



**THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF NIGERIA**

PATHFINDER

**NOVEMBER 2019 DIET
FOUNDATION LEVEL EXAMINATIONS**

Question Papers

Suggested Solutions

Examiner's Reports

Plus

Marking Guides

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
FOUNDATION LEVEL EXAMINATION – NOVEMBER 2019

FINANCIAL ACCOUNTING

Time Allowed: 3¹/₄ hours (including 15 minutes reading time)

SECTION A: MULTIPLE-CHOICE QUESTIONS (20 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER ALL QUESTIONS IN THIS SECTION

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

1. Which of the following documents will a supplier send to a customer whose invoice was understated?
 - A. Pro-formal invoice
 - B. Debit note
 - C. Credit note
 - D. Statement of account
 - E. Cheque stub

2. In which of the following books of prime entry will trade discount be recorded?
 - A. Pro-forma note
 - B. Sales day book
 - C. Purchases day journal
 - D. Cash account
 - E. Petty cash book

3. Which of the following combinations of accounting concepts are the fundamental assumptions in the preparation of financial statements?
 - A. Accrual and double entry
 - B. Going concern and entity
 - C. Materiality and consistency
 - D. Accrual and going concern
 - E. Going concern and offsetting

4. In accordance with the requirements of IAS-8 - Accounting Policies, Estimates and Errors, which of the following change in method does not give rise to changes in accounting policy?
- Measurement of PPE from cost to revaluation model
 - Presentation of depreciation from cost of sale to administrative expense
 - Calculation of depreciation from straight line to sum of digit method
 - Recognition of an expense from capitalisation to expensing
 - Reclassification of non-current asset to current asset
5. Which of the following information **CANNOT** be revealed by a statement of cash flow?
- The entity's short-term solvency
 - Operating cash position
 - Financial position of the entity
 - Liquidity position of the entity
 - Investing activities of the entity
6. In accordance with IAS1-Presentation of Financial Statements, which of the following is not a component of financial statement?
- Statement of financial position
 - Statement of value added
 - Statement of changes in equity
 - Statement of cash flows
 - Statement of profit or loss

Use the information below to answer questions 7 and 8

The following is an information extract from the books of accounts of Walling Parking Enterprises, a sole trader:

Trade receivables balance for the period ₦1,300,000

The chance of collecting 2% of the receivables figure is remote

It is virtually certain that 95% of the balance of the receivables is collectable

7. What is the amount of allowance recognised in the statement of profit or loss?
- ₦26,000
 - ₦63,700
 - ₦89,300
 - ₦89,700
 - ₦98,700

8. What is the net amount of trade receivables recognised in the statement of financial position?
- A. ₦1,110,000
 - B. ₦1,201,000
 - C. ₦1,210,300
 - D. ₦1,274,000
 - E. ₦1,300,000

Use the following information to answer questions 9 and 10

The extract from the financial statements of Benchmark Ventures for the year ended September 30, 2019 is as follows:

	₦'000
Capital	84,000
Net profit	15,000
Drawings	9,000
Cash and cash equivalent	3,000
Accounts payables	50,000
Inventory	29,000
Accounts receivables	35,000

9. Determine the amount of the current assets
- A. ₦32,000
 - B. ₦37,000
 - C. ₦ 64,000
 - D. ₦67,000
 - E. ₦107,000
10. Calculate working capital of the business
- A. ₦17,000
 - B. ₦30,000
 - C. ₦38,000
 - D. ₦50,000
 - E. ₦67,000
11. Which of the following is not an element of financial statements?
- A. Asset
 - B. Liability
 - C. Equity interest
 - D. Income
 - E. Profit

12. Which of the following is not a book of prime entry?
- Cash book
 - Purchases journal
 - Trial balance
 - Returns inwards day book
 - Sales day book
13. An Accounts officer extracted a trial balance for the year ended October 31, 2019 and discovered that the debit side exceeded the credit side by ₦30,000. Which of the following could explain the reason for the imbalance?
- Sales of ₦30,000 was omitted from the sales journal
 - Returns inwards of ₦15,000 was posted to the debit side of the trial balance
 - Discounts received of ₦15,000 were posted to the credit side of the trial balance
 - The bank ledger account did not agree with the bank statement by a debit of ₦30,000
 - ₦30,000 spent on repairs of office equipment was debited to office equipment account
14. The following explains the imprest system of operating petty cash, **EXCEPT**
- Weekly expenditure cannot exceed a set amount
 - The exact amount of expenditure is reimbursed at intervals to maintain a fixed float
 - The petty cashier collects revenue on behalf of the organisation
 - A petty cashier receives cash, makes expenses of relatively small amount and maintains records for the transactions
 - Regular equal amounts of cash are transferred into petty cash at regular intervals
15. Your company's statement of profit or loss for the year ended October 31, 2019 showed a profit of ₦836,000. It was later discovered that ₦180,000 paid for the purchase of motor van had been debited to motor expenses account. It is the company's policy to depreciate motor van at 25% per annum on a straight line basis, with full depreciation charged in the year of purchase.

What will be the net profit after adjusting for this error?

- ₦656,100
- ₦701,000
- ₦791,000
- ₦971,000
- ₦1,016,100

16. Which of the following represents members' interest in a Society or Club?
- Recurrent fund
 - General reserve
 - Working capital fund
 - Unwinding fund
 - Accumulated fund
17. In which of the following segments of statement of financial position of Institute of Professional Accountants is students' subscription received in advance recognised?
- Non-current assets
 - Fictitious assets
 - Current assets
 - Current liabilities
 - Intangible assets
18. Which of the following will not affect the agreement of cash book balance and bank statement bank balance?
- Dishonoured lodgement
 - Cash payments
 - Bank charges
 - Standing order for the payment of annual subscription
 - Error in the bank statement

Use the following information to answer questions 19 and 20

Obi and Ora are partners, trading under the name, Obiora & Co. and sharing profits or losses equally.

The extract from the partnership books for the period ended September 30, 2019 is as follows

	Obi	Ora
	₦'000	₦'000
Opening capital balances	200	100
Opening current account balances	40	80
Drawings	20	30
Salary	28	24
Interest on capital	10%	10%

Profit for the period amounted to ₦240,000

19. What is Obi's share of profit for the year?
- A. ₦20,000
 - B. ₦28,000
 - C. ₦39,000
 - D. ₦79,000
 - E. ₦89,000
20. What is the balance in Ora's current account at the end of the reporting period?
- A. ₦79,000
 - B. ₦82,000
 - C. ₦101,000
 - D. ₦115,000
 - E. ₦163,000

SECTION B: OPEN-ENDED QUESTIONS (80 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER ANY FOUR OUT OF SIX QUESTIONS IN THIS SECTION

QUESTION 1

- a. Explain the term trial balance (2 Marks)
- b. The balancing of a trial balance does not necessarily mean that such trial balance is error free.

Required:

Using a two-column tabular format, highlight **FOUR** errors that do not affect the trial balance and **FOUR** errors that affect the trial balance. (8 Marks)

- c. Using the following list of balances extracted from the ledger accounts of John Thomas Enterprises, the MD/CEO wants you to confirm if the various double entries passed by the newly employed accounts officer were arithmetically correct:

	₦'000
Revenue	53,000
Purchases	32,200
Property, Plant and equipment: - Cost	59,000
- Accumulated depreciation	25,000
Inventory as at July 1, 2018	7,800
Interest expense	200
Administrative expenses	7,000
Accrued expenses	400
Distribution cost	8,900
Retained earnings	23,500
Bank overdraft	1,000

Cash and cash equivalent	200
Accounts receivables	9,000
Finance cost	1,000
5% Loan note	5,000
Share capital	10,000
Other components of equity (OCE)	5,000
Accounts payables	2,400

Required:

Extract a trial balance for the period ended June 30, 2019 (10 Marks)

(Total 20 Marks)

QUESTION 2

The objective of IAS-16 Property, Plant and Equipment (PPE), is to make a clear distinction between capital and revenue expenditure, formulate accounting policy for the recognition of PPE and promote consistency in the application of the policy.

Required:

- Explain the requirements of IAS 16 on the initial recognition of PPE. (3 Marks)
- After the acquisition of item of PPE, an entity continues to incur subsequent expenditure on the item.

Required:

Explain briefly the requirements of IAS 16 in relation to subsequent expenditure and subsequent measurement. (3 Marks)

- Ahmed Ventures Ltd acquired an item of plant from Judexco Machine Ltd to facilitate its operations.

The schedule of expenditure for the plant is given below:

	%	₦'000
Purchase price		480,000
Trade discount applicable to the purchase price of the plant	8	
Early settlement discount on the payable amount	5	
Straight line depreciation rate	10	
Other Costs:		
Freight charges		25,000
Pre-production testing cost		15,000
One year maintenance contract		12,000
Staff cost in relation to the use of the machine		8,000
Electrical installation cost		19,000
Concrete reinforcement		9,000
Cost of correcting installation error		17,000
Dismantling and restoration cost		20,000
Staff training in the use of the plant		14,000

Required:

Using the format provided below, classify the above plant costs into capital and revenue expenditure respectively.

Classification of cost into capital and revenue expenditure

Expenditure	Capital	Revenue
	₦	₦

(14 Marks)
(Total 20 Marks)

QUESTION 3

The accounts clerk of Jide Electronics is unsure of the difference between bank statement and bank reconciliation statement and has asked for your assistance in this direction

Required:

- a. Explain to the accounts clerk, the difference between a bank statement and bank reconciliation statement (2 Marks)
- b. The accounts clerk also needs your assistance in order to ensure that the cash book balance of her organisation agrees with the bank statement balance for the month ended September 30, 2019;

She has provided you with the following summary of banking transactions for the period under review:

1. A cheque amounting to ₦280,000 received and paid into the bank was not credited by the bank until after September 30, 2019;
2. The cash book balance of the business showed an overdraft of ₦200,000, while the bank statement balance on the same date indicated that the business had a credit balance of ₦1,930,000;
3. A customer made a direct credit transfer into the business bank account amounting to ₦1,140,000 in settlement of trade debt and this was not known until after the receipt of bank statement;
4. A cheque amounting to ₦670,000 for the purchase of goods was posted into the cash book as ₦760,000;
5. A cheque of ₦1,230,000 dishonoured by the bank remained unreversed in the cash book;

6. Cheque amounting to ₦2,680,000 issued to a supplier was presented to the bank on October 08, 2019;
7. The bank statement revealed that there was a dividend of ₦580,000 received as investment income
8. The bank transferred the sum of ₦200,000 to ICAN, being the payment on a standing order for annual subscription of staff who were writing professional examinations;
9. A cash payment of ₦120,000 was posted to the bank column of the cash book;
10. The bank statement indicated that there was charges of ₦140,000, this being the cost of SMS and other bank charges; and
11. A cheque of ₦630,000 deposited by Jide was credited to Deji's account By the bank.

Required:

- i. Prepare the adjusted cash book. (11 Marks)
 - ii. Starting with the balance as per bank statement, prepare bank reconciliation statement for the month ended September 30, 2019. (7 Marks)
- (Total 20 Marks)**

QUESTION 4

- a. The Chief Executive Officer (CEO) of Favourite Gift Shop buys and sells gift items to both individuals and organisations. The CEO has close personal relationship with her business partners and knows the amount owed to her suppliers.

In a recent meeting held between the CEO and the Auditor, the Auditor brought up the issue of unavoidable need for the business to maintain the relevant control accounts. The CEO is seriously considering adhering to the auditor's recommendation, but need further clarification on the issue. The Auditor was to provide the CEO with all the required information. As the accounting officer of the company, I would like you to provide me with all the information.

Required:

- i. Differentiate between receivables control account and payables control account. (2 Marks)
- ii. Highlight **FOUR** uses of control accounts. (4 Marks)

b. The following information are extracted from the books of Favourite Gift Shop:

October 1, 2019:	₦'000
Sales ledger balance	
- Debit	7,200
- Credit	45
Bought ledger balance	
- Debit	100
- Credit	2,910
Transactions during the month were:	
Sales day book total	105,540
Bad debt	3,200
Customers' cheques return	3,750
Purchases day book total	94,150
Cash sales	180
Returns inwards day book total	4,710
Bank draft received	13,500
Cheque payment to suppliers	82,000
Cash paid by customers	x
Cash purchases	285
Discount allowed	1,350
Discount received	2,835
SMS alert for Cheques received from customers	42,500
Draft issued to suppliers	6,450
Debit balance in sales ledger transferred to purchases ledger	780
Discount disallowed to customers for default in early settlement	450
Returns outwards day book total	x
Discount withdrawn by suppliers	435
Petty cash paid to suppliers	100
October 31, 2019:	
Sales ledger control balance:	
- Debit	24,765
- Credit	290
Bought ledger balance:	
- Debit	114
- Credit	4,260

You are required to prepare:

- i. Sales ledger control account for the period. (7 Marks)
 - ii. Purchases ledger control account for the period. (7 Marks)
- (Total 20 Marks)**

QUESTION 5

Three brothers; Wa, Zo and Bia are in partnership, trading under the name and style WaZoBia. The partnership agreement provides for:

	%	R'000
i. Annual commission payable to:		
- Wa		4,000
- Bia		8,000
ii. Annual salary payable to:		
- Wa		5,000
- Zo		8,000
iii. Interest on partners' fixed capital	5	
iv. Interest on partners' drawings	5	
v. Equal share of profit or loss (1:1:1)		

The extract of the partnership balances for the period under review are as follows:

Wazobia		
Trial Balance for the year ended October 31, 2019		
	Debit R'000	Credit R'000
Partners' capital as at November 01, 2018:		
- Wa		60,000
- Zo		60,000
- Bia		50,000
Partners' drawing		
- Wa	5,000	
- Zo	4,000	
- Bia	2,000	
Gross profit for the year		116,000
Trade receivables and payables	55,000	27,560
Irrecoverable debt	1,000	
Utility	8,600	
Postage and communication	3,200	
Allowances for bad debt at November 01, 2018		6,000
Property, plant and machinery	270,400	
Staff cost	18,360	

Distribution cost	5,000	
Other Income		4,000
Finance cost	1,000	
5% Loan notes		50,000
Inventory at October 31, 2019	6,000	
Accumulated depreciation on freehold properties		16,720
Accumulated amortisation of leasehold property		2,000
Rent and rates	3,360	
Cash and cash equivalent	<u>9,360</u>	
	<u>392,280</u>	<u>392,280</u>

The following information is also relevant for the preparation of the financial statements:

- i Allowances for doubtful debts should be adjusted to 10% of trade receivables;
- ii Accrued expenses for the period were:
 - Utility ~~₦~~400,000; and
 - Postage and communication ~~₦~~200,000
- iii Prepaid expenses were:
 - Rent and rates ~~₦~~600,000; and
 - Staff cost ~~₦~~300,000
- iv PPE includes a leasehold property of ~~₦~~20,000,000 which is amortised over 10 years.
Depreciation charge for the year on freehold PPE has been estimated to be ~~₦~~5,000,000; and
- v Finance cost in the trial balance includes interest paid on 5% loan notes amounting to ~~₦~~500,000.

You are required to prepare for the partnership firm:

- a. Statement of profit or loss for the year ended October 31, 2019. (12 Marks)
 - b. Statement of financial position as at October 31, 2019. (8 Marks)
- (Total 20 Marks)**

Note: Show all workings

QUESTION 6

- a. The disposal of property, plant and equipment (PPE) requires the determination of profit or loss on the asset and the subsequent de-recognition of affected assets.

Required:

State the double entries required to record the following events:

S/N	Description	Debit ₦	Credit ₦
i	Transfer of sold asset to PPE disposal account:		
ii	Transfer of accumulated depreciation on the asset sold to PPE disposal account		
iii	Cheque/cash received on the disposal of the PPE		
iv	Where the PPE is sold on credit		
v	Where the PPE is sold to staff for a one-off deduction from the staff salary at month end		
vi	Profit or loss arising from the disposal		

(7 Marks)

- b. Davidsco Ventures Limited prepares its financial statements to December 31, each reporting year.

The company's policy is to write-off its plants at the rate of 10% per annum over a ten-year period.

During the year ended December 31, 2018 the company's manufacturing plant register, in respect of three plants, is made available to you as follows:

Types of plant	Acquisition date	Amount ₦'000
Plant	-DV 001 July 01, 2016	1,200
	-DV 002 January 01 2017	1,600
	-DV 003 October 01, 2018	900

The payments for the plant were made by cheque on the date of purchase.

The plant purchased in 2016 was sold on September 30, 2018 for ₦1.1m.

The company charges depreciation on a time apportionment basis.

- b. You are required to prepare:

i.	Plant account	(5 Marks)
ii.	Provision for depreciation account	(5 Marks)
iii.	Plant disposal account	(3 Marks)

(Total 20 Marks)

SOLUTION

MCQ

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

Tutorials

QUESTIONS 7 AND 8

	₹	₹
Trade receivables balance		1,300,000
Allowance for irrecoverable debt (1,300,000*2%)	26,000	
Allowance for bad debt {(1,300,000-26,000)*5%}	<u>63,700</u>	
Amount recognised in Profit or Loss	<u>89,700</u>	<u>-89,700</u>
Amount recognised in Statement of Financial position		<u>1,210,300</u>

QUESTIONS 9 AND 10

	₹
9 Current Assets	
Inventory	29,000
Accounts receivables	35,000
Cash and Cash Equivalent	<u>3,000</u>
	67,000
10 Less Current Liabilities	<u>-50,000</u>
	<u>17,000</u>

QUESTION 15

Computation of adjusted net profit

	₹	₹
Profit as per account		836,000
Reversal of carrying amount of motor van:		
Cost of motor van	180,000	
Depreciation thereon (180*25%)	<u>-45,000</u>	
Carrying amount added back to profit	<u>135,000</u>	<u>135,000</u>
Adjusted Profit		<u>971,000</u>

WORKING FOR QUESTION 19 AND 20

	TOTAL
	₹'000
Current account B/F	
Profit for the period	240
Interest on capital	(30)
Drawing	-
Salary	<u>(52)</u>
Share of Profit	<u>158</u>

Partner's Current Account

	Obi ₦'000	Ora ₦'000
Opening balance	40	80
Partners' salary	28	24
Interest on capital	20	10
Share of profit 158/2	79	79
Drawings	<u>(20)</u>	<u>(30)</u>
Closing balance	<u>147</u>	<u>163</u>

EXAMINER'S REPORT

The questions covered the entire areas of the syllabus.

More than 95% of the candidates attempted the question and performance was above average.

The commonest pitfall was the inability of candidates to correctly answer questions relating to correction of errors.

Candidates require good understanding of the double entry principle for better performance in future examinations.

SECTION B

SOLUTION 1

a. TRIAL BALANCE

- A trial balance is a list of all the debit balances and credit balances on the general ledger accounts. If the double entry principles have been applied correctly to all the items in the general ledger, then total of the entries on the debit side should agree with the total on the credit side.
- A trial balance is used to check the arithmetical accuracy of the accounting system. It also serves as a first step in the preparation of the financial statements.

(b)

ERRORS THAT DO NOT AFFECT TRIAL BALANCE		ERRORS THAT AFFECT TRIAL BALANCE	
i.	Error of commission	i	Error of casting
ii.	Error of principle	ii	Error of transposition of figure
iii.	Error of original entry	iii	Posting of transaction on the wrong side of ledger
iv.	Compensating error	iv	Omission of transaction from books of original entry in the ledger
v	Error of omission	v	Omission of transaction or wrong posting of transactions from ledger to the trial balance.
vi	Complete reversal of Entries	vi	Omission of opening balance either in the ledger or trial balance.
		vii	Extraction of wrong balance from the ledger

C

**JOHN THOMAS ENTERPRISES
TRIAL BALANCE
AS AT 30 JUNE, 2019**

	Debit ₦000	Credit ₦000
Revenue		53,000
Purchases	32,200	
Property, Plant and equipment:		
- Cost	59,000	
- Accumulated depreciation		25,000
Inventory as at July 01, 2018	7,800	
Interest expense	200	
Administrative expenses	7,000	
Accrued expenses		400
Distribution cost	8,900	
Retained earnings		23,500
Bank overdraft		1,000
Cash and cash equivalent	200	
Accounts receivables	9,000	
Finance cost	1,000	
5% Loan notes		5,000
Share capital		10,000
Other components of equity (OCE)		5,000
Accounts payables		2,400
	<u>125,300</u>	<u>125,300</u>

EXAMINER'S REPORT

The question tests candidates' understanding of the meaning of the trial balance, nature of trial balance errors and the extraction of trial balance.

More than 95% of the candidates attempted the question and performance was excellent.

Few candidates use the T-format to prepare the trial balance. Candidates should always remember that financial statements have five elements with asset and expenses being on the debit side while income, equity and liabilities are on the credit side.

Marking Guide	Marks	Total
- Definition of trial balance	1	
- Uses 3 of trial balance	<u>1</u>	2
Errors that do not affect the trial balance	4	
Errors that affect trial balance	<u>4</u>	8
Extraction of trial balance:		
- Correct title	$\frac{1}{2}$	
- Debit and credit entries	9	
- One of the total amounts	$\frac{1}{2}$	10
Total		<u><u>20</u></u>

SOLUTION 2

Property, Plant and Equipment (PPE)

a. Requirements of IAS 16 on initial recognition of Property, Plant and Equipment

IAS 16 requires that Property, plant and equipment should be initially measured at cost. Cost of PPE consists of the following.

