

# INSIGHT

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## EXAMINERS GENERAL COMMENTS

### BREACH OF EXAMINATION INSTRUCTIONS

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

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

### INADEQUATE COVERAGE OF THE SYLLABUS

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

## FOREWORD

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

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

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

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

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**NOTE**

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

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AT/151/PIII.9

ACCOUNTING TECHNICIANS SCHEME  
PART III EXAMINATION - MARCH 2015  
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.     Having reviewed a client's accounting system, an auditor may wish to check that they operate in the manner recorded. To do this, he will use
  - A.     Walk-through-test
  - B.     Compliance test
  - C.     Substantive test
  - D.     Vouching
  - E.     In-depth test
  
2.     A procedure that involves the computation of ratio and studying trends to obtain audit evidence is
  - A.     Analytical testing
  - B.     Compliance procedure
  - C.     Sampling procedure
  - D.     Analytical review
  - E.     Walk-through testing
  
3.     The auditor will record details of the evidence which he has gathered in the
  - A.     Correspondence file
  - B.     Negotiation file
  - C.     Audit working papers file
  - D.     Systems control file
  - E.     Technical file
  
4.     Which of the following is **NOT** a basic attribute of good audit evidence?
  - A.     Ease of access
  - B.     Infallibility
  - C.     Thoroughness
  - D.     Honesty
  - E.     Reliability

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5. A computer can be used by auditors in the following ways **EXCEPT in**
- A. Duplication of audit work
  - B. Evaluation of audit risk
  - C. Analytical procedures
  - D. Flow charting of client's system
  - E. Preparation of the audit programme
6. Which of the following if material, would be fraud?
- A. Errors in the application of accounting principles
  - B. Clerical errors in accounting data underlying the financial statements
  - C. Misinterpretation of facts that existed when the financial statements were prepared
  - D. Misappropriation of an asset or group of assets
  - E. Non-intentional omission of data
7. The Directors may institute an action for negligence against an auditor in court if he
- A. Exercises due care, diligence and skills
  - B. Exercises due skill and care
  - C. Restraints from exercising due care, diligence and skills
  - D. Expresses his opinion on the truth and fairness of the financial statements
  - E. Plans his audit assignment
8. Which of the following is **NOT** a component of a good internal control system?
- A. Control procedures
  - B. Information and communication system
  - C. Monitoring
  - D. Risk assessment
  - E. Organisation chart
9. Which of the following is **NOT** a method of ascertaining the control system?
- A. Examining clients documents
  - B. Tracing transactions
  - C. Observation of procedures
  - D. Costs of setting up controls and the benefits obtained therefrom
  - E. Examining previous audit work
10. The advantages of flow charts **EXCLUDE ONE** of the following
- A. They are fairly easy to follow and to review
  - B. They result in considerable saving of time
  - C. They are only suitable for describing a standard system
  - D. They eliminate the need for extensive narrative notes
  - E. They ensure the loss of details

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11. Uncertainty or disagreement in respect of matters in the audit of financial statements leads to a qualified audit report. Which of the following is **NOT** a form of a modified audit opinion?
- A. Except for
  - B. Adverse
  - C. Disclaimer
  - D. True and fair view
  - E. Subject to
12. Which of the following risks is **NOT** relevant to the auditor?
- A. Inherent risk
  - B. Control risk
  - C. The possibility of fraud or misrepresentation involving collusion of staff and/ or management
  - D. Failure to draw the correct inference from audit evidence and analytical review
  - E. Risk of not being able to recover audit working papers
13. Which of the following is **NOT** part of financial statements on which auditors form an opinion?
- A. Statement of Financial Position
  - B. Statement of Cash Flow
  - C. Management accounts report
  - D. Significant accounting policies
  - E. Statement of profit or loss and other comprehensive income
14. Which of the following includes the basis of an auditor's opinion on the audited financial statements?
- A. Engagement letter
  - B. Audit report
  - C. Management letter
  - D. Letter of representation
  - E. Letter of consent
15. Which of the following is the end product of an audit exercise?
- A. Evaluation report
  - B. Domestic report
  - C. Engagement letter
  - D. Audit report
  - E. Management letter

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16. Which of the following is **NOT** carried out by a Computer bureau?
- A. Data Preparation
  - B. Corporate valuation
  - C. Designing of application packages
  - D. Sales of software packages
  - E. Time sharing
17. The fundamental principles of professional conduct are as follows **EXCEPT** that a member
- A. Should behave with integrity in all professional and business relationships.
  - B. Strive for objectivity in all professional and business judgements
  - C. Not accept or perform work which he or she is not competent to undertake
  - D. Carry out his or her professional work with due skill, care, diligence and expedition
  - E. Always obtain the advice and guideline of senior members in all professional engagements.
18. Which of the following best describes the auditor's reporting responsibility concerning information accompanying the basic financial statements in the auditor's report?
- A. The auditor should report on all the information included in the document
  - B. The auditor has no reporting responsibility concerning information accompanying the basic financial statements
  - C. The auditor should report on the information accompanying the basic financial statements only if the auditor participated in its preparation
  - D. The auditor should report on the information accompanying the basic financial statements only if the auditor did not participate in its preparation
  - E. The auditor should report on the exceptional or extraordinary items only
19. The negative form of accounts receivable confirmation request is useful **EXCEPT** when
- A. Internal control surrounding accounts receivable is considered to be effective
  - B. A large number of small balances are involved
  - C. Individual account balances are relatively large
  - D. The auditor has reason to believe the persons receiving the requests are likely to give them consideration
  - E. It is the first audit of the company
20. Independent auditing can best be described as
- A. A regulatory function that prevents the issuance of improper financial information
  - B. A branch of accounting

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- C. A professional activity that measures and communicates financial and business data
  - D. A discipline that attests to the result of accounting and other functional operations and data
  - E. An annual financial appraisal of a company's activities
21. The auditor does **NOT** accept responsibility for **ONE** of the following in expressing an opinion on the financial statements of the client
- A. Compliance with legal requirements
  - B. Preparation of the financial statements
  - C. Reliability of the opening balance
  - D. Appropriateness of the comparative figures included in the accounts
  - E. Consistency in the application of accounting policies
22. Which of the following is **NOT** a standard department of an audit firm?
- A. Audit/Assurance
  - B. Production
  - C. Management consultancy
  - D. Insolvency
  - E. Taxation
23. An auditor must exercise due professional care by
- A. Examining all available evidence
  - B. Obtaining professional experience and formal education
  - C. Reducing risk to the acceptable level
  - D. Critically reviewing the judgement exercised at every level of supervision
  - E. Prevent fraud and irregularities
24. Which of the following may **NOT** affect the going concern of an enterprise?
- A. Fraudulent practices of management
  - B. Ability to meet creditors bills as at when due
  - C. Failure of proper control mechanism and insider abuse
  - D. Political contest
  - E. Management incompetence
25. Which of the following is **NOT** a component of the term "true and fair view"?
- A. The information is factual and conforms with reality
  - B. It is not false
  - C. It is free from discrimination and bias
  - D. The accounts do not reflect the commercial substance of the company's underlying transactions
  - E. It is in compliance with expected standards and rules

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26. Which of the following is **NOT** an external user of government accounting information?
- A. The general public
  - B. Foreign investors
  - C. The civil service union
  - D. The National Assembly
  - E. Government other than the reporting government
27. An auditor requests a cut-off bank statement primarily to
- A. Verify the cash balance reported on the bank confirmation
  - B. Verify reconciling items on the client's bank reconciliation
  - C. Detect lapping
  - D. Detect kitting
  - E. Verify bank balance in the reconciliation statement
28. When an independent auditor decides that the work performed by internal auditors may have a bearing on the nature, timing and extent of planning audit procedures, the independent auditor should evaluate the objectivity of the internal auditors. Relative to objectivity, the independent auditor should
- A. Consider the organisational level to which internal auditors report
  - B. Review the quality control program in effect for the internal audit staff
  - C. Examine the quality of the internal audit report
  - D. Consider the qualifications of the internal audit staff
  - E. Assess the integrity of the internal auditor
29. Subsequent events occur after the
- A. Statement of financial position date
  - B. Date of the auditor's report
  - C. Statement of financial position date but on or before the date of the auditor's report
  - D. Date of the auditor's report but on or before the date of a registration statement
  - E. Statement of financial position date and date of the auditor's report
30. Which of the following would an auditor communicate to the audit committee?
- A. Difficulties encountered in performing the audit
  - B. Turnover in the staff assigned to the audit
  - C. Matters included within an attorney's letter
  - D. The contents of the management representation letter
  - E. Making inquiries of a client's legal counsel

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## SECTION A: PART II

## SHORT-ANSWER QUESTIONS ATTEMPT ALL QUESTIONS

(20 Marks)

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

1. Some acts or omissions which occur because the person concerned failed to exercise that degree of reasonable skill and care which is reasonably expected in the circumstances of the case is referred to as .....
2. What document ensures that operations and controls are properly depicted for ensuring the follow through of transactions from the beginning to the end?
3. What type of test seeks to provide audit evidence that internal control procedures are being applied as prescribed by the management?
4. Where the auditor wishes to perform tests of control on cash disbursement and the control leaves no audit trail of documentary evidence, what test of procedure should be embarked upon?
5. All the controls which relate to the environment within which computer based accounting systems are developed, maintained and operated and which are therefore applicable to all applications are referred to as .....
6. What is the uncertainty that is inherent in audit procedures?
7. What is the name of the technique in which each item in the population has an equal chance of being selected?
8. A condition or situation whose ultimate outcome may be a loss or gain will be confirmed only on the occurrence or non occurrence of one or more uncertain future event is referred to as .....
9. What name is given to the test which the auditor will apply to gather evidence where the system of controls appears to be defective?
10. A test conducted by the auditor that traces one transaction from the originating document through the client's system of controls examining all records and controls all the way to the final record is called .....
11. The auditor's ..... may be impaired if he receives a large proportion of his firm's gross fee from one client.
12. Who fixes the remuneration of the first auditors?
13. An enterprise that is reasonably expected to continue trading for the foreseeable future is called .....
14. What is the term given to the information obtained by the auditor which enables him to arrive at the conclusion necessary for his opinion in the financial statement?

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15. Selected members of a company outside the directors, who take active role in overseeing the company's accounting and financial reporting policies and practices, are called .....
16. The name of a code that restrict access to information stored in a computer systems is called?
17. The Public Accounts Committee is responsible to the .....
18. What does C.A.A.Ts stand for?
19. Who should the internal auditor report to, if his independence is to be enhanced?
20. What does I.P.S.A.S stand for ?

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

## **QUESTION 1**

- a. Financial statements prepared by the management of a client's company are what the auditor works on in order to issue an audit report.  
  
Itemise any **SIX** items in the financial statements that are audited by the auditor. (3 Marks)
- b. The end product of an audit assignment is the audit report to the members of a client company whereby the auditor expresses his opinion on the truth and fairness of the financial statements.

**You are required to:**

State and explain the types of audit reports that are available.

(9½ Marks)

**(Total 12½ Marks)**

## **QUESTION 2**

- a. Discuss **FOUR** of the audit approaches to high risk areas of an audit. (4 Marks)
- b. Enumerate **FOUR** of the functions of an Audit Committee. (4 Marks)
- c. From the auditing view point, when does an item become material? Discuss and give examples. (4½ Marks)

**(Total 12½ Marks)**

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## QUESTION 3

- a. Professional Code of Ethics and Conduct categorises the auditor's duties and responsibilities, especially with regards to confidentiality of clients.

State briefly the main responsibility of an auditor and his staff as per confidentiality of client's affairs. (4½ Marks)

- b. List **FOUR** conditions/circumstances under which an auditor could disclose to a third party, information in his care as an auditor. (8 Marks)

**(Total 12½ Marks)**

## QUESTION 4

- a. Briefly explain what is meant by the "Going Concern Concept"? and describe the tests and procedures that the auditor needs to perform to form an opinion on management's conclusion that the company is a going concern? (7½ Marks)

- b. List at least **FIVE** factors that might cast doubt on the ability of a company to be a going concern? (5 Marks)

**(Total 12½ Marks)**

## QUESTION 5

- a. The tests to obtain audit evidence about the effective operations of the accounting and control systems is referred to as tests of control.

i. What are tests of control expected to test? (4½ Marks)

ii. Enumerate any **FIVE** nature of test of controls. (5 Marks)

- b. The objectives of general controls are to ensure the integrity of application development and implementation, programme data files and computer operations.

