

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.

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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INSIGHT

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INSIGHT

AT/142/PIII.9

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

PRINCIPLES OF AUDITING

Time Allowed: 3 Hours

SECTION A: PART I

MULTIPLE CHOICE QUESTIONS

(30 Marks)

ATTEMPT ALL QUESTIONS

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

1. Which of the following is **NOT** an advantage associated with statistical sampling?
 - A. The results of the test can be expressed in practical mathematical terms
 - B. To a large extent, bias in selecting sample units is eliminated
 - C. The process of fixing required precision and confidence levels compels the auditor to consider and clarify audit objectives
 - D. Statistical sampling often needs back up by further tests within the population reviewed for large, non-routine, sensitive items e.t.c
 - E. Sample size is objectively determined having regard to the degree of risk the auditors are prepared to accept for each application.

2. The ratio that is **NOT** computed for the purpose of carrying out analytical procedures is
 - A. Current ratio
 - B. Return on capital employed
 - C. Gross profit margin
 - D. Net profit margin
 - E. Cost/benefit ratio

3. The following are payroll audit objectives **EXCEPT** to
 - A. Test reasonableness of net pay figures
 - B. Check accuracy and validity of deductions
 - C. Identify ghost workers
 - D. Improve on cash flow
 - E. Confirm proper and correct workers

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4. Which of the following is **NOT** among the items that are generally subjected to analytical procedures?
- A. Inventory and cost of sales
 - B. Prior year adjustments and contingent liabilities
 - C. Investment income and investments
 - D. Debtors and sales
 - E. Loans and loan interests
5. An example of non-adjusting events which may **NOT** require disclosure is
- A. Mergers and acquisitions
 - B. Strikes and other labour disputes
 - C. Issue of shares and debentures
 - D. Change in rates of foreign exchange
 - E. Discovering of errors and frauds which show that the financial statements were incorrect
6. When there is a disagreement that is material but **NOT** fundamental to financial statement, the auditor's opinion will be a/an
- A. Adverse opinion
 - B. Subject to opinion
 - C. Disclaimer
 - D. Except for
 - E. Qualified opinion
7. A statement where the auditor draws the attention of users of financial statements to a particular issue without intention of qualifying his report is referred to as what?
- A. Analysis report
 - B. Unqualified audit report
 - C. Emphasis of the matter
 - D. Domestic report
 - E. Letter of representation
8. The external auditor's report to the shareholders does **NOT** include **ONE** of the following
- A. Addresses
 - B. Opinion paragraph
 - C. Title of the report
 - D. Duration covered by the audit
 - E. Auditor's qualification and experience

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9. Which of the following is **NOT** part of what an auditor should form an opinion on in the annual reports and accounts of a limited liability company?
- A. Statement of financial position
 - B. Statement of special business
 - C. Statement of profit or loss and comprehensive income
 - D. Statement of changes in equity
 - E. Statement of cashflows
10. The auditor does **NOT** accept **ONE** of the following as his responsibility in expressing an opinion on the financial statements
- A. Compliance with legal requirements
 - B. Consistency of the application of accounting policies
 - C. Appropriateness of the figures included in the statement of financial position
 - D. Preparation of the financial statements
 - E. Reliability of the opening figures
11. Which of the following does **NOT** classify an audit?
- A. Statutory audit
 - B. Management audit
 - C. Salutary audit
 - D. Private audit
 - E. Internal audit
12. The following are major advantages of accounting standards **EXCEPT**
- A. They reduce the areas of uncertainty and subjectivity in accounts
 - B. They expand the areas where different accounting policies can be adopted
 - C. They increase the comparability of financial statements
 - D. They codify what is considered in most circumstances to be best accounting practice
 - E. They give an indication of the interpretation of the concept "true and fair view" in many circumstances

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13. The auditor is not expected to possess **ONE** of the qualities listed below
- A. Independence
 - B. Subjectivity
 - C. Integrity
 - D. Objectivity
 - E. Competence
14. Which of the conditions below prevents the auditor from relying on the work of a specialist?
- A. The degree of the specialist's relationship with the client
 - B. The experience of the specialist
 - C. The fees charged by the specialist
 - D. The independence of the specialist
 - E. Whether the data generated by the specialist is in agreement with the financial statements
15. The primary responsibility for the assertions in the financial statements rests with which of the following?
- A. Client's management
 - B. Financial Director of the organisation being audited
 - C. Audit partner assigned to the engagement
 - D. Senior auditor in charge of the field work
 - E. Staff auditor who drafts the statements
16. The objective in the audit of a computerised accounting system is
- A. To report on test paths
 - B. To form an opinion on the financial statements
 - C. To report on audit trail
 - D. To report on controls
 - E. Fraud detection
17. A situation where the statement of financial position will be presented to show a state of affairs that is better than the normal position of the entity concerned is called
- A. Falsification
 - B. Misinterpretation
 - C. Misappropriation
 - D. Window Dressing
 - E. Teaming and lading

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18. Which of the following is **NOT** extremely important for general security in a computer environment?
- A. Restriction of entrance to unauthorized person
 - B. Air conditioners
 - C. Program analysis techniques
 - D. Firefighting equipment
 - E. Maintenance agreement
19. In formulating an audit plan, the auditor will **NOT** consider
- A. Knowledge of client's business
 - B. Risk and materiality
 - C. Nature, timing and extent of audit procedures
 - D. Financial performance
 - E. Coordination, direction, supervision and review of the audit.
20. Third party service organisations that provide Electronic Data Processing (EDP) services to their client is called
- A. Business centre
 - B. Computer power house
 - C. IT Department
 - D. Computer bureau
 - E. Nigerian Telecommunication Commission
21. Which of the following is **NOT** an objective of the internal control system in any organisation?
- A. Provision of a monitoring mechanism which helps to ensure compliance with policies set up by the management
 - B. Establishment of adequate controls which help to ensure that only valid transactions are recorded
 - C. Safeguarding the assets of the enterprise
 - D. Creating a basis for planning future adults
 - E. Provision of a framework for an organisational structure so as to ensure that business activities are conducted in an orderly and efficient manner
22. All of the following are classes of internal controls **EXCEPT**
- A. Organisation's controls
 - B. Supervision controls
 - C. Physical controls
 - D. Superficial controls
 - E. Segregation of duties

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23. Which of the following is **NOT** an inherent limitation of an internal control system?
- A. Human errors
 - B. Internal and external pressures
 - C. Effective use of authority
 - D. Management override of controls
 - E. Collusion between staff
24. Which of the following is **NOT** a criteria for determining the liability of the auditor to third parties?
- A. Proof of negligence
 - B. Occurrence of financial loss
 - C. Reliance on negligently prepared documents which caused the loss
 - D. Proof of approval from the client to use information provided
 - E. Auditor knowing the purpose for which the document is to be used
25. Which of the following is **NOT** a good example of a validation check under application controls?
- A. Existence check
 - B. Sequence check
 - C. Check digits
 - D. Informal check
 - E. Limit check
26. Negative method of circularisation of trade debtors can be used when
- A. Account balances are in dispute
 - B. Account balances are very small
 - C. Account balances are nil
 - D. Underlying records are not up to date
 - E. The auditor already has a good faith in the internal control system in respect of sales and debtors
27. What happens when management refuses to give the auditor a letter of representation?
- A. The auditor must do nothing
 - B. The auditor can write one and keep in the audit file for completeness
 - C. The auditor should evaluate other circumstantial evidence obtained during the course of audit
 - D. The auditor must qualify his report
 - E. The auditor must not qualify his report

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28. Some general principles can be applied in undertaking verification procedure for liabilities **EXCEPT**
- A. Cut-off
 - B. Materiality
 - C. Extent of risk
 - D. Corporate governance
 - E. Reasonableness
29. During the process of gathering audit evidence, the fact that the management has accepted responsibility for fair presentation in the financial statements can be obtained from
- A. Debtor balances
 - B. Creditors balances
 - C. Relevant minutes of meeting
 - D. Management perk schedule
 - E. Post balance sheet review
30. Which of the following terms is **NOT** a technique of substantive testing?
- A. Inspection
 - B. Walk through test
 - C. Enquiry
 - D. Computation
 - E. Vouching

SECTION A: PART II

SHORT-ANSWER QUESTIONS

(20 Marks)

ATTEMPT ALL QUESTIONS

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

1. What is GAAP?
2. Which statement shows the financial position of an organisation at a given point in time?
3. What is the numerical composition of an audit committee of a company?

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4. Under what condition should an auditor **NOT** accept or perform work which he or she is not fully competent to undertake?
5. Under what condition can an auditor act for any two opposing parties in respect of a negotiation, claim or settlement?
6. Whenever the auditor concludes that the effect of any uncertainty is not so material, which audit opinion is he expected to issue?
7. Who are the auditors' primary employers?
8. Which technical term supports the auditor's responsibility to his client on the financial statements?
9. How is an opinion expressed by the auditor based on the judgement that the financial statements give a true and fair view defined?
10. The concept that assumes that client's business will be in operational existence for the foreseeable future is defined as.....
11. The process of transforming programs and information into a form that cannot be understood without access to specific decoding algorithms is called.....
12. An auditing term used when checking the authenticity of a particular transaction by reviewing all the documentary evidence is known as.....
13. What is the type of risk in which the auditor's substantive procedure will not reveal material misstatement that exist within a class of transaction or an account balance?
14. The review of an organisation's procedures to determine whether the organisation follows a specific set of criteria is called.....
15. The computer assisted audit technique in which the auditor processes data planted with errors that test the ability of a client's software to detect them is defined as.....
16. Under the statute, the breach of trust by the auditor can be referred to as.....

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17. What are the controls which involve the day to day review of the work of junior staff in an organisation by their more senior and experienced colleagues called?
18. What is the periodic review of an enterprise's accounting and other internal control procedures by specially assigned staff with the primary purpose of evaluating the systems and reporting any weakness to management and suggestion of appropriate actions to correct the latter referred to?
19. Those procedures, policies, rules and regulations established within an enterprise to ensure the efficient utilisation of scarce resources of the organisation and to prevent and/or detect potential irregularities from time to time are called.....
20. The responsibility for ensuring that the business of the enterprise is carried out in an orderly and efficient manner belongs to.....

SECTION B: ATTEMPT ANY FOUR QUESTIONS (50 Marks)

QUESTION 1

- a. A public limited liability company is scheduled by Companies and Allied Matters Act, LFN 2004 to be audited annually by a qualified and registered auditor.

List the **FOUR** main objectives of this provision of the law. (8 Marks)

- b. List any **THREE** financial statements which are not required to be included in an annual audited account of a private company as per the Companies and Allied Matters Act 2004.

(4½ Marks)

(Total 12½ Marks)

QUESTION 2

- a. There are principally **TWO** types of audit reports qualified and unqualified audit reports. You are required to explain what is called a qualified audit report.

(3½ Marks)

- b. Give any **SIX** circumstances under which an auditor may qualify his report.

(9 Marks)

(Total 12½ Marks)

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QUESTION 3

- a. What is an audit? (2½ Marks)
- b. Discuss any **FIVE** advantages of an audit exercise (10 Marks)
- (Total 12½ Marks)**

QUESTION 4

ONE of the prime advantages of Database Management Systems (DBMS) is that they provide the same data to everyone in the entity having authority to access them.