- The purchase price, excluding trade discount but plus any import taxes or non-refundable sales taxes; Plus
- Directly attributable cost in bringing the asset to its present location and condition, by management, for its intended use. Estimated cost of removing and dismantling the assets and restoring the site.

b. Requirements of IAS 16 on subsequent expenditure and subsequent measurement

- Subsequent expenditure on PPE should usually be written off to profit or loss as incurred but subsequent expenditure can only be capitalised if it enhances the economic benefits to be derived from the asset.

- After initial recognition, PPE should be measured at cost or revalued amount less accumulated depreciation and accumulated impairment losses.

Classification of cost into capital and revenue expenditure

Expenditure	Capital ₹	Revenue ₹
Purchase price	480,000	
Trade discount applicable to the purchase price of the plant	(38,400)	
Other costs:		
Depreciation at 10% (ie, 10% of 529,6700)		52,960
Freight charges	25,000	
Pre-production testing cost	15,000	
One year maintenance contract		12,000
Staff labour cost in relation to the machine		8,000
Electrical installation cost	19,000	
Concrete reinforcement	9,000	
Cost of correcting installation error		17,000
Dismantling and restoration cost	20,000	
Staff training in the use of the plant		<u>14,000</u>
Total	<u><u>529,600</u></u>	<u><u>86,960</u></u>

EXAMINER'S REPORT

The question tests candidates' understanding of the nature of capital and revenue expenditure, measurement of PPE and accounting entries for PPE under IAS 16.

The question was poorly attempted and the candidates' overall performance was below average.

The candidates exhibited lack of knowledge of the requirements of IAS16 on initial recognition and subsequent measurement of PPE. More than 90% of the candidates could not differentiate between capital and revenue expenditure.

The candidates should be encouraged to have extensive study of past questions and good understanding of the relevant accounting standards.

Marking Guide

a	- Measure PPE initially at cost	1	
	- Components of purchase price	1	
	- Definition of attributable cost	<u>1</u>	3
b	- Measurement of subsequent expenditure	1½	
	- Measurement of PPT after initial recognition	<u>1½</u>	3
c	- Capital expenditure	7	
	- Revenue expenditure	5	

- Total under capital and revenue expenditure,	2	
	<u>2</u>	14
Total		<u><u>20</u></u>

SOLUTION 3

Difference between Bank Statement and Bank Reconciliation Statement

A bank statement is a statement sent at regular intervals by the bank to its customers showing the list of all lodgements, withdrawals and charges as recorded in the account for the entity since the previous period and the balance at the end of the particular period.

A bank reconciliation statement is a periodic statement prepared by entity's Accounts staff in order to bring the cash book balance (bank column), into agreement with the bank statement received from the bank. The need for the preparation of such statement arises whenever there is a discrepancy between the bank column of the cash book and bank statement balances and this, more often than not, occurs.

Jide Electronics Adjusted Cash book as at September 30, 2019

	N'000			N'000
Direct credit from customer (iii)	1,140	Balance b/f (ii)		200
Posting/overcasting error (760-670)	90	Dishonoured cheque (vi)		1,230
Direct credit of dividend received (viii)	580	Standing order (ix)		200
Reversal of cash payment (ix)	120	SMS and other bank charges (xi)		140
Balance c/d	<u>160</u>			
	<u><u>1,770</u></u>			<u><u>1,770</u></u>
		Bal b/d		160

Bank Reconciliation Statement For the Month Ended September 30, 2019

	N'000
Balance as per bank statement	1,930
Add – uncredited cheques	<u>280</u>
Adjusted bank balance	2,210
Presented cheque (vii)	<u>(2,680)</u>
	(470)
Add bank error	<u>630</u>
Balance as per adjusted cash book	<u><u>160</u></u>

EXAMINER'S REPORT

The question tests candidates' knowledge of bank reconciliation statement

More than 95% of the candidates attempted the question and the performance was above average.

Candidates commonest pitfall were their inability to differentiate between adjusted cash items and bank reconciliation items. The need to correct some errors also posed problems for some candidates.

Candidates are required to master their double entry principle and learn how to apply them correctly.

Marking Guide		Mark	Mark
A	- Definition of the bank statement	1	
	- Definition of bank reconciliation	<u>1</u>	2
bi	- Adjusted bank account	9	
	- Bal b/f on Oct 1, 2019	1	
	- Total on the debit and credit side	<u>1</u>	11
ii	- Balance as per bank statement;		
	- Title	1	
	- 6 correct entries under bank reconciliation statement	<u>6</u>	<u>7</u>
			<u><u>20</u></u>

SOLUTION 4

a.(i) Differences between account receivables control account and account payables control account

- Receivables control account is the summary amounts in the general ledgers for customers such as total credit sales, total collections from customers, total returns on sales and receivables owed by customers.
- Payables control account is the summary amounts in the general ledger for suppliers such as total purchases, total amount paid to suppliers, total discount received and amounts owed the suppliers.

(ii) Uses of control accounts

Control accounts enable an entity to:

- Determine the amount owing to suppliers and by the customers;
- Derive any other missing figure in the total accounts such as returns, payments/receipt etc.;

- Detect errors in receivables and payables transactions because the control accounts act as checks on the entries in the various ledgers;
- Resolve dispute on the account balances;
- Provide receivables and payables ledger balance quickly to produce a trial balance; and
- Make commission of fraud difficult because their preparation is separate from the clerk who maintains the individual ledger account.

b. SALES LEDGER CONTROL ACCOUNT

	N'000		N'000
1/10/2019 Balance b/d	7,200	1/10/2019 Balance b/d	45
Sales daybook	105,540	Bad debt w/o	3,200
Returned Cheques	3,750	Return inwards	4,710
Discount disallowed	450	Draft received	13,500
Balance c/d	290	Cash received	26,380
		Discount allowed	1,350
		Cheque received	42,500
		Purchases ledger-contra	780
		Balance c/d	24,765
	<u>117,230</u>		<u>117,230</u>
1/11/2019 balance b/d	24,765	1/11/2019 balance b/d	290

PURCHASES LEDGER CONTROL ACCOUNT

	N'000		N'000
1/10/2019 Balance b/d	100	Balance b/d	2,910
Cash paid to supplier	82,000	Purchases day book	94,150
Discount received	2,835	Discount withdrawn	435
Draft issued to supplier	6,450		
Returns outwards	1,864		
Petty Cash paid to supplier	100		
Balance c/d	4,260	Balance c/d	114
	<u>97,609</u>		<u>97,609</u>
1/11/2019 Bal b/d	114	1/11/2019 Bal b/d	4,260

EXAMINER'S REPORT

The question tests candidates' knowledge of the use and preparation of control accounts.

More than 90% of the candidates attempted the question and the candidates' performance was below average.

The following pitfalls were observed:

- Inability to state four clear uses of the control accounts;

- Lack of understanding of which sides of the accounts to record balances carried down and set-off between receivables control and payables control accounts; and
- Treatment of transactions like discount disallowed to customers and discount withdrawn by suppliers posed problems to the candidates. Generally, the problem could still be adduced to lack of the understanding of the double entry principle.

Candidates are advised to get a good understanding of the double entry principle and practice examination type questions.

Marking Guide		Marks	Marks
ai	- Receivables control account	1	
	- Payables control account	<u>1</u>	2
	-		
ii	- Any of four uses of control accounts		4
b	i -Receivables ledger control account		7
	ii - Payables ledger control account:		
	- Title	¹ / ₂	
	- 11 entries	5 ¹ / ₂	
	- Balances at Nov 1, 2019	<u>1</u>	<u>7</u>
	Total		<u>20</u>

SOLUTION 5

a. **WA, ZO and BIA Partnership Firm**
Statement of profit or loss for the year ended October 31,2019

	₦'000	₦'000
Gross profit		116,000
Other income		4,000
Bad debt written off		(1,000)
Utility	8,600	
Less accrued amount	<u>400</u>	(9,000)
Add decrease in allowances 6,000 – 5,500)		500
Depreciation-leasehold	2,000	
-Freehold	<u>5,000</u>	(7,000)
Staff cost	18,360	
Less prepaid amount	<u>300</u>	(18,060)
		(2,760)
Postage and communication--	3,200	
Add accrued amount	<u>200</u>	(3,400)
Distribution cost		(5,000)
Finance cost		<u>(3,000)</u>
Profit for the period		<u>71,280</u>

b. Statement of financial position as at October 31, 2019

	₦'000	₦'000
Non-current assets:		
Freehold property		228,680
Leasehold property		<u>16,000</u>
		224,000
Current assets:		
Inventory	6,000	
Trade receivables	49,500	
Staff cost prepaid	300	
Rent and rates prepaid	600	
Cash and cash equivalent	<u>9,360</u>	<u>65,760</u>
Total assets		<u><u>310,440</u></u>
Equity and liabilities		
Equity:		
Capital-Wa		79,527
-Zo		79,577
-Bia		71,176
Non-current liabilities-5% loan notes		50,000
Current liabilities-Trade payables	27,560	
-Accrued utility	400	
-Accrued postage	200	
-Accrued finance cost	2,000	<u>30,160</u>
Total equity and liabilities		<u><u>310,440</u></u>

Workings

1.		<u>Appropriation Account</u>		
		₦'000	₦'000	
Commission	- Wa	4,000	Profit for the period	71,280
	- Bia	8,000	Interest on drawing:	
Salary	- Wa	5,000	- Wa	250
	- Zo	8,000	- Zo	200
Interest on capital	- Wa	3,000	- Bia	100
	- Zo	3,000		
	- Bia	2,500		
Share of profit	- Wa	<u>12,777</u>		
	- Zo	12,777		
	- Bia	<u>12,776</u>		
		<u><u>71,830</u></u>		<u><u>71,830</u></u>

2. Interests on Capital

		N'000
Interest on capital - Wa 5% x 60m	=	3,000
- Z0 5% x 60m	=	3,000
- Bia 5% x 50m	=	<u>2,500</u>
Share of profits – 38.33m/3	=	<u>12,777</u>

3. Partners' Capital Accounts

	Wa N'000	Zo N'000	Bia N'000		Wa N'000	Zo N'000	Bia N'000
				Balance b/d	60,000	60,000	50,000
Drawings	5,000	4,000	2,000	Commission	4,000		8,000
Interest on drawings	250	200	100	Salary	5,000	8,000	
Balance c/d	79,527	79,577	71,176	Interest on capital	3,000	3,000	2,500
				Share of profit	<u>12,777</u>	<u>12,777</u>	<u>12,776</u>
	<u>84,777</u>	<u>83,777</u>	<u>73,276</u>		<u>84,777</u>	<u>83,777</u>	<u>73,276</u>

EXAMINER'S REPORT

The question tests candidates' knowledge on the preparation of financial statements of a partnership firm.

More than 75% of the candidates attempted the question and performance was average.

The commonest pitfall was candidates' lack of knowledge of IAS 1 on the presentation of financial statement as most of them relied heavily on the conventional presentation of final accounts. Also some candidates did not understand the requirement of the question.

Candidates are advised to pay more attention to preparation and presentation of financial statements.

Marking Guide		marks	marks
A	Statement of profit or loss: (24 entries)		12
B	Statement of financial position:		
	- Statement of financial position entries – 15 entries)	7 ¹ / ₂	
	Total of assets	1/4	
	Total equity and liabilities	1/4	
	Total	<u>8</u>	<u>20</u>

SOLUTION 6

a. Journal Entries on Disposal PPE

S/N	Description	Debit ₦	Credit ₦
1	Transfer of sold to PPE disposal account: PPE disposal account PPE account	XX	XX
2	Transfer of accumulated on the asset sold to PPE disposal account: Provision for depreciation account PPE disposal account	XX	XX
3	Bank/cash received on the disposal of the PPE: Cash account PPE disposal account	XX	XX
4	Where the PPE is sold on credit: Account receivables PPE disposal account	XX	XX
5	Where the PPE is sold to staff for a one-off deduction from the staff salary at month end The staff salary account PPE disposal account	XX	XX
6 (i)	Profit arising from the disposal: PPE disposal account Statement of profit or loss (under other income)	XX	XX
(ii)	Loss arising from the disposal: Statement of profit or loss PPE disposal account	XX	XX

ALTERNATIVE TO QUESTION 6a

Double entry for disposal of PPE

		Dr	Cr
i.	Transfer of sold PPE to disposal account	PPE disposal account	PPE
ii	Transfer of accumulated of PPE sold to disposal account	Allowances for depreciation account	PPE disposal account
iii	Cheque received for disposable of PPE	Cash	PPE disposal
iv	For PPE sold on credit	PPE accounts receivables	PPE disposal
v	PPE sold to staff for deduction from salary	Staff salary	PPE disposal account
vi	Profit on disposal	PPE disposal account	Statement of profit or loss
vii	Loss on disposal	Statement of Profit or Loss	PPE disposal account

b. i.

Davido Plant Account

			₦'000			₦'000
01/07/2016	Bank	DV001	<u>1,200</u>	31/12/2016	Balance c/f	1,200
01/01/2017	Balance b/f		1,200	31/12/2017	Balance c/f	1,200
	Bank	DV002	<u>1,600</u>			
			<u>2,800</u>			<u>2,800</u>
				30/09/18	Plant disposal a/c	1,200
01/01/2018	Balance b/f		2,800	31/12/2018	Balance clf	2,500
	Bank	DV003	<u>900</u>			
			<u>3,700</u>			<u>3,700</u>
01/01/2019			2,500			

Allowance for depreciation account

		N'000			N'000
31/12/16	Bal. c/f	60	31/12/16	PorL/Depn A/C	60
31/12/17	Bal. c/f	340	01/01/17	Bal. b/f	60
		<u> </u>	31/12/17	PorL/Depn A/C	<u>280</u>
		<u>340</u>			<u>340</u>
30/09/18	Plant Disposal	270	01/01/18	Bal. b/f	340
31/12/18	Bal. c/f	<u>342.5</u>	31/12/18	PorL/Depn A/C	<u>272.5</u>
		<u>612.5</u>			<u>612.5</u>
			01/01/19	Bal. b/f	612.5

ii.

PPE disposal account

			N'000				N'000
30/09/18	Plant a/c	DV001	1,200	30/09/18	Plant disposal		270
31/12/18	P or L a/c		<u>170</u>	30/09/18	Bank		<u>1,100</u>
			<u>1,370</u>				<u>1,370</u>

Workings

1 Calculation of annual depreciation

			2016	2017	2018
			N	N	N
Plant					
DV001	(1,200*10%*6/12)		60	-	-
DV001	(1,200*10%)		-	120	-
DV002	(1,600*10%)		-	160	-
DV001	- Before disposal:(1,200*10%*9/12)		-	-	90
DV002	(1,600*10%)		-	-	160
DV003	(900*10%*3/12)		-	-	<u>22.5</u>
			<u>60</u>	<u>280</u>	<u>272.5</u>

2 **Accumulated depreciation on plant sold DV001**

		R'000
Depreciation :		
-	2016	60
-	2017	120
-	2018	90
		270
		270

EXAMINER'S REPORT

The question tests candidates' understanding of using the double entry principle to record acquisition and disposal of property, plant equipment according to IAS 16.

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

Most candidates did not know the account to debit or credit in respect of disposal of PPE, transfer of accumulated depreciation on the disposed assets and consideration received.

Candidates are advised to study the relevant standards in-depth for improved performance in the Institute's examinations.

Marking Guide

a	Double entry for disposal of PPE	7	
b	Plant account	5	
	Allowance for depreciation account	5	
	Disposal of plant account	3	13
	Total	3	20

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

FOUNDATION LEVEL EXAMINATION – NOVEMBER 2019

MANAGEMENT INFORMATION

Time Allowed: 3¹/₄ hours (including 15 minutes reading time)

SECTION A: MULTIPLE-CHOICE QUESTIONS (20 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER ALL QUESTIONS IN THIS SECTION

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

1. The process of grouping costs according to their common characteristics is known as
 - A. Cost divisions
 - B. Cost Allocation
 - C. Cost Accumulation
 - D. Cost Classification
 - E. Cost Absorption

2. The amount of expenditure (actual or notional) incurred on a particular activity or venture over a specified period of time is called
 - A. Cost Accounting
 - B. Costing
 - C. Cost
 - D. Expenditure
 - E. Cost Accountancy

3. A standard that can be attained under the perfect operating conditions with no allowance for wastages, idle time and machine breakdown is known as
 - A. Current Standard
 - B. Regular Standard
 - C. Ideal Standard
 - D. Attainable Standard
 - E. Basic Standard

4. The costing technique used primarily for short term tactical decisions is called
- A. Standard costing technique
 - B. Absorption costing technique
 - C. Budgetary control
 - D. Marginal costing technique
 - E. Responsibility accounting

Use the information below to answer questions 5 and 6.

XBA Company uses a single material to produce its final product called COCOAB. The usage for the production ranges between 30,000 units and 60,000 units a day with the delivery period from 3 and 5 days.

5. Calculate the re-order level
- A. 90,000 units
 - B. 150,000 units
 - C. 180,000 units
 - D. 240,000 units
 - E. 330,000 units
6. What is the minimum inventory level?
- A. 360,000 units
 - B. 240,000 units
 - C. 180,000 units
 - D. 160,000 units
 - E. 120,000 units
7. The system designed to suit the ways goods are manufactured or processed or the way services are provided is referred to as
- A. Job costing
 - B. Specific order costing
 - C. Costing methods
 - D. Process costing
 - E. Batch costing

8. The amount of wages paid to some set of employees who are not directly engaged in the process of converting raw materials into finished product is called
- A. Labour cost
 - B. Direct wages cost
 - C. Variable cost
 - D. Indirect labour cost
 - E. Wages and salaries
9. Economic order quantity is a quantity of materials and components to be ordered which takes into account the optimum combination of all the following, **EXCEPT**
- A. Stockholding costs
 - B. Amount of costs tied up in inventory
 - C. Order delivery time
 - D. Cost of processing the order
 - E. Warehouse rent
10. The integrated accounts are generally prepared in line with requirement
- A. Cost accounting
 - B. Responsibility accounting
 - C. Control account
 - D. Management account
 - E. Financial accounting
11. If the expected sales is 360,000 units and the opening inventory is 40,000 units while the closing inventory is anticipated to be one third of sales units, what is the quantity to be produced for a given period?
- A. 480,000 units
 - B. 440,000 units
 - C. 400,000 units
 - D. 360,000 units
 - E. 220,000 units
12. In which of the following is the concept of equivalent units of production relevant?
- A. Job costing
 - B. Batch costing
 - C. Uniform costing
 - D. Contract costing
 - E. Process costing

13. Which of the following is **NOT** an advantage gained from the use of expert system?
- A. Allows non-experts to make expert decision
 - B. Reduction in staff costs, that is, fewer experts are required.
 - C. Improved allocation of human resources: experts concentrate on the more complex issues
 - D. Possible user resistance for higher level experts
 - E. Fast, accurate and consistent advice
14. A network communication method that groups all transmitted data, irrespective of content, type, or structure into suitably - sized blocks is called
- A. Web log
 - B. Clustered
 - C. Internet hosting
 - D. Packet switching
 - E. Website hosting
15. The use of two or more central processing units within a single computer system is called
- A. Multi-tasking
 - B. Multi-programming
 - C. Multi-processing
 - D. Distributed processing
 - E. Real time processing
16. The physical part of a computer system and all the peripheral equipment connected to CPU for input, output and storage is known as
- A. Mainframe
 - B. Human ware
 - C. Hardware
 - D. Firmware
 - E. Computer architecture
17. Which of the following is **NOT** correct?
- A. A closed loop system responds to change in the environment
 - B. The comparator is one of the elements of control system
 - C. Deterministic system use predetermined rules
 - D. Cybernetic system adapt to the environment
 - E. Business systems are probabilistic system

18. An input device that recognises text or illustration printed on paper and translates the information into a format which the computer can use is called
- MICR
 - OCR
 - OMR
 - Barcodes
 - Trackbacks
19. A convention or standard that controls or enables the connection, communication and data transfer between computing endpoints is called
- Internet
 - Computer network
 - Protocol
 - System architectures
 - Packet switching
20. Which of the following is **NOT** a type of web hosting?
- Co-location
 - Reseller
 - Bandwidth
 - Dedicated
 - Free

SECTION B: OPEN-ENDED QUESTION (80 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER ANY FOUR OUT OF SIX QUESTIONS IN THIS SECTION

QUESTION 1

- a. Alobo Limited manufactures three products, X, Y and Z, which have the following details:

	X	Y	Z
	₦	₦	₦
Materials	230	12	275
Labour	75	55	25
Variable overheads	15	45	135
Fixed overheads	<u>150</u>	<u>75</u>	<u>120</u>
Total cost	<u>470</u>	<u>187</u>	<u>555</u>
Selling price	560	310	510

Calculate the priority ranking under each of the following conditions:

- Demand in units is limited
 - Demand in naira value is limited
 - Supply of material is limited
- (12 Marks)

- b. If production capacity (e.g. machine hours) is an effective limiting factor, identify four actions management can take to meet production target and indicate one cost implication of each action. (8 Marks)
(Total 20 Marks)

QUESTION 2

Olugbe Pharmaceuticals manufactures malaria drugs using two processes known as Alpha and Zeta. The output from process Alpha goes directly into process Zeta.

Information about process Alpha

- There is no work in process at the end of period 1 just ended
- There is a normal loss allowance of 10% of input
- In period 1 just ended, 42,000kg of raw materials were input whilst the output was 40,000kg

Information about process Zeta

- There are no losses
- In period 1 just ended, input of processed materials was 40,000kg after transfer from process Alpha at a cost of ₦400,000

Also, 2,000kg of raw materials were added at a cost of ₦20,000 and were mixed with the material input from process Alpha.

- Conversion costs totalling ₦30,000
- There was no opening work in progress, but 5,000kg remained in the process at the end of the period. The closing work in progress was 100% complete for all materials and 40% complete for conversion costs.

