.



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## SOLUTION 5

- (a)i. In this case, the auditor prepared accounts and reported on them as auditors knowing that they were required by the directors for the purpose of inducing the plaintiff to invest money in the company. Relying on such accounts, the plaintiff invested in the company and lost his investment when the company went into liquidation. He therefore sued the auditors for negligent misstatement. The English Court of Appeal by majority decision ruled that the auditors were not liable because they had no contract with the plaintiff.
- (ii) In this case, a firm of accountants, Marks Bloom & Co. prepared and audited the financial statements of BG Fasteners. However, the statements were misleading because the value of stock was overstated, thus showing a profit rather than a loss position. BG Fasteners was taken over by JEB Fasteners but unfortunately the takeover proved a less successful venture than expected. The accountants, however, were found not to be liable because the court decided that, even if the accounts had been properly stated, the plaintiff would still have taken over the company. Thus, mere use of accounts will not create a potential liability; but if the use plays a substantial part in influencing the plaintiff's decision, then persons associated with negligent preparation/audit could be held liable.

The case also emphasised the concept of foreseeability, which seems to lead, given the allusion to the many potential uses, to the notion of unlimited liability. However, it was agreed that special circumstances surrounding a case need be considered.

- (b) The advantages of having an internal control system include the following:
- (i) Prevention of errors and frauds or material misstatements
  - (ii) Detection of errors and frauds or material misstatements
  - (iii) Assurance of complete and adequate recording of transactions
  - (iv) Assurance that all recorded transactions are real, properly valued related to the correct period, properly classified, correctly authorised and posted.
  - (v) Assists with reliable financial reporting and compliance with relevant laws, regulations and standards

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- (vi) Providing management with reasonable assurance that goals and objectives it believes important to the company, which is equally important to the auditor, will be met.

## EXAMINER'S COMMENT

This question tests candidates' knowledge of the principles of auditors' negligence through case law. The "B" part tests the advantages of internal control set up in a company. Candidates who attempted this question (60%) avoided the "A" part completely and only attempted the "B" part.

Candidates' performance was average.

## SOLUTION 6

- a. Judgement sampling occurs when an auditor uses his experience, knowledge and judgement of the client's business to determine his sample size.

Statistical sampling dwells more on the discipline of statistics whereby every item in the population have an equal chance of being selected for testing. In other words, samples are selected randomly and the use of probabilities theory including measurement of sampling risk. The auditor can specify confidence levels.

- b. A Complete check is not possible because of the following reasons.
- i. Economic: Cost in terms of audit fees will be prohibitive.
  - ii. Time: The time a complete check will take will not allow the completion of audit on time.
  - iii. Psychological: A complete check would become boring and may be unproductive.
  - iv. Practical: Enlightened users of accounts are aware 100% accuracy is not professed.
  - v. Fruitfulness: A complete check would be a worthless exercise

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- c. A Complete check must be undertaken in the following areas where:
- I. Items/categories are few in number but of great importance e.g. Land and buildings.
  - II. Items/categories with special importance where materiality does not apply e.g. Directors loans or Directors emoluments.
  - III. ne-off on unusual or extraordinary items. e.g. Disposals of subsidiary or properties.
  - IV. Areas the auditor is put an enquiry
  - V. Areas were disclosure is statutorily required
  - VI. High risk/Sensitive areas where manipulations are plausible
    - Large Sales or Purchases towards year end
    - Window dressing transaction
    - Cheque lodgements towards year end.

## EXAMINER'S COMMENT

This question was attempted by about 95% of the candidates. The question tests candidates' understanding of audit sampling and test checking.

Candidates' performance was above average.

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AT/141/PIII.10

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA  
ACCOUNTING TECHNICIANS SCHEME  
PART III EXAMINATION - MARCH 2014  
COST ACCOUNTING**

**Time Allowed: 3 Hours**

**SECTION A: PART I**

**ATTEMPT ALL QUESTIONS**

**(30 Marks)**

**MULTIPLE-CHOICE QUESTIONS**

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

1. The aggregate of all direct costs is known as
  - A. Incremental cost
  - B. Budgeted cost
  - C. Batch cost
  - D. Prime cost
  - E. Actual cost
  
2. Cost estimates may be used for any of the following **EXCEPT**
  - A. Performance evaluation
  - B. Budget preparation
  - C. Projected financial statements preparation
  - D. Cost control
  - E. Cost ascertainment
  
3. Cost accounting is considered as being applicable to
  - A. Wholesale and retail businesses only
  - B. Manufacturing and non-manufacturing activities only
  - C. Service industry only
  - D. All types of activities in which monetary value is involved only
  - E. All types of activities whether monetary value is involved or not

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4. The following succinctly describes the concept of cost **EXCEPT**
- A. Cost is the amount of actual expenditure incurred on a given thing
  - B. Cost is the amount of notional expenditure attributable to a given thing
  - C. Cost is a measurement in monetary terms of the amount of resources used for the purpose of rendering services
  - D. Cost is the value of uneconomic resources used as a result of producing a given thing
  - E. Cost is the price paid for something
5. Cost Accounting means
- A. Finding out the cost of products or services by any technique or method
  - B. Determining costs by using any method like arithmetic process, memorandum statements and the like
  - C. The art of using formal accounting mechanisms by means of which costs are ascertained
  - D. The science, art and practice of a cost accountant
  - E. A body of systematic knowledge which a cost accountant should possess
6. Generally speaking, variable costs show the following characteristics **EXCEPT**
- A. Cost can be controlled mostly by top level management
  - B. Cost can be controlled by functional managers
  - C. Total amount varies in direct proportion to the volume of output
  - D. Fixed amount per unit in the face of changing volume
  - E. Reasonably accurate allocation and apportionment to departments
7. **ONE** of the broad objectives of material control is to ensure
- A. Optimal stock levels are maintained
  - B. Under stocking of materials to prevent waste
  - C. Proper quality of materials is purchased
  - D. Lesser quality of materials is purchased to save costs
  - E. Best quality of materials is purchased to control the market

# INSIGHT

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Use the information provided below to answer questions 8 and 9

Two materials namely Wal and Ter are used to produce a product called WalTer

Minimum usage: 100 units per week each  
Maximum usage: 300 units per week each  
Normal usage: 200 units per week each  
Re-order quantity

Wal - 1,200 units  
Ter - 2,000 units  
Delivery period  
Wal - 4 to 6 weeks  
Ter - 2 to 4 weeks

8. Calculate the re-order level for Wal
- A. 1,200 units
  - B. 1,400 units
  - C. 1,600 units
  - D. 1,800 units
  - E. 2,000 units
9. Calculate the minimum level for Ter
- A. 400 units
  - B. 600 units
  - C. 800 units
  - D. 1,000 units
  - E. 1,200 units
10. The following ledgers should be maintained by the costing department under interlocking systems **EXCEPT**
- A. Stores ledger
  - B. General ledger
  - C. Cost ledger
  - D. Finished goods ledger
  - E. Work-in-progress ledger

# INSIGHT

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11. One of the following will **NOT** lead to difference in profit or loss between cost and financial accounts
- A. Full absorption of overheads
  - B. Different bases of stock valuation
  - C. Items shown only in cost accounts
  - D. Different charges for depreciation
  - E. Items shown only in financial accounts
12. One of the following is **NOT** an advantage of Zero Base Budgeting System
- A. It aids close examination of cost behavior patterns
  - B. It promotes effective allocation of resources
  - C. It challenges each item of budget
  - D. It identifies inefficient and loss making operations
  - E. It emphasizes short-term gains at the expense of long-term benefits
13. Which **ONE** of the following is a by-product?
- A. Motor fuel
  - B. Aviation fuel
  - C. Grease
  - D. Diesel
  - E. Kerosine
14. Apportionment of joint cost to each of the joint products serves the following objectives **EXCEPT**
- A. Determination of cost per unit of products
  - B. Inventory valuation
  - C. Determination of the price for each product
  - D. Determination of the profit or loss on each line of product
  - E. Provision of perfectly logical basis for the apportionment
15. Which of the following is **NOT** an essential characteristic in process costing?
- A. Costs are accumulated process-wise
  - B. Sequence of operations is non-specific
  - C. Loss of materials in processes is unavoidable
  - D. Cost control is easier
  - E. Costs are computed at the end of a specific period

# INSIGHT

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16. Given that the standard cost for material consumption is 400kg at ₱100 per kg, what is the material usage variance when actual material consumption is 480kg at ₱150 per kg?
- A. ₱5000 (F)
  - B. ₱7,000 (A)
  - C. ₱7,000 (F)
  - D. ₱8,000 (A)
  - E. ₱8,000 (F)
17. A manufacturing company's records show that standard estimates of raw materials needed for producing 1000 wraps of chewing gum is 800kg at ₱5.00 per kg. Actual materials used for producing 2,000 wraps were 1,650kg at ₱5.40 per kg. What is the material price variance?
- A. ₱630 (A)
  - B. ₱630 (F)
  - C. ₱660 (F)
  - D. ₱660 (A)
  - E. ₱680 (A)
18. If the activity ratio of a company is 110% and its capacity ratio is 97%, what will be the efficiency ratio?
- A. 83.40%
  - B. 88.18%
  - C. 108.81%
  - D. 103.40%
  - E. 113.40%
19. Which of the following is **NOT** a characteristic of Just-In-Time (JIT) Operational System?
- A. Expensive
  - B. Quality
  - C. Cost minimization
  - D. Reliability
  - E. Speed



# INSIGHT

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20. Which of the following is the primary objective of Total Quality Management (TQM)?
- A. Focusing on the symptoms of poor quality of a product or service
  - B. Meeting budgetary targets
  - C. Meeting management goals
  - D. Meeting shareholders' objectives
  - E. Design and build quality into a product or service
21. Which of the following is **NOT** an advantage of Computer-Aided Manufacturing (CAM)?
- A. Consistent quality
  - B. Fewer reworked items
  - C. More reliance on direct labour
  - D. Greater control over manufacturing
  - E. Reduced set-up times
22. Which of the following is **NOT** a component of value under analysis technique?
- A. End user value
  - B. Market value
  - C. Prestige and aesthetics
  - D. Usage value
  - E. Cost value
23. The regulation of cost of operating a business which is concerned with keeping costs within acceptable limits is called .....
- A. Cost reduction
  - B. Work study
  - C. Target costing
  - D. Cost control
  - E. Organization and methods
24. The process of establishing the time for a qualified worker to carry out a specified job at a specified level of performance is called .....
- A. Work study
  - B. Methods study
  - C. Work measurement
  - D. Labour analysis
  - E. Management analysis