- a. Explain the term DBMS? (2½ Marks)
- b. Briefly explain the following terms with respect to Electronic Data Processing Environment?
- i. Distributed Data Processing (2 Marks)
 - ii. Centralised Data Processing (2 Marks)
 - iii. On-line Real Time System (2 Marks)
 - iv. On-line System (2 Marks)
 - v. Time Sharing (2 Marks)
- (Total 12½ Marks)**

QUESTION 5

The transport department of a logistics company operates a fleet of approximately 200 motor trucks, some of which were bought for cash, hire purchase or leased through a finance company. As an auditor, you are required to:

- a. i. Identify any **FIVE** objectives of internal control with respect to the information above (5 Marks)
- ii. Enumerate any **FIVE** major risks that could occur in the absence of a good internal control system in relation to (a) above. (5 Marks)
- b. Enumerate any **FIVE** ways by which an auditor can mitigate liability that may occur in the course of discharging his responsibilities to a given client. (2½ Marks)
- (Total 12½ Marks)**

QUESTION 6

- a. Explain the term 'audit evidence'. (2½ Marks)
- b. An auditor must pay particular attention to the audit of inventories in the audit of a manufacturing company. Enumerate **FIVE** reasons why the audit of inventories is very important. (5 Marks)
- c. Observation of the procedures undertaken by the client staff during inventory count will allow the auditor to gather audit evidence.

List any **FIVE** objectives which the auditor will achieve upon observing the procedures. (5 Marks)

(Total 12½ Marks)

SUGGESTED SOLUTIONS

SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

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

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

EXAMINER'S COMMENT

The questions as selected reflected a good coverage of the syllabus.

PART II SHORT-ANSWER QUESTIONS

1. Generally Accepted Accounting Principles/Practice
2. Statement of Financial Position (Balance Sheet)
3. Six (6)
4. Where he has no access to expert advice
5. When he is appointed as an ARBITRATOR under due process or law.
6. Qualified Opinion - Disclaimer
7. Shareholders
8. Expression of Opinion
9. Clean/Unqualified Audit Report
10. Going Concern
11. Encryption
12. Vouching
13. Detection risk
14. Compliance Auditing
15. Test data
16. Civil liability
17. Supervision Controls
18. Internal Control Review
19. Internal Controls
20. Management

EXAMINER'S COMMENT

The question on this section also acts across the entire section of the syllabus. There were no errors here.

SECTION B

SOLUTION 1

- a. The main objectives are to examine the Company's books and form an opinion as to whether:
 - i. Proper accounting books have been kept.
 - ii. Proper returns adequate for the auditor's work has been received from branches not visited by him.
 - iii. The Company's Statement of Financial Position and Statement of Comprehensive Income (Balance Sheet & Profit and Loss Accounts) are in agreement with the accounting records and returns.
 - iv. The information given in the Directors' Report for the year is consistent with those accounts.

- b. The Financial Statements of a Private Company need not include:
 - i. Statement of the Accounting Policies.
 - ii. Statement of Cash flows
 - iii. A Value Added Statement
 - iv. Five Year Financial Summary

EXAMINER'S COMMENT

The question seeks to test the candidates' knowledge of the objectives of the statutory Audit according to the law and the aspects of the Financial Statements that are not strictly required for disclosure. Candidates that attempted this got fairly good marks but some avoided it. This is one of the two last attempted questions in the paper.

SOLUTION 2

- a. When an auditor has reservation on some aspects of the Financial Statements, he is to give a qualified report. In effect, the clients' financial statements do not show a true and fair view of the Client's State of Affairs.

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The circumstances leading to an audit report qualification will generally fall into one of the following two categories – Uncertainty and Disagreement

When issuing a qualified audit report, the following principles should be addressed. The report should be clear, concise and unambiguous. Reasons should be given for the qualification and a prudent estimate of the financial effects should be given where practicable.

- b. Circumstances under which an auditor may qualify his report include:
- i. Where proper books of accounts were not kept.
 - ii. Where there are doubts about the going concern of the company.
 - iii. Where accounts were not prepared in the way prescribed by law.
 - iv. Where Financial Statements do not agree with the books and records of the company.
 - v. Where material matters were not disclosed in the Financial Statements.
 - vi. Where the Statement of Financial Position does not reflect the actual position of the company.
 - vii. Where the ownership, physical existence or the monetary value of the assets cannot be ascertained.
 - viii. Where the accounts were not prepared in line with the Generally Accepted Accounting Principles (GAAP).
 - ix. Departure from relevant accounting standards or where the client adopts inappropriate accounting policies.
 - x. Inability to obtain information and explanations considered necessary for audit purposes.

EXAMINER'S COMMENT

The question tests Candidates knowledge of what a qualified audit report is. It also seeks to get the Candidates to discuss the circumstances under which an auditor may qualify his report. This is fairly popular with the Candidates and they performed only fairly.

SOLUTION 3

- a. An audit can be defined as “the independent examination, and expression of opinion on the financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation.

b. Advantages of an audit exercise

i. **Credibility of the Accounts**

A certified set of financial statements by an auditor gives credibility to those statements and will be readily acceptable to its users. The reason for this is that the auditor did not take part in the preparation of the accounts on which he expressed his opinion as an independent person.

ii. **Income Tax Assessment**

Audited Financial Statements by qualified accountants are accepted by the relevant tax authorities for Tax Purposes.

iii. **Insurance Claims from Insurance Companies**

In making claims from insurance companies as a result of claim from loss of profits under an insurance policy. e.g. fire, burglary, etc, the availability of audited Financial Statements would make it more easily processed. In case the accounting records of an enterprise are destroyed by fire, copies of certified financial statements can always be obtained from the external auditor.

iv. **Early Detection of Errors and Frauds**

A properly applied auditing technique should always detect fraud or errors committed by the staff of the client. The fact that an audit would be undertaken would be a guide against perpetration of future frauds while inefficiency and weakness of the staff could be revealed during the audit exercise.

v. **Facilities from the Banks**

Bankers and other financial Institutions would always demand for audited financial statements as one of the conditions to be met before granting of loans or overdraft facility to any business enterprise.

vi. **Prospective Investors**

Any prospective investor would always need audited financial statements to be able to make a decision as to whether to invest in an organisation or not.

vii. **Professional Advice**

An auditor at the end of every audit exercise would give professional advice to the client organisation on the weaknesses and other irregularities discovered during the audit and proffer solutions to guard against future occurrences.

EXAMINER'S COMMENT

The question is asking Candidates to define an audit and out the FIVE advantages of the exercise. Arguably the most popular question in the paper in terms of a thought. Those who attempted it scored good marks.

SOLUTION 4

- a. Database Management System is an integrated collection of stored data (database) which is interrelated by means of relationship among the data, not by the location of bits of stored data.
A data base management system eliminates redundancy by storing relevant data in a single record, which authorised end users can then access with software
- b.
 - i. Distributed Data Processing:- This Data processing method is one in which each unit within the organisation maintains an Electronic Data processing function. The Electronic Data Processing functions are generally linked to one another and to a control computer in the form of a network.
 - ii. Centralised Data Processing:- This is a method of data processing in which all Electronic Data Processing works are performed by a control unit. The user departments send their data to EDP department where the data is processed and output given back to them.
 - iii. On-line real time system:- This is the system in which data is received and processed and result transmitted quickly to influence a decision to be made or a course of action to be followed.
 - iv. On-line System:- This is a computer processing system, whereby the peripherals e.g. input equipment, output equipment and external storage equipment are all connected directly to the central processing unit via communication channels such as cables, telephone lines and satellite networks.
 - v. Time Sharing:- This is an on-line processing technique which enables many users to gain access to a centrally located processor by means of terminals. Users are geographically remote from the processor and from each other and equally unaware that the processor is being accessed by someone else which creates the impression of having a computer for ones sole use.

EXAMINER'S COMMENT

This is a question that tests the concept of Data Base Management Systems. Specific explanations of certain terms relating to the questions were required. Those that attempted it performed poorly.

SOLUTION 5

- a.
- i. The internal control objectives are
 - To ensure that the trucks are properly accounted for
 - To ensure that additions/disposal of fixed assets are properly authorised.
 - To safeguard the non-current assets (trucks)
 - To ensure that the trucks are properly valued.
 - To ensure the completeness and correctness of recordings
 - ii. The major risks that could occur are:
 - Unauthorised purchase and disposals of the trucks
 - Misappropriation for self interest leading to loss of income
 - Unauthorised usage that could lead to damages
 - Inadequate provision for depreciation that could bring about overstatement of income.
 - Recording errors due to human fatigue
 - Theft that may be due to the negligence of staff
- b. The auditor's liability can be mitigated as follows:
- i. Auditors should avoid being negligent
 - ii. There should be letter of engagement stating duties and responsibilities of the auditor
 - iii. Auditors should always give a clear advice and not a 'snappy' one.
 - iv. The auditor can print a disclaimer of liability
 - v. When giving references, a disclaimer of financial responsibility should be attached.
 - vi. Whenever the auditor is in doubt over a complicated issue, he should always seek or advise the client to seek specialist advice.
 - vii. Adequate professional liability insurance cover should be obtained.
 - viii. If audited accounts are prepared, print a disclaimer.

EXAMINER'S COMMENT

This question tests Internal Control from three perspectives; objectives, major risk in absence of IC, and ways an auditor can mitigate liability in the course of discharging audit responsibility. Fairly attempted by candidates and for a good number of them, they scored well.

SOLUTION 6

- a. Audit Evidence is all the information used by the auditor in arriving at the conclusion on which the audit opinion is based. This includes all the information contained in the accounting records underlying the financial statements. The auditor should obtain sufficient appropriate evidence to be able to draw reasonable conclusions to base the audit opinion.
- b. Five reasons why the audit of inventories is very important
- i. Closing inventory values affects cost of sales
 - ii. Closing inventory values affect profit/loss
 - iii. Inventories could be manipulated to achieve targeted profit.
 - iv. Many bases can be used to value inventories.
 - v. Determining intermediate values of inventories could be problematic
 - vi. Inventories usually constitute one of the largest items in the Statement of Financial Position (Balance Sheet)
 - vii. Small errors in inventories will materially affect financial statements.
- c. Objectives the auditor will achieve upon observing the procedures:
- i. Determine accuracy of cut-off
 - ii. Ascertain the effectiveness of the internal control system on inventories
 - iii. Provide a basis of or checking the corrections of accounting records on inventories.
 - iv. Verify condition of inventory
 - v. Verify existence of inventory
 - vi. Establish title of inventory
 - vii. Determine the accuracy of valuation on inventories
 - viii. Provide a basis for quantities required for valuation.

EXAMINER'S COMMENT

Audit Evidence, Reasons for the audit of Inventories and Audit procedure during inventory count objectives are good testing points for candidates in this question. The performance here can only be described as average.