Required:

For period 1 just ended;

- a. Calculate the abnormal gain or loss in kg for process Alpha. (3 Marks)
- b. Prepare process Zeta account showing both weights (kg) and values (₦). (12 Marks)
- c. LM operates a parcel delivery service. Last year its employees delivered 15,120 parcels and travelled 120,960 kilometres.

Total costs were ₦194,400.

LM has estimated that 70% of its total costs are variable with activity and that 60% of these costs vary with the number of parcels and the remainder vary with the distance travelled.

The company is preparing its budget for the forthcoming year using an incremental budgeting approach and has produced the following estimates:

- All costs will be 3% higher than the previous year due to inflation;
- Efficiency will remain unchanged; and
- A total of 18,360 parcels will be delivered and 128,800 kilometres will be travelled.

Required:

Calculate the following costs to be included in the forthcoming year's budget:

- The total variable costs related to the number of parcels delivered. (3 Marks)
 - The total variable costs related to the distance travelled. (2 Marks)
- (Total 20 Marks)**

QUESTION 3

- A soap making factory in your town has two production cost centres known as Departments 'A' and 'B'. They also have a service cost centre known as Department 'S'.

Overheads are absorbed in Department 'A' and 'B' on the basis of machine hours.

The budgeted cost allocation and apportionment information are as provided in the table below:

	Dept A	Dept B	Dept C
Allocated & Apportioned overhead	₹50,000	₹75,000	₹14,000
Basis of reapportionment of service cost centre's overhead	50%	50%	-
Budgeted machine hours	3,000	-	-
Overhead absorption rate	-	9	

The actual cost allocation and apportionment information are as provided in the table below:

	Dept A	Dept B	Dept C
Overheads (including share of depart 'S')			
Overheads reapportioned	60,000	-	-
Machine hours worked	3,930	4,440	-
Over absorbed overhead	-	1,300	-

Required:

- a. For department 'A', calculate:
- i. The production overhead absorption rate. (3 Marks)
 - ii. Any over or under absorption of overhead. (2 Marks)
- b. For department 'B', calculate:
- i. The budgeted machine hours (5 Marks)
 - ii. The actual overhead incurred (5 Marks)
- c. A company may depart from quantitative models that provide estimate of the economic order quantity and the re-order point. List and briefly explain any **THREE** qualitative factors that may influence the choice of the order quantity. (5 Marks)
- (Total 20 Marks)**

QUESTION 4

Mr. Fresh Limited makes one product, "The Fresh". Two types of labours are involved in the preparation of The Fresh – skilled and semi-skilled labour.

- Skilled labour: This is paid at ₦10 per hour
- Semi-skilled labour: This is paid at ₦5 per hour

Twice as many skilled labour hours are semi-skilled labour hours needed to produce The Fresh, while four semi-skilled labour hours is also needed.

'The Fresh' is made up of 3 different direct materials as follows:

- Material A - 4kg
- Material B - 5 litres
- Material C - 2 metres

To produce one unit of 'The Fresh', the above stated materials are needed at the following costs:

- Material A - ₦2 per kg
- Material B - ₦2 per litre
- Material C - ₦3 per metre

Variable production overheads are incurred at the rate of ₦2.50 per skilled direct labour hours.

The system of absorption costing in Mr. Fresh Limited is direct labour (skilled hours).

For the forth coming period, budgeted fixed production overhead cost is ₦250,000 and budgeted production units is 5,000 units.

Admin, selling and distribution overheads are added to products at the rate of ₦14 per unit. A mark-up of 25% is made on the job.

Required:

- a. Using the above information, draw up a standard cost card for 'The Fresh', showing the following:

- Direct materials	(1 Mark)
- Direct labour	(1 Mark)
- Standard variable production overhead	(2 Marks)
- Standard full production overhead	(2 Marks)
- Standard cost of sales	(2 Marks)
- Standard selling price	(2 Marks)

 - b. Prepare the standard cost card using marginal costing system. (5 Marks)

 - c. List and briefly explain **TWO** similarities and **THREE** differences between budget and standard. (5 Marks)
- (Total 20 Marks)**

QUESTION 5

- a. List and explain **FOUR** of input, output or storage devices of a computer. (15 Marks)

 - b. Explain the difference between a web browser and a web server in Internet technologies. (2 Marks)

 - c. Explain the meaning and utilisation of the following services under cloud computing;
 - i. Software-As-A-Service (1 Mark)
 - ii. Infrastructure-As-A-Service (1 Mark)
 - iii. Storage-As-A-Service (1 Mark)
- (Total 20 Marks)**

QUESTION 6

The Managing Director of Lanre Okoro Limited is your personal friend. After attending a seminar on the importance of business data, he came to you to advice him further on how to secure his data.

He is particularly interested in knowing more about data security, authorisation, authentication, virus and malware.

Required:

- a. Explain the difference between authorisation and authentication. (3 Marks)
- b. Explain the term 'MALWARE' and give **TWO** examples (3 Marks)
- c. What is "Ransom ware"? (1 Mark)
- d. What is the best solution to a ransom ware threat? (2 Marks)
- e. What is the difference between a Database and a Database Management System? (3 Marks)
- f. Explain each of the following terms:
 - i. Physical security (2 Marks)
 - ii. Logical security (2 Marks)
 - iii. Confidentiality (2 Marks)
 - iv. Integrity (2 Marks)

(Total 20 Marks)

SOLUTION TO MCQ

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

EXAMINER'S REPORT

This section consists of 20 objective questions covering a large area of the syllabus. The questions were attempted by all the candidates and individual performances range from fair to very good.

SECTION B SOLUTION 1

- (a) The first step is to compute the contribution per unit of each product.

	X	Y	Z
	₹	₹	₹
Selling price	560	310	510

Total unit variable costs	<u>(320)</u>	<u>(112)</u>	<u>(435)</u>
Contribution per unit	<u>240</u>	<u>198</u>	<u>75</u>

- i. Limiting factor – sales demand in units.
- Rank the products on the basis of contribution per unit

Product	X	Y	Z
Ranking	1 st	2 nd	3 rd

- ii. Limiting factor – sales demand in naira value.
- Rank products on the basis of contribution margin ratio (CMR)

Product	X	Y	Z
CMR (= cont. ÷ sales)	42.9%	63.9%	14.7%
Ranking	2 nd	1 st	3 rd

OR

CMR	X	Y	Z
Contribution	240	198	75
selling price	$\frac{240}{560} + \frac{100}{1}$	$\frac{198}{310} + \frac{100}{1}$	$\frac{75}{510} + \frac{100}{1}$
Ranking	42.9%	63.9%	14.7%
	2 nd	1 st	3 rd

- iii. Limiting factor – material
- Rank products on the basis of contribution per naira value of material

Product	X	Y	Z
Material cost/unit (k)	₦230	₦12	₦275
Contribution (T)	240	198	75
Contribution per naira (T ÷ k)	1.04	16.50	0.27
Ranking	2 nd	1 st	3 rd

- (b) The following actions can be taken to mitigate the effects of capacity limitations:

Possible actions	Possible cost implication
1. Overtime working	Payment of overtime premium
2. Working night shift	Payment of night premium, over-use of machine, leading to frequent breakdown, low productivity etc.
3. Effective training to improve productivity	Training cost
4. Outsource production	Possible additional cost, quality, reliability, etc

5. Purchase of additional Capital outlay machine

EXAMINER'S REPORT

This is a marginal costing question which tests candidates' ability to maximise profits in the face of limited resources. The question was attempted by about 85% of the candidates but performance was just average.

Many candidates did not realise that the first consideration should be to determine the contribution per unit.

Candidates are advised to concentrate more on the ICAN Study Texts in their preparations for the future.

MARKING GUIDE

	Marks	Marks
(a) Priority Ranking		
Contribution per unit		
Product X	1	
Product Y	1	
Product Z	1	
 (i) Limiting Factor – sales demand in units		
Product X Ranking	1	
Product Y Ranking	1	
Product Z Ranking	1	
 (ii) Limiting Factor – sales demand in Naira		
Product X Ranking	1	
Product Y Ranking	1	
Product Z Ranking	1	
 (iii) Limiting Factor - materials		
Product X Ranking	1	
Product Y Ranking	1	
Product Z Ranking	<u>1</u>	12
 (b) Possible Actions		
4 points @ 1 mark each	4	
 Possible cost implications	<u>4</u>	<u>8</u>
TOTAL:		<u>20</u>

SOLUTION 2

(a) Process Alpha – Calculation of abnormal loss or gain

	Kg	
Input	42,000	
Less normal loss	<u>(4,200)</u>	(10% x 42,000)
Expected output	37,800	
Less actual output	<u>40,000</u>	(input to process Zeta)
Abnormal gain	<u>2,200</u>	

(b) Process Zeta accounts

	Kg	₦		Kg	₦
Process Alpha costs	40,000	400,000	Output (w1)	37,000	398,490
Added materials	2,000	20,000	Work in progress	5,000	51,510
Conversion costs	<u>30,000</u>				
	<u>42,000</u>	<u>450,000</u>		<u>42,000</u>	<u>450,000</u>

W1 Calculation of equivalent unit of output

	Materials (kg)	Conversion
Output (40,000 + 2,000 – 5,000)	37,000	37,000
Closing work in progress	<u>5,000</u>	<u>2,000</u> (40% x 5,000)
	<u>42,000</u>	<u>39,000</u>

W2 Costs per equivalent unit

Material costs	<u>420,000</u>	= ₦10 per equivalent
Materials	42,000	Unit
Conversion costs	<u>30,000</u>	= ₦0.77 per equivalent
unit		
Equivalent units of conversion	39,000	

Total cost per equivalent unit = 10.00 + 0.77 = ₦10.77

W3 valuation

Output (37,000 x 10.77) = 398,490

Closing W.I.P (5,000kg x 10 per kg)	=	50,000
+ 2,000kg x 0.77	=	<u>1,510</u>
		<u>51,510</u>

(C)

(i) Calculate the projected total variable cost per number of parcels delivered

Cost that can be varied with no. of parcels

Total cost - 194,400
Variable cost (70%) 136,080 (70% x 194,400)

% of VC that can be varied based on no. of parcels = 60%
= 60% x 136,080 = ~~₦~~81,648

-
Cost per parcel - $\frac{81,648}{15,120 \text{ (no. of parcels)}}$ = ~~₦~~5.42

Next year, cost will increase by 3% = 1.03 x 5.42
= 5.562

Total no. of parcel for next year = 18,360
Therefore, total cost to be spent next year based on parcel delivery = 5.562 x 18,360 = ₦102,118.32

(ii) Calculation of projected total variable cost related to the distance travelled.

Total Variable Cost - 136,080
Variable Cost related to distance = 40% x 136,080 = 54,432

Therefore, cost per kilometre (presently) = $\frac{54,432}{120,960}$ = ~~₦~~0.45

Next year cost will increase by 3% = 1.03 x 0.45 = ~~₦~~0.4635

Distance projected for next year = 128,800

Therefore, projected total cost based on distance travelled will be = 0.4635 x 128,800 = ₦59,699

EXAMINER'S REPORT

This question tested candidates' understanding of process costing and budgeting.

The question was attempted by about 50% of candidates and performance was generally poor. The major pitfall was the determination of abnormal gain, abnormal loss and work in progress.

Candidates are advised to study more on every aspect of process costing when preparing for future examination.

MARKING GUIDE

	Marks	Marks
(a) Calculation of abnormal gain		
- Input	0.5	
- Normal loss	0.5	
- Expected output	0.5	
- Actual output	0.5	
- Abnormal gain	<u>1</u>	3
 (b) Preparation of process zeta account		
- Input cost for process Alpha in kg	1	
- Input cost for process Alpha in N	1	
- Output cost for process Zeta in kg	1	
- Output valuation for Zeta in N	<u>1</u>	4
<u>Calculation of equivalent units of output</u>		
- Output in kg	1	
- Output in N (conversion cost)	1	
- Cost per equivalent unit (materials)	1	
- Cost per equivalent unit (conversion cost)	<u>1</u>	<u>4</u>
 <u>Valuation</u>		
- Output	1	
- Closing w.i.p. (5000kg x 10)	1	
- Closing w.i.p. (40% x 5000)	1	
- Total cost per equivalent unit	<u>1</u>	<u>4</u> 12

QUESTION 2C

	Marks	Marks
(i) Calculation of projected total variable cost		
- Calculation of variable cost	0.5	
- Calculation of % of variable cost based on percels	0.5	
- Calculation of cost per parcel	0.5	
- Calculation of projected cost per parcel	1	
- Calculation of total cost for next year based on parcel delivery	<u>0.5</u>	3

(i) Calculation of projected total variable cost related to distance

- Calculation of total variable cost on distance	0.5	
- Calculation of current cost per kilometre	0.5	
- Calculation of next year cost	0.5	
- Calculation of projected total cost based on distance travelled	<u>0.5</u>	<u>2</u>
GRAND TOTAL:		<u>20</u>

SOLUTION 3

a i. Computation of budgeted production O/H absorption ratio

Dept A	Budget
	₦
Allocated & apportioned	50,000
Add reapportionment of service cost centre's overhead	<u>7,000</u> (50% x 14,000)
	<u>57,000</u>

$$\text{Production overhead absorption rate} = \frac{57,000}{3,000} = \text{₦}19$$

ii. Determination of over absorption or under absorption

	₦
Actual production overhead incurred	- 60,000
Production overhead (₦19 x 3,930)	<u>(74,670)</u>
	<u>(14,670)</u>

(b)i. Department 'B'

Calculation of budgeted machine hours

	₦
Allocated & apportioned cost	75,000
Add reapportionment of service cost centre's O/H (50% x 14,000)	<u>7,000</u>
Total allocated & apportioned OH	<u>82,000</u>

Budgeted production absorption rate – ~~₦~~9

$$\text{i. e Budgeted machine hours} = \frac{\text{Total allocated \& appropriate O/H (budgeted)}}{\text{Budgeted production O/H absorption rate}}$$

$$= \frac{82,000}{9} = 9,111 \text{ hours}$$

ii. **Department 'B'**
Calculation of actual O/H

	₦
Production overhead absorbed (4,440 x 9)	39,960
Less over absorption	<u>(1,300)</u>
	<u>38,660</u>

FACTORS THAT MAY INFLUENCE CHOICE OF ORDER QUANTITY

- (1) **Order costs:** If cost of ordering stock is high, the company may increase her order quantity so as not to increase the number of times she orders and the subsequent cost. This also applies if order cost is low.
- (2) **Lead time:** If lead time is long, order quantity may be high and vice versa.
- (3) **Availability of supplier discount:** If a supplier offers discount on purchase price on the condition that order quantity is increased, this may make the company to increase her order quantity as long as it is profitable.
- (4) **Type of stock:** If the product is a perishable one and storage facilities are not available, order quantity may be low.
- (5) **Availability of storage facilities:** If storage facility is available and cheap, order quantity may be high.
- (6) **Price Instability:** During the period of fluctuating prices, a decision may be taken to vary the quantity ordered accordingly.
- (7) **Demand for product:** Where there is a high demand for the output, there would be a corresponding increase in materials ordered.
- (8) **Cost of stockholding:** Cost of holding stock would affect the quantities to order.
- (9) **Product expiration date:** The shelf life of the material to be ordered would be a factor in deciding the quantities to order.

EXAMINER'S REPORT

The question tested candidates' knowledge of overhead absorption and allocation. It was attempted by about 50% of candidates.

Performance was poor as this topic has not always been the favourite of candidates. The major pitfall was the challenge of determining the absorption rate.

Overhead is a topic which should not be ignored. Candidates should therefore extend their studies into this very important area in the future.

MARKING GUIDE

	Marks	Marks
a(i) Calculation of Production overhead absorption rate – Department 'A'		
- Allocated & absorbed overhead	0.5	
- Reapportioned overhead	0.5	
- Total overhead	0.5	
- Machine hours Department 'A'	0.5	
- Calculation of correct overhead Absorption rate	0.5	
- Correct production overhead rate	<u>0.5</u>	3
a(ii) Calculation of over/under absorbed overhead		
- Actual overhead incurred	0.5	
- Calculation of production overhead absorbed	1	
- Calculation of over absorption	<u>0.5</u>	2

QUESTION 3B

	Marks	Marks
(i) Calculation of budgeted machine hours (B)		
- Allocated and apportioned overhead	1	
- Reapportionment of Department 'C' cost	1	
- Obtaining correct overhead	1	
- Correctly dividing overhead by OAR	<u>2</u>	5
(ii) Calculation of actual overhead incurred (B)		
- Obtaining correct overhead absorbed	2	
- Deducting over absorbed overhead from		

the actual production overhead	2	
obtaining correct actual hours	<u>1</u>	<u>5</u>

GRAND TOTAL: 10

QUESTION 3C

List and briefly explain any 3 factors that may influence the choice of the order quantity

- Listing of the factors	1 Mark (max of 3) =	3
- Explanation of the factors listed	1 Mark per explanation (max of 2) =	<u>2</u>
		<u>5</u>
	3a -	5
	3b -	10
	3c -	<u>5</u>
	GRAND TOTAL:	<u>20</u>

SOLUTION 4

(a)

	₦	₦
(i) Direct materials		
Material A – 4kg x ₦2	8	
Material B – 5 litres x ₦2	10	
Material C – 2 metres x ₦3	<u>6</u>	24

(ii) **Direct labour**

Skilled labour	= 2 x 10 =	20
Semi Skilled labour	= 4 x 5 =	<u>20</u>
		= <u>40</u>

(iii) **Standard variable production overhead**

= 2 hours x 2.50 = ~~₦5~~

(iv) **Standard full production overhead**

= $\frac{250,000}{5,000}$ = ~~₦50~~

(v) **Standard cost of sales**

Direct Materials –	24
Direct Labour –	40
Variable Production Overhead -	<u>5</u>
	69
Fixed Production Overhead -	<u>50</u>
Cost of sales (COS)	<u>119</u>

(vi) Standard sales selling price	
Standard C. O. S -	119
Admin and selling -	<u>14</u>
	133
Make up 25%	<u>33.25</u>
Standard selling price	166.25

(b) **Standard cost card using marginal costing technique**

		₦
Selling price		166.25
Less: Direct materials	24	
Direct labour	40	
Variable production overhead	<u>5</u>	<u>69.00</u>
Contribution		97.25
Less: Admin & selling	<u>14</u>	
Fixed production overhead	50	64.00
Profit		<u>33.25</u>

(5 Marks)

(c)

Similarities between budgets and standards

- (1) Both involve predetermined costs
- (2) Both are designed for cost control
- (3) Both can be used for comparison purpose
- (4) Both can be deployed in any organisation
- (5) Both are concerned with setting performance

(2 Marks)

Differences between budgets and standards

1.	Scope	Designed for every aspect of a company's business	Scope is only for cost elements
2.	Use	Budgetary items are calculated in total values	Standard cost items are calculated per units
3.	Features	A budget must require volumes of production	A standard does not require volumes of production
4.	Revision	Budgets are revised on a periodic basis eg. annually, quarterly	Standards are revised whenever found inappropriate for current operating conditions
5.	Accounting treatment	Budgets are memorandum and do not form part of double entry	Standards form part of the double – entry accounts.

(3 Marks)

(any 3 points listed attracts 1 mark each = 3 marks)

(Total: 20 Marks)

EXAMINER'S REPORT

This question tested candidates' knowledge of standard costing. It was attempted by about 40% of the candidates.

Performance was average. However, many candidates did not follow the established formats for standard cost cards. Some also stopped midway without determining the profit and selling price.

Candidates are advised to always pay attention to complete formats in their future preparation.

MARKING GUIDE

	Marks	Marks
a(i) Calculation of Direct Materials		
- Material A cost	$\frac{1}{4}$	
- Material B cost	$\frac{1}{4}$	
- Material C cost	$\frac{1}{4}$	
- Total cost of direct materials	<u>$\frac{1}{4}$</u>	1
(ii) Calculation of direct labour		
- Semi skilled labour cost	$\frac{1}{2}$	
- Skilled labour cost	<u>$\frac{1}{2}$</u>	1
(iii) Standard variable production overhead		
- Variable production overhead rate	$\frac{1}{2}$	
- Utilisation of skilled labour hour	<u>1</u>	
- Standard variable production overhead	<u>$\frac{1}{2}$</u>	2
(iv) Standard full production overhead		
- Budgeted production overhead	$\frac{1}{2}$	
- Budgeted production units	$\frac{1}{2}$	
- Correctly dividing overhead by units	<u>1</u>	2
(v) Standard cost of sales		
- Direct materials	$\frac{1}{2}$	
- Direct labour	$\frac{1}{2}$	
- Variable production overhead	$\frac{1}{2}$	

- Fixed production overhead	<u>1/2</u>	2
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(vi) Standard selling price

- Standard cost of sales	1/2	
- Admin and selling costs	1/2	
- Mark up at 25%	1/2	
- Standard selling price	<u>1/2</u>	<u>2</u>

Sub Total: 10

QUESTION 4(b)

(b) Standard cost card using marginal costing system

Marks Marks

- Direct material	1/2	
- Direct labour	1/2	
- Standard Direct Costs (prime cost)	1/2	
- Standard variable production overhead	1/2	
- Variable production cost	1/2	
- Admin and selling cost	1/2	
- Fixed production overhead	1/2	
- Total production cost	1/2	
- Mark up	1/2	
- Selling price	<u>1/2</u>	<u>5</u>

QUESTION 4(c)

(i) List and briefly explain 2 similarities and 3 differences between budget and standard

- Similarities	(2 x 1 mark each)	=	2	
- Differences	(3 x 1 mark each)	=	<u>3</u>	<u>5</u>

GRAND TOTAL: 20

SOLUTION 5

(i) Input devices include:

1. Keyboard;
2. Mouse;

3. Magnetic Ink Character Recognition (MICR);
 4. Joystick;
 5. Magnetic stripe card;
 6. Smart cards;
 7. Optical Character Recognition (OCR);
 8. Optical Mark Recognition (OMR);
 9. Light pen; and
 10. Touch screen.
1. **Keyboard:** a device that contain typewriter-like keys that when depressed, provide input to the computer system for processing. It is used in conjunction with a screen as an input device. The keyboard contains alphabetic keys, numeric keys, punctuation keys, arithmetic operation keys, 12 function keys (F1 – F12), control key and some special symbols keys.
 2. **Mouse:** is a device that contains a rolling metal ball and one or more buttons that can be pressed to execute command and is used particularly with computers having windows. Not designed to replace keyboard but to enhance the user's moving ability.
 3. **Magnetic Ink Character Recognition (MICR):** It uses magnetic ink made of ferromagnetic substance that is used for printing the character, designed in a special type font. MICR is mainly used in bank and other financial institutions for processing of cheques.
 4. **Joystick:** It is used for playing any electronic or card games. When attached to the computer, the joystick is used like mouse but instead of using a rolling ball, there is a moveable stick used to position the cursor on the screen. Buttons mounted on the stick or elsewhere on the units are pressed to execute commands.
 5. **Magnetic Stripe Card:** Rectangular shaped card on which machine sensitive data are contained on a magnetic stripe which is a thin strip of magnetic recording tape stuck on the card. The magnetic stripe card converts the information into directly computer-sensitive form. Used as bank credit or service cards for Automated Teller Machines (ATM) and bank payment system.