# INSIGHT

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25. What is the payback period of a project whose initial outlay is GH¢245,000 with a constant annual return of GH¢70,000?
- A. 2.5 years
  - B. 3.5 years
  - C. 4.5 years
  - D. 5.5 years
  - E. 6.5 years
26. An investment appraisal technique which takes into account both the time value of money and also, total profitability over a project's life is called
- A. Non discounted cash flow
  - B. Discounted payback period
  - C. Investment appraisal technique
  - D. Capital budgeting
  - E. Discounted cash flow
27. Which of the following is **NOT** a functional budget?
- A. Summary budget
  - B. Production cost budget
  - C. Sales budget
  - D. Selling cost budget
  - E. Production budget
28. Which of the following may be used to describe a part of a business accountable for costs and revenues?
- A. Strategic business unit
  - B. Business unit
  - C. Business centre
  - D. Service centre
  - E. Profit centre
29. Which of the following would probably **NOT** be contained in a budget manual?
- A. Description of the budget system
  - B. Responsibilities of operational executives
  - C. Budget calendar
  - D. Account codes in use
  - E. Administration cost budget

# INSIGHT

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30. What will be the Break-even point in units where

- |                  |   |                |
|------------------|---|----------------|
| Total fixed cost | = | GH¢24,000      |
| Selling price    | = | GH¢24 per unit |
| Variable cost    | = | GH¢18 per unit |
- A. 2,000 units  
B. 3,000 units  
C. 4,000 units  
D. 5,000 units  
E. 6,000 units

**SECTION A: PART II**

**ATTEMPT ALL QUESTIONS**

**(20 Marks)**

## **SHORT-ANSWER QUESTIONS**

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

1. What two bases would you recommend for the apportionment of indirect labour costs to production departments?
2. Cost audit is the verification of the correctness of .....
3. State the formula for calculating the minimum stock level.
4. The most suitable cost system where the products differ in type of materials and work performed is.....
5. The document which sets out the budget guidelines and guides the departmental heads in preparing their budgets is called
6. The summary of all the functional budgets is called.....

# INSIGHT

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Use the following particulars to answer questions 7 and 8.

Standard rate per hour	= ₦250 per hour
Standard time for producing 12 units of the product	= 3 hours
Actual time taken by the worker to produce 480 units	= 115 hours

7. What is the earnings of a worker under Halsey Plan?
8. What will be the earnings of a worker under Rowan Plan?
9. The difference in a situation where actual cost is less than the standard cost would be described as a/an ..... Variance.
10. Profit/volume Ratio is the ratio of ..... to sales.
11. Under integrated system, the accounting entry for payment of wages is to debit ..... and to credit cash.
12. Life cycle costing tracks and accumulates the actual costs from the beginning to the end of a .....
13. The processing of large mass of data under different accounts heads is made possible through the use of .....

Use the following information to answer questions 14 and 15.

Fixed cost	=	₦180,000
Sales	=	₦600,000
Profit	=	₦120,000

14. What is the P/V ratio?
15. What is the Margin of safety?
16. Factory rent should be apportioned to various departments on basis of .....



# INSIGHT

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You are required to calculate:

- i. Re-order level
- ii. Minimum level
- iii. Maximum level
- iv. Average stock level

(8 Marks)  
(Total 12½ Marks)

## QUESTION 2

Zaddox Limited produces biscuits in batches. The batch passes through three departments, A, B, and C.

The following are the cost of Batch No 0214 of 10,000 units.

Direct materials issued:

Dept A	50,000kgs @ ₦20 per kg
Dept B	6,500kgs @ ₦15 per kg
Dept C	5,000kgs @ ₦30 per kg

Direct wages:

Dept A	1,000 hours @ ₦20 per hour
Dept B	250 hours @ ₦25 per hour
Dept C	1,000 hours @ ₦15 per hour

Factory overhead:

Dept A	120% on direct wages
Dept B	₦10 per labour hour
Dept C	50% on direct wages

After the batch is completed; 5,000kgs of raw materials issued to Dept A are found to be surplus and returned to stores.

You are required to:

- a. Prepare the batch cost sheet showing the cost of batch No. 0214 of 10,000 units.

(7½ Marks)

# INSIGHT

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- b. State **FIVE** factors that should be present before a job costing system can operate efficiently. (5 Marks)  
(Total 12½ Marks)

## QUESTION 3

Kukawa Limited is a manufacturer of a household item which sells for GH¢300 each.

The budgeted income statement for one year based on sales and production at normal level of activity is as stated below:

	GH¢ '000	GH¢ '000
Sales		6,000
Cost:		
Direct materials	1,800	
Direct labour	1,200	
Production overhead:		
Variable	400	
Fixed	600	
Administration overhead (Fixed)	300	
Selling overhead (fixed)	<u>200</u>	
		(4,500)
Net profit		<u>1,500</u>

In preparing the budget for the year ending December 31, 2014, sales are to be shown as only 60% of the normal activity level and production to be included at the normal activity level.

**You are required to:**

Prepare budgeted profit and loss statement for the year ending December 31, 2014 using

- i. Marginal costing principle
  - ii. Absorption costing principle (Total 12½ Marks)
- (Show all workings)

# INSIGHT

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## QUESTION 4

From the following information relating to BANKA Limited, you are required to prepare a monthly cash budget for the last quarter of the year.

- a. Product A is manufactured, details being as follows:

	₦
Direct material	60
Direct labour	12
Variable overhead	<u>6</u>
	78
Profit	<u>22</u>
Selling price	<u>100</u>

- b. Customers settle their accounts two months later.
- c. The company pays suppliers two months after material is used in production.
- d. Production and credit sales (in units) are as follows:

	Aug.	Sept	Oct.	Nov.	Dec.
Production (units)	3,000	3,400	3,800	3,300	3,100
Credit sales (₦)	2,000	2,800	2,900	2,700	2,400

- e. Wages and variable overhead are paid in the month of production.
- f. Fixed overhead amounting to ₦6,000 per month are paid in the month which they arise.
- g. Fixed asset to be sold in October is expected to realize ₦8,000.
- h. The company's bank account balance at the beginning of October is ₦3,000.  
(Show all workings) (Total 12 ½ Marks)



# INSIGHT

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## QUESTION 5

You have just been employed by ADDIS Ltd to execute its programme of reorganization of its Cost Accounts Department. The objective of the programme is to make the department compatible with the impending computerization of the company's operations. The first step in the reorganization exercise is the designing of a coding system.

**You are required to:**

Prepare an internal memorandum to be forwarded to the Managing Director of ADDIS Ltd intimating him of what a coding system is, using the following guidelines:

- a. Definition of cost coding (1 Mark)
  - b. Discuss **FIVE** Objectives of coding (5 Marks)
  - c. Explain **FIVE** Types of coding system (5 Marks)
  - d. Enumerate **SIX** features of a good coding system (1½ Marks)
- (Total 12½ Marks)**

## QUESTION 6

Brain Ltd operates a standard absorption cost accounting system. The following details have been extracted from a standard cost card for one of its products called BLOB.

	GH¢
Direct materials - 10kg at GH¢20 per kg	200
Direct wages - 5 hours at GH¢6 per hour	30
Fixed production overhead	<u>50</u>
Total standard cost	<u>280</u>

The fixed overhead included in the standard cost is based on an expected monthly output of 900 units.

The actual results for the month of December 2012 were as follows:

Production	800 units
Material 7,800 kg at a cost of	GH¢159,900

# INSIGHT

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Direct labour was 4,200 hours worked for	GHC24,150
Fixed production overhead	GHC47,000

**You are required to:**

- a. Calculate material price and usage variances
- b. Calculate labour rate and efficiency variances
- c. Calculate fixed production overhead expenditure and volume variance

**(Total 12½ Marks)**

## SUGGESTED SOLUTIONS

### SECTION A

#### PART I MULTIPLE-CHOICE QUESTIONS

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

# INSIGHT

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

# INSIGHT

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## Workings

Q8.  $ROL = \text{Max Consumption} \times \text{Max. Re-order Period}$

$$\begin{aligned} \text{ROL (Wal)} &= 300 \text{ units} \times 6 \text{ weeks} \\ &= 1800 \text{ units} \end{aligned}$$

Q9.  $\text{Min level} = \text{ROL} - \left\{ \begin{array}{l} \text{Normal} \times \text{Normal} \\ \text{Consumption Delivery Period} \\ \text{Period} \end{array} \right\}$

$$\begin{aligned} \text{(Ter.) ROL} &= 300 \text{ units} \times 4 \text{ weeks} \\ &= 1200 \text{ units} \end{aligned}$$

$$\begin{aligned} \text{Min Level (Ter)} &= 1200 - (200 \text{ units} \times 3 \text{ weeks}) \\ &= 1200 - 600 \\ &= 600 \text{ units} \end{aligned}$$

Q16.  $\text{Actual Usage} - \text{Standard quantity}$

$$\begin{aligned} &480\text{kg} - 400 \text{ kg} \\ &= 80\text{kg} \end{aligned}$$

Q17.  $\text{MPV} = (\text{Actual Quantity} \times \text{Actual Price})$

Less  $(\text{Actual Quantity} \times \text{Standard Price})$

$\text{AQ} (\text{SP} - \text{AP})$

$$= 1650 (\text{₹}5 - \text{₹}5.40)$$

$$= 1650 (.40)$$

$$= \text{₹}660$$

Q18.  $\text{Activity Ratio} = \text{Capacity ratio} \times \text{Efficiency ratio}$

$\text{Efficiency Ratio} = \frac{\text{Activity ratio}}{\text{Capacity ratio}}$

$$= \frac{110}{97} \times 100$$

$$= 113.40\%$$

$$= 113.40\%$$

Q30.  $\text{Contribution} = S - V$

$$= \text{₹}24 - \text{₹}18$$

$$= \text{₹}6$$

# INSIGHT

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$$\begin{aligned} \text{BEP (Units)} &= \frac{\text{FC}}{\text{C/Unit}} = \frac{24,000}{6} \\ &= 4,000 \text{ units} \end{aligned}$$

$$\begin{aligned} \text{Q25. PBP} &= \frac{\text{Initial Outlay}}{\text{Annual Returns}} \\ &= \frac{245,000}{70,000} = 3.5 \text{ Years} \end{aligned}$$

## EXAMINER'S COMMENT

A substantial part of the syllabus was covered by the questions in this section and all candidates attempted it. Performance was good with more than 60% of the candidates scoring 50% and above of the marks allocated.