**You are required to:**

Enumerate any **SIX** considerations to give effect to the general control objectives.

(3 Marks)

**(Total 12½ Marks)**

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## QUESTION 6

- a. Audit evidence possesses some attributes. State any **THREE** of them. (1½ Marks)
- b. State the steps you will follow to gather audit evidence in the audit of:
- i. Patent right (5 Marks)
- ii. Litigation & claims (6 Marks)
- (Total 12½ Marks)**

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**ACCOUNTING TECHNICIANS SCHEME (WEST AFRICA)  
EXAMINATION MARCH 2015  
PRINCIPLES OF AUDITING**

**SUGGESTED SOLUTIONS**

**SECTION A**

**PART I MULTIPLE-CHOICE QUESTIONS**

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

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

## **EXAMINER'S COMMENTS**

The MCQS were selected to cover the syllabus and they were mixed and balanced. A cursory look at the reviewed scripts showed that candidates performed averagely, about 50% of them scored the pass mark.

## **SHORT ANSWER QUESTIONS**

- 1. Negligence
- 2. Flowcharts
- 3. Compliance Tests
- 4. Observation and Enquiry
- 5. General Controls
- 6. Audit Risk
- 7. Random Sampling
- 8. Contingency
- 9. Substantive Test
- 10. Walk Through Test
- 11. Independence
- 12. Directors
- 13. Going Concern
- 14. Audit Evidence

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15. Audit Committee Members
16. Password
17. National Assembly
18. Computer Assisted Auditing Techniques
19. Audit Committee
20. International Public Sector Accounting Standards

## **EXAMINER'S COMMENTS**

The short answer questions were well selected to cover most areas of the syllabus. Performance here was also average

## **SECTION B**

### **SOLUTION TO QUESTION 1**

1. In accordance with Companies and Allied Matters Act Cap C 20 LFN 2004, the following Financial Statements should be prepared by the management
  - (i) Statement of the Accounting Policies
  - (ii) Statement of Financial position
  - (iii) Statement of Profit or loss and other Comprehensive Income
  - (iv) Notes to the Accounts
  - (v) Audit report
  - (vi) Statement of Cashflows
  - (vii) Value Added Statement
  - (viii) Five Year Financial Summary

An audit report can either be a qualified or an unqualified audit report

A qualified audit report is one that indicates that the auditor has reservations about the truth and fair view of the financial statements audited. But the unqualified audit report indicates that the auditor does not have any reservation about the true and fair view of the financial statements audited.

With respect to qualified audit reports, we have the following types:

- (i) Disclaimer Opinion
- (ii) Subject to Opinion
- (iii) Adverse Opinion
- (iv) Except Opinion

But if auditor wants to place emphasis on his report without the intention of qualifying it, we have added emphasis

- Disclaimer of opinion - The inherent uncertainty is material and fundamental  
Subject to opinion - The inherent uncertainty is material but not fundamental  
Adverse opinion - There is disagreement which is material and fundamental  
'Except for' opinion - The disagreement is material but not fundamental

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Added Emphasis – The auditor is drawing the attention of the users of the financial statements to certain issues which do not warrant qualification.

## EXAMINER'S COMMENT:

The question seeks to test audit reports, contents and types. They were well attempted by most of the candidates, and performance was slightly above average. About 65% of the candidates scored above the pass mark.

## SOLUTIONS TO QUESTION 2

### 1a. Approaches to high risk areas in an audit

- (i) Experienced and high calibre of audit staff should be engaged in critical audit areas.
- (ii) The auditor should endeavour to examine high risk areas exhaustively
- (iii) Various stages of audit evidence should be gathered in respect of those risky areas
- (iv) A methodical approach should be used in the preparation of audit working papers especially the current audit file
- (v) Auditors must be extremely careful in drafting the audit report
- (vi) The materiality of an item that may likely be risky should be reviewed properly and necessary audit work should be carried out by the auditor.
- (vii) All high risk areas must be deeply examined.

### b. Functions of an audit committee

- (i) To ascertain whether the accounting and reporting policies of the company are in accordance with legal requirements and ethical practices
- (ii) To review the findings on management letters in line with the external auditor's and department's responses thereon.
- (iii) To review the scope and planning of audit requirements
- (iv) To keep under review the effectiveness of the Company's system of accounting and internal control.
- (v) To make recommendations to the Board of Directors as regards to the appointment, removal and remuneration of the external auditors of the company
- (vi) To authorise the internal auditor to carry out investigations into any activities of the company which may be of interest to the committee.

### c. Materiality in the presentation of financial statements is one of the most subjective areas requiring an auditor's judgement. An Auditor should not allow insignificant matters to complicate the auditing process or lead him away from the primary objective of the audit.

An item is said to be material when its non-disclosure, omission, misstatement or incorrect classification would likely distort the view shown by the accounts.

An item becomes material if:

- (i) It is of significant proportion in the class of transactions or accounts balances to which it belongs or to the financial statements as a whole
- (ii) It is related to relevant statutory provisions
- (iii) It is concerned with accounting standards

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- (iv) The impact of the omission or inclusion of the item on the Statement of Profit or Loss and other Comprehensive Income or Statement of Financial Position trend is significant
- (v) It results in the overstatement/understatement of profit or net assets

Examples of materiality

- (i) Non-disclosure of an ongoing litigation
- (ii) Failure to fully adopt a relevant financial reporting framework
- (iii) Under statement of tax

**EXAMINER'S COMMENT:**

Question 2 was testing Audit Risk, Materiality Concept and functions of the Audit Committee. Very well attempted by candidates (over 90%) and performance also above average. At least 70% of them scored above the pass mark.

## SOLUTION TO QUESTION 3

- a. Confidentiality of all affairs of his clients, during his tenure as the auditor and after his exit. Both the auditor and his staff have no right to make improper use of any information, knowledge etc they may gain in the course of their engagement.

They could not disclose the information, knowledge etc at their disposal to a third party without the specific authority of the client.

- b. **CONDITIONS/CIRCUMSTANCES**
  - (i) If the auditor needs the information to defend himself in any charge brought against him
  - (ii) If a competent court of law demands such information.
  - (iii) If he knows or suspects that the client committed or is about committing or will commit a criminal offence, he (auditor) should disclose the information in the public interest
  - (iv) If a government official or any authorised person acting in official capacity demands such information.
  - (v) To comply with technical standards and ethics requirements.
  - (vi) To protect the professional interest of a professional accountant in legal proceedings

**EXAMINER'S COMMENT:**

This question seeks to test confidentiality by the auditor with respect to his responsibilities and duties to his clients. Not as well attempted as the first two (about 65% attempt) but those who attempted scored averagely.

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## SOLUTION TO QUESTION 4

- a. Going Concern- This assumes that the entity will continue to operate for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations.

The following are tests and procedures the auditor needs to express an opinion on management's conclusion that the company is a going concern:

- (i) Review the cashflow forecast in the subsequent accounting period for improvement
- (ii) Review the subsequent period (after year end) trading and its impact in the cashflow
- (iii) Review the management accounts and the financial records in the subsequent accounting period
- (iv) Review correspondence with creditors so as to ensure that pressures are not being mounted by them
- (v) Review the clients profit forecast prepared for the subsequent accounting periods
- (vi) Review the clients' position with similar companies in the same business.
- (vii) Where financial assistance is to be given by banks and other sister companies, review their degrees of commitment
- (viii) Review Minutes of meetings of the Directors and Management
- (ix) Generally review the management rescue plans and ensure that they are consistent with facts already known to the auditor

- b. Factors that might cast doubt on the ability of a company to be a going concern

1. Loan repayments are falling due in the near future and refinancing facilities are not immediately available
2. Substantial losses are occurring or the level of profitability is declining
3. Regular capital expenditure is being switched to leasing agreements
4. Collection rate from debtors is slowing down
5. Normal purchases are being deferred, thereby reducing stock to dangerously low levels
6. The company is heavily or increasingly dependent upon short term finance, particularly from trade creditors and overdraft
7. High or increasing debt to equity ratio exist
8. High dependence upon a limited number of products, customers or suppliers
9. Evidence of major reductions or cancellations of capital projects
10. Heavy dependence on an overseas holding company for finance or trade
11. The company is being forced to sell some of its non-current assets  
The company has made a number of its employees redundant and/or has had to reorganise/rationalise its operation.

### EXAMINER'S COMMENT:

This question tests the "going-concern" concept. Definition, auditor's approach and basis of conclusion of audit opinion on the going concernness of any Company. The (b) part specifically asks for indications of going concern in any company. About 90% of candidates attempted with performance scores at 70% of allocated marks.

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## SOLUTION TO QUESTION 5

- 1 a. Test of controls are expected to test the following:
  - i. Design - to ensure that internal controls are structured to cover the risks they are meant for by using the ICQs and ICEQs
  - ii. Implementation – to ensure that the internal controls have been put into operation by carrying out a walk through test with a little sample
  - iii. Operating effectiveness - to ensure that the systems of internal control are functioning adequately at relevant times during the period and this could be through compliance tests based on judgemental samples.
  
- b. The following consist the nature of tests of controls:
  1. Inquiry and observation of controls over opening of mail to verify control of cost.
  2. Re-performance, for instance preparation of bank reconciliation statement
  3. Inspection of documentation relevant to performance of controls
  4. Applying the Computer assisted audit technique
  5. Applying test of details simultaneously in the same transactions
  
2. The considerations include the following:
  - (i) To have control over applications development
  - (ii) To prevent or detect unauthorised changes to programs
  - (iii) To ensure that all program changes are adequately tested and documented.
  - (iv) To discover and avoid errors during program execution
  - (v) To prevent unauthorised amendments to data files
  - (vi) To see that proper documentation is maintained
  - (vii) To make continuity of operations possible
  - (viii) To enforce access to controls such as physical barriers and passwords

### **EXAMINER'S COMMENTS:**

The question is the LEAST attempted in this section candidates do not seem to understand the Term “test of Controls”. Less than 10% of candidates attempted it and those that did scored poorly.

## SOLUTION TO QUESTION 6

Attitudes of audit evidence  
- Relevance

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- Reliability
- Sufficiency

Steps to follow in gathering audit evidence on patent right

- A patent is an official right / a document containing the right to be the only person to make, use, sell a product or intention
- Examine a schedule showing details of new assignment or fees paid
  - Inspect correspondence for registration
  - Inspect vouchers of payment for registration
  - Inspect details of assignment during the year
  - Examine referral Certificate
  - Review the expiry date to be less than 16 years
  - Make enquiry and document expenses from management
  - Obtain the letter of representation
  - Review the minutes of the Board of Directors meeting
  - Review basis of valuation noting amortisation policy
- Litigation for claims

It is a specially difficult area for the auditor because of the inherent uncertainty in estimating the outcome of legal actions and therefore the valuation to put on the liability.

- Review the system of recording a documentary claim and litigation
- Review the procedures for bringing litigation to the attention of Board
- Review the agreement used to instruct the Solicitor by the Company's legal Officer/ Company Secretary
- Obtain a schedule of outstanding litigation and claims
- Examine minutes of Board of Directors
- Obtain a letter of Representation from management
- Third party confirmation from solicitor's outstanding cases and presentation of valuations.

## **EXAMINER'S COMMENTS:**

This question seeks to test the concept of "audit evidence" attributes and also specifically asks for audit steps to gather evidence with respect to patents rights and litigation and claims. Poor attempt (Less than 20%) poor scores (Less than 20% of marks allocated).