6. **Smart Card:** It is a plastic card on which is embedded a microprocessor chip, which utilizes Erasable Programme Read Only Memory (EPROM). Smart card contains accounting data, memory and processing capability. Used like magnetic stripe card for memory transmission. It is not easy to duplicate and therefore, more secured.
7. **Optical Character Recognition (OCR):** Designed in a special type font capable of being interpreted by both human and optical scanning equipment. The optical characters are read by a scanner attached to the computer and transmitted for processing. OCR equipments are used widely in retail shops and grocery industries. OCR using optical scanning equipment is used in “point of Sales” (POS) transactions.
8. **Optical Mark Recognition (OMR):** Source Document is pre-printed as a turnaround document with pre-designed column values and a mark in pencilled (graphite), a ball point pen or typed line or cross is recorded in the appropriate column. The document will be read by a device (scanner) which senses the graphite in each column and translates it into machine code for processing. OMR is used in marking multiple-choice examination.
9. **Light pen:** Electronic device in the form of a photo-diode on the end of a cable used in combination with a display device (VDU). It is used to display, notify or detect images on the screen in Computer Aided Design (CAD) application.
10. **Touch Screen:** Some computer screens are touch-sensitive and when a finger is pointed at a command displayed on the screen, the command is executed.

Use: Bank and stores where untrained or unsophisticated customers, reluctant to read instructions can interact with the system through the labelling on the touch screen. Other examples are the Android phones.

NOTE: OUTPUT and STORAGE devices to be considered together.

- (ii) **Output device:** Output device include:
 - i. Monitor;
 - ii. Graphic Plotter;
 - iii. Computer output on microfilm (COM);

iv. Printer; and

v. Speaker.

1. **Monitor:** a displaying device that work in conjunction with a keyboard. Monitor or Visual Display Unit (VDU) or screen is output device that display softcopy output which can be seen.
2. **Graphic plotter:** is a peripheral output device used for the output of complicated fine graphical information. It produces hardcopy that can be multicolour. It is used for engineering and scientific applications as well as business presentations graphics.
3. **Computer Output on Microfilm (COM):** Microfilm is a continuous strip with images formed in frames one at a time, along the strip of the film. A microfilm converts of separate sheet of film with each containing many frames or pages of information. A special microfilm reader in used to read the output. COM is used to store massive data in compact form and used for archival purposes.
4. **Printers:** Output device that provides hardcopy (output) on paper which can be seen, held and touched. There are two categories: Impact printer (makes noise when printing) e.g line printer and non-impact printer (does not make noise when printing) e.g. LaserJet printer.
5. **Speaker:** Speaker as an output device for music and audio.

5a. (iii) **Storage Devices:**

These include:

- i. Magnetic Disk;
- ii. Magnetic Floppy Disk;
- iii. Magnetic Tape;
- iv. Streaming tape;
- v. Video tape recorder;
- vi. CD-ROM disk;
- vii. Video Disk;
- viii. Magneto – Optical disk; and
- ix. USB Drive (universal storage bus) device.

(5b) **Web Server and Web Browser**

A Web server is a Server that contains all the data, information, and images of the company. A company who has a web site will store her information on the web server.

A web browser on the other hand is the application used to view, retrieve information from the web server. To see what is available on a company's web site, you must use a web browser like Internet explorer, Google Chrome, Safari etc

OR

Thus a web browser is a program that helps in showing stuff on the internet and web server helps in delivering that material from the websites to the web browser

(5c)(i) Software-As-A-Service

Software as a service is a software licensing and delivery model in which software is licensed on a subscription basis and is centrally hosted. It is sometimes referred to as "on-demand software". With software-as-a-service, you need not pay for the full value of a software, and the software will not be stored on your computer. When you want to use the software, you connect to the host from the internet, use the software and pay based on how you use it.

(ii) Infrastructure-As-A-Service

Infrastructure as a service (IAAS) is a service model that deliver computer infrastructure on an outsourced basis to support enterprise operations. With (IAAS) you need not buy any hardware to process or store your data.

You only need to connect to the Internet, pay the IAAS service provider and he will allow you use his processor or storage to process and/or store your data. You only pay based on what you use.

(iii) Storage-As-A-Service

This is a service model where a provider allows people to store their data on his server over the internet (also called Cloud storage service). The user pays based on the size of the data stored e.g Google Drive.

EXAMINER'S REPORT

This question tested candidates' understanding of hardware, software and cloud computing.

The question was attempted by about 80% of candidates and performance was good on hardware and software but poor on cloud computing.

Candidates are advised to study more on the topic of cloud computing in the future.

MARKING GUIDE

	Marks	Marks
(a) List and explain four of input, output or storage devices of a computer		
- List of any 4 input devices or	} 1 mark per point	4
- List of any 4 output devices or		
- List of any 4 storage device		
- Explanation of each device listed (2 x 4)	2	8
- One example of what the device is used for (maximum of 3 examples) (1 x 3)	1	<u>3</u>
		15

QUESTION 5(b)

	Marks	Marks
Difference between web server and web browser		
- Correct difference for web server	1	
- Correct difference for web browser	1	2

QUESTION 5(c)

	Marks	Marks
(i) Software-As-A-Service		
- Correct meaning	$\frac{1}{2}$	
- Correct utilisation	<u>$\frac{1}{2}$</u>	1
(ii) Infrastructure-As-A-Service		
- Correct meaning	$\frac{1}{2}$	
- Correct utilisation	$\frac{1}{2}$	1
(iii) Storage-As-A-Service		
- Correct meaning	$\frac{1}{2}$	
- Correct utilisation	<u>$\frac{1}{2}$</u>	<u>1</u>

GRAND TOTAL: 20

SOLUTION 6

a) Authorisation and authentication

Authorisation means granting access to the system while Authentication means confirming your own identity.

Authorisation is the process of confirming if you are allowed to use the system while authentication is the process of verifying if you are the authorised user.

A mechanism for authorisation is user name while a mechanism for authentication is Password or tokens.

b) Malware is a contraction for “malicious software.”

Examples of common malware includes viruses, worms, Trojan viruses, spyware, adware, and ransomware.

c) A ransomware is a type of malicious software designed to block access to a computer system until a sum of money is paid. The writer usually threaten to publish the victim's data or perpetually block access to it unless a ransom is paid.

d) If an organisation is faced with a ransomware threat, the best solution is not to cooperate with the criminals. The best solution is to always have a back-up of your database and a backup of the backup

e) A database is a repository of the data of an organisation. All data of an organisation is stored in the database. A database management system on the other hand is a software that interfaces between user and the database. Access to the data in the database is through the database management system.

f) (i) Physical security means the protection of personnel, hardware, software, networks and data from physical actions and events that could cause serious loss or damage to an enterprise, agency or institution. This includes protection from fire, flood, natural disaster, burglary, theft, vandalism and terrorism

(ii) Logical Security consists of software safeguards for an organization's systems, including user identification and password access, authenticating, access rights and authority levels. These measures are to ensure that only authorised user are able to perform actions or access information in a network or a workstation.

- (iii) Confidentiality is the state of keeping or being kept secret or private. It is the quality of a system that says, 'unauthorised user will not be able to have access to it'.
- (iv) Data Integrity means that the data in the database is consistent, free from unauthorised amendments and remains the same as when it was stored.

EXAMINER'S REPORT

This question tested candidates' knowledge of computer security. It was attempted by about 70% of the candidates.

Performance was good but there was a mix-up between different types of threats to computer security.

Because there is a thin line between these security threats, candidates are advised to master the intricacies in the future.

MARKING GUIDE

	Marks	Marks
(a) Difference between authorisation and authentication		
- Meaning of authorisation	1	
- Meaning of authentication	1	
- Difference	<u>1</u>	3
(b) Explain the term 'MALWARE' and give Two example		
- Meaning of malware	1	
- One example	1	
- One example	<u>1</u>	3
(c) What is 'RANSOMWARE'		
- Meaning of ransomware	<u>1</u>	1
(d) Best solution to a ransomware threat		
- Explanation of what a ransomware Threat is	1	
- Recommendation of one solution	<u>1</u>	2

(e)	What is the difference between a Database and a Database Management System?		
	- Explanation of what a database is	1	
	- Explanation of what a database management system is	1	
	- Difference between the two	<u>1</u>	3
(f)	Explanation of each term		
(i)	- Explanation of physical security	1	
	- Example of physical security	<u>1</u>	2
(ii)	- Explanation of logical security	1	
	- Example of logical security	<u>1</u>	2
(iii)	- Example of confidentiality	1	
	- Explanation of confidentiality	<u>1</u>	2
(iv)	- Example of integrity	1	
	- Explanation of integrity	<u>1</u>	<u>2</u>
			<u>20</u>

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
FOUNDATION LEVEL EXAMINATION – NOVEMBER 2019

TAXATION

Time Allowed: 3¹/₄ hours (including 15 minutes reading time)

SECTION A: MULTIPLE-CHOICE QUESTIONS (20 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER ALL QUESTIONS IN THIS SECTION

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

2. Tax system usually involves which of the following aspects?
 - A. Tax policies and tax laws
 - B. Tax administration
 - C. Tax laws
 - D. Tax policies
 - E. Tax policies, tax laws and tax administration

2. Which of the following is **NOT** an objective of taxation?
 - A. Revenue generation
 - B. Redistribution of income and wealth
 - C. Management of the economy
 - D. Promotion of competition between Federal and state governments
 - E. Harmonisation of diverse trade or economic objectives of different countries

3. The Joint Tax Board (JTB) comprises the following, **EXCEPT**
 - A. The Legal Adviser of a State Ministry of Justice
 - B. The Chairman of the Federal Inland Revenue Service Board
 - C. One member from each state, being a person experienced in income tax matters nominated by the Commissioner charged with the responsibility for matters relating to income tax of the state in question
 - D. The Secretary, who is not a member of the Board, is appointed by the Federal Civil Service Commission
 - E. The Legal Adviser of the FIRS who acts as the Legal Adviser to the JTB

4. Which of the following is **NOT** a function of the Joint State Revenue Committee?
- A. Implement the decisions of the Joint Tax Board
 - B. Harmonise tax administration in the state
 - C. Provide the general policy guidelines relating to the functions of Federal Inland Revenue Service
 - D. Enlighten members of the public on state and local government revenue matters
 - E. Carry out such other functions as may be assigned to it by the Joint Tax Board
5. Under the National tax policy (NTP), 2017, which of the following is **NOT** a key stakeholder in the Nigeria tax system?
- A. All levels and arms of government, ministries, extra-ministerial departments and agencies
 - B. A group of persons or an entity that pays or is liable to tax often called the taxpayer
 - C. Any revenue agency responsible for the collection and administration of revenue
 - D. Media and advocacy groups
 - E. Tertiary institutions
6. The fundamental principles of ethics as specified by the International Ethics Standards Board for Accountants (IESBA) **EXCLUDE**
- A. Integrity
 - B. Professional competence and due care
 - C. Objectivity
 - D. Confidentiality
 - E. Relationship
7. Within how many months after the commencement of business, should a limited liability company register for tax purposes with the Federal Inland Revenue Service?
- A. 12 months
 - B. 10 months
 - C. 8 months
 - D. 6 months
 - E. 4 months

8. In line with the provision of section 69 of Companies Income Tax Act Cap C21 LFN 2004 (as amended), a notice of objection must meet the following conditions to be valid, **EXCEPT**
- A. Be in writing and addressed to the Chairman, Federal Inland Revenue Service
 - B. State the amount of assessable and total profits of the company for the relevant assessment year
 - C. Be raised within thirty days of the date of service of the notice of assessment
 - D. Be raised within sixty days of the date of service of the notice of assessment
 - E. State the amount of tax which the taxpayer claims as payable for the year of assessment
9. Which of the following is **NOT** an objective of withholding tax?
- A. To build training schools for the Federal Inland Revenue Service
 - B. To discourage, minimise or prevent incidence of tax evasion
 - C. To increase the tax net of the government
 - D. To serve as a collection mechanism for income tax
 - E. To serve as a veritable source of revenue to the government
10. Which of the following is **NOT** exempted from VAT?
- A. Basic food items
 - B. Baby products
 - C. All medical and pharmaceutical products
 - D. Books and educational materials
 - E. Building materials
11. A company that fails to commence business after six months of incorporation, shall pay a pre-operational levy of on its first application for tax clearance certificate
- A. ₦25,000
 - B. ₦20,000
 - C. ₦15,000
 - D. ₦10,000
 - E. ₦5,000
12. Which of the following is **NOT** required by law to be stamped?
- A. Contract notes
 - B. Agreements
 - C. Mortgages
 - D. Receipts
 - E. Instruments relating to reconstruction and amalgamation

13. The stamping of documents can be effected through the following, **EXCEPT**
- A. Affixing adhesive stamp
 - B. Affixing postage stamp in lieu of adhesive stamp
 - C. Embossing with dies
 - D. Printing on the instruments
 - E. Cello taping
14. Members of the Customs Service Commission include the following, **EXCEPT**
- A. The Legal Adviser of the Customs Service
 - B. All Deputy Comptrollers – general of the Customs Service
 - C. The Chairman of the Federal Inland Revenue Service
 - D. A representative of the Council for the Regulation of Freight Forwarding in Nigeria (CRFFN)
 - E. A representative of the Minister of Health
15. Which of the following is **NOT** a benefit of taxation of luxury goods?
- A. To raise government revenue
 - B. To broaden the tax base
 - C. To redistribute wealth from the rich to the poor
 - D. To mitigate the consumption of non – essential goods and services
 - E. To encourage manufacturers of luxury goods to increase production
16. “Property” under the Lagos State Land Use Charge Law 2018, includes the following, **EXCEPT**
- A. A building
 - B. A fleet of cars
 - C. Any improvement on land
 - D. Leasehold of up to ten years
 - E. A parcel of land, whether or not reclaimed, waterlogged or otherwise
17. Which of the following is a benefit-in-kind?
- A. Official remuneration of management staff
 - B. Official non-monetary remuneration of an employee
 - C. Tax paid by an employee
 - D. Official remuneration of an employee
 - E. A year-end bonus

18. Who among the following is usually appointed by the Court to administer the estate of a person who died intestate?
- A. Beneficiary
 - B. Trustee
 - C. Investor
 - D. Accountant
 - E. Administrator
19. In commencement of business, a taxpayer's right of election to have some assessment years revised to actual basis only apply to
- A. The third year of assessment
 - B. The first year of assessment
 - C. The second year of assessment
 - D. Both the second and third years of assessment
 - E. The first and second years of assessment
20. Which of the following is allowable expense in the determination of assessable profit?
- A. Depreciation
 - B. Expenditure of a capital nature
 - C. Cost of defending traffic offence
 - D. Income tax provision
 - E. Specific allowance for doubtful debts

SECTION B: OPEN-ENDED QUESTIONS (80 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER ANY FOUR OUT OF SIX QUESTIONS IN THIS SECTION

QUESTION 1

- a. Mr. James Akpobo was born on August 1, 1949, in Kaduna. He attended Community Primary School, Kaduna, and graduated from the University of Ibadan in 1974.

He was employed as the Site Engineer of XYZ Limited in Jos, and spent 20 years working for this company. On his retirement in 1995, he sought an advice of his friend on profitable ventures in Nigeria. Thereafter, he decided to register James Akpobo Enterprises which is into buying and distribution of building materials.

He commenced business on June 4, 1996, making up accounts to December 31, every year. The statement of profit or loss of James Akpobo Enterprises for the year ended December 31, 2017, is as follows:

	₦	₦
Revenue		29,500,000
Cost of sales		<u>(15,200,000)</u>
Gross profit		14,300,000
Other income		<u>800,000</u>
		15,100,000
Administrative expenses:		
Staff salaries	4,000,000	
Printing and stationery	248,000	
Postages and telephone	36,200	
Electricity	68,100	
Rent	800,000	
Donation	50,000	
Repairs and maintenance	41,500	
Defalcation and embezzlement	120,000	
VAT on equipment	25,000	
Entertainment	196,000	
Allowance for doubtful debts	48,000	
Legal fees and other professional charges	200,000	
Audit fees	250,000	
Bank charges and commissions	147,500	
Depreciation	<u>82,100</u>	<u>(6,312,400)</u>
Net profit		<u><u>8,787,600</u></u>

You are provided with the following additional information:

(i) Income comprises:

	₦
Reversal of allowance for doubtful debts earlier disallowed	674,900
Sale of scraps	<u>125,100</u>
	<u><u>800,000</u></u>

(ii) During the year, he received a gross dividend of ~~₦~~220,000.

(iii) Donation was made to XYZ political party.

(iv) Capital allowance of ~~₦~~48,000 was agreed with the relevant tax authority.

(v) An accounting clerk in the organisation was involved in the defalcation and embezzlement.

(vi) Mr. James Akpobo has a life assurance policy on his life for which he pays an annual premium of ~~₦~~600,000.

(vii) Mr. James Akpobo has four children and maintains his aged parents.

(viii) Mr. James Akpobo makes the following contributions per annum to:

	₦
National housing fund	120,000
National health insurance scheme	48,000

Required:

Compute the income tax payable by James Akpobo for the relevant assessment year. (18 Marks)

- b. Alhaji Kudus Abdulahi was appointed to manage the estate of a deceased individual on June 1, 2018. He sought your advice on the computation of capital allowances on assets transferred to the estate of the deceased.

Required:

Explain to Alhaji Kudus Abdulahi the specific provisions that should be noted when computing the capital allowances on the assets transferred to the estate. (2 Marks)

(Total 20 Marks)

QUESTION 2

Allright Nigeria Limited was incorporated on January 4, 2013, and it commenced a retail business on June 1, 2014. The authorised share capital of the company is ₦10,000,000, out of which, 5,000,000 shares of ₦1.00 each were issued and fully paid on January 24, 2018.

The statement of profit or loss of Allright Nigeria Limited for the year ended December 31, 2018, has revealed the following:

	₦
Revenue	25,000,000
Cost of sales	<u>(10,500,000)</u>
Gross profit	14,500,000
Other income	<u>125,000</u>
	14,625,000
Distribution cost	(711,000)
Administrative expenses	(6,900,200)
Other expenses	(618,500)
Finance cost	<u>(391,800)</u>
Profit before tax	<u><u>6,003,500</u></u>

You are given the following additional information:

- (i) A dividend of ₦2,000,000 was proposed and paid.
(ii) Profit before tax is after charging:

	₦
Depreciation	496,000
Loss on sale of property, plant and equipment	181,300
Preliminary expenses now written off	240,850
Share issue expenses	36,400
Allowance for doubtful debts	198,300
(iii) Qualifying capital expenditures:	
Written down value b/f:	
Office equipment	₦10
Furniture and fittings	₦10
Motor vehicles	₦10
Acquired on January 4, 2018:	
Office equipment	₦202,000
Furniture and fittings	₦185,000
Motor vehicles	₦1,200,000
(iv) Unrelieved losses brought forward	₦3,160,000
(v) Unutilised capital allowances brought forward	₦640,000
(vi) Balancing allowance	₦428,300
(vii) Net assets as at the end of the year	₦3,410,160

Required:

Compute the company's income tax payable for the relevant year of assessment.

(Total 20 Marks)

QUESTION 3

Personal income tax is the tax that is imposed on individuals who are in employment, self-employed and those in partnerships. In Nigeria, the taxation of individuals is guided by the provisions of Personal Income Tax Act Cap P8 LFN 2004 (as amended).

Required:

In line with the provisions of the above stated Act:

- a. i. Explain "employment", "vocation" and "profession". (6 Marks)
ii. Highlight the distinctions among the terminologies. (4 Marks)

- b. i. Explain “cash emoluments” and “benefits-in-kind”. (4 Marks)
 ii. State three general rules for quantifying “benefits-in-kind”. (6 Marks)
(Total 20 Marks)

QUESTION 4

- a. The Federal Government is fully aware of the need to assist small companies to grow and this partly informed the provision of section 40 (7) of the Companies Income Tax Act Cap C21 LFN 2004 (as amended), which relates to small company relief.