## PART II SHORT ANSWER QUESTION

1. Direct labour cost and direct labour hour
2. Cost ledger entries
3. Re-order level - (Average Usage x Average Lead Time) OR  
Re-order level - (Normal Consumption x Normal Delivery Time)
4. Job costing/specific order costing
5. Budget Manual
6. Master Budget
7. ₦29,375
8. ₦29,948

# INSIGHT

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9. Favourable
10. Contribution
11. Wages Control Account
12. Product
13. Spreadsheet, Accounting Package
14. 50%
15. ₦240,000
16. Area occupied
17. Costliest
18. Continuous stock-taking
19. Batch costing method
20. Split-off stage/separation stage

## Workings

Q7. Earnings under Halsey Plan =  $AH \times SR + 50\% (SH - AH) \times SR$

Standard time for producing 12 units = 3 hours

Actual output = 480 units

Total Standard time (SH) =  $3 \times \frac{480}{12}$   
= 120 hours

Actual Time (AH) = 115 hours

Standard Rate per hour = ₦250 per hour

Earnings Under

# INSIGHT

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$$\begin{aligned}\text{Halsey Plan} &= (115 \times 250) + 50/100 (120 - 115) \times 250 \\ &= \cancel{28,750} + 625 = \cancel{29,375}\end{aligned}$$

Q8. Earnings Under Rowan Plan

$$\begin{aligned}&= (AH \times SR) + AH/SH (SH - AH) \times SR \\ &= (115 \times 250) + 115/120 (120 - 115) 250 \\ &= 28,750 + 115/120 (5 \times 250) \\ &= 28,750 + 1198 \\ &= \cancel{29,948}\end{aligned}$$

Q14. Contribution = Fixed Cost + Profit

$$C = 180,000 + 120,000 = 300,000$$

$$\begin{aligned}\text{P/V ratio} &= \frac{C}{S} \times 100 \\ &= \frac{300,000}{600,000} \times 100\% \\ &= 50\%\end{aligned}$$

$$\begin{aligned}\text{Q15. MOS} &= \frac{\text{Profit}}{\text{P/V ratio}} = \frac{120,000}{50\%} \\ &= \cancel{240,000}\end{aligned}$$

## EXAMINER'S COMMENT

This section covers almost all topics in the syllabus and all candidates attempted it. However, performance was generally below average as not more than 30% of the candidates scored up to 50% of the marks allocated.

# INSIGHT

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## SECTION B

### SOLUTION 1

- (a) Inventory control may be described as a process of safeguarding an organizations inventory.

It may be described as a system which ensures the provision of the required quantity of materials of the required quality at the required time with the minimum amount of capital investment.

- (b) Advantages

- (i) It prevents production delays
- (ii) It ensures production of proper quality
- (iii) It eliminates wastage
- (iv) It reduces the risk of loss from fraud and theft
- (v) It minimizes capital investment in the stock of inventories
- (vi) It helps in keeping perpetual inventory and other records
- (vii) It furnishes quickly the value of materials used
- (viii) It helps to forecast future demand of stock usage

- (c) (i) Re-Order Level = Max Consumption per week x Max time  
= 18000 units x 6 weeks  
= 108,000 units

- (ii) Minimum level = ROL – (Normal Consumption per week  
x average lead time  
= 108,000 units – (12,000 units x 5 weeks)  
= 108,000 – 60,000  
= 48,000 units

- (iii) Maximum level = ROL + ROQ – (Min Consumption x Min Lead Time)  
= 108,000 units + 72,000 units -  
(6,000 units x 4 weeks)  
= 180,000 units – 24 units  
= 156,000 units



# INSIGHT

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(iv) Average stock level = (Min level + Max Level)  
 (48,000 units + 156,000 units)  
 = 102,000 units

## EXAMINER'S COMMENT

The question tests candidates' understanding of inventory control. About 90% of candidates attempted the question and performance was above average as at least 60% of the candidates scored more than half of the allocated marks. The common pitfall among those who scored low marks was the application of wrong formula. Candidates should in future recognize the difference between minimum level, maximum level and average stock level and their associated formulae.

## SOLUTION 2

(a) Zaddox Limited  
BATCH COST SHEET

Period	Batch No 0214	
	₦'000	₦'000
Direct Materials Consumed:		
Dept A: 50,000 kgs @ 20/kg	1,000	
Less: materials returned 5,000 kg @ 25/kg	<u>100</u>	900.00
Dept. B: 6,500 kgs @ ₦15/kg		97.50
Dept. C: 5,000 kgs @ ₦30/kg		<u>150.00</u>
		1,147.50
Direct Wages		
Dept A: 1,000 hrs @ 20/hr	20.00	
Dept B: 250 hrs @ 25/hr	6.25	
Dept C: 1,000 hrs @ 15/hr	<u>15.00</u>	<u>41.25</u>
Prime Cost		1,188.75
Factory Overhead:		
Dept A: 120% of direct wages	24	
Dept B: 10 per labour hr	2.5	
Dept C: 50% of direct wages	7.5	<u>34.00</u>
Total Cost		<u>1,222.75</u>
Cost per unit = <u>1,222,750</u>		
10,000 units		
= 122.28		

# INSIGHT

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- (b) Factors that should be present before a job costing system can operate efficiently are:
- (i) There must be a good system of production control
  - (ii) Appropriate time booking system
  - (iii) Comprehensive works documentation
  - (iv) A well organized basis to the costing system
  - (v) Clearly defined cost centres
  - (vi) Relevant materials issue pricing system
  - (vii) Appropriate overhead absorption rates
  - (viii) Supervision and proper monitoring systems of job performance

## EXAMINER'S COMMENT

The question tests candidates' understanding of Job and batch costing. It was attempted by less than 50% of the candidates and performance was just average. Most of the candidates who attempted the question brought workings into the main solution instead of being separated. Some of them ignored the essay part. Candidates should adhere to examination instructions in the future.

## SOLUTION 3

### KUKAWA LIMITED

Budgeted profit and Loss Statement for year ending 2012 – Marginal costing

	GH¢	GH¢
	'000	'000
Sales (12,000 x ₦300)		3,600
Opening Stock	-	
Direct Material	1,800	
Direct labour	1,200	
Variable overhead	<u>400</u>	
	3,400	
Less closing stock (8000 x 170)	<u>1,360</u>	<u>2,040</u>
Contribution		<u>1,560</u>
Less:		
Production overhead	600	

# INSIGHT

Administrative overhead	300	
Selling overhead	<u>200</u>	
		<u>1,100</u>
Net profit		<u>460</u>

Budgeted profit and loss statement for year ending 2012 - Absorption Costing

	GH¢	GH¢
	'000	'000
Sales		3,600
Opening Stock	-	
Direct Material	1,800	
Direct labour	1,200	
Variable overhead	400	
Production overhead	<u>600</u>	
	4,000	
Less: Closing stock (8000 x 200)	<u>1,600</u>	<u>2,400</u>
Gross profit		1,200
Less: Adm Overhead	300	
Selling Overhead	<u>200</u>	<u>500</u>
Net Profit		<u>700</u>

## Workings

$$\text{Sales in units} = \frac{6,000,000}{300} = 20,000 \text{ units}$$

$$\begin{aligned} \text{Sales budgeted for 2012} &= 60\% \text{ of } 20,000 \text{ activity level} \\ &= \frac{60}{100} \times 20,000 = 12,000 \end{aligned}$$

$$\text{Closing stock} = (20,000 - 12,000) = 8,000$$

	GH¢
Direct material cost/unit = $\frac{1,800,000}{20,000}$	= 90
Direct labour cost/unit = $\frac{1,200,000}{20,000}$	= 60
Variable overhead cost/unit = $\frac{400,000}{20,000}$	= 20
Closing stock = (8,000 x 170) = 1,360,000	= <u>170</u>

# INSIGHT

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## ABSORPTION COSTING

Valuation of closing stock		GH¢
Variable cost/unit		170
Production overhead	<u>600,000</u>	
	20,000	<u>30</u>
		<u>200</u>

Therefore  $(8,000 \times 200) = 1,600,00$

## EXAMINER'S COMMENT

The question tests candidates' ability to prepare budgeted profit and loss statements. It was attempted by about 90% of the candidates. Performance was good with about 70% of the candidates scoring above 50% of the marks allocated.

The major pitfall was on presentation and arrangement of the figures. Candidates are advised to master the university accepted formats for presentation of such reports.