**AT/151/PIII.10**

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

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ATSWA PART III MARCH 2015

# INSIGHT

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## PART III EXAMINATION - MARCH 2015 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:

- Which of the following is **NOT** an essential quality of good information?
  - Relevance
  - Accuracy
  - Volume
  - Clarity
  - Timeliness
- The amount of expenditure incurred on or attributable to a specified thing or activity is
  - Price
  - Value
  - Cost
  - Expenses
  - Costing
- Which of the following roles is an accounting technician **NOT** expected to perform?
  - Ensure that established format for data compilation are correctly followed at various levels
  - Monitor the regularity of entry of data to ensure timeliness
  - Prepare summaries of raw data collected showing the results from various perspective to give a total picture
  - Take decisions on the data compiled
  - Check the accuracy of figures supplied through reasonable checks
- A cost which is fixed in nature but only within certain levels of activity is
  - Fixed cost
  - Variable cost
  - Mixed cost
  - Curvilinear cost
  - Step cost
- Costs incurred and charged against profit for a period, and **NOT** included in cost for stock valuation purposes are
  - Product costs

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- B. Period costs  
C. Annual costs  
D. Joint costs  
E. Standard costs
6. Costs which may be saved by the adoption of a given alternative option are known as
- A. Avoidable costs  
B. Variable costs  
C. Marginal costs  
D. Committed costs  
E. Attributable costs
7. The formula
- $$\text{Re-order level} + \text{Re-order quantity} \left( \frac{\text{minimum consumption}}{\text{Delivery Period}} \right)$$
- is used to calculate
- A. Minimum stock level  
B. Maximum stock level  
C. Re-order level of stock  
D. Buffer stock  
E. Safety stock
8. Which of the following is **NOT** required of Just-In-Time operational system to be effective
- A. Quality  
B. Quantity  
C. Cost minimization  
D. Speed  
E. Flexibility
9. A system that seeks to measure the time required for a qualified worker to complete a specific assignment at a specified level of performance is
- A. Work measurement  
B. Method study  
C. Learning curve  
D. Job evaluation  
E. Merit rating
10. A single comprehensive accounting system with no division between financial and cost accounting is
- A. Interlocking Accounting System  
B. Non-integrated Accounting System

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- C. Integrated Accounting System
  - D. Activity-Based Costing System
  - E. Tradition Based Costing System
11. Which of the following in profit reconciliation will **NOT** be added to profit as per cost accounts to arrive at the financial accounts profit?
- A. Over-absorption of factory overheads in cost accounts
  - B. Over-valuation of closing stock of raw material in cost accounts
  - C. Over-valuation of opening stock of raw material in cost accounts
  - D. Incomes excluded from cost accounts
  - E. Under-valuation of closing stock of raw material in cost accounts
12. Which of the following is **NOT** a functional budget?
- A. Distribution cost budget
  - B. Selling cost budget
  - C. Sales budget
  - D. Cash budget
  - E. Production budget
13. A process loss without recoverable value is
- A. Scrap
  - B. Normal loss
  - C. Waste
  - D. Re-work
  - E. Abnormal loss
14. Which of the following methods is **NOT** used for the apportionment of joint cost?
- A. Sales value at split-off point
  - B. Net realisable method
  - C. Residual sales value
  - D. Physical quantity at split-off point
  - E. Further processing cost of each product
15. Standard based on normal operating conditions where allowance is made for wastage, inefficiencies are
- A. Ideal standards
  - B. Basic standards
  - C. Expected standards
  - D. Current Standards
  - E. Future Standards
16. How does absorption costing differ from marginal costing in inventory valuation?
- A. Absorption costing recognizes total cost per unit to be multiplied by the closing units to get the value of closing inventory

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- B. Absorption costing uses LIFO  
C. Marginal costing uses FIFO  
D. Marginal costing is concerned with margins  
E. Absorption costing recognizes slow-moving inventory
17. The formula:  $\left( \frac{\text{Fixed cost}}{\text{Contribution margin}} \right)$  is used to determine
- A. Contribution per unit  
B. Angle of incidence  
C. Break-even point in Units  
D. Sales volume  
E. Margin of safety
18. Which of the following is **NOT** of Just-In-Time (JIT) system in manufacturing process?
- A. Demand-pull manufacture  
B. There is closing stocks  
C. Elimination of non-value adding activities  
D. 100% on time deliveries  
E. No production wastages
19. Which of the following is **NOT** a method of ranking investment?
- A. Internal Rate of Return  
B. Net Present Value  
C. Payback Period  
D. Feasibility study  
E. Accounting Rate of Return
20. A method of costing that starts from the finished goods and works backwards to attribute costs between cost of goods sold and finished goods inventory with no separate accounting for Work-In-Progress is .
- A. Life cycle costing  
B. Target costing  
C. Just-In-Time system  
D. Backflush costing  
E. Material Resource Planning
21. A modern manufacturing technique which differs from the traditional production methods and is now obsolete because it accommodates inefficiencies and provides no incentives for improvement is called
- A. Life cycle costing  
B. Target costing  
C. Backflush accounting  
D. Kanban Inventory Control

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- E. Advanced manufacturing technique
22. An organised approach to the identification and elimination of unnecessary costs of running a business is called
- A. Value Analysis
  - B. Value Engineering
  - C. Work Study
  - D. Work Measurement
  - E. Method Study
23. Cost Audit is
- A. The process of ascertaining that every aspect of a business are managed in the most cost-effective way
  - B. The audit of cost of materials
  - C. A tool used for maximizing the efficiency of employees
  - D. Used to confirm suppliers prices
  - E. A way of building cost of manufacturing
24. A method of budgeting that requires all costs to be specifically justified by the benefits expected is
- A. Flexible budget
  - B. Fixed budget
  - C. Zero-based budgeting
  - D. Functional budget
  - E. Master budget
25. Which of the following budgets is prepared for a long period of time?
- A. Capital expenditure budget
  - B. Materials purchase budget
  - C. Production budget
  - D. Cash budget
  - E. Sales budget
26. A budget is normally prepared for
- A. Quarter
  - B. One year
  - C. Six months
  - D. Fixed years
  - E. A definite period
27. A flexible budget takes into account **ONE** of the following
- A. Variable costs only
  - B. Fixed costs only
  - C. Marginal costs only

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- D. Fixed, variable and semi-variable costs  
E. Semi-variable costs only
28. Which of the following is **NOT** among the main features of standard costing?
- A. Standard cost is a pre-determined cost  
B. It is based on future expectation  
C. It relates to a product, service, process or an operation  
D. It may be expressed in terms of quantity only  
E. It is determined for a normal level of efficiency of operation

**Use the information below to answer questions 29 and 30**

The standard direct labour cost of product MYE is as follows:

6 hours at ₦5 per hour = ₦30 per unit

Actual production was 1,000 units and the direct labour cost was ₦35,750 for 5,500 hours of work.

29. What is direct labour rate variance?
- A. ~~₦8,150~~ A  
B. ~~₦8,250~~ A  
C. ~~₦7,800~~ F  
D. ~~₦9,850~~ F  
E. ~~₦6,750~~ A
30. Determine direct labour efficiency variance.
- A. ~~₦2,500~~ F  
B. ~~₦3,750~~ A  
C. ~~₦4,150~~ F  
D. ~~₦2,650~~ A  
E. ~~₦3,000~~ F

**SECTION A: PART II**  
**(20 Marks)**

**SHORT-ANSWER QUESTIONS**

**ATTEMPT ALL QUESTIONS**

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

1. A standard which represents the level of performance achievable under efficient operating conditions is known as .....
2. DECO Plc manufactures Kate drink. The following data relates to component “Y”
- |                         |              |
|-------------------------|--------------|
| Cost of raw material    | ₦60 per unit |
| Usage of raw material   | 2,000 units  |
| Maximum re-order period | 30 days      |
| Minimum re-order period | 20 days      |

What is the re-order level?

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3. The two classes of fixed production overhead volume variance are ..... and .....
4. The difference between sales value and the marginal cost of sales is known as .....
5. The costing technique whereby fixed costs are treated as period cost and written off in the period they are incurred is called .....
6. From the following data, calculate fixed overhead expenditure variance for the period; actual fixed overhead ₦14,200, budgeted overhead ₦14,400 while the standard overhead is ₦14,560.
7. The process of dividing costs among two or more cost centres in proportion to the benefits received is known as .....
8. The costing method where work is undertaken according to the customer's specification is called .....
9. When the amount of overhead absorbed is less than the amount of actual overhead incurred, it is known as .....
10. Costs that result when a company runs out of a particular item for which there is customer demand is known as .....
11. Materials that are used in small amounts in the manufacturing process or that cannot be easily traced to specific products are called .....
12. Excess of sales revenue over break-even point is otherwise referred to as .....
13. The regulation of the costs of operating a business that is concerned with keeping expenditure within acceptable limits is known as .....
14. The relationship between the number of employees leaving a business and the normal number employed in any given period is called .....
15. When preparing a production budget, the quantity to be produced can be derived from this equation.....
16. The aggregate budget which incorporates all other functional budgets is called .....
17. The number of years required to recoup an original investment is known as .....
18. A product cost estimate derived by subtracting a desired profit margin from a competitive market price is called .....

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19. A company uses an overhead absorption rate of ₦3.50 per machine hour, based on 32,000 budgeted machine hours for the period. The actual overhead expenditure amounted to ₦108,875 and 30,000 machine hours were recorded on actual production. What is the value of overhead absorbed?
20. The purchase price of an item of inventory is ₦25 per unit. The quarterly usage of the item is 20,000 units with 6% of the purchase price as an annual holding costs. The cost of placing an order for the item is ₦20. Determine the Economic Order Quantity for the inventory to the nearest unit.

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

## QUESTION 1

Optimal utilization of labour requires conducting necessary studies on relationship between labour and work methods.

**You are required to:**

- a. Describe briefly the following cost accounting concepts:
- i. Job Evaluation
  - ii. Merit Rating
  - iii. Work Study (4½ Marks)
- b. State the main points of distinction between job evaluation and merit rating. (4 Marks)
- c. Describe briefly the **TWO** techniques of work study. (4 Marks)

**(Total 12½ Marks)**

## QUESTION 2

DEXEL Limited produces a single product which undergoes three processes. The following data in respect of Process 2 are available for December 2014

- i. Opening stock of Work-In-Progress 5,000 units. The degree of completion were:
- |                                 | Amount | Percentage of |
|---------------------------------|--------|---------------|
|                                 | ₦      | Completion    |
| Input Material (from Process 1) | 40,000 | 100%          |
| Material Introduced             | 28,000 | 50%           |
| Labour                          | 16,000 | 65%           |
| Overheads                       | 2,000  | 40%           |
- ii. Units transferred from Process 1 were 21,000 with total cost of ₦232,500. Other cost elements were:

₦

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Material introduced	120,000
Labour	97,500
Overheads	91,000

iii. Closing Work-In-Progress was 3,500 units. The degree of completion were:

	Percentage of Completion
Input Material	100%
Material Introduced	55%
Labour	50%
Overheads	45%

iv. 22,500 units were completed and transferred to process 3.

**You are required to, using FIFO method,**

- Calculate the value of units transferred to Process 3. (5 Marks)
- Calculate the value of Work-In-Progress. (3 Marks)
- Prepare the Process 2 Account. (4½ Marks)

**(Total 12½ Marks)**

## QUESTION 3

You are given the following data from the costing records of TANKO Nigeria Limited:

	₦	₦
Sales		800,000
Variable Costs	400,000	
Fixed Costs	<u>300,000</u>	
		<u>700,000</u>
Profit		<u>100,000</u>

Number of units sold during the period under review is 2,000.

