



**THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF NIGERIA**

PATHFINDER

**MAY 2024 DIET
FOUNDATION LEVEL EXAMINATIONS**

Question Papers

Suggested Solutions

Examiners' Reports

and

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 – MAY 2024****FINANCIAL ACCOUNTING****EXAMINATION INSTRUCTIONS****PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER**

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

TUESDAY, MAY 14, 2024**DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

FOUNDATION LEVEL EXAMINATION – MAY 2024

FINANCIAL ACCOUNTING

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

SECTION A: MULTIPLE-CHOICE QUESTIONS (20 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT 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. In the process of drawing up financial statements, adjustments are made for prepaid expenses and accrued expenses in order to comply with which fundamental accounting concept?
 - A. Matching
 - B. Prudence
 - C. Aggregation
 - D. Accrual
 - E. Consistency

2. A business proprietor failed to maintain proper records, but you managed to ascertain that his opening capital, closing capital and drawings during the year were ₦225,000, ₦260,000 and ₦10,000 respectively. Determine the profit for the period.
 - A. ₦25,000
 - B. ₦45,000
 - C. ₦55,000
 - D. ₦65,000
 - E. ₦75,000

3. Which of the following statements correctly differentiates bad debt from doubtful debt?
 - A. Bad debt arises when a customer is in difficulty but might be able to recover from it, while doubtful debt is an amount owed by a customer that the business believes it will never be able to collect
 - B. Bad debt is an amount owed by a customer that the business believes it will never be able to collect, while doubtful debt is an amount owed by a customer that the business hopes to collect despite the customer's difficulties.

- C. Bad debt is an amount owed by a customer that the business believes it might be able to collect despite difficulties, while doubtful debt arises when a customer is dishonest and has no intention to pay.
- D. Bad debt occurs when a customer disputes whether a contract has been fulfilled or not, while doubtful debt arises when a customer is declared bankrupt or insolvent.
- E. Bad debt refers to the dishonesty of a customer, while doubtful debt is an amount owed by a customer that the business believes it might not be able to collect, but still hopes to do so.

Use the information below to answer questions 4 and 5:

A company has several motor cars that are accounted for as non-current assets. As at April 1, Year 2, the cost of the cars was ₦300,000, and the accumulated depreciation was ₦160,000.

During the month of April, the company bought a new car costing ₦77,500 and received a part-exchange allowance of ₦20,000 against an old car. The old car originally cost ₦70,000 and its accumulated depreciation is ₦45,000.

- 4. What is the carrying amount of the motor cars as at April 1, Year 2?
 - A. ₦120,000
 - B. ₦140,000
 - C. ₦180,000
 - D. ₦220,000
 - E. ₦240,000

- 5. What is the gain or loss on disposal of the old car?
 - A. ₦5,000
 - B. ₦(5,000)
 - C. ₦7,000
 - D. ₦(7,000)
 - E. ₦10,000

- 6. Which of the following about goodwill is true?
 - A. Goodwill is always recognised as an intangible asset in entity's financial statements
 - B. Goodwill represents the total value of a business assets and liabilities
 - C. The value of a business is solely based on the value of its net assets
 - D. Goodwill reflects a business potential to generate future profits, making it an intangible asset
 - E. Successful businesses do not have goodwill as it is not considered a valuable aspect during acquisitions

7. How much inventories did the owner of the shop withdraw during the period, if the opening and closing inventories for resale were ₦56,250 and ₦48,750, respectively, and there were no sales during the period?
- A. ₦5,750
 - B. ₦6,500
 - C. ₦7,250
 - D. ₦7,500
 - E. ₦8,000
8. Which of the following best describes the concept of digitisation in accounting?
- A. Digitisation is the process of converting digital files into physical formats for easier storage and retrieval
 - B. Digitisation refers to the use of digital technologies to create invoices and receipts
 - C. Digitisation involves converting physical accounting records, such as invoices and receipts, into a computer-readable format using digital technologies
 - D. Digitisation is the practice of manually entering accounting data into a computer system to ensure accuracy
 - E. Accounting digitisation is solely focused on minimising human involvement in financial processes to increase efficiency
9. Why is it important to record the substance of transactions rather than just their legal form in financial statements?
- A. Legal principles are often complex and difficult to apply in accounting
 - B. Financial statements must comply with tax regulations, not legal principles
 - C. The legal form of transactions does not accurately represent their financial impact
 - D. Recording transactions based on their legal form is easier and more straightforward
 - E. Accountants prefer to use financial substance rather than legal form for simplicity
10. Which of the following correctly explains the links between the statement of financial position and the statement of profit or loss?
- A. The statement of profit or loss shows the financial position of a business at a given point in time, while the statement of financial position shows the profit or loss for a period of time
 - B. The statement of financial position affects the statement of profit or loss, by adding to the owner's capital
 - C. The statement of profit or loss affects the statement of financial position, by either adding to or reducing the owner's capital
 - D. The statement of profit or loss affects the statement of financial position, by adding to and reducing the owner's capital

- E. The statement of financial position affects the statement of profit or loss, by reducing the owner's capital
11. Which of the following correctly describes the accruals concept in accounting?
- A. Expenses are recognised in the statement of profit or loss in the same period as the related sales
 - B. Income is recognised in the statement of profit or loss when cash is paid
 - C. Sales are recognised in the statement of profit or loss when the related expenses are paid
 - D. Expenses are recognised in the statement of profit or loss as they are paid
 - E. Income and expenses are recognised in the statement of profit or loss as they arise
12. Given the following information:
- Total assets at December 31, Year 2: ₦150,400
Total assets at December 31, Year 1: ₦125,000
Total liabilities at December 31, Year 2: ₦43,200
Total liabilities at December 31, Year 1: ₦34,800
Additional capital input on December 31, Year 2: ₦10,000
- What was the profit of the business for the year ended December 31, year 2?
- A. ₦7,000
 - B. ₦17,000
 - C. ₦27,000
 - D. ₦90,200
 - E. ₦107,200
13. Which of the following items is classified differently from others on the statement of financial position?
- A. Inventories
 - B. Intangible assets
 - C. Prepayments
 - D. Cash and cash equivalents
 - E. Trade receivables
14. Which of the following best describes saving a PDF invoice in the cloud?
- A. Data
 - B. Digitalisation
 - C. Storage
 - D. Safekeeping
 - E. Documentation