## SOLUTION 4

(a) BANKA LIMITED  
CASH BUDGET FOR THE QUARTER OCTOBER TO DECEMBER

INFLOW:	OCTOBER	NOVEMBER	DECEMBER
	₦	₦	₦
Debtors	200,000	280,000	290,000
Sales of Assets	<u>8,000</u>	_____	_____
	<u>208,000</u>	<u>280,000</u>	<u>290,000</u>
OUTFLOW:			
Creditors	180,000	204,000	228,000
Wages	45,600	39,600	37,200
Variable Overhead	22,800	19,800	18,600
Fixed Overhead	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>
	<u>254,400</u>	<u>269,400</u>	<u>289,800</u>
Net cash flow	(46,400)	10,600	200
Balance b/f	<u>3,000</u>	<u>(43,400)</u>	<u>(32,800)</u>
Balance c/f	<u>(43,400)</u>	<u>(32,800)</u>	<u>(32,600)</u>

# INSIGHT

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## Workings

	AUG	SEPT	OCT	NOV	DEC
Credit Sales (Units)	2,000	2,800	2,900	2,700	2,400
Selling price per unit x ₦	100	100	100	100	100
Total credit sales ₦	200,000	280,000	290,000	270,000	240,000
Payment received ₦			200,000	280,000	290,000
Production (units)	3,000	3,400	3,800	3,300	3,100
Direct Material (x ₦60)	180,000	204,000	228,000	198,000	186,000
Payment to suppliers ₦			180,000	204,000	228,000
Wages (x ₦12)	36,000	40,800	45,600	39,600	37,200
Variable o/ld (x ₦6)	18,000	20,400	22,800	19,800	18,600

## EXAMINER'S COMMENT

This question tests candidates' ability to prepare cash budgets and almost 95% of candidates attempted it. Performance was good since the topic is a favorite among candidates and the question was straight forward.

## SOLUTION 5

### ADDIS LIMITED INTERNAL MEMORANDUM

To: Managing Director

From: Cost Accountant

Subject: DESIGNING OF CODING SYSTEM

Date: 19<sup>th</sup> March, 2014

- (a) A system of symbols designed to be applied to a classified set of items, to give a brief accurate reference facilitating entry, collation and analysis (CIMA).
- (b) Objectives of Coding System
- To aid control and makes it effective
  - To make the organization of costing information logical and systematic
  - To engender accuracy, reduce clerical workload and remove communication bottlenecks

# INSIGHT

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- iv. To allow more data/information to be stored than when full description is used
  - v. To avoid ambiguity that usually occur when full description is used
  - vi. To indentify uniquely items which cannot be so done from description
  - vii. To aid processing especially with computer based system
  - viii. To facilitate interpretation of data
- c) Types of coding system
- i. Group classification codes:- where a particularly digit, usually the first, represents the item classification.
  - ii. Hierarchical codes:- where each digit represents a classification
  - iii. Significant codes:- where some of the digits describe the item being coded
  - iv. Subjective or nominal codes:- these are codes adopted for different types of revenue, expenses, assets and liabilities
  - v. Objective codes:- used to give further analysis of items under the nominal codes
  - vi. Functional or organizational codes:- used to group cost items based on the main functional activity area of a company
- d. Features of a good coding system
- i. Clear symbolization
  - ii. Uniqueness
  - iii. Brevity
  - iv. Non-ambiguity
  - v. Significance
  - vi. Mnemonic
  - vii. Exhaustively
  - viii. Distinctiveness
  - ix. Uniformity

Thank you.

**Okonkwo Ajetunmobi**

# INSIGHT

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## EXAMINER'S COMMENT

This question tests candidates' understanding of coding systems. Only about 40% of the candidates attempted the question and performance was just average. The major pitfall was lack of preparation by the candidates. It is recommended that this topic should be repeated in future examination as it is an integral part of the syllabus.

## SOLUTION 6

### BRAIN LIMITED

- a(i) Computation of variances  
Material Price variance =  $(SP - AP) AQ$   
 $= (GH\text{¢}20 - GH\text{¢}20.5) 7,800 \text{ kg} = GH\text{¢}3,900A$
- (ii) Material usage variance  $(SQ - AQ) SP$   
 $= (8,000 - 7,800) 20 = GH\text{¢}4,000F$
- b(i) Labour rate variance  $(SR - AR)AH$   
 $= (6 - 5.75) 4,200 \text{ hrs} = 1,050F$
- (ii) Labour efficiency variance  $(SH - AH) SR$   
 $= (4,000 \text{ hrs} - 4,200 \text{ hrs}) GH\text{¢}6 = GH\text{¢}1,200A$
- C(i) Fixed production overhead expenditure variance  
 $(BFOE - AFOE) =$   
 $(50 \times 900 - 47000) = GH\text{¢}2,000A$
- (ii) Fixed production overhead volume variance  
 $(BV - AV) SFOA/UNIT$   
 $(900 - 800) 50 = GH\text{¢}5,000A$

### EXAMINER'S COMMENT

The question tests candidates' ability to compute simple variances under standard costing – About 80% of the candidates attempted the question and performance was good. A few candidates did not specify if the variances were favourable or adverse. Candidates should realise that the absolute figure of the variance is meaningless without its nature.

# INSIGHT

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AT/141/PIII.11

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA  
ACCOUNTING TECHNICIANS SCHEME WEST AFRICA  
PART III EXAMINATION - MARCH 2014**

**PREPARING TAX COMPUTATION AND RETURNS**

**Time Allowed: 3 Hours**

**SECTION A: PART I                      ATTEMPT ALL QUESTIONS                      (30 Marks)**

**MULTIPLE- CHOICE QUESTIONS**

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

1. The market value may be used in the computation of capital gains tax under the following **EXCEPT** where the asset was acquired.
  - A. By way of gift
  - B. Wholly for a consideration that can be easily valued
  - C. By a trustee for creditors of the person making the disposal
  - D. Partly for a consideration that cannot be valued
  - E. Wholly for a consideration that cannot be valued
  
2. Which of the following information does **NOT** feature in a Value Added Tax Invoice?
  - A. Tax Payer's Identification Number (TIN)
  - B. Bio data of the managing director of a collection agent
  - C. Customer's Name and Address
  - D. Rate of Value Added Tax
  - E. Type of Goods
  
3. Which of the following services is **NOT** VAT exempt?
  - A. Exported services
  - B. Religious services
  - C. Consultancy services
  - D. Services provided by mortgage institutions
  - E. Services provided by Community banks



# INSIGHT

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4. Identify one of the following that is **NOT** exempt from Stamp duties.
  - A. Liquidation Transaction
  - B. Treaties and Agreements
  - C. Company Reconstruction
  - D. Amalgamation
  - E. Leases
  
5. When is a tax payer entitled to partial roll-over relief under Capital gains tax?
  - A. When amount re-invested in the new asset is more than the cost of the old asset
  - B. When amount re-invested in the new asset is equal to the cost of the old asset
  - C. When the cost of the old asset is higher than the amount re-invested
  - D. When the amount is applied to acquire new asset
  - E. When the amount of the asset disposed of is less than the amount re-invested
  
6. The stamping of instrument can be by any of the following ways **EXCEPT**
  - A. Embossing with dies
  - B. Affixing adhesive stamp
  - C. Printing on the instrument
  - D. Cello taping
  - E. Affixing postage stamp in lieu of adhesive stamp
  
7. Director's fee of an individual is subject to withholding tax rate of
  - A. 10%
  - B. 40%
  - C. 5%
  - D. 15%
  - E. 20%
  
8. Which of these is **NOT** a merit for an indirect tax?
  - A. It can be used to protect infant industries
  - B. It is more difficult to evade
  - C. It is equitable

# INSIGHT

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- D. It is a fiscal tool to check consumption pattern
  - E. It can be easily adjusted
9. P A Y E means
- A. Pay as you employ
  - B. Play around your earnings
  - C. Pay as you earn
  - D. Put away your ego
  - E. Provisional accounting year end
10. The Tertiary Education Trust Fund Act was passed into law in the year
- A. 2011
  - B. 2004
  - C. 1993
  - D. 1990
  - E. 2013
11. Hire of equipment is subject to withholding tax rate of
- A. 5 percent
  - B. 15 percent
  - C. 7 percent
  - D. 10 percent
  - E. 20 percent
12. Withholding agent refers to a person obliged to ..... tax on behalf of the government.
- A. Disburse
  - B. Approve
  - C. Endorse
  - D. Authorise
  - E. Withhold

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13. The retiring age of an Appeal Commissioner is
- A. 75 years
  - B. 70 years
  - C. 60 years
  - D. 65 years
  - E. 80 years
14. The administration of Value Added Tax in Nigeria falls under the jurisdiction of
- A. Federal Inland Revenue Service Board
  - B. State Internal Revenue Service Board
  - C. Joint Tax Board
  - D. Board of Tax Commissioners
  - E. Local Government Tax Board
15. Tenement rates are collected by..... in Nigeria
- A. State Internal Revenue Service Board
  - B. Board of Tax Commissioners
  - C. Technical Tax Committee
  - D. Local Governments
  - E. Federal Inland Revenue Service Board
16. Letter of objection to a tax assessment must be written within .....days from the date of service of the notice of assessment.
- A. 90 days
  - B. 21 days
  - C. 60 days
  - D. 45 days
  - E. 30 days
17. The Joint State Revenue Committee was established by the
- A. Companies Income Tax Act
  - B. Personal Income Tax Act
  - C. Petroleum Profits Tax Act
  - D. Joint State Revenue Board
  - E. Body of State Governors

# INSIGHT

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18. Penalty for late or non filing of Company Income Tax returns in the first month in which the failure occurs is
- A. ₦5, 000
  - B. ₦10,000
  - C. ₦25,000
  - D. ₦20,000
  - E. ₦50,000
19. Unabsorbed losses incurred by companies engaged in any business/trade other than an insurance business, shall be carried forward
- A. Indefinitely
  - B. For 4 years
  - C. For 2 years
  - D. For 6 years
  - E. For 10 years
20. Tertiary Education tax under Tertiary Education Trust Fund Act is computed on
- A. Adjusted profit
  - B. Total profit
  - C. Assessable profit
  - D. Distributable profit
  - E. Chargeable profit
21. Legal expenses not allowable for tax include the following **EXCEPT**
- A. Cost of renewing a long lease
  - B. Cost of defending traffic offence
  - C. Legal fees on increase in share capital of a company
  - D. Cost of defending a tax appeal
  - E. Fines and penalties
22. Which of the following is an allowable expense in the computation of the Assessable Profit of a company?
- A. Domestic or private expenses
  - B. Depreciation of any asset
  - C. Taxes on income or profits
  - D. An expense incurred for the repair of premises, furniture and fixtures