AT/142/PIII.10

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

COST ACCOUNTING

Time Allowed: 3 Hours

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

ATTEMPT ALL QUESTIONS

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

1. The process of determining future costs before the commencement of production on the basis of actual past costs, adjusted for anticipated future changes is
 - A. Cost Ascertainment
 - B. Cost Estimation
 - C. Cost Allocation
 - D. Cost Apportionment
 - E. Cost Classification

2. A good coding system possesses the following EXCEPT
 - A. Uniqueness
 - B. Colouring
 - C. Brevity
 - D. Significance
 - E. Mnemonic

3. The monetary incentives scheme under which workers are given opportunity to have a share of capital, profit and control of business in which they are employed is?
 - A. Merit rating
 - B. Profit sharing
 - C. Incentive payment
 - D. Co-partnership
 - E. Overtime payment

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4. A Blanket overhead absorption rate is
- A. A common absorption rate used throughout a factory and for all jobs and units of output irrespective of department where they were produced
 - B. Sharing of various item of costs based on the benefit derived
 - C. Sharing of items of production overheads among the cost centres
 - D. Pooling of indirect items of expenses from books of account
 - E. Behavioural aspect of variable costs, semi-variable and fixed costs
5. A system of ascertaining the quantity and value of inventory on the basis of an actual physical count of all the inventory items on hand at the end of an accounting period is?
- A. Activity based costing
 - B. Continuous inventory count
 - C. Perpetual inventory system
 - D. Periodic inventory system
 - E. Just-In-Time costing system
6. A cost driver is
- A. A factor that segregates cost
 - B. An item of cost which reduces cost of production
 - C. An item of cost that relates cost together
 - D. Any factor which causes cost
 - E. The cost of employing vehicle driver
7. The attribution of cost to cost units on the basis of benefit received from indirect activities is
- A. Activity-Based Management
 - B. Activity-Based Budgeting
 - C. Activity-Costs System
 - D. Activity-Based Costing
 - E. Activity-Cost Management

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8. A specific order costing that applies where work is undertaken to Customers special requirements and where each job is for long term duration is
- A. Job costing
 - B. Batch costing
 - C. Service costing
 - D. Contract costing
 - E. Process costing
9. The Hypothetical or notional costs **NOT** involving cash outlay computed only for the purpose of decision making is
- A. Sunk Costs
 - B. Imputed costs
 - C. Joint costs
 - D. Fixed costs
 - E. Replacement costs
10. A predetermined norm applied as a scale reference for assessing actual cost, whether more or less is
- A. Sunk costs
 - B. Variable costs
 - C. Fixed costs
 - D. Standard costs
 - E. Imputed costs
11. In reconciliation of profits disclosed by interlocking accounts, the purely financial matters are
- A. Matters relating to production only
 - B. Financial matters outside the scope of production
 - C. Balance sheet or statement of financial position
 - D. Salaries and wages paid to casual workers
 - E. Items involving cash and bank transactions

12. What are Set-Up Costs?
- A. Costs of buying equipment
 - B. Costs of constructing the factory
 - C. Costs of arranging facilities for a particular production
 - D. Costs of laying ambush for dishonest employees
 - E. Costs of buying items of materials for production.
13. How is depreciation treated in a cash budget?
- A. It is in the cash inflow section
 - B. It is the cash outflow section
 - C. It is the netflow section
 - D. It is disregarded
 - E. It is Broken down into straight-line and reducing method
14. The following are methods of ranking investment proposals **EXCEPT**
- A. Accounting rate of return
 - B. Internal rate of return
 - C. Payback period
 - D. Feasibility study
 - E. Net present value
15. A long term budget is
- A. A budget for the life time of the company
 - B. A budget for a period not less than five years
 - C. A past budget retrieved for use in the current period
 - D. A budget which duration could not be determined
 - E. A budget of six months duration in a fast moving industry
16. Basic standards are
- A. Standards that are set for use over a short period that reflect current conditions
 - B. Standards that are established for use over a long period for which a current standard can be developed
 - C. Standards that can be attained under the most favourable working conditions
 - D. Standards that can be achieved if a standard unit of work is carried out efficiently
 - E. Standards that are basically set for general guidance

INSIGHT

17. In Backflush Costing
- A. Financial records are not necessary
 - B. The cost ledger is fully automated
 - C. Every accounting detail is flushed out of the system
 - D. No need for detailed tracking of actual amounts of direct material cost or direct manufacturing labour cost
 - E. Records are deleted at the end of each accounting period.
18. A target cost is
- A. A product cost which is traceable to a particular production
 - B. A product cost estimate derived from the sunk cost
 - C. A product cost estimate derived by subtracting desired profit margin from competitive market price
 - D. A product cost estimate segregated into fixed and variable components
 - E. A cost computed for future production
19. Overtime is
- A. Time spent by the employee in changing room
 - B. Work done over a period of time
 - C. Time spent when production machines are idle
 - D. Time spent by employees working beyond the normal working hours
 - E. Work done but not paid for over a long time.

Use the following information to answer questions 20 and 21.

The following particulars apply to a factory where Wale, Dada, Yahaya and Jide work:

Normal labour rate per hour - ₦5

Standard output per hour - 5 units

In order to produce 200 units, time taken was as follows in hours:

Wale 10, Dada 20, Yahaya 30 and Jide 40

20. Total earnings due to Yahaya under Halsey Bonus Scheme is
- A. ₦200
 - B. ₦210
 - C. ₦215
 - D. ₦125
 - E. ₦155

21. Under Halsey-Weir Bonus Scheme, Jide earns
- A. ₦220
 - B. ₦210
 - C. ₦200
 - D. ₦205
 - E. ₦230
22. Period costs are costs
- A. Incurred for a particular production
 - B. Incurred during a certain period of year
 - C. Of maintaining equipment during a period
 - D. Incurred during a period regardless of activity level
 - E. Which serve to enhance profitability
23. A location, person or item of equipment for which costs may be ascertained and used for the purpose of cost control is
- A. Revenue Centre
 - B. Profit Centre
 - C. Investment Centre
 - D. Cost Centre
 - E. Contribution Centre

Use the following information to answer questions 24 and 25

XYZ intends to control its inventory and now provides the relevant data.

Annual consumption of input	4,000 units per month
Annual carrying cost	12%
Purchase price of input unit	₦25
Ordering cost per order	₦180

24. The Economic Order Quantity is
- A. 2,400 units
 - B. 2,250 units
 - C. 2,450 units
 - D. 2,800 units
 - E. 2,620 units

25. The total controllable cost is
- A. ₦7,000
 - B. ₦7,110
 - C. ₦7,200
 - D. ₦7,420
 - E. ₦7,520
26. Which of these is **NOT** an assumption of break- even analysis?
- A. There is no synchronization between production and sales
 - B. Selling price does not change as volume changes
 - C. Fixed cost remain constant
 - D. Variable costs vary proportionately with volume
 - E. Costs can be resolved into fixed and variable components
27. In overhead costing OAR stands for:
- A. Overheads Accounting Rate
 - B. Overheads Accounting Returns
 - C. Overheads Absorption Rate
 - D. Organisational Accounting Re-absorption
 - E. Overheads Absorption Returns
28. An interlocking accounting system has
- A. Various ledger relating to one another
 - B. A single set of ledger serving dual purpose
 - C. A separate set of financial ledgers and separate set of costing ledgers
 - D. Different ledgers for direct expenses and indirect expenses
 - E. Accounting entries locked up in the ledger
29. A cost audit is the
- A. Audit of the cost of materials
 - B. Complete building up of cost of manufacturing
 - C. Verification of cost accounts and a check on the adherence to the cost accounting plan
 - D. Rechecking and confirmation of the cost of production
 - E. Independent checking of accuracy of costs from different service

INSIGHT

30. Cost object is
- A. A unit of product, service or time on terms of which costs are ascertained
 - B. Any item for which a separate measurement of cost is required
 - C. Process of charging the full amount of an individual item of cost directly to cost centre
 - D. Cost that can be influenced by the action of specified members
 - E. The purpose for setting up the costing section

SECTION A: PART II

SHORT-ANSWER QUESTIONS

(20 Marks)

ATTEMPT ALL QUESTIONS

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

1. Costs that could be avoided on average if a product or a function is discontinued entirely is called.....
2. A document stating the responsibility of persons and procedures relating to the preparation and use of budget is called.....
3. Budgets that are continuously updated by adding a further period and deducting the earliest period are called.....
4. A budget which is designed to change in relation to the level of activity obtained by recognizing the difference between fixed, semi variable and variable costs is called.....
5. Costs that can be altered by a given decision are referred to as.....
6. The method of pricing used when work with identifiable fixed costs may involve different levels of activity is called.....
7. The amount by which actual output/sales may fall short of sales budget without incurring a loss is known as.....
8. Management philosophy which aims at eliminating waste from every aspect of manufacturing and its related activities is.....

INSIGHT

9. The account in the cost ledger maintained to complete the double entry for items which come through financial account is called.....
10. The point after which each joint product would be incurring separate processing cost is known as.....
11. The sequence of value-creating activities which add utility to products and services offered by the organization is referred to as
12. A cost that if eliminated will reduce the actual value or usefulness that the customers obtained from using the product or service is called.....
13. The activity whose change causes proportionate changes in the variable cost is known as.....
14. Costs of a product that are considered as assets in the balance sheet when they are incurred and become cost of goods sold only when the product is sold are called.....
15. Allocation of support department costs to other support departments and to the operating departments in a sequential manner that partially recognizes the mutual services provided among all support departments is referred to as.....
16. Labour Productivity may be measured by
17. Expenses in the nature of rent payable in respect of the use of a right, such as copyright or patent right, vested in some other person are known as.....
18. By dividing the factory overhead with the total number of direct labour hours, what rate is computed?
19. If the actual loss of a process is less than the normal loss, the difference is known as
20. The establishment of standard cost of direct material for each product will involve the determination of standard quantity of material and.....

INSIGHT

SECTION B: ATTEMPT ANY FOUR QUESTIONS

(50 Marks)

QUESTION 1

TOPHILL NIGERIA LIMITED employed two workers Mathew and Paul. The workers produced 90 and 120 units of product A in a particular day. The time allowed for 10 units of product A is 1 hour and their hourly rate is ₦6. The normal working hours per day is 8 hours.

You are required to:

Calculate for each of these workers the following:

- a. Earnings Rate for the day (2 Marks)
- b. Effective Rate of earnings per hour under
 - i. Straight Price Rate (3½ Marks)
 - ii. Halsey Bonus Scheme (3½ Marks)
 - iii. Rowan Bonus Scheme (3½ Marks)

(Total 12½ Marks)

QUESTION 2

Mercy Transportation Company operates a regular delivery service from its warehouse at point A to a destination at Point B. The total annual mileage covered (including 100 outward and return journeys) being 36,000km per 10-ton vehicle. For the outward journey, the vehicle is always fully loaded and in addition, there is a regular demand for the return load of 400 tons per vehicle per annum.

The standard charge to Customers is ₦8 per ton/km

The cost of operating this service is as follows:

Vehicle standing charges	₦36,000
Driver's wages including normal overtime Period	₦68,400
Vehicle running costs	₦11 per km

The company is willing to pay a bonus to drivers for obtaining additional return load of up to 5% of any additional profit.

You are required to:

- a. Calculate annual profit that would be earned per vehicle without any additional return load. (9 Marks)
- b. What annual bonus would be payable to a driver who consistently obtains 5 tons return load? (3½ Marks)

(Total 12½ Marks)

INSIGHT

QUESTION 3

Zee and Co Limited manufactures three products, Aaa, Bee and Cee. The following operating statement was produced

	Aaa	Bee	Cee	Total
	GH¢	GH¢	GH¢	GH¢
Sales	160,000	250,000	225,000	635,000
Total costs	<u>180,000</u>	<u>190,000</u>	<u>170,000</u>	<u>540,000</u>
Net (Loss)/Profit	<u>(20,000)</u>	<u>60,000</u>	<u>55,000</u>	<u>95,000</u>

The total cost is made up of 75% variable and 25% fixed.

The Management decides that as product Aaa shows a loss, it should be discontinued

You are required to:

- Determine if Product Aaa should be discontinued (9 Marks)
 - State other factors to be considered in making the decision (3½ Marks)
- (Total 12½ Marks)

(Show all workings)

QUESTION 4

Globe Systems Limited manufactures different ranges of travelling suitcases. Expenses budgeted for the production of 100,000 units of Valentine suitcases are as stated below:

	L\$/unit
Materials	350
Labour	125
Variable overheads	100
Fixed overheads (L\$5)	50
Variable expenses (Direct)	25
Selling expenses (10% Fixed)	65
Distribution, expenses (20% Fixed)	35
Administration expenses (L\$2,500,000)	<u>25</u>
Total cost/Unit	<u>775</u>

Administration expenses are NOT flexible for all levels of production.