**You are required to:**

- Calculate
  - Contribution per unit (1 Mark)
  - Break-even Point in units (1½ Marks)
  - Break-even Point in sales value (1½ Marks)
  - C/S Ratio (1½ Marks)
  - Number of units to be sold to achieve a profit of ₦150,000 (1½ Marks)
  - Level of sales that will achieve the target profit of ₦150,000 (1½ Marks)
- Mention any **FOUR** assumptions of Break-even analysis. (4 Marks)

**(Total 12 ½ Marks)**

## QUESTION 4

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Write short notes on the following:

- a. Budget manual and its contents (5 Marks)
  - b. Budget committee (4 Marks)
  - c. Budget negotiation (2 Marks)
  - d. Principal Budget Factor (1½ Marks)
- (Total 12 ½ Marks)**

## QUESTION 5

LOVEABLES Nigeria Limited is a local fabricator of tools with branches spread across West Africa. The following are extracted from its books during the last quarter of the year 2014

	₦
Purchases (Cash)	2,000,000
Carriage Inward	15,000
Materials issued	1,250,000
Wages paid (Productive)	1,020,000
Wages paid (Unproductive)	360,000
Works overhead incurred	1,825,000
Materials issued for repairs	10,500
Selling expenses paid	55,000
Office expenses paid	21,000
Cost of completed jobs	6,075,000
Works overhead (Absorbed)	2,050,000

**You are required to:**

Use the information provided above to make journal entries under an integrated accounting system. **(Total 12 ½ Marks)**

## QUESTION 6

- a. What is Cost Accounting? (2½ Marks)
  - b. As a Cost Accounting Technician recently employed by a newly established company, you are required to list **FIVE** roles expected of you in collection, analysis and presentation of cost information. (10 Marks)
- (Total 12½ Marks)**

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**ACCOUNTING TECHNICIANS SCHEME (WEST AFRICA)  
EXAMINATION MARCH 2015  
COST ACCOUNTING**

**SECTION A**

**PART I MULTIPLE-CHOICE QUESTIONS**

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

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

## Workings

$$\begin{aligned} \text{Q29. Direct labour rate} &= \frac{(\text{SR} - \text{AR}) \text{ AH}}{(\text{S} - 6.5) \text{ 5500}} \\ &= 8250\text{A} \end{aligned}$$

$$\begin{aligned} \text{Q30. Direct Labour Efficiency} &= \frac{(\text{SH} - \text{AH}) \text{ SR}}{(6000 - 5500) \text{ 5}} \\ &= \text{R}2,500\text{F} \end{aligned}$$

## EXAMINER'S COMMENTS:

The questions cover a wide area of the syllabus and they were attempted by all candidates. Performance was very good.

## PART II SHORT-ANSWER QUESTIONS

1. Attainable standard
2. 60,000 units
3. Fixed Production overhead efficiency and capacity variances
4. Contribution
5. Marginal costing
6. R200 F
7. Cost apportionment
8. Job costing
9. Under- absorption
10. Stock-out cost

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11. Indirect materials
12. Margin of safety
13. Cost Control
14. Labour Turnover
15. Sales quantity + closing stock of finished goods-opening stock of finished goods
16. Master Budget
17. Payback period
18. Target costing
19. ₦105,000
20. 1,461 units

## Workings

2. Re-order level

= Maximum usage x maximum re-order period

= ( 2000 x 30) = 60,000 units

6. Fixed Overhead Expenditure Variance

(BFO-AFO) = (₦14,400 – ₦14,200) = ₦200 F

19. Overhead absorbed = machine hours worked x overhead absorption rate

= (30,000 x ₦3.50) = ₦105,000

Actual overhead = ₦108,875

Under absorbed = ₦ 3, 875

$$20. \text{EOQ} = \sqrt{\frac{2DCO}{CC}}$$

Where D = Annual demand

CCO= Ordering Cost

CC= holding cost

= Annual demand = 4 x 20,000 = 80,000 units

CC = 6% of ₦25 = ₦1.5

$$= \sqrt{\frac{2 \times 80,000 \times \text{₦}20}{\text{₦}1.5}}$$

$$\sqrt{\frac{3,200,000}{\text{₦}1.5}}$$

= 1,461 units

## **EXAMINER'S COMMENTS:**

The questions cover virtually every major topic in the syllabus and all candidates attempted them. Performance was very impressive as virtually every candidate scored above 50% of the total marks allocated.

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## QUESTION 1

### A. (i) Job Evaluation

It is a systematic and orderly process of analysis and rating of jobs to determine their relative worth. It provides management with a reasonably sound basis for ascertaining the wage and salary structure for different jobs. The idea behind job evaluation is that jobs having similar duties and requirements must carry the same amount of salaries.

### (ii) Merit Rating

It is a systematic assessment of an employee's personality and performance in his job by his superior or other senior person qualified to make such judgment. It rates employees on their individual performances.

### (iii) Work Study

It is a technique of management which involves analytical study of jobs/operations with the object of determining the exact operations to be performed and measuring the work content of jobs. The objective of work study is overall improvement by saving time, reducing loss of materials, developing new methods of work so as to decrease cost.

- B
- (i) Job evaluation rates the job while merit rating rates employees on their jobs.
  - (ii) Job evaluation establishes a rational wage and salary structure for various job positions whereas merit rating helps in fixing fair wages for each worker in terms of his ability and performance.
  - (iii) Job evaluation brings uniformity in wage and salary rates, merit rating seeks to determine a fair rate of pay for different workers on the basis of their performance.
  - (iv) Job evaluation helps in recruitment and training of workers, whereas merit rating helps in placement of the right man for the right job.

### C. Two techniques of work study are

- (i) Methods Study
- (ii) Work Measurement

#### Methods Study

It aims at determining the correct and more effective ways of doing jobs so that methods of production may be improved upon and effective use of existing resources may be made.

#### Work Measurement

It is a technique of establishing normal or standard times after standardization of methods and establishment of a measure for the work contents of jobs or operations.

### EXAMINER'S COMMENTS:

This question tests candidates' understanding of the theory of labour costing. It was attempted by over 80% of the Candidates but performance was just average as less than half of the candidates scored up to half of the marks obtainable. The major problem was lack of preparation in the area of theory.

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## SOLUTION TO QUESTION 2

Cost Element	Completed Units	DEXEL LTD		Total Effective production (Units)	Costs	Cost per unit
		EU in Closing WIP	EU in Opening WIP			
Input material	22,500	3,500	5000	21,000	232,500	11.07
Material introduced	22,500	1925	2500	21,925	120,000	5.47
Labour	22,500	1750	3250	21,000	97,500	4.64
Overheads	22,500	1575	2000	22,075	91,000	4.12
						<u>₦25.30</u>

### b. Calculation of the value of WIP

Input material (100% complete)	3,500 x ₦11.07	₦38,745
Material introduced (55% Complete)	1,925 x ₦5.47	10,530
Labour (50% complete)	1,750 x ₦4.64	8,120
Overhead (45% complete)	1,575 x ₦4.12	<u>6,489</u>
		<u>63,884</u>

### c. Process 2 Account

	Units	₦		Units	₦
Opening WIP	5,000	86,000	Transfer to process 3	22,500	563,116
Transfer from process 1	21,000	232,500	Closing WIP	3,500	63,884
Material introduced		120,000			
Labour		79,500			
Overheads		<u>91,000</u>			
	<u>26,000</u>	<u>627,000</u>		<u>26,000</u>	<u>627,000</u>

### Workings

Total Effective Production	= Completed Units + Equivalent Units in Closing WIP - Equivalent Units in Opening WIP
Input material	22,500 + 3,500 - 5,000 = 21,000 Units
Material introduced	22,500 + 1,925 - 2,500 = 21,925 Units
Labour	22,500 + 1,750 - 3,250 = 21,000 Units
Overheads	22,500 + 1,575 - 2,000 = 22,075 Units

### EXAMINER'S COMMENTS

The question tests candidates' understanding of process Account with emphasis on equivalent units. It was attempted by about 25% of candidates and performance was poor, mainly due to lack of knowledge of the computation of equivalent units. Candidates are advised to get familiar with this topic which is very crucial for manufacturing industries with work in progress at cut-off dates.

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## SOLUTION TO QUESTION 3

A. (i) Contribution per unit = SP-VC

$$\begin{aligned} &= \frac{N800,000}{2,000} - \frac{N400,000}{2,000} \\ &= N400 - N200 \\ &= \underline{N200} \end{aligned}$$

(ii) Number of units to Break even – fixed costs  
Contribution/Units

$$\begin{aligned} &= \frac{N300,000}{200} \\ &= \underline{1,500 \text{ units}} \end{aligned}$$

(iii) Break-even point in sales value =  $\frac{FC}{C/Units} \times SP$

$$\begin{aligned} &= 1,500 \times 400 \\ &= \underline{N600,000} \end{aligned}$$

(iv) C/S Ratio =  $\frac{C/Unit}{SP} \times \frac{100\%}{1} = \frac{200}{400} \times \frac{100\%}{1}$   
= 50%

(v) number of units for the target profit =  $\frac{FC + \text{target profit}}{C/unit}$

$$= \frac{N300,000 + N150,000}{N200} = \frac{N450,000}{N200}$$

$$= \underline{2,250 \text{ units}}$$

(vi) Level of sales for the Target Profit

$$\begin{aligned} &= 2,250 \times N400 \\ &= \underline{N900,000} \end{aligned}$$

B. Assumptions of break-even analysis:

- (i) All costs can be segregated into fixed and variable components
- (ii) Total fixed costs remain constant at all levels of production
- (iii) Total variable cost fluctuates directly in proportion to changes in volume of output but the variable cost per unit remains constant
- (iv) Selling price per unit remains constant and does not change with changes in volume or due to other factors
- (v) The number of units produced and sold is the same so that there is no opening or closing stock.

## EXAMINER'S COMMENTS

This question tests candidates' knowledge of Break-Even analysis. It was attempted by over 90% of the candidates. Performance in part a) which involved calculation was good, but that of part (b) was not too good because it concentrated on the theoretical part of the topic.

## SOLUTION TO QUESTION 4

### (1) Budget Manual

This is an instructional manual that spells out the Budgeting guidelines that the Budget Committee gives to guide departmental heads involved in the preparation of the Budget, so that they follow a particular goal, objective, technique, trend or method of estimating the income and expenditure variables. This budget manual sets out instructions on the responsibilities and procedures of Budget preparation. The contents of the manual should specify the following:

- (i) Objectives of the Budget
- (ii) Functional Budgets to be prepared
- (iii) Membership of the Budget committee
- (iv) Organisational Charts
- (v) Procedure for Budget preparation
- (vi) Budget Time Table
- (vii) Budget Policy guidelines etc

### (2) Budget committee

The committee is made up of members of Senior Management that oversees all budgetary matters. It usually consist of sectional or departmental managers and is usually serviced by the Budget Officer who normally is the Chief Finance Officer. A typical Budget committee includes the Chief Executive Officer, heads of strategic Business units and the Chief Finance Officer.

The functions of Budget Committee includes the following:

- (a) Establish the Budget Time table
- (b) Review budget estimates submitted by sectional heads
- (c) Facilitate the co-ordination of the budgets
- (d) Determine Budget policy guidelines and select budget policies compatible with organizational goals and objectives
- (e) Suggest amendments to Budget and revise budget estimates when necessary
- (f) Approve Budget after the amendments
- (g) Advise top management on all matters concerning the budget.

### 3. Budget Negotiation

Budget negotiation occurs at all levels of the organization and the role of Budget committee in the negotiation is very critical. The departmental heads in charge of the budget units examine the initial budget proposal to see that the proposal is within the budget guidelines. The officers also confirm if the budget goals can be reasonably attained and ensure the consistency with the budget activities.

### 4. Principal Budget Factor

This is otherwise called limiting factor, constraints and key budget factor. It is a factor which at anytime overrides the planning activities of every organization, such as scarcity of materials, low sales demand inadequacy of funds, staffing limitation etc.

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## EXAMINER'S COMMENTS

This question tests candidates' understanding of the theoretical arrears of Budgeting and it was popular among candidates. More than 95% of the candidates attempted the question but performance was just average. Most candidates failed to employ some key words in definitions.