15. What is the journal entry required to record the amount due to a retired partner if he is not paid immediately in cash?
- A. Dr. the retired partner's capital account
Cr. loan account in his name
 - B. Dr. loan account in his name
Cr. the retired partner's capital account
 - C. Dr. the retired partner's capital account
Cr. Statement of profit or loss
 - D. Dr. loan account in his name
Cr. Statement of profit or loss
 - E. Dr. loan account in his name
Cr. cash book
16. The primary purpose of performing bank reconciliations in accounting is to
- A. Ensure that the balance in the cash at bank account and the balance shown in the bank statement are always the same
 - B. Identify and correct errors in accounting records related to cash transactions with the bank
 - C. Combine the cash book balance with the bank statement balance to get the total cash position
 - D. Reconcile the balances of other accounts in the general ledger with the bank statement
 - E. Verify the accuracy of non-cash transactions in the accounting Records
17. Which of the following corresponding examples correctly match the data structure form?
- A. Linear - binary, heaps, space partitioning
 - B. Tree - arrays, lists, stack
 - C. Hash - decision, directed, acyclic
 - D. Graphs - distributed hash table, hash tree
 - E. Stack - arrays, lists, queue
18. What does a receipt and payment account represent in accounting?
- A. A summary of cash receipts and payments, including both accruals and cash transactions
 - B. A summary of cash receipts and payments during the accounting period, without considering accruals
 - C. A record of all revenue transactions in the accounting period, irrespective of cash inflows or outflows
 - D. A record of all capital transactions, including cash receipts and payments, during the accounting period
 - E. A record of all non-cash transactions in the accounting period, excluding cash receipts and payments

19. What role does the statement of changes in equity play in a company's financial reporting and decision-making?
- A. It helps in assessing a company's non-current assets and depreciation methods
 - B. It provides a detailed breakdown of a company's cash flows from operating, investing and financing activities
 - C. It presents a summary of a company's equity transactions, aiding stakeholders in understanding financial performance and ownership changes over time
 - D. It shows the company's income and expenses, enabling stakeholders to evaluate profitability and cash generation
 - E. It outlines a company's long-term debt obligations and interest expense, assisting stakeholders in assessing capital structure and financial stability
20. The difference between the assets and liabilities of a not-for-profit organisation is called
- A. Net asset
 - B. Net liability
 - C. Accumulated fund
 - D. Working capital
 - E. Net capital

SECTION B: OPEN-ENDED QUESTIONS (80 MARKS)

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

QUESTION 1

- a. Explain the information needs of different stakeholders who use financial statements and how financial statements fulfill those needs. (10 Marks)
 - b. Briefly explain the impact of digital technologies on accounting systems, focusing on machine learning and artificial intelligence, data analytics, mobile accounting, and specialised accounting software. (10 Marks)
- (Total 20 Marks)**

QUESTION 2

- a. Examine the internal control procedures over cash receipts in a business. (8 Marks)
- b. Ladu Limited has the following transactions related to sales and purchases in the month of July 2023:

July

2	Purchases from Abe Limited: ₦300,000
5	Sales to Jide Limited: ₦150,000
9	Purchases returns to Abe Limited: ₦50,000
12	Sales returns from Jide Limited: ₦20,000
14	Purchases from Bola Limited (offering a trade discount of 5%): ₦400,000
15	Sales to Yau Limited: ₦200,000
22	Sales returns from Yau Limited: ₦30,000
25	Sales to Zeb Limited (cash discount of 2.5% granted): ₦250,000
26	Purchases from Cletus Limited: ₦250,000
31	Purchases returns to Cletus Limited: ₦30,000

Required:

- i. Record the items in the relevant books of prime entry of Ladu Limited in July 2023. (7 Marks)
 - ii. State how the postings will be done from the books of prime entries into the ledgers (5 Marks)
- (Total 20 Marks)**

QUESTION 3

- a. List **THREE** possible reasons for differences between the suppliers' statement balance and the suppliers' account balance in the ledger and explain how these differences can be identified and resolved during the reconciliation process. (6 Marks)
- b. Baba Enterprise receivables ledger control account on June 30, 2023 has a debit balance of ₦4,750,000 which did not agree with the net total of the list of receivables ledger balances as at that date. The following errors were discovered:
 - (i) Sales returns of ₦175,000 by Uda have been recorded in Uda's account in the receivables ledger but the transaction was not posted to the general ledger;
 - (ii) Credit sales of ₦200,000 to Chioma were not recorded in the control account but were recorded in the personal ledger of Chioma;
 - (iii) An item of goods sold to Abe, ₦312,500, had been entered once in the sales day book but posted to his account twice;
 - (iv) Baba Enterprise had expected Idowu to take advantage of a settlement discount of ₦32,750. Idowu did not settle the account on time to qualify for the discount. This has been recorded correctly in Idowu's own account but not entered in the general ledger;
 - (v) A bad debt amounting to ₦500,000 had been written off in the receivables ledger but had not been posted to the bad debts expense account or entered in the control account;

- (vi) Debit balances in the receivables ledger, amounting to ₦128,750, had been omitted from the list of balances;
- (vii) Payment of ₦120,000 received from Kwali was posted to the cash book but not recorded in the control account;
- (viii) Credit sales was overstated by ₦250,000 in the control account; and
- (ix) No entry had been made in the control account in respect of the transfer of a debit of ₦89,000 from Taju's account in the receivables ledger to his account in the payables ledger.

Required:

- i. Make the necessary adjustments in the receivables control account and bring down the adjusted balance. (10 Marks)
- ii. Reconcile the adjusted balance with the total balance in the individual receivables ledger account. (4 Marks)

(Total 20 Marks)

QUESTION 4

- a. Describe how subsequent costs related to Property, Plant and Equipment (PPE) are treated in accordance with IAS 16 under the recognition principle. (5 Marks)
- b. Buma Limited recently acquired a piece of equipment for its operations. The equipment was purchased for ₦1,600,000, and it has an estimated useful life of 5 years with no residual value. The company estimates the rates of depreciation under the straight-line method to be 20% and the reducing balance method to be 30%. It is still considering which of the two depreciation methods to adopt and requires ledger records to make a final decision.

