THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

PATHFINDER

MAY 2025 DIET
SKILLS LEVEL EXAMINATIONS

Question Papers

Suggested Solutions

Marking Guides

and

Examiners' Reports

FOREWARD

This issue of the **PATHFINDER** is published principally, in response to a growing demand for an aid to:

(i) Candidates preparing to write future examinations of the Institute of Chartered Accountants of Nigeria (ICAN);

(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 subject contained herein; and

(iv) The professional; in improving pre-examinations and screening processes, and thus the professional performance of candidates.

The answers provided in this publication do not exhaust all possible alternative approaches to solving these questions. Efforts had been made to use the methods, which will save much of the scarce examination time. Also, in order to facilitate teaching, questions may be edited so that some principles or their application may be more clearly demonstrated.

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.

NOTES

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

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – MAY 2025

FINANCIAL REPORTING

EXAMINATION INSTRUCTIONS

PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER

1. Check your pockets, purse, mathematical set, etc. to ensure that you do not have prohibited items such as telephone handset, electronic storage device, programmable devices, wristwatches or any form of written material on you in the examination hall. You will be stopped from continuing with the examination and liable to further disciplinary actions including cancellation of examination result if caught.
2. Write your **EXAMINATION NUMBER** in the space provided above.
3. Do **NOT** write anything on your question paper **EXCEPT** your Examination number.
4. Do **NOT** write anything on your docket.
5. Read all instructions in each section of the question paper carefully before answering the questions.
6. Do **NOT** answer more than the number of questions required in each section, otherwise, you will be penalised.
7. All solutions should be written in **BLUE** or **BLACK INK**. Any solution written in **PENCIL** or any other **COLOUR OF INK** will not be marked.
8. You are required to attempt **Question ONE (Compulsory)**, **any TWO Questions in Section B and any TWO Questions in Section C.**
9. Check that you have collected the correct question paper for the examination you are writing.

TUESDAY, MAY 20, 2025

DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – MAY 2025

FINANCIAL REPORTING

Time Allowed: $3^1/_4$ hours (including 15 minutes reading time)

INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

The financial statements of Chukwuka Nigeria Limited are drafted below:

Statement of profit or loss for the year ended April 30, 2025

	₦'million	₦'million
Revenue		164,985
Cost of sales		(118,095)
Gross profit		46,890
Interest received		1,670
Administrative expenses		(25,025)
Finance costs		(5,220)
Profit before taxation		18,315
Income tax expense	6,642	
Deferred tax	2,208	(8,850)
Profit for the year		**₦9,465**

Statement of financial position as at April 30,

	2025 ₦'million	2024 ₦'million
Assets		
Non-current assets:		
Property, plant and equipment	29,235	23,475
Intangible assets	18,775	16,300
Trade Investments	1,835	2,860
Current assets		
Inventories	11,550	7,875
Trade and other receivables	31,440	25,335
Short-term investments	3,810	2,790
Cash in hand	930	360
	97,575	**78,995**

Equity and Liabilities

Ordinary share capital of ₦1 each	15,000	11,250
Share premium account	10,500	9,300
Revaluation reserve	11,280	9,195
Retained earnings	17,925	13,860
Non-Current liabilities		
10% Loan notes	12,780	6,500
Deferred tax	1,500	3,750
Current liabilities		
Trade and other payables	12,810	9,150
Bank overdraft	6,540	7,530
Current tax payable	9,240	8,460
	97,575	**78,995**

Additional Information:

(i) A financial asset included in the trade investment with a carrying amount of ₦1,500 million was sold for ₦1,885 million during the year while a replacement was also acquired.

(ii) There was an issue of three billion, seven hundred and fifty million (3.7 billion) ordinary shares during the year at a premium of thirty two kobo per share.

(iii) The short-term investment is highly marketable with one to three months maturity profile.

(iv) During the financial year, the company paid dividend of ₦5,400 million to equity holders and this had been accounted for during the year.

(v) Delivery vans with original costs of ₦6,600 million and a carrying amount of ₦3,750 billion was sold for ₦2,520 million during the year.

(vi) The company is planning to take a long-term syndicated loan of ₦2,000 million from a healthy Nigerian bank. The company's financial statements and loan application had already been submitted to the bank and is awaiting approval.

(vii) Extract from property, plant and equipment schedule revealed:

	2025 ₦'million	2024 ₦'million
Cost	55,395	45,795
Accumulated depreciation	26,160	22,320
	29,235	23,475

(viii) A cash payment of ₦58 million made in respect of insurance premium for the financial year ended April 30, 2025 was totally omitted in the books.

Required:

a. Prepare a statement of cashflow for Chukwuka Nigeria Limited for the year ended April 30, 2025 using the indirect method. (20 Marks)

b. In the context of IAS 7 – Statement of Cash flows, explain the term "cash and cash equivalents" and give two examples (4 Marks)

c. In accordance with IAS 1 – Presentation of Financial Statements, assets and liabilities must not be offset except when the offset is required by another standard.

Required:
Give the exceptions to the rule regarding off setting provided by IAS 1 (6 Marks)
(Total 30 Marks)

SECTION B: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THREE QUESTIONS IN THIS SECTION (40 MARKS)

QUESTION 2

The following are the financial statements of Odot Ventures Nigeria Limited for the years ended December 31, 2023 and 2024.

Statement of profit or loss for the year ended December 31,

	2024	**2023**
	₦'m	**₦'m**
Revenue	44,800	14,400
Cost of sales	(26,880)	(5,760)
Gross profit	**17,920**	**8,640**
Selling expenses	(4,320)	(2,400)
Bad debt -written off	(2,240)	(288)
Depreciation	(3,328)	(928)
Interest expense	(3,072)	(192)
Net profit before tax	4,960	4,832

Statement of financial position as at December 31,

	2024	2023
	₦'m	₦'m
Non-current assets:		
Property, plant and equipment	35,712	15,040
Current assets:		
Inventory	3,808	480
Trade receivables	9,328	1,328
Cash and bank	-	192
	13,136	**2,000**
Total assets	**48,848**	**17,040**
Equity and liabilities:		
Share capital	5,248	4,800
Retained earnings	15,024	10,064
Equity	**20,272**	**14,864**
Non-current liabilities:		
Borrowings	25,600	1,600
Current liabilities:		
Trade payables	2,800	576
Bank overdraft	176	-
	2,976	**576**
Total equity and liabilities	**48,848**	**17,040**

The Directors of Odot Ventures Nigeria Limited appointed a new sales manager during the year ended 2024. This manager introduced a new sales policy to increase sales and profit by means of reduction in selling price and extended credit terms to the company's customers. This led to considerable investment in new plants and equipment early in year 2024 to meet the increased sales.

Required:

a. Calculate the following profitability and liquidity ratios for years 2023 and 2024.

Profitability:

(i) Gross profit margin

(ii) Net profit margin

(iii) Return on capital employed where capital employed is equal to equity and borrowings.

Liquidity:

(iv) Current ratio

(v) Acid test ratio

(vi) Receivables collection period (days). (6 Marks)

b. Explain whether the financial performance and position of the company has improved for the year ended December 31, 2024 as a result of the new policies adopted by the company. (7 Marks)

c. Calculate the amount of cash which would be realised if the company could impose a debt collection period of 45 days. (7 Marks)
Note: All revenue are on credit.

(Total 20 Marks)

QUESTION 3

Mana Plc acquired 75% of Bakus Plc ordinary shares on January 1, 2023. Mana Plc agreed to pay ₦432 million apart from an immediate payment of ₦3.50 per share in cash. It is only the cash consideration that was recorded by Mana Plc. The statement of financial position of the two companies as at December 31, 2023 are as follows:

		Mana Plc		Bakus Plc
		₦'m		₦'m
Non-current assets:				
Property, plant and equipment		1,680		1,280
Development costs		-		160
Investments		1,200		80
Current assets		532		364
Total assets		**3,412**		**1,884**
Equity and liabilities:				
Ordinary shares of ₦1.00 each		1,080		320
Share premium		320		160
Revaluation reserve		180		-
Retained earnings - January 1, 2023	640		536	
- December 31, 2023	760	1,400	304	840
		2,980		1,320
Non-current liabilities				
10% inter-company loan notes		-		240
Current liabilities		432		324
Total equity and liabilities		**3,412**		**1,884**

Additional Information:

(i) The cost of capital in respect of deferred consideration is 8% per annum.

(ii) The development project of Bakus Plc was completed on June 30, 2023. The cost is ₦200 million and as at December 31, 2023, ₦40 million out of this amount had been amortised. As at the date of acquisition, Bakus Plc had capitalised development cost worth ₦72 million. The management of Mana Plc examined the development cost of Bakus Plc and concluded that it does not meet the requirement for the recognition of an asset in accordance with IAS 38 -Intangible Asset.

(iii) Non-controlling interest is valued by Mana Plc using fair value at the date of acquisition. The fair value of non-controlling interest at the acquisition date was ₦332 million. As at December 31, 2023, the impairment test concluded that it should be reduced by ₦80 million.

(iv) Mana Plc applied fair value method in revaluing land and building. The land and building of Bakus Plc had a fair value of ₦80 million higher than the book value at the date of acquisition and this also increased by another ₦16 million as at December 31, 2023 (additional depreciation is not necessary).

(v) A product with the brand name "Agric-equip" was owned by Bakus Plc and was not included in its statement of financial position. The product was valued by specialists to be ₦160 million. It has an estimated life of 10 years as at January 1, 2023.

(vi) A loan of ₦240 million made to Bakus Plc at the date of acquisition was included in Mana's investment. Interest is payable in arrears annually. An interest due for the year, December 31, 2023 was paid by Bakus Plc, but it was not recorded by Mana Plc because it was received after the year end.

(vii) During the year, Mana Plc bought goods from Bakus at a profit of ₦24 million. As at December 31, 2023, one-third of these items were part of the inventory.

You are required to calculate:

a. Non-controlling interest (4 Marks)

b. Goodwill (4 Marks)

c. Consolidated reserves for share premium, revaluation reserve and retained earnings. (12 Marks)

(Total 20 Marks)

QUESTION 4

The following trial balance relates to Adanna Nigeria Limited as at December 31, 2023:

	₦'000	₦'000
Freehold properties at valuation 1/1/2023	480,000	
Plant and machinery at cost	520,000	
Motor vehicles at cost	108,600	
Construction work-in-progress at cost	250,000	
Accumulated depreciation at 1/1/2023:		
Plant and machinery		208,000
Motor vehicles		48,870
Financial assets	75,600	
Inventory at December 31, 2023	100,500	
Trade receivables	98,900	
Profit for the year		208,660
Revaluation reserves		185,000
Retained earnings at 1/1/2023		489,700
Ordinary share capital of 50k each		100,000
Share premium		266,000
10% Redeemable preference shares (2020-2023)		42,800
Deferred tax		6,600
Interim dividend	28,000	
Income tax payable		15,900
Bank balances	20,180	
Cash in hand	5,220	
Trade payables		86,470
Suspense account		29,000
	1,687,000	1,687,000

The following information is relevant:

(i) The freehold properties consist of land and building which are revalued in compliance with the company's policy at each year end. The valuation in the trial balance includes a land element of ₦136 million. The estimated remaining life of the building at January 1, 2023 was 20 years. On December 31, 2023, a professional valuer values the buildings at ₦276.8 million with no change in the value of land.

(ii) The company during the year incurred additional ₦180million on the construction work-in-progress which resulted to the completion of a factory warehouse costing ₦320million. The warehouse was put to use in the month of July 2023. The warehouse has an expected useful life of 25 years.
Also, within the year, Adanna Nigeria Limited built a plant that is used as part of its own production process. The production of the plant was completed on April

15, 2023 and was brought to use immediately. The additional cost incurred on the construction in progress and the sum of ₦96 million building cost of the plant are yet to be capitalised.

(iii) A delivery van with original cost ₦42million and carrying amount of ₦23.1million was disposed during the year while an item of plant costing ₦128million to acquire was also disposed after two years of depreciation.

(iv) Annual depreciation on the non-current assets is charged on straight-line basis at 20% and 15% for plant and machinery and motor vehicles respectively. Depreciation is charged in full for the acquisition year while no depreciation is charged in the year of disposal. The annual depreciation have been charged to cost of sales.

(v) The 10% redeemable preference shares are due for redemption in the year. The redemption was carried out from the existing resources at a premium of ₦22million.

(vi) The company paid an interim dividend of ₦28million and a dividend of ₦1.20k per share is proposed by the Directors for the year ended December 31, 2023.

(vii) The suspense account contains the corresponding credit entry for the proceeds of a right issue of shares made on September 30, 2023. The terms of the issue were one share for every four held at 58 kobo per share. Adanna Nigeria limited share price immediately before the issue was 80 kobo. The issue was fully subscribed.

Required:

i. Prepare the non-current assets schedule to be included in the notes to the financial statements as at December 31, 2023. (13 Marks)

ii. Prepare the statement of changes in equity for the year ended December 31, 2023. (5 Marks)

iii. State any **FOUR** uses of share premium. (2 Marks)

(Total 20 Marks)

SECTION C: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THREE QUESTIONS IN THIS SECTION (30 MARKS)

QUESTION 5

a. IFRS 5 has two main areas of focus: It specifies the accounting treatment of assets held for sale, and it sets the presentation and disclosure requirements for discontinued operations.

Required:
Explain the criteria to be met before assets can be classified as held for sale in accordance with the provisions of IFRS 5. (5 Marks)

b. The following are the management accounts extracts from the statement of profit or loss of Abia Nigeria Limited presented at board of directors meeting of the company by the management accountant.

	……………October 31, 2024……………				October 31, 2023
	Internet	**Travel agencies**	**Car hire**	**Total**	**Total**
	₦'000	**₦'000**	**₦'000**	**₦'000**	**₦'000**
Revenue	138,000	84,000	12,000	234,000	240,000
Cost of sales	(108,000)	(99,000)	(9,000)	(216,000)	(192,000)
Gross profit/(loss)	30,000	(15,000)	3,000	18,000	48,000
Operating expenses	(6,000)	(9,000)	(600)	(15,600)	(12,000)
Net profit/(loss) before tax	24,000	(24,000)	2,400	2,400	36,000

(i) The results for the travel agencies division for the year ended October 31, 2023 were revenue ₦108 million, cost of sales ₦90 million and operating expenses ₦9 million.

(ii) At the board meeting held by the Directors it was decided that the operations of the travel agencies met the conditions under IFRS 5, hence the travel agencies unit should be treated as a discontinued operations.

As the chief accountant of the company,

You are required to:
Prepare the summarised statement of profit or loss of Abia Nigeria Limited for the year ended October 31, 2024 together with the comparative figures for inclusion in the annual report of the company. (10 Marks)

(Total 15 Marks)

QUESTION 6

IFRS 15 - Revenue from contracts with customers is the end product of a major joint project between the International Accounting Standard Board (IASB) and US Financial Accounting Standards Board, and it replaces IAS 18 and IAS 11.

Required:

a. Highlight **ONE** element of IFRS 15's core principles (1 Mark)

b. List any **TWO** conditions considered in deciding on the treatment of two or more contracts entered into with the same customer (2 Marks)

c. List any **THREE** conditions that must be present for the general IFRS 15 model to be applied (3 Marks)

d. Explain the criteria that must be met for goods or service to be considered distinct (4 Marks)

e. Explain steps 3 to 5 of the IFRS 15, 5-step model (5 Marks)

(Total 15 Marks)

QUESTION 7

a. IAS 37 stipulates the criteria for the recognition and measurement of provisions, contingent liabilities and contingent assets.

Required:

Explain the terms provisions, contingent liabilities and contingents assets stating clearly the criteria for the recognition and measurement of each. (12 Marks)

b. Explain the sources of accounting regulations in Nigeria. (3 Marks)

(Total 15 Marks)

SOLUTION 1

(a) **Chukwuka Nigeria Limited**

Statement of cash flows for the year ended April 30, 2025

Operating activities:	**₦'Million**	**₦'Million**
Profit before taxation		18,315
Adjustments:		
Finance cost	5,220	
Interest	(1,670)	
Profit on investment disposal	(385)	
Loss on disposal	1230	
Depreciation (w4)	6,690	
Insurance Premium	(58)	11,027
Changes in working capital/operating assets and liabilities		
Increase in inventories (11,550 - 7,875)	(3,675)	
Increase in receivables (31,440 – 25,335)	(6,105)	
Increase in payables (12,810 – 9,150)	3,660	(6,120)
Cashflow from operating activities		**23,222**
Less tax paid (w5)		(10,320)
Net cash flow from operating activities		12,902
Investing activities		
Interest received	1,670	
Proceeds from investment disposal (w7)	1,885	
Proceeds from van disposal (w8)	2,520	
Acquisition of PPE (w6)	(14,115)	
Acquisition of intangible assets (w10)	(2,475)	
Acquisition of investment (w9)	(475)	
Net cash flow from investing activities		(10,990)
Financing activities		
Finance cost	(5,220)	
Proceeds from share issue- share capital (w11)	3,750	
Share premium (w12)	1,200	
Dividend paid (w1)	(5,400)	
Proceeds from loan note issued (w2)	6,280	
Net cashflow from financing activities		610
Net cashflow for the year		2,522
Net cashflow at the beginning of the year		(4,380)
Net cashflow at the end of the year (w3)		**1,858**

Workings:

W1 **Retained earnings**

	₦'M		₦'M
Cash dividend	5,400	Bal b/f	13,860
Bal c/d	17,925	SOPL	9,465
	23,325		**23,325**

W2 **10% Loan notes**

	₦'M		₦'M
Bal c/d	12,780	Bal b/f	6,500
			6,280
	12,780		**12,780**

W3 **Cash and cash equivalents as at April 30, 2025**

	₦'M
Short term investments	3,810
Cash in hand	930
Bank overdraft	(6,540)
Insurance premium	(58)
	1,858

W4 **Accm. depreciation account**

	₦'M		₦'M
Disposal	2,850	Bal b/f	22,320
Bal c/d	26,160	SOPL	6,690
	29,010		**29,010**

W5 **Tax payables**

	₦'M		₦'M
Cash	10,320	Bal b/f (IT)	8,460
Bal c/d (IT)	9,240	(DT)	3,750
(DT)	1,500	SOPL	8,850
	21,060		**21,060**

W6a **PPE accounts**

	₦'M		₦'M
Bal b/f	23,475	Disposal	3,750
Rev. Res. (w6b)	2,085	Depreciation	6,690
Cash	14,115	Bal c/d	29,235
	39,675		**39,675**

W6b **Revaluation reserve**

	₦'M		₦'M
Bal c/d	11,280	Bal b/f	9,195
		PPE (w6a)	2,085
	11,280		11,280

W7 **Investment disposal**

	₦'M		₦'M
Investment	1,500	Cash	1,885
SOPL	385		
	1,885		1,885

W8 **Van disposal account**

	₦'M		₦'M
Cost	6,600	Van acc. Dep	2,850
		Cash	2,520
		SOPL	1,230
	6,600		6,600

W9 **Trade investment**

	₦'M		₦'M
Bal b/f	2,860	Disposal	1,500
Cash	475	Bal c/d	1,835
	3,335		3,335

W10 **Intangible assets**

	₦'M		₦'M
Bal b/f	16,300	Bal c/d	18775
Cash	2,475		
	18,775		18,775

W11 **Ordinary share capital**

	₦'M		₦'M
Bal c/d	15,000	Bal b/f	11,250
		Cash	3,750
	15,000		15,000

W12 **Share premium**

	₦'M		₦'M
Bal c/d	10,500	Bal b/f	9,300
		Cash	1,200
	10,500		**10,500**

(b) In the context of IAS 7, cash and cash equivalents can be explained as follows:

Cash is cash in hand and deposit at bank while cash equivalent is defined as short term highly liquid investment that can be converted to a known amount of cash and is subject to an insignificant risk of changes in value.

Examples are:

i. Cash in hand;
ii. Cash at Bank;
iii. Bank overdraft; and
iv. Short term investment with a maturity day of not more than 90 days.

(c) Exceptions to the rule regarding off setting provided by IAS 1 are stated below: According to the provision of IAS 7, the following cash flows can be off setting or reported on a net basis:

i. Cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity;

ii. Cash receipts and payments for items in which the turnover is quick, the amounts are large and the maturities are short. An example of cash receipts and payments that may be off-set would be the purchase and sale of short-term investments by an entity who trades in them frequently, such as a bond trading fund that turns over its portfolio every 1 to 2 weeks;

iii. For a financial institution, transactions to be off set or presented on a net basis is, cash receipts and payments for deposits and cash receipts and payments for loans and advances;

iv. In IAS 12, deferred tax assets and liabilities are offset if, and only if, the entity has a legally enforceable right to offset current tax assets and current tax liabilities; and

v. In IAS 32, Offsetting assets and liabilities occurs when financial instruments have legally enforceable rights to be netted, resulting in a single net amount being presented in the statement of financial position. This is permitted or required when the net amount fairly represents the entity's position.

Examiner's report

The question tests candidates' knowledge of the preparation of cash flows using indirect method and in accordance with the provisions of IAS 7- Statement of Cash flows, candidates were also required to explain the term cash and cash equivalents and to also state the exceptions to rules of off-setting as stipulated by IAS 1- Presentation of Financial Statements.

Majority of the candidates attempted the question but performance was below average

The common pitfalls include the following:
Inability to correctly treat the cash payments in respect of insurance premium;

Wrong classifications of transaction into the three major classes of investing, financing and operating activities; and

Failure to be able to state exception to the rules of off-setting assets and liabilities in accordance with the provisions of IAS 1.

Candidates are advised to pay attention to all aspects of the preparation of final accounts of limited liability companies as the examiner will always examine this area of the syllabus as a compulsory question at the skills level of the Institute's examination.

Marking guide

		Marks	Marks
1a.	**Preparation of cash flow statement:**		
	Stating title of the statement	¼	
	Stating profit before taxation and adjustments	3½	
	Calculating changes in working capital	3	
	Statement of the net cash flow from operating activities	½	
	Stating cash flows from investing activities	3½	
	Determining the net cash flow from investing Activities	½	
	Stating cash flows from financing activities	2½	
	Determining the net cash flow from financing Activities	½	
	Determining the cash and cash equivalents	2	
	Sundry workings for cash flow items	3¾	**20**
b.	**Explanation of cash and cash equivalents:**		
	Correct explanation of cash and cash equivalents	2	
	Two correct examples of cash and cash equivalents	2	**4**

c. **Exception to the rule of off setting assets and liabilities as provided in IAS 1**

Any four exceptions to the rule	6
Total	**30**

SOLUTION 2

Odot Ventures Nigeria Ltd

(a) Ratio analysis

Ratios	**2024**	**2023**
Gross profit margin Gross profit × 100 Revenue	₦17,920 × 100 ₦44,800 = **40.00%**	₦8,640 × 100 ₦14,400 = **60.00%**
Net profit margin Net profit before tax × 100 Revenue	₦4,960 × 100 ₦44,800 = **11.07%**	₦4,832 × 100 ₦14,400 = **33.56%**
Return on capital employed **PBIT** x 100 **Capital employed**	₦8,032 × 100 ₦45,872 = **17.51%**	₦5,024 × 100 ₦16,464 = **30.51%**
Current ratio Current assets Current liabilities	₦13,136 ₦2,976 = **4.41:1**	₦2,000 ₦576 = 3.47:**1**
Acid test ratio Current assets less closing Inventory Current liabilities	₦13,134 -3,808 ₦2,976 = **3.13 :1**	₦2,000 - ₦480 576 = 2.64 :1
Receivables collection period Receivables × 365 days Revenue	₦9,328 × 365 ₦44,800 = **76 days**	₦1,328 × 365 ₦14,400 = 34 **days**

(b) **Evaluation of financial performance and position of Odot Ventures Nigeria Limited for the year ended December 31, 2024**

i. In 2024, Odot Ventures Nigeria Limited implemented significant strategic changes under a new sales manager, including a low-price, high-volume approach and extended credit terms to customers. These changes led to a remarkable increase in revenue from ₦14.4 billion in 2023 to ₦44.8 billion in 2024. However, the company's profitability weakened. The gross profit margin dropped from 60% in 2023 to 40% in 2024, indicating reduced pricing power due to lower selling prices. Similarly, the net profit margin fell from 33.56% to 11.07%, suggesting higher operating and financing costs.

ii. Return on capital employed (ROCE) also declined significantly from 30.51% to 17.51%, showing that the company became less efficient in generating profit from the capital it employed. This was largely due to a major increase in borrowings from ₦1.6 billion to ₦25.6 billion, used to finance asset expansion. Consequently, interest expense surged from ₦192 million to ₦3.072 billion, further impacting net profitability.

iii. Despite this, the company's liquidity position improved. The current ratio increased from 3.47:1 to 4.41:1, and the acid test ratio rose from 2.64:1 to 3.13:1, indicating strong short-term solvency. However, the receivables collection period lengthened to 76 days, which could delay cash inflows and strain working capital, especially given the high levels of trade receivables.

iv. In conclusion, while the new policies increased sales and improved liquidity, they compromised profitability and introduced financial risk through increased debt and slow receivables turnover. Management must focus on improving margins, reducing debt, and tightening credit control.

c) **Amount of cash to be realised if the company imposed 45 days credit period.**

Method 1,

Receivable collection period in year 2024 is 76 days with total receivable of ₦9,328million

If the collection period is reduced to 45 days. The new receivable figure would be:

45/76 x ₦9,328million = ₦5,523million

The amount of cash that would be realised = (₦9,328m – ₦5,523m)= ₦3,805m

Method 2

With imposition of 45 days

45days = y/(44,800) x 365days
45days= 365y/ 44,800
y = 45 x 44,800/365
hence y = 2,016,000/365 = ₦5,523million
amount of cash to be realised is (₦9,928m – ₦5,523m) = ₦3,805m
where y is the amount of receivable collection period in 45days.

Examiner's report

The question tests candidates' knowledge of computation of ratios and its interpretation as well as the application of working capital management.

Most of the candidates attempted the question and their performance was above average.

Many of the candidates were able to correctly calculate the relevant ratios, however some of them were unable to interpret correctly the ratios calculated. Almost all the candidates that attempted the question could not correctly determine the amount of cash that would be realised if the company reduced its debt collection period from 76days to 45days

Candidates are advised to cover all sections of the syllabus and make use of the institute study texts for better performance in future examinations.

Marking guide

		Marks	Marks
a.	**Calculation of financial ratios**		
	Stating correct formula of gross profit margin	¼	
	Correct calculation of gross profit margin	¾	
	Stating correct formula of net profit margin	¼	
	Correct calculation of net profit margin	¾	
	Stating correct formula of ROCE	¼	
	Correct calculation of ROCE	¾	
	Stating correct formula of current ratio	¼	
	Correct calculation of current ratio	¾	
	Stating correct formula of acid test ratio	¼	
	Correct calculation of acid test ratio	¾	
	Stating correct formula of receivable collection period	¼	
	Correct calculation of receivable collection period	¾	**6**

b.	**Evaluation of financial performance and position:**		
	Analysis using revenue, gross profit margin and net profit margin data/ information.	**2**	
	Analysis using return on capital employed and long term borrowings data/information.	**2**	
	Analysis using current ratio, acid test ratios and receivables collection period data/information.	**2**	
	Conclusion on financial performance and position.	**1**	**7**
c.	**Calculation of the amount of cash realisable if debt collection period is imposed at 45 days**		
	Correct step by step calculations of cash realisable		7
	Total		**20**

SOLUTION 3

(a) **Non-controlling Interest (NCI)**

	₦'M
NCI value at acquisition	332
NCI share of post-acquisition reserves (25% x (1,392 – 1,184)	52
Impairment – NCI share (80 ÷ 0.25) x 25%)	(80)
	304

(b) **Goodwill**

	₦'M
Parent holding at fair value:	
Cash (75% x 320m x ₦3.50)	840
Deferred consideration (432 x 1/1.08)	400
	1,240
NCI value at acquisition	332
	1,572
Less fair value of net assets at acquisition (w3)	(1,184)
Goodwill	388
Impairment (₦80 ÷ 0.25)	(320)
Goodwill after impairment	**68**

(c) **Consolidated reserves:**

(i) **Consolidated retained earnings**

	₦'M
Parent	1,400
Add: Interest receivable (240 x 10%)	24

Less: Unwinding of discount on deferred consideration (400 x 8%) or (₦432 – 400)	(32)
Workings (w3)	1,392
Subsidiary – group share of post acquisition (Land and building in revaluation reserves) (1,392 -1,184-16) x 75%)	144
Less impairment of goodwill (320 x 75%)	(240)
	1,296

(ii) **Consolidated share premium**

Mana Plc	320

(iii) **Consolidated revaluation reserve**

Mana Plc	180
Subsidiary – post-acquisition (75% x 16m)	12
	192

Workings:

1. **Group structure**

Mana Plc

↓ 75% 1/1/2023

Bakus Plc

2. **Unrealised profit in inventory**

(1/3 x ₦24m Profit) = **₦8 million**

3. **Net assets**

	At acquisition ₦'M	At reporting period end ₦'M
Share capital	320	320
Share premium	160	160
Retaind earnings	536	840
	1,016	1,320
Fair value adjustments:		
Land and buildings	80	80
Branding (Agric-equip)	160	160
Revaluation	-	16

Brand amortisation	-	(16)
Research and development	(72)	(160)
Unrealised profit	-	(8)
	1,184	1,392

Examiner's report

The question test candidates' knowledge of group financial statements, however the examiner decided not to test full preparation of consolidated financial statements, rather candidates were required to calculate the following components of the consolidated financial statements: Non-controlling interests, goodwill and consolidated reserves (share premium, revaluation reserves and retained earnings).

Few candidates attempted the question and their performance was below average.

The commonest pitfall was their inability to calculate the components of the consolidated financial statements.

Although, most candidates are quite familiar with the preparation of group financial statements, however candidates are advised to pay more attention to the applications of consolidation principles for better performance in future examinations.

Marking guide

		Marks	Marks
3a.	**Calculation of non-controlling Interest (NCI)**		
	Determination of group structure	¾	
	Calculation of unrealised profit in inventory	½	
	Stating, non controlling interest at acquisition date	¼	
	Determination of NCI share of post acquisition reserve	1¾	
	Determination of NCI share of goodwill payment	¾	**4**
b.	**Calculation of Goodwill on acquisition**		
	Determining the cash consideration	½	
	Determining the deferred consideration	½	
	Stating Non-controlling interest at acquisition	¼	
	Determining of subsidiary's net asset at acquisition	2	
	Determination of total impairment of goodwill	½	
	Stating the value of goodwill after impairment	¼	**4**
c.	**Calculation of consolidated reserves**		
	Stating the consolidated share premium	½	
	Determining the consolidated revaluation reserve	1½	
	Stating the parents retained earnings	¼	
	Determining the interest receivable	¾	
	Determining/unwinding of discount on deferred Consideration	¾	

Determining group share of post acquisition reserves	4	
Determining group share of goodwill impairment	2	
Stating consolidated retained earnings	¼	
Sundry relevant workings for retained earnings	2	12
Total		**20**

SOLUTION 4

(i) **Adanna Nigeria Limited**

Non-current assets movement schedule for the year ended December 31, 2023

Cost/valuation	Freehold properties	Plant and machinery	Motor vehicles	Construction work in progress	Total
	₦'000	**₦'000**	**₦'000**	**₦'000**	**₦'000**
1/1/2023	480,000	520,000	108,600	250,000	1,358,600
Addition	-	96,000	-	180,000	276,000
Reclassification	320,000	-	-	(320,000)	-
Disposal	-	(128,000)	(42,000)	-	(170,000)
Revaluation reserve	(50,000)				(50,000)
31/12/2023	**750,000**	**488,000**	**66,600**	**110,000**	**1,414,600**
Acc depreciation:					
1/1/2023	-	208,000	48,870	-	256,870
Charge for the year	30,000	97,600	9,990	-	137,590
Disposal		(51,200)	(18,900)		(70,100)
31/12/2023	**30,000**	**254,400**	**39,960**	**-**	**324,360**
Carrying Amount					
31/12/2023	**720,000**	**233,600**	**26,640**	**110,000**	**1,090,240**
1/1/2023	**480,000**	**312,000**	**59,730**	**250,000**	**1,101,730**

Workings:

W1.	Revaluation difference	**₦'million**
	Building valuation – 1/1/2023(480 – 136)	344
	Less Dep (344/20 x 1)	(17.2)
	Carrying amount	**326.8**
	Revalued amount	(276.8)
	Revaluation deficit	(50)
W2.	Depreciation on new building 320/25	12.8
	Total depreciation on building (17.2+12.8)	30.0

W3.	Depreciation on plant and machinery 20% x 488,000	 97,600
W4.	Depreciation on motor vehicles (15% x 66,600)	9,990
W5.	Accumulated depreciation on disposal of assets Plant and machinery (20% x 128,000 x 2) Motor vehicle (42,000 – 23,100)	 51,200 18,900

(ii) **Statement of changes in equity for the year ended December 31, 2023**

	Share capital ₦'000	Share premium ₦'000	Retained earnings ₦'000	Revaluation reserves ₦'000	Total ₦'000
Bal b/f	100,000	266,000	489,700	185,000	1,040,700
Profit for the year	-	-	208,660	-	208,660
Dividend paid	-	-	(28,000)	-	(28,000)
Rev deficit	-	-	-	(50,000)	(50,000)
Proceeds from share (w1)	25000	4,000	-	-	29,000
Redeemable pref. share redemption	-	22,000	-	-	(22,000)
Balance c/f	125,000	248,000	670,360	135,000	1,178,360

Workings:

		₦'000
W1	Split of proceeds from right issue	
	Share capital (1/4 x ₦50x100,000/₦0.5)	25,000
	Share premium (1/4 x 40.08 x (109,000/₦.5)	4,000

(iii) **Uses of share premium**

i. It can be used to create bonus issue
ii. It can be used to take care of transaction costs on shares issue
iii. It can be used to settle underwriting costs
iv. It can be used for premium of redemption of shares and bonds
v. It can be used to create any other reserves e.g debenture redemption reserves fund etc,

Examiner's report

The question test candidates' knowledge of preparation of non- current assets schedule normally included in notes to financial statement in annual reports of companies as well as preparation and presentation of statement of changes in equity and use of share premium.