## SOLUTION TO QUESTION 5

### LOVEABLES NIG LTD

Journal entries under integrated accounting system

	N	N
1. Stores Ledger Control Account		
Cash account (Materials purchased in Cash)	2,000,000	2,000,000
2. Stores Ledger Control Account	15,000	
Cash account (Carriage inwards charged to the cost of materials)		15,000
3. WIP Ledger Control Account	1,250,000	
Stores Ledger Control Account (Stores issued to production)		1,250,000
4. Wages Control Account	1,020,000	
Cash (Direct wages paid)		1,020,000
5. Wages control account	360,000	
Cash (Indirect wages paid)		360,000
6. Works overhead control Account	1,825,000	
Cash(Works overhead paid)		1,825,000
7. Works overhead control Account	10,500	
Stores Ledger control Account (Materials issued for repairs charged to works overhead)		10,500
8. Selling and Distribution Overhead control account	55,000	
Cash (Selling expenses paid)		55,000
9. Office and Admin Overhead control Account	21,000	

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Cash (Office expenses paid)		21,000
10 Finished Stock Control Account	6,075,000	
WIP Control Account (Cost of completed output transferred to finished stock)		6,075,000
11 WIP Control Account	2,050,000	
Works overhead control Account (Works overhead absorbed by Production)		2,050,000

## EXAMINERS COMMENTS:

This question tests Candidates' understanding of cost book keeping involving raising of Journals. This question was attempted by about 30% of the candidates and performance was poor. Most candidates did not realize that narration is an integral part of journal entries.

## SOLUTION TO QUESTION 6

- A. Cost Accounting is the application of accounting and costing principles, methods and techniques in the ascertainment of cost and the analysis of savings and or excesses as compared with previous experience or standard  
OR  
Cost Accounting may be defined as the process of measuring, analyzing, computing and reporting the cost, profitability and performance of operations
- B. Roles of Accounting technicians in collection, analysis and presentation of cost information are as follows:
1. Ensure that established formats for data compilation are being correctly followed at the various levels.
  2. Check the accuracy of figures supplied through reasonableness checks or other independent sources.
  3. Monitor the regularity of entry data to ensure timeliness
  4. Raise flags where extraneous or extraordinary figures are presented
  5. Prepare summaries of raw data collected showing the results from various perspectives to give a total picture. For example, sales by branch, sales by salesman, sales by period etc would reveal the total sales figures from different perspectives.
  6. Draw summaries in a simple, straightforward and concise manner for busy executives.
  7. Pre-empt questions by providing explanatory notes on the trends and movement observed in his reports.

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## **EXAMNIER'S COMMENTS**

This question tests candidates understanding of basic introduction to cost accounting. It was attempted by almost all the candidates and performance was very good as almost 90% of the Candidates scored 50% of the marks allotted and above

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AT/151/PIII.11

ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA  
ACCOUNTING TECHNICIANS SCHEME  
PART III EXAMINATIONS - MARCH 2015  
PREPARING TAX COMPUTATION AND RETURNS  
(NIGERIA VERSION)

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:

- Under the Capital Gains Tax, which of the following is **NOT** allowable?
  - Cost of acquisition of an asset
  - Improvement cost incurred on the asset
  - Cost incurred to defend ownership of the asset
  - Advertisement cost to find a seller/buyer
  - Gains arising from part disposal of the asset
- Which of the following is **NOT** regarded as a connected person under Capital Gains Tax?
  - A partner in a partnership business
  - A trustee of a settlement with the settler
  - A husband and wife
  - An individual and a third party transaction
  - A corporate organization and the Managing Director
- Which of the following is **NOT** a source of tax laws in Nigeria?
  - Constitution
  - Practices of the Revenue Department
  - Circulars issued by the Federal Ministry of Finance
  - Court judgments until overruled
  - Accepted recommendations of a Commission of Inquiry
- The failure to keep proper records by a vatable person attracts the penalty of
  - ₦2,000 for every month in which the failure continues
  - ₦5,000 for every month in which the failure continues
  - ₦5,000 only
  - ₦5,000 per annum

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- E. ₦10,000 for the first month and ₦5,000 for each subsequent month
5. Which of the following is **NOT** the function of the Commissioner of Stamp Duties?
- A. Adjudication
  - B. Arrest of tax offenders
  - C. Assessing the instruments and imposing penalties
  - D. Stamping or embossing the instruments
  - E. Keeping custody of the stamping instruments
6. Which of the following is **NOT** a benefit of adjudication?
- A. It shows the genuineness of the instruments
  - B. It satisfies the statutory requirements
  - C. The instrument is admissible for all purposes notwithstanding any objective as to the duty required to be paid
  - D. It confers Tax Clearance Certificate to the payer
  - E. It prevents dispute over the stamp duties officer's opinion of the correct amount
7. A company must have carried on business for at least ..... before "Minimum Tax Provisions" are applied
- A. 3 calendar years
  - B. 30 months
  - C. 12 months
  - D. 2 calendar years
  - E. 4 calendar years
8. The tax system in any country depends on the ..... of the country
- A. Economic structure
  - B. Social structure
  - C. Political structure
  - D. Central Bank
  - E. Complementary structure
9. Which of the following does **NOT** require presentation of a Tax Clearance Certificate?
- A. Admission of students into public secondary schools
  - B. Application for fire arms licence
  - C. Application for approval of building plans
  - D. Application for transfer of real property
  - E. Application for distributorship

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10. Which of the following may **NOT** be included in the Notice of Appeal?
- A. Official number and the date of the relevant notice of assessment
  - B. The amount of the assessment
  - C. Grounds of Appeal
  - D. Age of the applicant
  - E. Address for service of any notice
11. Which of the following must **NOT** be included in the Notice of assessment sent by the tax authority to the taxable person?
- A. Amount of any assessable, total or chargeable income
  - B. Development levy as it relates to the taxpayer
  - C. Place at which payment should be made
  - D. Rights of objection
  - E. Tax charged
12. Renewal fee for business premises in rural areas is
- A. ₦2,000
  - B. ₦5,000
  - C. ₦2,500
  - D. ₦1,000
  - E. ₦3,000
13. The following extract relates to the business of Amanda Limited, a company registered in Nigeria, for the year ended September 30, 2014
- |              |         |
|--------------|---------|
|              | ₦       |
| Net profit   | 650,000 |
| Depreciation | 25,000  |
- Amanda's Education tax liability for the relevant year of assessment is
- A. ₦13,500
  - B. ₦12,500
  - C. ₦6,250
  - D. ₦6,750
  - E. ₦13,000
14. Interest charged in addition to the penalty for late or non-remittance of Withholding tax, is at the ruling commercial rate of
- A. 10%
  - B. 21%
  - C. 15%
  - D. 5%
  - E. 20%

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15. Nigeria tax laws and practices were derived from.....
- A. Scotland
  - B. America
  - C. Britain
  - D. France
  - E. Mexico
16. Which of the following is a tax base that is in use in Nigeria?
- A. Capital and income only
  - B. Capital and consumption only
  - C. Income only
  - D. Capital, income and consumption
  - E. Consumption and income only
17. Penalty for late or non-remittance of Withholding tax for companies is ..... of tax not deducted or remitted
- A. 15%
  - B. 10%
  - C. 5%
  - D. 20%
  - E. 7.5%
18. Given a withholding tax rate of 10% on dividend, what is the withholding tax deducted from a dividend of ₦8,550 (net) received by Mrs. O. Bello from Zic Bank Plc.?
- A. ~~₦427~~
  - B. ~~₦855~~
  - C. ~~₦950~~
  - D. ~~₦550~~
  - E. ~~₦850~~
19. Where a company has not commenced business after at least six months since its incorporation, it shall for each year it obtains a Tax Clearance Certificate pay pre-operational levy of ..... for the first year
- A. ~~₦20,000~~
  - B. ~~₦25,000~~
  - C. ~~₦15,000~~
  - D. ~~₦35,000~~
  - E. ~~₦30,000~~

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20. The National Information Technology Development Agency Act (NITDAA) imposes a levy of ..... on the profit before tax of companies listed in the third schedule to the Act
- A. 2%
  - B. 3%
  - C. 4%
  - D. 5%
  - E. 1%
21. In partnership business, the income of a partner does **NOT** include
- A. Domestic expenses of the partner
  - B. Interest on capital charged in the accounts
  - C. Remuneration charged in the partnership accounts
  - D. Private passage costs to or from Nigeria charged in the partnership accounts
  - E. Share of partnership income apportioned to him as per the Partnership Deed
22. Sule Abore Limited commenced business on May 1, 2012 and makes up its accounts annually to April 30. Compute the Assessable profit for the 2<sup>nd</sup> year. The adjusted profits are as follows
- Year Ended April 30, 2013 ₦240,000  
Year Ended April 30, 2014 ₦210,000
- A. ₦160,000
  - B. ₦240,000
  - C. ₦210,000
  - D. ₦180,000
  - E. ₦90,000
23. A company which has incurred an expenditure in its qualifying building and plant equipment in an approved manufacturing activity in an export processing zone shall be granted .....
- A. 100% Capital allowance
  - B. 100% Initial allowance in any year of assessment
  - C. 100% Annual allowance in any year of assessment
  - D. 100% Investment allowance in any year of assessment
  - E. 10% Rural investment allowance in any year of assessment
24. A company's income tax assessment may be based on the return submitted by it, but where the returns have not been filed or has been rejected, the tax authority may raise a ..... assessment
- A. Judgment of best
  - B. Judgment best of
  - C. Best of judgment
  - D. Of judgment best

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- E. Best judgment of
25. Which of the following is **NOT** a power of distraint of the tax authorities'?
- A. The assessment must be final and conclusive
  - B. The distraint may be on the goods or other chattels, bonds or other securities of the tax payer
  - C. They may be on any land, premises, or place in respect of which the tax payer is the owner
  - D. An application to this effect must be made to the High Court to obtain warrant
  - E. The assessment must be provisional
26. In Nigeria, the administration of Personal Income Tax Act CAP P8 LFN 2004 (as amended) is vested in the .....
- A. Federal Inland Revenue Service
  - B. State Board of Internal Revenue
  - C. Local Board of Internal Revenue Service
  - D. State Internal Revenue Generation Service
  - E. Federal Board of Internal Revenue Service
27. When there is a change of accounting date, the Revenue has the power to compute the assessable income of the year of assessment in which the change occurs and the ..... following that in which the change occurs.
- A. Next one year of assessment
  - B. Previous year of assessment
  - C. Next two years of assessment
  - D. Next three years of assessment
  - E. Next five years of assessment
28. Minimum tax conditions will apply to a company when
- A. It makes profit for the previous five years
  - B. Minimum tax liability is less than its normal tax liability
  - C. Minimum turnover is higher than ₦500,000
  - D. It has no total profit and has been in business for over four calendar years
  - E. The company has been in business for the past three years
29. Investment Allowance is an incentive granted for qualifying capital expenditure ..... time(s) in the life of an asset.
- A. Four
  - B. Two
  - C. Five
  - D. Six
  - E. Once

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30. Under **PAYE** Scheme, which of the following is **NOT** a benefit-in-kind?
- A. Free company car
  - B. Rented or hired equipment used by the employee
  - C. Asset in the accommodation provided by the employer
  - D. Salary received
  - E. Electricity bills paid by the employer

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

**ATTEMPT ALL QUESTIONS**

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

1. Legal expenses of revenue nature relating to the collection of trade debts are allowable deductions (**TRUE** or **FALSE**)
2. The normal basis of assessment of a company's profits from a trade or business is the .....
3. A temporary suspension of business activities is deemed to be cessation of business. (**TRUE** or **FALSE**)
4. There are two principal classes of assessments, namely ..... and .....
5. Tax system includes tax laws, ..... and tax administration.
6. The process of levying and collection of tax from taxable person is known as .....
7. The rate of rural investment allowance relating to water provided at least 20 kilometres away from such facilities provided by the government is .....
8. The Education Tax due from Bibilari Limited whose Assessable profit was ₦54m in 2014 year of assessment is .....
9. Stamp duties of instruments and documents are managed by .....
10. Failure by a vatable person to issue tax invoice attracts ..... percent of the cost of the goods and services.
11. Artificial transactions ..... the amount of any Capital Gains Tax payable to the relevant tax authority.
12. The penalty of non-remittance of tax attracts a sum equal to ..... percent per annum plus interest at a commercial rate of the tax remittable.