Required:

Present the ledger accounts to record the transaction for the first three years using:

- i. The straight-line method; and (6 Marks)
- ii. The reducing balance method. (6 Marks)
- c. Show the extracts from the statement of financial position at the end of the third year for the two methods. (3 Marks)

(Total 20 Marks)

QUESTION 5

- a. Explain the essential components involved in measuring inventories in compliance with IAS 2-Inventories (6 Marks)
- b. Bala PLC prepares its financial statements on December 31, 2023. At the end of the year, Bala PLC holds three different inventory items. The following information is available for each item:

Item A:

Cost as at December 31, 2023 ₦1,500,000

Estimated selling price ₦1,800,000

Estimated costs of completion, disposal and selling expenses ₦200,000

Item B:

Cost as at December 31, 2023 ₦2,250,000

Estimated selling price ₦2,000,000

Estimated costs of completion, disposal, and selling expenses ₦300,000

Item C:

Cost as at December 31, 2023 ₦3,000,000

Estimated selling price ₦3,200,000

Estimated costs of completion, disposal and selling expenses ₦400,000

Required:

- i. Calculate the net realisable value (NRV) for each inventory item. (6 Marks)
- Determine the lower of cost and NRV for each inventory item. (3 Marks)
- ii. Calculate the total lower of cost and NRV adjustment required for inventory of Bala PLC's. (2 Marks)
- iii. Prepare the necessary journal entry to adjust the inventory to its lower of cost and NRV. (3 Marks)
- (Total 20 Marks)**

QUESTION 6

BIN Partnership is an existing partnership consisting of two partners, Bode and Igere, sharing profits and losses equally. On January 1, 2023, they decided to admit Ngor as a new partner into the partnership.

Additional Information:

(i) The existing partnership's statement of financial position before Ngor's admission is as follows:

	₦		₦
Capital:		Property, plant and equipment	2,400,000
Bode	1,750,000	Inventory	700,000
Igere	1,750,000	Account receivables	900,000
Loan notes	1,000,000	Cash	800,000
Account payables	<u>300,000</u>		
	<u>4,800,000</u>		<u>4,800,000</u>

- (ii) Goodwill of the partnership is valued at ₦200,000.
- (iii) Ngor invests ₦1,500,000 in cash and acquires a 30% share in the partnership's profits and losses.
- (iv) ₦600,000 from the cash contributed by Ngor, the new partner will be allocated to reduce the existing partnership's long-term liabilities.
- (v) The partnership follows a policy of not recording goodwill on its financial statements.

Required:

- a. In the books of BIN partnership, prepare the following to give effect to the admission of Ngor:
 - i. Goodwill account (2 Marks)
 - ii. Partners capital account (4 Marks)
 - iii. Statement of financial position after the admission of Ngor (10 Marks)
 - b. Discuss **TWO** methods of valuation of goodwill in a partnership. (4 Marks)
- (Total 20 Marks)**

SECTION A

PART I - MULTIPLE CHOICE ANSWERS

1. A

2. B

3. B

4. B

5. B

6. D

7. D

8. C

9. C

10. C

11. A

12. A

13. B

14. B

15. A

16. B

17. A

18. B

19. C

20. C

Tutorials

2. Determination of profit for the period
Closing capital = opening capital + profit – drawings
 $\text{N}260,000 = \text{N}225,000 + \text{profit} - \text{N}10,000$
 $\text{N}260,000 - \text{N}225,000 + \text{N}10,000 = \text{profit}$
Profit = $\text{N}45,000$
4. Carrying amount of the motor car as at April, Year 2
Carrying Amount = $\text{N}300,000 - \text{N}160,000$
= $\text{N}140,000$
5. Gain or loss on disposal of the old car
Carrying amount $\text{N}70,000 - \text{N}45,000 = \text{N}15,000$
Loss = ($\text{N}5,000$); $\text{N}15,000 - \text{N}20,000$
7. Inventory withdrew = opening inventories – closing inventories
= $\text{N}56,250 - \text{N}48,750$
= $\text{N}7,500$
12. Profit of the business for the year ended December 31, Year 2

	Year 2	Year 1
	N	N
Total assets	150,400	43,200
Total liabilities	<u>(125,000)</u>	<u>(34,800)</u>
Capital	25,400	8,400

Profit in year 2 = Capital year 2 – capital year 1- additional capital
That is profit in year 2 = $\text{N}(25,400 - 8,400 - 10,000) = \text{N}7,000$

Examiner's report

The questions test candidates' knowledge of the basic principle of accounting and its applications.

All candidates attempted the question but the performance of most of them was below average. Less than 50% of the candidates scored above average in this section.

Their common pitfalls include poor understanding of the double entry principles, the measurement and recognition bases for transactions and events.

Candidates are advised to prepare very well and take necessary steps to understand the fundamental principles of account and cover the syllabus.

SECTION B

SOLUTION 1

- a. The following are the stakeholders who make use of financial statements, including their information needs and how financial statements fulfil those needs:
- (i) **Owners of the business or investors:** They need accounting information to assess how efficiently the management is performing, that is, they want to know how profitable the business is and dividends payable. It will also allow shareholders to make appropriate investment decisions such as buying and selling of shares, deciding on whether to dispose some or all the shares or to acquire more of the entity's shares. Financial statement provide insight into past performance, financial position and potential future developments impacting their investment choices.
 - (ii) **Management:** They need accounting information to ascertain the efficiency of the policy they formulate and to plan and control their sources of finance for the business. Their information needs are provided by the statement of profit or loss, statement of cash flows and statement of financial position.
 - (iii) **Employees of the entity:** Existing employees need accounting information to enable them decide how secure their job is and the ability of the business to pay good salaries and provide good welfare facilities. Their information needs are provided by the statement of profit or loss and statement of financial position.
 - (iv) **Lenders:** These include the banks and other loan payables. Financial statements enable them to decide whether more credit facility can be granted and whether the company will be able to pay interest and principal when they fall due. They are interested in the entity's liquidity and of profitability as well as reliability of its underlying assets. Their information needs are also provided by the statement of profit or loss and statement of financial position.
 - (v) **Trade payables:** The suppliers want to know the ability of the business to pay for the good supplied to the business promptly. They will be interested in the liquidity of the business. These information needs are provided by the statement of financial position.
 - (vi) **Customers:** The customers want to know whether the business will continue to be a reliable source of supply; though they will also be interested in the quality of the products of the business. These information needs are provided by the statement of profit or loss and statement of financial position.