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- E. Capital withdrawn from a trade, business or profession
23. The administration of taxation of all limited liability companies in Nigeria is vested in
- A. Joint Tax Board
  - B. Stamp Duties Office
  - C. State Board of Internal Revenue
  - D. Inland Revenue Office
  - E. Federal Inland Revenue Service
24. Which of the following dividends is **NOT** tax exempt?
- A. Dividend received from a pioneer company
  - B. Dividend received by a way of a bonus issue of share
  - C. Dividend from ordinary course of business
  - D. Dividend from a trustee scheme
  - E. Dividend received by a company from another one
25. Benefits-in-kind under Personal Income Tax means
- A. The remuneration of the management staff
  - B. The official non-monetary remuneration of an employee
  - C. The official allowance of the management staff
  - D. Benefits from different sources
  - E. The end of year bonus of employees
26. Which of the following does **NOT** result in a change of partnership structure?
- A. Death of an old partner
  - B. Admission of a new partner
  - C. Relocation of a partner to another town
  - D. Amalgamation of two or more partnerships
  - E. Retirement of an old partner
27. Which of the following is **NOT** contained in the Deed of Partnership?
- A. Partners' bio data
  - B. Each partner's capital contribution

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- C. Partners' salaries
  - D. Profit/Loss sharing ratio
  - E. The interest, if any, to be paid to each partner on his capital
28. Under the sixth schedule of Personal Income Tax (Amendment) Act 2011, the following deductions are tax exempt **EXCEPT**
- A. National Housing Fund Contribution
  - B. National Health Insurance Scheme
  - C. Self Help Cooperative Contribution
  - D. Life Insurance Premium
  - E. National Pension Scheme
29. All appeals before the Tax Appeal Tribunal shall be held in
- A. Tax payer's office
  - B. The Local Government where the appeal emanates
  - C. The zone where the appeal emanates
  - D. The town where the tax payer resides
  - E. The Local Government of the appellant
30. An employer is required to pay the tax deducted in respect of PAYE to the relevant tax authority not later than ..... days after the end of each month.
- A. 30
  - B. 10
  - C. 15
  - D. 20
  - E. 25

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SECTION A: PART II

ATTEMPT ALL QUESTIONS

(20 Marks)

## SHORT ANSWER QUESTIONS

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

1. When a company remits withholding taxes and the payment schedules to the tax authorities.....will be issued by the tax authority in favour of the tax payers whose names are on the payment schedule.
2. The aggregate deduction from profits in respect of a loss incurred must not exceed the actual amount of the .....
3. For a balancing allowance or charge to be given or made, the asset must have been disposed of during the ..... for the relevant year of assessment.
4. In addition to initial allowance, a company which has incurred qualifying capital expenditure on plant and equipment is allowed an .....at the rate of ..... of the actual expenditure on such plant and equipment.
5. All tiers of government are allowed to establish their tax authorities in Nigeria ..... (TRUE OR FALSE).
6. The document issued when the Board is satisfied that the tax due from a tax payer has been fully paid or no tax is due from him, is called .....
7. Banks are expected to file monthly returns of names and addresses of new customers in the preceding month within.....days after the end of each month.
8. The Joint Tax Board was established by Section 85 (1) of .....
9. Failure to register for Value Added Tax attracts..... for the first month and..... for subsequent months in which the failure continues.
10. Failure to notify the relevant tax authority of change of address of a vatiable person attracts .....
11. The Duties which vary with the amount or value of the consideration for the document being stamped is called .....

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12. Capital gains on the disposal of a landed property through..... acquisition by government is exempt from Capital Gains Tax.
13. Private passage costs to or from Nigeria, if any, charged in the partnership accounts forms parts of the ..... of a partner.
14. For small businesses, the applicable rate of income tax is ..... of Total Profit.
15. In the case of second-hand building, no ..... allowance can be claimed.
16. Unutilized capital allowance of a business on cessation is carried backward for ..... years before cessation.
17. An amount of money paid to an employee who is retiring or leaving his employer after many years of service is called .....
18. Information Technology Development Levy is 1% of Profit before tax of specified companies with an annual turnover of ₦..... and above.
19. The year of assessment in which cessation of a trade or business occurs is called ..... year
20. Where no financial records or returns are submitted by the tax payer to the relevant tax authority, the tax inspectors can raise ..... assessment.

## SECTION B:

## ATTEMPT ANY FOUR QUESTIONS

(50 Marks)

### QUESTION 1

Ballo Ltd is an advertising company. The company agrees to advertise a product on  $2\frac{1}{2}$  metres by  $2\frac{1}{2}$  metres by  $2\frac{1}{2}$  metres of a sheet poster boards at 7 different sites. The cost of advertising per site is ₦2,520 and a commission of  $12\frac{1}{2}\%$  on this type of job is charged by the company.



# INSIGHT

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**Required:**

- a. Calculate the Value Added Tax payable on this transaction and **State** the relevant Tax Authority.  
(8½ Marks)
- b. State any **FOUR** types of goods and services exempt from Value Added Tax.  
(4 Marks)
- (Total 12½ Marks)**

**QUESTION 2**

- a. State any **FIVE** principles of a good tax system and give brief explanation of each.  
(10 Marks)
- b. State the classification of Taxes from the perspective of Tax Base. (2½ Marks)  
(Total 12½ Marks)

**QUESTION 3**

- a. State any **TWO** types of capital allowances under Companies Income Tax Act CAP C21 LFN 2004.  
(2 Marks)
- b. Rural Investment Allowance is granted to a company which has incurred capital expenditure on the provision of some facilities for the purpose of a business, which is located at least 20 kilometers away from such facilities provided by the government.

**Required:**

State these facilities and the rates applicable to them. (2 Marks)

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- c. Ibadí Aran Limited has been trading for many years and makes up its accounts annually to 30 June. The company acquired and disposed of three Toyota vehicles as follows:

	Yaris	Tacoma	Camry
Date of acquisition	10/7/05	8/12/05	30/5/06
Date of Disposal	01/2/08	31/4/09	28/6/09
	₦	₦	₦
Cost of Acquisition	1,400,000	1,600,000	1,800,000
Proceeds of disposal	160,000	240,000	1,805,000

**Required:**

Compute the balancing allowance or charge on the disposal of each motor vehicle, assuming that Initial and Annual allowances are claimable at the rates of 50% and 25% respectively.

(8½ Marks)

(Total 12½ Marks)

## QUESTION 4

The following are extracts from the accounting records of JJ manufacturing company for the year ended June 30, 2010:

- i. On May 1, 2010, there was a professional fee of ₦720,000 paid to Addola Plc, whose Head Office is at Marina, Lagos.
- ii. On May 6, 2010, JJ Manufacturing Company hired an equipment from Mr. Edward, a resident of Oluyole, Ibadan, at a cost of ₦600,000.
- iii. On May 11, 2010, the sum of ₦1,500,000 was paid to Mrs. Abike as rent for the premises occupied by the company at Oroke Drive, Ikoyi, Lagos.
- iv. On May 29, 2010, the company paid the sum of ₦800,000 to Mr. Olusegun, a management consultant, from Osun State.

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## Required:

Compute in a tabular form:

- a. Total Withholding tax payable. (7 Marks)
- b. Withholding tax payable to:
- i. Relevant State Internal Revenue (1½ Marks)
  - ii. Federal Inland Revenue Service (1 Mark)
- c. List any **THREE** tax legislations in Nigeria. (3 Marks)
- (Total 12½ Marks)**

## QUESTION 5

In determining the employment income of an individual taxpayer, it is necessary to determine whether the taxpayer is under a contract of service or under a contract for service.

### Required:

State the factors that may exist before an individual is deemed to be under a contract of service.

**(12½ Marks)**

## QUESTION 6

- a. The following is a summary of the Statement of Comprehensive Income of XYZ Limited for the year ended December 31, 2012.

	₦	₦
Gross Profit		1,000,000
Rental income (gross)		480,000
Dividend received (gross)		300,000
Interest on bank deposit (gross)		<u>200,000</u>
		1,980,000

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	₦	₦
Less:		
Administrative expenses	220,000	
Selling expenses	<u>360,000</u>	<u>580,000</u>
Net Profit		<u>1,400,000</u>

## Notes

- i. Capital allowance granted ₦260,000
- ii. Companies income tax rate 30%
- iii. Rent, dividend and interest were received less withholding tax of 10%

### **Required:**

Compute the Companies income tax liability. (5½Marks)

- b. The government of Nigeria has spread its tentacles to capture all taxes accruable to her in order to meet its obligations to the citizen of the country.

### **Required:**

List any **THREE** companies that are exempt from Companies income tax. (3 Marks)

- c. Education tax was introduced to address the lapses in the funding of the Tertiary Education System in Nigeria.

### **Required:**

State any **FOUR** objectives of Tertiary Education Trust Fund. (4 Marks)

(Total 12½ Marks)

# INSIGHT

## NIGERIA TAX RATES

### 1. CAPITAL ALLOWANCES

	Initial %	Annual %
Office Equipment	50	25
Motor Vehicles	50	25
Office Buildings	15	10
Furniture & 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:

Graduated tax rates with consolidated allowance of ₦200,000 or 1% of gross income whichever is higher plus 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. EDUCATION TAX 2% (of assessable profit)

### 6. CAPITAL GAINS TAX 10%

### 7. VALUE ADDED TAX 5%

# INSIGHT

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## SUGGESTED SOLUTIONS

### SECTION A

#### PART I      MULTIPLE-CHOICE QUESTIONS

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

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

## EXAMINER'S COMMENT

The question covered the entire syllabus. They also tested the candidates' understanding of the current tax issues. All the candidates attempted the questions. About 90 percent of the candidates scored above average.

## PART II SHORT-ANSWER QUESTIONS

- 1. Withholding tax receipt (Credit Notes)
- 2. Loss
- 3. Basis Period
- 4. (a.) Investment Allowance (b) 10%
- 5. True

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6. Tax clearance certificate
7. 7 (Seven)
8. Personal Income Tax Act 2004 (as amended)
9. ₦10,000, N5,000
10. ₦5,000
11. Ad Valorem Duties
12. Forced
13. Income
14. 20%
15. Initial
16. 5
17. Gratuity
18. ₦100,000,000
19. Ultimate year
20. Best of Judgement

## EXAMINER'S COMMENT

These questions covered substantial part of the syllabus especially the contemporary issues in the tax system. All the candidates attempted the question. About 40 percent of the candidates scored above 50 percent.