Required:

- i. State the small company rate of tax on total profits. (1 Mark)
 ii. State **THREE** criteria that must be met to be eligible for small company relief. (6 Marks)
- b. Education tax was introduced into the Nigeria tax system through the Education Tax Act, 1993 (ETA 1993), which was repealed by the Tertiary Education Trust Fund (Establishment, etc.) Act, 2011, to address the funding crisis in the education sector.

In line with the provisions of Tertiary Education Fund (Establishment, etc) Act 2011, the management and administration of the Tertiary Education Tax Fund (TET Fund) is vested in the Board of Trustees.

Required:

- i. State the composition of the Board of Trustees. (7 Marks)
 ii. State **SIX** functions of the Board of Trustees. (6 Marks)

(Total 20 Marks)

QUESTION 5

Mr. Kehinde Jacob is the Managing Director of XYZ Limited, a company that commenced business in January 2010. The company having posted profits in previous years, decided to diversify into the importation of food items.

In November 2018, the company imported the following items from Texas, USA, through Apapa port:

Item	Quantity (Carbons)	Price (\$) (per carton)	Cost (\$)
Live freshwater ornamental fish	10,000	20	200,000
Tilapias meat	4,200	18	75,600
Edible livers of swine	6,000	30	180,000
Meat of bovine animals	7,500	25	<u>187,500</u>
			<u><u>643,100</u></u>

You are given the following information:

- i. The exchange rate in November 2018 was ₦364 to \$1;
- ii. The rate of import duty, cost of freight and insurance for each of the imported items are as follows:

- **Rate of import duty:**

Live freshwater ornamental fish	-	10%
Tilapias meat	-	10%
Edible livers of swine	-	35%
Meat of bovine animals	-	35%
- The cost of insurance was put at 0.5% of the cost of the imported items.
- **The cost of freight:**

	\$
Live freshwater ornamental fish	1,750
Tilapias meet	1,500
Edible livers of swine	1,500
Meat of bovine animals	1,600

Required:

Compute the import duty payable to Nigeria Customs Service by XYZ Limited on items imported. **(Total 20 Marks)**

QUESTION 6

Tax administration in Nigeria involves the practical interpretations and application of the tax laws. The bodies charged with the administration of tax in Nigeria are the Federal, State and Local Governments. The tax authorities of these tiers of government derive their formations from Federal laws.

The tax laws allow all tiers of government to establish their own tax authorities. The administration of taxation in Nigeria is, therefore, vested in various tax authorities depending on the type of tax under consideration.

You are required to state:

- a. The **composition** and **FOUR** functions of the Joint Tax Board. (8 Marks)
 - b. **FOUR** functions of the State Board of Internal Revenue. (6 Marks)
 - c. The functions of the Local Government Revenue Committee. (6 Marks)
- (Total 20 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	Nil
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

10%

3. RATES OF PERSONAL INCOME TAX

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

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

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

4. COMPANIES INCOME TAX RATE

30%

5. TERTIARY EDUCATION TAX

(2% of Assessable Profit)

6. CAPITAL GAINS TAX

10%

7. VALUE ADDED TAX

5%

SOLUTIONS

SECTION A

MULTIPLE – CHOICE QUESTIONS

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

Tutorial note

11. Pre-operational levy (POL)

It is pertinent to state that POL is only raised when a taxpayer applies for current tax clearance certificate (TCC). Put differently, POL should not be imposed on a taxpayer for any of the previous years when the company failed to apply for TCC.

SOLUTION 1

(a) Mr. James Akpobo

Computation of personal income tax liability

For 2018 assessment year

	₦	₦
Net profit per accounts		8,787,600
Add: Disallowable expenses:		
Donation	50,000	
VAT on equipment	25,000	
Allowance for doubtful debts	48,000	
Depreciation	<u>82,100</u>	<u>205,100</u>
		8,992,700
Deduct: Non-taxable income:		
Reversal of allowance for doubtful debts previously disallowed		<u>674,900</u>
Adjusted profit		8,317,800
Capital allowances		<u>(48,000)</u>
Income from trade		8,269,800
Dividend (gross)		<u>220,000</u>
Gross income		8,489,800
Dividend (gross)		<u>(220,000)</u>
		8,269,800
Less: Consolidated relief allowance (CRA)		
₦ 200,000 or 1% of ₦ 8,489,800, whichever is higher plus 20% of ₦ 8,489,800		<u>1,897,960</u>
		6,371,840
Less: Tax exempt items:		
Life assurance premium	600,000	
Contribution to national housing fund	120,000	
Contribution to national health insurance scheme	<u>48,000</u>	<u>768,000</u>
Chargeable income		<u><u>5,603,840</u></u>

Personal income tax payable

	₦ : K
1 st ₦300,000 @ 7%	21,000.00
Next ₦300,000 @ 11%	33,000.00
Next ₦500,000 @ 15%	75,000.00
Next ₦500,000 @ 19%	95,000.00
Next ₦1,600,000 @ 21%	336,000.00
Next <u>₦2,403,840</u> @ 24%	576,921.60
<u>₦5,603,840</u>	<hr/>
Personal income tax payable	<u>1,136,921.60</u>

Tutorial notes:

- (i) In the heat of the controversy generated by the promulgation of Personal Income Tax (Amendment) Act, 2011, the Joint Tax Board (JTB) came up with a template on how to compute the income tax liability of an individual. The suggested solution is in line with the tax template of the JTB.

When a tribunal or any superior court of law decides that the tax template of the JTB is no longer tenable, subsequent suggested solutions will accommodate such a decision.

It is pertinent to mention that the practices of most of the state tax authorities are in tandem with the tax template of the JTB. Additionally, it is not out of place to state that in accordance with the provisions of section 86 (9) (d) and (e) of Personal Income Tax Act Cap P8 LFN 2004 (as amended), the JTB shall “use its best endeavours to promote uniformity both in the application of this Act and in the incidence of tax on individuals throughout Nigeria and impose its decisions on matters of procedure and interpretation of this Act on any state for purposes of conforming with agreed procedure or interpretation”.

- (ii) It should be noted that the consolidated relief allowance (CRA) was computed based on the gross income of ₦8,489,800. Given the fact that withholding tax deducted at source on dividend is regarded as the final tax in the hands of the recipients, another school of thought is of the opinion that consolidated relief allowance should be computed based on gross income less dividend. This method is favourable to the Revenue but this is not in line with the provision of section 33(1) of Personal Income Tax (Amendment) Act, 2011, which requires that CRA should be computed based on gross income.

(b) Specific provisions to be noted when computing the capital allowances of the assets transferred to the estate

These are as follows:

- (i) Where an individual setting up the estate transfers qualifying capital expenditure to the estate, the estate shall be deemed to have incurred qualifying expenditure on the acquisition of the asset equal in amount to the residue of the expenditure on the day following the death of the individual.
- (ii) No balancing allowance or charge shall be given or made to that individual in respect of the asset for that year.
- (iii) In the event of the disposal of the asset on or after that day, any balancing charge to be computed should take into consideration the sum of all allowances previously granted to the transferor and the estate
- (iv) No initial allowance may be claimed on the transferred assets and the unexpired life of the assets will be considered when computing the annual allowance.

EXAMINER'S REPORT

Part (a) of the question tests candidates' knowledge of the computation of personal income tax, whilst part (b) expects candidates to provide professional advice on capital allowances of assets transferred to the estate of a deceased individual.

Majority of the candidates attempted the question as it is compulsory and the performance was fair.

The common pitfall was the inability of some candidates to differentiate between allowable expenses and disallowable expenses. In addition, over 80% of the candidates could not provide reasonable advice on the provision of the Personal Income Tax Act Cap P8 LFN 2004 (as amended) relating to capital allowances on the assets transferred to the estate of a deceased person.

Candidates are advised to read ICAN Pathfinders and Study Texts when preparing for the Institute's examinations.

MARKING GUIDE

	Marks	Marks
(a) Heading	1	
Net profit per accounts	1	
Disallowable expenses (1 mark for each correct expense)	4	
Non – taxable income	$\frac{1}{2}$	
Adjusted profit	1	
Capital allowances	1	
Income from trade	1	
Gross income	1	
Dividend (gross)	1	
Gross income used in the calculation of CRA	1	
Calculation of CRA	1	
Tax exempt items ($\frac{1}{2}$ mark for each correct item)	$1\frac{1}{2}$	
Computation of personal income tax payable ($\frac{1}{2}$ mark for each correct calculation)	<u>3</u>	18
(b) Specific provisions that should be noted when computing the capital allowances of the assets transferred to the estate ($\frac{1}{2}$ mark for each correct specific provision)		<u>2</u> <u>20</u>

SOLUTION 2

Allright Nigeria Limited
Computation of companies income tax liability
For 2019 assessment year

	₦	₦
Net profit per accounts		6,003,500
Add: Disallowable expenses:		
Depreciation	496,000	
Loss on sale of property, plant and equipment	181,300	
Preliminary expenses now written off	240,850	
Share issue expenses	36,400	
Allowance for doubtful debts	<u>198,300</u>	<u>1,152,850</u>
Adjusted profit		7,156,350
Losses brought forward		<u>(3,160,000)</u>
		3,996,350

Capital allowances:			
Unutilised capital allowances b/f		640,000	
Capital allowances for the year (see workings)		950,250	
Balancing allowance		<u>428,300</u>	<u>(2,018,550)</u>
Total profit			<u>1,977,800</u>
Companies income tax payable (30% of total profit)	=		<u><u>₦ 593,340</u></u>

COMPUTATION OF MINIMUM TAX PAYABLE

		₦	₦ : K
(i) 0.5% of gross profit	(₦ 14,500,000)	=	<u>72,500.00</u>
(ii) 0.5% of net assets	(₦ 3,410,160)	=	<u>17,050.80</u>
(iii) 0.25% of paid – up capital	(₦ 5,000,000)	=	<u>12,500.00</u>
(iv) 0.25% of 1 st N500,000 of revenue	₦500,000		<u>1,250</u>
(v) 0.125% of excess over N500,000 revenue	<u>₦24,500,000</u>		30,625
	<u>₦25,000,000</u>		
Plus the highest of (i) to (iii)		<u>72,500</u>	<u>103,125.00</u>

The minimum tax payable is **₦103,125**

Invoking the provision of section 19 of Companies Income Tax Act Cap C21 LFN 2004 (as amended), the Federal Inland Revenue Service will revise the company's income tax liability for 2019 assessment year by substituting **₦2,000,000** (dividend paid) for the company's total profit of **₦1,977,800**, more so when the minimum tax liability is **₦103,125**.

Arising from the above, the companies income tax payable by Allright Nigeria Limited is computed thus:

$$\text{₦2,000,000 (Dividend paid) x 30\%} = \underline{\underline{\text{₦600,000}}}$$

Working:

Computation of capital allowances

	Office equipment	Furniture and fittings	Motor vehicles	Total
Initial allowance (%)	50	25	50	
	₦	₦	₦	₦
W.D.V. b/f to A.Y. 2019	10	10	10	<u>30</u>

Additions:				
Cost	<u>202,000</u>	<u>185,000</u>	<u>1,200,000</u>	
	201,010	185,010	1,200,010	
Initial allowance	(101,000)	(46,250)	(600,000)	747,250
Annual allowance	<u>(25,250)</u>	<u>(27,750)</u>	<u>(150,000)</u>	<u>203,000</u>
				<u>950,250</u>
W.D.V. c/f to A.Y. 2020	75,760	111,010	450,010	

EXAMINER'S REPORT

The question tests candidates' knowledge of the computation of companies income tax liability.

Many candidates attempted the question and the performance was average. The common pitfalls were the inability of the candidates to correctly identify disallowable expenses and difficulty in the computation of minimum tax payable by companies.

Candidates are advised to study indepth all aspects of companies income tax in the syllabus.

MARKING GUIDE

	Marks
Heading	½
Net profit per accounts	1
Disallowable expenses (½ mark for each correct expense)	2½
Total of disallowable expenses	½
Adjusted profit	½
Correct treatment of losses brought forward	1
Unutilised capital allowances brought forward	1
Capital allowances computation for the year: (½ mark for each correct cost of asset)	1½
Initial allowance (½ mark for each correct computation)	1½
Annual allowance (½ mark for each correct computation)	1½
Ascertainment of total annual allowance for the year	1½
Balancing allowance	1
Computation of companies income tax payable	1
Computation of minimum tax payable:	

Gross profit	1/2
Net assets	1/2
Paid – up capital	1/2
Revenue – ₦500,000 @ 0.25%	1/2
Revenue – Excess over ₦500,000 at 0.125%	1/2
Conclusion, that is, dividend paid to be substituted for total profit	1
Computation based on dividend paid	1
Computation of minimum tax payable	1/2
	<u>20</u>

SOLUTION 3

(a)(i) Employment

Employment is an agreement between an employer and an employee that the employee will provide certain services on the job and in the employer's designated workplace to facilitate the accomplishment of the employer organization's goals and mission, in return for compensation. The agreement can be verbal, implied or an official employment contract.

In employment, the employer determines the where, when, how, why and what of the work that is performed by the employee. The degree of input, autonomy and self-directedness that an employee experiences on a job is a by-product of an employer's philosophy of management and employment. Employment ends at the prerogative of the employer or the employee.

Vocation

A vocation is a specified occupation, profession or trade to which a person is specially drawn or for which he or she is suited, trained or qualified. Vocation can either be an activity that serves as an individual's regular source of livelihood or as an activity engaged in especially as a means of passing time.

Profession

A profession refers to an occupation that requires specialized education, knowledge, training and ethics. Although professionals make their living in what they do, this paid work is often more than just a job or occupation alone. Whether the occupation is law, medicine, plumbing, writing, interior design or accounting, those who are in it are expected to meet and maintain common standards.

Professions are, ideally, made up of people with high ethical standards who have special knowledge and skills. The responsibility of people in certain occupations to the public is an important distinction from those who may participate in the fields on an amateur or non-professional basis. For example, if a home owner hires a non-licensed plumber to save money, he or she wouldn't be able to hold this person to the same standards as a licensed professional in the same industry.

(ii) Distinctions among employment, vocation and profession include:

- Employment is an agreement between an employer and an employee in which the employee is required to provide certain services on the job in a work place in return for compensation, that is, salary and other emoluments while vocation and profession are specified occupation, profession or trade to which a person is specially drawn in for which he or she is suited, trained or qualified;
- Employment income includes salary, wages, fee and allowance including compensations, bonuses, premiums, benefits or other perquisites. Vocation and profession income includes gains or profits, fee, etc;
- Employment can be exercised under a contract of service, while vocation and profession can be exercised in a contract for service; and
- Employment can be brought to an end at the prerogative of the employer or the employee, vocation and profession would usually come to an end at the end of a contract or upon the delivery of service.

(b) (i) Cash emoluments

Cash emoluments are the remuneration an employee receives from the employer in cash.

Cash emoluments include salary, wages, fee, allowance or other gain or profit from employment including compensations, bonuses, premiums, benefits, share of profits received by an employee.

Benefits-in-kind (BIK)

Benefits-in-kind mean those expenses incurred by an employer in the provision of benefits to the employee.

Such benefits often include: furnished living accommodation; gardener/stewards (domestic servants); use of official car for private purposes by employees; installation of air conditioners or generator in an employee's residence, etc. These benefits are regarded as part of the

employee's taxable income if these relate to services rendered by the employee. Benefits-in-kind will also include such benefits which are usually provided to the spouse, family, servant, dependent or guest of the employee.

(ii) The following are the general rules for quantifying benefits-in-kind:

- **The use of assets**

- **Owned or acquired by the employer**

The employee is deemed to have derived income equal to: 5% of the cost of assets if known or 5% of the market value at the date of acquisition and where the cost is not known, to be determined by the tax authorities.

- **Rented or hired by the employer**

The employee is deemed to have derived an income equal to the annual amount of the rent or hire expended by the employer on the asset.

Where an employee has made any refund in respect of the asset rented or hired by the employer for the employee's benefit, the employee shall be deemed to have derived income equal to the difference between the amount incurred by the employer and any amount refunded by the employee.

- **Provision of residential accommodation**

If an employer provides residential accommodation for the benefit of an employee anywhere in Nigeria and the employee pays no rent for the premises, or pays a rent which is less than the annual value of the premises, the employee is deemed to have derived income each year equal to the annual rateable value of the premises less any rent paid by the employee. The annual rateable value of any premises is that value as determined by the relevant tax authority for purposes of local rate.

- **Domestic staff paid by the employer**

Where an employer engages the service of domestic staff (such as driver, steward, washman, housemaid, gardener, etc) for the exclusive benefit of an employee, the cost incurred in form of salary by the employer for the use of the domestic staff by the employee shall be deemed as income in the hands of the employee and taxed accordingly.

The income of a domestic staff shall only be deemed as income in the hands of the employee only where the domestic staff is not a permanent employee of the employer, that is, a contract staff.

EXAMINER'S REPORT

The question tests candidates' understanding of the provisions of Personal Income Tax Act Cap C21 LFN 2004 (as amended), relating to employment, vocation, profession, cash emoluments and benefits – in – kind.

About 70% of the candidates attempted the question and performance was above average. The common pitfall was the inability of some candidates to correctly differentiate between vocation and profession. Also, few of the candidates could not correctly explain "cash emoluments".

Candidates are advised to pay more attention to this part of the syllabus by making best use of the Institute's texts and relevant taxation Acts.

MARKING GUIDE

		Marks	Marks
(a)	(i) Definition of employment	1	
	Employer's right to determine how, when, etc the work is performed by the employee	1	
	Definition of vocation	2	
	Definition of profession	1	
	Explanation of profession	1	
	(ii) The distinctions among employment, vocation and profession (1 mark for each point)	<u>4</u>	10
(b)	(i) Definition of cash emoluments	1	
	Examples of cash emoluments	1	
	Definition and explanation of benefits-in-kind (BIK)	2	
	(ii) Stating three general rules for quantifying benefits-in-kind (2 marks each for any point subject to a maximum of 3 points)	<u>6</u>	<u>10</u>
			<u>20</u>

SOLUTION 4

- (a) (i) **The small company rate of tax on total profits is 20%.**
- (ii) **Small company relief only applies to a company:**
- That has a revenue of N1,000,000 or less per annum;
 - That is engaged in manufacturing or agricultural production or mining of solid minerals or wholly export trade;
 - That was not set up to acquire part or whole of the trade or business previously carried on by another company; and
 - During its first five years of assessment.

(b) (i) **Composition of the Board of Trustees of the Tertiary Education Tax Fund (TET fund)**

The Board of Trustees shall consist of:

- A Chairman who shall:
 - ❖ Be a person with good knowledge in finance and administrative matters; and
 - ❖ Have qualifications and experiences as are required to perform the functions of that office under the Act;
- Six persons, each representing a geo-political zone in the country;
- A representative of the Federal Ministry of Education who shall not be below the rank of a director;
- A representative of the Federal Ministry of Finance who shall not be below the rank of a director;
- A representative from the universities;
- A representative from the polytechnics;
- A representative from the colleges of education; and
- The Executive Secretary of TET fund who shall be the Secretary to the Board of Trustees.

The membership of the Board of Trustees shall reflect the six geopolitical zones of the Federation and members shall be persons of considerable experience from both the public and private sectors and appointed by the President on the recommendation of the Education Minister to represent the business, financial and education sectors.

(ii) **Functions of the Board of Trustees**

The following are the functions of the Board of Trustees:

- Monitor and ensure collection of tertiary education tax by the Federal Inland Revenue Service and ensure transfer to the fund;

- Manage and distribute the tax imposed by the Act;
- Liaise with the appropriate ministers or bodies responsible for collection or safekeeping of the tax;
- Receive requests and approve admissible projects after due consideration;
- Ensure disbursement of funds to various public tertiary educational institutions in Nigeria;
- Monitor and evaluate execution of the projects;
- Invest funds in appropriate and safe securities;
- Update the Federal Government on its activities and progress through annual and audited reports;
- Review progress and suggest improvements within the provisions of the Act;
- Do such other things as are necessary or incidental to the objects of the fund under the Act or as may be designed by the Federal Government;
- Make and issue guidelines from time to time to all beneficiaries on disbursements from the fund and the use of monies received from the fund; and
- Regulate the administration, application and disbursement of monies from the fund under the Act.

EXAMINER'S REPORT

Part (a) of the question tests candidates' knowledge of the provision of the Companies Income Tax Act Cap C21 LFN 2004 (as amended) as it affects small companies. Part (b), however, tests candidates' understanding of the management of the Tertiary Education Tax Fund (TET Fund).

About 60% of the candidates attempted the question and performance was fair. Most of the candidates that attempted part (a) of the question could not correctly state the criteria that must be met to be eligible for small company relief. In part (b) of the question, few of the candidates could not correctly state the functions of the Board of Trustees of TET Fund.

Candidates are advised to study and pay attention, in particular, to the provision of the Tertiary Education Fund (Establishment, etc) Act 2011, as it concerns the composition and functions of the Board of trustees of TET Fund.