- (vii) **Tax authority:** Accounting profits determine the basis of computing tax. The tax authority wants to determine the tax payable by the entity and its employees. These information needs are provided by the statement of profit or loss, statement of cash flow, notes to the financial statements and statement of financial position.
- (viii) **Government:** Government needs accounting information to enable it formulates fiscal policies. Also, the regulatory agencies of government require financial statements to ascertain if the organisation had met the necessary established requirements expected of the organisation. In this respect, the government will rely on the statement of profit or loss, notes to the financial statements and statement of financial position.
- (ix) **Financial Analysts:** They analyse financial statements for their clients in order to help them make informed decisions. Financial analysts include stock brokers, credit agencies and financial reporters. These information needs are provided by the statement of profit or loss, statement of cash flows, notes to the financial statements and statement of financial position.
- (x) **The Public:** Members of the general public need financial information for various purposes. They use the available financial information to take decisions on whether or not to deal with an entity, determine their level of involvement in its activities. These information needs of these stakeholders are provided by the statement of profit or loss, statement of cash flow, notes to the financial statements and statement of financial position.
- b. **The following are the impact of digital technologies on accounting system, within the specified focus:**
- (i) **Machine learning and artificial intelligence**
- This is a fast-evolving technologies which, enable the software to learn on its own and improve results without requiring human intervention. Additionally, AI-powered accounting applications can:
- Perform data entry and data sorting tasks, more efficiently and accurately;
 - Automatically reconcile accounts and do the classification of accounting transactions based on patterns in historic data; and
 - Utilise machine-learning-powered fraud management applications and expense management systems to flag fraudulent transactions and validate expenses, respectively.

- (ii) **Data analytics**
The deployment of data analytics helps in identifying trends, pattern and insights that can otherwise remain hidden. It uses statistical methods and modelling to analyse data.
- (iii) **Mobile accounting**
With mobile applications dedicated to accounting functions, one can create and send invoices, capture receipts, gather signatures and create expense claims. Also, one can use customer management software on mobile devices to improve customer communication and support. With the help of customer relations management (CRM) software and increased connectivity, one can build better relationships with clients.
- (iv) **Specialised accounting software**
The rising popularity and easy accessibility to specialised accounting software and more efficient processing tools, has diminished the use of traditional pen, ledger and desk calculator. These tools allow quicker input and computation of data, with higher degree of accuracy. Now, the accountant is able to focus more on how to protect and grow the client's business.

Examiner's report

The question tests the candidates' knowledge on the information needs of the different stakeholders who use the financial statements and how financial statements fulfill those needs. It also requires candidates to explain the impact of digital technologies on accounting systems, focusing on machine learning and artificial intelligence, data analytics, mobile accounting and specialised accounting software.

Almost 95% of the candidates attempted the question and their performance was average.

However, most of the candidates exhibited lack of knowledge in the information needs of the different stakeholders who use financial statements and how financial statements fulfill those needs.

Candidates are advised to ensure adequate coverage of the syllabus when preparing for future examination.

Marking guide

	Marks	Marks
a. Information needs of users of financial statements:		
Users' needs – 5 points at 1 mark each	5	
Stating how financial statements fulfill users' needs	<u>5</u>	<u>10</u>
b. Impacts of technologies on accounting systems:		
Listing 4 impacts at 1¼ each	5	
Explaining the impacts	<u>5</u>	<u>10</u>
Total		<u><u>20</u></u>

SOLUTION 2

- a. The following steps can be taken to ensure effective internal control over cash receipts:
- (i) All cash receipts from customers must be lodged intact at the bank on a daily basis;
 - (ii) The function of receiving cash should be separated from that of maintaining records of cash with each function performed by different persons;
 - (iii) All cash receipts should be recorded in a cash register. At the end of each day, the amount in the register should be compared with the physical cash;
 - (iv) Receipts should be issued for all cash sales and cash received from receivables;
 - (v) Regular and surprise cash count should be undertaken by a superior officer to the officer handling the cash;
 - (vi) Requiring authorised approval for account receivables customers' account write off;
 - (vii) Reconciling the cash deposits on bank statement to recordings made in the cash book on a monthly basis; and
 - (viii) Making use of a cash till box or safe for all cash held with the cashier.

- b. i.

Ladu Limited

Purchases day book for the month of July 2023

		₦
02/07/2023	Abe Limited	300,000
14/07/2023	Bola Limited (Wk 1)	380,000
26/07/2023	Cletus Limited	<u>250,000</u>
31/07/2023	Transfer to purchases account	<u>930,000</u>

ii.	Sales day book for the month of July 2023		N
	05/07/2023	Jide Limited	150,000
	15/07/2023	Yau Limited	200,000
	25/07/2023	Zeb Limited	<u>250,000</u>
	31/07/2023	Transfer to sales account	<u>600,000</u>

iii.	Purchases returns day book for the month of July 2023		N
	09/07/2023	Abe Limited	50,000
	31/07/2023	Cletus Limited	<u>30,000</u>
	31/07/2023	Transfer to returns outward account	<u>80,000</u>

iv.	Sales returns day book for the month of July 2023		N
	12/07/2023	Jide Limited	20,000
	22/07/2023	Yau Limited	<u>30,000</u>
	31/07/2023	Transfer to returns inward account	<u>50,000</u>

- v. **Purchases day book**
- Dr purchases account with the total of purchases day book.
 - Cr the individual suppliers with the amount of purchases from them.

Sales day book

- Dr the individual customers with the amount of sales to them.
- Cr sales account with the total of sales day book.

Purchases returns day book

- Dr individual suppliers account with the amount of returns to them.
- Cr returns outwards account with the total amount of returns outwards journal.

Sales returns day book

- Dr returns inwards accounts with the total of returns inwards journal.
- Cr the individuals accounts of customers with the amount of goods returned by them.

Examiner's report

This question tests candidates' knowledge on the internal control procedures over cash receipts and application of the principles for recording transactions in the book of prime entries and the ledgers.

About 90% of the candidates attempted the question and their performance was above average.

However, few of the candidates failed the question due to the following reasons.

- Their inability to distinguish between books of prime entry, the ledgers and the journal; and
- Lack of knowledge of the internal control procedures.