# INSIGHT

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## SOLUTION 1

a.

Ballo Ltd  
Computation of VAT Payable

	₦
Cost of Site ( <del>₦</del> 2,520x7)	17,640.00
Add Commission (12½) x <del>₦</del> 17,640)	2,205.00
	<u>19,845.00</u>
VAT Payable @ 5%	992.25
Invoice Amount ( <del>₦</del> 19,845 + <del>₦</del> 992.25)	<u><u>20,837.25</u></u>

The Relevant Tax Authority is Federal Inland Revenue Services

- b. Good exempted:-
- i. Medical and Pharmaceutical products
  - ii. Books and educational materials
  - iii. Basic food items
  - iv. Plant, Machinery and equipment for gas in Downstream Petroleum Operations
  - v. Baby Products
  - vi. Exported goods
  - vii. Tractors, Plough, Agricultural Equipment and implements purchased for agricultural purposes.
- Services exempted
- i. Religious services
  - ii. Medical services
  - iii. Exported services
  - iv. Services provided by Community bank & Mortgage Institutions
  - v. Plays & Performance Conducted by Educational Institutions as part of learning

## EXAMINER'S COMMENT

This is a two-part question on Value Added Tax (VAT). Part (a) is a simple computation question while part (b) is a theory question on VAT. About 70 per cent of the candidates attempted the question. About 65 percent of the candidates did very well in part (b) but only 40 percent scored above average in the part (a) of the question

# INSIGHT

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## SOLUTION 2

- a.
- i. Certainty: - A taxpayer should know
    - The exact amount to pay
    - Basis of taxation
    - Rate of tax applicable
    - The tax authority to pay to.
  - ii. Economy in Collection Cost: - The system of collection should be cost effective. The cost of collection should be less than the amount of tax collected.
  - iii. Equity: - Taxes should be fair so as to be acceptable by taxpayers.
  - iv. Convenience: - The method and timing of tax payment should be convenient to taxpayers. The place of payment should be easy for the taxpayers to locate.
  - v. Neutrality: - Taxes should not be an excess burden to economic activities.
  - vi. Flexibility: - The rates of tax should be easy to alter without difficulty.
- b. Tax classification:
- i. Capital e.g. Capital Gains Tax -
  - ii. Income - Personal Income Tax;  
- Companies Income Tax
  - iii. Consumption - Value Added Tax, Excess Duties

## EXAMINER'S COMMENT

This is a theory question on tax system. It is a straight forward question. About 98 percent of the candidates attempted the question. The general performance was satisfactory

# INSIGHT

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## SOLUTION 3

- a. There are basically four types of Capital Allowances:
- i. Initial Allowance
  - ii. Annual Allowance
  - iii. Balancing Allowance
  - iv. Investment Allowance

- b.
- |                      |      |
|----------------------|------|
| No facilities at all | 100% |
| No Electricity       | 50%  |
| No Water             | 30%  |
| No tarred road       | 15%  |
| No Telephone         | 5%   |

- c. Computation of Balancing Adjustment

	Yaris	Tacoma	Camry
Rates Initial	50%	50%	50%
Annual	25%	25%	25%
	₹	₹	₹
<b>2007 I.A 1/7/06 – 30/6/06</b>			
Cost	1,400,000	1,600,000	1,800,000
I.A (50% x cost)	(700,000)	(800,000)	(900,000)
A.A (25% x Cost – IA)	(175,000)	(200,000)	(225,000)
Residue c/f	525,000	600,000	675,000
<b>2008 YOA 1/7/06 – 30/06/07</b>			
Annual Allowance	(175,000)	(200,000)	(225,000)
Residue c/f	350,000	400,000	450,000
<b>2009 1/7/07 – 30/6/08</b>			
Annual Allowance	(175,000)	(200,000)	(225,000)
Residual c/f	175,000	200,000	225,000
<b>2010 YOA 1/7/08 – 30/6/09</b>			
Sales proceeds	(160,000)	(240,000)	(1,805,000)
Balancing Allowance/ Charge	15,000	(40,000)	(1,580,000)
			Restricted to
			₹1,575,000

- N. B. The balancing charge in case of camry is restricted to the actual capital allowances granted on the vehicle before disposal.

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	₦
Cost of camry	1,800,000
Residue (w.d.v at Disposal)	225,000
Total Capital Allowances	-
Actual Balancing charge	<u>1,575,000</u>

The balancing charge is ₦1,575,000 and not ₦1,580,000.

## EXAMINER'S COMMENT

This is a three-part question on capital allowance. Part (a) and part (b) are theory questions while part (c) is a computation question. About 80 per cent of the candidates attempted the question. Majority did well in parts (a) and (b). But only 40 percent scored above average in parts (c). The major pitfall was lack of proper understanding of the computation of balancing allowance and balancing charge using appropriate tax rates.

## SOLUTION 4

Name	Address	Payment	Gross Amt Paid	Rate	Amt deducted	Relevant Tax Authority
			₦	%	₦	
Addola Plc	Marina, Lagos	Professional fees	720,000	10	72,000	FIRS
Mr. Edward	Oluyole Ibadan	Hire of Equipment	600,000	10	60,000	OYO SIRS
Mrs. Abike	Ikoyi, Lagos	Rent	1,500,000	10	150,000	LAGOS SIRS
Mr. Olusegun	Osun	Management fee	800,000	5	40,000	OSUN SIRS
					322,000	

# INSIGHT

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- i. TOTAL TAX PAYABLE:
- ii. Relevant State Internal Revenue
  - OYO ₦60,000
  - LAGOS ₦150,000
  - OSUN ₦40,000
- iii. Withholding Tax Payable to:  
Federal Inland Revenue Service – ₦72,000
- b. Notable Tax Legislation
  - i. Personal Income Tax Act 2011
  - ii. Company Income Tax Cap C21 LFN 2004
  - iii. Petroleum Profit Tax Act Cap (P13) LFN 2004
  - iv. Value Added Tax Act Cap VI LFN 2004
  - v. Education Tax Act Cap E4 LFN 2004
  - vi. Stamp Duties Act Cap 58 LFN 2004
  - vii. Capital gains Tax Cap C1 LFN 20

## EXAMINER'S COMMENT

This is a standard question on computation of withholding tax payable to relevant tax authorities and existing tax legislations in Nigeria. About 60 per cent of the candidates attempted the question. The general performance was slightly above average. The major pitfall was lack of understanding of the appropriate tax rates for computation of withholding tax payable.

## SOLUTION 5

An individual is more likely to be under a contract of service (i.e. an employee) if the following factors exist.

- i. Pay Arrangement:- The individual is paid regular wages and salary.
- ii. Hours of work:- The individual has fixed hours of work.
- iii. Personal Service:- The individual is not free to delegate his duties to other people or provide a substitute under the contract.

# INSIGHT

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- iv. Exclusive Service:- The individual provides his service exclusively to one employer.
- v. Control:- Where a master/servant relationship exists. The employer has the right to dictate the direction of where, when and how the work is to be done.
- vi. Ownership of equipment:- Where the employer provides the tools, equipments, materials and other facilities used by the individual for his work.
- vii. Integration:- The individual is employed as part of the business and carries out work which is an integral part of the business.

## EXAMINER'S COMMENT

This is a straight forward question on determination of employment income of individual taxpayer. However, about 10 percent of the candidates attempted the question; and the general performance was below average.

## SOLUTION 6

### a. Computation of Income Tax Liability for 2013 Year of Assessment

	₹	₹
Net Profit per profit/loss		1,400,000
Less dividend received (franked Investment income)		<u>300,000</u>
Assessable Income		1,100,000
Less Capital Allowance		260,000
Taxable Income		<u>840,000</u>
		252,000
Income tax payable (30%)		
Less withholding tax suffered at source:		
- Rental income (100% x 480,000)		
-	=48,000	
- Interest on Bank deposit		
10% x 200,000	20,000	<u>68,000</u>
Net Income tax payable		<u>184,000</u>

Tertiary Education Tax Fund @ 2% of assessable income  
= 1,100,000 x 2% = 22,000

# INSIGHT

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- b. The Companies that are exempt from Companies Income Tax are:
- i. A statutory or registered friendly society;
  - ii. Company engaged in ecclesiastical, charitable or educational activities of a public character;
  - iii. Company being a co-operative society registered under any enactment or law relating to co-operative societies;
  - iv. Company being a trade union registered under the Trade Union Act.
  - v. Companies under pioneer status
  - vi. Companies operating with Export processing zone provided the undertaking is 100% export oriented.
  - vi. Companies which manufacture or fabricate spare parts which can be used as input for exportable goods.
  - vii. Any Company formed for the purpose of promoting sporting activities where such profits are wholly expendable for such purposes
- c. The fund is specifically used for the provision or maintenance of
- i. Essential physical infrastructure for teaching and learning
  - ii. Instructional material and equipment
  - iii. Research and publication
  - iv. Academic staff training and development
  - v. Development of Library system
  - vi. Redressing any imbalance in enrolment mix as between the higher education institutions
  - vii. Any other need which in the opinion of the Board of Trustees is critical and essential for the improvement of quality and standard in the higher educational institutions.

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## EXAMINER'S COMMENT

This is a simple question on computation of companies' Income tax and education tax. About 80 per cent of the candidates attempted the question. The general performance was below average. More than 70 per cent of the candidates could not state correctly the objectives of the Tertiary Education Trust Fund.