You are required to prepare a budget for the production of:

- 80,000 units; and (6½ Marks)
 - 60,000 units (6 Marks)
- (Total 12½ Marks)

INSIGHT

QUESTION 5

- a. Costs are classified variously depending on the objectives, State **FOUR** classification of costs, according to behavior. (2 Marks)
- b. ANDROID Limited records in its books an amount of Le504,750 with the heading "GENERAL". However, this actually includes the following expenses:

		Le
1	Trade Fair Exhibition	78,500
2	Directors' Fees	65,000
3	Office Personnel Overtime	35,250
4	Salesmen Commission	13,800
5	Delivery Van Repairs	8,350
6	Store Rent	90,000
7	Donations to Boys Scout	11,000
8	Commission on Turnover	2,850
9	Sales Promotion	15,130
10	Carriage Outwards	5,060
11	Discount Allowed	4,550
12	Doubtful Debts	15,000
13	Business Journal	7,250
14	Computer Ink	3,200
15	Penalties and Fines	1,850
16	Lighting of Store	3,140
17	Directors' Drawings	15,000
18	Directors' Foreign Trips	100,000
19	Interest on Loan	10,220
20	Fuelling of Staff Bus	19,600

You are required to:

Prepare from the data above a statement showing, in separate totals:

- i. Administration expenses (4½ Marks)
- ii. Distribution expenses (1½ Marks)
- iii. Selling expenses (2½ Marks)
- iv. Expenses not considered for Cost Account. (2 Marks)
- (Total 12½ Marks)**

QUESTION 6

Organizations adopt methods of keeping cost to the barest minimum so as to remain competitive.

You are required to:

- a. i. Define Cost Control (1½ Marks)
 - ii. Distinguish between Cost Control and Cost Reduction (5 Marks)
 - b. i. Define Value Analysis (2 Marks)
 - ii. State advantages of using Value Analysis technique. (4 Marks)
- (Total 12½ Marks)**

SUGGESTED SOLUTIONS

SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

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

INSIGHT

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

Workings

Q20. Computation of Total Earnings to Yahaya under Halsey Scheme

Rate per hour ₦5

Standard output per hour – 5 units

Time-Taken 30 hrs

Time Allowed: - $\frac{200 \text{ units}}{5 \text{ units}} = 40 \text{ hrs}$ Time saved = 10 hrs

Basic pay = 30hrs x ₦5 = ₦150

Bonus using Halsey Premium

$\frac{1}{2} \times \text{TS} \times \text{Rate per hour}$

$\frac{1}{2} \times 10 \times ₦5$ ₦50

₦200

Q21. Earnings to Jide under Halsey-weir-scheme

Rate per hour ₦5

Time taken 40 hrs

Standards output per hour = 5 units

Time Allowed = $\frac{200 \text{ units}}{5 \text{ units}} = 40 \text{ hrs}$

Time saved = 40 hrs – 40 hrs = 0

Earnings:

Basic pay = 40 hrs x ₦5 = ₦200

Bonus:

$\frac{2}{3} \times \text{TS} \times \text{Rate per hour}$

$\frac{2}{3} \times 0 \times ₦5 = \frac{0}{200}$

Q24. Economic Order Quantity

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

$$Q = \sqrt{\frac{2 \times 4000 \times 12 \times 180}{12\% \times 25}}$$

Q = 2400 units

Q25. Total Controllable Cost
= Total Ordering Cost + Total Carrying Cost
i.e. TOC + TCC

Total Ordering Cost
 $D/Q \times Oc = \frac{48000}{2400} \times \text{R}180 = \text{R}3600$

Total Carrying cost
 $Q/2 \times Cc = \frac{2400}{2} \times 3 = \text{R}36000$

Total Controllable Cost 7,200

EXAMINER'S COMMENT

The questions cover a considerable proportion of the syllabus. It was attempted by all candidates and performance was fair.

PART II SHORT ANSWER QUESTION

1. Attributable Costs
2. Budget Manual
3. Rolling Budget
4. Flexible Budget
5. Relevant Cost
6. Break even pricing method
7. Margin of Safety
8. Just-In-Time (JIT)
9. General Ledger Adjustment Account or Cost Ledger Control Account
10. Split-off Point
11. Value Chain
12. A Value Added Cost
13. Cost Driver
14. Inventoriable Costs
15. Step-down method or sequential allocation method or continuous allocation method

16. Total Output
Total man-hour
17. Royalties
18. Overhead Absorption Rate (OAR)
19. Abnormal Gain
20. Standard Price of Materials

EXAMINER'S COMMENT

The questions cover almost all the major topics of the syllabus and they were attempted by all candidates. Performance was below average as less than 50% of the candidates scored 50% of the marks allocated.

SECTION B

SOLUTION 1

	Mathew	Paul
Production (Units)	90	120
Time Allowed (10 units = 1 hour)	9	12
Time Taken (1 day = 8 hrs)	8	8
Time saved	1	4
Unit Rate = $\frac{6}{10}$ units	₦0.60	₦ 0.6
Calculation of Earning	₦0.60 x 90 units = ₦54	₦0.60 x 120 units = ₦72
bi. Straight piece rate		
No of units x piece rate	= ₦54	= ₦72
Effective Rate (<u>Earnings</u>) Hours	= $\frac{₦54}{8}$ = ₦6.75	$\frac{₦72}{8}$ ₦9
ii. Halsey Bonus Scheme	= ₦6 x $(8 + \frac{1}{2} \times \frac{4}{1})$	₦6 x $8 + \frac{1}{2} \times \frac{4}{1}$
Day Rate x $\left(\frac{\text{Time Taken}}{\text{Time Allowed}} + \frac{1}{2} \frac{\text{Time Saved}}{\text{Time Allowed}} \right)$	= ₦6 x 8 ½ hours	₦6 x 10
Effective Rate	= $\frac{51}{8}$	= $\frac{₦60}{8}$
Rowan Bonus	= 6.375	= ₦7.50

INSIGHT

$$\begin{aligned}
 \text{iii. Day Rate x} &= 6 \times 8 + \left(\frac{1}{9} \times \frac{8}{1} \right) = 6 \times 8 + \left(\frac{4}{12} \times \frac{8}{1} \right) \\
 \frac{\text{Time Taken} + \frac{\text{Timesaved}}{\text{Timeallowed}} \times \frac{\text{Time Taken}}{\text{Time Taken}}}{\text{Time Taken}} &= 53.33 &= 6 \times 8 + 2.67 \\
 & &= \text{N}64.02 \\
 \text{Effective Rate} \frac{53.33}{8} &= \frac{64.02}{8} \\
 = 6.67 &= \text{N}8.0025 \\
 &= \text{N}8
 \end{aligned}$$

EXAMINER'S COMMENT

This question tests candidates' knowledge of labour costing and the determination of wages under different reward schemes. It was attempted by about 90% of the candidates but performance was very poor. The major pitfalls were inadequate preparation and wrong interpretation of question requirements.

SOLUTION 2

MERCY TRANSPORT COMPANY

a. Computation of annual profit per vehicle

	N	N
Customers charge	10 tons x N8 x 36,000 km	2,288,000
<u>Less Variable Costs</u>		
Vehicle running costs	(N11 x 36,000km)	<u>396,000</u>
Contribution		<u>2,484,000</u>
<u>Total Fixed Costs</u>		
Vehicle Standing Charge	36,000	
Drivers wages	<u>68,400</u>	<u>104,400</u>
Annual profit +per vehicle		<u>2,379,600</u>

b. Computation of Bonus Pay

	N	
Customers Charge	(5 tons x 100km x 8)	4,000
Less running Cost	(N11 x 100km)	<u>1,100</u>
Contribution	(additional profit)	<u>2,900</u>
Bonus pay (5%)		145

EXAMINER'S COMMENT

This question tests candidates' knowledge of operation costing. About 15% of the candidates attempted the question and performance was poor. The major challenge faced by the candidates was inability to correctly interpret the question and understand the requirements. Candidates are advised to be more focused in the future.

SOLUTION 3

a. Zee & Co. Ltd.

	Aaa	Bee	Cee	Total
	GH¢	GH¢	GH¢	GH¢
Sales	160,000	250,000	225,000	635,000
Less Variable Costs	<u>135,000</u>	<u>142,500</u>	<u>127,500</u>	<u>405,000</u>
Contribution	25,000	107,500	97,500	230,000
Less fixed costs				<u>135,000</u>
Net Profit				<u>95,000</u>

From the above, it will be seen that Product Aaa produces a contribution of GH¢25,000. If product Aaa is dropped the position would be:

	GH¢
Contribution product Bee	107,500
Contribution product Cee	<u>97,500</u>
Total Contribution	205,000
Less Fixed Cost	<u>135,000</u>
Net Profit	<u>70,000</u>

By dropping product Aaa with a loss of ~~₦~~20,000 reduces total profit by ~~₦~~25,000 which is the amount of contribution lost from product Aaa. Therefore product Aaa should not be discontinued.

b. Other factors to be considered

- i. The assumption is that fixed costs were general fixed costs which would remain even if Aaa was dropped.
- ii. The contribution from Aas is low, more profitable products should be considered.
- iii. The effect on demand for other products if a particular product is no longer produced.
- iv. Is the product a loss leader?

INSIGHT

- v. Can the product Aaa be discontinued without affecting the sales volume of the other products?
- vi. Can the company maintain its product image if product Aaa is discontinued?
- vii. How will elimination of product Aaa affect the corporate image of the company?
- viii. Does the product Aaa have other competitive products in the market?
- ix. Can the sales revenue of product Aaa be improved upon?
- x. Can the production costs be reduced with the same quality and quantity?
- xi. Does the product incur a direct fixed cost.
- xii. Is the product a supplementary product
- xiii. Can the facility be used on more profitable product
- xiv. Can the performance of the product increase in the nearest future

Workings

Calculation of fixed costs:		GH¢
Aaa =	25% x 180,000	= 45,000
Bee =	25% x 190,000	= 47,500
Cee =	25% x 170,000	= <u>42,500</u>
		<u>135,000</u>

EXAMINER'S COMMENT

The question tests candidates' understanding of marginal costing as relating to decision making. About 90% of the candidates attempted the question and less than 50% of them scored up to half of the marks allotted. Major challenge was that the contribution theory was not correctly applied.

SOLUTION 4

GLOBE SYSTEMS LIMITED FLEXIBLE PRODUCTION BUDGET

Particulars	60,000 units		80,000 units		100,000 units	
	Unit	Total	Unit	Total	Unit	Total
	L\$	L\$	L\$	L\$	L\$	L\$
Materials	350	21	350	28	350	35
Labour	125	7.5	125	10	125	12.5
Variable expenses	25	1.5	25	2	25	2.5
Variable overheads	100	6.0	100	8.0	100	10.5
Fixed overheads	83.33	5.0	62.5	5.0	50	5.0
Selling expenses						

INSIGHT

Total L\$6,500,000						
10% fixed L\$650,000	10.83	0.65	8.125	0.65	6.5	0.65
90% variables L\$5,850,000	58.5	3.51	58.5	4.68	58.5	5.85
Distribution						
Expenses						
Total L\$3,500,000						
Fixed (20%) 700,000	11.66	.70	8.75	.70	7.0	.70
Variable (80%) L\$2,800,000	28	1.68	28	2.24	28.0	2.80
Administrative						
Expenses total	<u>41.66</u>	2.50	31.25	2.50	25	2.50
L\$2,500,000	891.64	50.04	818.75	63.77	775	77.50

EXAMINER'S COMMENT

The question tests candidates' understanding of flexible budgeting. About 90% of the candidates attempted the question and performance was below average. The major cause of the low performance was inability to differentiate between fixed and variable costs. Candidates should realize that budgeting is an integral part of cost accounting and devote more time to the topic in future.