Candidates are advised to learn the differences between the format for preparing the day books, the ledger and the journal, and understand the internal control procedures on cash by studying the ICAN Study Text.

Marking guide

	Marks	Marks
a. Internal control procedures over cash receipt:		
Explaining 8 international control procedures at 1 mark each		8
b. i. Preparation of books of prime entry:		
Purchases day book	2	
Sales day book	2	
Purchases return day book	1½	
Sales return day book	<u>1½</u>	7
ii. Explaining posting from day books to the ledger:		
Posting from purchases day book	1¼	
Posting from sales day book	1¼	
Posting from purchases return day book	1¼	
Posting from sales return day book	<u>1¼</u>	<u>5</u>
Total		<u>20</u>

SOLUTION 3

- a. Three possible reasons for differences between the supplier's statement balance and the ledger account balance, along with the steps to identify and resolve them:
- i. **Omitted transactions by the supplier**
- **Reason for difference:** The supplier might have omitted a transaction from the statement, leading to an incorrect statement balance.
 - **Identification:** Compare the transactions listed in the supplier's statement with the transactions recorded in the supplier's ledger account.
 - **Resolution:** If any transactions are missing, notify the supplier and amend the statement balance to account for the error.

ii. **Omitted transactions by the customer**

- **Reason for difference:** The customer might have omitted a transaction from its accounting records, resulting in an incorrect ledger account balance.
- **Identification:** Compare the transactions listed in the supplier's statement with the transactions recorded in the customer's payables ledger account.
- **Resolution:** If any transactions are missing, correct the error in the customer's accounting records to update the ledger account balance accordingly.

iii. **Errors in recording transactions:**

- **Reason for difference:** Errors, such as posting mistakes or incorrect amounts, in either the supplier's or customer's accounting records.
- **Identification:** Thoroughly review both the supplier's statement and the customer's ledger account to identify any posting errors or discrepancies.
- **Resolution:** Rectify the errors by making the necessary corrections in the relevant accounting records to reconcile the two balances.

Conclusion:

By following these steps and resolving any discrepancies, the company can ensure that the amended balance on the supplier's statement and the amended in the payables ledger will be equal, indicating an accurate and reliable reconciliation process.

b. i. **Receivables control account**

	N		N
Balance b/d	4,750,000	(i) Sales return	175,000
(i) Credit sales	200,000	(ii) Bad debt	500,000
(ii) Discount reversed due to customer's failure to pay promptly	<u>32,750</u>	(iii) Cash book	120,000
	<u>4,982,750</u>	(iv) Credit sales	250,000
		(v) Contra	89,000
		Balance c/d	<u>3,848,750</u>
			<u>4,982,750</u>

ii. **Baba Enterprise**
Trade receivables ledger reconciliation statement as at June 30, 2023

	₦
Correct balance in the receivables control account	3,848,750
(iii) Correction of double posting	312,500
(vi) Omitted balances	<u>(128,750)</u>
	<u>4,032,500</u>

Examiner's report

The examiner tests candidates' ability to identify possible reasons for differences between the suppliers' statement balance and the suppliers' account balance in the ledger and the process for reconciling the differences. Candidates were also required to prepare an adjusted receivables control account, bringing down the adjusted balance and reconcile same with the total balance in the individual receivables ledger account.

About 70% of the candidates attempted the question. However, the performance was poor.

Candidates' common pitfalls include:

- Inability to recognise items for adjustment in the receivables control account;
- Posting transactions to wrong side of the control account; and
- Inability to reconcile the adjusted balance with the total balance in the receivable ledger accounts.

Candidates are advised to study the basic principles of this subject matter, making use of the ICAN study text and Pathfinder.

Marking guide

	Marks	Marks
a. Differences between suppliers' statements and ledger accounts:		
Stating three reasons at 1 mark each	3	
Explaining how the reasons can be identified	1½	
Explaining how the reasons can be resolved	<u>1½</u>	6
b. Receivables control account		
i. Adjustments in receivables control account:		
Balance c/d	1	
Recording omission of credit sales	1	
Discount receivables reversed	1	
Recording omission of sales returns	1	
Posting bad debt written off	1	

Recording cash received from customers	1	
Correcting credit sales overstated	1	
Recording offset against payables	1	
Balance c/d	1	
Total on both sides	<u>1</u>	10
ii. Reconciliation of control account with ledger balances:		
Adjusted balance b/f from control account	1	
Correction of double entry posting	1	
Correction of omitted balances	1	
Balance as per total list of ledger balances	<u>1</u>	<u>4</u>
Total		<u>20</u>

SOLUTION 4

- a. According to IAS 16, subsequent costs are expenditure incurred after the initial recognition of an asset. These costs are capitalised and added to carrying amount of the asset if only they meet the following criteria:
- Enhancement of future economic benefits:** Subsequent costs are capitalised if they enhance the future economic benefits expected from the asset. This means the costs should improve the asset's performance, increase its useful life, or adapt it to new technology or standards. For example, if an old machine is upgraded to improve its efficiency and prolong its usability, the costs associated with this upgrade are capitalised;
 - The expenditure is for a replacement part, provided that the part it replaces is treated as an item that has been disposed of; and
 - Major cost of inspections is recognised in the carrying amount of the asset as a replacement, if the recognition criteria are satisfied.

Conclusion: Costs incurred for maintenance and repairs, which are necessary to maintain the asset's originally assessed standard of performance, are not capitalised. Instead, these costs are expensed in the period in which they are incurred. For instance, regular servicing to keep equipment in its optimal condition is expensed immediately rather than capitalised.