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13. Tax Appeal Tribunal is established by the Minister of Finance or State Commissioner of Finance by notice in the .....
14. Taxation is a ..... levy imposed on a subject or upon his property by the government to provide security, social and other amenities for the well being of the society.
15. The tax legislation relating to Education Tax in Nigeria is .....
16. The relevant tax authority at which any vatable person should register is .....
17. A sum payable by way of interest, rent for accounting period, expenses incurred for repair of premises, are ..... in ascertaining income derived from trading concern.
18. Allowable donation must be made out of .....
19. The relevant tax authority in respect of Withholding tax .....
20. Who appoints the Executive Chairman of the Federal Inland Revenue Service Board?

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

## QUESTION 1

- a. List the disclosures on the Tax Clearance Certificate in respect of the last three years of assessment. (2 Marks)
  - b. Enumerate **NINE** transactions requiring presentation of a Tax Clearance Certificate. (4<sup>1</sup>/<sub>2</sub> Marks)
  - c. State **SIX** duties of the Federal Inland Revenue Service Board. (6 Marks)
- (Total 12<sup>1</sup>/<sub>2</sub> Marks)**

## QUESTION 2

- a. Mr. Ayo acquired a property in 2006 from Mr. Walterman for ₦860,000. The house was built in 1992 at a cost of ₦350,000. The State Agent was paid ₦129,000 on the transaction. In 2011, Mr. Ayo decided to dispose of the property. The following expenses were incurred: Advertisement cost – ₦35,000; renovation expenses – ₦350,000; and titled documents – ₦1,220,000. The property was sold for ₦2,500,000 in December 2011.

### Required:

- Calculate the Capital Gains Tax for both Mr. Ayo and Walterman. (7 Marks)
- b. Bamioluola Limited is a small scale manufacturer of nails who registered for Value Added Tax purposes. During the year 2014, the company purchased its major inputs for ₦500,000. The company expended ₦150,000 in the process of converting the input materials into finished products for resale. At the end of the year, only 60% of the total cost of the finished

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products was sold at ₦480,000. The seller of the major input products is also a registered company for Value Added Tax purposes.

**Required:**

Compute the total Value Added Tax payable for the year ended December 31, 2014.

(5½ Marks)

**(Total 12½ Marks)**

### QUESTION 3

The normal basis of assessment of a company's profit from a trade or business is the preceding year basis.

A basis period that does not satisfy the conditions stated above is an abnormal basis period.

**Required:**

- a. State any **TWO** circumstances/situations that do **NOT** satisfy normal basis of assessment of a company's profits from a trade or business. (2 Marks)
- b. Identify how the Assessable profits of the abnormal basis period are determined. (3½ Marks)
- c. State **THREE** conditions that must be satisfied for a normal basis period to hold. (3 Marks)
- d. Temporary suspension of business activities is not deemed to be cessation of business. Cessation of business means a permanent stoppage of business operations. State **FOUR** circumstances that could lead to cessation of a business. (4 Marks)

**(Total 12½ Marks)**

### QUESTION 4

- a. The Board of Trustees of Tertiary Education Trust Fund is vested with the management and administration of the fund.

**Required:**

- i. State the composition of the Board. (2 Marks)
  - ii. Briefly explain the tenure of office of the Board of Trustees (2½ Marks)
- b. Explain briefly the following:
    - i. An indirect tax
    - ii. Tax policy
    - iii. Proportional tax
    - iv. Tax Administration

(8 Marks)

**(Total 12½ Marks)**

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## QUESTION 5

The accounting year-end of Danladi Enterprises is March 31, every year. The following is the statement of profit or loss and other comprehensive income for the year ended 2012.

	₦	₦
Gross profit for the year		5,000,000
Less: Expenses		
Salaries	1,500,000	
Advertisement	600,000	
Bad debts provisions	240,000	
Motor vehicle expenses	200,000	
Loss on sale of machinery	80,000	
Interest on loan	35,000	
Depreciation	480,000	
General expenses	280,000	
Repairs	180,000	
Donations	70,000	
Legal expenses	40,000	
Rent	60,000	
Entertainment	<u>70,000</u>	<u>3,835,000</u>
Profit for the year		<u>1,165,000</u>

Additional information:

i.

	₦
Salaries:	
Mr. Danladi	600,000
Mr. Danladi's Cook	60,000
Manager's salary	300,000
Mr. Danladi's gardener	60,000
Others	<u>480,000</u>
	<u>1,500,000</u>

ii. 25% of the building is occupied by Mr. Danladi

iii. Entertainment:

	₦
Customer	60,000
Friends	<u>10,000</u>
	<u>70,000</u>

iv. Bad debts are for general and specific provisions of 60% and 40% respectively.

v. Legal Expenses:

	₦
Defence of title to land	10,000
Tax disputes	15,000
Debt recovery	<u>15,000</u>
	<u>40,000</u>

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vi. ₦20,000 out of the general expenses was the amount paid for installation of the generator.

	₦
vii. Advertisement in Newspapers and Radio	500,000
Neon sign	<u>100,000</u>
	<u>600,000</u>

**Required:**

Compute the adjusted profit of Danladi Enterprises for 2013 Year of Assessment.

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

**QUESTION 6**

The tax payer, if aggrieved by the Notice of Refusal to Amend, should file a notice of appeal to the Tax Appeal Tribunal within 30 days of the receipt of the Notice of Refusal to Amend.

**Required:**

a. List **FIVE** information usually included in a valid Notice of Appeal. (5 Marks)

b. State **THREE** powers and **THREE** duties of an Inspector of taxes. (7<sup>1</sup>/<sub>2</sub> Marks)

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

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## NIGERIA TAX RATES

### 1. CAPITAL ALLOWANCES

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

### 2. INVESTMENT ALLOWANCE

10%

### 3. RATES OF PERSONAL INCOME TAX:

Graduated tax rates with consolidated allowance of ₦200,000 or 1% of gross income whichever is higher plus 20% of gross income.

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

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

### 4. COMPANIES INCOME TAX RATE

30%

### 5. EDUCATION TAX

2% (of assessable profit)

### 6. CAPITAL GAINS TAX

10%

### 7. VALUE ADDED TAX

5%

# INSIGHT

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## SECTION A

### PART I MULTIPLE-CHOICE QUESTIONS

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

### EXAMINER'S COMMENT

The Multiple Choice Questions (MCQs) covered every aspect of the syllabus. All the candidates attempted the questions; and the general performance was above average.

### PART II SHORT-ANSWER QUESTIONS

1. True
2. Preceding year basis
3. False
4. Self assessments, Government assessment
5. Tax policy
6. Taxation
7. 30%
8. ₦1,080,000

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9. Commissioner for stamp duties
10. 50%
11. Reduce
12. 10%
13. Gazette
14. Compulsory
15. Education Tax Act Cap E4 LFN 2004 (as amended)
16. Federal Inland Revenue Service
17. Allowable deductions
18. Profit
  
19. Federal Inland Revenue Service
20. The President of the Federal Republic of Nigeria

## EXAMINER'S COMMENT

All the candidates also attempted the Short Answer Questions (SAQs), but the general performance was below average.

## SOLUTION 1

- a.
  - i. Total profits or chargeable income
  - ii. Tax payable
  - iii. Tax paid and
  - iv. Tax outstanding or statement to the effect that no tax is due
  - v. Name of tax payer
  - vi. Period covered
  
- b.
  - i. Application for approval of building plan
  - ii. Application for firearms licence
  - iii. Application for government loan for industry or business
  - iv. Application for trade licence
  - v. Application for awards of contracts by government and its agencies
  - vi. Application for certificate of occupancy
  - vii. Application for foreign exchange
  - viii. Registration of motor vehicles and change of vehicle ownership
  - ix. Application for allocation of market stalls
  - x. Application for import or export licence
  - xi. Application for distributorship
  - xii. Application for plot of land
  - xiii. Application for registration of a limited liability company or of a business name
  - xv. Application for guarantor's form for Nigerian Passport
  - xvi. Application for transport for real property
  - xvii. Appointment or election into public office
  - xviii. Stamping of the amount of loan capital
  - xix. Stamping of a statement, the nominal share capital of a company to be registered and any increase in the registered share capital if any

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**c. Duties of Federal Inland Revenue Services:**

- i. Advising the Federal Government through the Minister of Finance on Tax matters
- ii. Issuing instructions on the financial aspects of assessment
- iii. Assessment and collection of Companies Income Tax
- iv. Employ and determine the terms and conditions of service of the employees of the service
- v. Reviewing and approving the strategic plans of the service
- vii. Do such other things, which in its opinion are necessary to ensure the efficient performance of the functions of the service under the Act.

**EXAMINER'S COMMENT**

This is a three-part theory question. Parts 'a' and 'b' tested candidates' knowledge on Tax Clearance Certificate, whilst part 'c' deals with the Federal Inland Revenue Service Board. About 90% of the candidates attempted the question; and the general performance was above average.

**SOLUTION 2**

**COMPUTATION OF CAPITAL GAINS TAX**

		N	N
1.	<b><u>WALTERMAN</u></b>		
	Sales proceeds		860,000.00
	Less: Cost of building	350,000.00	
	State agent expenses	<u>129,000.00</u>	
			<u>479,000.00</u>
			<u>381,000.00</u>
	Capital Gains Tax @ 10% (N381,000 x 10%)		<u>38,000.00</u>
2.	<b><u>AYO</u></b>		
	Sales proceeds		2,500,000.00
	Less: Cost of building	860,000.00	
	Advertisement	35,000.00	
	Renovation expenses	350,000.00	
	Title defence	<u>1,220,000.00</u>	
			2,465,000.00
			<u>35,000.00</u>
	Capital Gains Tax @ 10% (N35,000 x 10%)		<u>3,500.00</u>

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b.

**Bamioluola Limited**  
**Computation of the Total VAT Payable for the year ended 31<sup>st</sup> December 2012**

<b>OUTPUT VAT</b>		N
N480,000 x 10%	=	48,000,00
Less:		
<b>INPUT VAT</b>		
$\frac{10}{110} \times \text{N}500,000$	=	<u>45,454.54</u>
Total VAT payable	=	<u>2,545.46</u>

**NB**

Cost of Output amounting to N500,000 is inclusive VAT

∴ the N500,000 is equivalent to 110%

$$\therefore \frac{10}{110} \times \frac{500,000}{1}$$

$$= \text{N}45,454.54$$

**EXAMINER'S COMMENT**

This is a standard computation question on Capital Gains Tax and Value Added Tax. About 70% of the candidates attempted the question. The general performance was satisfactory.

**SOLUTION 3**

a. Abnormal basis period is seen or found in the following situations:

- i. Commencement of a trade or business
- ii. Cessation of a trade or business; and
- iii. Change of accounting date

b. Where a company commences to carry on a trade or business, its assessable profits from the trade or business for the first three years of assessment are determined/ascertained as follows:

**i. First year of assessment**

The assessable profits shall be the profits of that year from the date of commencement to 31<sup>st</sup> December of the same year.

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- ii. **Second year of assessment**  
The assessable profits shall be the amount of the profits of one year from the date of commencement of the trade or business i.e. the profits of the first twelve months.
  - iii. **Third year of assessment**  
The assessable profits shall be the profits of the year immediately on the normal accounting period of twelve months ending in the year preceding the year of assessment.
- c. According to the CITN (2008); the normal basis period is a period which satisfies the following conditions:
- i. The accounting period must not be more or less than twelve months duration.
  - ii. The accounting period must be the one that ended in the preceding tax year.
  - iii. The accounting period must commence on a day immediately following that of the previous accounting period.
  - iv. A company must not change its accounting date.
- d. **Some circumstances that could lead to cessation of business include:**
- i. Merger of companies
  - ii. A change in government legislation/policy
  - iii. Where a business loses its source of raw materials or the market for its product
  - iv. If a company has serious and continuous liquidity problems
  - v. If the business is set up for the purpose of executing a particular project, however, the business ceases to exist at the end of the project
  - vi. Voluntary or involuntary liquidation of a company will end the life of that company; and
  - vii. If a business is set up for a single adventure or undertaking by the termination of that adventure or undertaking, the business may have to cease.

## EXAMINER'S COMMENT

This is a good question on Basis of Assessment. About 90% of the candidates attempted the question; and the general performance was above average.

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## SOLUTION 4

a.