MARKING GUIDE

		Marks	Marks
(a)	(i) Small company rate of tax	1	

	(ii) Criteria that must be met to be eligible for small company relief (1½ marks for each of 4 points raised)	<u>6</u>	7
(b)	(i) Composition of the Board of Trustees (1 mark each subject to a maximum of 7 points)	7	
	(ii) Functions of the Board of Trustees (1 mark each subject to a maximum of six points)	<u>6</u>	<u>13</u>
			<u>20</u>

SECTION B EXAMINATION TYPE QUESTIONS

SUGGESTED SOLUTION 5

XYZ Limited

Computation of import duty paid to Nigeria Customs Service on imported items in November 2018

	Quantity (cartons)	Price (\$ per carton)	Cost (\$)	Insurance (\$)	Freight (\$)	Landing Cost (\$)	Exchange rate – N364 to \$1	Cost in Naira	Rate of import duty	Duty payable N . K	Remarks
Live freshwater ornamental fish	10,000	20	200,000	1,000	1,750	202,750	364	73,801,000	10%	7,380,100.00	
Tilapias meat	4,200	18	75,600	378	1,500	77,478	364	28,201,992	10%	2,820,199.20	
Edible livers of swine	6,000	30	180,000	900	1,500	182,400	364	66,393,600	35%	23,237,760.00	
Meat of bovine animals	7,500	25	187,500	937.5	1,600	190,037.50	364	69,173,650	35%	24,210,777.50	
			<u>643,100</u>	<u>3,215.50</u>	<u>6,350</u>	<u>652,665.50</u>		<u>237,570,242</u>		<u>57,648,836.70</u>	

Arising from the above computations, the import duty paid was ~~N~~57,648,836.70.

EXAMINER'S REPORT

The question tests the candidates' knowledge of computation of import duty payable to Nigeria Customs Service.

Being one of the new topics introduced into the syllabus, less than 20% of the candidates attempted the question, probably due to lack of knowledge about the topic. For the few candidates that attempted the question, the performance was poor.

The major pitfall was the inability of the candidates to correctly compute the import duty.

Candidates are advised to make use of the Institute's study texts and pay attention to the computation of import duty.

MARKING GUIDE

	Marks
Identifying the cost of purchase of each product in dollars (1 mark for each product)	4
Computation of the cost of insurance for each product ($\frac{1}{2}$ mark for each product)	2
Computation of freight for each product in dollars ($\frac{1}{2}$ mark for each product)	2
Computation of the landing cost for each product in dollars ($\frac{1}{2}$ mark for each product)	2
Applying the rate of exchange for each product ($\frac{1}{2}$ mark for each product)	2
Computation of the landing cost for each product in naira ($\frac{1}{2}$ mark for each product)	2
Applying the rate of exchange for each product ($\frac{1}{2}$ mark for each product)	2
Applying the correct rate of import duty ($\frac{1}{2}$ mark for each product)	2
Computation of the import duty payable (1 mark for each product)	<u>4</u>
	<u>20</u>

SOLUTION 6

(a) Composition of the Joint Tax Board

It comprises:

- i) The Chairman of the Federal Inland Revenue Service Board, who doubles as the Chairman of JTB;
- ii) One member from each state, being a person experienced in income tax matters nominated either by name or office, from time to time, by the Commissioner charged with responsibility for matters relating to income tax of the state in question;
- iii) The Secretary, who is not a member of the Board, and is appointed by the Federal Civil Service Commission; and
- iv) The Legal Adviser of the FIRS acts as the Legal Adviser to the JTB.

Functions of the Joint Tax Board

The Board shall:

- i) Exercise the powers or duties conferred on it by the PITA and other Acts;
- ii) Advise the Federal Government, on request, in respect of double taxation arrangement with any other country;
- iii) Advise the Federal Government, on request, in respect of rates of capital allowances and other taxation matters, having effect throughout Nigeria in respect of any proposed amendment to PITA;
- iv) Promote uniformity both in the application of PITA and the incidence of tax on individuals throughout Nigeria; and
- v) Impose its decisions, on matters of procedure and interpretation of PITA, on any State, for purposes of conforming to agreed procedures or interpretations.

b) Functions of the State Board of Internal Revenue

It shall be responsible for:

- i) Ensuring the effectiveness and optimum collection of all taxes and penalties due to the government under the relevant laws;
- ii) Doing all such things as may be deemed necessary and expedient, for the assessment and collection of the tax and shall account for all sums so collected, in a manner to be prescribed by the Commissioner;

- iii) Making recommendations, where appropriate, to the Joint Tax Board on tax policy, tax return, tax legislation, tax treaties and exemptions as may be required, from time to time;
- iv) Generally controlling the management of the state service on matters of policy, subject to the provisions of the law setting up the State Internal Revenue Service; and
- v) Appointing, promoting, transferring and imposing discipline on employees of the State Internal Revenue Service.

Other issues relating to delegation of functions

The State Board may, by notice in the gazette or in writing, authorise any person to:

- (i) Perform or exercise on behalf of the State Board, any function, duty or power conferred on the State Board; and
- (ii) Receive any notice or other documents to be given or delivered to it or in consequence of this Act or any subsidiary legislation made under it. However, the State Board shall not delegate any power conferred on it under sections 2, 6, 7, 17, 46, 47, 50, 53, 54, 55, 57, 78, 86, 99, 102, 103 and 104 of PITA to any person.

c) Functions of the Local Government Revenue Committee

It shall be responsible for:

- i) The assessment and collection of all taxes, fines and rates under its jurisdiction;
- ii) The collection of all amounts and shall account for same in a manner to be prescribed by the Chairman of the local government; and
- iii) The day-to-day administration of the department which forms its operational arm.

EXAMINER'S REPORT

The question tests the candidates' knowledge of organs of tax administration in Nigeria.

Specifically, part (a) of the question tests candidates' understanding of the composition and functions of the Joint Tax Board; whilst part (b) considers the functions of the State Board of Internal Revenue; and part (c) asks candidates to state the functions of the Local Government Revenue Committee.

Over 80% of the candidates attempted the question and they exhibited good understanding of the requirements of the question. The major pitfall especially in part (c) was the inability of the candidates to state correctly other functions of the Local Government Revenue Committee aside from the collection of taxes and levies within their jurisdictions.

Candidates are advised to make use of the Institute's study texts and relate their learning to the requirements of the question.

MARKING GUIDE

	Marks	Marks
(a) Composition of the Joint Tax Board (1 mark for each member)	4	
Functions of the Joint Tax Board (1 mark for each function subject to a maximum of 4 functions)	<u>4</u>	8
(b) Functions of the State Board of Internal Revenue (1½ marks for each function subject to a maximum of 4 functions)		6
(c) Functions of the Local Government Revenue Committee (2 marks for each function)		<u>6</u>
		<u>20</u>

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

FOUNDATION LEVEL EXAMINATION – NOVEMBER 2019

BUSINESS MANAGEMENT & FINANCE

Time Allowed: 3¹/₄ hours (including 15 minutes reading time)

SECTION A: MULTIPLE-CHOICE QUESTIONS (20 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER ALL QUESTIONS IN THIS SECTION

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

1. The management of an organisation is accountable to its owners for the performance of the firm. From the foregoing, which of the following statements is incorrect?
 - A. Charities are accountable to stakeholders
 - B. Limited liability partnership is accountable to the government
 - C. The directors of a company are accountable to equity holders
 - D. Managers of public sector enterprises are accountable to government
 - E. Partners in a business partnership are accountable to the stakeholders

2. An arrangement between the rival firms in an industry to operate the same policies on pricing is called a/an
 - A. Cartel
 - B. Alliance
 - C. Franchising
 - D. Collaboration
 - E. Joint venture

3. 'Classical' theories of organisation and management are associated with the following theorists **EXCEPT**
 - A. Max Weber
 - B. Henri Fayol
 - C. William Ouchi
 - D. Frederick Taylor
 - E. Rosemary Stewart

4. Which of the following is **NOT** a reason government has interest in all business organisations?
- A. Tax on profits
 - B. Safety regulations
 - C. Level of unemployment
 - D. Creation of strong economy
 - E. Provision of affordable goods
5. The functions of the treasury department include the following **EXCEPT**
- A. Investing surplus cash
 - B. Managing the cash generated by the business
 - C. Obtaining new funds from financial markets
 - D. Arranging insurance of the assets of the company
 - E. Ensuring that the company has money to settle financial obligations
6. A business entity can be classified as any of the following in its market **EXCEPT**
- A. Nicher
 - B. Leader
 - C. Follower
 - D. Prospect
 - E. Challenger
7. Professional accountants are required to comply with the following fundamental principles **EXCEPT**
- A. Integrity
 - B. Efficiency
 - C. Objectivity
 - D. Competence
 - E. Confidentiality
8. Which of the following is outside the scope of the functions of a supervisor?
- A. Empowering staff
 - B. Front line management
 - C. Administrative management
 - D. Staff development and training
 - E. Conceptualise corporate strategy

9. Which of the following is true of a leader?
- A. Maintenance
 - B. Obedience
 - C. Administration
 - D. Reliance on control
 - E. Focusing on systems and structures
10. Jeta borrowed ₦800,000 at 6% simple interest for 7 months. What is the value of interest due at the end of the period?
- A. ₦25,000
 - B. ₦26,000
 - C. ₦27,000
 - D. ₦28,000
 - E. ₦29,000
11. Suppose ₦1million is deposited in a money deposit bank that is paying 7.5% interest per annum compounded annually. What will be the compound amount at the end of the third year?
- A. ₦ 1,242,300
 - B. ₦ 1,243,400
 - C. ₦ 1,344,500
 - D. ₦ 1,345,600
 - E. ₦ 1,446,700
12. Suppose Bonde invested ₦240,000 in a savings account that paid interest twice in a year. After 8 years the money had accumulated to ₦ 380,980. What was the annual compound interest rate?
- A. 3.64%
 - B. 4.75%
 - C. 5.86%
 - D. 6.65%
 - E. 6.76%
13. What is the present value of ₦10million in 8 years, if money could be deposited at 6.5 % compounded quarterly?
- A. ₦ 15.73 million
 - B. ₦ 16.75 million
 - C. ₦ 17.73 million

- D. ₦ 18.75 million
 - E. ₦ 19.46 million
14. Larry wishes to save money towards his new-born daughter's wedding. He intends to save ₦50,000 on the first day of every 6 months for 18 years, starting immediately. The account pays interest of 6% compounded semi-annually. What will be the balance on the account at the end of 18 years?
- A. ₦3,258,748.33
 - B. ₦4,368,748.34
 - C. ₦5,278,748.33
 - D. ₦6,588,748.33
 - E. ₦6,788,748.33
15. Which aspect of these finance functions is generally regarded as a management accounting function?
- A. Ratio analysis
 - B. Budget preparation
 - C. Managing financial derivatives
 - D. Maintaining a good system of accounts
 - E. Setting of financial objectives and targets
16. The market for Treasury bills is known as the
- A. Money market
 - B. Discount market
 - C. Financial system
 - D. Financial market
 - E. Intermediation market
17. Assuming a 5% time preference rate, what is the present value of ₦12,000 received at the end of 15 years?
- A. 3,772.00
 - B. 4,772.00
 - C. 5,772.00
 - D. 6,772.00
 - E. 7,772.00
18. Which of the following is **ONE** of the four key elements of communication planning?
- A. Efficiency
 - B. Authority
 - C. Structure
 - D. Regulation
 - E. Effectiveness

19. A Non-Governmental organisation (NGO) is set up to pursue certain non-commercial objectives. Which of the following is **NOT** a particular reason for setting up an NGO?
- A. Human rights
 - B. Mental health
 - C. Economic research
 - D. Protection of children
 - E. Addressing of natural disasters
20. Public limited liability companies (Plc) obtain funds from a variety of sources. Which of the following is **NOT** a source of long-term funds for a public limited liability company?
- A. Public offer
 - B. Commercial paper
 - C. Rights issue
 - D. Offer for Sale
 - E. Retained earnings

SECTION B: OPEN - ENDED QUESTIONS (80 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER ANY FOUR OUT OF SIX QUESTIONS IN THIS SECTION

QUESTION 1

- a. Managing stakeholders' interests can be a challenging task for managers. Mendelow proposed a model of mapping each stakeholder power and interest in order to win particular stakeholder group for business decisions. Construct the 2×2 interest/power matrix and recommend the approaches in dealing with each stakeholder group. (14 Marks)
- b. State **TWO** characteristics of formal and **FOUR** characteristics of informal organisations. (6 Marks)
- (Total 20 Marks)**

QUESTION 2

- a. A corporate objective is a purpose or aim that a company is trying to achieve. Identify and explain the **FOUR** steps of the initial stage in an extensive process of strategy formulation and implementation. (8 Marks)
- b. **THREE** commonly-used financial objectives of a firm are to maximise shareholders' wealth, profitability and growth in earnings per share. However,

these three objectives have some limitations hence the saying 'no financial target on its own is ideal'.

- (i) Explain the limitations of these **THREE** financial objectives of the firm. (6 Marks)
 - (ii) State and explain **THREE** ways by which financial performance of a firm might be assessed. (6 Marks)
- (Total 20 Marks)**

QUESTION 3

- a. Explain the term 'Corporate code of ethics' and state the contents thereof. (5 Marks)
 - b. The code of conduct recommends the way each stakeholder group might be treated ethically. Explain briefly **TWO** ways of dealing with employees, customers and competitors ethically. (6 Marks)
 - c. State the **THREE** main benefits of corporate code of ethics (9 Marks)
- (Total 20 Marks)**

QUESTION 4

- a. According to management theory, an organisation is built on ten principles. State and explain these **TEN** principles as propounded by Lyndall Urwick. (10 Marks)
 - b. State and explain the reasons for growth of bureaucracy as suggested by Stewart. (10 Marks)
- (Total 20 Marks)**

QUESTION 5

- a. Identify and explain the key elements of business communication. (9 Marks)
 - b. State **FIVE** listening skills that can aid effective oral and face-to-face communication. (5 Marks)
 - c. Measuring and evaluating team performance is essential, especially in a system that rewards success. State the **THREE** basic approaches to measuring and evaluating team performance and explain any **TWO** of the approaches. (6 Marks)
- (Total 20 Marks)**

QUESTION 6

- a. State the decision rules of the following investment appraisal techniques:
 - i. Accounting rate of return (2 Marks)
 - ii. Payback period (3 Marks)

b. Fatfelic Ltd is considering a project with the following cash flows.

Year	Cost of Plant ₦	Running costs ₦	Savings ₦
2020	(1,280,000)		
2021		480,000	840,000
2022		550,000	980,000
2023		670,000	1,120,000
2024		890,000	1,400,000

Fatfelic Ltd's cost of capital is 10%. Show your workings

You are required to:

i. Appraise the viability of the proposed project using the Net Present Value method of investment appraisal.

ii. State with reasons, if the project is worthwhile.

(15 Marks)

(Total 20 Marks)

SOLUTION TO MULTIPLE CHOICE QUESTIONS

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

Workings

Question 10

$I = \text{Principal} \times \text{Rate} \times \text{Time}$

$$I = \text{₹ } 800,000(0.06) (7/12) = \text{₹ } 28000$$

₹ 800,000 at 6% simple interest for 7 months,

Question 11

$$A = P(1 + r)^n$$

$$A = \text{₹ } 1,000,000(1 + 0.075)^3$$

$$A = \text{₹ } 1,000,000 (1.075)^3$$

$$A = \text{N} 1,000,000 (1.2423)$$

$$A = \text{N} 1,242,300$$

Question 12

$$P(1+i)^n = A$$

$$240,000(1+r/2)^{16} = 380,980$$

$$(1+r/2)^{16} = 1.587417$$

$$(1+r/2) = 1.587417^{1/16}$$

$$(1+r/2) = 1.02930$$

$$r/2 = 0.02930$$

$$r = 0.0586$$

$$= 5.86\%$$

.....both sides divided by 240,000

....both sides taken to power $1/16$

..... subtracted 1 from both sides

Question 13

$$P = A(1+i)^n$$

$$P = 10(1+0.065/4)^{8 \times 4}$$

$$P = 10(1.01625)^{32}$$

$$P = 10(1.6750)$$

$$P = \text{N} 16.75 \text{ million}$$

Question 14

$$S_n = \frac{X(1+i/m)^{n \cdot m} - 1}{i/m} \times (1+i/m)$$

$$S_n = \frac{50,000(1+0.06/2)^{18 \times 2} - 1}{0.06/2} \times (1+0.06/2)$$

$$S_n = \frac{50,000(1.03)^{36} - 1}{0.03} \times 1.03$$

$$S_n = \frac{50,000(2.8983 - 1)}{0.03} \times 1.03$$

$$S_n = \frac{94,915 \times 1.03}{0.03}$$

$$S_n = \text{N} 3,258,748.33$$

Question 17

$$P = F(1+i)^{-n}$$

$$P = 12,000(1+.05)^{-15}$$

$$P = 12,000(0.4810)$$

$$P = \text{N} 5,772.00$$

EXAMINER'S REPORT

This first section of the paper is compulsory and comprises of 20 Multiple Choice Questions. The questions covered the entire syllabus and around 99.8% of the candidates that sat for the paper attempted the questions.

About 70% of the candidates that attempted this section scored above 10 marks.

MARKING GUIDE

Each correct option x 1 mark = 20 marks

SECTION B

SOLUTION 1

		Interest of the stakeholder	
		Very low (0)	Very high (10)
Power of the stakeholder	Weak (0)	Minimal effort	Keep informed
	Strong (10)	Keep satisfied	Key players

Recommended approaches in dealing with each stakeholder group are as stated below:

- i. Minimal effort is required if a stakeholder has very little power and very little interest in a matter. They are more likely to accept whatever they are told;
- ii. If a stakeholder has very little power but a strong interest in a matter, the appropriate way to deal with them is to keep them informed about what is happening and the possible reasons for the occurrence. It is important that stakeholders are kept informed, even if they would oppose what the organisation is doing;
- iii. If the power of a stakeholder is strong but the stakeholder has very little interest in the matter, it is important to keep the stakeholder satisfied in order to avoid them gaining interest which might consequently force them to exercise their power. This could involve reassuring them of the outcome of the strategy well in advance; and
- iv. The stakeholders with strong power and high level of interest are the key players and drivers of change. They could stop management plans if not

satisfied and for this reason, it is imperative to obtain and keep their support.

(a) CHARACTERISTICS OF A FORMAL ORGANISATION

These include:

- i. Clearly stated organisational structure;
- ii. Defined duties and rights as shown in the organisational chart;
- iii. Established and planned procedure to accomplish specific tasks; and
- iv. Existence of an appointed leader.

CHARACTERISTICS OF AN INFORMAL ORGANISATION

- i. Arises from a network of personal and social relationships;
- ii. Develops from the way in which individuals meet and communicate with each other;
- iii. Develops friendships and personal relationships;
- iv. Facilitates talking to each other as individuals rather than simply as other employees who are required to do a job;
- v. Focuses on people, not the work;
- vi. Develops common rules of behaviour and normal ways of doing things ('norms');
- vii. Affects attitudes to work;
- viii. It is not part of the organisation structure but lends support to the formal organisation;
- ix. Helps to make working practices more efficient and effective;
- x. Might sometimes conflict with the formal organisation;
- xi. Possesses independent channel of communication;
- xii. Has no written rules and procedures; and
- xiii. Not represented anywhere on the organisational chart

EXAMINER'S REPORT

The question tested Mendelow's matrix and characteristics of the formal and informal organisations.

About 82% of the candidate attempted the question.

Major pitfalls included inability of candidates to label the required 2 x 2 matrix correctly, difficulty in stating the correct recommended approaches in dealing with each stakeholder group, a mix up of the characteristics of formal and informal organisation

About 46% of the candidates that attempted the question scored 10 marks and above.

Candidates are advised to read the ICAN study text and Pathfinder in preparation for future examinations.

MARKING GUIDE

- a) Construction and labeling of the 2 x 2 interest/ power matrix = **6 marks**
Recommendation of the approaches in dealing with each stakeholder
4 x 2 marks = 8 marks
- b) **Any 2 characteristics of a formal organisation x 1 mark = 2 marks**
Any 4 characteristics of a formal organisation x 1 mark = 4 marks

TOTAL = 20 marks

SOLUTION 2

- a. The four initial stages in an extensive process of strategy formulation and implementation involves:
- i. Identifying corporate objective (usually a financial objective)
Financial objective can be expressed in a number of different ways which can be maximisation of shareholders' wealth, profitability or growth in earnings per share;
 - ii. Establishing targets for the financial objective
This is setting a target in order to make achievement of the financial objective possible. These targets should be realistic, measurable, attainable and achievable within a given time frame;
 - iii. Develop business strategies for achieving the financial objective/targets
This means developing a clear plan which focuses on the big picture and is aimed at achieving the targeted financial objective; and
 - iv. Converting strategies into action plans
- a) The limitations of the three commonly used financial objectives of a firm:

The objectives of maximising shareholders' wealth suffer the following practical difficulties:

This financial objective is uncertain about time period for setting targets for wealth maximisation;

- i. It does not show how wealth creation can be measured, and how the main objective can be divided into targets for dividend payments and targets for share price growth;
- ii. It is often affected by general stock market sentiments; and
- iii. It is not practical in terms of actually setting financial performance and measuring actual performance against the target.

The problems with the objective of maximising profits include:

- i. It does not define the time period over which profit performance should be measured;

- ii. Does not reveal the impact of raising and investing more capital into the business. For instance, when share capital is increased, total profits might increase due to the bigger investment, but the profit per share might fall;
- iii. Emphasis is generally on short term profitability;
- iv. Does not address the amount of risk a firm undertakes in its attempt to increase the profit; and
- v. Ignores the time value of money.

The problem with using EPS growth as a financial objective becomes obvious when the capital structure changes. However, the apparent ones include the following:

- i. Does not take the company's debt position and financial leverage into account; and
- ii. Might be misleading as it might be possible to increase EPS through borrowing and debt capital.

No financial target on its own is ideal consequently; financial performance of a firm might be assessed by measuring:

- i. Actual or expected increase in the share price;
- ii. Growth in profits; and
- iii. Growth in EPS.