Most candidates attempted the question and their performance was average

Majority of the candidates were able to prepare the statement of changes in equity and they also correctly highlighted the uses of share premium. However, most of them could not correctly calculate the costs, revaluation amount, accumulated depreciation and carrying amount for the preparation of the non- current assets schedule.

Candidates are advised to pay more attention to all sections of the syllabus, they should also make use of the Institute's pathfinder and study texts for better performance in future examination.

Marking guide

		Marks	Marks
i.	**Preparation of non-current assets schedule:**		
	Stating the title of the schedule	¼	
	Stating the cost/valuation of the non-current assets	1	
	Determining the additions in the year	¾	
	Stating the reclassification of asset	½	
	Calculating the disposal in the year	¾	
	Determining the revaluation reserve	2	
	Stating the total cost/valuation of non-current assets	1	
	Determining the accumulated depreciation on non-current assets	¾	
	Determining depreciation charged for the year	2½	
	Calculating accumulated depreciation on disposal	1½	
	Determining the total accumulated depreciation at year end	1	
	Stating carrying amount at year end	1	13
ii.	**Presentation of statement of changes in equity:**		
	Stating the title of the statement	¼	
	Stating the balance brought down	1¼	
	Recording the profit for the year	½	
	Determining the dividend paid	½	
	Calculating the revaluation deficit or loss	½	
	Determining the proceed from issue of shares at premium	¾	
	Calculating the premium used on redemption preference share	½	
	Stating the balance carried forward	¾	5
iii.	**Uses of share premium**		
	Any four uses		2
	Total		**20**

SOLUTION 5

(a) The following are the criteria to be met before assets can be classified as held for sale or discontinued operations in accordance with IFRS 5:

(i) The asset must be available for immediate sales in its present condition;

(ii) Management must be committed to a plan to sell it;

(iii) There must be active programme in locating a buyer;

(iv) The assets must be marketable at a price reasonable to its current fair value;

(v) The sale of the assets is expected to take place within one year from the date of the classification;

(vi) It is unlikely that a significant change will be made to such plan or that such plan will be withdrawn by the entity; and

(vii) The sale of the assets must be probable.

(b) **Abia Ltd**

Statement of profit or loss for the year ended October 31, 2024

	2024	**2023**
	₦'000	**₦'000**
Continuing operations:		
Revenue	150,000	132,000
Cost of sales	(117,000)	(102,000)
Gross profit	33,000	30,000
Operating expenses	(6,600)	(3,000)
Profit/(loss) from continuing operations	26,400	27,000
Profit/(loss) from discontinued operations	(24,000)	9,000
Profit for the year (w1)	2,400	36,000

Notes:

W1) Analysis of discontinued operations

	2024	**2023**
	₦'000	**₦'000**
Revenue	84,000	108,000
Cost of sales	(99,000)	(90,000)
Gross profit/(loss)	(15,000)	18,000
Operating expenses	(9,000)	(9,000)
Profit/(loss)	(24,000)	9,000

Examiner's report

The question tests candidates' knowledge of the provisions and application of IFRS 5- Assets Held for Sale and Discontinued Operations.

Majority of the candidates attempted the question and performance was below average

The commonest pitfall was the inability of the candidates to prepare summarised statement of profit or loss showing continuing and dis-continuing operations as required by IFRS 5.

Candidates are advised to pay more attention to all statement of accounting standards that are examinable at this level of the institute's examination, for better performance in future.

Marking guide

		Marks	Marks
a.	**Explanation of criteria to be met before assets can be classified as held for sale:**		
	Stating any five criteria	**5**	
b.	**Preparation of summarised statement of profit or loss for the year ended October 31, 2024.**		
	Stating the title of the statement	**½**	
	Stating the revenue for the year	**1**	
	Determining the gross profit	**2**	
	Stating the operating expenses	**1**	
	Calculating the profit from continuing operations	**1**	
	Determining the profit from discontinued operations	**1**	
	Stating the profit for the year	**1**	
	Analysis of discontinued operations	**2½**	**10**
	Total		**15**

SOLUTION 6

(a) **Core Principle**

IFRS 15 is based on a core principle that requires an entity to recognise revenue:

In a manner that enables the transfer of goods or services to customers at an amount that reflects the consideration of the entity expects to be entitled to in exchange for the goods or services.

(b) **Combination of contracts**

Two or more contracts entered into at or near the same time with the same customer (or related parties) must be combined and treated as a single contract if one or more of the following conditions are present:

(i) the contracts are negotiated as a package with a single commercial objective;
(ii) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
(iii) the goods or services promised in the contracts (or some goods or services promised in the contracts) are a single performance obligation.

(c) **Application Criteria**

The general IFRS 15 model applies only when or if:

(i) the parties have approved the contract and are committed to perform their respective obligations;
(ii) the entity can identify each party's rights;
(iii) the entity can identify the payment terms for the goods and services to be transferred;
(iv) the contract has commercial substance (i. e it is expected to change the risk, timing or amount of an entity's future cash flows); and
(v) it is probable that the entity will collect the consideration.

(d) **Performance obligation in relation to distinct goods and services**
At the inception of a contract, the entity must assess the goods and services promised in a contract and identify as a performance obligation each promise to transfer to the customer either:

(i) a good or service (or a bundle of goods or services) that is **distinct** or

(ii) a series of **distinct** goods or services that are substantially the same and that have the same pattern of transfer to the customer (described by reference to promises satisfied over time, and progress to completion assessment).

A good or service is distinct if both of the following criteria are met:

(i) the customer can benefit from the goods or service either on its own or together with other resources that are readily available to the customer; and

(ii) the entity's promise to transfer the goods or service is separately identifiable from other promises in the contract.

If a promised good or service is not distinct, it must be combined with other promised goods or services until a bundle of goods or services that is distinct can be identified. This could mean that all of the goods or services promised in a contract might be accounted for as a single performance obligation. This sounds quite complicated but simply means that at the inception of a contract an entity must determine whether the contract is for sale of a single deliverable or several deliverables. This is important as revenue is recognised as these separate goods and services are delivered to the customer.

(e) **Step 3 to 5 of the IFRS 15, 5 step Model**

Step 3: Determine the transaction price

i. The transaction price is the amount of consideration an entity expects to be entitled to in exchange for the goods or services promised under a contract, excluding any amounts collected on behalf of third parties (for example, sales taxes).

ii. The nature, timing and amount of consideration promised by a customer affect the estimate of the transaction price. An entity must consider the effects of other factors when determining the transaction price including:

- Variable consideration (including the constraining estimates of variable consideration); and
- Time value of money;

Step 4: Allocate the transaction price to the performance obligations

i. The objective is to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

ii. The transaction price is allocated to each performance obligation in proportion to those stand-alone selling prices determined at the inception of the contract.

iii. A stand-alone selling price is the price at which an entity would sell a promised good or service separately to a customer.

iv. When the sum of the stand-alone selling prices of goods or services promised in a contract exceeds the promised consideration the customer is receiving a discount. The discount should be allocated entirely to one or more (but not all) performance obligations in the contract if all of the following criteria are met:

- each distinct good or service (or each bundle of distinct goods or services) in the contract is sold regularly on a stand-alone basis;

- a bundle (or bundles) of some of those distinct goods or services are sold regularly at a discount to the stand-alone selling prices of the goods or services in each bundle; and
- such discounts are substantially the same as the discount in the contract.

Step 5: Recognise revenue when or as an entity satisfies performance obligation

i. Revenue is recognised when (or as) a company satisfies a performance obligation by transferring a promised good or service to a customer. The amount of revenue recognised is the amount of the transaction price allocated to the performance obligation.

ii. Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services). An asset is transferred when (or as) the customer obtains control of that asset. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

iii. A performance obligation might be satisfied (i.e., goods and services might be transferred):

- over time (in which case revenue would be recognised over time); or
- at a point in time (in which case revenue is recognised at that point in time).

Examiner's report

The question tests candidates' knowledge of the principles and provisions of IFRS 15 - Revenue from Contracts with Customers.
Most of the candidates attempted the question and performance was above average
Although some candidates were able to explain, lists the conditions and criteria highlighted in the accounting standards, most of them were however, unable to highlight the element of the core principle of IFRS 15.
Candidates should pay attention to all sections of the syllabus and also ensure that they understand the provisions and applications of all relevant accounting standards at the skills level of the institute's examination.

Marking guide

		Marks	Marks
a.	**Core principles of IFRS 15**		
	Stating one correct element of IFRS 15 core principles		1
b.	**Conditions for combination of contracts**		

	Stating any two correct conditions		**2**
c.	**Conditions for Application Criteria of IFRS 15**		
	Stating any three conditions for application of IFRS 15		3
d.	**Explanation of the criteria for goods or services to be considered distinct**		
	Explaining any four criteria		4
e.	**Explanation of steps 3 to 5 of IFRS 15, Steps model**		
	Correct explanation of step 3	**1**	
	Correct explanation of step 4	**2**	
	Correct explanation of Step 5	**2**	**5**
	Total		**15**

SOLUTION 7

(a) **Provisions**

i. According to IAS 37, provisions are liabilities of uncertain timing or amount. A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

ii. Provisions differ from other liabilities because there is uncertainty about the timing or amount of the future cash flows required to settle the liability.

iii. A provision should be recognised when:

- a company has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

If one of these conditions is not met, then a provision cannot be recognised.

iv. The amount recognised as a provision must be the best estimate, as at the end of the reporting period, of future expenditure required to settle the obligation.

v. The estimates of the outcome and financial effect of an obligation are made, by management, based on judgement and experience of similar transactions and perhaps report from independent experts.

vi. Uncertainties about the amount to be recognised as a provision are dealt with by various means according to the circumstance. For instance, in measuring of single obligation, the best estimate of the liability may be the most likely outcome.

Contingent liabilities

i. A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, not wholly within the control of the entity.

ii. A contingent liability is one that does not exist at the reporting date but may do so in the future, or it is a liability that exists at the reporting date but cannot be recognised because it fails one of the IAS 37 recognition criteria.

iii. Contingent liabilities are not recognised as liabilities because they are either possible or present obligations but a sufficiently reliable estimate of the amount of the obligation cannot be made.

iv. Contingent liabilities are not recognised in the financial statements. In some circumstances, information about the existence of a contingent liability should be disclosed in the notes to the financial statements.

v. The standard provides that contingent liabilities should be disclosed unless the possibility of any outflow in settlement is remote.

Contingent assets

i. A Contingent asset is a possible asset that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events. A contingent asset might be a possible gain arising from an outstanding legal action against a third party. The existence of the gain (the money receivable) will only be confirmed by the outcome of the legal dispute.

ii. Contingent assets are not recognised in the financial statements. In some circumstances, information about the existence of a contingent asset should be disclosed in the notes to the financial statements.

iii. The standard provides that contingent assets should be disclosed only if an inflow in settlement is probable. IAS 37 defined “probable” as more likely than not.

iv. Where disclosure of a contingent asset is appropriate, the following disclosures are required:

- A brief description of the nature of the contingent asset.

- Where applicable, an estimate of its financial effect and an indication of the uncertainties.

(b) **Sources of regulation**

The main sources of regulation are:

- Accounting standards;
- Company law;
- Sectoral regulations; and
- The listing rules of the relevant stock exchange, for listed companies,

Accounting standards are authoritative statements of how particular types of transactions and events are reflected in the financial statements. International Financial Reporting Standards are used in Nigeria.

Company law varies from country to country, but typically, it also sets out rules for determining profits available for distribution, issuing and redeeming share capital, the reserves that a company must have and the uses to which they can be put. These matters are not covered in accounting standards. The main company law statute in Nigeria is the Companies and Allied Matters Act 2020.

Sectoral regulation may apply to certain industries, for example, the banking sector is regulated by the Central Bank of Nigeria, insurance sector by the National Insurance Commission and pension by the Pension Commission. Such regulations may specify peculiar financial reporting requirements of the sectors. For example, in Nigeria, the Central Bank prudential guidelines override impairment provision of IFRS 9.

Listing rules set out the information which entities must supply when their shares are traded on a major stock market. They must comply with these rules in order to maintain their listing. These rules include requirements relating to information, including financial reports that entities must prepare and provide to the stock market while they are listed.

Examiner's report

The question is in two parts, part (a) requires the candidates to explain the basic terms, recognition and measurement criteria of provisions, contingent liabilities and contingent assets in accordance with IAS 37. Part (b) is on explanation of sources of accounting regulations in Nigeria.

Few candidates attempted the question and performance was poor.

Some candidates were able to explain the sources of accounting regulations in Nigeria. However, majority of them could not answer the part (a) of the question very well and this led to loss of marks.

Candidates are advised to cover all sections of the syllabus for better performance in future examinations of the institutes.

Marking guide

			Marks	Marks
a.	**Explanation of terms – Provisions, contingent liabilities and contingent assets stating recognition and measurement criteria**			
	(i)	**Provisions**		
		Correct explanation of provision	1	
		Any three points on recognition and measurement of provisions	3	
	(ii)	**Contingent liabilities**		
		Correct explanation of contingent liabilities	1	
		Any three points on recognition and measurement of contingent liabilities	3	
	(iii)	**Contingent assets**		
		Correct explanation of contingent assets	1	
		Any three points on recognition and measurement of contingent assets	3	12
b.	**Sources of Accounting regulation in Nigeria**			
	Explaining any three sources			3
	Total			**15**

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – MAY 2025

AUDIT AND ASSURANCE

EXAMINATION INSTRUCTIONS

PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER

1. Check your pockets, purse, mathematical set, etc. to ensure that you do not have prohibited items such as telephone handset, electronic storage device, programmable devices, wristwatches or any form of written material on you in the examination hall. You will be stopped from continuing with the examination and liable to further disciplinary actions including cancellation of examination result if caught.
2. Write your **EXAMINATION NUMBER** in the space provided above.
3. Do **NOT** write anything on your question paper **EXCEPT** your Examination number.
4. Do **NOT** write anything on your docket.
5. Read all instructions in each section of the question paper carefully before answering the questions.
6. Do **NOT** answer more than the number of questions required in each section, otherwise, you will be penalised.
7. All solutions should be written in **BLUE** or **BLACK INK**. Any solution written in **PENCIL** or any other **COLOUR OF INK** will not be marked.
8. You are required to attempt **Question ONE (Compulsory)**, **any TWO Questions in Section B and any TWO Questions in Section C.**
9. Check that you have collected the correct question paper for the examination you are writing.

WEDNESDAY, MAY 21, 2025

DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – MAY 2025

AUDIT AND ASSURANCE

Time Allowed: $3^1/_4$ hours (including 15 minutes reading time)

INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT FIVE OUT OF THE SEVEN QUESTIONS IN THIS PAPER

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

ARTECO LIMITED
Arteco Limited is principally a mail order company, selling goods over the internet. Your firm has been approached to handle the statutory audit of the e-commerce company for the year ended December 31, 2024.

Your discussion with the Managing Director of the company and further enquiry have revealed that the:

(i) company has been in business for about 5 years;
(ii) accounting system operates on an online system with micro computers located throughout the organisation;
(iii) company also applies electronic data interchange (EDI) system. This allows electronic transmission of business documents like purchase orders and invoices;
(iv) previous auditors left because of disagreement about some disclosures in the financial statements for the previous year; and
(v) audited financial statements are needed in the next 3 months by the company's bankers.

The brother-in-law of the Engagement Partner, Mr. Godspower, has just been appointed a Director of Arteco Limited.

Required:

a. Explain **FIVE** audit risks the microcomputer system may pose to the auditor. (10 Marks)

b. Explain **TWO** benefits the online computer-based information system offers Arteco Limited. (2 Marks)

c. Highlight **FOUR** controls that should be in place to minimise the risks that may arise from the use of the online processing system. (8 Marks)

d. Explain **TWO** risks the electronic data interchange (EDI) system may create for the auditor and **TWO** controls expected to be in place to mitigate the risks. (4 Marks)

e. Explain **THREE** ethical matters your firm would consider and the attendant engagement procedures to be carried out before accepting the appointment. (6 Marks)

(Total 30 Marks)

SECTION B: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THREE QUESTIONS IN THIS SECTION (40 MARKS)

QUESTION 2

Demurin Supplies Limited operates a chain of supermarkets in Lagos. The external auditors, in the course of the current audit assignment, discovered cash misappropriation by some officers of the company. On enquiry, the officers concerned claimed that they borrowed the amounts (although without due approval). Further tests revealed that appropriate transactional recording process was not done for the misappropriated cash.

Required:

a. Explain **TWO** types of fraud relating to fraudulent financial reporting, and **TWO** other types of fraud relating to misappropriation of assets according to ISA 240: *The auditor's responsibilities relating to fraud in the audit of the financial statements.* (4 Marks)

b. Explain the responsibility of the external auditor regarding the cash misappropriation in Demurin Supplies Limited. (4 Marks)

c. Discuss the procedure the external auditor is expected to perform in identifying risks due to fraud. (4 Marks)

d. Discuss **SIX** fraud risk factors that can increase the likelihood of fraud happening in an organisation. (6 Marks)

e. Explain the management function that can control the risk of cash misappropriation as the organisation gets bigger. (2 Marks)

(Total 20 Marks)

QUESTION 3

The auditor usually focuses much of his work on the major transaction cycles that cover most of the day-to-day transactions of a company. The payroll is one of the transaction cycles. During the audit of Prima Limited, a major player in the construction industry, the Partner-in-charge has assigned the responsibility of performing test of controls to you to get evidence that the systems and controls are operating effectively.

Required:

Discuss the control objectives, principal controls, and attendant tests of controls in relation to the calculation and payment of salaries and wages in Prima Limited, a company that pays salaries through bank transfer only. **(Total 20 Marks)**

QUESTION 4

The draft financial statements of Veritas Hope Limited as at December 31, 2024 revealed:

(i) bank overdraft balance of ₦12,000,000;
(ii) cash balance of ₦30,000;
(iii) long term borrowings of ₦25,000,000; and
(iv) motor vehicles having a carrying value of ₦28,000,000.

Required:

a. Explain the **THREE** documents that would prove with reasonable certainty that Veritas Hope Limited had a bank overdraft of ₦12,000,000 as at December 31 2024. (3 Marks)

b. Rank these **THREE** documents in (a) above in order of reliability, and give reasons for the ranking. (6 Marks)

c. Explain what procedures you would carry out with the **THREE** documents to prove with reasonable certainty that Veritas Hope Limited had a bank overdraft of ₦12,000,000. (3 Marks)

d. Describe the audit procedures to prove the existence of the cash balance of ₦30,000 in the company's safe as at December 31, 2024. (3 Marks)

e. Explain the initial audit procedures and further tests to be carried out in relation to the carrying value on the schedule of motor vehicles. (5 Marks)

(Total 20 Marks)

SECTION C: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THREE QUESTIONS IN THIS SECTION (30 MARKS)

QUESTION 5

One principle of good corporate governance agrees that the internal audit function should be independent, reporting only to the audit committee or the Chief Executive Officer. This has informed some entities' decision to outsource their internal audit function.

Required:

a. Explain **TWO** other reasons for outsourcing the internal audit function. (4 Marks)

b. Explain **SIX** advantages of outsourcing the internal audit function. (6 Marks)

c. Explain **FIVE** problems of outsourcing the internal audit function. (5 Marks)

(Total 15 Marks)

QUESTION 6

You led the audit team to attend the year-end physical inventory count at the client's premises. Your observations on the process include the facts that:

(i) all the staff involved in the physical count were drawn from the stores department;
(ii) prenumbered count sheets issued to the staff during the count showed the inventory ledger balances for cross-checking against the physical counts;
(iii) physical counts were recorded on the count sheets in pencil for easy amendments;
(iv) inventories not previously recorded on the count sheets were recorded separately on different count sheets numbered only by the counting staff;
(v) the physical inventories were counted without due regard to damaged and obsolete inventories;
(vi) all inventories, including those belonging to third parties, were counted and recorded along with the entity's inventories;
(vii) at the end of the inventory count exercise, the sequence of the sheets were not checked nor the recapitulation done; and
(viii) the count sheets were not duly signed by the responsible officers.

Required:

a. Identify **FIVE** weaknesses in the client's control system for the inventory count. (5 Marks)

b. Give the reasons to prove that each of the identified items in (a) above is a weakness. (5 Marks)

c. Explain how each of the **FIVE** identified weaknesses could be addressed. (5 Marks)

(Total 15 Marks)

QUESTION 7

Real Favour Limited is a client of Adodo Lafe & Co (Chartered Accountants). The Audit Manager has just completed his review of the audit file. His review points include:

(i) confirming ownership of motor vehicles used for distribution of goods;
(ii) confirming the amounts owed by customers;
(iii) testing the procedure of payment of wages to daily paid and casual workers;

(iv) testing the correctness of salary amounts credited to staff bank accounts;
(v) confirming the authorisation for the purchase of plant and machinery;
(vi) ascertaining that inventories belonging to the relevant periods have been accounted for during the inventory stock count;
(vii) checking the periodic trend in the performance of the company as reflected in the financial statements;
(viii) confirming the existence of land and building at the branch office;
(ix) understanding the nature of one-off and unusual payments recorded in the financial records; and
(x) confirming from management that all liabilities have been provided for.

Required:

Explain which audit procedures you would deem most appropriate for obtaining audit evidence in each circumstance, as the senior in charge of the assignment.

(15 Marks)

(Total 15 Marks)

SOLUTION 1

ARTECO LIMITED

a) Microcomputer systems may generate problems of audit risk for the auditor in the following areas:

   i. it may be difficult to ensure adequate physical security of the equipment, because desktop computers for the system may be in many different locations;

   ii. there may be problems in connection with security of data and storage media;

   iii. the unrestricted access to the computers introduces problems of authorisation. There is the possibility of unauthorised amendments to programs or data files;

   iv. Programs may be written or modified by the user and this may cause processing and software problems; and

   v. Lack of adequate documentation for software systems. When software is purchased ‘off-the-shelf’, documentation may not be provided by the software supplier.

b) The benefits the on-line computer-based information system could offer the company include:

i. immediate entry of transactions into the system, for example, sales transactions in a retail outlet can be input from the check-out desk from 'electronic point of sale' terminals linked to a central computer in a network;

ii. immediate updating of master files, such as the immediate updating of inventory records, as soon as inventory is requisitioned; and

iii. enquiry systems, such as immediate answers to price enquiries from customers.

c) Online systems could create concerns about audit risk for the auditor. Controls that should be in place to minimise the risks that arise from the use of online processing system include general controls and application controls that arise from the use of on line processing system include;

(i) **General controls in online systems**

General controls are necessary for the environment in which the computer-based information system is designed, operated and maintained, for example:

- access controls need to be strong because transactions are processed real time by online systems. It is therefore important that unauthorised access to the programs and data files should be prevented;
- programming controls should be built in, to prevent or detect unauthorised changes to programs or standing data;
- transactions log should be used to create an 'audit trail'. An audit trail can be provided by a record (log) of how the computer has processed transactions. The program should be written so as to generate the audit trail on request; and
- firewalls should be used to protect the network 'server' from unauthorised access via the internet.

(ii) **Application controls in online systems**

Online computer systems should have application controls that are suitable for the nature of the processing system, for example:

i. there should be pre-processing authorisation. This means that individuals should be required to log on to the system with their passwords before they can use the program; and

ii. data validation checks can be carried out on the input data. These include digit checks, range checks, existence checks and completeness checks.

These programmed checks help to ensure the completeness and accuracy of inputs, for example, the correct number of digits in product codes.

d. (i) The risks the electronic data interchange (EDI) could create for the auditor include:

- lack of a paper audit trail. Thus, transactions. cannot be followed through the stages or their processing by going from one paper document to another;
- increased level of dependency on the computer systems of the organisation and possibly on outsiders. Any computer failure may therefore have an increased negative impact on the client's organisation;
- the risk of possible loss or corruption of data in the process of transmission. Unauthorised individuals may intercept transmitted data, corrupt the system or steal valuable information or data; and
- security risks in the transmission of data. Unauthorised individuals may be able to read transmitted data.

(ii) Controls to mitigate the risks of the EDI system include:

- controls over transmission of data in the EDI system such as encryption, authentication and acknowledgement systems;
- monitoring and checking of outputs;
- virus protection systems;
- contingency plans and back-up arrangements; and
- creation of electronic audit trail.

(e) Before accepting the appointment, the firm should consider:

i. that it has the required skill, competence and resources to carry out the audit of an online retail client like Arteco Limited;

ii. the nature of the financial statements disclosures that led to the exit of the former auditors;

iii. that the Engagement Partner, being a family member of Mr. Godspower, a director of Arteco Limited, poses a familiarity threat; and

iv. that the financial statements are needed within three months by a bank is a threat, because it mounts undue pressure.

The attendant engagement procedures include:

i. take stock of the firm's human resources, existing skills and competence in handling online retails clients;

ii. independence - The Engagement Partner may be changed to avoid risks to independence or the firm turns down the engagement;

iii. professional enquiry –the firm should obtain the client's consent to communicate with the former auditors to understand the circumstances surrounding their exit from the engagement;

iv. being a deadline job, the firm should do its housekeeping to ascertain that it can deliver within the three months deadline given by the client;

v. do due diligence on the need to deliver audited financial statements to the banker within three months;

vi. do due diligence on the client and its directors to protect the firm against breach of anti-money laundering law and other legal and regulatory requirements.

vii. ascertain that the outgoing auditors were properly removed from office, and all outstanding fees had been paid.

Examiner's report

This question tests the candidates' knowledge of micro-computers and on-Line processing system, with the relevant controls.

This being a compulsory question, almost all the candidates attempted it, but performance was below average.

The commonest pitfall of the candidates was that they limited their consideration of audit risk in computer on-line processing system to inherent risk, control risk and detection risk.

Candidates are advised to study and make computer based audit a priority in this dispensation.

Marking guide

		Marks
a.	**Explanation of the audit risks the micro-computer systems pose to the auditor** (5 correct points @ 2 marks each)	10
b.	**Benefits of the online computer-based information system** (1 mark for each benefit, subject to a maximum of 2 points)	2
c.	**Controls that should be in place to minimise the risks that**	

may arise from the use of the on-line processing system
(2 marks each for any 4 correct points, subject to a maximum of 4 points) 8

d. **Risks the EDI system may create for the auditor and controls to mitigate the risks**
(2 correct points @ 2 marks each) 4

e. **Ethical matters to consider before accepting auditing engagement**
(3 correct points @ 2 marks each) 6
Total **30**

SOLUTION 2

a) The types of fraud identified by ISA 240, *The auditor's responsibilities relating to fraud in the audit of financial statements*, include:

(i) Fraudulent Financial Reporting includes:

- forging or altering accounting records or supporting documentation which form the basis of the financial statements; and
- intentionally misapplying accounting principles.

(ii) Misappropriation of assets includes:

- stealing physical assets like cash, inventory, property, plant and equipment (PPE), or intellectual property like trade secrets, inventions;
- payment for goods not received by an entity; and
- utilisation of the entity's assets for unauthorised private use.

(b) It is the primary responsibility of an entity's management to institute appropriate systems and controls to prevent or defect fraud and even errors. The auditor will be concerned with fraud only to the extent that it might impact on the view shown by the financial statements, that is, if there is a risk of material fraud. The responsibility of the auditor in the above scenario is to identify and assess the risks of material misstatement on account of the fraud and obtain appropriate evidence about those risks through relevant procedures. He would then report to appropriate level of management or consider reporting to statutory authorities.

(c) The procedures the external auditor is required to perform as per ISA 240 in respect of identifying the risks of material misstatements due to fraud include:

i. making enquiries of management in respect of:

- Their assessment of the risk of material fraud;
- The process in place for identifying and responding to the risk of Fraud;

- Any specific risks of fraud identified or likely to exist; and
- Any communication within the entity in respect of fraud;

ii. making enquiries of management and other relevant officers within the entity as to whether they are aware of any actual, suspected or alleged frauds, and to obtain their views about the risks of fraud;

iii. evaluating any unusual or unexpected relationships identified while performing analytical procedures which might indicate a risk of material fraud; and

iv. evaluating information obtained from other risk assessment procedures.

(d) **Fraud risk factors include:**

i. the need to meet the expectations of third parties:
ii. management being remunerated via volume, performance or profit-related bonuses;
iii. ineffective control environment;
iv. the entity's existence, and/or profitability under threat;
v. nature of industry or the entity's operations providing opportunities for fraud;
vi. low morale amongst staff or poor communication;
vii. personal pressures to misappropriate assets, especially finance;
viii. unwillingness to take vacations;
ix. living beyond one's means; and
x. unusually close association with entity's suppliers or customers.

(e) i. Internal audit is a management function that could control the risk of cash misappropriation as an organisation gets bigger.

ii. Being resident, unlike the external audit, internal audit is part of the control procedures to institute internal controls, check compliance with policies and procedures, and undertake constant reviews to ensure the organisation's assets are well protected.

Examiner's report

The question tests the candidates' knowledge of fraud and auditors' responsibility relating to fraud in the audit of financial statements - ISA 240: *The auditor's responsibilities relating to fraud in the audit of financial statements.*

About 45% of the candidates attempted the question and the general performance was average.

The commonest pitfall was that the candidates gave vague and irrelevant answers, especially for fraud risk factors.

Candidates are advised to cover the syllabus adequately and link their answers to the requirements of the question.

Marking Guide

		Marks
a.	**Types of fraud relating to fraudulent financial reporting and misappropriation of assets according to ISA 240** (4 correct points @ 1 mark)	4
b.	**Responsibility of the external auditor regarding cash misappropriation** (4 correct points @ 1 mark each)	4
c.	**Procedures the external auditor should perform in identifying risks due to fraud** (1 mark for each correct point, subject to a maximum of 4 points)	4
d.	**Risk factors that can increase the likelihood of fraud in an organisation** (1 mark for each correct point, subject to a maximum of 6 points)	6
e.	**Management function that can control the risk of cash misappropriation in an organisation** (2 correct points @ 1 mark each)	2
	Total	**20**

SOLUTION 3

Control activities, principal controls, and tests of controls relating to calculation of salaries and wages are as follows:

Examples of control objectives	**Examples of principal controls**	**Tests of controls**
Wages and salaries not to be paid to individuals who are not employees	Segregation of duties so that the individual responsible for preparing wages and salaries should not be the person who actually pays them	The auditor to check that the segregation of duties does exist.
	The gross pay for each individual employee should be authorised by an appropriate person.	The auditor to check that departmental payroll lists are properly authorised.