SOLUTION 5

- a. Classification of cost according to behavior
 - i. Fixed cost
 - ii. Variable cost
 - iii. Semi-fixed/semi-variable or mixed cost
 - iv. step-fixed costs

- i. Administrative Expenses

	Le
Directors Fees	65,000
Office Personnel Overtime	35,250
Business Journal	7,250
Computer Ink	3,200
Directors Foreign Trip	100,000
Fueling of Staff Bus	19,600
Commission on Turnover	2,850
Interest on Loan	<u>10,220</u>
	<u>243,370</u>

INSIGHT

ii. Distribution Expenses

	Le
Delivery van Repairs	8,350
Store Rent	90,000
Lighting of store	<u>3,140</u>
	<u>101,490</u>

iii. Selling Expenses

	Le
Trade Fair Exhibition	78,500
Salesmen Commission	13,800
Sales Promotion	15,130
Carriage Outwards	5,060
Doubtful Debts	<u>15,000</u>
	<u>127,490</u>

iv. Expenses not considered for cost accounts

	Le
Discount Allowed	4,550
Penalties and Fines	1,850
Directors Drawings	15,000
Donation to Boys Scout	<u>11,000</u>
	<u>32,400</u>

EXAMINER'S COMMENT

The question tests candidates' knowledge of classification of cost. About 95% of the candidates attempted this question and performance was slightly above average. Some candidates were not able to use the operational functions in determining the classification of costs.

SOLUTION 6

- a. i. Cost control is defined as the guidance and regulation by executive action of the cost of operating an undertaking. It implies that cost should not exceed the budgeted or standard limits, if it exceeds, investigation is necessary.
- ii. The main points of distinction between cost control and cost reduction are as follow:

	COST CONTROL	COST REDUNCTION
1.	Cost controls assume the existence of standards.	Cost reduction assume the existence of concealed potential savings in the standards
2.	It is the achievement of pre-determined targets of cost	It is the achievement of the real and permanent reduction in costs
3.	It is a preventive function as it tries to prevent costs from exceeding the pre-determined targets	It is a corrective function as it seeks to improve performance by correcting the targets
4.	It is a part of cost accounting function	It may be achieved even when no cost accounting is in operation.
5.	It is the achievement of pre-determined targets of costs	It is the achievement of cost
6.	It lacks dynamic approach to cost improvement	It is a more dynamic approach to cost movement and elimination of waste.

- B. i. Value analysis is an approach of systematic analysis and evaluation of various techniques and functions with a view to improve the performance of the organization. This is done by either reducing the constituent components and associated costs of a product or process or increasing the value of the functions.
- ii. Advantages of using value analysis are as follows:
- i. it helps in maintaining the desired quality of products.
 - ii. It helps in obtaining maximum production from limited resources of capital, time, and space.
 - iii. The proper atmosphere for increased efficiency is created by continued search or improvement.
 - iv. It is an effective tool of cost reduction which leads to improvement in profitability

INSIGHT

- v. It ensures improved productivity through the continuous process of search for improvement in all fields.
- vi. It helps in creating work interest by making full use of creative ability and other qualifications of staff.

EXAMINER'S COMMENT

The question tests candidates' understanding of the terms COST CONTROL, COST REDUCTION and VALUE ANALYSIS. About 90% of the candidates attempted the question but performance was poor as less than 10% of the candidates scored up to 50% of the marks allocated. This was mainly due to a mix-up of the terms.

INSIGHT

AT/142/PIII.11

ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME
PART III EXAMINATIONS - SEPTEMBER 2014

PREPARING TAX COMPUTATION AND RETURNS

Time Allowed: 3 Hours

SECTION A: PART I

MULTIPLE- CHOICE QUESTIONS

(30 Marks)

ATTEMPT ALL QUESTIONS

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

1. Which of the following is **NOT** a merit of indirect tax?
 - A. It can be adjusted easily
 - B. The cost of collection may be higher
 - C. It is more difficult to erase
 - D. It is a good source of revenue to government
 - E. It can be used to protect infant industries

2. Failure to file tax returns as at when due attracts penalty for each subsequent month in which the failure continues after the first month.
 - A. ₦5,000
 - B. ₦2,500
 - C. ₦10,000
 - D. ₦20,000
 - E. ₦12,500

3. A company which does **NOT** have Total Profit in any assessment year, is expected to pay
 - A. Reasonable tax
 - B. Minimum tax
 - C. Suspended tax
 - D. Income tax
 - E. Loss adjustment tax

INSIGHT

4. Which of the following is **NOT** a duty of the Joint State Revenue Committee?
- A. Implement the decision of the Joint Tax Board
 - B. Harmonise tax administration in the State
 - C. Carry out such other functions as may be described from time to time by the Joint Tax Board
 - D. Advise the Joint Tax Board and the State and Local Government on revenue matters
 - E. To settle disputes between the states as regards tax matters especially disputes relating to residence
5. Any tax **NOT** paid on due date attracts a penalty of
- A. 21% per annum of sum unpaid
 - B. 5% per annum of sum unpaid
 - C. 10% per annum of sum unpaid
 - D. 25% per annum of sum unpaid
 - E. 20% per annum of sum unpaid
6. Members of a Tax Appeal Tribunal are appointed by
- A. The Chairman of the Joint Tax Board
 - B. The President
 - C. The Senate
 - D. The Minister of Finance
 - E. Head of Federal Inland Revenue Service
7. Which of the following is **NOT** an allowable expense in ascertaining the income of an individual from a trade or business?
- A. Specific provision for bad debts
 - B. Research expenses
 - C. Contribution to pension fund
 - D. Repairs and maintenance of fixed assets
 - E. Loss on revaluation of fixed assets
8. The following incomes derived by a church are **NOT** subject to income tax **EXCEPT**
- A. Freewill offerings
 - B. Tithes
 - C. Income from the church's bakery
 - D. Donations
 - E. Vows

9. Personal reliefs are deducted from Gross (Total) income to arrive at
- A. Benefits in kind
 - B. Total assessable income
 - C. Chargeable income
 - D. Adjusted income
 - E. Total free income
10. Which of the following is **NOT** a condition to be fulfilled for an expense to be treated as allowable deduction in computing assessable income?
- A. Accountability
 - B. Wholly
 - C. Exclusively
 - D. Necessarily
 - E. Reasonably
11. On commencement of a trade or business, a tax payer has the right of election to be assessed on actual basis for
- A. Any of the first three years of assessment
 - B. The first, second and third years of assessment
 - C. The first and second years of assessment
 - D. The first and third years of assessment
 - E. Both the second and third years of assessment
12. Which of these transactions does **NOT** require presentation of a Tax Clearance Certificate?
- A. Application for firearms licence
 - B. Application for foreign exchange
 - C. Application for trade licence
 - D. Application for distributorship
 - E. Application for a marriage certificate
13. The following are the objectives of taxation **EXCEPT**
- A. Fiscal tool for stimulating economic growth and development
 - B. Redistribution of income/wealth
 - C. Social function to redress the rural-urban population drift
 - D. Placement of new burden on taxpayers
 - E. Revenue generation to meet the needs of government

INSIGHT

14. Management Services fee of Non-Corporate bodies is subject to withholding tax at the rate of
- A. 5%
 - B. 10%
 - C. 15%
 - D. 2%
 - E. 20%
15. The Board of Trustees of Tertiary Education Trust Fund consists of..... members
- A. 6
 - B. 9
 - C. 12
 - D. 13
 - E. 5
16. The following are features of a good tax system **EXCEPT**
- A. Equity
 - B. Comparative
 - C. Certainty
 - D. Convenience
 - E. Efficiency
17. Returns relating to withholding tax deducted in a particular month must be filed **NOT** later than
- A. Two weeks of the following month
 - B. The next 60days after deduction
 - C. The end of the following month
 - D. Twenty-one days after deduction
 - E. 5days to the end of the month
18. Which of the following is **NOT** authorized to deduct withholding tax?
- A. Body corporate
 - B. Local Government
 - C. Government Parastatal
 - D. Government Ministry
 - E. None of the above

INSIGHT

19. Which of the following is **NOT** a function of the Commissioner of Stamp Duties?
- A. He is responsible for adjudication
 - B. He takes custody of dies and stamps
 - C. He liquidates companies that do not comply with the laws of Stamp Duties
 - D. He has duties of assessing the instruments and imposing penalties as appropriate
 - E. He has duty of stamping or embossing the instrument with appropriate stamp denomination
20. The services rendered by the following are vatable **EXCEPT**
- A. A Limited Liability Company
 - B. A Sole trader
 - C. A Club or Society
 - D. A School
 - E. An individual
21. The following capital gains are exempt from tax **EXCEPT**
- A. Gain arising from the disposal of shares and securities
 - B. Gain on disposal of motor vehicle not commonly used as a private vehicle
 - C. Chattel disposed of for not more than ~~₹~~₱1,000 in any year of assessment
 - D. Gain arising from disposal of a medal awarded for honour
 - E. Gain arising from the disposal of any government security
22. Payment of Value Added Tax should be effected **NOT** later than days of the month following the month of the transaction.
- A. 30 days
 - B. 15 days
 - C. 10 days
 - D. 36 days
 - E. 21 days
23. Current Year Loss Relief is applicable to only
- A. Individuals
 - B. Non-resident companies
 - C. Limited liability companies
 - D. Companies quoted on the Stock Exchange
 - E. Pioneer companies

INSIGHT

24. The following expenses are admissible under the Capital Gains Tax Act CAP C1 LFN 2004 **EXCEPT**
- A. The cost of acquiring the asset disposed
 - B. Donation to political party
 - C. Selling expenses
 - D. Professional fees
 - E. Cost of refurbishing the chargeable asset prior to disposal
25. Which of the following will **NOT** feature in a deed of partnership?
- A. Profit/loss sharing ratio
 - B. Each partner's capital contribution
 - C. Partners' salaries
 - D. Partners' bio data
 - E. The interest, if any, to be paid to each partner on his capital
26. The Board of Trustees of the Tertiary Education Trust Fund include the following **EXCEPT**
- A. The Governor of Central Bank of Nigeria
 - B. A Chairman
 - C. A representative from the Polytechnics
 - D. A representative each of the Federal Ministries of Finance and Education who shall not be below the rank of Director
 - E. The Executive Secretary who shall be the Secretary to the Board of Trustees
27. A debt may be considered bad in the following circumstances **EXCEPT**
- A. The debt has become statute barred
 - B. The debtor has gone bankrupt or has been liquidated and the available assets cannot meet the debt
 - C. The debtor has transferred all his estate to a perpetual fixed deposit account
 - D. The company has taken reasonable steps (e.g. court actions) to recover the debt without success
 - E. The debtor is dead and his estate is insolvent
28. The following circumstances could lead to cessation of business **EXCEPT**
- A. Merger of companies
 - B. A change in government legislation
 - C. Where a business loses its source of raw materials
 - D. A manufacturing company stops production for a few months to carry out turn around maintenance of its plants
 - E. If a company has serious and continuous liquidity problems