- i. The following are the composition of the Board of the Tertiary Education Trust Fund:

- ✓ A Chairman
- ✓ Six persons each representing the six geo-political zones of the country
- ✓ The Accountant-General of the Federation
- ✓ A representative of:
  - The Minister of Education
  - The Vice-Chancellors of the Nigerian Universities
  - Rectors of the Polytechnics in Nigeria
  - Provosts of the Colleges of Education in Nigeria
  - The National Chamber of Commerce, Industry, Mines and Agriculture (NACCIMA)
  - The Manufacturers Association of Nigeria (MAN)
  - The Academic Staff Union of Universities (ASUU)
  - The Colleges of Education Academic Staff Union (COEASU)
  - The National Union of Teachers (NUT)
  - The Association of Nigerian Principals of Secondary Schools (ANCOPSS) and
- ✓ The Executive Secretary of the Fund who shall serve as the Secretary,

- ii. **The tenure of office of the Board of Trustees**

Each member other than the ex-officio members shall hold office for a term of four years in the first instance and may be eligible for appointment for a further term of four years and no more.

b.

- i. **An indirect tax**

These are taxes on goods or services. They are sometimes referred to as expenditure taxes. The burden of this tax can be shifted wholly or partly to another person depending on the elasticity of the goods. Examples include, Value Added Tax, EXCISE Duties, Import Duties, Export Duties and Etcetera.

- ii. **Tax policy**

Policies are general statements of intention that guide the thinking and action of all concerned towards the realization of the set objectives. The following are the consistent tax policies of Nigeria since 1992:

- ✓ Pursuance of a low regime with the aim of reducing individual tax burden and thereby encouraging savings and investment.
- ✓ Deliberate movement of emphasis from income to consumption tax, which is less prone to tax evasion.

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- ✓ Introduction of the self-assessment scheme to encourage taxpayer's participation in the tax assessment process, which is considered to be more democratic in nature and realistic in approach.
  - ✓ Movement from the traditional coercive method of taxation to voluntary compliance; and
  - ✓ Using the due process of law and the mechanism of an efficient tax administration to curb tax evasion and avoidance.
- iv. **Proportional tax**  
A tax system is regarded as being proportional when the same rate is charged on every taxpayer irrespective of the amount or size of the income.
- v. **Tax administration**  
The three tiers of government in Nigeria, that is, the Federal, the State and the Local Government are charged with tax administration in Nigeria. The tax authorities of these three tiers of government derive their creation from the federal laws and they include:
- ✓ The Federal Tax Authority – The Federal Board of Inland Revenue (FBIR)
  - ✓ The State Tax Authority – State Board of Internal Revenue (SBIR)
  - ✓ The Local Government Tax Authority – Local Government Revenue Committee
  - ✓ Joint Tax Board
  - ✓ Joint State Revenue Committee

## EXAMINER'S COMMENT

This is a two-part question. About 98% of the candidates attempted the questions. The performance in part (a), which is on Board of Trustees of Tertiary Education Fund, was satisfactory. However, the general performance in part 'b', which is on Indirect Tax, Tax Policy, Proportional Tax and Tax Administration, was below average.

# INSIGHT

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## SOLUTION 5

### DANLADI ENTERPRISES COMPUTATION OF ADJUSTED PROFIT FOR 2013 YEAR OF ASSESSMENT

	N	N
Net profit for the year		1,165,000.00
Add back:		
Salaries		
- Mr. Danladi's Cook	60,000.00	
- Mr. Danladi's gardener	60,000.00	
Rent (25% x N60,000)	15,000.00	
Depreciation	480,000.00	
Loss on sales of machines	80,000.00	
Entertainment of friends	10,000.00	
Bad debts provisions (60% x N240,000)	144,000.00	
Legal expenses – Tax dispute	15,000.00	
Installation of generator	20,000.00	
Neon sign	<u>100,000.00</u>	
		<u>984,000.00</u>
Adjusted profit		<u>2,149,000.00</u>

## EXAMINER'S COMMENT

This is a straight-forward question on computation of Adjusted Profit. About 65% of the candidates attempted the question; and the general performance was good.

## SOLUTION 6

- a. Notice of Appeal shall specify the following specific particulars:
- i. The official number of the assessment and the year of assessment for which it was made
  - ii. The amount of the tax charged by such assessment
  - iii. The amount of the total profit upon which such tax was charged as appearing in the Notice of Assessment
  - iv. The date upon which the appellant was served with Notice of Refusal by the FIRS to amend the assessment as desired
  - v. The precise grounds of appeal against the assessment, but such grounds shall be limited to the grounds stated by the appellant in its Notice of Objection
  - vi. An address for service of any notices, receipts or other documents to be given by the Secretary to the Tax Appeal Tribunal. Provided that at any time the appellant may give notice to such Secretary and to the FIRS, by delivering the same by registered post, of a change of such address but any such notice shall not be valid until delivered or received.

# INSIGHT

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b. The following are the powers and duties of Inspectors of Taxes:

i. **Powers**

- ✓ Make and issue assessments, based on the returns, on which tax is payable.
- ✓ Receipt and examination of tax returns and other information from tax payers and other sources.
- ✓ If no return is received or the information therein is suspected to be false, they issue estimated assessments known as Best of Judgment (BOJ) assessments.
- ✓ Power to issue additional assessment.
- ✓ Distain defaulting taxpayer of their assets.

ii. **Duties**

- ✓ Represent the Service or Board i.e. FIRS or SBIR at the hearing of tax appeals.
- ✓ Deal with claims for repayment when the taxpayers have overpaid tax.
- ✓ The Inspectors of taxes are also connected with the PAYE systems by issuing tax deduction cards and exercising a general oversight of administration by employers.

## EXAMINER'S COMMENT

This is a standard and simple question. About 90% of the candidates attempted the question. The candidates scored good marks in part 'a', which is on Notice of Appeal, but they performed below average in part 'b', which is on Duties and Powers of Inspector of Taxes.

# INSIGHT

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AT/151/PIII.12

ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA  
ACCOUNTING TECHNICIANS SCHEME  
PART III EXAMINATION - MARCH 2015  
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. Which of the following is **NOT** related to the objectives of a business?
  - A. Satisfaction of needs
  - B. Solving the problems of scarcity
  - C. Organizing set of activities
  - D. Compulsory social responsibility
  - E. Creation of wealth
  
2. Which of these is an importance of profit in business ?
  - A. To create employment opportunity
  - B. To raise the standard of living of the society
  - C. To solve the problems of the society
  - D. To serve as a means of evaluating the performance of business
  - E. To create competitive environment.
  
3. Which of these is contained in a memorandum of association/articles of association?
  - A. How meetings are conducted, notices and voting
  - B. The right of Shareholders during annual general meetings
  - C. The businesses or objects of the company
  - D. The process of liquidation of the company
  - E. How stock is issued
  
4. Which of these is **NOT** an ingredient of an ethical individual?
  - A. Integrity
  - B. Role modeling
  - C. Honesty
  - D. Treat people rightly
  - E. Fair play

# INSIGHT

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5. The disadvantages of sole proprietorship are the following **EXCEPT**
- A. Limited capacity to face serious competition
  - B. Lack of continuity
  - C. Secrecy of business operations
  - D. Overwhelming time commitment
  - E. Limited scope for economies of sale
6. Which of these is **NOT** an advantage of records filing?
- A. Provision of valuable information
  - B. Reasonable cost
  - C. Allowing for efficient correspondence
  - D. Easy reference
  - E. Prompt decision
7. Which of the following is **NOT** a benefit of good office lighting?
- A. Increase in output
  - B. Reduction of mistakes
  - C. Reduction of eye strain
  - D. Improvement in office cleanliness
  - E. Reduction of wastage
8. When goods are sold to a customer, their prices are printed by the machine on the cash memo given to the customer and the cash against sale is also retained in the machine. This machine is called
- A. Book keeping machine
  - B. Cash register machine
  - C. Dictaphone machine
  - D. Receipt printing machine
  - E. Invoice printing machine
9. The attainment of organizational goals by the efficient and effective use of resources is referred to as
- A. Management skill
  - B. Performance
  - C. Management function
  - D. Incubator
  - E. None of the above

# INSIGHT

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10. An ..... is a goal-directed and deliberately structured social entity
- A. Organization
  - B. Entity
  - C. Administration
  - D. Authority
  - E. Information
11. A form of organization characterized by division of labour, a clearly defined hierarchy, detailed rules and regulations and impersonal relationships is
- A. Bureaucracy
  - B. Behavioral approach
  - C. Management Science
  - D. Management perspectives
  - E. None of the above
12. The communication process can be distorted by
- A. Lie
  - B. Noise
  - C. Trouble
  - D. Stimulus
  - E. Medium
13. When information flows from lower to higher levels within an organizational hierarchy, it is called ....
- A. Formal channel
  - B. Informal channel
  - C. Upward communication
  - D. Downward communication
  - E. Horizontal Communication
14. The general environmental factor that may hinder a company's efforts to achieve strategic competitiveness is
- A. Opportunity
  - B. Scanning
  - C. Assessing
  - D. Threat
  - E. Forecasting

# INSIGHT

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15. Which of the following is **NOT** a reason to resist change?
- A. Uncertainty about the causes and effect of change
  - B. Unwillingness to give up the present benefit
  - C. Where the change is not properly planned
  - D. Preference for present status rather than change
  - E. Ensuring for effective plan for the change
16. Which of the following is **NOT** a selection process?
- A. Medical evaluation
  - B. Interview
  - C. Employment test
  - D. References check
  - E. Emotional assessment
17. A training technique that involves moving a trainee from a department to another department to broaden the employee's experience is
- A. Succession training
  - B. Off- the- job training
  - C. Job rotation
  - D. Action training
  - E. Role playing
18. Which of the following is **NOT** a procedure used by managers to identify training needs?
- A. Analysis of job requirements
  - B. Organizational analysis
  - C. Survey of human resources
  - D. Performance appraisal
  - E. Different standards
19. Which of the following is **NOT** an objective of compensation management?
- A. To attract qualified manpower
  - B. To motivate the employees
  - C. To retain the workers, thus reducing the rate of labour turnover
  - D. To improve the standard of living of the workers
  - E. To ensure wages and salaries align with other sector

# INSIGHT

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20. Which of the following is **NOT** categorized as extrinsic motivation?
- A. Salary and fringe benefits
  - B. Promotion
  - C. The work environment
  - D. Recognition on the job
  - E. Conditions of work
21. Which of the following theories of leadership holds that there are certain innate characteristics that can determine successful leadership?
- A. Great man theory
  - B. Initiative theory
  - C. Traits theory
  - D. Competency theory
  - E. None of the above
22. Plans that are generally developed by top management in consultation with the Board of Directors is known as
- A. Operational plans
  - B. Functional plans
  - C. Strategic plans
  - D. Segment plans
  - E. Action plans
23. In the structure of decision making, the first step is known as
- A. Development of alternatives
  - B. Selection of alternatives
  - C. Identification of the problem
  - D. Implementation of alternative
  - E. Analysis of alternatives
24. The management function which serves as linkage of activities of the various departments of the organization is called
- A. Organising
  - B. Coordination
  - C. Controlling
  - D. Motivating
  - E. Directing

# INSIGHT

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25. The first element of an organizational control system is known as .....
- A. Monitoring actual performance
  - B. Comparing and establishing deviations
  - C. Setting objectives and targets
  - D. rectifying mistakes
  - E. taking corrective actions
26. Which of the following is **NOT** a type of production system?
- A. Continuous production system
  - B. Mass production
  - C. Batch production system
  - D. Jobbing production system
  - E. Industrial production system
27. The production concept which answers questions on what products to produce and when to produce them is known as
- A. Dispatching
  - B. Scheduling
  - C. Routing
  - D. Planning
  - E. Layout
28. Which of the following is **NOT** a factor that influences location of an industry?
- A. Nearness to raw materials
  - B. Nearness to the market
  - C. Nearness to recreational facilities
  - D. Nearness to labour supply
  - E. Nearness to basic infrastructures
29. The visibly poor, educationally poor and unskilled labourers are socially classified as the
- A. Upper uppers
  - B. Upper middle
  - C. Lower uppers
  - D. Lower lowers
  - E. Upper Lowers
30. Information collected for the specific purpose at hand comes from.....
- A. Demographic data
  - B. Secondary Data
  - C. Primary data
  - D. Online data
  - E. None of the above

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**SECTION A: PART II:  
Marks)**

**SHORT-ANSWER QUESTIONS**

**(20**

**ATTEMPT ALL QUESTIONS**

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

1. A form of business organization established by unlimited number of persons, who voluntarily associate themselves together on the basis of equality of voting right for a common purpose, based on some internationally accepted principle is.....
2. A type of office layout which is a large floor space where all categories of officers operate is.....
3. A record maintained to monitor the movement of workers in and out of their work environment is.....
4. A written account of something that is kept so that it can be looked at and used in the future is.....
5. The practice of moving people from job or from department to department or from one branch to another with a view to exposing them to new challenges and diversified skills is.....
6. The process that involves negotiations about working conditions and terms of employment between an employer, a group of employers and one or more employers' organizations on the one hand and one or more representatives of workers' organizations on the other hand, with a view to reaching agreements is .....
7. When a worker faces too many separate roles or too great a variety of expectations and is unable to meet satisfactorily all expectations, he is said to be experiencing .....
8. A proactive strategy aimed at tackling every health and safety risk at the work place which includes identifying hazards and the risks attached to them is.....
9. A specific plan for spending your income is called.....
10. The management function that involves defining goals, establishing strategies for achieving those goals is known as.....
11. The process of linking the activities of the various departments of an organization is known as.....
12. Plans that apply to the entire organization, establish the organization's overall goals are known as.....
13. Setting a high price for a new product to skim maximum revenues layer by layer from the segment and make profitable sales is called.....