# INSIGHT

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AT/141/PIII.12

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA  
ACCOUNTING TECHNICIANS SCHEME  
PART III EXAMINATION - MARCH 2014**

**MANAGEMENT**

**Time Allowed: 3 Hours**

**SECTION A: PART I**

**ATTEMPT ALL QUESTIONS**

**(30 Marks)**

**MULTIPLE-CHOICE QUESTIONS**

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

1. Which of these is **NOT** a resource of business?
  - A. Natural resources
  - B. Capital factor
  - C. Human factor
  - D. International relations
  - E. Entrepreneurship
  
2. The management of business concerns should possess the following broad qualities in order to succeed **EXCEPT**
  - A. Ideology
  - B. Foresight
  - C. Business morality
  - D. Freedom from corruption
  - E. Firmness and courage
  
3. Which of these is **NOT** a determinant of the ownership form of business?
  - A. Level of uncertainty
  - B. Nature of business
  - C. Market size
  - D. Financial requirement
  - E. Degree of privacy

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4. The Staff development programme that helps employees to deal with ethical questions and values is called
  - A. Whistle blowing
  - B. Social training
  - C. Ethical focus
  - D. Ethical training
  - E. Strategic training
  
5. The following are the benefits of social responsibility **EXCEPT**
  - A. Social involvement creates a favourable public image
  - B. Business creates social problems and must work to solve or reduce the social problems
  - C. Participants in social programmes give business greater power, perhaps at the expense of a particular segment
  - D. Social responsibility is necessary to ensure economic survival
  - E. It is cheaper for business to prevent social problems through social activities
  
6. The filing system in which documents are filed in the sequence of time and date of receipt is
  - A. Numerical order
  - B. Subjective system
  - C. Chronological system
  - D. Timing system
  - E. Periodic system
  
7. Which of these is **NOT** a disadvantage of open office?
  - A. Infections and disease may spread quickly
  - B. A big hall may not be efficiently supervised
  - C. The office will appear to be a crowded place
  - D. Secrecy cannot be maintained
  - E. Much space is saved
  
8. Which of these is communication equipment?
  - A. Teleprinter
  - B. Photocopier
  - C. Folders

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- D. The letter-opener
  - E. Franking machine
9. The process of determining what the organization will specifically accomplish and how to accomplish goals is
- A. Leading
  - B. Organising
  - C. Planning
  - D. Coordinating
  - E. Motivating
10. The degree to which the organization achieves stated goals is referred to as
- A. Organisational effectiveness
  - B. Organisational efficiency
  - C. Management
  - D. Organisations
  - E. Techniques
11. The organisation's output of goods and services divided by its inputs is called
- A. Process
  - B. Production
  - C. Productivity
  - D. Processing
  - E. Processor
12. The ..... is any signal that triggers the response of the receiver
- A. Message
  - B. Noise
  - C. Encoder
  - D. Decoder
  - E. Medium
13. The spread of rumour and gossip through an informal network is referred to as
- A. Selective perception
  - B. Stereotyping
  - C. Information overload
  - D. Grapevine
  - E. Perception

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14. The systematic attempt to redesign an organization in a way that will help it adapt to changes in the external environment is called
- A. Planned change
  - B. Unplanned change
  - C. Formal change
  - D. Informal change
  - E. Pleasant change
15. Change ..... is a term used to denote organizational members whose roles involve developing strategies and procedures to bring about change
- A. Vocal
  - B. Master
  - C. Agent
  - D. General
  - E. Human
16. The procedure in employment process that involves face to face information exchange is
- A. Puzzle questions
  - B. Self assessment
  - C. Selection interview
  - D. Interpersonal enquiry
  - E. Board investigation
17. In performance appraisal, the problem that occurs when a supervisor's rating of a subordinate on one trait biases the rating of that person on other traits is known as
- A. Unclear standards
  - B. Halo effect
  - C. Central tendency
  - D. Leniency problem
  - E. Strictness error

# INSIGHT

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18. Which of the following is **NOT** true about disciplinary actions?
- A. Disciplinary action should be taken in private
  - B. Penalty should be done in a constructive manner
  - C. Promptness is not very important
  - D. Disciplinary action should be applied
  - E. Workers should have been properly briefed about company rules
19. Performance appraisal can be conducted by all of the following **EXCEPT**
- A. Supervisors who rate subordinates
  - B. Subordinates rating of supervisors
  - C. Peer rating
  - D. A group of supervisors rating subordinates
  - E. Chief Executive Officers rating Board members
20. Which of the following is also referred to as ego needs in Maslow's hierarchy of needs theory?
- A. Esteem needs
  - B. Safety needs
  - C. Physiological needs
  - D. Love needs
  - E. Self-actualisation needs
21. The Management Grid is associated with ..... and .....
- A. Tannembaum and Schmidt
  - B. Blake and Mouton
  - C. Hersey and Blanchard
  - D. Katz and Kahn
  - E. Vroom and Tetton
22. The obligation of an officer to perform assigned tasks to the best of his ability and for which he is answerable is known as
- A. Charisma
  - B. Authority
  - C. Delegation
  - D. Order
  - E. Responsibility

# INSIGHT

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23. The following are the principles of organization **EXCEPT**
- A. The principle of objectivity
  - B. The principle of specialisation
  - C. The principle of coordination
  - D. The principle of operation
  - E. The principle of definition
24. Coordination exists in **TWO** categories. These are known as
- A. Vertical and strategic
  - B. Vertical and tactical
  - C. Vertical and horizontal
  - D. Vertical and operational
  - E. Vertical and elementary
25. The following are essential characteristics of effective control system **EXCEPT**
- A. Future-oriented
  - B. Multi-dimensional
  - C. Timely
  - D. Strategically complex
  - E. Monitorable
26. Production concept which describes the exact path materials and other production resources must follow through the production facilities is known as
- A. Scheduling
  - B. Dispatching
  - C. Routing
  - D. Planning
  - E. Controlling
27. The following are the objectives of production management **EXCEPT**
- A. Improved profitability
  - B. Cost maximization
  - C. Better utilization of physical facilities
  - D. Enhanced employee condition of services
  - E. Ensuring optimal flow of cash

# INSIGHT

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28. Product life cycle stage where profit is increasing and product enjoys market acceptability is
- A. Growth stage
  - B. Maturity stage
  - C. Introduction stage
  - D. Decline stage
  - E. Product development stage
29. Marketing concept is concerned with delivering the desired
- A. Product
  - B. Satisfaction
  - C. Goods
  - D. Service
  - E. Relationship
30. Electronic funds transfer system application that reduces the number of paper cheques, recurring bill payments and pay employee salaries is
- A. Electric Cheque Conversion (ECC)
  - B. Automatic Teller Machine (ATM)
  - C. Automated Clearing Houses (ACHs)
  - D. Point-of-sale (POS) Terminal
  - E. Internet banking

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SECTION A: PART II:

ATTEMPT ALL QUESTIONS

(20 Marks)

## SHORT-ANSWER QUESTIONS

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

1. The transferring and understanding of message is .....
2. The condition in the general environment that may hinder a company's efforts to achieve strategic competitiveness is .....
3. The totality of factors, physical working conditions and circumstances that influence and affect the efficiency of the workers in the office is .....
4. The aggregate internal and external variables or forces that operate to affect the activities of a particular business establishment is .....
5. The document of the company that represents the rules and regulations governing the internal management of a company is .....
6. A book specially maintained in an organization to take records of when workers resume for work on a daily basis is .....
7. The filing system where files are arranged on the basis of states, local government, town, etc is .....
8. The types of training that is incorporated into the work of the employee and where he/she practices the job under a close watch of an experienced supervisor is .....
9. A type of structured process by which people become skilled workers through a combination of instructions and on-the-job training is called.....
10. The scholar associated with Existence, Relatedness and Growth (ERG) theory is .....
11. The determination of basic long term objective of an enterprise and the adoption of course of action and allocation of resources necessary to achieve these objective is called.....



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12. The control exercise which takes place after a product or service has been completed to ensure that the final output meets organizational standard is known as.....
13. Management function that involves monitoring, comparing and correcting work performance is known as.....
14. The major focus of marketing is to.....
15. A marketing channel that has no intermediary level is.....
16. The activity involved in monitoring of raw materials, work-in-progress, finished goods and maintenance spare parts to ensure their effective and efficient use is called .....
17. Bureaucracy as a management concept was propounded by.....
18. Management function which defines organizations' mission, goals and vision along with strategies to achieve them is called.....
19. The manager's ability to work with, understand, mentor and motivate others both individually and in groups is referred to as.....
20. The activity of arranging different departments and equipment in the building for efficient operation of the system is the.....

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

**QUESTION 1**

- a. Define "accident" within the context of a working environment.                      (2½ Marks)
  - b. Explain **FIVE** probable causes of accident in an organization.                      (10 Marks)
- (Total 12½ Marks)**

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## QUESTION 2

- a. What is Total Quality Management? (2½ Marks)
- b. Explain **FIVE** requirements for successful Total Quality Management. (10 Marks)
- (Total 12½ Marks)

## QUESTION 3

Explain the stages in the life cycle of a typical consumer product. Illustrate with a diagram. (Total 12½ Marks)

## QUESTION 4

Explain the major factors to be considered in choosing a form of business organization. (Total 12½ Marks)

## QUESTION 5

- a. Differentiate between 'strategy' and 'strategic management'. (2½ Marks)
- b. Explain briefly the importance of strategic management. (6 Marks)
- c. State any **FOUR** of the strategic management process. (4 Marks)
- (Total 12½ Marks)

## QUESTION 6

- a. Explain the substance of Frederick Herzberg's two-factor theory. (9½ Marks)
- b. What are the criticisms leveled against the theory? (3 Marks)
- (Total 12½ Marks)

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## SUGGESTED SOLUTION

### SECTION A

#### PART I MULTIPLE-CHOICE QUESTIONS

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

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

## EXAMINER'S COMMENT

Candidates showed a good understanding of the questions and the concepts being tested. Over 70% of the candidates scored above 50 percent in this part.

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## PART II SHORT-ANSWER QUESTIONS

1. Communication process
2. Threat
3. Office Environment
4. Business Environment
5. Articles of Association
6. Time book
7. Geographical filing system
8. On – the job training
9. Apprenticeship training
10. Clayton Alderfer
11. Strategy
12. Feedback Control
13. Controlling
14. Satisfy Customer Needs
15. Direct Marketing channel/Zero Stage Channel
16. Inventory Control
17. Max Weber
18. Planning
19. Interpersonal Skills
20. Plant layout

# INSIGHT

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## EXAMINER'S COMMENT

Candidates lacked the necessary understanding of the concepts being tested. About 60 percent of the candidates scored below 50 percent in this section.