29. The following are true of Withholding tax **EXCEPT**
- A. It must be evidenced by the governor of a State
 - B. It is a compulsory payment on any relevant income and must be paid by the person making a payment to a third person
 - C. Such a payment must be evidenced by a withholding tax credit note in the name of the person from whom deduction was made
 - D. It is an advance payment of tax which can be recouped against future tax liabilities
 - E. In respect of franked investment income, withholding tax represents the final tax
30. Which of the following goods is **NOT** a VAT exempt?
- A. Baby food item
 - B. Basic food items
 - C. All exports
 - D. Furniture and equipment
 - E. Medical and pharmaceutical products

SECTION A: PART II

SHORT ANSWER QUESTIONS

(20 Marks)

ATTEMPT ALL QUESTIONS

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

1. Withholding tax deducted shall be paid to the.....in the currency in which deduction was made.
2. The guideline underlying a good tax system which allows a tax payer to know the exact amount he/she is expected to pay, the basis of the taxation, the rate of tax applicable and the relevant tax authority to pay to is
3. Management and administration of Tertiary Education Trust Fund is the sole responsibility of
4. The relevant tax authority to assess and collect withholding tax from individuals is

5. Wages or salaries and allowances, gratuities, superannuation or pension schemes and any other incomes derived solely by reason of employment is called
6. A person who is not domiciled in Nigeria or who stays in Nigeria for less than 183 days in a 12-month period but derives income or profit from Nigeria is called
7. The general statement of intention which guides the actions of all parties towards the realisation of tax objectives is called
8. Defalcations of money by staff are allowable deductions but not if perpetrated by a very senior official such as a
9. An Appeal Commissioner in a State is usually appointed by
10. The scheme which enables a tax payer to compute the tax payable for any year of assessment, file the returns and pay the tax computed is called.....
11. The tax authority issues card to an employer in respect of each of his employees based on the information supplied on such employees.
12. A company that is yet to commence business after six months of incorporation will pay
13. Capital Gains Tax will apply only when the asset in question is
14. The Commissioner of Stamp Duties is appointed by
15. Allowable donation must be made out of
16. In Nigeria, stamp duty is managed by the
17. Initial allowance is granted in the basis period for a year of assessment in which the asset is first used and it cannot be
18. A company which has incurred qualifying expenditure in building, plant and equipment for an approved manufacturing activity in an Export Processing Zone, shall be granted capital allowance in any Year of Assessment (YOA).

INSIGHT

19. Benefits other than cash enjoyed by employees in course of their employment are called
20. Losses of cash and inventory through fire, theft etc are allowable deductions provided they are not covered by an

SECTION B: ATTEMPT ANY FOUR QUESTIONS (50 Marks)

QUESTION 1

- a. State and explain any **FOUR** types of tax assessments in Nigeria. (10 Marks)
- b. When should tax payers file returns with the relevant tax authority? (2½ Marks)
(Total 12½ Marks)

QUESTION 2

- a. The sum of ₦336,000,000 was disbursed by the Board of Tertiary Education Trust Fund as at 31 December, 2013.

Required:

Compute the amounts disbursed to:

- i. Nigerian Colleges of Education. (1½ Marks)
- ii. Nigerian Universities. (2 Marks)
- b. State the disadvantages of and problems associated with withholding tax in Nigeria. (9 Marks)
(Total 12½ Marks)

QUESTION 3

- a. State any **FIVE** information that are contained in a Value Added Tax invoice. (5 Marks)
- b. Under the Stamp Duties Act CAP S8 LFN 2004, state any **THREE** methods of stamping. (2½ Marks)
- c. Art collector Lucy & Abey Associate sold an old master on 31 March 2009 for ₦350,000.00. They incurred advertising expenses of ₦25,000 and Auctioneer's fees of ₦45,000.00 in selling the artwork which cost ₦180,000.00.

INSIGHT

Required:

Compute the Capital Gains arising from this disposal.

(5 Marks)

(Total 12½ Marks)

QUESTION 4

An individual who is engaged by another under a contract of employment and self employed persons are subject to taxation under Personal Income Tax (Amendment) Act 2011.

Required:

a. Distinguish between “employment” and “self employment”. (10 Marks)

b. List **FIVE** types of income payable to employees that are exempt from tax (2½ Marks)

(Total 12½ Marks)

QUESTION 5

Manchester Limited has been in the flour manufacturing business for several years. In view of the increasingly competitive environment in the flour milling business, the board of directors is contemplating selling the flour mill to another company and has asked for your advice as to whether to choose 31 December, 2007 or 29 February, 2008 as the date of cessation. The adjusted profits of the company have been given as follows:

	₤
Year ended 30 April, 2004	600,000
Year ended 30 April, 2005	680,000
Year ended 30 April, 2006	800,000
Year ended 30 April, 2007	896,000
Period ended 29 February, 2008	600,000

Required:

Compute the Assessable profits for all the relevant years to show which of the two alternative dates would be advantageous for the company to cease business.

(Total 12½ Marks)

INSIGHT

QUESTION 6

Owonikoko has been in business for some years making up accounts to 30 June annually. In 2010, Owonikoko adopted 30 September as the new accounting date. The adjusted profits for income tax purposes are as follows:

	₦
12 months to 30 June, 2008	280,000
12 months to 30 June, 2009	450,000
15 months to 30 September, 2010	362,000
12 months to 30 September, 2011	330,000
12 months to 30 September, 2012	324,000

Required:

Compute the assessable income of Owonikoko for the relevant years of assessment.
(Total 12½ Marks)

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.

INSIGHT

	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% |

SUGGESTED SOLUTIONS

SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

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

- 27. C
- 28. D
- 29. A
- 30. D

EXAMINER'S COMMENT

The multiple choice questions covered the entire syllabus and the questions are of high quality. All the candidates attempted the questions but the general performance was below average. The candidates should endeavour to study every aspect of the syllabus.

PART II SHORT-ANSWER QUESTIONS

- 1. Relevant Tax Authority
- 2. Certainty
- 3. Board of Trustees Tertiary Education Trust Fund
- 4. State Internal Revenue Service
- 5. Gross Emoluments/Gross Income
- 6. Non-resident individual
- 7. Tax policy
- 8. Director
- 9. The State Commissioner of Finance
- 10. Self Assessment
- 11. Tax deduction Card
- 12. Preparational levy
- 13. Sold or disposed of
- 14. Federal or State Civil Service Commission
- 15. Profit
- 16. Commissioners of Stamp Duties
- 17. Prorated/or claimed twice
- 18. 100%

19. Benefits-in-kind
20. Insurance Policy

EXAMINER'S COMMENT

The questions touched virtually the entire syllabus. All the candidates attempted the questions but the general performance was not encouraging. Candidates must study all aspects of the topics in the syllabus in order to have a good understanding of examination questions.

SOLUTION 1

- a. Types of Tax Assessments in Nigeria
 - i. **Self Assessment Scheme:**

This is where a taxpayer, for a year of assessment, computes, files the returns and pays the tax due.

Such payments can be made in installments which must not be more than six. The request for instalmental payment should be made at the point of payment of the first instalment.
 - ii. **Provisional Assessment**

Provisional Assessment is made where a tax payer has not delivered a return and the board is of the opinion that such a company is liable to tax.

The board may determine the profits of such company and make assessments on it in addition to any liability the company may incur as a result of non-rendition of returns.
 - iii. **Additional Assessment:**

This is made where the Board discovers that taxpayers had been assessed at an amount less than what should have been assessed. The board can give additional assessment within a year or six years after the expiration thereof.
 - iv. **Best of Judgement:**

The tax authority may assess a tax payer to the best of its judgement where the authority refuse to accept the tax payer's returns or where the

INSIGHT

taxpayer refuses to make its books available to the Board or its agents for assessment.

v. **Turnover Assessment:**

This is an assessment on turnover of the business. It is usually a presumption tax that a business may not make enough profit or when it is difficult to measure reliably the profit/loss from the business.

b. i. **Timing of Filings Returns:**

A company must file returns and audited financial statements with the Board within six months after the close of the company's accounting year. For a new company, within eighteen months from the date of incorporation or six months after the close of the first accounting year, whichever is earlier.

ii. In case of individual tax payer, not later than 10th day of the following month.

EXAMINER'S COMMENT

This is a two-part theory question on tax administration in Nigeria. Whilst part (a) is on tax assessment, part (b) deals with filing of returns. About 95 percent of the candidates attempted the question. Less than 40 percent of these candidates did very well, while others scored below 50 percent. The major pitfall was lack of proper knowledge of tax assessment.

SOLUTION 2

	University	Polytechnic	College of Education
Ratio	2	: 1	: 1
Amount	=	₦336,000,000	
	=	2 + 1 + 1 = 4	
College of Education	=	$\frac{1}{4} \times 336,000,000$	
	=	<u>₦84,000,000</u>	
University	=	$\frac{2}{4} \times \text{₦}336,000,000$	
	=	$\frac{1}{2} \times \text{₦}336,000,000$	
	=	<u>₦168,000,000</u>	

- a. **Problems of Withholding Tax**
- i. **Non-deduction of withholding Tax**
Tax authorities rely on companies, statutory bodies, Institutions e.t.c. to collect withholding taxes. Sometimes out of ignorance or threats from suppliers or landlords, the tax is not deducted.
 - ii. **Non-remittance of withholding Tax**
Some of the organizations that deduct may fail to remit the whole or part of the amount to the relevant tax authorities which eventually amounts to none.
 - iii. **Non-dispatch of tax receipts**
Some agents pay and fail to collect withholding tax receipts and therefore frustrate and suffers the taxpayer.
 - iv. **Payment to wrong tax authorities**
Withholding taxes of companies are payable to Federal Inland Revenue Service (FIRS), while that of individuals are payable to State Internal Revenue Service (SIRS). But sometimes collection agents simply lump together deductions from individuals and companies and remit to wrong tax authority.
 - v. **Wrong rates of withholding tax**
Rates on withholding taxes may be wrongly applied therefore shortpaying or overpaying the taxpayer and the government also suffers from it.
 - vi. **Incomplete Information**
Withholding tax deductions may be remitted to the tax authorities without the payment schedules or the schedules may have incomplete or incorrect information.
- b. The following are disadvantages of withholding tax (WHT) in Nigeria.
- i. It discourages full disclosure of income from various sources.
 - ii. Since it is an advance payment of income tax, an entity in loss position may be paying or funding payment of WHT from its reserve or borrowings.
 - iii. Its application distorts the cash flow of most businesses as they receive amount less than what has been estimated or budgeted for per the invoices issued.

- iv. Burden of collection and remittances without incentives to the tax agent may discourage compliance.
- v. It leads to tying down the capital of business with the Revenue authorities.
- vi. It may discourage hard work by the Revenue Officers since they may have little or no interest in monitoring compliance.

EXAMINER'S COMMENT

This is a two-part question. Part (a) tested candidates' understanding of ratio of disbursement of funds to tertiary institutions, while part (b) is on withholding tax. About 80 percent of the candidates attempted the questions and the general performance was above average.