- b. **Buma Limited**
Ledger accounts for equipments using straight-line method

Year		₦	Year		₦
1	Cash book	<u>1,600,000</u>	1	Balance c/d	<u>1,600,000</u>
2	Balance b/d	<u>1,600,000</u>	2	Balance c/d	<u>1,600,000</u>
3	Balance b/d	<u>1,600,000</u>	3	Balance c/d	<u>1,600,000</u>
4	Balance b/d	1,600,000			

Depreciation account

	₦		₦
Year 1		Year 1	
Accumulated depreciation (Wk 1)	<u>320,000</u>	Statement of profit or loss	<u>320,000</u>
Year 2		Year 2	
Accumulated depreciation (Wk 1)	<u>320,000</u>	Statement of profit or loss	<u>320,000</u>
Year 3		Year 3	
Accumulated depreciation (Wk 1)	<u>320,000</u>	Statement of profit or loss	<u>320,000</u>

Accumulated depreciation account

Year		₦	Year		₦
1	Balance c/d	<u>320,000</u>	1	Depreciation	<u>320,000</u>
2	Balance c/d	640,000	2	Balance b/d	320,000
				Depreciation	<u>320,000</u>
		<u>640,000</u>			<u>640,000</u>
3	Balance c/d	960,000	3	Balance b/d	640,000
				Depreciation	<u>320,000</u>
		<u>960,000</u>			<u>960,000</u>
			4	Balance b/d	960,000

(ii) **Buma Limited ledger accounts using reducing balance method**
Depreciation account

	₦		₦
Year 1		Year 1	
Accumulated depreciation (Wk 2)	<u>480,000</u>	Statement of profit or loss	<u>480,000</u>
Year 2		Year 2	
Accumulated depreciated (Wk 2)	<u>336,000</u>	Statement of profit or loss	<u>336,000</u>
Year 3		Year 3	
Accumulated depreciated (Wk 2)	<u>235,200</u>	Statement of profit or loss	<u>235,200</u>

Accumulated depreciation account

Year 1		₦	Year 1		₦
	Balance c/d	<u>480,000</u>		Depreciation (Wk2)	<u>480,000</u>
Year 2	Balance c/d	816,000	Year 2	Balance b/d	480,000
				Depreciation	<u>336,000</u>

Year 3		<u>816,000</u>	Year 3	<u>816,000</u>
	Balance c/d	<u>1,051,200</u>		816,000
		<u>1,051,200</u>		Depreciation (Wk2)
				<u>235,200</u>
				<u>1,051,200</u>
			Year 4	
			Bal b/d	1,051,200

(iii) **Buma Limited**
Statement of financial position extract as at the end of year 3
Straight line method

	₦
Equipment cost	1,600,000
Accumulated depreciation	<u>960,000</u>
Carrying amount	<u>640,000</u>

c. **Buma Limited**
Statement of financial position extract as at the end of year 3
Reducing balance Method

	₦
Equipment cost	1,600,000
Accumulated depreciation	<u>1,051,200</u>
Carrying amount	<u>548,800</u>

Buma Limited
Working notes

1. **Calculation of annual depreciation, based on straight line method**

Annual depreciation rate	20%
	₦
Cost of equipment	<u>1,600,000</u>
Depreciation per annum (20% x ₦1,600,000)	<u>320,000</u>

2. **Calculation of annual depreciation, based on reducing balance method**

	₦	₦
Cost of equipment	1,600,000	
Depreciation for year 1, (30% x ₦1,600,000)	<u>(480,000)</u>	480,000
Balance at end of year 1	1,120,000	
Depreciation for year 2, (30% x ₦1,120,000)	<u>(336,000)</u>	336,000
Balance at end of year 2	784,000	
Depreciation for year 3, (30% x ₦784,000)	<u>(235,200)</u>	<u>235,200</u>
Balance at end of year 3	<u>548,800</u>	
Total accumulated depreciation		<u>1,051,200</u>

Examiner's report

This question tests candidates' knowledge on how subsequent costs related to property, plant and equipment (PPE) are treated in accordance with IAS16 under the recognition principle and presentation in the statement of financial position at the end of a particular year.

About 80% of the candidates attempted the question and their performance was average. Only few of them understood the requirements of the question and scored high marks.

Most candidates did not understand what ledger accounts should be prepared, hence they lumped the accounts together.

Candidates are advised to pay attention to the requirements of the relevant standard on PPE and posting of transactions to the relevant ledgers when preparing for future examination.

Marking guide

	Marks	Marks
a. Accounting treatment of subsequent cost on PPE:		
Explaining the general principle for recognition of subsequent costs	1	
Explaining instances when subsequent costs can be capitalised	3	
Explaining when subsequent costs should be expensed	<u>1</u>	5
b. Preparing accounts for acquisition of equipment		
i. Straight-line method:		
Equipment account	2	
Depreciation account	2	
Accumulated depreciation account	<u>2</u>	6
ii. Reducing balance method:		
Depreciation account	2	
Accumulated depreciation account	2	
Calculation of depreciation	<u>2</u>	<u>6</u>
Total		<u>20</u>

SOLUTION 5

- a. Measuring inventories in compliance with IAS 2 (Inventories) involves the consideration of several essential components to ensure accurate financial reporting. Here are the key elements involved in measuring inventories under IAS 2.

i. **Cost of inventories**

- **Purchase price:** This includes the cost of purchase, including import duties and other taxes (excluding recoverable VAT).
- **Directly attributable costs:** Any costs directly attributable to bringing the inventory to its current condition and location, such as handling, transport and other necessary overheads.
- **Trade discounts and rebates:** These are deducted in determining the costs of purchase.
- **Abnormal wastage:** Abnormal amount of wasted materials, labour or other production costs are excluded from the cost of inventories.

ii. **Net realisable value (NRV):**

- **Selling price:** The estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. If the NRV is lower than cost, the inventory is written down to NRV.

iii. **Separate valuation for specific items:**

- **Specific identification:** For items that are specific (e.g., unique artworks), their actual costs can be tracked individually.
- **Grouping of similar items:** For similar items, a weighted average cost method can be used.

iv. **Lower of cost and NRV:** Inventories should be stated at the lower of cost and net realisable value. This ensures that inventories are not overstated, adhering to the principle of prudence.

Compliance with these components ensures that inventories are measured consistently and accurately, providing reliable information for financial reporting and decision-making. Proper application of IAS2 principles enhances the transparency and credibility of a company's financial statements.

	Net realisable value (NRV)		
	Selling price	Cost of completion, disposal & selling expenses	Net realisable value
	₦	₦	₦
Item A	1,800,000	200,000	1,600,000
Item B	2,000,000	300,000	1,700,000
Item C	<u>3,200,000</u>	<u>400,000</u>	<u>2,800,000</u>
Total	<u>7,000,000</u>	<u>900,000</u>	<u>6,100,000</u>

	Lower of cost and NRV		
	Cost	Net realisable value	Lower of cost and net realisable value
	₦	₦	₦
Item A	1,500,000	1,600,000	1,500,000
Item B	2,250,000	1,700,000	1,700,000
Item C	<u>3,000,000</u>	<u>2,800,000</u>	<u>2,800,000</u>
Total	<u>6,750,000</u>	<u>6,100,000</u>	<u>6,000,000</u>

iii. Adjustment required for lower of cost and net realisable value		₦
Cost		6,750,000
Net realisable value		<u>6,000,000</u>
Amount by which cost is written down		<u>750,000</u>

iv. Journal for the adjustment required for lower of cost and net realisable value		₦
Debit cost of sales		750,000
Credit inventory		750,000
Being reduction in the cost of inventory on the basis of lower of cost and NRV.		