	There should be formal authorisation for inclusion of new employees.	Documentation for authorising new employees and putting them on the payroll file, manual or computerised, should be checked.
Salaries to be calculated correctly	There should be formal personnel records, giving details of each employee and his or her rate of pay, and dates of 'starting and leaving employment.	The payroll file to be checked.
Employees paid time-based wages to be paid for the time they have worked.	There should be time sheets for hourly-based employees, and these should be authorised by an appropriate supervisor.	Time sheets to be checked. These should include the signature of the manager or supervisor confirming the hours worked by the individual employee.
	Alternatively, a clock card system might operate.	For a clock card system, the auditor will need to test the controls in operation, such as to ascertain that employees cannot clock in for each other.
Payments not to be made except for work done and unless properly authorised. Payro.ll calculations should be accurate.	A senior manager should check the total payroll cost each week or month, to make sure that the total amount does not appear excessive.	Authorised payroll lists should be checked. These should contain the signature or initials of the manager who checked the list.
P.A.Y.E tax and other deductions from pay should be calculated correctly.	Payroll procedures, IT or manual, should provide for all appropriate deductions, using up-to-date rates of tax.	The auditor to review any manual procedures for calculating deductions, and the tax rates used. In an IT system, general IT controls will be important to check that the system was properly developed, tested and implemented. Test data could be used and results

		compared to independently calculated figures.
Deductions from pay, for example, for pension contributions, should be made in accordance with existing regulations.	Senior management should check the total amount of deductions each month.	The auditor can check that a senior manager has approved total deductions, evidenced by his or her signature on the appropriate document. The payroll file can be checked against the calculation of deductions in employee wages or salaries, to confirm that deductions have been fully made and remitted.

Control activities, principal controls, and tests of controls relating to payment of salaries and wages are as follows:

Examples of control objectives	Examples of principal controls	Tests of controls
The correct amounts of net pay to be paid to employees.	When salaries and wages are paid by automated bank transfer, the list of payments should be authorised by an appropriate manager.	Authorised lists of payments to be checked.
The correct amount of deductions is paid to the appropriate authority, for example, the tax authority.	There should be formal procedures and a formal timetable for the payment of deductions, and recording payments in the accounts.	The procedures for payments of deductions and manual recording of payments in the accounts to be checked. In an integrated IT system, the nominal or general ledger accounts will be automatically updated with deductions.
Payments of net salaries and wages are made only to the proper person, the employee.	Bank statements should be used to check that payments have been properly recorded in the accounts.	Evidence of bank reconciliation checks to be obtained

Payments are correctly recorded in the accounts.	There should be controls within the accounting system to ensure that there is reconciliation between total amounts payable and total paid.	The accounts to be checked to confirm that payrolls for each week or month, total payable and total paid, are reconciled. Again, this will not be necessary in an integrated IT system, provided that the auditor is satisfied that the system is working properly, perhaps by processing a 'dummy' payroll run.

Examiner's report

The question tests the candidates' knowledge of internal control in a given scenario.

About 50% of the candidates attempted the question and the performance was average.

The commonest pitfall was the candidates' inability to explain correctly control objectives, principal controls and tests of controls.

Candidates are advised to correctly apply their knowledge to practical scenarios, as this is the skills section of the examinations.

Marking guide

	Marks
Stating control objectives, principal controls and attendant tests of controls in the calculation and payment of salaries and wages	
(5 correct calculation points @ 2 marks each)	10
(5 correct payment points @ 2½ marks each)	<u>10</u>
Total	**20**

SOLUTION 4

(a) The documents to assist an auditor to prove with reasonable certainty that Veritas Hope Limited had an overdraft balance of ₦12 million are the client's bank reconciliation statements, the bank statements and the bank confirmation letter.

(b) The bank confirmation letter is the most reliable, as it is a third-party document that has been generated at the request of the auditor and sent directly to the auditor without the client being involved, apart from providing authorisation to the bank to disclose such information to the auditor. The bank confirmation letter is a reply directly to the auditor from the bank that details the accounts and balances that are held at a bank by a particular client. It also details any long-term borrowings that are owed together with any other relevant information, such as any security held by the bank over outstanding loans.

The bank statements are next in order of reliability although they are third party documents, they are usually provided to the auditor by the client. The bank sends the statements to the client who passes them on to the auditor to review during the audit. Any documents that pass through the hands of the client will be less reliable as there is the risk, however small, that the client will alter the documents to fulfil their own objectives.

Finally, the bank reconciliation statement is the least reliable as it is a client generated document. As such, this document cannot be fully relied upon and further audit evidence will be sought to confirm its accuracy.

(c) Audit procedures include:

i. casting the bank reconciliation statement to confirm arithmetical accuracy;

ii. tracing the bank statement balance on the bank reconciliation statement to the bank statement, agreeing it to the bank confirmation letter;

iii. tracing and agreeing all unpresented cheques and outstanding lodgements on the bank reconciliation to post year-end bank statements to ensure that they have been cleared in a reasonable timeframe;

iv. tracing and agreeing the cash book balance on the bank reconciliation statement to the company's accounting records; and

v. scrutinising the bank confirmation letter to ensure that no other bank accounts exist.

(e) The auditor should plan to visit some of the offices of Veritas Hopes Limited on the last day of the year to observe counting of all cash on the premises. This can then be verified to a list of year end cash balances during the final audit. Agree the cash balance to the treasury book. The auditor should also obtain certificate of cash balance from the management.

(e) **Audit procedures to be carried out in relation to the carrying value on the schedule of motor vehicles.**

(i) **Initial procedures**

These include:

- agreeing opening cost, depreciation, and the carrying amounts to last year's audited closing balances to ensure they have been brought forward correctly;
- casting the schedule to ensure there are no arithmetical errors;
- agreeing the total on the schedule to the trial balance and the financial statements to ensure that it is accurate and complete; and
- ensuring that the presentation is in accordance with the provisions of IFRS Accounting Standards for adequate disclosure.

(ii) **Further procedures**

These include:

- Completeness
  - ➢ During the physical inspection for existence, record details of some vehicles and ensure those vehicles are recorded in the non-current assets register.
  - ➢ For additions during the year, identify the suppliers of the vehicles from the purchase invoices. Obtain all invoices from this supplier and confirm completeness of recording in the non-current asset register.
- Existence
  - ➢ For a sample of vehicles from the ledger, confirm existence by physical inspection.
- Rights and obligations
  - ➢ Examine a sample of purchase invoices to confirm ownership of the vehicles. Examine a sample of registration documents with government authorities.
- Valuation and allocation
  - ➢ Review company policy for depreciation. Confirm with amount charged in similar companies that the depreciation percentage appears to be reasonable.
  - ➢ Agree depreciation charged in the non-current asset schedule to the amount on the profit or loss account.

Examiner's report

The question tests the candidates' knowledge of audit evidence, especially as it relates to the existence assertion.

About 90% of the candidates attempted this question, but the performance was just fair.

The commonest pitfall of the candidates was their inability to rank bank confirmation letter, bank statement and the bank reconciliation statement properly in order of reliability.

Candidates should study well and be conversant with audit evidence related to existence assertion

Marking guide

		Marks
a.	**Documents that would prove the existence of bank overdraft balance of ₦12,000,000** (3 correct points @ 1 mark each)	3
b.	**Ranking of the above documents in order of reliability and reasons for ranking** (3 correct points @ 2 marks each)	6
c.	**Procedures to be carried out with the documents above to prove the value of the overdraft balance** (3 correct points @ 1 mark each)	3
d.	**Audit procedures to prove the existence cash balance in the safe** (3 correct points @ 1 mark each)	3
e.	**Initial audit procedures and further tests on carrying value on motor vehicles, schedule** (1 mark for each correct point subject to a maximum of 5 points)	5
	Total	**20**

SOLUTION 5

a. The other main reasons for outsourcing internal audit work include the following:

  i. the cost of maintaining a permanent internal audit function may be very high; and

  ii. smaller companies may have a need for an internal audit function, but not on a permanent basis.

b. The advantages of outsourcing internal audit function include:

   i. staff recruitment - there is no need for the company to recruit and train its own internal audit staff. An internal audit function can be instantly available by hiring the services of an accountancy firm;

   ii. auditor skills - the outside supplier is likely to have specialist staff available, such as computer audit experts. Internal auditors with an IT specialisation may be difficult to recruit as full-time employees;

   iii. costs and flexibility - the cost of the internal audit function is a variable cost rather than a fixed cost. A company, therefore, only pays for the internal audit time that it uses;

   iv. the auditors being outsourced are independent from the organisation since they are not members of staff;

   v. outsourcing is likely to be more economical for a small entity that does not have enough audit work to justify a full-time internal audit team;

   vi. it allows the organisation to concentrate on its core activity; and

   vii. access to advanced technologies and tools of the external specialised entities.

c. Possible problems of outsourcing are:

   i. if internal audit work is outsourced to the company's external auditors. Independence problems may arise for the external auditor;

   ii. the internal auditors provided by an external firm may change continually, and there may be a lack of continuity in the service provision as a consequence;

   iii. internal auditors provided may not have full understanding of the client's business;

   iv. an accountancy firm may charge high fees for internal audit services;

   v. the internal auditors provided by an external firm will be expected to maintain complete confidentiality about the client's affairs. However, the risk of a 'leak' may be higher than if full-time internal auditors are employed;

   vi. an entity may not have the same control over its internal audit work if the work is outsourced; and

   vii. conflict of interest - if internal audit work is carried out by the entity's firm of external auditors, the internal auditors and external auditors may have a conflict of interest, affecting their objectivity.

Examiner's report

The question tests candidates' knowledge of outsourcing the internal audit function.

About 70% of the candidates attempted the question, but the performance was just fair.

The commonest pitfall of the candidates was their inability to explain the advantages and problems associated with outsourcing the internal audit function.

Candidates are advised to cover the entire syllabus and make use of the Institute's Pathfinders and Study Text.

Marking guide

		Marks
a.	**Two reasons for outsourcing internal audit functions**	
	(2 correct points @ 2 marks each)	4
b.	**Advantages of outsourcing internal audit functions**	
	(1 mark for each advantage stated, subject to a maximum of 6 points)	6
c.	**Problems of outsourcing internal audit functions**	
	(1 mark for each point, subject to a maximum of 5 points)	5
	Total	**15**

SOLUTION 6

a. The weaknesses in the client's control system for inventory count include:

   i. count staff were drawn from the stores department only;

   ii. pre-numbered inventory count sheets also reflected ledger balances;

   iii. recording physical counts in pencil;

   iv. the physical inventory was done without regard to damaged and obsolete items;

   v. inventories not on the pre-numbered count sheets were recorded by the count staff on different count sheets;

   vi. inventories belonging to third parties in the entity's possession were also counted and recorded with the entity's inventory;

   vii. at the end of the inventory count exercise, sequence of the count sheets were not checked nor the summarisation/recapitulation done; and

   viii. count sheets were not duly signed nor attested to by the responsible officers after the exercise.

b. Reasons to prove that each of the identified items in (a) above is a weakness are:

   i. the count staff from only the stores department may use the opportunity to cover up physical defalcation of inventory or any other fraud or error;

   ii. ledger balances on the pre-numbered inventory sheets may cause the inventory staff to work towards achieving the ledger balances level only;

   iii. recording physical counts in pencil may allow undue amendment to the physical count results even after the physical count itself;

   iv. undue regard to damaged or obsolete items would cause incorrect valuation and presentation of inventory figures in the financial statements;

   v. not pre-numbering count sheets may allow manipulation or mishandling of count sheets;

   vi. merging third party inventories in the inventory counts will distort the valuation which will cause incorrect presentation of the inventory value in the financial statements with its attending distortion of operating results;

   vii. not checking count sheets at the end of the inventory count may cause loss of the inventory sheets and incorrect valuation of inventory; and

   viii. if the count sheets were not signed after the exercise, the authenticity of the count sheets would be put into question.

c. The ways the identified weaknesses could be addressed include:

   i. involving staff from other sections of the entity in the physical count process;
   ii. physical count sheets should not include ledger balances;
   iii. count sheets should be recorded only in ink;
   iv. damaged or obsolete inventory should be duly regarded, for true and fair inventory valuation figures;
   v. all inventory sheets should be properly pre-numbered, recorded and controlled;
   vi. third party inventories should not be counted as part of inventories of the entity;
   vii. there should be proper summarisation or recapitulation of inventory count sheets especially for the completeness assertion; and
   viii. count sheets should be signed or attested to by responsible officials after the inventory count.

Examiner's report

The question tests the candidates' knowledge of substantive procedures on inventory.

About 85% of the candidates attempted the question and the performance was good.

The commonest pitfall of the candidates was giving wrong weaknesses points to the scenario.

Candidates should study well for future examinations and make use of ICAN Study Text and Pathfinders.

Marking guide

		Marks
a.	**Weaknesses in control system for inventory count** (1 mark for each correct point, subject to a maximum of 5 points)	5
b.	**Reasons to prove that each item is a weakness** (1 mark for each correct point, subject to a maximum of 5 points)	5
c.	**How each weakness can be addressed** (1 mark for each correct point, subject to a maximum of 5 points)	5
	Total	**15**

SOLUTION 7

The audit procedures that would be most appropriate for obtaining audit evidence in the situations highlighted are:

i. ownership of motor vehicle – inspection of current motor vehicle licence issued by government institution, like the licencing authorities;

ii. amount owed by customers – external confirmation obtained from replies to letter of circularisation;

iii. payment of wages to casual staff – observation of payment procedures;

iv. correctness of salary amount – Recalculation of arithmetical accuracy;

v. authorisation for purchase of plant and machinery – inspection of the minutes of Directors or those charged with governance;

vi. ascertaining correct timing of recording of inventory transaction – cut off procedure;

vii. checking the trend of performance of company – Analytical Procedures;

viii. confirming the existence of land and building – physical inspection of the structures;

ix. the nature of one off unusual payment – Enquiry from management or those charged with governance; and

x. confirmation from management that all liabilities have been provided for – letter of representation.

Examiner's report

The question tests the candidates' knowledge of audit procedures.

About 70% of the candidates attempted the question, but the performance was only average.

The commonest pitfall was the candidates' treatment of the separate audit procedures as general substantive tests.

Candidates should prepare adequately for future examinations and answer questions according to their specific requirements.

Marking guide

	Marks
Audit procedures most appropriate for obtaining audit evidence in different circumstances listed in the question	
(1½ marks each for 10 points)	15
Total	**15**

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – MAY 2025

PERFORMANCE MANAGEMENT

EXAMINATION INSTRUCTIONS

PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER

1. Check your pockets, purse, mathematical set, etc. to ensure that you do not have prohibited items such as telephone handset, electronic storage device, programmable devices, wristwatches or any form of written material on you in the examination hall. You will be stopped from continuing with the examination and liable to further disciplinary actions including cancellation of examination result if caught.
2. Write your **EXAMINATION NUMBER** in the space provided above.
3. Do **NOT** write anything on your question paper **EXCEPT** your examination number.
4. Do **NOT** write anything on your docket.
5. Read all instructions in each section of the question paper carefully before answering the questions.
6. Do **NOT** answer more than the number of questions required in each section, otherwise, you will be penalised.
7. All solutions should be written in **BLUE** or **BLACK INK**. Any solution written in **PENCIL** or any other **COLOUR OF INK** will not be marked.
8. A formula sheet and discount tables are provided with this examination paper.
9. You are required to attempt **Question ONE (compulsory), any TWO Questions in Section B and any TWO questions in Section C**.
10. Check that you have collected the correct question paper for the examination you are writing.

WEDNESDAY, MAY 21, 2025

DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – MAY 2025

PERFORMANCE MANAGEMENT

Time Allowed: $3^1/_4$ hours (including 15 minutes reading time)

INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT FIVE OUT OF THE SEVEN QUESTIONS IN THIS PAPER

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

A company has been asked to provide a quotation for an engineering project that will take one year to complete. An analysis of the project has already been completed and the following resource requirements have been identified:

(i) A specialised machine will be required for a total of 10 weeks. Two of these weeks are at the start of the project and three of them are at the end. The machine could be hired from a reputable supplier, who would guarantee its availability when it is required, for ₦40,000 per week. Alternatively it could be purchased at a cost of ₦2,500,000. If it was purchased, it could be sold in one year's time for ₦1,500,000. If the machine was purchased, it could be hired out to other companies for ₦25,000 per week and it is believed that it would be hired out for a total of 30 weeks.

(ii) The machine has a running cost of ₦7,200 per week. This cost is incurred by the user of the machine.

(iii) It is the company's policy to depreciate non-current assets by 25% per year on a reducing balance basis.

(iv) Skilled labour would be required for a total of 9,000 hours during the year. The labour required could be recruited at an hourly rate of ₦120. Alternatively some of the employees currently working on other projects within the company could be transferred to this project. The hourly rate is ₦100 per hour. If these existing employees were to be transferred to this project, replacement will be needed on the existing project work. Replacements on the existing project work would cost ₦110 per hour.

(v) Unskilled labour would be required for a total of 12,000 hours during the year. These employees would need to be recruited on a one year contract at a cost of ₦80 per hour.

(vi) The project would need to be supervised and it is estimated that there would be a total of 500 hours of supervision required during the year. One of the existing supervisors could undertake this work, but will require a total of 300 hours overtime during the year to carry out the supervision on this project as well as his existing duties. The supervisor earns a salary of ₦500,000 per year for working 2,000 hours and is not paid for overtime work. If this project goes ahead, the supervisor will be paid a bonus of ₦5,000, which would not be paid if the project is not undertaken.

(vii) The direct materials required for the project are as follows:

Material A

The total amount required for the project would have to be purchased at a cost of ₦150,000.

Material B

The total quantity required would be 10,000 square metres. The company purchased 25,000 square metres of this material for a project two years ago at a total cost of ₦1,000,000. The earlier project used 20,000 square metres of the material and the remainder is currently held in inventory. The company does not foresee any other use for this material in the future and could sell it for ₦20 per square metre. The current purchase price of the material is ₦50 per square metre.

(viii) The company has already incurred expenditure of ₦250,000 in analysing the resource requirements of the project.

(ix) It is the company's policy to attribute overhead costs to projects using an absorption rate of 40% of prime costs.

(x) It is the company's policy to add a 25% profit mark-up to total costs when setting its prices.

Required:

a. Prepare a statement that shows the relevant cost of the project. For each of the resources indicated in notes (1) to (10) you must clearly explain the reason for the cost value that you have used.

Ignore the time value of money and taxation. (20 Marks)

b. Assume that:
   (i) The company used your calculations as the basis of the quotation and added ₦1,250,000 for profit.
   (ii) All costs incurred were the same as forecast.

   Explain why the financial profit reports at the end of the year would not show a profit of ₦1,250,000 for the engineering project. (4 Marks)

c. Explain why contribution margin theory is used as a basis for providing information relevant to decision making. (2 Marks)

d. Explain the relevance of opportunity costs in decision making.

(4 Marks)

(Total 30 Marks)

SECTION B: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION (40 MARKS)

QUESTION 2

Adebat Cleaning Services is a company that operates a car wash service in Ikeja, Lagos State. The economic condition in Nigeria in recent times has affected all households and businesses. Due to deregulation, petroleum products prices have gone up astronomically and food inflation has also reached an all-time high of over 200%. Costs of vehicles have gone up beyond the reach of an average citizen, having increased by over 300% due to the depreciation on the naira exchange rate to other international currencies. The economic situation has further reduced the disposable income of citizens by over 50%. As a result of this harsh economic environment, car owners find it difficult to replace their cars and now result to constant maintenance, including regular car wash.

Adebat Cleaning Services operates two types of car wash, Complete-wash and Mini-wash. The Complete wash entails cleaning of both the inside and outside of the cars, while Mini wash is the washing of the outside of the cars only. Adebat charges ₦1,000 and ₦500 for the Complete and Mini wash respectively.

The company's budget and actual figures for 2024 were as follows:

	Budget	Actual
Number of cars:		
Complete – wash	6,000	6,800
Mini – wash	4,000	7,000
	₦	₦
Revenue	8,000,000	10,640,000
Variable costs:		
Staff wages	(3,840,000)	(4,018,800)
Cleaning materials	(200,000)	(400,000)
Energy costs	(240,000)	(340,800)
	(4,280,000)	(4,759,600)
Contribution	3,720,000	5,880,400
Fixed costs:		
Rent, rates and depreciation	(1,200,000)	(1,200,000)
Operating profit	2,520,00	4,680,400

The budgeted contribution to sales ratios for the two types of car wash are 45% for complete-wash and 56% for mini-wash.

Required:

a. Explain briefly the sales mix contribution variance and the sales quantity contribution variance. (2 Marks)

b. Calculate:
   (i) Total sales mix contribution variance. (4 Marks)
   (ii) Total sales quantity contribution variance. (4 Marks)

c. In the light of the situation in Nigeria and using the results of your calculations in (b) above, discuss the sales performance of Adebat Cleaning Services in 2024. (10 Marks)

(Total 20 Marks)

QUESTION 3

Twins Nig. Ltd, a company based in Aba, produces industrial vanish. The selling prices and associated unit variable costs for vanish Grade A and Grade B are shown below:

	Grade A	Grade B
	₦	₦
Selling price	2,100	1,500
Material X (₦240 per kg)	480	240
Skilled labour (₦144 per hour)	720	288
Unskilled labour (₦60 per hour)	120	180
Variable overhead (₦84 per machine hour)	168	338

The fixed overhead cost is ₦600,000 per month and the company plans to maximise profits.

Available resources for the following month is as follows:

Material X	2,500 kg
Skilled labour	4,800 hours
Unskilled labour	3,900 hours
Machine hours	5,000 hours

Required:

a. (i) Identify the objective function and the constraints to be used in a linear programming model to determine the optimum production plan for the following month. (5 Marks)

(ii) Produce, using simultaneous equations, the optimum production plan and the resulting profit for the following month. (5 Marks)

b. Management is now considering negotiating overtime work with both the skilled and unskilled labour. Advise management what maximum amount should be offered per hour of overtime, separately, for skilled labour and for unskilled labour. (Show calculations). (5 Marks)

c. Assume that the company has the choice of producing either Grade A of the vanish or Grade B, but not both. Calculate which Grade of the vanish should be produced in order to maximise contribution. What quantity should be produced and the resulting total contribution? (5 Marks)

(Total 20 Marks)

QUESTION 4

Chukwumah Nigeria Limited manufactures and sells three products X, Y and Z. The company is recently considering the introduction of an activity-based costing approach to facilitate efficient cost allocation, as well as achieve improvement in cost accuracy and reduction.

The new approach will use two direct costs categories (direct materials and direct labour) as well as five indirect cost pools which represent the five activity areas. The prior product costing system uses the two direct cost categories and a single indirect cost pool where overheads are allocated using direct labour hours.

The following information is provided for the next period:

	Product X	Product Y	Product Z
Production and sales (units)	120,000	75,000	30,000
Direct material cost	₦190	₦180	₦160
Direct Labour Hours	6	8	7
Machine hours	4	8	9
Number of production runs	15	30	75
Number of component receipts	45	75	360
Number of production orders	45	30	75

Direct labour is paid at ₦8 per hour. Variable overhead is paid at ₦34 per unit for Product X, ₦44 per unit for Product Y and ₦38 per unit for Product Z.

Fixed Overhead Costs in the period are expected to be as follows:

	₦	Cost Driver
Set up	1,260,000	Production Runs
Machine	8,100,000	Machine Hours
Goods inwards	2,520,000	Company Receipt
Packaging	1,800,000	Production Order
Engineering	1,620,000	Production Order
	₦15,300,000	

Required:

a. Calculate the unit costs of each product using:
   (i) Prior product costing approach (Traditional Cost) based on direct labour hourly rate.
   (ii) The ABC method. (10 Marks)

b. The company considered the pricing of the three products where sales prices have remained uncertain as shown in the table below:

Product X		Product X		Product Z	
Prob.	₦	Prob.	₦	Prob.	₦
0.5	300	0.6	350	0.5	450
0.3	360	0.3	400	0.4	440
0.2	390	0.1	420	0.1	430

Compute the expected unit sales prices for the three products and the total profit or loss for each product that will arise from the implementation of the ABC costing approach and the traditional costing method. (7 Marks)

c. State reasons why activity based costing approach may be preferred to traditional absorption costing approach in modern manufacturing environment. (3 Marks)

(Total 20 Marks)

SECTION C: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION (30 MARKS)

QUESTION 5

ABC Nigeria Plc has three separate divisions – North, East and West divisions, each operating as an investment centre within the group. East Division makes and sells three products, A, B and C. All three products are sold under a brand name Alpha label, but Product A and Product B are also sold through a sales outfit as beta branded products.

Budgeted data for the year to December 31, 2024 is as follows:

Product sales

	Product A	Product B	Product C
	Units	Units	Units
Alpha brand	160,000	120,000	50,000
Beta brand	450,000	600,000	-

Selling prices	Product A	Product B	Product C
	₦ per unit	₦ per unit	₦ per unit
Alpha brand	5.00	6.40	10.00
Beta brand	3.00	4.00	-

Variable costs	Production	Packaging
	₦per unit	₦per unit
Product A:		
Alpha brand	2.40	0.60
Beta brand	2.40	0.20
Product B:		
Alpha brand	3.20	0.80
Beta brand	3.20	0.40
Product C:		
Alpha brand	5.00	1.00

Budgeted marketing expenditure is ₦300,000 for the year, and other budgeted expenditure for other fixed costs is ₦700,000. The average capital employed in East Division in Year 2024 is expected to be ₦1,000,000 and each division's cost of capital is 12%.

Required

a. Calculate the budgeted Return on investment for East Division for the year to December 31, 2024. (5 Marks)

b. Calculate the budgeted residual income for East Division for the year to December 31, 2024. (5 Marks)

c. What are the advantages of return on investment measure over the residual income approach of divisional performance appraisal. (5 Marks)

(Total 15 Marks)

QUESTION 6

a. Egoyibo Nigeria Limited is a company which produces a single product on an assembly line. The budget personnel has been availed with the following information which represents the extremes of high and low volumes of production which the company will achieve over a three month period.

	Production of 80,000 units	Production of 160,000 units
	₦	₦
Direct materials	6,400,000	12,800,000
Indirect materials	960,000	1,600,000
Direct labour	4,000,000	8,000,000
Power	1,440,000	1,920,000
Repairs	1,600,000	2,400,000
Supervision	1,600,000	2,880,000
Rent, insurance and rates	720,000	720,000

Additional information:

Supervision is a "step function". To this end, one supervisor is employed for all production levels up to and including 100,000 units. For higher levels of production, an assistant supervisor whose remunerations is ₦1,280,000 will be added.

Required:

Prepare a set of flexible budgets for presentation to the Production Director to cover the following levels of production over a period of three months:

(i) 80,000 Units
(ii) 100,000 Units
(iii) 120,000 Units
(iv) 140,000 Units
(v) 160,000 Units (9 Marks)

b. During the three months July to September 2024, 100,000 units were produced. Actual costs incurred during this period were as follows:

	₦
Direct materials	8,300,000
Indirect materials	1,160,000
Direct lbour	5,400,000
Power	1,520,000
Repairs	1,770,000
Supervision	1,700,000
Rent, insurance and rates	640,000

Required:

(i) Prepare a budget report for presentation to the Production Director displaying all relevant variances. (3 Marks)

(ii) For each variance, suggest any further investigations which might be required and necessary actions needed to be taken by the Director. (3 Marks)

(Total 15 Marks)

QUESTION 7

Yaro Ltd makes two types of solar panels at its manufacturing plant: Red panels for commercial customers and Black panels for domestic customers. All panels are produced using the same materials, machinery and a skilled labour force. Production takes place for five days per week, from 7am until 8pm (13 hours), 50 weeks of the year. Each panel has to be cut, moulded and then assembled using a cutting machine (Machine C), a moulding machine (Machine M) and an assembly machine (Machine A).

As part of a government scheme to increase renewable energy sources, Yaro Ltd has guaranteed not to increase the price of Black or Red panels for the next three years. It has also agreed to supply a minimum of 1,000 black panels each year to domestic customers for this three-year period.

Due to poor productivity levels, late orders and declining profits over recent years, the Finance Director has suggested the introduction of throughput accounting within the organisation, together with a 'Just in Time' system of production.

Material costs and selling prices for each type of panel are shown below.

	Red panels	**Black panels**
	₦	**₦**
Selling price per unit	12,600	3,800
Material costs per unit	4,300	1,160

Total factory costs, which include the cost of labour and all factory overheads, are ₦12million each year at the plant.

Out of the 13 hours available for production each day, workers take a one hour lunch break. For the remaining 12 hours, Machine C is utilised 85% of the time and Machines M and A are utilised 90% of the time. The unproductive time arises either as a result of routine maintenance or because of staff absenteeism, as each machine needs to be manned by skilled workers in order for the machine to run. The skilled workers are currently only trained to work on one type of machine each. Maintenance work is carried out by external contractors who provide a round the clock service (that is, they are available 24 hour a day, seven days a week), should it be required.

The following information is available for Machine M, which has been identified as the bottleneck resource:

	Red panels Hours per unit	Black panels Hours per unit
Machine M	1.4	0.6

There is currently plenty of spare capacity on Machines C and A. Maximum annual demand for Red panels and Black panels is 1,800 units and 1,700 units respectively.

Required:

a. Calculate the throughput accounting ratio for Red panels and for Black panels and explain what they indicate to Yaro Ltd about production of each type of panel. (5 Marks)

b. Assume that your calculations in part (a) hve shown that Red panels have a higher throughput accounting ratio than Black panels.

Required:

Using throughput accounting, prepare calculations to determine the optimum production mix and maximum profit of Yaro Ltd for the next year. (5 Marks)

c. Suggest and discuss **THREE** ways in which Yaro Ltd could try to increase its production capacity and hence increase throughput next year without making any additional investment in machinery. (5 Marks)

(Total 15 Marks)

Formulae

Learning curve

$Y = ax^b$

Where Y = cumulative average time per unit to produce x units

a = the time taken for the first unit of output

x = the cumulative number of units produced

b = the index of learning (log LR/log2)

LR = the learning rate as a decimal

Demand curve

$P = a - bQ$

$$b = \frac{\text{change in price}}{\text{change in quantity}}$$

a = price when Q = 0

$MR = a - 2bQ$

The linear regression equation of Y on X is given by:

$$Y = a + bX$$

where

$$b = \frac{n\sum XY - (\sum X)(\sum Y)}{n\sum X^2 - (\sum X)^2}$$

$$a = \frac{\sum y}{n} - \frac{b\sum x}{n}$$

Coefficient of determination (r^2)

$$r^2 = \frac{(n\sum XY - \sum x\ \sum Y1)^2}{(n\sum X^2 - (\sum X)^2\ (n\sum y^2 - (\sum X)^2}$$

The Miller-Orr Model

$$Spread = 3 \text{ x} \left(\frac{\frac{3}{4} \text{x Transaction Cost x Variance of Cash flows}}{\text{Interest rate (as a proportion)}} \right)^{\frac{1}{3}}$$

Annuity Table

Present value of an annuity of 1 i.e. $\frac{1 - (1 + r)^{-n}}{r}$

Where r = discount rate

n = number of periods

Discount rate (r)

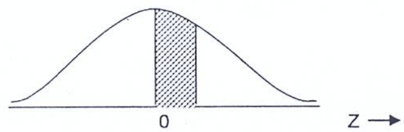
Periods

(n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0·990	0·980	0·971	0·962	0·952	0·943	0·935	0·926	0·917	0·909	1
2	1·970	1·942	1·913	1·886	1·859	1·833	1·808	1·783	1·759	1·736	2
3	2·941	2·884	2·829	2·775	2·723	2·673	2·624	2·577	2·531	2.487	3
4	3·902	3·808	3.717	3·630	3.546	3.465	3·387	3·312	3·240	3·170	4
5	4·853	4·713	4·580	4·452	4·329	4·212	4·100	3·993	3.890	3·791	5
6	5·795	5·601	5·417	5·242	5·076	4·917	4·767	4·623	4.486	4·355	6
7	6·728	6.472	6·230	6·002	5·786	5·582	5·389	5·206	5·033	4·868	7
8	7·652	7·325	7·020	6·733	6·463	6·210	5·971	5·747	5·535	5·335	8
9	8·566	8·162	7·786	7.435	7·108	6·802	6·515	6·247	5·995	5·759	9
10	9·471	8·983	8·530	8·111	7·722	7·360	7·024	6·710	6.418	6·145	10
11	10·368	9·787	9·253	8·760	8·306	7·887	7.499	7·139	6·805	6.495	11
12	11·255	10·575	9·954	9·385	8·863	8·384	7·943	7·536	7'161	6·814	12
13	12·134	11·348	10·635	9·986	9·394	8·853	8·358	7·904	7·487	7·103	13
14	13·004	12·106	11·296	10·563	9·899	9·295	8·745	8·244	7·786	7·367	14
15	13·865	12·849	11·938	11·118	10·380	9·712	9·108	8·559	8·061	7·606	15

(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0·901	0·893	0·885	0·877	0·870	0·862	0·855	0·847	0·840	0·833	1
2	1·713	1·690	1·668	1·647	1·626	1·605	1·585	1·566	1·547	1·528	2
3	2.444	2.402	2·361	2·322	2·283	2·246	2·210	2·174	2·140	2·106	3
4	3·102	3·037	2·974	2·914	2·855	2·798	2·743	2.690	2·639	2.589	4
5	3·696	3·605	3·517	3·433	3·352	3·274	3·199	3·127	3·058	2·991	5
6	4·231	4·111	3·998	3·889	3·784	3·685	3·589	3.498	3.410	3·326	6
7	4·712	4·564	4.423	4·288	4·160	4·039	3·922	3·812	3·706	3·605	7
8	5·146	4·968	4.799	4·639	4.487	4·344	4·207	4·078	3·954	3·837	8
9	5·537	5·328	5·132	4·946	4·772	4·607	4.451	4·303	4·163	4·031	9
10	5·889	5·650	5.426	5·216	5·019	4·833	4·659	4.494	4·339	4·192	10
11	6·207	5·938	5·687	5.453	5·234	5·029	4·836	4·656	4.486	4·327	11
12	6·492	6·194	5·918	5·660	5·421	5·197	4·988	4·793	4·611	4.439	12
13	6·750	6.424	6·122	5·842	5·583	5·342	5·118	4·910	4·715	4·533	13
14	6·982	6·628	6·302	6·002	5·724	5.468	5·229	5·008	4·802	4·611	14
15	7·191	6·811	6.462	6·142	5·847	5·575	5·324	5·092	4·876	4·675	15

NORMAL DISTRIBUTION

This table gives the area under the normal curve between the mean and a point Z standard deviations above the mean. The corresponding area for deviations below the mean can be found by symmetry.