SOLUTION 3

- a.
 - i. Tax Payer's Identification Number (TIN)
 - ii. Name, address and VAT Registration Number
 - iii. Customer's Name and Address
 - iv. The Rate of Value Added Tax
 - v. The total value added tax payable
 - vi. Quantity of goods and services supplied
 - vii. Type of supply
 - viii. The description of goods and services supplied
 - ix. The rate of cash discount if any
 - x. The date of transaction

- b. The methods of stamping under the Stamp Duties Act CAP 58 2004 are as follows:
 - i. Affixing adhesive stamp
 - ii. Affixing postage stamp in lieu of adhesive stamp
 - iii. Embossing with dies
 - iv. Printing on the instruments

- c. LUCKY & ABBEY ASSOCIATES

INSIGHT

d. COMPUTATION OF CAPITAL GAINS TAX

	₦	₦
Sales Proceeds		350,000.00
Less: Cost of acquisition	180,000	
Allowable Expenses		
(₦25,000 + 45,000) ½	<u>70,000</u>	(250,000.00)
Chargeable Gain =		100,000.00

EXAMINER'S COMMENT

This is a standard three-part question. The question tested the candidates' knowledge of value added tax, stamp duties and computation of capital gains. About 96 percent of the candidates attempted the question; and the general performance was above average.

SOLUTION 4

a. Distinction between “employment” and “self employment”.

<u>Employment</u>	<u>Self Employment</u>
1. A person is engaged by another person under a contract of employment	A person is engaged in his own vocation or business
2. There is employee/employer relationship	A person is his/her own employer
3. Income Taxes are paid under Pay-As-You-Earn	Income Tax is paid under Direct Assessment System
4. Income Taxes are paid monthly in form of deduction from salaries and wages	Income tax is paid en-bloc upon assessment by the tax authority
5. Individuals are expected to participate in all contributions like Nigerian Pension Scheme and National Housing Fund Scheme	Not compelled to participate in statutory contributions

b. The following income payable to employees are exempted from tax:

- i. Gratuities
- ii. Any reasonable removal/relocation expenses
- iii. Compensation for loss of office
- iv. Refund of medical or dental expenses

INSIGHT

- v. Pension granted for a person under the provisions of the Pensions Act relating to widows and orphans
- vi. Cost of reform
- vii. Any cost of passage to and from Nigeria in respect of expatriates.

EXAMINER'S COMMENT

This is a question on Personal Income Tax (Amendment) Act 2011. Less than 80 percent of the candidates attempted the question. The general performance was satisfactory. The major pitfall was that those who did not score pass marks included other income instead of those ones usually payable to employees.

SOLUTION 5

Manchester Limited
Computation of Assessable Profits

a.

Proposed date of cessation	31/12/2007	
Year of assessment Basis Period	Assessable Profit	
	₦	₦
2005 1/5/2003 – 31/4/2004		600,000
2006 (Penultimate year)		
Either PYB 1/5/2004 – 30/4/2005	<u>680,000</u>	
or AYB 1/1/2006 – 31/12/2006		
$4/12 \times 800,000 + 8/12 \times 896,000$		
Where ever is higher 266667 + 597333	<u>864,000</u>	864,000
2007 Ultimate year		
AYB 1/1/2007 – 31/12/2007		
1/1/2007 – 30/4/2007 ($\frac{4}{12} \times 896,000$)	298,667	
1/5/2007 – 31/12/2007 (8 x 60,000)	<u>480,000</u>	<u>778,667</u>
		<u>2,242,667</u>

b. Proposed Date of cessation 29/2/2008

Year of Assessment	Basis Period	Assessable Profits
	₦	₦
2005 1/5/2003 – 30/4/2004		600,000
2006 1/5/2004 – 30/4/2005		680,000
2007 Penultimate year		
Either PYB 1/5/5 – 30/4/2006	<u>800,000</u>	800,000

INSIGHT

Or		
	AYB 1/1/2007 – 31/12/2007 $\frac{4}{12} \times 896,000$	298,667
	1/5/2007 - 31/12/2007 ($\frac{8}{10} \times 600,000$)	<u>480,000</u>

778,667

Where ever is higher
2008 Ultimate year

AYB 1/1/2008 – 29/2/2008 ($\frac{2}{10} \times 600,000$)	<u>120,000</u>
--	----------------

2,200,000

Summary of Position

Year of Assessment	Proposed Date of Cessation	
	31/12/07	29/02/08
2005	600,000	600,000
2006	864,000	680,000
2007	778,667	800,000
2008	-	<u>120,000</u>
	<u>2,242,667</u>	<u>2,200,000</u>

It is advantageous for the company to cease business on 29/02/2008. Since this will result in tax saving on the assessable profit of ~~N~~42,667. (2,242,267 – 2,200,000)

EXAMINER'S COMMENT

This is a computation question on cessation of business. About 30 percent of the candidates attempted the question. The general performance was above average. Candidates are advised to ensure adequate preparation for better performance in future examinations.

SOLUTION 6

OWONIKOKO COMPUTATION OF ASSESABLE PROFIT FOR 2009 to 2013 YEAR OF ASSESSMENT

Tax Year	Basis Period	Assessable Profit	
		N	N
2010	01/07/2008 – 30/06/2009		450,000
2011	01/07/2009 – 30/06/2010		289,600
2012	01/07/2010 – 30/06/2011		319,900
			<u>1,059,500</u>

INSIGHT

Workings

APPLYING OLD DATE OF ASSESSMENT

Tax Year	Basis Period	Assessable Profit ₦
2010	01/07/2008 – 30/06/2009	450,000
2011	01/07/2009 – 30/06/2010 12/15 x ₦362,000	289,600
2012	01/07/2010 – 30/09/2010 03/15 x ₦362,000 01/10/2010 – 30/06/2011 $\frac{9}{12}$ x ₦330,000	72,400 <u>247,500</u> <u>1,059,500</u>

APPLYING NEW DATE OF ASSESSMENT

Tax Year	Basis Period	Assessable Profit
2010	01/10/2008 – 30/09/2009	₦
	01/10/2008 – 30/06/2009	337,500
	9/12 x ₦450,000	
	01/07/2009 – 30/09/2009	72,400
	$\frac{3}{15}$ x ₦362,000	
2011	01/10/2009 – 30/09/2010	289,600
2012	01/10/2010 – 30/09/2011	
	01/10/2010 – 30/06/2011	<u>330,000</u>
		<u>1,029,500</u>

Comments: Owonikoko will be assessed by the relevant tax authority on the old accounting date because it will yield higher tax revenue

EXAMINER'S COMMENT

This is a question testing candidates' knowledge on the computation of assessable income. More than 85 per cent of the candidates attempted the question and the general performance was above average.

AT/142/PIII.12

ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME
PART III EXAMINATIONS - SEPTEMBER 2014

MANAGEMENT

Time Allowed: 3 Hours

SECTION A: PART I

MULTIPLE-CHOICE QUESTIONS

(30 Marks)

ATTEMPT ALL QUESTIONS

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

1. The following are types of industries **EXCEPT**
 - A. Extractive Industry
 - B. Generic Industry
 - C. Exchange Industry
 - D. Construction Industry
 - E. Manufacturing industry

2. Which of these is **NOT** expected to be contained in the deed of partnership?
 - A. The names and addresses of the partners
 - B. The length of life of the partnership
 - C. The method of creating the partnership
 - D. The method of dissolving the partnership
 - E. The method of arbitration in case of dispute

3. Which of these is **NOT** an indirect action component of the external environment?
 - A. Competitors
 - B. Technological variables
 - C. Legal-political variables
 - D. The socio-cultural variables
 - E. International environment

4. Customer's expectation include the following **EXCEPT**
 - A. Product/service quality
 - B. Choice
 - C. Safety
 - D. Respect
 - E. Hazard

INSIGHT

5. Which of these **CANNOT** be regarded as the meaning of an office?
- A. An office is a place where people carry out their daily duties
 - B. Any place that is set aside for handling information
 - C. A place for discussing corporate strategies
 - D. A place where people work
 - E. A place where the control mechanisms of an enterprise are located
6. A standardized printed piece of paper used to seek, accumulate and transmit information in an office for record is called
- A. Office document
 - B. Office paper
 - C. Form design
 - D. Office form
 - E. Form system
7. An office equipment through which messages are typed and sent is called
- A. Postal Franking
 - B. Electronic scanner
 - C. Photocopier telex
 - D. Teleprinter
 - E. Telescope
8. A set of activities designed to achieve an organization's objectives by using its resources effectively and efficiently in a changing environment is called
- A. Manager
 - B. Managing
 - C. Management
 - D. Planning
 - E. Organising
9. Which skill is referred to as the Manager's mental ability to coordinate all of the organization's interests and activities?
- A. Political skill
 - B. Interpersonal skill
 - C. Technical skill
 - D. Informational skill
 - E. Conceptual skill

10. The use of Taylor's philosophy to define the best way for a job to be done is termed
- A. Classical approach
 - B. Industrial revolution
 - C. Scientific management
 - D. Bureaucracy
 - E. Behaviourial
11. The view that the management technique that best contributes to the attainment of organizational goal might vary in different types of situation is referred to as
- A. Dynamic engagement
 - B. Re-engineering
 - C. Management culture
 - D. Contingency approach
 - E. Systems approach
12. Organisational communication patterns can operate in pattern
- A. Downward
 - B. Upward
 - C. Horizontal
 - D. Diagonal
 - E. All of the above
13. A firm has..... when it implements a strategy which the competitors are unable to duplicate or find too costly to try
- A. Competitive advantage
 - B. Compelling advantage
 - C. Compulsory advantage
 - D. Constitution advantage
 - E. Commission advantage
14. Which of the following increases the chance of interpersonal and inter-departmental conflict in an organization?
- A. Scarce resources
 - B. Role display
 - C. Role conflict
 - D. Wealth
 - E. Code conflict

INSIGHT

15. The process of determining future human resource needs relative to an organisation's strategic plan and devising the steps necessary to meet those needs is
- A. Human resource integration
 - B. Human resource acquisition
 - C. Human resource planning
 - D. Human resource succession
 - E. Human resource forecasting
16. An interview in which the applicant is interviewed sequentially by several persons and each rates the applicant on a standard form is
- A. Unstructured sequential interview
 - B. Structured sequential interview
 - C. Panel interview
 - D. Mass interview
 - E. Computerized interview
17. The **TWO** major products obtained from job analysis are
- A. Job description and Job specification
 - B. Job sharing and Job rotation
 - C. Job classification and job posting
 - D. Job enlargement and Job enrichment
 - E. Job aid and Job grading
18. External dispute settlement machinery include the following **EXCEPT**
- A. Mediation
 - B. Conciliation
 - C. Arbitration
 - D. Employee/supervisor discussion
 - E. National Industrial Court
19. The following are common sources of safety hazard at the workplace **EXCEPT**
- A. Slippery floor
 - B. Frayed carpets
 - C. Poorly lit stairways
 - D. Well-Ventilated Office
 - E. Dangerous fumes

INSIGHT

20. Which of the following is untrue about people with high achievement needs?
- A. They prefer moderate task difficulty
 - B. They prefer personal responsibility for performance
 - C. They have the need for clear and unambiguous feedback
 - D. They attempt to modify their self-image
 - E. They are more innovative
21. Which of the following is **NOT** a stage in group development and maturity?
- A. Forming
 - B. Storming
 - C. Norming
 - D. Performing
 - E. Processing
22. A plan should possess the following attributes **EXCEPT**
- A. The plan should be specific
 - B. The plan should be logical
 - C. The plan should be flexible
 - D. The plan should be cumbersome
 - E. The plan should be complete
23. The following factors should be taken into consideration when designing organizational structure **EXCEPT**
- A. Size of the organisation
 - B. Market trend
 - C. Strategy
 - D. Span of Control
 - E. Organisation's culture
24. The management function which looks backward in order to compare standard and result achieved is known as
- A. Reporting
 - B. Planning
 - C. Controlling
 - D. Organising
 - E. Directing