EXAMINER'S REPORT

Question 2 tested the four steps involved in strategy formulation and implementation, limitations of financial objectives and evaluation of financial performance. About 70% of the candidates attempted the question. However, it appears most of the candidates that attempted the question had no clear understanding of it.

Major pitfalls included confusing the three ways by which financial performance of a firm might be assessed with other management concepts and muddling up the limitations of the three financial objectives of the firm.

About 10% of the candidates who attempted the question scored 10 marks and above.

Candidates are advised to read the ICAN study text and Pathfinder in preparation for future examinations.

MARKING GUIDE

- a) Stating and explaining the four initial stages in an extensive process of strategy formulation and implementation.

4 points X 2 marks = 8 Marks

- b) Stating any 2 limitations of the objective of maximising shareholder's wealth

Any 2 points X 1 mark = 2 Marks

Stating any 2 limitations of the objective of maximising profits.

Stating any 2 limitations of using EPS growth as a financial objective.

Stating the ways by which the financial performance of a firm might be assessed.

Total = 20 marks

SOLUTION 3

- (a) A corporate code of ethics is a code of ethical behaviour, issued by the board of directors of a company.

It is a formal written statement, distributed to all employees and intended to guide their decisions and actions in the organisation.

A corporate code of ethics is normally quite short, dealing with each point in just a few sentences.

The contents of a corporate code of ethics.

There is no standard format or content for a corporate code of ethics, but a typical code contains:

- i. general statements about ethical conduct by employees; and
- ii. specific reference to the company's dealings with each stakeholder group, such as employees, customers, shareholders and local communities.

- (a) Ways of dealings with stakeholder groups and ethical treatment of each group
Employees

A code of ethics might include statements about:

- i. Human rights, including the right of all employees to join legally authorised organisations such as a trade union or political party;
- ii. Equal opportunities for all employees, regardless of gender, race, ethnic origin, religion, age, disability or sexual orientation;
- iii. Refusal to tolerate harassment of employees by colleagues or managers;
- iv. Concern for the health and safety of employees;
- v. Respect for the privacy of confidential information about each employee; and
- vi. Company policy on giving or receiving entertainment or bribes.

Customers

A code of ethics in relation to customers might include statements about:

- i. Fair dealing with customers;
- ii. Product safety and/or product quality;
- iii. The truthfulness of advertisements; and
- iv. Respect for the privacy of confidential information about each customer.

Competitors

A code of ethics in relation to customers might include statements about:

- i. Fair dealing with competitors; and

- ii. The use of techniques for obtaining information about competitors (industrial spying).

(b) Benefits of a corporate code of ethics

- i. Promotes compliance

The company wants to ensure that all its employees comply with relevant laws and regulations and conduct themselves in a way that the public expects. For example, companies providing services to the general public need to ensure that their employees are polite and well-behaved in their dealings with customers.

- ii. Improves stakeholder relations

A code of ethics can help to improve and develop the relations between the company and its stakeholders by improving the trust that stakeholders have in the company.

- iii. Creating a value-based organisation

A company might recognise the long-term benefits of creating an ethical culture, thus encouraging employees to act and think in a way that is consistent with the values in its code of ethics.

EXAMINER'S REPORT

This question tested corporate code of ethics. About 77% of the candidates attempted the question. Most of the candidates who attempted the question had difficulty comprehending the requirements of the question.

Major pitfalls included candidates' inability to describe corporate code of ethics and its contents. Majority of the candidates also had difficulty in explaining the benefits of corporate code of ethics.

About 15% of the candidates who attempted this question scored above 10 marks.

Candidates are advised to use ICAN study text and the Pathfinder as part of their study materials.

MARKING GUIDE

- a) Explanation of the term 'corporate code of ethics' = 2 marks
Typical contents of a corporate code of ethics' 3 x 1 mark = 3 marks

- b) Explanation of the ways of dealings with stakeholder groups and ethical treatment of each group
 - Employees Any 2 points x 1 mark = 2 marks
 - Customers Any 2 points x 1 mark = 2 marks
 - Competitors 2 points x 1 mark = 2 marks

c)	Benefits of a corporate code of ethics		
	Listing	3 x 1 mark	= 3 marks
	Explanation	3 x 2 marks	= 6 marks
		TOTAL	= 20 marks

SOLUTION 4

- a) Ten principles upon which an organisation is built as propounded by Urwick:
- i. **Objective** - Every organisation and every part of the organisation must be an expression of the purpose of the undertaking concerned, otherwise it would be meaningless and therefore redundant;
 - ii. **Specialisation** - The activities of every member of any organised group should be confined, as far as possible, to the performance of a single function. Implying one group, one function;
 - iii. **Co-ordination** - The purpose of organising per se, as distinguished from the purpose of the undertaking, is to facilitate co-ordination and thus unity of effort;
 - iv. **Authority** - In every organised group, the supreme authority must rest somewhere. There should be a clear line of authority to every individual in the group;
 - v. **Responsibility** - The superior is absolutely responsible for the acts of his subordinates;
 - vi. **Definition** - The content of each position, both the duties involved, the authority and responsibility contemplated and the relationships with other positions should be clearly defined in writing and published to all concerned;
 - vii. **Correspondence** - In every position, the responsibility should match the authority;
 - viii. **Span of control** - No person should supervise more than five, or at most, six direct subordinates whose work inter-relate;
 - xi. **Balance** - It is essential that the various units of an organisation should be kept in balance; and
 - xii. **Continuity** - Re-organisation is a continuous process: in every undertaking specific provisions should be made for it.
- (b) The following are the reasons for growth of bureaucracy as suggested by Stewart:
- i. The growing size of organisations.

Large organisations need some bureaucratic structure to function efficiently;

- ii. Greater complexity of work.
Complexity makes it necessary to have specialisation of tasks within an organisation. Job-holders often need to be 'experts' in their work to deal with the complex issues involved;
- iii. Scientific management.
A scientific approach to management is widely used. This approach supports a rational way of organising work and having formal procedures for getting work done; and
- iv. The demand for equality of treatment.
Citizens expect to be treated equally by organisations. Bureaucracies provide impartiality and should ensure equal treatment for all.

EXAMINER'S REPORT

This question tested the ten principles of management as propounded by Lyndall Urwick and reasons for the growth of bureaucracy as suggested by Stewart. Only a few of the candidates that sat for the paper attempted this question. Most of the candidates who attempted the question had little understanding of the requirements of the question and so responses were extremely poor.

Major pitfalls was that the candidates had challenges in explaining the reasons for growth of bureaucracy as suggested by Stewart.

About 20% of the candidates that attempted the question scored above 10 marks.

The candidates should read the ICAN Study Text in the preparation for future examinations.

MARKING GUIDE

- a) Ten principles upon which organisation is built as propounded by Urwick:

Listing 10 x ½ mark	= 5 marks
Explanation 10 x ½ mark	= 5 marks

- b) Reasons for growth of bureaucracy as suggested by Stewart:

Listing 1 x 4 mark	= 4 marks
Explanation 1½ marks x 4	= 6 marks

TOTAL = 20 marks

SOLUTION 5

(a) The key elements of business communication are:

- i. Source;
- ii. Message;
- iii. Channel;
- iv. Destination;
- v. Effect; and
- vi. Feedback

i. Source:

This is the origin of the message. It can be referred to as the sender of the message. It is he that encodes the message to be sent and decides the appropriate channel to be used for the message

ii. Message :

This is the content of the information to be transmitted to the receiver. This can take the form of symbols, words, actions and signs to be passed on by the sender while communicating with the receiver.

iii. Channel:

This is the medium through which the information is transmitted. It addresses such questions as: by what method has the information been given or sent? What is the channel of communication? Has the information been given verbally, in a face-to-face discussion or by telephone? Has it been sent by e-mail or by letter? Is it in a report? Is it in a published book or journal? television? radio? web site?

iv. Destination:

This is where the intended message is being sent to implying the 'destination' of the information. Thus providing answers to question like: Who is the information sent to.

v. Effect: intended and Actual

What effect has the communication had on the recipient? Is this the intended effect?

vi. Feedback:

When the receiver acknowledges the message of the sender and responds to him/her, feedback takes place. Without feedback, communication is incomplete. Does the sender of the message expect any response to the message? If so, how clear or effective has the response been?

(b) The listening skills that can aid oral and face-to-face communication are stated below:

i. Open mind:

Ability to retain an open mind will enhance avoidance of bias and judgment;

- ii. Avoidance of distraction
Being able to avoid distractions and having the awareness that attention is typically greatest at the start and end of discussions;
 - iii. Developing a keen interest
Putting in all efforts to induce ones interest in the subject of communication;
 - i. Distinguishing between supporting evidence and the key issue
Possessing radar for picking up the main ideas by distinguishing between supporting evidence and the key issue;
 - ii. Waiting
Ability to wait before interruption;
 - iii. Critical listening
Assess what the other person is saying by identifying potential bias, omissions and assumptions;
 - iv. Focus on main concepts
Be prepared to listen and make an active decision to focus on grasping the main concepts; and
 - v. Note taking
Notes are often taken, however due care should be exercised to avoid distraction from listening
- (b) The 3 basic approaches to measuring and evaluating team performance
- i. Economy;
 - ii. Efficiency; and
 - iii. Effectiveness.

Economy

This is measured by the success of the team or workgroup in controlling its costs. Cost control may be judged by comparing actual spending with the planned spending limit. (There is often a spending limit for each workgroup or team in the annual budget of organisations)

Efficiency (or Productivity)

This will measure the amount of resources used for the tasks that have been achieved. For example, the productivity of a workgroup may be measured by the output per member of the team during a period of time, or the output per labour hour. Alternatively, productivity may be measured by the sales achieved per

member of the team (for example, annual sales revenue per member of the sales team).

Effectiveness

It measures success in achieving goals and targets. Targets may be short-term or long-term. This:

- i. may be quantitative – measuring the volume of work achieved or the size of results
- ii. could be qualitative – measuring output in terms of quality (percentage of rejected items, level of customer satisfaction, and so on)
- iii. might require timescale for achievement – thus focusing on whether a particular task is completed before a target date for completion.

EXAMINER'S REPORT

Question 5 tested elements of communication, listening skills and evaluation of team performance.

About 80 % of the candidate attempted the question. Most of the candidates who attempted the question had little or no difficulty comprehending the requirements of the question.

Major pitfalls included candidates' inability to clearly state the listening skills. A sizeable number of the candidates could not state the basic approaches to measuring and evaluating team performance.

About 25% of the candidates that attempted the question scored 10 marks.

The candidates should interact closely with ICAN study pack in the preparation for future examinations.

MARKING GUIDE

a) The key elements of business communication

Identification 6 x ½ mark	= 3 marks
Explanation 6 x 1 mark	= 6 marks

b) The listening skills that can aid oral and face-to-face communication	
Any 5 x 1 mark	= 5 marks

The 3 basic approaches to measuring and evaluating team performance	
Listing 3 x 1 mark	= 3 marks
Explaining any 2 x 1½ marks	= 3 marks

TOTAL	= 20 marks
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SOLUTION 6

- (a) The decision rule for the ARR capital investment appraisal technique is:
- i. Accept capital project if its expected ARR is higher than a minimum target ARR or minimum acceptable ARR;
OR
 - ii. Reject capital project if its expected ARR is less than a minimum target ARR or minimum acceptable ARR; and
OR
 - iii. Alternatively the decision rule might be to accept a project if the return on capital employed (ROCE) of the company as a whole will increase as a result of undertaking the project.

The decision rule for the payback period capital investment appraisal technique is:

- i. Accept project if payback period is less than the maximum acceptable payback period; and
OR
 - ii. Reject project if payback period is greater than the maximum acceptable payback period.
- (b)

Year	Net Cash flow ₦	Discount factor @10%	Present value ₦
2020	(1,280,000)	1.0000	(1,280,000)
2021	360,000	0.9091	327,276
2022	430,000	0.8264	355,352
2023	450,000	0.7513	338,085
2024	510,000	0.6830	348,330
			89,043

Workings

Year	Savings ₦	Running cost ₦	Net cash flow ₦
2021	840,000	480,000	360,000
2022	980,000	550,000	430,000
2023	1,120,000	670,000	450,000
2024	1,400,000	890,000	510,000

ALTERNATIVE SOLUTION

Fattelic Limited					
Computation of Net Present Value					
Year	2020	2021	2022	2023	2024
	N	N	N	N	N
Cost of plant	(1,280,000)				
Savings		840,000	980,000	1,120,000	1,400,000
Running Cost		(840,000)	(550,000)	(670,000)	(890,000)
Net Cash flow (NCF)	(1,280,000)	360,000	430,000	450,000	510,000
DCF @ 10%	1.000	0.9091	0.8264	0.7513	0.6830
Present value (PV)	(1,280,000)	327,276	355,352	338,085	348,330
				NPV	89,043

- i. The project yields a positive NPV, therefore the project is worthwhile.

EXAMINER'S REPORT

Question 6 tested candidates' knowledge of investment appraisal. Around 70 % of the candidate attempted the question. Most of the candidates that attempted the question understood its requirements.

Major pitfalls include the candidates' inability to state the decision rules for ARR and Payback period investment appraisal techniques and many candidates muddled up the computation of Net Present Value

About 40% of the candidates, who attempted question scored 10 marks.

The candidates should interact closely with ICAN Study Text and the Pathfinder in preparation for future examinations.

MARKING GUIDE

- (a) Stating the decision 2 rules for the ARR investment appraisal technique
Any 1 point x 2 marks = 2 marks
Stating the decision rule for the payback period investment appraisal technique
Any 1 point x 3 marks = 3 marks
- (b) 6 correct Present Values and the NPV x 1½ marks = 9 marks
4 correct NCF values x 1 mark = 4 marks
Stating the implication of the NPV arrived at on the shareholders wealth

= 1 mark
= 2 marks
TOTAL = 20 marks

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
FOUNDATION LEVEL EXAMINATION – NOVEMBER 2019
BUSINESS LAW

Time Allowed: 3¹/₄ hours (including 15 minutes reading time)

SECTION A: MULTIPLE-CHOICE QUESTIONS (20 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER ALL QUESTIONS IN THIS SECTION

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

1. Which of the following will prevail when there is a conflict between a doctrine of equity and the rule of common law?
 - A. The court's opinion
 - B. Doctrine of equity
 - C. Rule of common law
 - D. Arbitral decision
 - E. Doctrine of equity and Rule of common law

2. Under which of the following is criminal law classified?
 - A. Public law
 - B. Private law
 - C. Contract law
 - D. Trust law
 - E. Law of Tort

3. Who among the following is liable for the debts of a firm incurred while a deceased partner was alive as a partner in the partnership?
 - A. Limited partners
 - B. The firm
 - C. Insurance Company
 - D. Estate of the deceased partner
 - E. Partners' banker

4. The doctrine of law which restricts a company's activities to its objects clause is known as
 - A. *Uberrimae fidei doctrine*

- B. *Quatum meruit doctrine*
 - C. *Ultra vires doctrine*
 - D. *Estoppel doctrine*
 - E. *Caveat emptor doctrine*
5. A person appointed to take charge of an insolvent company pending the appointment of a liquidator by the court is the
- A. Auctioneer
 - B. Bailiff
 - C. Administrator
 - D. Accountant
 - E. Official Receiver
6. Which of the following is a characteristic of ethics?
- A. Punishment for offence
 - B. Act of tort
 - C. Moral suasion
 - D. Criminal act
 - E. Professional guidance
7. What is the punishment for persons found guilty of the offence of bribery?
- A. 3 years imprisonment
 - B. 5 years imprisonment
 - C. 7 years imprisonment
 - D. 10 years imprisonment
 - E. 14 years imprisonment
8. Under the Money Laundering (Prohibition) Act, what is the punishment against a corporate body found guilty of obstructing officials of authorised government agencies from performing their official duties?
- A. ₦1 million
 - B. ₦5 million
 - C. ₦7 million
 - D. ₦15 million
 - E. ₦25 million
9. A prerequisite for admissibility of tape recording evidence in a case of electronic fraud is to determine
- A. What the tape recorder edits
 - B. How the recording has been preserved
 - C. Who the owner of the recording is
 - D. Where the recording was tested
 - E. When the recorder was last repaired

10. A contract which becomes impossible to fulfil because of unforeseen circumstances is said to be discharged by
- A. Frustration
 - B. Breach
 - C. Inaction
 - D. Uncertainty
 - E. Compromise
11. Under sale of goods law, which of the following is a remedy for breach of warranty?
- A. Termination
 - B. Restitution
 - C. Rescission
 - D. Rejection
 - E. Damages
12. In which of the following ways is an agency terminated by operation of law?
- A. Mutual agreement
 - B. Notice by either party
 - C. Revocation by a party
 - D. Death of a party
 - E. Renunciation of authority
13. Which of the following is the meaning of “tortfeasor”?
- A. Beneficiary of tort
 - B. Suit in tort
 - C. Person who commits tort
 - D. Accessory to tort
 - E. Action in tort
14. Under sale of goods law, the rule in *nemo dat quod non habet* is not applicable where the goods are
- A. Not necessities
 - B. Sold in market overt
 - C. In saleable condition
 - D. Damaged
 - E. Ascertained

15. In hire purchase contract, in which of the following circumstances will a third party acquire a good title to the goods?
- A. Where the hirer knows the third party
 - B. Where the owner is not informed
 - C. Where the third party knows the owner
 - D. Where the owner and hirer disagree
 - E. Where the hirer has completed payment of instalments
16. In which of the following types of insurance contract is subrogation not applicable, under insurance law?
- A. Fidelity insurance
 - B. Life insurance
 - C. Motor vehicle insurance
 - D. Carbotage insurance
 - E. Fire insurance
17. In addition to being delivered, for a bill of exchange to be negotiable, it must be
- A. Endorsed
 - B. Incohate
 - C. Countermanded
 - D. Accepted
 - E. Crossed
18. Cessation of employment on the ground of excess manpower is known as
- A. Suspension
 - B. Interdiction
 - C. Redundancy
 - D. Probation
 - E. Dismissal
19. Persons named in a will to administer the testator's estate are
- A. Representatives
 - B. Administrators
 - C. Custodians
 - D. Trustees
 - E. Executors

20. Under Alternative Dispute Resolution, the decision of an arbitration panel is

- A. Damages
- B. Refund
- C. Award
- D. Sentence
- E. Appeal

SECTION B: OPEN-ENDED QUESTIONS (80 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ANSWER ANY FOUR OUT OF SIX QUESTIONS IN THIS SECTION

QUESTION 1

a. Customary law is one of the sources of Nigerian Laws.

Required:

Explain briefly, **TWO** validity tests which customary law must pass to be enforceable. (4 Marks)

b. Wonderland Enterprises is a firm of four partners, trading in motor vehicle batteries. Mr. Bright was appointed the Managing Partner, while two other partners were appointed Finance Manager and Sales Manager, respectively. The remaining partner, Mr. Blake, did not take part in the firm's management, but he contributed ₦2million to the business just as each of the other partners did.

The firm recorded heavy trading loss during the year which resulted in a debt of ₦10million. The three partners in the firm's management insist that all the four partners must pay the debt equally. Mr. Blake is displeased and has served a notice on the other partners for dissolution of the partnership.

Required:

Advise the partners, stating the legal issues in the matter. (6 Marks)

c. Company directors are appointed by the shareholders to manage the company.

Required:

Explain briefly **FIVE** circumstances that may disqualify a director from office. (10 Marks)

(Total 20 Marks)

QUESTION 2

- a. Criminal law and civil law are differentiated in the legal system.

Required:

Explain briefly **THREE** differences between criminal law and civil law. (6 Marks)

- b. Partnership can be dissolved by the partners for various reasons and also by court order.

Required:

Explain briefly the order of application of the firm's properties upon dissolution of a partnership. (6 Marks)

- c. Under law of contracts, a contract may be discharged in various ways.

Required:

- i. Explain "Frustration" briefly under the law of contracts. (3 Marks)
ii. State causes of frustration of contract. (5 Marks)

(Total 20 Marks)

QUESTION 3

- a. Bala and Yesufu are joint directors and shareholders of YEBA Limited, which was incorporated in 2015. Yesufu was appointed the Managing Director and Bala, the Operations Director. The Articles of Association of YEBA Limited was silent on directors' remuneration, and there was no written agreement to pay remuneration to the directors of the company.

Bala had attended several board meetings from 2015 to 2017, travelling from Abuja to Lagos at his own expense. In 2018, Bala wrote to YEBA Limited through Yesufu, claiming ₦2million annual director's remuneration for years 2015 to 2017 as well as a total sum of ₦2million reimbursement of his travelling expenses for the same period.

YEBA Limited has refused to pay both claims, insisting that there is no agreement for such payments to be made to the directors of the company. Bala is aggrieved and intends to take legal action against YEBA Limited.

Required:

Advise Bala, stating the legal issues involved. (8 Marks)

- b. Business ethics is concerned with what is right or wrong practice in the business environment.

Required:

State **FOUR** factors that influence individual ethical behaviour in a business environment. (4 Marks)

- c. Chief Wadada, a very prosperous trader, recently completed the construction of a mansion in his village and intend to have the house warming ceremony on New Year day. He contracted Exclusive Décor Enterprises to do the interior decoration of the mansion, which must be completed not later than a week before the house warming.

Exclusive Décor Enterprises moved all the required materials to site on schedule, but heavy rainstorm ravaged the whole village, flooded the mansion and destroyed all the materials on site. The decoration could no longer be done until after the New Year day when the flood would have receded. Chief Wadada cancelled the contract, and refused to pay the contract sum demanded by Exclusive Décor Enterprises, who intends to make a claim in court for the payment of the contract sum.