$Z=\frac{(x-\mu)}{\sigma}$	0.00	0.01	0.02	0.03	0.04	0.05	0.06	0.07	0.08	0.09
0.0	.0000	.0040	.0080	.0120	.0159	.0199	.0239	.0279	.0319	.0359
0.1	.0398	.0438	.0478	.0517	.0557	.0596	.0636	.0675	.0714	.0753
0.2	.0793	.0832	.0871	.0910	.0948	.0987	.1026	.1064	.1103	.1141
0.3	.1179	.1217	.1255	.1293	.1331	.1368	.1406	.1443	.1408	.1517
0.4	.1554	.1591	.1628	.1664	.1700	.1736	.1772	.1808	.1844	.1879
0.5	.1915	.1950	.1985	.2019	.2054	.2088	.2123	.2157	.2190	.2224
0.6	.2257	.2291	.2324	.2357	.2389	.2422	.2454	.2486	.2518	.2549
0.7	.2580	.2611	.2642	.2673	.2704	.2734	.2764	.2794	.2823	.2852
0.8	.2881	.2910	.2939	.2967	.2995	.3023	.3051	.3078	.3106	.3133
0.9	.3159	.3186	.3212	.3238	.3264	.3289	.3315	.3340	.3365	.3389
1.0	.3413	.3438	.3461	.3485	.3508	.3531	.3554	.3577	.3599	.3621
1.1	.3643	.3665	.3686	.3708	.3729	.3749	.3770	.3790	.3810	.3830
1.2	.3849	.3869	.3888	.3907	.3925	.3944	.3962	.3980	.3997	.4015
1.3	.4032	.4049	.4066	.4082	4099	.4115	.4131	.4147	.4162	.4177
1.4	.4192	.4207	.4222	.4236	.4251	.4265	.4279	.4292	.4306	.4319
1.5	.4332	.4345	.4357	.4370	.4382	.4394	.4406	.4418	.4430	.4441
1.6	.4452	.4463	.4474	.4485	.4495	.4505	.4515	.4525	.4535	.4545
1.7	.4554	.4564	.4573	.4582	.4591	.4599	.4608	.4616	.4625	.4633
1.8	.4641	.4649	.4656	.4664	.4671	.4678	.4686	.4693	.4699	.4706
1.9	.4713	.4719	.4726	.4732	.4738	.4744	.4750	.4756	.4762	.4767
2.0	.4772	.4778	.4783	.4788	.4793	.4798	.4803	.4808	.4812	.4817
2.1	.4821	.4826	.4830	.4834	.4838	.4842	.4846	.4850	.4854	.4857
2.2	.4861	.4865	.4868	.4871	.4875	.4878	.4881	.4884	.4887	.4890
2.3	.4893	.4896	.4898	.4901	.4904	.4906	.4909	.4911	.4913	.4916
2.4	.4918	.4920	.4922	.4925	.4927	.4929	.4931	.4932	.4934	.4936
2.5	.4938	.4940	.4941	.4943	.4945	.4946	.4948	.4949	.4951	.4952
2.6	.4953	.4955	.4956	.4957	.4959	.4960	.4961	.4962	4963	.4964
2.7	.4965	.4966	.4967	.4968	.4969	.4970	.4971	.4972	.4973	.4974
2.8	.4974	.4975	.4976	.4977	.4977	.4978	.4979	.4980	.4980	.4981
2.9	.4981	.4982	.4983	.4983	.4984	.4984	.4985	.4985	.4986	.4986
3.0	**.49865**	.4987	.4987	.4988	.4988	.4989	.4989	.4989	.4990	.4990
3.1	**.49903**	.4991	.4991	.4991	.4992	.4992	.4992	.4992	.4993	.4993
3.2	**.49931**	.4993	.4994	.4994	.4994	.4994	.4994	.4995	.4995	.4995
3.3	**.49952**	.4995	.4995	.4996	.4996	.4996	.4996	.4996	.4996	.4997
3.4	**.49966**	.4997	.4997	.4997	.4997	.4997	.4997	.4997	.4997	.4998
3.5	**.49977**									

SOLUTION 1

(a)	i.	The relevant cost is the lower cost option. This is to buy the machine and rent it out when it is not being used. (wka)		250,000
	ii.	Machinery running cost 10 weeks x ₦7,200 per week The relevant cost is the running cost to be incurred in the future if the project is undertaken.		72,000
	iii.	Depreciation This is not relevant as it is not a cash cost.		
	iv.	Skilled Labour External project labour: 9,000 hours x ₦120		
		The existing hourly rate is irrelevant as the company would continue to pay its existing employees regardless of the decision. The relevant cost is the lower cost option		
		External replacement labour 9,000 hours x ₦110		990,000
	v.	Unskilled labour would have to be recruited for the project. This is the relevant cost because it is only incurred if the project goes ahead: 12,000 hours x ₦80		960,000
	vi.	Supervision Existing salary would be unchanged so this is irrelevant. Overtime would be worked but this is unpaid so this is also irrelevant. The bonus is only paid if the project goes ahead so it is a relevant cost		5,000
	vii.	Material A The relevant cost that would have to be purchased		150,000
		Material B The current inventory can be used on this project, the relevant cost is its resale value of ₦20 per square metre: 5,000 square metres x ₦20 =	100,000	
		5,000 square metres x ₦50 The original cost of the inventory is irrelevant as it is a past (sunk) cost.	250,000	350,000

Viii. Analysis cost
This is not relevant because it is a past (sunk) cost.

ix. Overhead costs
These are not relevant unless they are specific to the project. Overheads that are absorbed are non-specific to the project. They are not incremental costs.

x. Profit
This is not relevant because it is not a cost.

Total relevant cost	2,777,000

Workings

The relevant cost of the project is as follows:

		(₦)
(i)	Specialised machine Hire cost ₦40,000 x 10 weeks =	400,000
	Net cost if purchased Original cost₦2,500,000 Residual value ₦1,500,000	1,000,000
	Less Rental income: ₦25,000 x 30 weeks	(750,000)
		250,000

(b) **Explanation of why the financial profit reports will not show a profit of ₦1,250,000 for the engineering project at the end of the year**

The financial profit reports will not show a profit of ₦1,250,000 for the following reasons:

i. Financial profit calculation will consider depreciation whereas the analysis above did not;

ii. Financial profit will consider the project's share of general overheads, absorbing them at 40% of prime cost, but the calculation above did not;

iii. Financial profit will not consider the principle of relevant costing when determining the cost of materials for the job, but will charge them using the company's inventory valuation policy;

iv. The salary cost for unskilled, skilled and supervisor will be considered for the proportion of time they spent on the engineering project.

(c) Contribution is the difference between sales and variable costs, both of which are dependent on activity. Fixed costs, which tend to be independent of activity, are ignored.

Since most decisions involve changes in the level of activity the relevant costs and revenues are those affected by changes in the level of activity. Thus the net effect of these relevant costs and revenues is contribution.

(d) An opportunity cost is the value which represents the cost of the next best alternative or the benefit forgone by accepting one course of action in preference to others when allocating scarce resources.

If there is only one scarce resource, decisions can be made by ranking alternatives according to their contributions per unit of the scarce resource. However, in reality there will be many scarce resources, and different alternatives will use alternative combinations of those scarce resources. In these situations opportunity costs are used to identify the optimum use of those resources.

Examiner's report

This is a compulsory question that dwells on relevant costing and contribution margin theory.

The question being a compulsory question was attempted by almost all the candidates. Performance of the candidates was average.

The major pitfalls were the inability of most candidates to determine relevant costs of various cost elements including relevant cost of machine as it relates to hiring and outright purchase; relevant cost of skilled labour and unskilled labour and other relevant costs of materials for the purpose of determining minimum cost of a project.

It is hereby recommended that candidates use ICAN Study Text and other Performance Management text-books in preparing for future Institute's examination.

Marking guide

Q1	a.	Relevant costs (20 ticks @ 1 mark = 20 marks)	20	
	b.	Profit maximisation quantity using Marginal and contribution analysis (Any 2 points @ 2 marks = 4 marks)	4	
	c.	Importance of contribution margin theory (2 points @ 1mark per point) = 2 marks)	2	
	d.	Relevance of opportunity costs in decision making (1 point @ 4 marks per point = 4 marks)	4	30
		Total		**30**

SOLUTION 2

(a) The sales mix contribution variance: This variance measures the effect on profit of changing the mix of actual sales from the budgeted mix.

The sales quantity contribution variance: This variance measures the effect on profit of selling a different total quantity from the budgeted total quantity.

(b) Variances

(i) The sales mix contribution variance

Calculated as (actual sales quantity – actual sales quantity in budgeted proportions) x standard contribution per unit.

Standard contributions per car wash:

Complete = ₦1,000 x 45% = ₦450 per valet
Mini = ₦500 x 56% = ₦280 per valet

Actual sales quantity in budgeted proportions (ASQBP):
Complete: 13,800 x (6,000/10,000) = 8,280
Mini: 13,800 x (4,000/10,000) = 5,520

Car wash	Type AQAM	AQBM	Difference	Standard Contribution	Variance
				₦	₦
Complete	6,800	8,280	(1,480)	450	666,000 A
Mini	7,000	5.520	1,480	280	414,400 F
					251,600 A

(ii) The sales quantity contribution variance

Calculated as (actual sales quantity in budgeted proportions – budgeted sales quantity) x standard contribution per unit.

Car wash	**Type AQAM**	**BQBM**	**Difference**	**Standard Contribution**	**Variance**
				₦	₦
Complete	8,280	6,000	2,280	450	1,026,000 F
Mini	5,520	4,000	1,520	280	425,600 F
					1,451,600 F

(c) Discussion on sales performance of the business

i The sales performance of the Adebat Cleaning Services was very good in 2023, as shown by the favourable sales quantity variance of ₦1,451.600.
5y6

ii Overall, total sales revenue is 33% higher than budgeted ((₦8m – ₦10.64)/₦8m). This is because a higher total number of car wash was carried out in the year.

iii The difference in sales quantity from the revenue data is substantially from the mini car wash. The Mini car wash is 75% ((7,000 – 4,000)/4,000) higher than budgeted, whereas the number of Complete car wash is only 13% ((6.800 –6,000)/6,000) higher than budget.

iv We have an adverse sales mix variance of ₦251,600 because although the number of Mini car wash went up substantially, but they generate a lower contribution per unit than the Complete car wash.

v However, the performance is simply a reflection of the economic situation in Nigeria. We are told that disposable incomes in Nigeria have decreased by 50% over the last year. This means that people have less money to spend on non-essential expenditure such as car wash. Consequently, they are opting for the cheaper mini car wash rather than the more expensive Complete car wash. At the same time, we are also told that people now carry out regular maintenance of their cars because of inability to buy a new one, hence a regular car wash Thus, the total quantity of car wash is higher than budgeted, particularly the mini wash.

Examiner's report

The question is on Sales mix contribution variance and sales quantity contribution variance and their importance on the sales performance of Adebat Cleaning services.

The question was attempted by most of the candidates. The Performance of the candidate was average.

The major pitfall observed was the inability of candidates to understand the computation and use of the proportion of actual sales in budgeted mix from where the variances can be generated for both total sales mix contribution variance and total sales quantity contribution variance.

It is hereby recommended that candidates use ICAN Study Text and other approved text-books on Performance Management when preparing for future Institute's examination.

Marking guide

a.	Explanation of Sales mix contribution and sales quantity contribution variances. (Two explanations @ 1 marks for each explanation = 2 marks)		2	
b. i.	Computation of Sales Mix contribution variance (8 ticks @ ½ mark = 4 marks)	4		
ii.	Computation of Sales quantity contribution variance (8 ticks @ 2 marks = 4 marks)	4	8	
c.	Using the results in b above, the performance of the company in 2025: Implication of Sales mix variance Implication of Sales quantity variance Sales Price Variance. (4 points at 2½ marks = 10 marks)		10	20
	Total			**20**

SOLUTION 3

a) i) * Contribution per unit

Selling price	2,100	1,500
Variable cost per unit	(1,488)	(1,044)
Contribution	612	456

* LP Model

Objective function:
Maximise contribution (C) = 612A + 456B
Subject to constraints:

i) Material X: $2A + B \leq 2{,}500$
ii) Skilled labour: $5A + 2B \leq 4{,}800$
iii) Unskilled labour: $2A + 3B \leq 3{,}900$
iv) Machine hours: $2A + 4B \leq 5{,}000$
v) Non-negativity: $A, B \geq 0$

ii) The equation of the binding constraints are:

$5A + 2B = 4{,}800$ …… (1)
$2A + 3B = 3{,}900$ …… (2)
Eq. (2) x 2.5: $5A + 7.5B = 9{,}750$ …… (3)
Eq. (3) - Eq. (1): $0 + 5.5B = 4{,}950$
$B = 900$ units

Substitute for B in Eq. (2):
2A + 3(900) = 3,900
A = 600 units

Thus, the optimum production plan is to produce 600 units of A and 900 units of B.

Total contribution = 612 (600) + 456 (900) =	₦777,600
Less fixed costs	₦600,000
Profit	₦177,600

b) We need to first compute the shadow prices.
Using the dual method:
Let x = shadow price per skilled labour
y = shadow price per unskilled labour

$$5x + 2y = 612 \;\ldots\ldots\; (1)$$
$$2x + 3y = 456 \;\ldots\ldots\; (2)$$

Eq. (2) x 2.5: $5x + 7.5y = 1,140$
Eq. (3) – Eq. (1): $0 + 5.5y = 528$
$y = 96$

Substitute for y in Eq. (2):
$2x + 3\,(96) = 456$
$x = 84$

Thus, the shadow price (i.e. the overtime premium) per hour of skilled labour is ₦84 and ₦96 for unskilled labour. To get the maximum hourly rate we simply add the normal hourly rate:

Skilled labour = ₦144 + ₦84 = ₦228
Unskilled labour =₦60 + ₦96 = ₦156

c) Maximum production of each grade is as follows:

		A		B
Material X	(2,500/2)	1,250	(2,500/1)	2,500
Skilled labour	(4,800/5)	$\boxed{960}$	(4,800/2)	2,400
Unskilled labour	(3,900/2)	1,900	(3,900/3)	1,300
Machine hours	(5,000/2)	2,500	(5,000/4)	$\boxed{1,250}$

To avoid violating the other constraints, the maximum of each grade of the vanish that can be produced is the **lowest** under each of the two grades.

The total maximum contribution is:

Grade A	960 units x ₦612	= ₦587,520
Grade B	1,250 units x ₦456	= ₦570,000

Examiner's report

The question tests candidates' understanding of linear programming.

The question was attempted by many candidates. The Performance was average.

The major pitfall observed was candidates' inability to decipher the non-binding constraints and binding constraints as well as the computation and use shadow prices for the determination of maximum production mix for each grade of the skilled and unskilled labour.

It is hereby recommended that candidates' use ICAN Study Text on Performance Management when preparing for future Institute's examination.

Marking guide

a.i.	Identify the objective function and the four constraints (10 ticks @ ½ mark = 5 marks)	5		
ii.	Produce using the simultaneous equations, the optimum production plan (10 ticks @ ½ mark = 5 marks)	5	10	
b.	Maximum amount of overtime of both skilled and unskilled Labour. (10 ticks @½ mark = 5 marks)		5	
c.	A choice of Producing either Grade A or B, what grade should be produced to maximise Profit (10 ticks @ ½ mark = 5 marks)		5	20
	Total			**20**

SOLUTION 4

a. i. Unit cost using Traditional approach:

Unit Cost of Production (Traditional Cost Approach)

	X	Y	Z
	₦	₦	₦
Material	190	180	160
Labour	48	64	56
Variable overhead	34	44	38
Overhead	60	80	70
Unit Cost	332	368	324

Workings:

Traditional approach using direct labour hourly rate

Total overhead		=	₦15,300,000
Total direct labour hours			
=	6 x 120,000	=	720,000
=	8 x 75,000	=	600,000
=	7 x 30,000	=	210,000
			1,530,000 hours

Direct labour hourly rate $\frac{₦15,300,000}{1,530,000} = ₦10$

	Product X	Product Y	Product Z
Direct Labour hours per unit	6 hours	8 hours	7 hours
Direct Labour hourly rate (N)	10	10	10
Unit overhead cost per unit	₦60	₦80	₦70
Labour cost at N8 per hour	₦48	₦64	₦56

a.ii. Unit cost of Production using ABC approach in overhead absorption

Unit Cost of Product (ABC APPROACH)

	X	Y	Z
	₦	₦	₦
Material	190	180	160
Labour	48	64	56
Value OH	34	44	38
Overhead	35.83125	66.57	200.25
Unit Cost	307.83125	354.37	454.25

Workings:

Computation of total activity volumes:

Product Quality	Direct Labour	Material Cost	Machine Hours	Company Receipt	Production Run	Production Order
X 12,000	720,000	22.800,000	480,000	45	15	45
Y 75,000	600,000	13,500,000	600,000	75	30	30
Z 30,000	210,000	4,800,000	270,000	360	75	75
Total	**1,530,000**	**41,100,000**	**1,350,000**	**480**	**120**	**150**

Overhead cost per activity (cost driver rate)

Activity	Overhead Cost Allocated	Cost Driver Period	Activity per Absorption	Overhead Rate
Set up	1,260,000	Production run	120	₦10,500 per cost
Machine	8,100,000	Machine hours	1,350,000	₦6
Goods inwards	2,520,000	Component receipts	480	₦5,250
Packaging	1,800,000	Production order	150	₦12,000
Engineering	1,620,000	Production order	150	₦10,800
	₦15,300,000			

Allocation of Overhead to Product Activity (Computation of Overhead cost per unit using ABC Approach)

	Cost Driver Rate	X	Y	Z	Total Cost
		120,000	75,000	30,000	
		₦	₦	₦	₦
Set up:					
15 product runs	10,500	157,500			157,500
30 product runs	10,500		315,000		315,000
75 production run	10,500			787,500	787,500
Total		157,500	315,000	787,500	1,260,000
Machine:					
480,000 machine hours	6	2,880,000			2,880,000
600,000 machine hours	6		3,600,000		3,600,000
270,000 machine hours	6			1,620,000	1,620,000
Total		2,880,000	3,600,000	1,620,000	8,100,000
Good Include:					
45 receipts	5,250	236,250			236,250
75 receipts	5,250		393,750		
360 receipts	5,250			1,890,000	1,890,000
Total		236,250	393,750	1,890,000	2,520,000
Packaging:					
45 production order	12,000	540,000			540,000
30 production order	12,000		360,000		360,000
75 production order	12,000		900,000	900,000	
Total		540,000	360,000	900,000	1,800,000

Engineering:

45 production order	10,800	486,000			486,000
30 production order	10,800		324,000		324,000
75 production order	10,800	______		810,000	810,000
		486,000	324,000	810,000	1,620,000
Total		4,299,750	4,992,750	6,007,500	15,300,000
Unit cost of overhead	=	₦35,83125	₦66.57	₦200.25	

b.i. **Expected Sales Price**

Product X			**Product Y**			**Product Z**		
Price	Pr	Expected Selling Price	Price	Pr	Expected Selling Price	Price	Pr	Expected Selling Price
₦		₦	₦		₦	₦		₦
350	0.5	150	350	0.6	210	450	0.5	221
300	0.3	108	400	0.3	120	440	0.4	176
390	0.2	78	420	0.1	42	430	0.1	43
		336			372			444

b. ii. **Profit Computation using Traditional Costing Approach**

	X	**Y**	**Z**
	₦	₦	₦
Unit Sales Price	336	372	444
Unit Cost	332	368	324
Unit Profit	4	4	120
Quantity	120,000	75,000	30,000
Total Profit	**480,000**	**300,000**	**3,600,000**

Profit Computation Using ABC Approach

	X	**Y**	**Z**
	₦	₦	₦
Cost sales price	336	372	444
Unit cost	307.83125	354.57	454.25
Net Profit/(cost)	28.16875	17.43	(10.25)
Quantity	120,000	75,000	30,000
Total Profit	**3,380,250**	**1,307,250**	**(307,500)**

c. Why ABC is preferred to traditional approach

ABC is preferred traditional costing due to the following reasons:

i. ABC provides useful information about the activities that drive overhead costs.

ii. ABC provides information that could be relevant to long-term cost control and long-term product pricing.

iii. ABC approach shows a more realistic costing approach.

iv. Cost absorption is based on cost drives not on hourly rate.

Examiner's report

The question tests candidates' knowledge on comparison of overhead cost per unit based on traditional approach and the Activity based costing approach.

The question was attempted by many candidates since it is a popular advanced costing question. The Performance was above average.

The major pitfall observed was candidate's inability to determine the costs per cost driver, expected unit selling prices for the three products X, Y, and Z, using the probabilities given.

It is hereby advised that candidates use ICAN Study Text on Performance Management when preparing for future Institute's examination.

Marking guide

a.	Calculation of unit costs using traditional costing and ABC approaches. (40 ticks @ ¼ mark = 10 marks)	10	
b.	Computation of expected unit selling prices and the total profit or Loss from implementation of the Traditional costing and ABC approaches. (14 ticks @ ½ mark = 7 marks)	7	
c.	Reasons for using ABC approaches (2 points @ 1½ marks per point = 3 marks)	3	20
	Total		**20**

SOLUTION 5

ABC NIGERIA PLC

	Unit Sales Price	Unit Variable Cost	Unit Contribution	Sales Units	Total Contribution
	₦	₦	₦	₦	₦
Product A					
Alpha brand	5.00	3.00	2.00	160,000	320,000
Beta brand	3.00	2.60	0.40	450,000	180,000
Product B					
Alpha brand	6.40	4.00	2.40	120,000	288,000
Beta brand	4.00	3.60	0.40	600,000	240,000
Product C					
Alpha brand	10.00	6.00	4.00	50,000	200,000
Total contribution					1,228,000

Fixed Cost

Marketing Cost	300,000	
Other fixed costs	700,000	1,000,000
Net profit		228,000

a. ROI - $\frac{228,000}{1,000,000} \times \frac{100}{1} = \underline{22.80\%}$

b. **Residual Income**

Net Profit	₦228,000
Imputed (notional) Cost	
12% of ₦1,000,000	120,000
Residual Income	₦108,000

c. Advantages of ROI over Residual Income approach.

- ROI relates the Profit to the Capital employed.
- It is a percentage measure.
- It is a tool for comparison.
- It is easily understood.
- It focuses on capital employed.

Examiner's report

The question tests candidates' understanding of divisional performance appraisal.

The question was attempted by most of the candidates. The Performance was above average.

The major pitfall observed was the candidates' inability to compute residual income of each division for the products to its generated revenue and net profit.

It is hereby advised that candidates use ICAN Study Text on Performance Management when preparing for future Institute's examination.

Working guide

a.	Calculation of Returns on Investments (10 ticks @ ½ marks = 5 marks)	5	
b.	Calculation of residual income (5 ticks @ 1 mark = 5 marks)	5	
c.	Advantages of ROI over Residual Income in divisional performance appraisal (Any 2 points @ 2½ marks = 5 marks)	5	15
	Total		**15**

SOLUTION 6

EGOYIBO NIGERIA LTD

a. **Flexible Budget for 3 months**

Particulars	80,000	100,000	120,000	140,000	160,000
	₦'000	**₦'000**	**₦'000**	**₦'000**	**₦'000**
Variable Costs:					
Direct materials	6,400	8,000	9,600	11,200	12,800
Indirect materials	640	800	960	1,120	1,280
Direct labour	4,000	5,000	6,000	7,000	8,000
Power	480	600	720	840	960
Repairs	800	1,000	1,200	1,400	1,600
Total variable cost	**12,320**	**15,400**	**18,480**	**21,560**	**24,640**
Fixed Costs:					
Indirect material	320	320	320	320	320
Power	960	960	960	960	960
Repairs	800	800	800	800	800
Supervision	1,600	1,600	2,880	2,880	2,880
Rent, rates and Insurance	720	720	720	720	720

Total fixed costs	4,400	4,400	5,680	5,680	5,680
Total cost	6,720	19,800	24,160	27,240	30,320

Working

Particulars	**80,000 ₦'000**	**100,000 ₦'000**	**120,000 ₦'000**	**140,000 ₦'000**	**160,000 ₦'000**	**Cost analysis**
Direct material	6,400	8,000	9,600	11,200	12,800	Variable cost
Indirect material	960				1,600	Semi-variable cost
Direct Labour	4,000	5,000	6,000	7,000	8,000	Variable cost
Power	1,440				1,920	Semi-variable cost
Repairs	1,600				2,400	Semi-variable cost
Supervision	1,600	1,600	2,880	2,880	2,880	Step cost
Rent/insurance/ rates	720	720	720	720	720	Fixed cost

Using High –Low method analysis of semi-variable costs:

Indirect Material Variable cost Per unit $= \dfrac{1600{,}000 - 960{,}000}{160{,}000 - 80{,}000} = \dfrac{640{,}000}{80{,}000}$

= ₦8 per unit

Fixed Cost = using lowest activity it will be FC = Total cost – VC (Activity Level)
= (960,000 – 8(80,000) = 960,000 - 640,000) = ₦320,000

Power variable cost per unit = $\dfrac{₦1{,}920{,}000 - ₦1{,}440{,}000}{80{,}000} = \dfrac{480{,}000}{80{,}000}$ = ₦6

Fixed cost = 1,920,000 – 6 x 160,000 = ₦960,000

Supervision (variable cost) = $\dfrac{2{,}880{,}000 - 1{,}600{,}000}{80{,}000} = \dfrac{1{,}280{,}000}{80{,}000}$ = ₦16

Fixed cost = 2,880,000 – 16(160,000)
2,880,000 – 2,560,000 = ₦320,000

Repair Variable cost = $\dfrac{2{,}400{,}000 - 1{,}600{,}000}{80{,}000} = \dfrac{800{,}000}{80{,}000}$ = ₦10

Fixed cost = ₦2,400,000 – 10 x (160,000) = ₦800,000

Specify each cost type based on activity

S/N	Particulars	Cost analysis (Cost type based on activity)
1.	Direct material	Variable cost
2.	Indirect material	Semi-variable cost
3.	Direct Labour	Variable cost
4.	Power	Semi-variable cost
5.	Repairs	Semi-variable cost
6.	Supervision	Step cost
7.	Rent/insurance/ rates	Fixed cost

b. **Budget report from July to Sept 2021 at 100,000 units showing variances:**

S/N	Particulars	Variable Cost	Fixed cost	Total budgeted Cost	Actual	Variance
		₦'000	**₦'000**	**₦'000**	**₦'000**	**₦'000**
1.	Direct material	8,000	-	8,000	8,300	300 A
2.	Indirect material	800	320	1,120	1,160	40 A
3.	Direct labour	5,000	-	5,000	5,400	400 A
4.	Power	600	960	1,560	1,520	40 F
5.	Repairs	1,000	800	1,800	1,770	30 F
6.	Supervision	-	1,600	1,600	1,700	100 A
7.	Rent, Insurance/Rates	-	720	720	640	80 F

Where A = Adverse variance and F = favourable variance

c. Further investigations on the variances and measures/actions needed to be taken by director.

S/n	Variance	Variance amount	Investigations and measures to be taken on the variances
1	**Direct material cost variance**	**₦300,000 A**	There exist a ₦300,000 adverse variance which could be as a result of price and usage of materials. High actual direct material price, wastage, poor quality of materials, and loss in production. Management is expected to conduct price and market survey, ensure high quality low priced materials are procured and used, handling of materials to reduce wastage to be improved.

2	**Indirect material cost variance**	**₦40,000 A**	There is a ₦40,000 adverse variance for indirect material which could be as a result of price and usage of such materials, wastage, poor quality of such materials. Management is expected to conduct price and market survey, ensure high quality low priced materials are procured and used, handling of such materials to reduce wastage.
3	**Direct Labour cost variance**	**₦400,000 A**	An adverse variance of ₦400,000 was observed. This could arise from direct labour rate and efficiency variances. The variance could be attributable to high labour rates, inefficient operations and excessive overtime. Management can control same through appropriate labour pricing, effective job evaluation and manpower planning
4	**Power overhead cost variance**	**₦40,000F**	There is a favourable variance of ₦40,000 which could be due to decrease in power rates. There is need for investigation to ensure appropriate and realistic figure is used for budgeting purposes in future.
5	**Repairs expenses cost variance**	**₦30,000F**	An favourable variance of ₦30,000 was noticed. It may mean that maintenance programme of equipment was not only adhered to but surpassed. An favourabler variance of ₦30,000 means that there is need for investigation to ensure appropriate figure (realistic figures) are used for budgeting purposes in future.
6	**Supervision cost variance**	**₦100,000A**	There is aadverse variance of ₦100,000 which could be due to increase in cost of supervision. There is need for investigation to ensure appropriate figure is used for budgeting purposes in future.
7	**Rent, insurance and Rates cost Variances**	**₦80,000F**	There is a favourable variance of ₦80,000 which could be due to decrease in rates. There is need for investigation to ensure appropriate figure is used for budgeting purposes in future.

Examiner's report

The question is a flexible budget question which dwells on candidates' knowledge of how to separate costs elements into, fixed and variable costs from a given costs and quantity levels. The question also dwells on the budgets and actuals costs for quantity level of 100,000 units expecting candidates to determine the variances between actuals and budgets and reasons for such variances.

The question was a popular question and most candidates attempted it. The Performance was above average.

The major pitfall observed was the candidates' inability to use High-low method to separate semi-variable costs and computation of the relevant variances.

It is hereby advised that candidates use ICAN Study Text on Performance Management when preparing for future Institute's examination.

Marking guide

a.	Preparation of Flexible (63 ticks @ 7ticks/ mark = 9 marks)	9	
b.i.	Preparation of budget report showing variances (6 ticks @ ½ marks = 3 marks)	3	
ii.	Reasons for the variances (Any 2 points @ 1½ marks = marks)	3	15
	Total		**15**

SOLUTION 7

a) Throughput accounting ratio = throughput return per factory hour/cost per factory hour.