INSIGHT

25. A form of administrative control that is particularly essential in all manufacturing, wholesale and retail establishment is known as
- A. Financial control
 - B. Inventory control
 - C. Feedback control
 - D. Feedforward control
 - E. Production control
26. The following are conditions that are necessary for effective layout **EXCEPT**
- A. Low accident rate
 - B. Effective supervision and control
 - C. Minimization of cost of production
 - D. Stagnant placement of equipment
 - E. Space for further expansion
27. Traditional area of management that is concerned with the management of the physical resources which are required for production is called
- A. Product cycle
 - B. Product layout
 - C. Product concept
 - D. Production function
 - E. Product planning
28. Which of the following concepts holds that customers require large scale selling and promotion efforts
- A. Marketing concept
 - B. Selling concept
 - C. Production concept
 - D. Product concept
 - E. Societal marketing concept
29. Penetration Pricing Strategy is all about entering the market with
- A. High patronage
 - B. Moderate price
 - C. Low price
 - D. High price
 - E. Low patronage

INSIGHT

30. A product bought by final consumer for personal consumption is called
- A. Specialty product
 - B. Industrial product
 - C. Consumer product
 - D. Convenience product
 - E. Shopping product

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

ATTEMPT ALL QUESTIONS

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

1. Tools used to boost sales on a short-term basis is called.....
2. The unplanned static or distortion or distraction during communication process is known as.....
3. The overall output of goods or services produced, divided by the inputs needed to generate that output is known as.....
4. The act of comparing company performance in terms of quality with the best practice in the industry is called.....
5. The acronym **SWOT** means.....
6. Two or more people who work together in a structured way to achieve a specific goal or objective is termed.....
7. The term used to describe the hypothesis of the scientific management theorists and the general administrative theorists is.....
8. What is the alteration from a normal situation.....
9. The organizations which are supplying similar products to a similar range of existing and potential buyers in the market place is referred to as.....
10. The utility of changing the natural form of resource in a way that increases its value is.....
11. The stakeholders whom the business affects and interacts with most directly is.....

INSIGHT

12. An arrangement whereby someone with a good idea for a business sells the right to use the business name and to sell a product or service in a given territory is called.....
13. A systematic determination of the time it should take a work/task to be completed by the job holder is.....
14. The office machine that is installed in an office to facilitate internal and external communications with private switch board and control is.....
15. The process of examining a job with a view to identifying its components and conditions under which it is performed is.....
16. Under the..... system, the worker is paid in direct proportion to his/her output.
17. An individual who likes situations where he personally must find solutions to problems is probably, according to Mc Clelland theory, high in
18. Conflict between factions in a group or groups in an organization is.....
19. What is dividend in the form of additional shares called.....
20. Decisions which are made in routine, repetitive and well structured situations through the use of pre-determined decision rules is called.....

SECTION B: ATTEMPT ANY FOUR QUESTIONS (50 Marks)

QUESTION 1

- a. Define "Job Enrichment?" (1½ Marks)
 - b. List **FOUR** ways of enriching the jobs of your subordinates (4 Marks)
 - c. State **THREE** benefits in Job enrichment. (3 Marks)
 - d. State **FOUR** factors that limit application of "Job Enrichment." (4 Marks)
- (Total 12½ Marks)**

QUESTION 2

Explain the components of production management in a large organization
(12½ Marks)

INSIGHT

QUESTION 3

Profit generally is regarded as income accruing to equity holders. Explain **SIX** importance of profit in business

(12½ Marks)

QUESTION 4

a. Define marketing research (2½ Marks)

b. Explain briefly **FIVE** methods of collecting marketing research information? (10 Marks)

(Total 12½ Marks)

QUESTION 5

a. Who are the major contributors to the scientific management school? (2½ Marks)

b. State **FIVE** contributions of scientific management school (5 Marks)

c. State **FIVE** limitations of scientific management approach (5 Marks)

(Total 12½ Marks)

QUESTION 6

Explain **SIX** reasons for the use of machines and equipment in the office. (12½ Marks)

SUGGESTED SOLUTIONS

SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

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

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

EXAMINER'S COMMENT

Candidates' performance was good as they showed a clear understanding of the questions and the options to be selected. Over 90 percent of the candidates scored above 50 percent.

PART II SHORT-ANSWER QUESTIONS

- 1. Sales promotions
- 2. Noise
- 3. Productivity
- 4. Benchmarking
- 5. Strength, weakness, opportunity, threat
- 6. Organisation/formal organisation
- 7. Classical approach
- 8. Change
- 9. Competitors
- 10. Utility of form
- 11. Primary stakeholders

12. Franchise
13. Work schedule
14. Private branch Exchange systems (PBX)
15. Job analysis
16. Piece rate
17. Achievement
18. Inter-group conflict
19. Stock Dividend/Bonus
20. Programmed Decisions

EXAMINER'S COMMENT

Candidates' performance was below average as less than 25 percent of the candidates scored above half the mark. The candidates did not understand the concepts being tested.

SECTION B

SOLUTION 1

- a. Job enrichment is an elaborate method of motivation because it emphasises on the significance of making job to contain factors such as challenge, achievement, recognition and responsibility for scheduling, coordinating and planning one's own work.
- b.
 - i. Allowing workers more freedom in making decisions relating to work methods sequence and pace.
 - ii. Encourage participation of subordinates and interaction between workers.
 - iii. Giving workers a feeling of personal responsibility for their tasks.
 - iv. Letting the workers know how their jobs contribute to the attainment of the overall goals of the organisation e.g. provision of prompt feedback to workers.
 - v. Involvement of workers in the analysis and change of the work environment.
- c.
 - i. Increased productivity
 - ii. Reduction in absenteeism and labour turnover
 - iii. Improved morale

INSIGHT

- d.
 - i. Technology, the use of technology makes application of job enrichment difficult.
 - ii. Cost, application of job enrichment may lead to additional cost.
 - iii. Jobs that require lower level skills are difficult to enrich.
 - iv. Workers may prefer the present jobs than changing the basic contents.
 - v. Delegation of authority to allow for tasting of power.

EXAMINER'S COMMENT

The question was attempted by 85 percent of the candidates, 80 percent of them scored below average of 50 percent. Most of the candidates approached the question from the Human Resource Management activities instead of looking at it from the motivation aspect of organizational behaviour. Most candidates showed little knowledge of the aspect of the syllabus.

SOLUTION 2

- a. Production management can be defined as all activities involved in planning, organising and controlling of resources needed for transforming input into output effectively and efficiently. Production management can also be defined as the management of resources which can facilitate transformation of input into output.
- b. Production planning and control: This involves decision about what to produce, how to produce, when to produce, who to produce. Key issues on machines, inventory, cost of production and quality are involved.
Maintenance of facilities: Production management involves putting in place maintenance culture which will assist equipment to last.
Facilities' location: This issue is very important as it will enhance productivity of an organisation.
Research and Development of New Products: It is the responsibility of production department to carry out investigation on new product.

Compliance with health and safety programme: Production department has a role to ensure strict adherence with safety policy.
Decision on production system: Production department decides on efficient and effective production system.

Plant layout: This refers to arrangement of machines and facilities to facilitate the transformation of input into output.

EXAMINER'S COMMENT

The question was attempted by less than 30 percent of the candidates. Also less than 35 percent of those who attempted the question scored above 50 percent. The major pitfall is that majority of the candidates could not identify the components of production. Management, rather they listed the management process.

SOLUTION 3

The importances of profit are:

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

EXAMINER'S COMMENT

About 90 percent of the candidates attempted the question. About 60 percent of them scored above 50 percent. Majority of the candidates who performed below average were answering the question from the perspective of objectives, contribution of profit to the economy in general and repetition of points.

SOLUTION 4

Marketing Research

Marketing research is the systematic design, collection, analysis and reporting of data relevant to a specific marketing situation facing an organisation.

Mail Method

Mail method is the collection of information through the use of post. Questionnaire is administered on respondents and collected back through post. It has the following features:

Flexibility is poor.

Control of interviewer effect is excellent.

Control of sample is fair.

Speed of data collection and response rate is poor.

Cost is good

Telephone method

It is highly flexible as difficult questions can be answered.

Cost and control of interviewer effect is fair.

Response rate higher than the mail method.

Interviewer bias is introduced.

Personal Interview method

This is talking with people in their homes, work places, streets and shopping malls.

It is highly flexible as trained interviewers can guide interviews, explain difficult questions and employ issues as the situation requires.

Focus Group

Getting between 6 and 10 participants to meet and discuss about a product service or organisation with a trained moderator. Discussions are free and easy and actual feelings and thoughts are brought out.

Online Method

Online method can deliver questionnaire on the web and offer incentives for completing it. It can use e-mail, web links or web pop-ups to invite people to answer questions, experiment on different prices can be conducted on the web.

The cost is very low per 1,000 respondents.

Speed of data collection and control of sample is excellent.

It is flexible.

Quality of data collected is good.

EXAMINER'S COMMENT

90 percent of the candidates attempted the question. About 95 percent of the candidates scored above average of 50 percent. However, some candidates who performed below average were writing on the types of marketing research which is contrary to the demand of the question.

SOLUTION 5

- a. The major contributors to the scientific management school are F.W. Taylor, Frank and Lillian Gilbreth, Henry Gantt, Harryington Emerson.
- b. Major contributions of scientific management school includes:
 - i. Development of Managerial skill through division of labour and specialisation.
 - ii. The concept of productivity and wage rate based on productivity of employees.
 - iii. Importance of scientific selection and training of employees.
 - iv. Introduced the use of rational and cost reduction techniques to increase efficiency and performance.
 - v. Formulated work standards.
- c. Limitations of scientific management are:
 - i. Scientific management methods are applicable only in predictable and stable environment.
 - ii. Scientific management has over-emphasised the economic and rational nature of man and overstates man's desire for money.
 - iii. The scientific management theory did not attach importance to human behaviour. It overlooked the human desire for job satisfaction.
 - iv. Over emphasis on productivity and profitability led some managers to exploit both workers and customers.

EXAMINER'S COMMENT

About 65 percent of the candidates attempted the question while 60 percent of them scored above 50 percent. This performance is due to the inability of the candidates to marshal the necessary points to answer the question rather they depended on residual points.

SOLUTION 6

Reasons why machines and equipment are used in the office

- i. The direct and indirect costs of keeping office assistants in an office and getting the work done by them have increased tremendously. An office machine or equipment can process information that ten office assistants can do in a day within 3 hours.
- ii. The quantity of work done by the office machines and equipment is far better than those of human beings.
- iii. Time saving: Office machines and equipment save time of processing information and disseminating them.
- iv. Reduction in workers fatigue: Human labour and efforts are greatly reduced and saved through office machines.
- v. Substantial reduction in error.
- vi. Improved standardisation and simplification: The uses of office machine and equipment have made office work to be standardised and simplified more than human work.
- vii. Improved quality of work.
- viii. More resistant to pressure: The office machines and equipment are very resistant to pressure. They can withstand office pressure far more than human being.
- ix. Reduction of fraud: Machines on its own cannot initiate fraudulent practices. Any fraud committed through office machines or equipment is definitely human initiated.
- x. Quick error correction: Office machine corrects errors faster than human beings.
- xi. With office machines and equipment, large volume of office work can be done more qualitatively, speedily and correctly.

EXAMINER'S COMMENT

The question was attempted by 100 percent of the candidates. However, about 45 percent of the candidates scored about 50 percent. Most of the candidates took the question to mean, what machines and equipments are used for rather than the reasons and benefits of using office machines and equipment.