## SECTION B

### SOLUTION 1

- b. An accident is defined as “an unplanned and uncontrolled event which has led to or could have led to injury to persons, damage to plant or other loss”.
- b i. **Poorly Designed Premises:-** A poorly designed factory/premises with poorly designed stair cases; wrong sitting of utility service points; narrow access ways/corridors, short head-rooms and wrong plan layout could easily cause/lead to accident/safety hazards.
- ii. **Poor Environment:-** Where employees work in poorly ventilated and dusty/smoky environment, accidents might occur. Sometimes poor personal hygiene on the part of employees' and poor sanitary conditions around the premises could aggravate the problem.
- iii. **Lack of Maintenance:-** In a factory without a good preventive maintenance programme, machines and facilities develop faults and break down frequently and could pose danger to employees.
- iv. **Faulty Work Process:-** Where work methods/procedures and technology being used is inherently unsafe, there could be accidents.
- v. **Poor Supervision:-** Supervisors are expected to train subordinates on basic safety procedures and enforce its adherence. Where they neglect this important duty, there could be accidents.
- vi. **Lack of Protective Equipment/Clothing/Devices:-** Where the organisation lacks protective equipment/clothing/devices or neglects to enforce their use accident can occur.

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- vii. **Horseplay and Unsafe behaviour:-** Running around, playing of music, playing with dangerous jokes, sleeping and daydreaming at the workplace should be checked to prevent accidents.
- viii. **Lack of training:-** Poorly trained employees are often prone to accidents.
- ix. **Poor Labour Relations:-** In an organisation with highly motivated staff, good worker/management relations, democracy and fair play employees obey and enforce safety miles.

## EXAMINER'S COMMENT

More than 90 percent of the candidates attempted the question. About 60 percent of the candidates scored above 50 percent. The remaining 40 percent who scored below 50 percent used individual worker characteristics to answer the question, thereby losing precious marks.

## SOLUTION 2

- a. Total Quality Management is a view that strives to create a customer-oriented culture which defines quality for the organisation and lays the foundation for activities aimed at attaining quality related goals.

Total Quality Management is a philosophy of management involving continual improvement and responding to customer needs and expectation.

- b i. **Commitment:-** There is a need for seriousness on the part of management and employees to the attainment of quality at all times.
- ii. **Employees Involvement and Participation:-** All employees of the organisation need to be carried along in the delivery of quality service to customer. Training and development programmes that will enhance quality service delivery should be given to employees.
- iii. **Improved Inputs Quality:-** Quality raw materials, components and semi finished goods should be made available. The inputs of an organisation will go a long way to determine output.

# INSIGHT

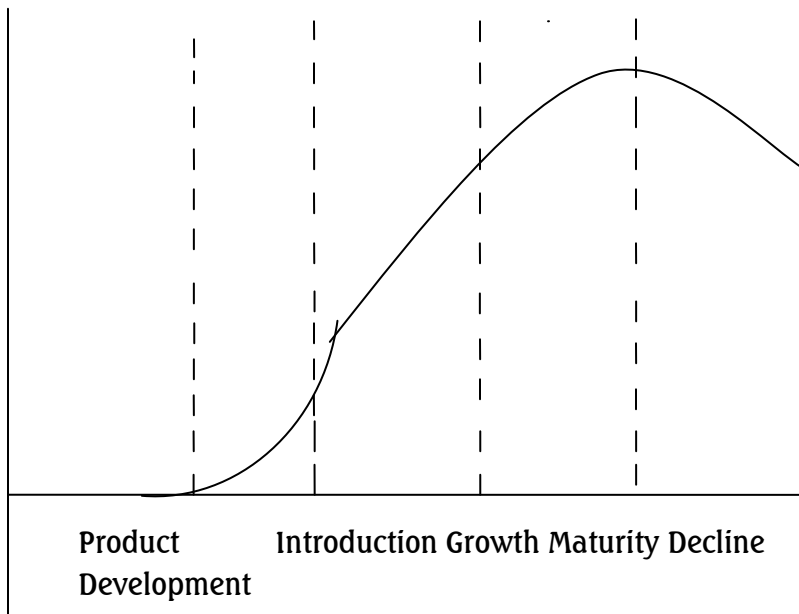
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- iv. **Investment in Technology:-** New technology will improve quality service delivery. It will also lead to greater productivity and lower cost.
- v. **Production Methods:-** System of production should be effective enough to enhance quality service delivery.

## EXAMINER'S COMMENT

Less than 30 percent of the candidates attempted the question, 20 percent of them scored above 50 percent. Most of the candidates wrongly took the question to be quality control and were using residual knowledge to answer the question. Candidates are advised to prepare well in subsequent examinations to ensure proper understanding of the requirements of the questions.

## SOLUTION 3





# INSIGHT

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## **Product development:-**

First stage when the company finds and develops a new idea.

Sales is zero

High investment costs on development and testing, promotion expenditure to keep the public in waiting and wetting their appetite.

## **Introduction:-**

Product introduced into the market

Period of slow sales

Heavy introductory expenses – advertisement and promotion

No profit

Competitors scared.

## **Growth:-**

Rapid market acceptance

High trial rate

Increasing profit

High advertisements and promotions expenditures

Competitors entering the market

## **Maturity:-**

Slowdown in sales

Most potential buyers had accepted the product

Profits decline

High cost of marketing efforts

Product defended against competitors.

## **Decline:-**

Sales fall off

Profits drop significantly

## **EXAMINER'S COMMENT**

95 percent of the candidates attempted the question. About 70 percent of them scored above 50 percent. The major pitfalls are the inability of the candidates to illustrate the

# INSIGHT

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product life cycle with correct diagram and could not explain the stages as expected. Candidates are advised to make adequate preparation for future examinations.

## SOLUTION 4

The following are the major factors to be considered in choosing a form of ownership.

- i. **Nature of the business:-** The size of the business and the kind of goods and services it provides will influence the best form of ownership.
- ii. **Market Size:-** The geographical scope and size of the operations have an effect on the choice of ownership.
- iii. **Capital Requirement:-** One of the primary determinants of an investor is the amount of fund available to the owner. This will determine what resources to put in place towards the actualisation of his business idea.
- iv. **Ease of formation:-** Some businesses are easily established with little or no legal requirement or documentation, whereas some businesses have to pass through rigorous formation process, before they could start operation.
- v. **The degree of owner's liability:-** The degree of risk owners are prepared to bear will determine the nature of business and the form of ownership.
- vi. **Degree of Privacy:-** Some owners do not want the details of their performances, such as turnover and profitability to be made known to the public.
- vii. **Owners attitude to Control:-** Some owners want full control both in management and ownership.
- viii. **Government Policies:-** By legislation and pronouncement, government put in place some conditions to be met by investors. Meeting some of these conditions may not be an easy task, hence limiting the numbers of investors to those who are able to meet the stipulated conditions.

## EXAMINER'S COMMENT

Over 90 percent of the candidates attempted the question. About 60 percent of them scored 50 percent and above. However, those who performed poorly could not muster

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enough factors and offer necessary explanation to support the factors mentioned. Candidates are advised to make adequate preparation in future examinations to ensure better performance.

## SOLUTION 5

- a. Strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage.

Strategic Management is the process of putting together an organisation's resources towards crafting and implementing strategy in an attempt to achieve competitiveness and earn desired returns.

- b. The importance of Strategic management includes:
- i. **Performance:-** It aids performance of organisations in terms of profitability, market position and growth.
  - ii. **Management change:** - It is a tool for managing changes taking place within and outside the organisation which affect its ability to achieve set objectives.
  - iii. **Effective co-ordination:-** It helps co-ordinate all organisations' activities and resources towards achieving overall objectives.
  - iv. **Focus:** It provides the organisation with objectives and methods of achieving them.
- c. The strategic management process includes:-
- i. Developing vision, mission and objectives
  - ii. Carrying out the SWOT analysis
  - iii. Formulation of strategies
  - v. Implementation of strategies
  - vi. Evaluation of implemented strategies

# INSIGHT

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## EXAMINER'S COMMENT

About 75% of the candidates attempted the question. 70 percent of them scored above 50 percent. Those who performed below average could not mention the necessary points to answer the importance of strategic management in 5(b).

## SOLUTION 6

- a. Fredrick Herzberg and his associates made a significant contribution to the theory of motivation by differentiating motivational and maintenance factors in the job situation.

The initial research was based upon interview of 200 engineers and accountants in the United States of America. The accountants and engineers were asked to think of a time they felt bad about their jobs.

Herzberg found that some job conditions exist primarily to dissatisfy employees when they are absent and others operate primarily to build satisfaction and high job performance if they are present. He named these two elements hygiene and motivator factors respectively.

Factors which can cause dissatisfaction at work are company policy and administrations, salary, the quality of supervision, interpersonal relations, working conditions and job security. They are called hygiene factors because they are essentially preventive. They prevent or minimise dissatisfaction but do not give satisfaction.

Motivators create job satisfaction and are effective in motivating an individual to superior performance and effort. These factors are intimately related to the content of the job i.e. the nature of the job, they consist of status, recognition, responsibility, challenging work, growth in the job, the job itself and achievement.

- (b)(i) Research has failed to support the fact that hygiene factors can prevent dissatisfaction but do not motivate

## INSIGHT

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- (ii) Herzberg research design only covered accountants and engineers in United States of America and hence limits the generalisation of his findings.
- (iii) The critical-incident interview method used by Herzberg in his research methodology is more susceptible to respondent's bias.

### EXAMINER'S COMMENT

About 35 percent of the candidates attempted the question, 10 percent of these, scored above 50 percent. The poor performance could be attributed to the fact that majority of the candidates listed the assumptions of McGregor's theory X and Y which is contrary to the expectation of the question. Proper preparation by candidates will ensure better performance in future examinations.