Cost per factory hour

Total factory costs/total available hours on bottleneck resource

= ₦12,000,000/2,700 hours ($12 \times 5 \times 50 \times 90\%$ hours) =₦4,444.44

Throughput return	**Red panels**	**Black panels**
	₦	**₦**
Selling price	12,600	3,800
Materials	(4,300)	(1,160)
Throughput per unit	8,300	2,640
Hours per unit required on Machine M	1.4	0.6
Throughput return per hour	**₦5,928.57**	**₦4,400**

Throughput accounting ratio

Throughput return per factory hour/cost per factory hour:	5,928.57/4,444.44 = 1.33	4,400/4,444.44 = 0.99

In any organisation, one would expect the throughput accounting ratio to be greater than 1.This means that the rate at which the organisation is generating cash from sales of this product is greater than the rate at which it is incurring costs. It follows on, then, that if the ratio is less than 1, changes need to be made quickly. Whilst the ratio for Red panels is more than 1, it is just under 1 for Black panels. However, if changes are made as suggested in (c) below, this could soon be rectified.

b. **Optimum Production Plan using the Through put Analysis:**

Product	**No. of Units**	**Hour per unit on Machine**	**Total Hours**	**Throughput per hours (₦)**	**Total through put return (₦)**
Black Panel (Limited to contract	1000	0.6	600	4,400	2,640,000
Red Panel (Balance)	1500	1.4	2100	5,928.57	12,449,997
Less total costs					
Profit			2,700 hours		15,089,997
					12,000,000
					3,089,997

c. **Increasing throughput without additional investment in Machinery**

Generally speaking, throughput can be increased by increasing sales volumes or prices on the one hand, or by cutting costs on the other hand. In the case of Yaro Ltd, it is not possible to increase sales prices as the company has guaranteed not to increase them for three years. From our answer to (b) above, we can see that Yaro Ltd has unsatisfied demand for both Black panels and Red panels. There are customers out there who the company is unable to supply because of its restricted machine capacity.

Therefore, it would be worthwhile for Yaro Ltd to focus on increasing production volumes and thus sales volumes.

In order to increase production volumes without making any additional capital expenditure, the company needs to focus on how it could increase the productivity of Machine M. We are told that there is plenty of spare capacity on Machine C and A. Some suggestions to increase Machine M's capacity are as follows:

- Machine M is currently only fully functional 90% of the time. This means that 300 hours of time are lost whilst the machine is being maintained or workers are not available to man it. If the maintenance work could be carried out outside the usual working day (i.e either before 7 am or after 8 pm), some additional time could be freed up. This should be possible given that we are told that the maintenance contractors work around the clock.

- Workers could be trained to use more than one of the machines. This would then mean that, if some workers were absent, one of the other workers could step in and work on another machine in order to keep it running. Again, this would help to keep the lost 300 hours productive.
- The most obvious machine time which is being lost is the one hour per day at lunchtime. This amounts to 250 lost production hours per year. These additional 250 hours could be used to produce an extra 178 Red panels (250/1.4 hours). Red panels should be made first in preference to Black panels since they generate a higher throughput per machine hour. If workers were trained to use all three machines then, if their lunch times were staggerred, it may be possible to keep machine M running for the whole working day. However, even after doing this, there would still be 590 additional hours of time required on Machine M if the full market demand is going to be satisfied. Therefore, more time needs to be made available.

- Finally then, in order to increase productive hours on M, the working hours of the factory would need to be increased. Either the working day could be made longer, given that workers must already be working shifts, or maybe the factory could open for one extra day per week.

Examiner's report

This question is a popular question that tests candidates' knowledge of throughput accounting, the determination of the machine that is the bottleneck and limiting factor, and the computation of throughput accounting ratio.

The question was attempted by most of the candidates. The performance was average.

The major pitfall observed was candidates' inability to compute the throughput ratio and using the same to determine the optimum production.

It is hereby recommended that candidates use ICAN Study Text on Performance Management when preparing for future Institutes' examination.

Marking guide

		Marks	
a.	Computation of throughput accounting ratio (10 ticks @ ½ mark = 5 marks)	5	
b.	Optimal Production plan using The throughput accounting approach (10 ticks @ ½ mark = 5 marks)	5	
c.	Ways of increasing through put (3 points = 5 marks)	5	15
	Total		**15**

ICAN/251/Q/B5 **Examination No....................**

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – MAY 2025

PUBLIC SECTOR ACCOUNTING & FINANCE

EXAMINATION INSTRUCTIONS

PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER

1. Check your pockets, purse, mathematical set, etc. to ensure that you do not have prohibited items such as telephone handset, electronic storage device, programmable devices, wristwatches or any form of written material on you in the examination hall. You will be stopped from continuing with the examination and liable to further disciplinary actions including cancellation of examination result if caught.
2. Write your **EXAMINATION NUMBER** in the space provided above.
3. Do **NOT** write anything on your question paper **EXCEPT** your Examination number.
4. Do **NOT** write anything on your docket.
5. Read all instructions in each section of the question paper carefully before answering the questions.
6. Do **NOT** answer more than the number of questions required in each section, otherwise, you will be penalised.
7. All solutions should be written in **BLUE** or **BLACK INK**. Any solution written in **PENCIL** or any other **COLOUR OF INK** will not be marked.
8. You are required to attempt **Question ONE (Compulsory)**, **TWO Questions in Section B and TWO Questions in Section C.**
9. Check that you have collected the correct question paper for the examination you are writing.

THURSDAY, MAY 22, 2025

DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – MAY 2025

PUBLIC SECTOR ACCOUNTING & FINANCE

Time Allowed: $3^1/_4$ hours (including 15 minutes reading time)

INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

a. The following information relates to one of the ten Local Council Development Authority of Wazobia State.

Trial balance
Ogogo Local Council Development Authority for the year ended December 31, 2023

	₦'000	₦'000
Consultancy cost	85,500	-
Interest on loan notes	103,320	
Interest on financial assets	-	18,900
Repairs and maintenance	174,960	
Conferences	262,440	
Commission to revenue collectors	284,220	
Office stationaries (1/1/2023)	329,220	
Court fines	-	1,969,200
Donations	-	1,453,860
Accumulated fund	-	1,275,660
Gift from Philanthropist	-	1,054,800
Hawker's license	-	668,700
Car Park rates	-	454,860
Motor vehicles	1,101,240	327,960
Contract retention fee – payables	-	251,460
Advertisement and promotions for immunisation	-	207,000
Furniture and fittings	450,000	180,000
Buildings	2,145,600	134,100
Councillors' allowances	1,422,000	-
Loans and advances to staff	372,600	-
Lock-up shops rents	-	1,540,800
Long-term loan notes	-	1,355,940
Market tolls	-	459,900

Marriage and divorce registration	-	789,120
Warehouse rent	-	373,500
Special emergency grant from Wazobia	-	544,680
Open shop licenses	-	568,620
Withholding tax	-	817,200
Telecommunication cost	338,940	-
Other expenses	461,160	-
Special audit fees	488,340	-
Purchase of office stationaries	856,440	-
Printing and publication	1,189,980	-
Revenue receivable	3,754,260	-
Salary for non-established post	4,793,040	-
Salary for established post	5,671,620	-
Property rate	-	1,318,140
Payables	-	1,741,680
Share from federation account	-	10,574,100
Town-hall meetings	1,168,020	-
Transport	984,060	-
Utility bills	360,720	-
Work-in-progress	369,360	-
Cash and cash equivalents	913,140	-
Total	**28,080,180**	**28,080,180**

Additional information:

(i) Included in the work-in-progress is an amount of ₦36 million relating to a Building which was completed and commissioned by the state Governor on June 1, 2023. After an additional amount of ₦14.4 million was spent on tiling, the building was put to use for half of the accounting year. This expenditure has not yet been paid.

(ii) Interest on loans to staff is at the rate of 7% per annum.

(iii) Interest on long-term loans is at the rate of 10% per annum.

(iv) Office stationaries and other items bought for ₦32.4 million remained unused during the year. The fair value of the inventories is now ₦27.9 million.

(v) Property rates received in respect of 2024 financial year amounted to ₦36.9 million.

(vi) Salaries outstanding during the year amounted to ₦13.5 million.

(vii) Other expenses amounting to ₦19.89 million was paid in respect of 2024 financial year.

(viii) Depreciation of non-current assets is charged on straight line basis for the year as follows:

Assets	**Useful life**
Building	50 years
Furniture and fittings	5 years
Motor vehicles	10 years

The State Government and all Local Council Development Authority have adopted a policy of preparing financial statements in compliance with International Public Sector Accounting Standards (IPSAS) using Accrual Basis.

Required:

i. Prepare a statement of financial performance for Ogogo LCDA for the year ended December 31, 2023. (13 Marks)

ii. Prepare a statement of financial position for Ogogo LCDA as at December 31, 2023. (14 Marks)

b. IPSAS – 3 Accounting policies, changes in accounting estimates and errors requires the development of accounting policies to ensure that financial statements provide information that meets a number of qualitative characteristics.

You are required to briefly explain the following:

i. Materiality (1½ Marks)

ii. Substance over form (1½ Marks)

(Total 30 Marks)

SECTION B: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION (40 MARKS)

QUESTION 2

a. Accountability is an obligation to answer for the execution of one's assigned responsibilities. It is the requirement to provide explanation about the stewardship of public money and how this money has been used. Accountability, requires government to carry out all aspects of its financial responsibilities with openness, trust, basic values and ethical standards so that its activities are transparent to the public. Where a government has something to hide, public reporting is more likely to be unreliable and less comprehensive in order to obscure material facts. Included in the four IMF Codes of practices and fiscal transparency is *assurances of integrity.*

Required:

i. Identify and explain **SIX** conditions or measures to be put in place to enhance public accountability. (6 Marks)

ii. From the IMF codes of good practices and fiscal transparency on Assurances of integrity, identify any **TWO** good practices. (4 Marks)

b. The following initiatives have recently been taken by Ojaja State Polytechnic, a publicly subsidised institution of higher learning which was established by an Act of the State House of Assembly.

First, Ojaja State Polytechnic allowed a property developer to use a portion of the campus to construct a mall that will be available for rent, and it is projected that ₦10.5 billion will be needed to complete and furnish the building. The developer will be responsible for a portion of the cost, and after ten years of operating the asset, the property will be transferred to Ojaja State Polytechnic. It is also agreed that during the period the developer will operate the mall, a percentage of earnings will be distributed to employees of the polytechnic. A former Rector of Ojaja State Polytechnic currently serves as the Chairman of the Board and Chief Executive Officer of the real estate development firm. The administration at Ojaja State Polytechnic reportedly chose him without advertising the post because they believe he is a well-known person of integrity. This Build, Operate and Transfer arrangement will no doubt boost the internally generated revenue of the polytechnic.

Secondly, exceptional students from low-income backgrounds can apply for one of ten available scholarships at Ojaja State Polytechnic. The scholarship scheme includes a matrix for evaluating and ranking applicants considering the two main factors of brilliance and low-income level background. Officers from the Ministry of Social and Humanitarian Affairs routinely investigate the list of awardees to confirm compliance with the requirements of the scheme. Evidence show that one of the supervisors working on the external audit of Ojaja State Polytechnic approached the Rector of Ojaja State Polytechnic for two spots in respect of students with very low income level background and the Rector granted him, his request.

Thirdly, prior to joining the Office of the Auditor - General as a Senior Auditor, Mr. Koko had a position in the accounting department of Ojaja State Polytechnic. At different times, he was in charge of internal auditing and preparation of financial report at the polytechnic. As a staff of the office of the Audior-General, Mr. Koko led the latest audit of the polytechnic after two years of leaving the polytechnic. Subsequent to the audit, allegation on mismanagement of finances surfaced in the media titled *"Former accounting department worker sues Ojaja State Polytechnic for unfair termination after being accused of theft"* during the year. This led to negative public perception of the Polytechnic and Mr. Koko was contacted by management with the request to testify in court.

During that period, a government-funded initiative to educate chartered accountants on the International Public Sector Accounting Standards (IPSAS) and International Standards on Auditing (ISA) for public auditors got under way. The functioning of the International Organisation for Supreme Audit Institutions (INTOSAI) will be discussed as part of the training workshop. In addition, at the end of the session, attendees are expected to be able to prepare both targeted and broad financial reports and apply a conceptual framework for public sector financial statements.

Required:

i. Describe **THREE** ethical concerns (one from each of the initiatives) that you will identify as an experienced public sector auditor and provide appropriate audit responses. (6 Marks)

ii. Explain **FOUR** criteria for adopting external confirmations as part of substantive procedures as an auditor. (2 Marks)

iii. Explain **FOUR** conditions under which an entity can carry out a direct procurement. (2 Marks)

(Total 20 Marks)

QUESTION 3

a. Explain what is meant by fair presentation of financial statements for public entities. (2 Marks)

b. University of Wazobia is a public funded entity established by an Act of parliament in 2019. In its recent trial balance for the year ended December 31, 2024, two items which are listed below have caught the attention of the new Vice Chancellor.

Item 1: The research and development costs of ₦61,295,000 included in the trial balance are made up of the following elements:

Project 1: ₦13,325,000 was spent on applied research. It is hoped that this will ultimately lead to the development of a new vaccine.

Project 2: ₦21,320,000 was spent on research into how renewable energy can be used to support technology for economic development.

Project 3: ₦26,650,000 was spent on the development of a new scanner. Subsequently, the University considers this project no longer a priority of national government and by December 31, 2024 no funding had been identified to continue with the project in 2025. However, on February 15, 2024, a loan was obtained from a commercial organisation which means that the project can be completed and the scanner sold commercially.

The costs to complete all three projects have been estimated by the University.

Item 2: The research grant contracts of ₦67,957,500 included in the trial balance are to fund the three projects referred to in item 1 above. It is the policy of the University to recognise revenue on the basis of percentage completion of the project.

Project	Revenue included in the Trial Balance ₦	% complete
1	15,990,000	80%
2	22,386,000	96%
3	29,581,500	90%
Total	**67,957,500**	

Required:

(i) With reference to relevant IPSAs, explain your treatment of the costs of ₦26,650,000 which relate to project 3. (10 Marks)

(ii) With reference to the relevant IPSAs explain your treatment of the revenue of ₦67,957,500 from research grants contracts. (8 Marks)

(Total 20 Marks)

QUESTION 4

a. Ekenga Local Government known for production of edible agricultural crops in large quantity, is linked to other towns in Okoh State by a bridge constructed over a decade ago. This bridge suffered damage caused by ecological disaster lately. The importance of this bridge led to the commissioning of its total reconstruction by the Governor of Okoh State. Alongside this decision to reconstruct the bridge, the Governor also constituted a panel of enquiry comprising of engineers, quantity surveyors and accountants to identify the immediate and remote causes of the ecological challenge with a view to forestalling such in the future. A make-shift, temporary bridge was constructed for temporary use by the inhabitants pending when the construction of the main bridge is completed. The State's Department of Works and Services also bid for the construction contract and won the contract having participated in the procurement process for contract award. The Department of Works and Services is funded by appropriation. The construction contract has requirements which include anticipated costs, technical specifications and timing of completion. The Department of Roads and Highways does not provide for any recovery of construction costs directly from the department.

The initial estimate of the contract costs is ₦100 million. The construction of the bridge will take three years to complete. At the end of Year 1, the estimate of contract cost has increased to ₦108 million. An aid-giving NGO has agreed to provide funding of 60% of the costs for constructing the bridge which is ₦60 million and this is stated in the construction contract.

In Year 2, a variation in the contract costs was approved on the advice of the Federal Department of Roads and Rural Infrastructures estimated at ₦15 million. The aid agency agrees to fund 50% of this variation. At the end of Year 2, costs incurred include ₦8 million for standard materials stored at the site to be used in Year 3 to complete the project.

The Department of Works and Services determines the stage of completion of the contract by calculating the proportion that contract costs incurred for work performed to date, bears to the latest estimated total contract cost.

Required: In line with IPSA 11 - Construction contracts,

i. Prepare a summary of financial data during the construction period of the construction contract assuming the following stages of completion 28%, 77% and 100% for Year 1, Year 2 and Year 3 respectively. (5 Marks)

ii. Prepare the amount of revenue and expenses to be recognised in the statement of financial performance in Year 1, Year 2 and Year 3. (5 Marks)

b. IPSAS 35 on "Consolidated Financial Statements" is one of the standards issued by International Public Sector Accounting Standard Board (IPSASB) in replacement of IPSAS 6 on "Consolidated and Separate Financial Statements". The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

In light of the above you are required to:

(i) Identify the conditions that will warrant entity not to present consolidated financial statements in accordance to IPSAS 35. (4 Marks)

(ii) Identify **THREE** examples each of financial and non-financial benefits that an entity may receive from its involvement with another entity.(6 Marks)

(Total 20 Marks)

SECTION C: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION (30 MARKS)

QUESTION 5

a. The design of fiscal transfers is critical to ensuring the efficiency and equity of local service provision and the fiscal health of sub-national governments.

You are required to identify and explain **FIVE** principles that should guide grant design of fiscal transfers. (7½ Marks)

b. Omidan State Government is considering investing in one of the five available projects using cost – benefit method. The following estimated costs and benefits relate to five different projects.

	A	B	C	D	E
	₦'m	**₦'m**	**₦'m**	**₦'m**	**₦'m**
Estimated cost of investment	100	200	120	240	300
Estimated benefit	250	220	200	260	360

Assume that the state government has budgeted a sum of ₦520 million to be invested in undertaking the different projects.

Required:

Calculate the cost benefit ratio of each project and using other appropriate techniques, rank the projects and advice the state government on the project that should be undertaken and the cost involved. (7½ Marks)

(Total 15 Marks)

QUESTION 6

Debt Management, a key component of Public Finance Management (PFM), enables the government meet its financing needs at minimum costs and within acceptable levels of risk. One method government use in managing its debt portfolio is to annually conduct a Debt Sustainability Analysis (DSA).

Required:

a. Explain what constitutes "Total Public Debt". (2 Marks)
b. Define the term "Debt Sustainability" and state the main objective of conducting a "Debt Sustainability" exercise. (5 Marks)
c. Explain the benefits of conducting an annual DSA. (5 Marks)
d. Explain the actions which can be taken to reduce accumulation of public debt. (3 Marks)

(Total 15 Marks)

QUESTION 7

a. The total amount of money raised by government directly or through any of the authorised agencies is known as public debt. The money could be raised within the domestic economy or externally from citizens and or foreigners.

You are required to identify and explain **FIVE** general reasons for borrowing. (5 Marks)

b. In order to improve the road network for the citizens of the state government, Arewa State Government is planning to construct a road network that will cover twenty-three villages within the state using two methods of constructions as follows:

Method A: Initial cost of capital = ₦1,500,000,000
Cost of maintenance for every 4 years = ₦300,000,000

Method B: Initial Cost of capital = ₦1,250,000,000
Cost of maintenance for every 3 years = ₦150,000,000

Additional information: It is expected that the road would have maximum life span of 28 years if properly maintained.

Required:
Determine the cost effectiveness on each method given that the rate of interest is 10%. (10 Marks)

(Total 15 Marks)

SECTION A

SOLUTION 1

a (i) **Ogogo LCDA**

Statement of financial performance for the year ended December 31, 2023.

	Workings	₦'000	₦'000
Revenue:			
Allocation from Federal Government.			10,574,100
Special emergency grant from Wazobia			544,680
Internally Generated Revenue (IGR):			
Court fines		1,969,200	
Lock-up shops rent		1,540,800	
Hawker slicense		668,700	
Car park rate		454,860	
Warehouse rent		373,500	
Advertisement and promotion		207,000	
Open shop license		568,620	
Market tolls		459,900	
Marriage and divorce registration		789,120	
Property rate	i.	1,281,240	
Interest on loans to staff	ii.	26,082	8,339,022
Donation and gifts:			
Donations		1,453,860	
Gift from philanthropist		1,054,800	2,508,660
Total revenue			**21,966,462**
Expenditure:			
Employee emoluments	iii.	10,478,160	
Interest on loan notes	iv.	135,594	
Office consumables	v.	1,157,760	
Councillor's allowance		1,422,000	
Printing and publication		1,189,980	
Commission to revenue collectors		284,220	
Conferences		262,440	
Consultancy		85,500	
Repairs and Maintenance		174,960	
Telecommunication cost		338,940	
Town hall meeting		1,168,020	
Travel and transport		984,060	
Utility bills		360,720	
Special audit fees		488,340	
Other expenses	vi.	441,270	

Depreciation of non- current assets:	vii.		
- Buildings		43,416	
- Furniture and fittings		90,000	
- Motor vehicles		110,124	
Total expenditure			**19,215,504**
Surplus			**2,750,958**

Workings

i. Property rate

	₦'000
As per trial balance	1,318,140
Less receipts in advance	36,900
Credited to statement of financial performance	**1,281,240**

ii. **Interest on loans to staff**

	₦'000
As per trial balance	18,900
Add accrued interest (7% X 372,600) – 18,900)	7,182
Credited to statement of financial performance	**26,082**

iii. **Employees' emoluments**

	₦'000
Salary of non- established post	4,793,040
Salary for established post	5,671,620
Add: Salaries outstanding	13,500
Charged to statement of financial performance	**10,478,160**

iv. **Interest on loan notes**

	₦'000
As per trial balance	103,320
Interest payables	32,274
Charged to statement of financial performance	**135,594**

v. **Office consumables**

	₦'000
Office consumables (1/1/23)	329,220
Add: Purchases	856,440
	1,185,660
Less: closing stock at fair value	27,900
Office consumables consumed	**1,157,760**

vi. **Other expenses**

	₦'000
As per trial balance	461,160
Less: Amount paid in advance c/f	19,890
Charged to statement of financial performance	441,270

(ii)

Ogogo LCDA

Statement of financial position as at December 31, 2023

Non-current assets:	**Workings**	**₦'000**	**₦'000**
Property, plant and equipment	vii.		2,861,640
Financial assets (Loans and advances to staff)			372,600
Work-in-progress	viii.		333,360
Current assets:			
Receivables	ix.		3,781,332
Inventory			27,900
Cash and cash equivalents			913,140
Total assets			**8,289,972**
Liabilities			
Non-current liabilities:			
Loan notes		1,355,940	
Current liabilities:			
Payable	x.	2,907,414	
Total liabilities			**4,263,354**
Net assets			**4,026,618**
Equity			
Accumulated fund b/f			1,275,660
Surplus for the year			2,750,958
Total equity			**4,026,618**

Workings

i. **Non- current assets schedule**

Life (years)	**10**	**5**	**50**	
	MV	**F&F**	**Building**	**Total**
	₦'000	**₦'000**	**₦'000**	**₦'000**
				3,696,840
Cost as at 1/1/2023	1,101,240	450,000	2,145,600	
Additions during the year	-	-	50,400	50,400
			2,196,00	**3,747,240**
Cost as at 31/12/2023	**1,101,240**	**450,000**	**0**	
Depreciation:				
Accumulated depreciation.				642,060
1/1/2023	327,960	180,000	134,100	
Annual depreciation.	110,124	90,000	43,416	243,540
Accumulated depreciation				
31/12/2023	438,084	270,000	177,516	885,600
			2,018,48	**2,861,640**
Carrying amount at 31/12/2023	**663,156**	**180,000**	**4**	

ii. **Work in Progress**

	₦'000
Per trial balance	369,360
Less completed portion	36,000
Balance c/f	333,360

iii. **Receivables**

	₦'000
Per trial balance	3,754,260
Interest	7,182
Other expenses paid in advance	19,890
Total	**3,781,332**

iv. **Payables**

	₦'000
Per trial balance	1,741,680
Salaries outstanding	13,500
Withholding taxes	817,200
Property rate	36,900
Interest	32,274
Contract retention	251,460
Cost to complete building	14,400
Total	**2.907,414**

b. **Explanation of some terms**

i **Materiality:** The relevance of information is affected by its nature and materiality. Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful

ii **Substance over form:** If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with their legal form.

Examiner's comment

The question is in two parts. Part (a) of the question tests candidates' knowledge of the preparation of financial performance and position of a local council development authority. Part (b) requires the candidates to explain the concept of materiality and substance over form in public sector accounting.

All the candidates attempted the question and their performance was below average. The common pitfalls were candidates' inability to explain the concepts of materiality and substance over form in details.

Candidates are advised to pay more attention to the various sections of the syllabus and to make use of the Institute's Pathfinder and the Study Texts for better performance in future examinations.

Marking guide

		Marks	Marks
a. (i)	**Preparation of statement of financial performance**		
	Title	½	
	Calculations in the statement (38 ticks @ ¼ each)	9½	
	Relevant workings (6 ticks @ ½ each)	3	13
(ii)	**Preparation of statement of financial position**		
	Title	½	
	Calculations in the statement of financial position (14 ticks @ ½ each)	7	
	Relevant workings (26 ticks @ ¼ each)	6½	14

b.	**Definition of some terms**		
(i)	Materiality	1½	
(ii)	Substance over form	<u>1½</u>	<u>3</u>
	Total		**<u>30</u>**

SECTION B

SOLUTION 2

a.(i) **Conditions or measures to be put in place to enhance public accountability**

To enhance the promotion of accountability in the public sector management in Nigeria the following conditions are canvassed:

- **Rendering of account:** It is expected that accounts should be rendered in all public organisations. Public accountability can be achieved only if those who receive the accounts have the power and ability to take actions on the basis of those accounts;
- **Accountable leadership:** The existence of leadership that genuinely believes and is committed to the notion of public accountability and will therefore ensure that the laws to safeguard public fund are enforced irrespective of the might of the public officer concerned;
- **Investigative reporting/media attention:** Public accountability needs the presence of active investigative media that will help to keep the leadership on their toes;
- **Public enlightenment:** Public accountability will be enhanced if the generality of the populace does not believe that embezzlement of public funds is part of the "political manifesto" which the political leaders must achieve while in office;
- **Whistle blowing policy:** "Whistle blowing" should be encouraged in the public sector whereby any public official who encounters mismanagement or wrong doing in the conduct of government business may" blowthe whistle" by taking the case to the public arena. The prospect that somebody may go public can deter some officials contemplating wrongdoing;
- **Openness in governance:** All unethical and corrupt practices should be exposed as much as possible while those who indulge in them should be promptly and severely punished in accordance to the law. To this end, there should be full implementation of the Freedom of Information Act (FOIA), 2011 so as to promote openness and feedback in public governance and management;

- **Encouragement of due process:** There should be strict compliance with due process and public procurement procedure as spelt out in the Public Procurement Act (Nigeria, 2007), this will curb corrupt practices and instil financial discipline in budget implementation by the public bureaucracy. Moreover, there should also be strict adherence to the provisions of the Fiscal Responsibility Act;
- **Review of current method of asset declaration:** The present method of secret declaration of assets by public officers leave much to be desired. As such there is need to institute a more open method of declaring assets so as to afford the opportunity for patriotic citizens to scrutinise and report any incorrectly declared assets to the appropriate authorities;
- **Strengthening of anti-graft bodies:** All anti-graft bodies such as the EFCC, ICPC, CCB and CCT should be further strengthened by way of being adequately staffed, equipped and funded to make them more effective institutional mechanisms for fighting corruption. Furthermore, other law enforcement agencies notably the police should be strengthened so as to build their capacity to detect, investigate, prosecute and deter or prevent corruption; and
- **Deletion of immunity clause:** The immunity clause should be expunged from the Nigerian constitution. By so doing, political leaders who are fingered for corrupt practices can be prosecuted while in office.
- **Freedom of Information (FOI) Act:** The FOI Act grants citizens the right to access public records, ensuring transparency in government activities. It helps expose corruption and mismanagement by making government documents available upon request.
- **E-governance and Digital transparency:** The adoption of electronic payment systems, online budget tracking, and digital procurement platforms has reduced fraud and improved accountability in public financial management.
- **Auditor-General's oversight:** The Office of the Auditor-General audits government accounts to ensure funds are used appropriately. It provides reports to the legislature, helping to hold officials accountable for financial mismanagement.
- **Judicial reforms and special anti-corruption courts:** Special courts have been established to handle corruption cases efficiently, reducing delays in prosecution and ensuring swift justice.
- **Legislative oversight and public hearings:** The National Assembly and State Houses of Assembly conduct public hearings and investigations to scrutinise government spending and policies, ensuring accountability.
- **Public Accounts Committee (PAC):** The PAC is a legislative body responsible for examining audited accounts of government entities and ensuring financial transparency. It plays a crucial role in:
  - Reviewing financial reports submitted by the Auditor-General.

- Investigating financial irregularities in government spending.
- Ensuring compliance with financial regulations and budgetary allocations.
- Holding public officials accountable for mismanagement of funds.

ii. **Assurances of integrity:**

- Fiscal data should meet accepted data quality standards and budget forecasts and updates should reflect recent revenue and expenditure trends, underline macroeconomic development;
- Data in fiscal reports should be internally consistent and reconciled with relevant data from other sources. Major revisions to historical fiscal data and any changes to data classification should be explained;
- Ethical standards of behaviour for public servants should be clear and made public;
- Purchases and sales of public assets should be internally audited and audit procedures should be open to review;
- Fiscal information should be independently scrutinised. All public finances and policies should be subject to scrutiny by national audit body or an equivalent organisation that is independent of the executive and
- The national audit body or equivalent organisation should submit all reports, including its annual report to the legislature and publish them.

b. i. **Some of the ethical issues are as follows:**

Details	**Ethical concern**	**Audit response**
Conflict of interest (Mall development)	The appointment of the former Rector as the Chairman and CEO of the real estate firm without public advertisement raises concerns about favouritism and conflict of interest.	Verify the selection process to ensure transparency and review documentation on the appointment, justification, and any potential conflicts of interest that may arise.
Fairness in scholarship distribution	The Rector granting a request for two scholarship spots outside the established evaluation process may indicate undue influence and lack of fairness.	Assess whether the selection of scholarship recipients aligns with the predefined criteria. Cross-check applicant records with oversight reports from the Ministry of Social and Humanitarian Affairs.

Independence of aauditor (Mr. Koko's involvement)	Mr. Koko previously worked for Ojaja State Polytechnic and later audited it, which may compromise objectivity.	Examine the audit methodology to ensure independence was maintained. Assess whether alternative auditors should have been engaged.
Transparency in handling financial mismanagement allegations	Negative media perception and a lawsuit involving an ex-employee could impact stakeholder confidence in financial reporting.	Investigate the financial mismanagement claims by reviewing audit findings and legal records. Ensure disciplinary actions and termination decisions are backed by proper documentation.
Training pprogramme integrity	If the IPSAS and ISA training lacks proper oversight, it could lead to inefficiencies and misuse of public funds.	Review the procurement and contracting process for trainers. Ensure that training materials align with best practices and objectives.
Public sector accountability in financial reporting	Ensuring that trained public auditors apply IPSAS correctly in financial reporting to maintain credibility.	Evaluate post-training audits to determine if attendees implement standards properly. Conduct compliance tests on financial statements prepared under IPSAS

ii. Criteria that auditors can use to decide if external confirmations can be considered under substantive procedures

The following factors will be used to assist auditors to determine whether confirmations can be used as substantive procedures:

- The ability of the willing intended third party to respond o the request of the auditors.
- The cost involved maybe more and the auditors will decide to use substantive procedures instead of information from the third party.
- Where the responsible party operates in an environment in which confirmations are not an aspect of day-to-day operations.
- Where the respondent is close to the entity and responding to a confirmation maybe less reliable.

iii. An entity may carry out any direct procurement where:

- Goods, works or services are only available from a particular supplier or contractor, or if a particular supplier or contractor has exclusive rights in respect of the goods, works or services, and no reasonable alternative or substitute exits;
- There is an urgent need for the goods, works or services and engaging in tender proceedings or any other method of procurement is impracticable due to unforeseeable circumstances giving rise to the urgency which is not the result of dilatory conduct on the part of the procuring entity;
- Owing to a catastrophic event, there is an urgent need for the goods, works or services, making it impracticable to use other methods of procurement because of the time involved in using those methods;
- An entity which has procured goods, equipment, technology or services from a supplier or contractor, determines that:
    - Additional supplies need to be procured from that supplier or contractor because of standardization;
    - There is a need for compatibility with existing goods, equipment, technology or services, taking into account the effectiveness of the original procurement in meeting the needs of the procurement entity;
    - The limited size of the proposed procurement in relation to the original procurement provides justification;
    - The reasonableness of the price and the unsuitability of alternatives to the goods or services in question merit the decision.
- The procuring entity seeks to enter into a contract with the supplier or contractor for research, experiment, study or development, except where the contract includes the production of goods in quantities to establish commercial viability or recover research and development costs; and
- The procuring entity applies this Act for procurement that concerns national security, and determines that single-source procurement is the most appropriate method of procurement.
- The entity may procure the goods, works or services by inviting a proposal or price quotation from a single supplier or contractor. Also, the entity shall include in the record of procurement proceedings a statement of

the grounds for its decision and the circumstances in justification of single source procurement.