Required:

Advise Exclusive Décor Enterprises, stating the legal issues involved.

(8 Marks)

(Total 20 Marks)

QUESTION 4

- a. An insolvent company has several alternatives to liquidation.

Required:

State **FOUR** conditions under which a company may be placed in receivership. (4 Marks)

- b. Bribery is an offence of official corruption in public office.

Required:

State and explain briefly **ONE** broad classification of “Gratification”, citing **TWO** examples. (4 Marks)

- c. Agency may be terminated by acts of the parties.

Required:

State **SIX** circumstances under which agency may be terminated by operation of the law. (6 Marks)

- d. Multiple insurance is an allowable practice under insurance law.

Required:

Explain briefly **THREE** essential factors necessary to claim contribution by an insurance company. (6 Marks)

(Total 20 Marks)

QUESTION 5

- a. The Economic and Financial Crimes Commission (EFCC) Act relates to the activities that are offences:

Required:

- i. Explain briefly “Economic Crime” as contained in the EFCC Act. (2 Marks)
- ii. State **TWO** examples of economic crime. (2 Marks)

- b. Under law of torts, a master may be liable for the torts of his servant.

Required:

Explain briefly **THREE** exceptions to the rule that a master may be held liable for his servant’s acts. (6 Marks)

- c. Disputes and differences between parties could be resolved or redressed through various means, including arbitration.

Required:

- i. Explain briefly, the term “Arbitration”. (2 Marks)
- ii. State **TWO** advantages of Arbitration. (2 Marks)

- d. In administration of estates, personal representatives take charge of a deceased’s estate.

Required:

State **SIX** duties of a personal representative. (6 Marks)

(Total 20 Marks)

QUESTION 6

- a. Employment contract is a relationship between an employer and the employee.

Required:

Explain briefly **THREE** duties of an employee to his employer. (6 Marks)

- b. Under hire purchase contract, the general rule is that the hirer cannot pass a good title in the goods to a third party.

Required:

Explain briefly **TWO** exceptions to this rule. (4 Marks)

c. A Bill of Exchange is a type of negotiable instrument.

Required:

Explain briefly, the following:

- i. Endorsement of a Bill; and
- ii. Negotiation of a Bill.

(2 Marks)
2 Marks)

d. Under sale of goods law, the seller and buyer have obligations to each other.

Required:

Explain briefly **THREE** remedies available to a buyer for breach of contract terms by the seller.

(6 Marks)
(Total 20 Marks)

MULTIPLE-CHOICE QUESTIONS – SOLUTIONS

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

OPEN-ENDED QUESTIONS - SUGGESTED SOLUTIONS

SOLUTION 1

- (a) The validity tests which every customary law must pass are as follows:
- i. **Repugnancy test.**
Customary laws must not be repugnant to natural justice, fair hearing, fairness, equity and good conscience. Any customary law which is barbaric or falls below civilised standard of behaviour would be invalid and thus, unenforceable in the court.
 - ii. **Incompatibility test.**
Customary laws which are incompatible with an existing law, or in conflict with any law in force would be invalid, a nullity and unenforceable under the law.
 - iii. **Public policy test.**
Customary laws which, in the opinion of the court, are contrary to public good or encourage promiscuity, immorality or discrimination based on gender or birth situations would be invalid and unenforceable under the law.
- (b) The legal issue involved is the rights and obligations of general and limited partners in a partnership. The general rule is that every partner is an implied agent of the firm as well as his other partners for the purposes of the business of the partnership. However, a limited partner does not participate in the day-to-day management of the firm, and his liability for the partnership's debt is limited to his capital contribution.
- In this case, the three general partners are liable in respect of all the firm's debts and obligations of the partnership, while the limited partner, Mr. Blake's liability is limited to his capital contribution in the firm.
- Under partnership law, only general partners have the right to call for the partnership dissolution. Mr. Blake, a limited partner, cannot call for dissolution of the partnership.
- (c) A company director may become disqualified and vacate office, under the following circumstances where he:
- i. Fails to meet his share qualification within two months of his appointment.

- ii. Fails to hold his share qualification, where his appointment is on the basis of share qualification. He shall be disqualified from being re-appointed director of the company, until he has obtained his share qualification.
- iii. Is convicted by a court of competent jurisdiction for any offence in connection with promotion, formation or management of the company.
- iv. Becomes bankrupt or makes any arrangement or composition with his creditors generally.
- v. Has been a director of two different insolvent companies and the companies wound-up within 5 years.
- vi. Becomes of unsound mind or insane or loses his legal capacity while in office.
- vii. Has been absent from meetings of directors of the company, for more than 6 months and without permission.
- viii. Resigns his appointment by giving notice of his resignation to the company. He shall become disqualified and vacate office on expiration of his notice.

Examiner's Report

The question tests candidates' knowledge of validity tests under customary law. Liabilities of general and limited partners under partnership law and disqualification of company director.

Attempt rate was about 65% and general performance was good with about 70% pass rate.

Marking Guide	Marks	Marks
(a) Explain 2 validity tests in customary law– 2 marks each		4
(b) * State legal issue – partners rights and obligations	2	
* Adapt legal issue to case and explain	1	
Blake's liability is limited to his capital as limited partner	1	
Other 3 general partners liable fully liable for firm's debts	1	
Advice to Blake – cannot ask to dissolve partnership	<u>1</u>	6
(c) Explain 5 disqualification of company director (2 marks each)		<u>10</u>
		<u>20</u>

SOLUTION 2

- (a) The differences between criminal law and civil law are as follows:
- i. Criminal law deals with offences against the society at large, and or the state or the nation; civil law deals with wrongs committed by or against individuals;
 - ii. The aim of criminal law is to punish the offender, while civil law is to compensate the injured or aggrieved party;
 - iii. Under criminal law, parties are referred to as prosecution and the suspect, while parties in civil action are called plaintiff and defendant;
 - iv. Criminal actions arise from documents contained in statutes and laws, while civil litigations arise from acts of the parties towards one another;
 - v. Criminal offences remain alive perpetually and can be reopened at any time; civil action is time bound and lapses as statute barred at the expiration of the fixed time limits; and
 - vi. The standard of proof required in criminal law is proof beyond reasonable doubt; whereas, in civil law, the standard of proof is based on the preponderance or balance of probability.
- (b) Upon dissolution of partnership, the partnership properties are to be applied in the following order:
- i. Paying the debts and liabilities of the firm owed to employees, customers' suppliers, taxes and other persons who are not partners;
 - ii. Paying the debts and liabilities of the firm owed to partners, which include loans, payments for the firm's assets and inventory and legitimate expenses incurred on behalf of the firm;
 - iii. Paying each partner rateably, what is due to the partners of their respective capital contribution to the partnership; and
 - iv. Paying the partners the ultimate residue (if any), which will be divided among the partners in the proportion in which they share profits.
- (c) i. Frustration occurs usually when unforeseen or extraneous circumstances make it simply impossible for the parties to perform their contractual obligations under the contract. This is due to events or acts beyond the control of the parties, also referred to as *force majeure*. Such contracts automatically become discharged.

- ii. The following are examples of what may constitute frustration in contract:
- Where the subject-matter of the contract is non-existent;
 - Where the subject-matter is destroyed before contract is executed;
 - Where there is non-occurrence of an essential event for the performance of the contract;
 - Upon the death of a party whose personal service is essential to the contract;
 - On a party's protracted illness or insanity of a party;
 - On the bankruptcy or other subsequent legal incapacity of a Party;
 - Government interference and change in policy;
 - Change in law that may render the contract illegal or impossible; and
 - Outbreak of war or protracted civil strife and public disturbance.

EXAMINER'S REPORT

The question tests candidates' understanding of distinction between criminal and civil laws, application of partnership properties on dissolution and frustration under law of contracts.

About 70% of the candidates attempted the question and general performance was about 55% pass rate.

Candidates' major pitfall was their shallow understanding of frustration.

Candidates are advised to read the topic more deeply when preparing for future examinations.

MARKING GUIDE

	Marks	Marks
(a) Explain 3 differences between criminal and civil laws (2 Marks each)		6
(b) Explain application of partnership property upon dissolution (2 Marks each for 3 applications)		6
(c) i. Explain Frustration	3	
ii. State 5 examples of frustration (1 Mark each)	<u>5</u>	<u>8</u>
		<u>20</u>

SOLUTION 3

- (a) The issues involved in this case are whether or not a company director is entitled to remuneration and whether or not a director is entitled to be reimbursed for expenses incurred in respect of the company's operations.

On the issue of directors' remuneration, the position of the law is that a company is not bound to pay remuneration to its directors, except it is contained in the company's Articles of Association or there is a written agreement to that effect.

Conversely, the position of the law on reimbursement of directors' expenses is that, a company shall reimburse its directors, all travelling and other expenses related to attending and returning from company meetings.

In this case, YEBA Ltd is not liable to pay remuneration to Bala, as directors' remuneration is not contained in the Articles of Association and, there was no written agreement on payment of remuneration to its directors.

(b) Factors that influence individual ethical behavior in business environment include the following:

- i. Individual family influence and background at early age;
- ii. Educational attainment and academic exposure of the individual;
- iii. Religious inclination of the individual;
- iv. Professional affiliation of the individual;
- v. Cultural and ethnic consideration of the individual;
- vi. Existence of laws that define and regulate societal behaviour;
- vii. Peer influences of colleagues and associates;
- viii. Nature and structure of the business organisation; and
- ix. The existence of clear procedures for punishment for breach of ethical rule.

(c) The legal issues involved relate to frustration of contract and principle of part-performance, also referred to as *quantum meruit* in law of contract.

Frustration arises when unforeseen circumstances or events, which are beyond the control of the parties, happen, and make it impossible for the parties to perform their contractual obligations under the contract.

Part-performance or *quantum meruit* is a remedy available to a party who has partly performed his obligation under the contract, to claim the cost he has suffered.

In this case, the contract for furnishing and painting of Chief WADADA's building by Exclusive Décor Enterprises was frustrated by rain floods, which made it impossible to execute the contract. The contract was thus discharged and both parties are absolved from liability. Exclusive Décor Enterprises cannot succeed in suit to claim the contract sum from Chief WADADA.

However, under the principle of *quatum meruit*, Exclusive Décor Enterprises, who had incurred costs in delivery of materials to site, all of which were destroyed by rain floods, may succeed to claim the loss suffered on the materials.

EXAMINER'S REPORT

The question tests candidates' knowledge of director's remuneration and expenses reimbursement, business ethics and part-performance principle (Quantum meruit) under frustration of contract.

Attempt rate was about 65% and general performance was average at about 50% pass rate.

Candidates' major pitfalls were lack of understanding of quantum meruit principle and rules of business ethics.

Candidates are advised to read the ICAN study text properly.

MARKING GUIDE

Marks	Marks	
(a) * State legal issue – director's remuneration and expenses reimbursement	2	
* Explain legal position on director's remuneration and expenses reimbursement	2	
* Advise Bala – not entitled to remuneration, but can claim expenses reimbursement	<u>2</u>	8
 (b) State 4 factors affecting ethical behaviour in business environment (1 mark each)		 4
 (c) * State legal issues – frustration and <i>quatum meruit</i>	2	
* Explain legal position on frustration and <i>quatum meruit</i>	2	
* Apply to case – contract discharged by frustration and parties not liable	2	
* Advice to Exclusive Decor - can claim <i>quatum meruit</i>	<u>2</u>	<u>8</u>
		<u>20</u>

SOLUTION 4

- (a) The conditions under which an insolvent company may be placed under receivership are as follows:
- i. When a company is unable to repay loans borrowed when due or the interest payable falls into arrears;
 - ii. If the property or assets of the insolvent company is in jeopardy, or when events occur to reasonably conclude that the debenture holders' interests are under threat;
 - iii. When the company fails to honour or defaults to fulfill any of its obligations imposed on it by the debenture trust deed;
 - iv. If any circumstance occurs which prevents the terms of the debenture from realising its assigned or pledged security;
 - v. If the company is being wound-up as a result of insolvency;
 - vi. If any creditor of the company issues a process of execution against any of the company's assets;
 - vii. If the company ceases to carry on business; and
 - viii. If secured creditors with amounts that exceed specified amount apply to court for receivership.
- (b) Under the Criminal Code, the broad classifications of gratification are as follows:
- i. **Demand or offer and receipt of things of monetary values.**
These include cash gifts, donations of assets, loans, financial rewards, value securities and stocks, discounts, commission, rebates, bonuses, deductions, contracts for supply of goods and services, discharge or liquidation of any loan, financial obligation or liability whether in whole or in part, property or interest in property, whether movable or immovable, any forbearance to demand any money; all with the aim of inducing performance or non-performance of a public official's normal duties.
 - ii. **Demand or offer and receipt of things of intangible values**
These include any offer of employment, grant of public privileges, sexual gratification, award of chieftaincy titles or dignity, benefits in kind, protection from legal proceedings and prosecution, either civil or criminal, etc; all these acts are usually made to induce performance or non-performance of public officials' normal duties.

(c) Agency contract may be terminated by operation of the law under the following circumstances:

- i. Death of either party;
- ii. Insanity of either party;
- iii. Bankruptcy of the principal;
- iv. Frustration of the subject-matter;
- v. Subject-matter is illegal *ab initio*;
- vi. Subject-matter no longer exists;
- vii. Expiration or effluxion of time;
- viii. Subsequent legal incapacity of either party; and
- ix. Completion of the work.

(d) The following are essential factors necessary to claim contribution by an insurance company:

- i. The subject-matter of the insurance must be the same and common to both the insurer and the assured. It is sufficient if the insured entered into double or multiple insurance and the loss is covered by both insurance policies;
- ii. The interest insured must be the same, although both or any of the insurance policies may include other interests, but the loss must be caused by a peril common to both insurance policies;
- iii. The same assured must be covered by both insurance policies and which must have been effected by the same assured or by any other person acting for him or on his behalf; and
- iv. Both insurance policies must be legally enforceable at the date of the peril or loss. Thus, an expired or invalid insurance policy at the time of the peril will not qualify for contribution.

EXAMINER'S REPORT

The question tests candidates' understanding of company insolvency and receivership, bribery and corruption, agency termination and contribution under multiple insurance.

About 80% of the candidates attempted the question, and performance was good.

MARKING GUIDE

	Marks	Marks
(a) State 4 conditions for receivership.		4
(b) * Explain gratification	2	
* State 2 examples (1 Mark each).	<u>2</u>	4
(c) State 6 reasons for agency termination by operation of law (1 Mark each)	Marks	Marks 6
(d) Explain 3 essential factors for contribution in multiple insurance (2 Marks each).		<u>6</u> <u>20</u>

SOLUTION 5

- (a) i. Economic crime is described as a non-violent criminal and illicit activity, committed with the objectives of earning or acquiring wealth illegally, either individually or in a group, or in organised manner, thereby violating existing legislation governing economic activities of government and its administration.
- ii. Examples of economic crime include the following:
- Any form of fraud;
 - Narcotic drugs trafficking and smuggling;
 - Money laundering and economic sabotage;
 - Cyber crime;
 - Embezzlement and treasury looting;
 - Bribery and other corrupt practices;
 - Illegal arms deals and illegal imports;
 - Human trafficking and child labour; and
 - Currency counterfeiting and illegal foreign exchange deals.
- (b) The following are exceptions to the rule of a master to be held liable for the torts of his servant:
- i. A master will not be held liable for torts of the servant performed outside the scope or course of his employment.
- ii. Where the servant uses his master's time, tools and other resources for his own personal purposes, the master will not be liable for any liability arising therefrom.
- iii. Where a servant is employed to do a particular job, but goes on to do something completely different, the master will not be liable.
- iv. Where a servant does some work which he is employed to do, but does it in an unauthorised manner, which the master has specifically told him not to do, the master will not be liable.

- v. Where the master prohibits an act, and specifically informed the servant, if the servant does that act, the master is not liable.
 - vi. Where the servant detours from the normal route which he ought to have taken, but uses an illegal route, the master is not liable.
- (c)
- i. Arbitration is referring disputes or differences between at least 2 Parties for determination, either with or without an umpire, after hearing both sides in a judicial manner, by a person or persons, (whose judgment shall be binding on the parties) other than in court.
 - ii. Advantages of arbitration include the following:
 - It is faster than legal processes;
 - It is much cheaper than litigation;
 - It is more flexible in its administration;
 - Proceedings are usually conducted privately away from the public;
 - Venue of arbitration is at the discretion of parties; and
 - Arbitral awards are mutually acceptable to the parties.
- (d) The duties of personal representatives, also referred to as administrators are as follows:
- i. Gather together assets of the deceased;
 - ii. Apply to the court presenting himself as the appointed administrator and obtain the letter of administration;
 - iii. Protect the assets from jeopardy;
 - iv. Realisation and disposal of the assets;
 - v. Payment of debts and liabilities;
 - vi. Payment of estate taxes;
 - vii. Keep accounts and records of the estate's transactions; and
 - viii. Distribute the estate to beneficiaries appropriately.

EXAMINER'S REPORT

The question tests candidates' knowledge of economic and financial crimes, various liabilities and exceptions, arbitrations and duties of personal representatives in estate administration.

Attempt rate was about 50% and general performance was below average.

Major pitfalls were candidates' shallow knowledge the EFCC Act and duties of personal representatives.

Candidates are advised to study the topics more deeply through the ICAN Study Texts.

MARKING GUIDE

	Marks	Marks
(a) i. Explain economic crime.	2	
ii. State 2 examples of economic crime (1 mark each).	<u>2</u>	4
(b) i. Explain arbitration	2	
ii. State 2 advantages of arbitration (1 mark each).	<u>2</u>	4
(c) Explain 3 exceptions to the rule of master's liability for servant's deeds (2 marks each)		6
(d) State 6 duties of personal representatives (1 mark each).		<u>6</u>
		<u>20</u>

SOLUTION 6

- (a) The duties of an employee to his employer under contract of employment are as follows:
- i. **Duty of care and diligence**
In contract of employment, it is implied that the employee must take reasonable care and diligence in the performance of his functions;
 - ii. **Duty to demonstrate knowledge of skills professed**
An employee has the duty to demonstrate expertise and knowledge of the professional skills he professed to possess, in the discharge of his functions;
 - iii. **Duty of loyal service**
An employee has the duty to take all reasonable steps to advance his employer's business within the scope of his employment, and not do anything to jeopardise or be in conflict with the business interests of his employer;
 - iv. **Duty to obey lawful orders.**
An employee has the duty to obey all lawful and reasonable orders of his employer within the scope of his contract of employment;
 - v. **Duty to render personal service.**
An employee has the duty to render personal service within the terms of his contract of employment, and must not abdicate his functions and duties to another person;
 - vi. **Duty to keep the employer's secrets**
An employee has the duty to keep secret, his employer's confidential information which may be harmful to the business of the employer, if revealed; and

- vii. **Duty not to delegate**
An employee has a duty and is expected to carry out his employer's duties and instructions personally, unless such delegation is authorised by the employer or by the nature of the business or trade custom.
- (b) The following are the exceptions to the general rule that the hirer cannot pass good title in the goods to a third party:
- i. Where the hirer has completely paid all instalments on the goods and has exercised his option to purchase the goods, thus also possessing good title to the goods;
 - ii. Where the hirer sold the goods, and immediately paid off the outstanding instalments, thereby exercising his option of purchase, and thus acquiring good title to the goods;
 - iii. Where the sale by the hirer is directed by order of court in execution of a *writ of fisa*;
 - iv. Where the owner is estopped by his own act or conduct from denying the authority of the hirer to sell the goods; and
 - v. Where the hirer sold the goods in market overt in a public and legally constituted open market.
- (c) i. **Endorsement of a Bill**
Endorsement of a bill is when the holder of the bill appends his signature on the back (reverse) side of the bill. A validly endorsed bill transfers title in the bill from the person who endorses the bill to whom the bill is endorsed.
- ii. **Negotiation of a Bill**
A bill is said to be negotiated when the bill is transferred from one person to another in such a manner as to make the transferee become the holder of the bill. A bearer bill is negotiated by mere delivery, while an order bill becomes negotiated after endorsement.
- (d) The remedies available to the buyer for breach of contract terms by the seller are as follows :
- i. **Rejection of the goods**
The buyer has the right to reject or refuse to accept or pay for the goods, if the seller breaches any express agreement, or implied condition or term of the contract;

- ii. **Claim damages**
The buyer has the right to sue and claim damages from the seller, for undue delay or late delivery of the goods, delivery of defective goods, and delivery of goods which do not meet agreed specification;
- iii. **Sue for refund for non-delivery of the goods**
The buyer has the right to sue the seller for the tort of detinue, and claim refund, if the seller retains possession of the goods after property has passed to the buyer;
- iv. **Sue for conversion or non-release of title**
If the seller refuses to pass title to the buyer after sales have been concluded, the buyer can sue the seller for conversion; and
- v. **Court may compel specific performance by the seller**
The court may order specific performance, compelling the seller to deliver the goods, if the buyer convinces the court that damages will be insufficient as compensation.

EXAMINER'S REPORT

The question tests candidates' knowledge of duties of employee under contract of employment, exceptions to the purchase terms on third parties, bill of exchange and remedies for aggrieved buyer under sale of goods.

Attempt rate was about 70% and general performance was good.

MARKING GUIDE

	Marks	Marks
(a) Explain 3 duties of an employee (2 marks each).		6
(b) Explain 2 exceptions to hirer passing good title to third party (2 marks each).		4
(c) i. Explain endorsement of bill of exchange	2	
ii. Explain negotiation of bill of exchange	<u>2</u>	4
(d) Explain 3 remedies of buyer against seller in breach. (2 marks each)		<u>6</u>
		<u>20</u>