Examiner's report

The examiner tests candidates' knowledge of the essential components involved in measuring inventories in compliance with IAS2 and its application in adjusting inventory to its lower of cost and NRV.

Less than 50% of the candidates attempted the question and their performance was average.

Most candidates could not clearly define inventory in accordance with IAS2, while some did not answer the part requiring them to explain components involved in measuring inventories.

Candidates are advised to pay attention to the requirements of IAS2 with regards to the measurement and recognition of inventories when preparing for future examination.

Marking guide

	Marks	Marks
a. Essential components involved in measurement of inventory		
Stating the general principles for measuring inventory	1	
Explaining cost of inventory	1½	
Explaining net realisable value (NRV)	1½	
Describing the application of the lower of cost and NRV	2	6
b.		
i. Calculation of NRV	6	
ii. Determining lower of cost and NRV	3	
iii. Determining the total of lower of cost and NRV	2	11
iv. Preparing journal to adjust inventory to lower of cost and NRV		<u>3</u>
Total		<u>20</u>

SOLUTION 6

a. i.

BIN Partnership			
Goodwill account			
Recognition	N'000	De-recognition	N'000
Capital account – Bode	100	Capital account - Bode	70
Capital account – Igere	100	Capital account - Igere	70
	<u>200</u>	Capital account - Ngor	60
			<u>200</u>

ii)

Partners capital account							
	Bode	Igere	Ngor		Bode	Igere	Ngor
	N'000	N'000	N'000		N'000	N'000	N'000
Goodwill	70	70	60	Balance b/f	1,750	1,750	-
Balance c/d	1,780	1,780	1,440	Cash			1,500
	<u>1,850</u>	<u>1,850</u>	<u>1,500</u>	Goodwill	100	100	-
					<u>1,850</u>	<u>1,850</u>	<u>1,500</u>
				Bal b/d	1,780	1,780	1,440

b. **BIN Partnership**
Statement of financial position as at January 1, 2023

	₦'000
Non-current assets:	
Property, plant and equipment	<u>2,400</u>
Current assets:	
Inventory	700
Accounts receivable	900
Cash	<u>1,700</u>
	<u>3,300</u>
Total assets	<u>5,700</u>
Capital:	
Bode	1,780
Igere	1,780
Ngor	<u>1,440</u>
	<u>5,000</u>
Non-current liabilities:	
Loan notes (1,000 - 600)	<u>400</u>
Current liabilities:	
Trade payables	<u>300</u>
Total equity and liabilities	<u>5,700</u>

Working notes

	Cash account		₦'000
	₦'000		₦'000
Balance b/d	800	Loan	600
Capital-Ngor	<u>1,500</u>	Balance c/d	<u>1,700</u>
	<u>2,300</u>		<u>2,300</u>
Balance b/f	1,700		

c. **The following methods of valuation of goodwill in a partnership business exist:**

(i) **Purchase of average profit**

Under this method, the net profits for a number of past years are averaged and multiplied by a chosen number. Thus, two years' purchase of average profits implies that the average profits will be multiplied by 2 to obtain the value of goodwill.

Another variation of this method, is the use of weighted average-profits, in which case, each year's profit is multiplied by a weight to get the total weighted profits which is divided by the total weights to obtain the weighted average profit. The weights are usually allocated in ascending order.

- (ii) **Purchase of average gross fee income**
This method, frequently adopted by professional firms (solicitors, architects, accountants) is similar to (i) above, except that the chosen factor is applied to the average gross fee income instead of net profit.
- (iii) **Purchase of average super profits**
Super profits are the profits in excess of the amount necessary to pay a fair return on the capital employed in the business. Alternatively, super profits can be described as the excess of actual profits of the firm over the normal profit of comparable businesses. The purchase-of-super-profits method of valuing goodwill applies a given factor to the past average super profits. In some cases, forecast super profits are substituted for past super profits.
- (iv) **Capitalisation of super profit**
Under this method, the average super profit is capitalised at an appropriate rate of return, which takes account of the risk and uncertainty involved in the particular line of business of the firm. The figure obtained is the present value of the perpetual annuity of the super profit. Alternatively, the present value of the annuity of the super profit for a suitable number of years may be calculated as the value of goodwill.
- (v) **Excess of value of a business over the value of net tangible assets**
Under this method, the value of the business as a going concern is ascertained and the value of the net tangible assets deducted therefrom to obtain the value of goodwill.

Examiner's report

The question tests the candidates' knowledge of preparing partnership accounts relating to partners' goodwill, capital accounts and statement of financial position after the admission of a new partner. It also requires candidates to discuss methods of valuation of goodwill in a partnership.

About 20% of the candidates attempted the question but their performance was very poor.

They lacked the ability to present proper and correct goodwill, partners' capital accounts and statement of financial position.

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

Marking guide

	Marks	Marks
a. Preparation of partnership accounts		
i. Goodwill account		2
ii. Partners capital accounts		4
b. Preparation of statement of financial position		
Non-current assets	1	
Current assets	4	
Partners capital accounts	3	
Non-current liabilities	1	
Current liabilities	<u>1</u>	10
c. Discussion of valuation of goodwill- 2 points at 2 marks each		<u>4</u>
Total		<u>20</u>

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**FOUNDATION LEVEL EXAMINATION – MAY 2024****MANAGEMENT INFORMATION****EXAMINATION INSTRUCTIONS****PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER**

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

TUESDAY, MAY 14, 2024**DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

FOUNDATION LEVEL EXAMINATION – MAY 2024

MANAGEMENT INFORMATION

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

SECTION A: MULTIPLE-CHOICE QUESTIONS (20 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT 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 involves setting overall objectives and developing broad plans, mostly over a long-term?
 - A. Long-term decision
 - B. Strategic planning
 - C. Tactical planning
 - D. Operational planning
 - E. Short-term decision