Examiner's report

The question is in two parts. Part (a) of the question is in two sections, section (i) requires the candidates to identify and explain the conditions or measures to be put in place to enhance public accountability, while section (ii) require candidates to identify IMF codes of good practices and fiscal transparency on assurance of integrity. Part (b) is in three sections, section (i) requires the candidates to describe the ethical concerns that an experienced public sector auditor will identify while providing appropriate audit responses when auditing a public sector entity, while section (ii) requires the candidates to explain the criteria for adopting external confirmation as part of substantive procedures as an auditor. Section (iii) of the question however, requires the candidates to explain the conditions under which an entity can carry out a direct procurement.

Few candidates attempted the question and their performance was below average.

The commonest pitfall was the inability of the candidates to properly understand the requirement of the question.

Candidates are advised to make use of ICAN Pathfinders and the Study Text for better performance in the Institute's future examinations.

Marking guide

		Marks	Marks
a.	**Conditions or measures to be put in place to enhance public accountability**		
b.	Identification any six conditions or measures to be put in place to enhance public accountability	3	
	Explanation of six conditions identified	3	
	Four good practices and transparency under IMF Code of practices and fiscal transparency	<u>4</u>	10
b.i.	**Ethical issues and audit response**		
	Identification of any three ethical concerns at ½ mark each	1½	
	Explanation of the three ethical issues identifyied at ½ mark each	1½	
	Explanation audit response to ethical issues identified at 1 mark each	3	
ii.	**Criteria for adopting external confirmation**		
	Explanation of four (4) criteria that auditors can use to decide if external confirmations can be considered under substantive		

	procedures at ½ mark each.	2	
iii.	**Conditions for direct procurement**		
	Four conditions under which an entity can carry out a direct procurement at ½ mark each	2	10
	Total		**20**

SOLUTION 3

(a) Fair presentation of financial statements for public entities entails the following

- (i) Financial statements shall present fairly the financial position, financial performance and cash flows of an entity.
- (ii) Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definition and recognition criteria for assets, liabilities, revenues and expenses set out in IPSASs.
- (iii) The application of IPSASs is presumed to result in fair presentation.
- (iv) Select and apply accounting policies in accordance with IPSAS 3.
- (v) Present information including accounting policies in a manner that meets qualitative characteristics of information.
- (vi) Provides additional disclosures when compliance with the special requirements of IPSASs is not sufficient to enable users understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

(b) **(i) Analysis of university funding**

With reference to relevant IPSAs, the costs of ₦26,650,000 which relate to project 3 can be treated as follows:

- IPSAS 31 governs the treatment of intangible assets including research and development cost;
- IPSAS 14 governs events after the reporting date;
- Development costs can be capitalised if they meet the six criteria which are listed below:

Criteria	**Project 3 appraisal**
Saleable or useable by the entity	Yes - Can be sold once complete
Technically feasible to complete	Yes - Technically feasible
Economic benefits expected to flow	Yes - Can be sold commercially to generating economic benefits to university
Measurable expenditure	Yes - Expenditure has been measured and included in trial balance

Intention to complete	Yes - Intending to complete
Compellable	Yes - Although no funding in place at year end, shortly after year end a loan was obtained so that project can be completed.

Treatment:

- Project 3 meets the six criteria and therefore can be capitalised. Although the loan was obtained after the balance sheet date it provides information about balances at the balance sheet date i.e., the costs of project 3.
- The intangible asset should not be amortised until the expected economic benefits commence.

(i) With reference to the relevant IPSAs the income of ₦67,957,500 from research grants contracts are as follows:

- IPSAS 9 governs the treatment of revenue from exchange transactions including income from research grants and contracts.
- IPSAS 23 governs revenue from grants based on percentage of completion
- Revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably.
- Where revenue relates to 'rendering of services' it must also be possible toreliably measure the stage of completion,the costs incurred and the costs to complete.
- In relation to the research grants and contracts, economic benefits of ₦67,957,500 have already flowed to the entity and can be measured reliably.
- Information is available on stage of completion (percentages given in note 3 of the question paper) and costs to complete are known to the university.
- Revenue of ₦60,905,910 should therefore be recognized based on the percentage of completion (see working 1 below).
- The remaining amount of ₦7,051,590 should be held as deferred income on the statement of financial position.

Project	**Amount**	**% complete**	**Revenue for recognition**
	₦		**₦**
1	15,990,000	80%	12,792,000
2	22,386,000	96%	21,490,560
3	29,581,500	90%	26,623,350
Total	**67,957,500**		**60,905,910**

Examiner's report

The question examines candidates' knowledge of the meaning of fair representation of financial statements for public sector entities. It also requires the candidates' to explain with reference to relevant IPSASs the treatment of development costs and revenue from research grants contracts.

Majority of the candidates attempted the question and their performance was below average.

The commonest pitfall was the inability of the candidates to properly explain the treatment of development costs and revenue from research grants contracts in accordance with provisions of relevant IPSASs.

Candidates are advised to read widely and ensure that they have adequate knowledge of the relevant sections of the syllabus. They should also make use of the Institute's Pathfinders, Study Texts and other relevant learning materials for better performance in future examinations.

Marking guide

		Marks	Marks
a.	**Fair presentation of financial statements**		
	Stating any four points @ ½ mark each		2
b. (i)	**Treatment of the costs of ₦26,650,000 which relate to project 3**		
	Identification of ten points @ 1 mark each		10
(ii)	**Treatment of the revenue of ₦67,957,500 from research grants contracts**		
	Identification of eight points @ 1 mark each		8
	Total		**20**

SOLUTION 4

Ekenga Local Government

a. (i) **Summary of financial data during the construction period of the construction contract**

	Year 1	Year 2	Year 3
	₦'000	₦'000	₦'000
Initial amount of revenue agreed in contract	60,000	60,000	60,000
Variation (4,000 + 7,500)	-	11,500	11,500
Total contract value	60,000	71,500	71,500
Total contract revenue	60,000	71,500	71,500
Contract costs incurred to date	30,240	88,550	123,000
Contract costs to complete	66,760	34,450	-
Total estimated costs	**108,000**	**123,000**	**123,000**
Stage of completion	28%	77%	100%

(ii) **Amounts of contract revenue and expenses recognised in the statement of financial performance**

	To date	Recognised in the prior years	Recognised in the prior years
Year 1			
Revenue (60,000 x 28%)	16,800	-	16,800
Expenses (108,000 x 28%)	30,240	-	30,240
Year 2			
Revenue (71,500 x 77%	55,055	(16,800)	38,255
Expenses (123,000 x 77%)	94,710	(30,240)	64,470
Year 3			
Revenue (71,500 x 100%)	71,500	(55,055)	16,445
Expenses (123,000 x 100%)	123,000	(94,710)	28,290

b. (i) A controlling entity need not present consolidated financial statements if it meets all the following conditions:

- It is itself a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements, and, in the case of a partially owned controlled entity, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not presenting consolidated financial statements;
- Its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

- It did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
- Its ultimate or any intermediate controlling entity produces financial statements that are available for public use and comply with International Public sector accounting Standards (IPSASs), in which controlled entities are consolidated or are measured at fair value through surplus or deficit in accordance with this Standard.
- If the subsidiaries' financial statements are prepared under different reporting dates and the consolidation would not materially affects the reports
- If the parent entity has significant legal or operational restrictions.
- IPSAS 17, if the subsidiary is classified as "held for sale".

ii. The following examples illustrate financial benefits that an entity may receive from its involvement with another entity:

- Dividends, variable interest on debt securities, other distributions of economic benefits;
- Exposure to increases or decreases in the value of an investment in another entity;
- Exposure to loss from agreements to provide financial support, including financial support for major projects;
- Cost savings (for example, if an entity would achieve economies of scale or synergies by combining the operations or assets of the other entity with its own operations or assets);
- Residual interests in the other entity's assets and liabilities on liquidation of that other entity; and
- Other exposures to variable benefits that are not available to other entities.

  Examples of non-financial benefits include:
  - The ability to benefit from the specialized knowledge of another entity;
  - The value to the entity of the other entity undertaking activities that assist the entity in achieving its objectives;
  - Improved outcomes;
  - More efficient delivery of outcomes;
  - More efficient or effective production and delivery of goods and services;

- Having an asset and related services available earlier than otherwise would be the case; and
- Having a higher level of service quality than would otherwise be the case

Examiner's report
The question is in two parts. Part (a) of the question is in two sections. Section (i) requires candidates to prepare a summary of financial data during construction period of the contract with given stages of completion, while section (ii) requires the candidates to prepare the amount of revenue and expenses to be recognised in the statements of financial performance. Part (b) of the question requires the candidates to identify the conditions that will warrant an entity not to present consolidated financial statements in accordance to IPSAS 35 and identify examples of financial and non-financial benefits that an entity may receive from its involvement with another entity.

Most of the candidates attempted the question and performance was below average.

The common pitfalls were the inability of the candidates to identify the conditions that will warrant an entity not to present consolidated financial statements in accordance to IPSAS 35.

Candidates are advised to read widely and to ensure that they have adequate knowledge of relevant regulations relating to public sector accounting for better performance in the Institute's future examinations.

Marking guide

		Marks	Marks
a. (i)	**Preparation of summary of financial data**		
	Title	¼	
	Nineteen ticks at ¼ mark each	4¾	5
(ii)	**Calculation of amount of revenue and expenses to be recognised in the statement of financial performance**		
	Title	1	
	Sixteen ticks at ¼ mark each	4	5
b.(i)	**Conditions that will warrant entity not to present consolidated financial statements**		
	Four conditions at 1 mark each	4	
(ii)	**Examples of financial and non-financial benefits**		
	Identification of three financial benefits at 1 mark each	3	
	Identification of three non-financial benefits at 1 mark each	3	10
	Total		**20**

SECTION C

SOLUTION 5

a. **Guidelines for grant design**

i. **Clarity in grant objectives**. Grant objectives should be specified clearly and precisely.

ii. **Autonomy.** Sub-national governments should have complete independence and flexibility in setting priorities. They should not be constrained by the categorical structure of programs and uncertainty associated with decision making by national officials. Tax-base sharing – allowing sub-national governments to introduce their own tax rates on national bases, formula-based revenue sharing, or block grants – is consistent with this objective.

iii. **Revenue adequacy**. Sub-national governments should have adequate revenues to discharge designated responsibilities.

iv. **Responsiveness**. The grant program should be flexible enough to accommodate unforeseen changes in the fiscal condition of the recipients.

v. **Equity (fairness).** Allocated funds should vary directly with fiscal-need factors and inversely with the tax capacity of each jurisdiction.

vi. **Predictability**. The grant mechanism should ensure predictability of sub-national governments' shares by publishing five-year projections of funding availability. The grant formula should specify ceilings and floors for yearly fluctuations. Any major changes in the formula should be accompanied by harmless or grandfathering provisions.

vii. **Transparency.** Both the formula and the allocations should be disseminated widely in order to achieve as broad a consensus as possible on the objectives and operation of the program.

viii. **Efficiency.** The grant design should be neutral with respect to sub-national governments' choices of resource allocation to different sectors or types of activity.

ix. **Incentive.** The design should provide incentives for sound fiscal management and should discourage inefficient practices. Specific transfers should not be made to finance sub-national government deficits.

x. **Accountability for results.** The grantor must be accountable for the design and operation of the program. The recipient must be accountable to the grantor and its citizens for financial integrity and results (i.e., improvements in service delivery performance). Citizens' voice and exit options in grant design can help advance bottom-up accountability objectives.

b. **Omidan State Government**
Cost Benefit Ratio for each project A – E

	A	B	C	D	E
	₦'m	₦'m	₦'m	₦'m	₦'m
Estimated benefit	250	220	200	260	360
Estimated cost of investment	100	200	120	240	300
Cost benefit ratio (Benefit / Cost)	250/100 = 2.5	220/200 = 1.1	200/120 = 1.67	260/240 = 1.08	360/300 = 1.2
Ranking	1st	4th	2nd	5th	3rd

Therefore, the state government should embark on projects A, C, and E respectively based on estimated cost of investment.

Project		**Budgeted sum (₦) million**	**Cumulative of money for investment (₦) million**
A	1st	100 million	1000 million
C	2nd	120 million	220 million
E	3rd	300 million	520 million

Examiner's report

The question is in two parts. Part (a) of the question requires the candidates to identify and explain the principles that should guide grant design of fiscal transfers. Part (b) of the question require the candidates to calculate cost benefit ratios of given projects, rank the projects and advice the state government on the project that should be undertaken.

Majority of the candidates attempted the question and their performance was average. The common pitfalls were the inability of the candidates to explain the principles that should guide grant design of fiscal transfers, while in part (b)many of the candidates could not calculate cost benefit ratios of the projects using other appropriate techniques.

Candidates are advised to make use of Pathfinders and the Study Text of the Institute for better performance in the Institute's future examinations.

Marking guide

		Marks	Marks
a.	**Guidelines for grant design**		
	Identification of five guidelines	2½	
	Explanation of guidelines identified	5	7½
b.	**Calculation of the cost benefit ratio of each project**		
	Title	½	
	Calculation of cost benefit ratio	2½	
	Ranking	2½	
	Advising the state government on the project that should be undertaken	2	7½
	Total		**15**

SOLUTION 6

a. **Total public debt:**
Total public debt can be described as the aggregate of external debt, domestic debt, guarantees, and contingent liabilities - including debt owed by central and local government and by public (state-owned) corporations.For instance, external debt is debt owed to lenders outside the country, e.g., Euro bond while internal debt is the government's obligations to domestic lenders.

b. **Debt sustainability:**
When government is able to service all its debts without undue stress or adjustments to its income and expenditure balance in the medium to long term. Debt is sustainable when government's current and future streams of income cover expenditure. To evaluate countries' debt sustainability, it is necessary to monitor debt trends along with emerging domestic and external vulnerabilities and systemic risks that threaten debt sustainability.

The objectives of DSA:

i **Assessing debt carrying capacity:**To evaluate government's ability to finance its programs and at the same time service the ensuing debt without undue pressure on its income stream compromising the macroeconomic stability of the country.

ii **Guiding borrowing decisions:** To reduce chances of excessive build-up of debt by providing insight for the government on responsible borrowing.

iii **Ensuring fiscal stability:** Ensuring that government mains a balance between debt levels and economic growth to avoid excessive debt accumulation and limit risk of debt distress.

iv **Compliance with international standards:** To help guide countries and donors in mobilising critical financing for low-income countries and most especially, align Nigeria's debt management practices with global frameworks set by institutions like World Bank and IMF.

v **Monitoring debt to GDP ratio:** Ensuring that Nigeria's debt remains within acceptable limit such as the self-imposed 40% threshold and the 55% limit recommended by the World Bank and IMF.

c. **Benefits DSA include:**

i To guide the government on optimal funding options for its projects and programs;

ii To examine the impact of on-going fiscal policy reforms of the government and monetary policy objectives on public debt management strategies and provide policy advice.

iii To evaluate the solvency and liquidity status of the country's total public debt portfolio, taking into account current and future debt obligations;

iv To determine the fiscal space available to the government with a view to determining the borrowing limit, given the current debt level;

v To detect current and potential future fiscal stress that might be caused by external shocks with a view to preventing and resolving the crises; and

vi To evaluate the risks inherent with the current total debt portfolio and proffer mitigating measures.

vii To ensure compliance with global standards set by international organisations like World Bank and IMF.

viii Enhances transparency and credibility reassuring foreign investors confidence in the country's debt management.

d. **Actions to take in order to reduce debt burden:**

i. Prioritise expenditure
ii. Convert debt into equity or assets
iii. Stop contraction of new debt
iv. Limit debt service payments
v. Consolidate debt and refinance existing debt
vi. Reschedule debt payments

Examiner's report

The question is in four parts. Part (a) of the question requires the candidates to explain what constitutes "total public debt" while part (b) require the candidates to define "debt sustainability" and the main objective of conducting a "debt sustainability" exercise. Part (c) requires the candidates to explain the benefits of conducting an annual debt sustainability analysis Part (d) requires the candidates to explain the actions which can be taken to reduce accumulation of public debt.

Majority of the candidates attempted the question and their performance was average. The common pitfalls were the inability of many candidates to define "debt sustainability" and the main objective of conducting a "debt sustainability" exercise. Also, many candidates could not explain the actions which can be taken to reduce accumulation of public debt.

Candidates are advised to make use of Pathfinders and the Study Text of the Institute for better performance in the future examinations.

Marking guide

		Marks	Marks
a.	**Explanation of total public debt**		
	Brief discussion of the concept		2
b.	**Definition and objectives of debt sustainability**		
	Definition of the debt sustainability	2	
	Identification of three objectives of debt sustainability exercise	3	5
c.	**Benefits of debt sustainability analysis**		
	Identification of five benefits		5
d.	**Actions to reduce accumulation of debt**		
	Identification of three actions		3
	Total		**15**

SOLUTION 7

a. **General reasons for borrowing**

The following are some of the reasons that have been advanced to justify the need for a country to borrow:

i **Huge and persistent budget deficit:** The government borrows when its expenditure is greater than its revenue (budget deficit), especially after its taxing capacity has been stretched to the limit.

ii **Balance of payments disequilibrium:** Excessive reliance on foreign resources to sustain domestic production processes, and on foreign goods and services beyond the nation's foreign exchange earning capacity may lead government into contracting debt obligations.

iii **Rapidly increasing population**: In most developing countries, population is growing faster than the level of national output. The need arises for government borrowing to expand public enterprises and public utilities to cater for the welfare of the people.

iv **Implementation of development programmes:** To promote economic development usually requires provision of new and upgrading of existing social and economic infrastructural facilities like roads, railways, electricity, schools and hospitals. The tax revenue of government may be insufficient to execute such projects, hence the resort to government borrowing.

v **Economic instability**: A stable economy naturally provides an enabling environment for economic growth and development. Public debt of the internal type may be contracted to control inflation, while both internal and external borrowings may be used to stimulate economic activities during economic depression.

vi **Natural disasters**: Government has the responsibility to provide relief to victims of earthquakes, floods and fire disasters, famines, sectarian violence and other natural calamities. Government borrowing may be justified because such occurrences are never expected nor budgeted for.

vii **Fluctuations in government revenue**: Most countries operate mono cultural economies depending on only one (or very few) export product for foreign exchange earnings. A sudden poor performance of such product in the international market would reduce income considerably and adversely affect budget implementation. Any country that finds itself in such a situation may have no option than to borrow to bridge the financial resource gap.

viii **War-time borrowing**: Financial resources needed to prosecute wars are usually beyond the capacity of government. Hence, the need to borrow arises to avoid devastating consequences of defeat

ix **Debt servicing**: New debt with favourable terms and conditions may be undertaken to service old debts thereby reducing the burden of debt on the economy.

b. **Arewa State Government**

Cost effectiveness of method A

Year	Cash flow	Discounting factor $(1 + r)^{-t}$	PV
	₦'000		₦'000
0	1,500,000	1	1,500,000
4	300,000	0.6830	204,900
8	300,000	0.4665	139,950
12	300,000	0.3186	95,580
16	300,000	0.2176	65,280
20	300,000	0.1486	44,580
24	300,000	0.1015	30,450
28	300,000	0.0693	20,790
Total			**2,101,530**

Total = ₦2,101,530,000 in the next 28 years.

Cost effectiveness of method B

Year	Cash flow	Discounting factor $(1 + r)^{-t}$	PV
	₦'000		₦'000
0	1,250,000	1	1,250,000
3	150,000	0.7513	112,695
6	150,000	0.5645	84,675
9	150,000	0.4241	63,615
12	150,000	0.3186	47,790
15	150,000	0.2394	35,910
18	150,000	0.1798	26,970
21	150,000	0.1351	20,265
24	150,000	0.1015	15,225
27	150,000	0.0763	11,445
Total			**1,668,590**

Total = ₦1,668,590,000 in the next 28 years.

Decision: Based on the outcomes of these methods, Method B is cost effective and it is preferable because it has the lowest cost and shorter life span.

Examiner's report

The question is in two parts, part (a) of the question requires candidates to identify and explain general reasons for borrowing. Part (b) of the question requires the candidates to carry out investment appraisal using cost effectiveness approach.
Most of the candidates attempted the question and their performance was below average.

The commonest pitfall was the inability of many candidates to use the cost effectiveness approach of investment appraisal, while considering a given life span and maintenance cost of the projects. Also, few candidates were able to identify and explain reasons for borrowing.

Candidates are advised to make use of Pathfinders and the Study Text of the Institute for better performance in the Institute's future examination.

Marking guide

		Marks	Marks
a.	**General reasons for borrowing**		
	Identification of five general reasons for borrowing at ½ mark each	2½	
	Explanation of five general reasons identified at ½ mark each	2½	5
b.	**Determination the cost effectiveness on each method**		
	Determination the cost effectiveness on method A		
	(16 ticks @ ¼ each)	4	
	Determination the cost effectiveness on method B		
	(20 ticks @ ¼ each)	5	
	Decision	1	10
	Total		**15**

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – MAY 2025

CORPORATE STRATEGIC MANAGEMENT & ETHICS

EXAMINATION INSTRUCTIONS

PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER

1. Check your pockets, purse, mathematical set, etc. to ensure that you do not have prohibited items such as telephone handset, electronic storage device, programmable devices, wristwatches or any form of written material on you in the examination hall. You will be stopped from continuing with the examination and liable to further disciplinary actions including cancellation of examination result if caught.
2. Write your **EXAMINATION NUMBER** in the space provided above.
3. Do **NOT** write anything on your question paper **EXCEPT** your examination number.
4. Do **NOT** write anything on your docket.
5. Read all instructions in each section of the question paper carefully before answering the questions.
6. Do **NOT** answer more than the number of questions required in each section, otherwise, you will be penalised.
7. All solutions should be written in **BLUE** or **BLACK INK**. Any solution written in **PENCIL** or any other **COLOUR OF INK** will not be marked.
8. You are required to attempt **Question ONE (compulsory), any TWO Questions in Section B and any TWO Questions in Section C**.
9. Check that you have collected the correct question paper for the examination you are writing.

THURSDAY, MAY 22, 2025

DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – MAY 2025

CORPORATE STRATEGIC MANAGEMENT & ETHICS

Time Allowed: $3^1/_4$ hours (including 15 minutes reading time)

INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT FIVE OUT OF THE SEVEN QUESTIONS IN THIS PAPER

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

ZetaTech Solutions, a mid-sized technology company based in Nigeria, specialises in providing innovative software solutions for small and medium-sized enterprises (SMEs). The company has seen steady growth over the past decade. This is driven by its ability to create affordable and scalable solutions.

However, the industry landscape has changed dramatically in recent years, influenced by external forces and internal challenges. Firstly, the Nigerian government has recently introduced new regulations to improve data privacy and cyber-security. Compliance with these regulations and heightened insecurity in many parts of the country have increased operational costs for tech companies. Also, the inflation rate has risen to 18%, and the naira has depreciated significantly against major foreign currencies. The SMEs, ZetaTech's primary clientele, are struggling, which has led to delays in payments and a reduced number of new contracts. However, there is a growing adoption of digital tools among young entrepreneurs, creating opportunities for ZetaTech. Despite this fact, traditional SMEs remain hesitant to transition to digital solutions. Furthermore, the rapid advancement of Artificial Intelligence (AI) and machine learning is reshaping the industry. Competitors have started to integrate these technologies into their offerings, while ZetaTech is still playing catch-up. There is increasing pressure from stakeholders for companies to adopt sustainable practices, including energy-efficient software development. A recent lawsuit against a rival firm for intellectual property infringement has raised awareness of the need for stronger legal framework in the industry.

The tech industry has low entry barriers, leading to an influx of startups offering cheaper alternatives. However, ZetaTech's established reputation provides some insulation. SMEs have significant bargaining power due to the availability of multiple alternatives in the market. ZetaTech relies heavily on cloud service providers and software development tools, giving suppliers of these services considerable leverage. Open-source software and do-it-yourself platforms are gaining popularity, posing a threat to ZetaTech's offerings. Competition is intense, with both local startups and international firms vying for market share.

ZetaTech's Chief Executive Officer, Adebanjo Oke, has emphasised the importance of agility in responding to industry changes. The leadership team has outlined a strategic plan focused on three key areas:

(1) Investing in AI and machine learning capabilities to enhance product offerings.

(2) Strengthening relationships with SMEs through tailored customer support.

(3) Expanding into West African markets to diversify revenue streams.

Despite the ambitious plan, execution has been slow due to resistance from middle management and inadequate resource allocation. Employees have voiced concerns about unclear communication from leadership, resulting in low morale and a high labour turnover.

Required:

a. From the above scenario,

   i. Use the PESTEL framework to identify and explain key elements of the environment that could shape the success of ZetaTech's strategies (6 Marks)

   ii. Identify and justify from the external environment, the **TWO** top factors that could significantly impact ZetaTech's strategy (4 Marks)

b. Using the Porter's 5-force model,

   i. Identify and explain the key elements, from the given scenario, that shape ZetaTech's competitive environment (5 Marks)

   ii. Suggest ways that ZetaTech can mitigate the threats posed by each of the forces to maintain its competitive position (5 Marks)

c. Using the transformational leadership style, suggest to Adebanjo Oke, ways of mitigating challenges posed by middle management and thereby, ensuring success in the company's strategy implementation (10 Marks)

(Total 30 Marks)

SECTION B: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION (40 MARKS)

QUESTION 2

Purity Life Beverages, a bottled water company, prides itself in promoting health and wellness. The company's tagline, *"Pure water, pure life,"* reflects its commitment to sustainability and social responsibility. Purity Life sources water from a spring located in a rural community. The company has always maintained that its operations support the community by providing jobs and contributing to local development projects.

However, a recent investigation by an independent watchdog revealed that Purity Life Beverages' water extraction practices have significantly lowered the water level in the area, leaving local farmers struggling to irrigate their crops. This has led to food shortages and economic hardship for many families in the community.

Purity Life Beverages' CEO, James Bennett, faces a tough decision. The board is divided on this matter:

- Some members argue that reducing water extraction would align with the company's ethical stance and commitment to CSR but could lead to higher production costs and reduced profitability.
- Others believe maintaining current practices is necessary to protect shareholder's value and remain competitive in the bottled water market.

The company must decide how to address these challenges while balancing its ethical values, social responsibility, and financial obligations.

Required:

From the given scenario,

a. Define the term 'ethical stance' and identify the broad positions that Purity Life Beverages can take. (5 Marks)

b. How does Purity Life Beverages initial branding and commitment to health and wellness reflect its ethical stance? (2 Marks)

c. Identify the action or decisions that challenge Purity Life Beverages ethical stance. (3 Marks)

d. Identify the moral dilemma that Purity Life Beverages is facing and explain the competing interests it must balance to address the dilemma. (4 Marks)

e. Explain **THREE** principles of Corporate Social Responsibility (CSR) that apply to the Purity Life Beverages situation. How does the company's water extraction practice impact these principles? (6 Marks)

(Total 20 Marks)

QUESTION 3

Your organisation, a firm of chartered accountants, recently recruited five young graduates as trainees. The new recruits are very eager to commence their journey of professional certification. Upon reviewing the ICAN Act, the trainees encountered the concept of public interest.

Some of the young recruits interpreted the concept to be that ICAN members are working for the Nigerian Government. Others were of the school of thought that ICAN members are global citizens.

As the Director responsible for training the recruit, you are required to:

a. Explain the concept of public interest (2 Marks)

b. Highlight **FOUR** issues covered under public interest. (4 Marks)

c. State **FOUR** expectations of the public from a professional accountant and the profession with respect to public interest. (4 Marks)

d. Explain critical accounting theory (CAT) and highlight **FOUR** of its concepts. (10 Marks)

(Total 20 Marks)

QUESTION 4

Zanzibar Industry manufactures 10 different brands of soft drinks. Its factory is located at the Ora Industrial Estate from where 500 truckloads of its products are distributed on a daily basis. Consequently, the main access road to the Industrial Estate deteriorate very badly due to the high volume of the heavy trucks that carry Zanzibar industry's products.

Occupants of the estate hold Zanzibar Industry responsible for the deplorable condition of the road and view the company as socially irresponsible for not doing anything to rehabilitate the bad road, despite all entreaties.

Required:

a. Identify and explain briefly the risk(s) Zanzibar Industry faces by failing to be socially responsible. (10 Marks)

b. Outline the steps Zanzibar Industry should take in formulating and implementing a CSR policy. (10 Marks)

(Total 20 Marks)

SECTION C: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION (30 MARKS)

QUESTION 5

BrightTech Solutions is a mid-sized IT consulting firm that has recently introduced a new enterprise resource planning (ERP) system to streamline its operations, enhance efficiency, and improve customer service. The management team believes this system will help integrate departments and provide better data insights for decision-making.

However, the change has met with mixed reactions from employees. Some departments are enthusiastic about the new system, while others are resistant. The following information have been made available to you:

- **Management support**: Senior leaders are committed to implementing the ERP system;
- **Improved efficiency**: The new system promises faster and more accurate data processing;
- **Market competitiveness**: Competitors are already using similar systems, and making the upgrade is necessary to stay competitive;

- **Cost savings**: The integration of processes is expected to reduce operational costs in the long term;
- **Employee resistance**: Many employees feel the current systems are efficient but there are fear that the learning curve associated with the new ERP will be steep;
- **Training costs**: Providing training for the entire workforce is expensive and time-consuming;
- **Technical challenges**: IT staff have raised concerns about potential implementation issues and system downtime; and
- **Cultural resistance**: Some employees are skeptical of changes of any kind, citing failed past attempts at adopting new technologies.

Required:

Using the Lewin's Force Field Analysis, advise the management of BrightTech Solutions on how to effectively manage the change. **(15 Marks)**

QUESTION 6

Zadec Incorporated is one of the largest agro-allied companies located in Benue State, known as the food basket of Nigeria. Unfortunately, several hazards, including drought, banditry and devaluation of the Naira have resulted in a sharp reduction in the company's revenue. This has also exposed the company to several risks threatening not only the company's profitability, but also its continued existence.

In an attempt to mitigate these risks, you have been hired as a risk consultant to do the following:

a. Explain the dynamic nature of risks that a company might face. (5 Marks)
b. Explain the risk-based approach to business. (5 Marks)
c. Identify **FIVE** types of stakeholders that would be affected by the risks confronting Zadec Incorporated and discuss **ONE** specific risk for each. (5 Marks)

(Total 15 Marks)

QUESTION 7

There are diverse perspectives amongst philosophers on the nature of morality.

You are required to:

a. Explain ethical subjectivism. (2 Marks)
b. Explain to a group of interns in your audit practice, using examples, the absolutist and relativist theories of morality. (7 Marks)
c. Explain with examples **THREE** aspects of relativism. (6 Marks)

(Total 15 Marks)

SOLUTION 1

a. From the given scenario:

   i. Elements that can shape the external environment of ZetaTech are:

      a) **Political**: This is made up of factors such as stability of the political system, war, terrorism threats, insecurity and other political factors that can influence the performance of organisations.

         From the scenario, heightened insecurity in parts of the country has increased the operating costs of tech companies in the country.

      b) **Economic:** This includes economic factors that are capable of influencing the current or future performance of the organisation. Examples include macroeconomic variables such as Gross Domestic Product (GDP) and its derivatives (per capita income, disposable income, etc.), inflation, interest rates, tax rate, exchange rates, etc.
         The given scenario shows that the inflation rate has risen to 18%, and the Naira depreciated significantly against major foreign currencies. Additionally, Small and Medium-sized Enterprises (SMEs), ZetaTech's primary clientele, are struggling, leading to delays in payments and a decline in the number of new contracts.

      c) **Social:** This refers to the customs and attitudes of countries where organisations operate. Examples include ethnic structures of the society, religion and religious attitudes, age distribution of people in the society and their product preferences, etc.

         The scenario indicates a growing adoption of digital tools among young entrepreneurs, creating opportunities for ZetaTech. However, traditional SMEs remain hesitant to adopt digital solutions.

      d) **Technological:** This explains the science and technology at the disposal of organisations and how they affect their performances and competitiveness.