# INSIGHT

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14. The activity of arranging different departments and equipment in the building of the factory plant for efficient operation of the system is called .....
15. A periodic and planned maintenance of physical facilities of an organization that is aimed at discouraging breakdown is known as .....
16. Scientific management theory was popularized by.....
17. The managerial role which views a manager as a symbol and representative of an organization in matters of formality is called.....
18. Manager's mental ability to coordinate all of the organization's interests and activities is called .....
19. A receiver's translation of a sender's message is termed.....
20. The condition in the general environment that, if explored, helps a company achieve strategic competitiveness is called .....

**SECTION B:                    ATTEMPT ANY FOUR QUESTIONS                    (50 Marks)**  
**QUESTION 1**

A sole proprietorship is a business owned and managed by a single individual

- a. State **FIVE** features of sole proprietorship (5 Marks)
  - b. State **SIX** advantages of this form of business? (7½ Marks)
- (Total 12½ Marks)**

## QUESTION 2

- a. Explain the term '**management**' (2 Marks)
  - b. Differentiate between '**efficiency**' and '**effectiveness**' (3 Marks)
  - c. Classify the **THREE** levels of management and identify the primary responsibility of each group (7½ Marks)
- (Total 12½ Marks)**

## QUESTION 3

- a. What is Human Resource Planning? (2 Marks)
  - b. Describe the stages of Human Resource Planning (7½ Marks)
  - c. What benefits do organizations stand to gain from Human Resource Planning? (3 Marks)
- (Total 12½ Marks)**

# INSIGHT

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## QUESTION 4

- a. What is marketing mix? (2½ Marks)  
b. List **FIVE** components each of the Marketing mix elements (10 Marks)  
(Total 12½ Marks)

## QUESTION 5

An effective plan must conform with specific principles. Explain any **FIVE** of them  
(12½ Marks)

## QUESTION 6

List **FIVE** advantages and **FIVE** disadvantages of an office manual. (12½ Marks)

# INSIGHT

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**ACCOUNTING TECHNICIANS SCHEME (WEST AFRICA)  
EXAMINATION MARCH 2015  
MANAGEMENT**

**SUGGESTED SOLUTION**

**SECTION A**

**PART I MULTIPLE-CHOICE QUESTIONS**

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

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

## EXAMINER'S COMMENT

Candidates showed a good understanding of the questions and the concepts being tested. Over 75% of the candidates scored above 60% in this part.

## PART II SHORT-ANSWER QUESTIONS

- 1. Cooperative Societies
- 2. Open Office
- 3. Staff Movement Register
- 4. Record
- 5. Job rotation
- 6. Collective Bargaining
- 7. Role Overload
- 8. Periodic risk assessment
- 9. Personal Budget
- 10. Planning
- 11. Coordination
- 12. Strategic Plans
- 13. Market Skimming Pricing
- 14. Plant layout
- 15. Preventive Maintenance
- 16. Fredrick W. Taylor
- 17. Figure head role
- 18. Conceptual Skill
- 19. Decoding
- 20. Opportunity

# INSIGHT

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## EXAMINER'S COMMENT

Candidates also showed a good understanding of the questions and the concepts being tested. Over 60% of the candidates scored above 50% in this part.

## SOLUTION 1

- (a) The features of sole proprietorship are:
- (i) It is owned by an individual who provides the capital to establish and run the business
  - (ii) It is relatively small in size compared to other forms of business
  - (iii) It is the most widespread form of business ownership and organization in West Africa
  - (iv) It is set up for profit maximization
  - (v) It is not a legal entity because the owner cannot be separated from the business
  - (vi) It has unlimited liability because the owner is personally responsible for meeting all the financial obligations that may arise from the operation of the business
  - (vii) Sole Proprietorship is relatively simple to set up and it has no legal requirements expected to be met by the Proprietor.
  - (viii) The scope of the operations of the one man business is limited by the capabilities of the owner.
  - (ix) The death of the Owner will bring the business to an end
  - (x) The Owner enjoys alone the profit and also suffers the pains of loss
- (b) Advantages of Sole Proprietorship:
- (i) Easy to establish and wind up
  - (ii) It provides the best opportunity to self-employment and business venturing
  - (iii) It generates excitements of being your own boss
  - (iv) It is flexible to run
  - (v) Prompt decision: He takes decision on business issues with minimum consultations.
  - (vi) The labour force of sole Proprietorship is very small
  - (vii) The capital requirement to establish a sole proprietorship is relatively small
  - (viii) Secrecy of business operations
  - (ix) Retention of profit
  - (x) The Owner enjoys personal relationship with Staff and Customers
  - (xi) There is no double taxation.

## EXAMINER'S COMMENT

More than 80% of the candidates attempted this question. About 70% of the candidates scored above 50%. The remaining who scored below average could not understand the difference between features and advantages of sole proprietorship.

# INSIGHT

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## SOLUTION 2

- (a) Management refers to the process of getting activities completed efficiently with and through other people. The process represents the primary activities of planning, organizing, leading and controlling.
- (b) Efficiency is concerned with minimising resources and costs in the completion of activities while effectiveness is concerned with getting activities successfully completed that is goal attainment.
- (c) The three levels of Management are first-line supervisors/managers, middle managers and top managers
  - (i) First-line supervisors are the lowest of management and are typically responsible for directing the day-to-day activities of operative employees.
  - (ii) Middle Managers represent the levels of management between the first-line managers and top management. These managers are responsible for translating the goals set by top management into specific details that lower-level managers can perform.
  - (iii) Top managers are responsible for making decision about the direction of the organization and establishing policies that affect all organisational members.

### EXAMINER'S COMMENT

More than 90% of the candidates attempted the question. 85% of the candidates who had good understanding of the question scored above 50% of the allocated marks.

## SOLUTION 3

- (a) Human resource planning is the process of forecasting future, human resource needs of an organization so that steps can be taken to ensure that these needs are met.
- (b)
  - (i) Identify organizational objectives: Here , the human resource planner must define the objectives of the organization and the strategies for achieving them.
  - (ii) Estimate human resource needs: At this stage the human resource needs of the organization for the period is forecasted. The Manager is expected to estimate in precise terms the human resource (in terms of skills, quantity, experience, age etc) needed to achieve its objectives.
  - (iii) Analyse existing human resources: This stage consists of detailed inventory of the organisation's existing workforce in terms of number, skills, age, working experience, turnover rate, etc.
  - (iv) Calculate net human resource needs for the period: This is derived by deducting its existing workforce from the estimated workforce needed to achieve its objective
  - (v) Develop a plan: The stage consists of developing policies and procedures to meet the net human resource requirement. The plan should spell out all the necessary activities such as recruitment, selection, training, compensation and career plans necessary to meet human resource needs.

# INSIGHT

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- (c) The Benefits of Human Resource Planning are:
- (i) It guides management in making the right decisions relating to the type of employees to recruit
  - (ii) It also helps the organization to adapt to changing trend in the labour market and forecast employees needed to achieve its objectives
  - (iii) It helps the organization to plan training and development programmes more systematically.
  - (iv) To show implication for retirements and promotion plans in terms of management development and succession planning

## EXAMINER'S COMMENT

More than 75% of the candidates attempted the question. 25% scored above 50%, while those who scored below 35% misinterpreted the stages of human resource planning to functions of human resource planning.

## SOLUTION 4

- (a) Marketing mix

Marketing mix is the set of controllable tactical marketing tools-product, price, place and promotion that the firm blends to produce the response it wants in the target market

They are called the 4Ps

- (b) Each mix element and its composition are as follows:

Product	Price
Variety	List Price
Quality	Discount
Design	Allowances
Features	Payment period
Brand name	Terms of payment
Packaging	Credit terms
Services	

Promotion	Place
Advertising	Channels
Personal Setting	Coverage
Sales Promotion	Assortment
Public Relation	Location
Publicity	Inventory
Merchandising	Transportation
Trade Fair/Exhibition	Logistics

## EXAMINER'S COMMENT

More than 40% of the candidates attempted this question. However, about 20% of the candidates scored above average. The reason for this poor performance was due to the fact that candidates failed to mention the components of the 4Ps.

# INSIGHT

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## SOLUTION 5

- a. Principle of contribution to objectives: Plan should contribute towards the accomplishment of a firm's objective
- b. Principle of efficiency of plans: This principle stresses upon economical use of individual effort to achieve group goals
- c. Principles of planning premises: A coordinated structure of plans can be developed only when managers of all departments in the organization understand and agree to utilize consistent planning premise
- d. Principle of policy framework: It is necessary to understand policy framework of the organisation by the management who prepare the plans
- e. Principle of timing: plans must be properly timed with supporting programme.
- f. Principle of limitation: Limiting factors must be critically analysed, it must be clearly defined and practical solution put in place.
- g. Principle of flexibility: Plans need to be flexible if an organization wants to survive in a complex environment.
- h. Commitment principle: planning should be put in place for a longtime to recoup the cost invested in the planning process
- i. Principle of Navigational change: There is a need to periodically check and redraw the plan if necessary so as to maintain its course towards the goal.

## EXAMINER'S COMMENT

More than 35% of the candidates attempted this question. Above 10% of the candidates scored above 50%. Most candidates wrongly took the question to be **STEPS** instead of **PRINCIPLES** of an effective plan. Candidates are advised to prepare well in subsequent examinations.

## SOLUTION 6

- (a) The advantages of Office manual are:
- (i) It is easy for the office manager to supervise the work
  - (ii) Doubts can be referred to office manuals
  - (iii) Changes can be made whenever necessary
  - (iv) It includes delegation of authority along with assignment of job
  - (v) Expensive training is reduced
  - (vi) The worker understands the job to be performed because the method is also written in it.
  - (vii) Responsibility can be fixed on individuals
  - (viii) Good manuals lead to reduction of office costs
  - (ix) The employees can get necessary information at any time they want
- (b) Disadvantages of office manual are:
- (i) Office manuals are tedious, costly and time consuming to prepare
  - (ii) It is difficult to keep a manual up to date
  - (iv) It may discourage team work because somebody may not like the recorded relationship
  - (iv) A manual may be misinterpreted if it is not written clearly
  - (v) Sometimes the details given in the manuals are inadequate or incomplete or vague.

# INSIGHT

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## **EXAMINER'S COMMENT**

More than 20% of the candidates attempted this question. Above 15% of the candidates scored above 50%. Others are advised to make adequate preparation in future examination to ensure better performance.