         The rapid advancement of AI and machine learning is reshaping the industry. Competitors have started integrating these technologies into their offerings, while ZetaTech is still playing catch-up.

      e) **Environmental/ecological**: This describes environmental factors which can influence organisational performance.

         From the scenario, there is increasing pressure from stakeholders for companies to adopt sustainable practices, including energy-efficient software development.

f) **Legal**: This is made up of existing and potential laws and regulations that could affect an organisation.

As shown in the scenario, a recent lawsuit against a rival firm for intellectual property infringement has raised awareness of the need for stronger legal frameworks in the industry.

The recently introduced regulations aimed at improving data privacy and cyber-security have led to a significant increase in the operating costs of tech companies in the country.

ii. The top two elements of the environment that will likely affect the success of ZetaTech's strategies are:

a) **Technological factor:** The rapid advancement of AI and machine learning is a critical factor. Competitors have already integrated these technologies, creating a competitive disadvantage for ZetaTech. If ZetaTech fails to invest in these technologies, it risks losing relevance in the industry. For example, lagging behind in AI could lead to reduced market share as SMEs may choose more innovative substitutes.

b) **Economic factor:** The rising inflation and currency depreciation are significantly impacting on ZetaTech's client base. SMEs are struggling with reduced financial capacity, leading to delayed payments and fewer contracts for ZetaTech. This challenge directly threatens the company's revenue and cash flow, thereby limiting its ability to invest in critical technologies, such as artificial intelligence (AI).

b.

i. Porter proposed five forces that determine the level of competition in an industry: They are:

a) **Threat of new entrant**: The ease of entry into an industry by firms determines the degree of competition in such a market. Industries with low entry barriers will attract more firms, thus making such a market more competitive. Barriers to entry may include economies of scale, capital investment requirement, access to distribution channels, time to become established, expertise, switching cost, and government regulations.

From the given scenario, the tech industry has low barriers to entry, leading to an influx of start-ups offering cheaper alternatives. However, ZetaTech's established reputation provides some insulation to this threat.

b) **Threat from substitute products:** The level of competition in an industry where consumers can switch easily to other substitutes will be higher than those with fewer substitutes and those where switching is costlier and/or more difficult.

The scenario shows that open-source software and do-it-yourself platforms are gaining popularity, posing a threat to ZetaTech's offerings.

c) **Bargaining power of suppliers:** Where suppliers exert significant bargaining power, it becomes possible for such suppliers to have substantial influence over the price and quality of critical inputs used by firms in the industry. This influence means that they can raise prices at will, thus squeezing out profit from firms in the industry.

The scenario shows that ZetaTech relies heavily on cloud service providers and software development tools, giving suppliers considerable leverage.

Bargaining power of customers: Buyers can also exert significant influence on the industry's profitability by demanding lower prices and requesting improved product specifications and quality. This is possible where the volumes of their purchases are high relative to the size of the suppliers, where the level of product differentiation among rival firms in the industry is low, where the profit of the buyer is low, etc.

The given scenario indicates that SMEs possess significant bargaining power due to the availability of multiple market alternatives.

d) **Competitive rivalry:** The intensity of competition among rival firms also determines the degree of competition in an industry.

From the scenario, competition is intense, with both local start-ups and international firms vying for market shares.

ii. The following are ways that ZetaTech can mitigate each of the five forces:

a) **Threat of potential entrants:** This can be mitigated through any of the following:

- Economies of scale: The mass rollout of ZetaTech's products would lead to reduced costs. It will also enable the company to develop and deploy new production capabilities that will be difficult for new entrants to replicate; and

- ZetaTech can lock in customers through enhanced customer support services, making it difficult for new entrants to establish themselves in the industry.

b) **Threat of substitutes:**

- Value-added services: ZetaTech can offer unique value through enhanced customer support, personalised solutions, and training for SMEs to effectively adopt its software.

- Product differentiation: Integrating AI and machine learning into its solutions will differentiate ZetaTech's offerings from open-source or do-it-yourself (DIY) platforms. For instance, predictive analytics could help SMEs make informed decisions, providing a clear advantage over substitutes.

c) **Threat from suppliers**

- Backward integration: This is when an entity enters the product market of its suppliers.
- Alliances with suppliers through contractual agreements and memorandum of understanding.

d) **Threat from customers**

Differentiating products: Like the threat of substitutes, customer threats can also be mitigated through product differentiation. This may be achieved by offering value-adding solutions.

e) **Competitive rivalry**

Strategic alliances: Partnering with other tech firms or financial institutions could expand ZetaTech's reach and thus sharing resources for innovation and reducing direct competitive pressure.

Market diversification: Expanding into West African markets reduces dependence on the Nigerian SME sector and spreads risk. By tapping into newer markets, ZetaTech can stabilise revenue streams.

c. The Chief Executive Officer, Adebanjo Oke, can address the challenges with middle-level management by providing transformational leadership. Transformational leadership is a leadership style in which the leader inspires and motivates followers to achieve a shared vision, while helping them to develop their full potentials.

The CEO can do this through the following steps:

i. Envisioning an inspiring picture of the future: Adebanjo should hold regular meetings with employees to clearly articulate the strategic vision and explain how all departments' efforts contribute to the company's goals. By fostering a transparent culture, employees will feel more connected to the mission and be motivated to contribute towards its accomplishment. Such meetings will further enable middle-level managers to buy into the vision.

ii. Coaching and training middle-level managers: Resistance from middle management could stem from inadequate skills or lack of ownership. Adebanjo can implement targeted leadership training programmes to empower middle managers with the tools to lead change. Additionally, involving them in the strategy development process fosters accountability and reduces resistance.

iii. Manage the process of realising the vision and achieving the strategic objective.

iv. Inspire the middle-level managers to deploy needed skills for the achievement of the implementation of the strategies.

Examiner's report

This compulsory question tests candidates' understanding of PESTEL analysis of the external environment of a firm, application of Porter's 5-force model to the competitive environment and use of transformational leadership in change management.

Being a compulsory question, virtually all candidates attempted it.

Candidates' performance was below average, as less than half of them scored up to 50% of the marks obtainable.

The common pitfalls were the inadequate knowledge of some candidates on Porter's 5-force model and transformational leadership, coupled with their inability to apply the models to the given scenario.

Candidates are advised to develop the skill of practical application of models to scenarios, as this is the distinguishing feature of the Skills Level from the Foundation Level.

Marking guide

		Number of Points	Marks Per Point	Sub-total	Total
a. i	PESTEL definition	6	$\frac{1}{2}$	3	
	PESTEL application to scenario	6	$\frac{1}{2}$	3	
					6
a. ii	Two top factors in the external environment	2	2	4	4
b. i.	Porters 5 forces – definition	5	$\frac{1}{2}$	$2\frac{1}{2}$	
	Key elements from the scenario	5	$\frac{1}{2}$	$2\frac{1}{2}$	5
ii.	Strategies to mitigate threats posed by Porter's 5 forces	5	1	5	5
c.	Definition of transformational leadership style	1	2	2	

Ways of mitigating challenges using transformational leadership style	4	2	8	
				10
Total				**30**

SOLUTION 2

a. An ethical stance or posture refers to the position that an entity takes on an ethical issue. An individual or an organisation can develop a conscious ethical stance on specific issues, and their decisions and actions are affected by it.

   The broad positions Purity Life Beverages might take are:

   i. Maximising short-term shareholder interests by continuing with its current water extraction practices.

   ii. Maximising long-term shareholder interests without ignoring the interests of the host community, the general public and the need to care for the environment;

   iii. Multiple stakeholder obligations: recognising obligations to different stakeholder groups, that is, shareholders, community, general public, etc.; and

   iv. Having an ethical obligation towards society. Being a shaper of society, that is, creating benefits for the community and improving the well-being of the people.

b. The company's tagline, *"Pure water, pure life"*, reflects its ethical stance of being committed to:
   i. Sustainability;
   ii. Social responsibility;
   iii. Community well-being; and
   iv. Environmental stewardship.

c. The decisions that challenge Purity Life Beverages' ethical stance are:
   i. The independent watchdog's findings reveal that Purity Life Beverages' water extraction practices are harming the local community, thus undermining the company's prided values;

ii. The harm to farmers and community conflicts with Purity Life Beverages' claim of promoting well-being of the community and sustainability of the environment;

iii. The company's water extraction practices have significantly lowered the water level in the area;

iv. Due to the scarcity of water, local farmers began to struggle to find water to irrigate their crops;

v. The community faced the challenge of food shortages; and

vi. Many families in the community suffered economic hardship.

d. A moral dilemma occurs when a decision must be made between two conflicting courses of action, either of which entails transgressing a moral principle.

The moral dilemma Purity Life Beverages is facing is choosing between:

i. Its stance to provide jobs and contribute to local development projects and its commitment to sustainability, protecting shareholder value, and remaining competitive in the bottled water market;

ii. Reducing water extraction to align with its ethical stance and facing the risk of higher production costs and lower profitability; and

iii. Maintaining current extraction practices to protect shareholder value and potentially worsening the plight of the community and damaging its reputation.

The competing interests to address the dilemma are:

i. Community welfare by aligning with its ethical values and improving the well-being of the community;

ii. Shareholders' value in terms of ensuring profitability and market competitiveness; and

iii. Protecting the reputation of the company by keeping to the tagline of the company.

e. Three principles of CSR that apply to Purity Life Beverages' situation are sustainability, environmental responsibility and community involvement.

The water extraction practice impacts these principles in the following ways:

i. Sustainability – the need to protect shareholders' value and remain competitive in the bottled water market;

ii. Environmental responsibility – the need to reduce water extraction to increase water level in the area and thereby enhance the chances of farmers to irrigate their crops; and

iii. Community involvement – the need to provide jobs for the community and contribute to local development projects.

Examiner's report

This question tests candidates' understanding of ethical stance, moral dilemma and corporate social responsibility.

About 70% of the candidates attempted this question, but performance was just average as many of them scored below 50% of the marks allotted.

The commonest pitfall was the inability of the candidates who performed poorly to apply the tested principles to the given scenario.

It is recommended that candidates should learn to apply principles to practical situations.

Marking guide

		Number of points	Marks per point	Sub total	Total
a.	Definition of ethical stance	1	1	1	1
	Broad positions of ethical stance	4	1	4	4
b.	How tagline reflects ethical stance	2	1	2	2
c.	Actions and decisions that challenge ethical stance	3	1	3	3
d.	Moral dilemma				
	Definition	1	1	1	1
	Competing interest addressed in moral dilemma	2	½	1	1
	Competing interest to address the moral dilemma	2	1	2	2
e.	Principles of CSR that apply to the scenario	3	2	6	6
	Total				**20**

SOLUTION 3

a. Public interest refers to the welfare, well-being and common good of the general public or society as a whole. To the professional accountant, public interest is the collective well-being of the business and financial community, people and institutions that the accountant serves and others who rely on the work of the accountant.

b. Matters covered under public interest are:

   i. Detecting and reporting any serious misdemeanour or crime;
   ii. Protecting public health and public safety;
   iii. Preventing the public from being misled by a statement or action of an individual or an organisation;
   iv. Exposing the misuse of public funds and corruption in government; and
   v. Revealing the existence of any conflict of interests of those individuals who are in a position of power or influence.

c. **Four expectations of the public of a professional accountant are**:
   i. Acting with integrity, and being honest and straight-dealing;
   ii. Providing objective opinions and advice, free from bias, influence or conflicts of interest;
   iii. Using specialised knowledge and skill at an appropriate level for the work;
   iv. Confidentiality: respecting the confidentiality of information provided by clients;
   v. Avoiding any action that brings the profession into disrepute; and
   vi. Compliance with all relevant laws and regulations.

d. Critical theory in accounting, also known as Critical Accounting Theory (CAT), critically examines conventional accounting practices, highlighting their social, political, and economic consequences and advocating for a more socially just and equitable approach.

   - It challenges the assumptions and methodologies of traditional accounting, recognising that it is not a neutral or objective tool but rather a social construction influenced by power dynamics and ideology.

   - It challenges the traditional view that accountants are objective individuals, free from bias and influence, with technical expertise, who can present reality accurately in the information they provide.

Four of its concepts are:

i. Financial reporting standards and other regulatory requirements establish technical rules. A function of the professional accountancy bodies is to provide rules of conduct and ethical behaviour, with the expectation that all members should follow the rules. Accountants might not be moral by nature, but they can be taught to think and act ethically.

ii. Occasional problems will inevitably arise when some accountants choose a different set of rules or deliberately break the rules. The consequences depend on the nature of the infractions. In an extreme case, such as that of Enron, breaking the rules by accountants contributed significantly to the company's collapse. Even in the Enron case, the accountants who were prosecuted and imprisoned did not necessarily understand what they had done wrong. They were doing the same as other people and adopting the company's culture.

iii. Alvesson and Willmott (1996) argue that employees enter a company with a notion of fairness and justice, which they expect to see reflected within the company. However, different people have varying views on what is right and wrong. Fairness and justice are abstract concepts and values that hold different meanings for different employees and in various work situations. This is how different cultures (and different sets of rules) arise.

iv. For companies and accountancy firms to apply ethical rules of conduct, there is a need to develop and implement business codes or professional codes of ethics. If consistently applied, these can help create a better understanding among accountants of what is right and wrong, how to identify moral dilemmas, and how to act when an ethical problem arises.

Examiner’s report

This question tests candidates’ understanding of public interest considerations and application of critical theory in accounting.

Very few candidates attempted this question.

Performance was poor as only about 30% of those who attempted the question scored up to 50% of marks allotted.

The commonest pitfall was candidates’ inadequate knowledge of critical accounting theory.

Candidates should endeavour to cover the syllabus effectively.

Marking guide

		No. of Points	Marks per point	Total
a.	Explanation of the concept of public interest	1	2	2
b.	Matters covered by public interest	4	1	4
c.	Expectations of the public	4	1	4
d.	Definition of critical theory in accounting	1	1	1
	What critical accounting challenges	1	1	1
	Concepts of critical accounting	4	2	8
	Total			**20**

SOLUTION 4

a. **Corporate social responsibility (CSR)** is when a business takes responsibility for its impact on society by doing things that are good for people, the environment, and the community, while still aiming to make a profit.

The following are the risks to which Zanzibar industries might be exposed for failing to be socially responsible:

i. **Reputation risk**: This is the risk arising from a company's failure to respond to growing public concern about social and environmental issues. This might cause a damage to the company's reputation.

Zanzibar Industries is exposed to a damage to its reputation by being generally perceived to be responsible for the damage to the road leading to its factory. This is compounded by its failure to rehabilitate the affected road.

ii. **Operational risk:** This is the risk of loss resulting from a company's inadequate or failed **internal processes, people, systems,** or from **external events**.

Zanzibar could suffer this risk as a result of its failure to fix the road leading to the factory which could increase cost of maintenance of its trucks.

iii. **Environment risk**: These are risks associated with the impact of the operations of an organisation on its physical environment.

The heavy truck traffic damaging the road contributes to environmental degradation. Also, damaged roads can result in dust, noise, and other forms of environmental pollution. Over time, these could lead to soil erosion, increased air pollution, and overall damage to local ecosystems, all of which are detrimental to the community and the environment.

iv. **Regulatory risks**: These are risks associated with contravening extant government policies and regulations as a result of carrying out company operations.

    Environmental degradation, especially due to industrial activities, can lead to scrutiny from environmental regulatory bodies. If Zanzibar Industry is seen as contributing to environmental harm by damaging public infrastructures or causing road damage, it could face inspections, fines, or other penalties from governmental or environmental organisations. Governments and local authorities are increasingly focused on enforcing environmental protection laws, and failure to adhere to these regulations can be costly.

v. **Community relations risk**: These are risks that could emanate from an organisation's operations which fracture the relationship between the entity and the host community.

    Failure to address the road condition or engage with the local community, could lead to strained relationships between the company and the local stakeholders, including employees, residents, and local government officials. Negative community sentiment can lead to protests, social unrest, or even a decline in employee morale and productivity.

b. The following are the steps Zanzibar should take in formulating/implementing a CSR policy:

    i. Decide its code of ethical values, and possibly publish these as a Code of Ethics;

    ii. Establish the company's current position regarding its CSR values, and decide the position it would like to reach in the future. The gap between the current position and the target position provides a basis for developing CSR strategies;

    iii. Develop realistic targets and strategies for its CSR policies. These strategies should be implemented;

    iv. Key stakeholders in the company should be identified, whose views the company wishes to influence (employees, pressure groups, customers, etc.

    v. The company's CSR achievements should be communicated to the key stakeholders. This is the main purpose of CSR reporting; and

    vi. The company's CSR achievements should be monitored.

Examiner's report

This question tests candidates' understanding of corporate social responsibility (CSR), risks associated with not being socially responsible and steps in formulating and implementing a CSR policy.

About 60% of the candidates attempted this question.

Performance was average, as about half of the candidates scored above 50% of the marks allotted.

Candidates who performed poorly did not know the steps involved in formulating and implementing a CSR policy.

Candidates are advised to cover the syllabus effectively.

Marking guide

		No. of Points	Marks per point	Sub-total
a.	Definition of CSR	1	2	2
	Definition of each type of risk	4	1	4
	Relating each type of risk to the given scenario	4	1	4
b.	Steps in implementing CSR policy	5	2	10
	Total			**20**

SOLUTION 5

The Lewin force field analysis starts with the identification of the driving and restraining forces to planned change.

From the given scenario, the driving forces that support the planned change are:

i. **Management support**: Senior leaders are committed to implementing the enterprise resource planning (ERP) system;

ii. **Improved efficiency**: The new system promises faster and more accurate data processing;

iii. **Market competitiveness**: Competitors are already using similar systems, making the upgrade necessary to stay competitive; and

iv. **Cost savings**: The integration of processes is expected to reduce operational costs in the long term.

Restraining forces to the planned change are forces that oppose and resist change. They are:

i. **Employee resistance**: Many employees feel the current systems are functioning well and are unwilling to embrace the learning curve associated with the new ERP;

ii. **Training costs**: Providing training for the entire workforce is expensive and time-consuming;

iii. **Technical challenges**: IT staff has raised concerns about potential implementation issues and system downtime; and

iv. **Cultural resistance**: Some employees are skeptical of any changes, citing failed past attempts at adopting new technologies.

The Lewin Force Field Analysis then proposes that each of the driving and restraining forces has its respective strengths which can be measured on a scale of 1 to 5.

According to Lewin, change will not occur

i. If the restraining forces are stronger than the driving forces of change.

ii. If the driving forces are weaker than restraining forces.

Therefore, Lewin suggests that the best approach for effective change implementation is to weaken the restraining forces of the planned change.

Lewin suggests ways of reducing the restraining forces of change, these are:

i. Discussing with employees the necessity for a change to a new ERP, highlighting its advantages and explaining the drawbacks of the old ERP;

ii. Working on ways to reduce the cost of training; and

iii. Addressing all issues raised by the IT department on the implementation of the new ERP and reassuring employees of the success of the new ERP.

Examiner's report

This question tests candidates' ability to apply Kurt Lewin's Force Field theory to change management.

About 60% of the candidates attempted this question. General performance was below average, as many candidates scored below 50% of the marks allotted.

The commonest pitfall was inability of many candidates to apply the theory to the scenario.

Candidates should endeavour to master practical application of theories to given situations.

Marking guide

	No. of points	Marks per point	Sub-total
Forces that support planned change from the given scenario	4	1	4
Restraining forces to the planned change from the given scenario	4	1	4
Scale of measurement	1	1	1
When changes will occur	2	1	2
Approach to change implementation	1	1	1
Ways of reducing restraining forces	3	1	3
Total			**15**

SOLUTION 6

a. **The dynamic nature of risk**

- The internal and external factors that affect an organisation might keep changing. This means that the risks faced by a company do not remain static but change over time and in different situations.
- In some situations, change in environmental factors are relatively low but, in other situations, risk factors can change a great deal. The latter is sometimes called 'turbulent' environments.
- The extent of possible exposure to risk due to environmental change can be represented as a scale or continuum between two theoretical extremes that would not be found in practice.
- At one extreme, factors might be static. This is when there is never any change in the external or internal environment of an organisation. This does not mean that there are no risks but, rather, that the risks faced do not change. Clearly, this cannot exist in practice. All organisations will face a changing risk profile.
- At the other extreme, the external or internal environment of an organisation changes constantly with the result that all risks are changing all the time. Such a situation does not exist in reality but situations close to it do exist.

b. **Risk-based approach to business**

- The term 'risk-based approach' describes the risk management processes.
- It is an approach to decision-making based on a detailed evaluation of risks and exposures, and policy guidelines on the level of risk that is acceptable (risk appetite).

- Risk-based approach takes the view that some risks must be accepted, but risk exposures should be kept within acceptable limits.
- Decisions should therefore be based on a consideration of both expected benefit and the risk.

c. **Five types of stakeholders**

i. **Employees:** Employees are exposed to several risks on their jobs. These include the risk of loss of job, and the threat to health or safety in the work that they do. Employment benefits might be threatened. These risks to employees can be affected by risks that face their company.

ii. **Investors:** Investors are exposed to investment risks. Hence, the board of directors should keep shareholders informed about the significant risks that the company faces, so that investors can assess their own investment risk.
Also, the board of directors should try to ensure that the risk appetite of the company is consistent with the risk appetite of its shareholders (and other stock market investors).

A company should not expose itself to strategic risks that expose the investors to a risk to their investment that the shareholders would consider excessive.

iii. **Creditors**

These are risks to a company's creditors and suppliers arising from:

- The company's failure to pay what it owes; and
- The company's resolve to stop buying goods and services from them.

A high-risk company is a high credit risk. The liquidity risk and insolvency risk facing a company have an impact on the credit risk for a supplier or lender. When a company asks a bank for a loan, the bank will assess the credit status of the company, and it will make its decision to lend based on the possibility that the company will pay back the loan with interest and on schedule.

iv. **Communities and the public**

Risks to the public include:

- Communities and the public are exposed to risks from the actions of companies, and the failure by companies to control their risks.
- Health and safety risks from failures by a company to supply goods that meet with health and safety standards.
- Risks to the quality of life from environmental pollution, due to failure by the company to control its environmental/pollution risks.

- Risks to a local community also arise from economic risks faced by the company. For instance, if a company is forced to close down a production plant in an area where it is a major employer, the economy of the entire community would be adversely affected.

v. **Government**

For governments, companies are a source of economic wealth for the country. They create additional economic activities which create extra wealth, and they provide employment and tax revenues for the government.
A risk for government is that major companies could decide to invest in a different country or move their operations from one country to another

vi. **Customers**

A company might face operational risks from human error or system breakdown in its operations. Errors and delays in providing goods and services have an impact on business customers.

Product safety risks for a company are also a risk for customers who use them.

vii. **Business partners**

A company in a joint venture might try to dominate decision-making in order to reduce the risk that the joint venture will not operate in the way that they want it to.
However, by reducing its exposures to risk in a joint venture, a company will affect the risks for the other joint venture partners.

Risks in partnerships can be controlled for all the partners – to some extent – by incorporating clear terms of reference in the contract agreement between the partners, and by monitoring performance of the partnership.

Examiner's report

This question tests candidates' understanding of risk in relation to its dynamic nature, risk-based approach to business management and the impact of a company's risks on its stakeholders.

About 90% of the candidates attempted this question, with good performance, as most of them scored above 50% of the marks allotted.

Candidates who performed poorly were unable to relate their knowledge to the requirements of the question.

Candidates are advised to address their knowledge to the requirements of questions.

Marking guide

		No. of Point	Marks per point	Sub-total
a.	Elements of the dynamic nature of risks	5	1	5
b.	Definition of risk-based approach	1	2	2
	Elements of risk-based approach	3	1	3
c.	Stakeholder type	5	½	2½
	Risk for each type of stakeholder	5	½	2½
	Total			**15**

SOLUTION 7

a. **Ethical subjectivism**

- This is a meta-ethical approach to morality. This is the view that what is right or wrong in any given situation is simply dependent on what people think about it.

- The theory states that ethical statements express propositions and the truth or falsity of these propositions is dependent on people's attitudes, personal opinions or beliefs.

b. **Ethical absolutism, or moral absolutism**

- States that there are absolute moral standards against which the morality of actions can be judged. 'Right' and 'wrong' are recognised by objective standards that apply universally, to everyone.
- Plato was a philosopher who argued in favour of moral absolutism and in 'good' that always holds its value.
- Absolutism might be associated with religious morality, but an individual can have an absolutist view of morality without being religious.

For example, an individual might believe that slavery, war, child abuse and the death penalty are all morally wrong and cannot be justified under any circumstances.

Another example is that a person might consider that stealing money is always wrong, even if the amount stolen is quite small and the money is used to buy food for a starving family.

Ethical relativism states

- That there is no objective or absolute moral truth, and there are no universal standards of moral behaviour.

- Morality is relative to the ethical norms that are accepted by society at the time, and the culture of society.

- What is 'right' in one society may be considered 'wrong' in another. And what is considered 'wrong' at one moment in time might be considered 'right' several years later.

An example of ethical relativism is a consideration of polygamy as both right and wrong relative to the culture in operation.
Another example is a consideration of capital punishment as a just punishment for capital or heinous crimes by some people or states and capital punishment as inhumane and a violation of the right to life by others.

c. **Three aspects of ethical relativism**

   i. **Descriptive ethical relativism**- This is the view that different cultures and societies have different ethical systems and cultures. 'Right' and 'wrong' are concepts that relate to the particular culture. (There is no universal rule about right and wrong).

   ii. **Normative ethical relativism**- The beliefs or moral values within each culture are right within that culture. It is impossible to judge the values of another culture externally or objectively. Moral values of a culture can only be judged from within the culture.

   iii. **Religious moral relativism** - An example of normative ethical relativism, this maintains that morality is determined and dependent on religious standpoints. However, it recognises that no single religion is universally or exclusively true.

   iv. **Historical relativism** – This provides context for ethical views to vary across periods of time. For example, the elimination of suspected witches or the widespread adoption of slavery in the past is no longer acceptable today.

Examiner's report

This question tests candidates' understanding of ethics with respect to ethical subjectivism, absolutist and relativist theories of morality.

About 70% of the candidates attempted this question. Performance was however poor, as many of them scored below 50% of the allotted marks.

The commonest pitfall was inability of many candidates to distinguish between the various theories of morality tested.

Candidates are advised to undertake detailed study and practical application of models and theories covered in the syllabus.

Marking guide

		No of points	Marks per point	Sub-total
a.	Definition of ethical subjectivism	1	1	1
	Explanation of ethical subjectivism	1	1	1
b.	Explanation of absolutist theory	1	2½	2½
	Example of absolutist theory	1	1	1
	Explanation of relativist theory	1	2½	2½
	Example of relativist theory	1	1	1
c.	Examples of aspects of relativism	3	2	6
	Total			**15**

ICAN/251/Q/B3 **Examination No....................**

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – MAY 2025

TAXATION

EXAMINATION INSTRUCTIONS

PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER

1. Check your pockets, purse, mathematical set, etc. to ensure that you do not have prohibited items such as telephone handset, electronic storage device, programmable devices, wristwatches or any form of written material on you in the examination hall. You will be stopped from continuing with the examination and liable to further disciplinary actions including cancellation of examination result if caught.
2. Write your **EXAMINATION NUMBER** in the space provided above.
3. Do **NOT** write anything on your question paper **EXCEPT** your examination number.
4. Do **NOT** write anything on your docket.
5. Read all instructions in each section of the question paper carefully before answering the questions.
6. Do **NOT** answer more than the number of questions required in each section, otherwise, you will be penalised.
7. All solutions should be written in **BLUE** or **BLACK INK**. Any solution written in **PENCIL** or any other **COLOUR OF INK** will not be marked.
8. You are required to attempt **Question ONE (Compulsory), any TWO Questions in Section B and any TWO Questions in Section C.**
9. Tax and Capital Allowances rates are provided with this examination paper.
10. Check that you have collected the correct question paper for the examination you are writing.

TUESDAY, MAY 20, 2025

DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – MAY 2025

TAXATION

Time Allowed: $3^1/_4$ hours (including 15 minutes reading time)

INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

XYZ Nigeria Limited was incorporated in Nigeria on November 1, 2016. The company has an authorised and fully paid ordinary share capital of five million shares at ₦1 each.

The company is an entity that started trading on January 1, 2023, retailing engineering equipment. Its first statement of profit or loss was for the year ended December 31, 2023, and revealed the following results:

	₦'000	₦'000
Gross profit		140,800
Investment income		3,850
Profit on sales of equipment		4,950
		149,600
Less expenses:		
Depreciation	17,875	
Directors' emoluments	2,200	
Debenture interest	4,000	
Audit and accounting fees	4,125	
Legal costs	5,775	
Salaries	72,000	
Miscellaneous expenses	12,600	(118,575)
Net profit for the year		**31,025**

The following additional information was provided by the company's Financial Director:

(i) Legal costs comprise the following:

	₦'000
- Retainership	1,725
- Cost of issuing directors service agreement	1,550
- Cost of issuing ordinary shares	2,500
	5,775

(ii) The breakdown of miscellaneous expenses comprises:

	₦'000
- Cost of installation of a new machine	3,750
- Extension and partitioning of office apartment	1,500
- Staff party	2,500
- Cost of entertaining suppliers	4,850
	12,600

(iii) Investment income comprises the following:

	₦'000
- Dividend from Nigerian companies (net)	2,100
- Loan interest from Nigerian company (gross; non-trading investment)	1,750
	3,850

(iv) On December 31, 2023, the directors of the company agreed to pay a dividend of 5% on its ordinary shares

(v) Balancing charge agreed with the Revenue was ₦2,740,000

(vi) The agreed capital allowance with the Revenue was ₦10,325,000

Required:

a. Compute the total tax liabilities of XYZ Nigeria Limited for the relevant year of assessment. (20 Marks)

b. Explain the other bases of assessing companies to income tax in Nigeria apart from the normal basis. (5 Marks)

c. The company is under pressure to fund some of the projects that are likely to be executed the following year. In order to be proactive, the management is of the view that additional loans can be obtained within a very short time, if the management is ready to cooperate with the creditors. If they do that, more funds will be available to execute all these projects.

The Accountant was present at the management meeting and was not comfortable with this proposed line of action. He feels that it will constitute a breach of the ethics of his profession to engage in shady dealings in the course of his employment. He explained to the management that there are ethical issues a professional accountant should be wary of. He maintained that those ethical issues as noted by ICAN and International Ethics Standard Board for Accountants (IESBA) code are the guiding principles of every accountant.

You have been appointed by the company as the Tax Consultant to handle its tax matters and they have sought clarifications on the statement of the accountant.

Required:
Explain the **FIVE** fundamental principles of ethics as specified by the International Ethics Standards Board for Accountants (IESBA). (5 Marks)

(Total 30 Marks)

SECTION B: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION (40 MARKS)

QUESTION 2

Engineer Sanni Abudukar and Chief Caleb Ariwaya are partners in a consultancy firm based in Abakaliki. The firm renders engineering and geological services to all companies at various oil fields in the country.

An extract from the statement of profit or loss of the firm - Abubakar Ariwaya & Associates, for the year ended December 31, 2024, revealed the following:

	₦'000	**₦'000**
Gross fees		236,500
Sundry income		7,975
		244,475
Subscriptions and donations	2,475	
Administrative expenses	48,000	
Rent	8,250	
Depreciation	41,250	
Sundry expenses	33,000	
Interest on loan and overdraft	8,250	
Repairs and maintenance	30,800	(172,025)
Net profit		**72,450**

Other information provided by the firm includes:

(i) Engineer Abubakar is married with six children. All the children are studying in various higher institutions across the country. He has an aged father of about 85 years old who received an annual pension of ₦1.2 million from the Nigerian Railway Corporation. He spends about ₦800,000 per annum to maintain him.

(ii) Chief Ariwaya has no dependent relative but he is married with two children both of whom are schooling abroad. He has an insurance policy for his family on which he pays a premium of ₦250,000 per annum on a sum of ₦30 million at the end of 25 years.

(iii) Engineer Abubakar and Chief Ariwaya did not have any partnership agreement in writing but they opted for sharing the firm's profit or losses equally.

(iv) Sundry income included the profit on sales of motor vehicle amounting to ₦5,330,000.

(v) Administrative expenses is made up of:

	₦'000
- Office stationery	4,650
- Telephone and internet	1,850
Upkeep of partners:	
- Rent paid for residential house – Engr. Abubakar	5,450
- Medical expenses of Chief Ariwaya's social acquaintance	1,250
- Maintenance of the firm's office	4,800
- Other allowable expenses	30,000
	48,000

(vi) Subscriptions and donations comprise:

	₦'000
- Journal, newspapers and magazines	575
- Subscription of partners and senior staff professional institutions	638
- Trade associations	762
- Donation to Ebonyi Social Club	500
	2,475

(vii) The sum of ₦1,980,000 included in the interest charged by banks on loans and overdraft related to loan obtained by the partners from the banks to finance their domestic residences which were still under construction.

Chief Ariwaya took a loan of ₦10 million while Engr. Abubakar's loan was ₦8 million. The accruing interests are shared according to loan obtained.

(viii) Withholding tax deducted on fees income was at the rate of 5%.

(ix) Computed capital allowances claimable for the relevant year of assessment are as follows:

	₦
- Initial allowance	7,715,000
- Annual allowance	14,080,000
- Balancing charge	1,795,000

Required:

Compute the partners' income tax liabilities for the relevant year of assessment.

(Total 20 Marks)

QUESTION 3

ABC Nigeria Limited is a company engaged in the importation of ladies' wigs and hair attachments. As a result of difficulties in procuring foreign currency needed for importations, the Board of Directors of the company decided to cease operations on April 30, 2024.

The following adjusted profits were extracted from the company's records:

	₦'000
Year ended December 31, 2022	16,800
Year ended December 31, 2023	30,000
Year ended April 30, 2024	9,800

After the date of cessation, the following transactions took place:

(i) A trade creditor with outstanding balance of ₦4,125,000 was paid ₦2,970,000 in full and final settlement of debts.

(ii) A trade receivable amounting to ₦2,750,000 that was written off as bad debt was duly recovered.

(iii) The delivery van used to distribute the company's products to customers across the country which was snatched at gunpoint along Iperu-Sagamu Expressway was recovered by the Nigeria Police Force and the van was sold for ₦9,650,000.

(iv) The company's lawyer who helped in the recovery of the delivery van and bad debt was paid a commission of ₦2.5 million.

Required:

a. Explain how the post cessation transactions will be treated for tax purposes. (4 Marks)

b. Compute the assessable profits for all relevant years of assessments. (11 Marks)

c. How do the provisions of Finance Act, 2019, on the cessation of business affect ABC Nigeria Limited? (5 Marks)

(Total 20 Marks)

QUESTION 4

Segun, Alao and Kishi have been in partnership for a long time before incorporating a limited liability company, Success Nigeria Limited, to take over the business of the partnership. The limited liability company has been carrying on the same business of the partnership which is manufacturing of tyres.

The Directors of the company met and observed that the tax compliance requirements about limited liability companies are more intricate and very different from those of partnerships. In order not to run foul of the relevant laws, it was decided that a Tax Consultant should be appointed to handle its tax matters.

You have been appointed as the Tax Consultant and you were provided with an extract of the financial statements of the company for the year ended June 30, 2024, as follows:

	₦	₦
Gross profit		87,500,000
Less		
Building fund	1,600,000	
Senior staff club house	3,200,000	
Depreciation	7,200,000	
Salaries and wages	12,200,000	
Directors' remuneration (Non-Executive)	2,200,000	
Directors' remuneration (Executive)	5,300,000	
Donation to Red Cross Society	360,000	32,060,000
Net profit		**55,440,000**

Other information includes:

(i) Commission received of ₦2,400,000 has not been taken into account
(ii) Capital allowance agreed with the Revenue was ₦2,750,000
(iii) Bad debt of ₦3,200,000 was recovered

Required:

a. Compute the taxes payable by the company for the relevant assessment year. (10 Marks)

b. Explain **FIVE** conditions under which a donation charged against income is allowable for ascertaining the profit of a business. (5 Marks)

c. Explain the returns to be filed by every incorporated company carrying on business in Nigeria to the Federal Inland Revenue Service. (5 Marks)

(Total 20 Marks)

SECTION C: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION (30 MARKS)

QUESTION 5

a. The knowledge of basic concepts in taxation assists in having a good understanding of taxation and its principles.

Your boss has mandated you to explain the following concepts to other members of staff who do not have a good knowledge of taxation:

(i) Tax incidence (2 Marks)
(ii) Tax burden (2 Marks)
(iii) Tax impact (2 Marks)
(iv) Tax shift (2 Marks)
(v) Tax base (2 Marks)

b. The determination of residence is vital for the purpose of identifying the relevant tax authority of a taxpayer.

Required:
Explain the rules of residence as they relate to the following individuals:

(i) Persons in employment (1 Mark)
(ii) An executor (1 Mark)
(iii) Partners in partnership (1 Mark)
(iv) An itinerant worker (2 Marks)

(Total 15 Marks)

QUESTION 6

a. Global Legends Logistics Limited is a company that renders logistics services to financial institutions in Nigeria and worldwide. An extract of the statement of profit or loss for the year ended December 31, 2024 is as follows:

	₦'000	**₦'000**
Income:		
Contract supplies	668,250	
Recruitment fees	318,750	
Interest received	11,250	998,250
Expenses:		
Payments to suppliers	506,250	
Management fees paid to Kosemani Konsults	45,000	
Audit fees	10,000	
Administrative expenses	337,500	
Legal and professional fees	7,500	(906,250)
		92,000

Note: The total withholding tax credit notes available to the company was ₦6,750,500.

Required:

Compute:

i. The VAT payable by the company for the year ended December 31, 2024, assuming all figures are VAT exclusive. (5 Marks)

ii. The withholding tax remittable by the company to FIRS. (6 Marks)

b. Where a dividend is paid out of profit on which no tax is payable due to:

i. No assessable profit; or

ii. Assessable profits being less than the dividend paid or proposed, the company paying the dividend shall be charged to income tax at the appropriate tax rate on the dividend paid/proposed as if it were its total profit for the assessment year to which the accounts from which the dividend declared relate.

Salami Limited paid dividend of ₦35 million for the year 2024. Its total profit for 2024 year of assessment was ₦20 million.

Required:

i. Identify the section of the Companies Income Tax Act, the FIRS will rely on to revise the company's tax liability. (1 Mark)

ii. What would be the implication of the company's dividend decision on its tax liability? (3 Marks)

(Total 15 Marks)

QUESTION 7

a. Real Estate Investment Company (REIC) is a company duly approved by Securities and Exchange Commission to operate a real estate investment scheme (REIS). This is a specialised area of business which raises peculiar tax implications. You have been invited to a programme to speak for the benefit of the operators in this industry.

Required:

Explain the following taxes in relation to REIC:

(i) Withholding tax (2 Marks)

(ii) Tertiary education tax (2 Marks)

(iii) Value added tax (2 Marks)

(iv) Stamp duties (2 Marks)

b. The Federal Inland Revenue Service (FIRS) is given the discretionary power, by virtue of the provision of section 30 of CITA (as amended), to assess and charge a company tax on a fair and reasonable percentage of the turnover of the trade or business.

Required:
Explain the circumstances when FIRS can assess a company based on turnover.

(7 Marks)

(Total 15 Marks)

NIGERIAN TAX RATES

1. **CAPITAL ALLOWANCES**

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

2. INVESTMENT ALLOWANCE Up to August 31, 2023 (10%); and Finance Act 2023 (NIL)
3. RATES OF PERSONAL INCOME TAX
   Graduated tax rates and consolidated relief allowance of ₦200,000 or 1% of Gross Income, whichever is higher + 20% of Gross Income.

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

   After the relief allowance and exemption had been granted, the balance of income shall be taxed as specified in the tax table above.
4. COMPANIES INCOME TAX RATE: Finance Act 2019 specifies:
   30% (Large Company)
   20% (Medium-Sized Company)
   0% (Small Company)
5. TERTIARY EDUCATION TAX: 2% of assessable profit (up to December 31, 2021)
   2.5% of assessable profit (with effect from January 1, 2022) and 3% of assessable profit, with effect from September 1, 2023 (Finance Act 2023)
6. CAPITAL GAINS TAX 10%
7. VALUE ADDED TAX 7.5%
8. HYDROCARBON TAX 15% (Petroleum prospecting Licence and Marginal Fields Companies)
   30% (Petroleum Mining Lease Companies)

SOLUTION 1

a **XYZ Nigeria Limited**
Computation of total tax liabilities for assessment year 2024

	₦'000	₦'000
Net profit as per accounts		31,025
Add: disallowable expenses:		
Depreciation	17,875	
Legal cost - Issue of ordinary shares	2,500	
Installation of new machine	3,750	
Extension and partitioning of office apartment	1,500	25,625
		56,650
Less: Non-taxable income:		
Profit on sale of equipment	4,950	
Dividend from Nigerian company	2,100	7,050
Adjusted profit		49,600
Balancing charge		2,740
		52,340
Capital allowances		(10,325)
Total profit		42,015

Companies income tax (CIT) (30% of ₦42,015,000)	12,604,500
Tertiary education tax (TET) (3% of ₦49,600,000)	1,488,000
Total tax liabilities	14,092,500

Assessment based on dividend

5% of 5,000,000 shares at ₦1.00 each = ₦250,000
CIT on dividend paid at 30% = ₦75,000

Given the fact that the tax liability based on total profit is higher than that based on dividend, the CIT payable is ₦12,604,500.

(b) **Other bases of assessing companies to income tax in Nigeria apart from the normal basis are as follows:**

i. **Dividend assessment**: Section 19 (1) of CITA 2004 (as amended) provides that where a dividend is paid out as profit on which no tax is payable due to:

- no total profits; or
- total profits which are less than the amount of dividend which is paid, whether or not the recipient of the dividend is a Nigerian company.

The provisions of Section 19 (1) shall not apply to dividends paid out of the retained earnings of a company, provided that the dividends are paid out of profits that have been subjected to tax under this Act, the Petroleum Profits Tax Act or the Capital Gains Tax Act.

ii. **Minimum tax**: is pegged at a flat rate of 0.5% of turnover less franked investment income, which would be applicable to the following companies;
- companies with no total profit, or
- whose computed tax is less than the minimum tax.

iii. **Turnover assessment**
For a trade or business, where the Revenue feels that the trade or business produces either no assessable profit or assessable profit that is less than expected of the trade or business or the true assessable profit cannot be ascertained, the Board may raise assessment on the following basis:

- if it is a Nigerian company, a reasonable percentage of the turnover; and
- if it is a non-Nigerian company, that part of the turnover attributable to the fixed base of the business or that part of the profit attributable to the business or trade carried on through a Nigerian representative.

(c) **The five fundamental principles of ethics as specified by the International Ethics Standards Board for Accountants (IESBA) are as follows:**

i. **Integrity:** A professional accountant shall comply with the principles of integrity, which requires an accountant to be straightforward and honest in all professional and business relationships.

ii. **Objectivity:** A professional accountant shall comply with the principle of objectivity, which requires an accountant not to compromise professional or business judgement because of bias, conflict of interest or undue influence of others.

iii. **Professional competence and due care:** A professional accountant shall comply with the principles of professional competence and due care, which requires an accountant to:

- attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organisation receives competent professional service, based on current technical and professional standards and relevant legislation; and

- act diligently and in accordance with applicable technical and professional standards.

iv. **Confidentiality:** A professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and business relationships.

v. **Professional behaviour:** A professional accountant shall comply with the principle of professional behaviours, which requires an accountant to comply with relevant laws and regulations, and avoid any conduct that the accountant knows or should know might discredit the profession.

A professional accountant shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

Examiner's report

Part (a) of the question tests the candidates' knowledge of the computation of taxes payable by a company whilst part (b) relates to the other bases of assessing companies to income tax apart from the normal basis. In part (c), candidates are expected to explain the fundamental principles of ethics as specified by the International Ethics Standards Board for Accountants (IESBA).

This being a compulsory question, about 100% of the candidates attempted the question and their performance was above average.

The commonest pitfalls of the candidates were their inability to:

a) identify allowable and disallowable expenses; and

b) explain other bases of assessing companies to income tax apart from the normal basis.

Candidates are advised to read widely and be conversant with the provisions of the Companies Income Tax Act Cap. C 21 LFN 2004 (as amended) before sitting for subsequent examinations to enhance better performance.

Marking guide

		Marks	Marks
a.	**Computation of total tax liabilities**		
	Heading - Name of enterprise	½	
	- Computation of total tax liabilities for assessment year 2024	½	
	Net profit as per accounts	1	
	Depreciation	1	
	Legal cost - Issue of ordinary shares	1	
	Installation of new machine	1	
	Extension and partition of office apartment	1	
	Profit on sale of equipment	2	
	Dividend from Nigerian company	2	
	Balancing charge	2	
	Capital allowance	2	
	CIT computation	1	
	TET computation	1	
	Assessment based on dividend		
	5% of 5,000,000 ordinary shares of ₦1 each = ₦25,000	1	
	CIT or dividend paid at 30% = ₦75,000	1	
	Conclusion	2	20
b.	**Other bases of assessing companies to income tax**		
	Dividend assessment	1	
	Section 19 (1) of CITA 2004 (as amended)	¼	
	No total profits	¼	
	Total profits which are less than the amount of dividend	¼	
	Dividends paid out of retained earnings	¼	
	Minimum tax	1	
	Companies with no total profit	¼	
	Companies with computed tax less than the minimum tax	¼	
	Turnover assessment	1	
	If it is a Nigerian company, a reasonable percentage of the turnover	¼	
	If it is a non-Nigerian company, that part of the turnover attributable to the fixed base	¼	5
c.	Integrity	½	
	Explanation	½	
	Objectivity	½	
	Explanation	½	
	Professional competence and due care	½	
	Explanation	½	

Confidentiality	½	
Explanation	½	
Professional behaviour	½	
Explanation	½	5
Total		30

SOLUTION 2

Abudukar, Ariwaya & Associates
Computation of adjusted profit
For 2025 year of assessment

		₦'000	₦'000
Net profit as per accounts			72,450
Add: disallowable expenses:			
Depreciation		41,250	
Donation to Ebonyi Social Club		500	
Rent paid for residential houses - Engr. Abudukar		5,450	
Medical expenses		1,250	
Interest on loan to partners			
- Engr. Abudukar ($^{10}/_{18}$ x ₦1,980,000) =	1,100,000		
- Chief Ariwaya ($^{8}/_{18}$ x ₦1,980,000) =	<u>880,000</u>	<u>1,980</u>	
			<u>50,430</u>
			122,880
Less: Non-taxable income:			
Profit on sale of motor vehicle			<u>5,330</u>
Adjusted profit			117,550
Balancing charge			<u>1,795</u>
Capital allowances:			
Initial		7,715	
Annual		<u>14,080</u>	(<u>21,795</u>)
Divisible profit			<u>97,550</u>
Share of profit:			
- Engr. Abudukar ($^{1}/_{2}$ x ₦97,550,000) =			₦48,775,000
- Chief Ariwaya ($^{1}/_{2}$ x ₦97,550,000) =			₦48,775,000

Computation of tax liabilities for the partners for 2025 assessment year

	Engr. Abudukar	Chief Ariwaya
	₦	₦
Share of profit	48,775,000	48,775,000
Less tax exempt:		
Life assurance	<u>0</u>	<u>0</u>
Gross income	48,775,000	48,775,000
Less CRA (20% of gross income + higher of (₦200,000 or 1% of gross income)	<u>(10,242,750)</u>	<u>(10,242,750)</u>
Chargeable income	<u>38,532,250</u>	<u>38,535,250</u>

Computation of tax payable

Tax Table	₦'000	₦'000
1st ₦300,000 @ 7%	21,000	21,000
Next ₦300,000 @ 11%	33,000	33,000
Next ₦500,000 @ 15%	75,000	75,000
Next ₦500,000 @ 19%	95,000	95,000
Next ₦1,600,000 @ 21%	336,000	336,000
Above ₦3,200,000@ 24%	8,479,740	8,479,740
	9,039,740	9,039,740
WHT deducted on gross fees	(5,912,500)	(5,912,500)
Net tax payable	3,127,240	3,127,240

Examiner's report

The question tests the candidates' knowledge of the computation of partners' income tax liabilities.

About 85% of the candidates attempted the question but the performance was fair. Some of the candidates treated the insurance premium paid by Chief Ariwaya on behalf of his family as tax exempt whereas the Finance Act 2023 only allows premium paid on behalf of the taxpayer and his spouse. Additionally, the withholding tax deducted on gross fees was not captured in the ascertainment of net tax payable by the partners.

Candidates are advised to read relevant texts on taxation of income of partners in partnerships, ICAN Pathfinders, and Study Text.

Marking guide

	Marks
Computation of partners' income tax liabilities	
Heading - Name of the partnership	½
- Computation of adjusted profit	½
- 2025 year of assessment	½
Net profit as per accounts	½
Depreciation	½
Donation to Ebonyi Social Club	½
Rent paid for residential house – Engr. Abudukar	½
Medical expenses	½
Interest on loan to partners - Engr. Abudukar	½
- Chief Ariwaya	½
Profit on sale of motor vehicle	½
Balancing charge	½
Capital allowances - Initial	½

- Annual	½
Share of profit - Engr. Abudukar	1
- Chief Ariwaya	1

Computation of tax liabilities for the partners

Share of profit (1/2 mark each)	1
Gross income (1/2 mark each)	1
CRA (1/2 mark each)	1

Computation of tax payable

₦21,000 ((1/2 mark each)	1
₦33,000 ((1/2 mark each)	1
₦75,000 ((1/2 mark each)	1
₦95,000 ((1/2 mark each)	1
₦336,000 ((1/2 mark each)	1
₦8,479,740 ((1/2 mark each)	1
WHT deducted on gross fees (1 mark each)	2
Total	20

SOLUTION 3

(a) Post cessation transactions are deemed to have taken place on the last day of business, hence all sums received or paid after the date of cessation are captured as part of cessation activities.

(b)

ABC Nigeria Limited
Computation of assessable profit for 2023 - 2024 YOAs

Year of assessment	Basis period		Assessable profit ₦'000
2023	01/01/22 - 31/12/22		16,800
2024	01/01/23 - 31/12/23		30,000
2024	01/01/24 - 30/04/24	wk 1	16,730

Workings:	**₦'000**
Profit on cessation	9,800
Receivables recovered	2,750
Sale of stolen vehicle recovered	9,650
Trade creditor settled	(2,970)
Lawyer's commission	(2,500)
Assessable profit	16,730

(c) In line with provisions of Finance Act 2019, on cessation of business, companies will file returns on or before 6 months after the date of cessation of business while individuals will file returns 3months after cessation. Therefore, ABC Nigeria Limited, will file two returns for 2024 YOA because the company ceased operations on April 30 and the tax liability will be paid before the end of the year.

Examiner's report

Part (a) of the question tests the candidates' knowledge of the treatment of post cessation transactions for tax purposes whilst part (b) requires them to compute the income tax liabilities of a company on cessation of business. In part (c), they are expected to explain how the provisions of Finance Act 2019, will affect the company.

About 45% of the candidates attempted the question and the performance was poor.

Some of the candidates could not explain the treatment of post cessation transactions for tax purposes.

Candidates are advised to read the Finance Acts, Institute's Pathfinder, and Study Text in their preparations for subsequent examinations.

Marking guide

		Marks	Marks
a.	Explanation of how post cessation transactions will be treated for tax purposes		4
b.	Computation of assessable profit for the relevant assessment years		
	Heading - Name of company	¼	
	- Computation of assessable profit for the relevant years	¼	
	Year of assessment:		
	2023	1	
	2024	1	
	2025	1	
	Basis period:		
	2023	1	
	2024	1	
	2025	1	
	Assessment profit:	1	
	2023	1	
	2024 - Workings		
	Profit on cessation	½	
	Receivables recovered	½	

Sale of stolen vehicle recovered	½	
Trade creditor settled	½	
Lawyer's commission	½	11

c. Explanation of how the provisions of Finance Act, 2019, on cessation of business affect ABC Nigeria Limited

Correct explanation of the provisions	5
Total	20

SOLUTION 4

Success Nigeria Limited
Computation of tax liabilities
For 2025 assessment year

	₦	₦
Net profit as per accounts		55,440,000
Add:		
Bad debt recovered	3,200,000	
Commission received	2,400,000	5,600,000
		61,040,000
Add disallowed expenses:		
Building fund	1,600,000	
Senior staff club house	3,200,000	
Depreciation	7,200,000	12,000,000
Adjusted profit		73,040,000
Capital allowance		(2,750,000)
Total profit		70,290,000

Companies income tax
= 30% of ₦70,290,000 = ₦21,087,000

Tertiary education tax
= 3% of ₦73,040,000 = ₦2,191,200

(b) **Allowable donations**

In ascertaining the profits or losses of a company chargeable to tax for any period, there shall be deducted, donations made during that period by the company.

The conditions for allowing such donations are as follows:

(i) donations must be made to any of the funds, bodies, institutions in Nigeria contained in the Fifth schedule to CITA;

(ii) donations must be made out of profit, that is, donations shall not be allowed in circumstances where it will increase the loss of a company or convert its profit into a loss;

(iii) donations must not be of a capital nature except donation to a university or other tertiary or research institutions;

(iv) donations must not exceed 10% of the company's total profits for an assessment year before any deduction for donation. In the case of donation to tertiary or research institution, up to 15% of total profit or 25% of tax payable in the year whichever is higher;

(v) donations made by companies in cash or kind to any fund set up by the Federal Government or any state government, or to any agency designated by the Federal Government or to any similar Fund or purpose in consultation with any Ministry, department or agency of the Federal Government, in respect of any pandemic, natural disaster or other exigency shall be allowed as deductions as follows:

- the cost of in-kind donations made to the Government and any designated agency shall be allowed as deductions; or
- where companies have either procured or manufactured items for contribution, the cost of purchase, manufacture or supply of such in kind contributions shall be allowed as deductions.

  Provided that requisite documentation evidencing the donation and the cost thereof are provided to the relevant tax authority and demonstrated to be wholly, reasonably, exclusively and necessarily incurred in relation to the procurement, manufacture or supply of the in-kind contributions; and

(vi) the amounts allowable for deduction in respect of (v) above, in any year of assessment shall be limited to 10% of assessable profits after deduction of other allowable donations made by the company.

(c) Every incorporated company carrying on business in Nigeria is required to file with the Federal Inland Revenue Service (FIRS) the following returns annually:

(i) self -assessment return in the prescribed form;

(ii) audited accounts;

(iii) tax and capital allowances computations; and

(iv) evidence of payment of the whole or part of the tax due into a bank designated for the collection of the tax.

The prescribed form of return shall contain a declaration duly signed by a director or the company secretary, stating that:

- the return contains a true and correct statement of the company's profits computed in accordance with the provisions of CITA and rule made hereunder; and
- particulars given in the return are true and complete

Examiner's report

Part (a) of the question tests the candidates' knowledge of the computation of taxes payable by a company whilst part (b) requires them to explain the allowability of donations for tax purposes. The candidates are expected to explain the returns to be filed by every incorporated company to the Federal Inland Revenue Service.

About 80% of the candidates attempted the question but performance was fair.

Some of the candidates displayed poor knowledge of the conditions under which a donation charged against income is allowable for ascertaining the profit of a business.

Candidates should be conversant with the provisions of the relevant tax laws and circulars, and should ensure they cover the syllabus adequately when preparing for subsequent examinations.

Marking guide

		Marks	Marks
a.	**Computation of taxes payable by the company**		
	Heading - Name of company	½	
	- Computation of tax liabilities	¼	
	- For 2025 assessment year	¼	
	Net profit per accounts	1	
	Bad debts recovered	1	
	Commission received	1	
	Building fund	1	
	Senior staff club house	1	
	Depreciation	1	
	Capital allowance	1	
	Companies income tax	1	
	Tertiary education tax	1	10

b. **Allowable donations**
(1 mark each for any point subject to a maximum of 5 points) 5

c. **Explanation of the returns to be filed by every incorporated company**
(1 mark each for any point subject to a maximum of 5 points, including the bullets) 5
Total 20

SOLUTION 5

(a) i. **Tax incidence**: It is an economic term for the division of a tax burden between buyers and sellers. It does reveal the person that will pay the tax liability. For instance, if the government decided to impose an increased tax rate on cigarettes, the producers may increase the sale price by the full amount of the tax. If the consumers still purchased cigarettes on the same amount after the price increase, it will be said that the tax incidence fell entirely on the buyers.

ii. **Tax burden:** This is the amount of income, property or consumption tax levied on an individual or business. Tax burdens vary depending on several factors including income level, jurisdiction, and current tax rates. Income tax burdens are typically satisfied by deductions from an individual's pay slip each time he or she is paid.

iii. **Tax impact**: This is the effect of a tax on the production or consumption of the product being taxed. For example, the tax impact of raising the levy on tobacco might be a reduction in tobacco sales.

iv. **Tax shift**: This is also referred to as tax swap. It is a change in taxation that eliminates or reduces one or several taxes and establishes or increases others, while keeping the overall revenue the same.

v. **Tax base:** This is a measure upon which the assessment or determination of tax liability is based. It is that position of a taxpayer's income or property, which is expected to suffer tax.

(b) i. **A persons in employment** is deemed to be resident for a year of assessment in the territory in which he has a place available for his domestic use in Nigeria on the first day of January of the assessment year, and does not include any hotel, rest house or other place at which he is temporarily lodging.

ii. **An executor** is deemed to be resident in the territory in which the deceased individual was last deemed to be resident or would have been deemed to be resident if the law had been in force prior to the death of his date.

iii. **Partners in partnership** are deemed to be resident where the principal office or the place of the partnership is situated on the first day of that year or is first established during the year.

iv. **An itinerant worker** is deemed to be resident where he is found in a year of assessment.

In the case of an itinerant worker, tax may be imposed for any year by any State in which the itinerant works for a minimum of twenty (20) days in at least three (3) months of every assessment year.

Examiner's report

Part (a) of the question tests the candidates' knowledge of basic concepts in taxation whilst part (b) requires them to explain the rules of residence as they relate to individuals.

About 85% of the candidates attempted the question and performance was good.

The commonest pitfall of some of the candidates was their inability to explain the rules of residence as they relate to individuals.

Candidates are advised to be conversant with the rules of residence relating to the taxation of income of an individual.

Marking guide

		Marks	Marks
a.	**Explanation of basic concepts in taxation**		
	Stating the basic concepts (½ mark for each of the five concepts)	2½	
	Explanation of the basic concepts (1½ marks for each of the five explanations)	7½	10
b.	**Rules of residence**		
	A person in employment	½	
	Explanation of the rules of residence	½	
	An executor	½	
	Explanation of the rules of residence	½	
	Partners in partnership	½	
	Explanation of the rules of residence	½	
	An itinerant worker	1	
	Explanation of the rules of residence	1	5
	Total		**15**

SOLUTION 6

a. i.

Global Lgends Logistics Limited
Computation of VAT Payable
For the year ended December 31, 2024

ii. **Computation of withholding tax remittable**

	₦
Payments to suppliers (₦506,250,000 x 2%)	10,125,000
Management fees paid to Kosemani Konsults (₦45,000,000 x 5%)	2,250,000
Audit fees (₦10,000,000 x 5%)	500,000
Legal and professional fees (₦7,500,000 x 5%)	375,000
VAT remittable	**13,250,000**

Notes:

Withholding tax credit notes are not available to offset withholding tax liabilities as it would only be utilised by the company. Withholding tax is remitted in the name and taxpayer identification number (TIN) of the beneficiary.

Administrative expenses may not be subject to withholding tax depending on the specific services involved. Given the fact that the nature of the services involved are not specified, therefore, administrative expenses were not treated as subject to withholding tax.

bi. The relevant section of CITA (as amended) that FIRS will rely on is section 19 (1).

ii. The company will be assessed to tax on the dividend declared as this is higher than the total p

	₦
Output VAT:	
Contract supplies (₦668,250,000 x 7.5%)	50,118,750
Less input VAT:	
Payments to suppliers (₦506,250,000 x 7.5%)	(37,968,750)
	12,150,000
Recruitment fees (₦318,750,000 x 7.5%)	23,906,250
VAT payable	**36,056,250**

Examiner's report

Part (a) of the question tests the candidates' knowledge of the computations of VAT and deduction of withholding tax at source whilst part (b) requires them to explain the tax implications of the dividend paid by the company on its tax liabilities.

About 55% of the candidates attempted the question but performance was poor.

The commonest pitfall of some of the candidates was their inability to apply the correct withholding tax rates based on the Deduction of Tax at Source (Withholding) Regulations, 2024, to the transactions, such as payments to suppliers.

Candidates are advised to be conversant with the provisions of the Deduction of Tax at Source (Withholding) Regulations, 2024, read ICAN Study Texts, and Pathfinders.

Marking guide

	Marks	Marks
VAT payable		
Heading - Name of company	½	
- Computation of VAT payable	½	
- For the year ended December 31, 2024	½	
Contract supplier	½	
₦50,118,750	½	
Payments to suppliers	½	
₦37,968,4750	½	
Recruitment fees	½	
₦23,956,750	½	
VAT payable	½	5
Computation of withholding tax remittable	½	
Payments to suppliers	1	
Management fees paid	1	
Audit fees	1	
Legal and professional fees	1	
VAT remittable	1	
Explanation on withholding tax credit notes	¼	
Explanation on administrative expenses	¼	6

Relevant section of CITA (as amended)

Section 19 (1) of the CITA (as amended)

1

Implication of the company's dividend decision

Dividend declared as this is higher than the total project declared	1	
The tax liability shall be based on the dividend	1	
Tax liability is ₦10,500,000	1	3
Total		15

SOLUTION 7

The following taxes relate to real property transactions in Nigeria as follows:

(a) i. **Withholding Tax**

Where the recipients of incomes are companies and individuals, the payer of any income is expected to withhold 10% and 5% respectively. The amount deducted by the payer should be remitted to the relevant tax authority within the period specified by law.

Withholding tax deducted on a dividend is regarded as final tax in the hand of the recipient.

ii. **Tertiary education tax**

Like other taxpayers, companies which are into real estate business sare expected to pay tertiary education tax in addition to companies' income tax.

The tertiary education tax is 3% of the assessable profit of a company, and a small company with a gross turnover of ₦25million and below is exempted from paying this tax.

iii. **Value added tax**

Real estate companies are required to register for VAT on commencement of business with the relevant tax authority.

Like companies in other sectors, all goods and services utilised in the real estate industry are to be invoiced and 7.5% of the value of the goods and services representing the value added tax should be remitted to the relevant tax authority.

iv. **Stamp duties**

It is expected that all written documents relating to any property or interest in property, which are transferred or leased to any person, must be stamped. The rate of stamp duties is 75 kobo for every ₦200 of the consideration of certain real estate transactions like mortgages while for conveyances or the transfer or sale of real property is 75k for every ₦50.

b. The Federal Inland Revenue Service (FIRS) is given the discretionary power, by virtue of the provision of Section 30 of CITA, to assess and charge a company to tax on a fair and reasonable percentage of the turnover of the trade or business. The FIRS is entitled to exercise this power in any of the following circumstances where it appears to it that for any year of assessment, the company's trade or business has either:

(i) no assessable profits; or
(ii) assessable profits which in the opinion of the FIRS, are less than might be expected to arise from that trade or business; or
(iii) the true amount of the assessable profit cannot be readily ascertained.

The implication of the above provision is that whatever is obtained by applying a fair and reasonable percentage, as may be determined by the FIRS, to the company's revenue, is deemed to be its assessable profit for the assessment year concerned.

Examiner's report

Part (a) of the question tests the candidates' knowledge of taxes relating to Real Estate Investment Company (REIC) whilst part (b) requires them to explain the circumstances when FIRS can assess a company based on turnover.

About 65% of the candidates attempted the question but the performance was average.

Many of the candidates could not explain the taxes relating to Real Estate Investment Company (REIC).

Candidates are advised to cover the syllabus adequately and should endeavour to be conversant with the taxation of specialised businesses.

Marking guide

		Marks	Marks
a.	**Explanations of the taxes in relation to Real Estate Investment Company (REIC)**		
	(2 marks for each of the four explanations)		8
b.	**Circumstances when FIRS can assess a company based on turnover**		
	The prerogative of the FIRS to exercise its power where:	½	
	i. no assessable profits	1½	

ii. assessable profits which in the opinion of the FIRS are less than might be expected	1½	
iii. the true amount of the assessable profit cannot be readily ascertained	1½	
Implication of the decision of the FIRS to exercise its power	2	7
Total		**15**