2. Which of the following is classified as a production cost?
 - A. Other factory costs
 - B. Selling costs
 - C. Distribution costs
 - D. Administration costs
 - E. Finance costs

3. Which of the following is **NOT** part of the purchase process?
 - A. Purchase requisition
 - B. Purchase order
 - C. Material usage note
 - D. Goods received note
 - E. Purchase invoice

4. Which of the following is **NOT** a practical implication of Just-In-Time production?
- A. Production times must be very fast
 - B. Production must be reliable
 - C. Factory layout must not change to reduce movement
 - D. Deliveries from suppliers must be reliable
 - E. There must be full employee involvement
5. A budgeting process that analyses costs into their fixed and variable elements using the actual activity levels is referred to as
- A. Fixed Budgeting
 - B. Flexible Budgeting
 - C. Activity Based Budgeting
 - D. Zero Based Budgeting
 - E. Marginal Costing
6. The following data were extracted from UVW Limited for a single product V.

Activity (units)	Total Cost (₦)
144,000	3,624,000
842,000	12,000,000

Calculate the value of fixed cost

- A. ₦8,376,000
 - B. ₦6,200,000
 - C. ₦3,264,000
 - D. ₦1,896,500
 - E. ₦1,896,000
7. Which of the following control ratios is given by Standard hours produced is divided by actual hours worked?
- A. Activity ratio
 - B. Overhead efficiency ratio
 - C. Volume ratio
 - D. Capacity ratio
 - E. Efficiency ratio

8. "Just-In-Time" works on a demand-pull basis seeks to eliminate all waste and activities which do not add value". Which of the following activities adds value to a product?

- A. Inspection time
- B. Storage time
- C. Processing time
- D. Queuing time
- E. Transport time

9. RSTU manufactures two products called S and T with a joint cost of ₦3,550,000. Normal process loss is 5% of expected output with scrap value of ₦50,000 and joint cost are apportioned based on sales value. Other data available are as stated below:

Product	Good Output	selling Price(₦)
S	11,520 units	250
T	9,750 units	320

The Profit on product T is?

- A. ₦1,515,628
- B. ₦1,492,708
- C. ₦1,416,000
- D. ₦1,300,000
- E. ₦1,274,000

10. There are common features in most process costing systems. Which of the following is **NOT** one of the common features?

- A. Clearly defined process cost centres and the accumulation of all costs
- B. Maintenance of accurate records of units and part units produced and the cost incurred by each process
- C. Averaging of the prime costs of each process over the total production of that process, excluding partly completed units
- D. Charging of the cost of the input of one process as the raw materials input of the following process
- E. Clearly defined procedures for separating costs where the process produces two or more products

11. In system development, RFP stands for which of the following?
- A. Ready for processing
 - B. Request for proposal
 - C. Ready for planning
 - D. Ready for power
 - E. Request for performance
12. Awarding payroll software to accommodate changes in tax legislation is an example of which of the following type of maintenance?
- A. Adaptive
 - B. Corrective
 - C. Preventive
 - D. Detective
 - E. Perfective
13. MIS implantation **CANNOT** be successful without people because of which of the following?
- A. Systems will be costly
 - B. People cannot be successful with MIS
 - C. It is contrary to labour law
 - D. System cannot be effective without people
 - E. People will destroy any computer system
14. One of the most effective ways of introducing a software upgrade is by which of the following?
- A. Debate
 - B. Persuasion
 - C. Exchange
 - D. Advocacy
 - E. Training
15. The changeover method that provides the best opportunity for change is
- A. Direct changeover
 - B. Module method
 - C. Parallel running
 - D. Prototyping
 - E. Pilot changeover

16. Strategies of IT risk tolerance does **NOT** include which of the following?
- A. Mitigation
 - B. Transference
 - C. Eradication
 - D. Elimination
 - E. Avoidance
17. Availability and continuity of IT resources is dependent on back-up and which of the following procedures?
- A. Logical
 - B. Physical
 - C. Procurement
 - D. Recovery
 - E. System
18. IT controls are often described in **TWO** categories or types namely: IT general controls and which of the following controls?
- A. System
 - B. Software
 - C. Hardware
 - D. Application
 - E. Program
19. The act of illegal copying of a set of instructions or programs is technically described as which of the following?
- A. Virus attack
 - B. Piracy
 - C. Theft
 - D. Crime
 - E. Privacy infringement
20. A software system that provides a variety of tools for investigating a suspect's personal computer is called
- A. Forensic software
 - B. Cyber software
 - C. Cloud software
 - D. Crime software
 - E. Software toolkit

SECTION B: OPEN-ENDED QUESTIONS (80 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT FOUR OUT OF THE SIX QUESTIONS IN THIS SECTION

QUESTION 1

- a. Describe how a time series can be analysed. (10 Marks)
- b. 'There are **TWO** models used to estimate seasonal variation'. List and briefly describe the **TWO** models. (10 Marks)
- (Total 20 Marks)**

QUESTION 2

Breakable Limited is preparing for the last half of the year and you, as the cost accountant, have been requested to prepare the cash budget for the third quarter of the year. The following information were available:

1. Sales - 20% of monthly sales are in cash, while the balance is on credit.
 - a. Collections from receivables are as follows:
 - i. 60% in the first month after sales.
 - ii. 20% in the second month; and
 - iii. The balance after considering 1% bad debt and 5% discount on the outstanding balance in the third month after sales.
2. Purchases are usually 60% of the month's Sales and are paid for 70% in the same month and 30% in the following month less 2% discount on the total purchase price.
3. Loan of ₦500,000 is expected to be approved by the bank on the first day of August payable equally over twelve months with one month moratorium and 1% interest on the outstanding.
4. Salary Deductions are paid on preceding month basis.
5. The sum of ₦951,550 being fixed deposit will mature in the month of July, ₦500,000 will be reinvested same month with 0.5% interest credited the following month.
6. Cash and Cash equivalent balance as at end of June is ₦1,050,706.00.
7. Bank Charges is 1% of total outflow from the bank payment for the month.

8. Additional Information is as follows:

	April ₦	May ₦	June ₦	July ₦	August ₦	Sept. ₦	Oct. ₦
Sales	850,000	900,000	1,250,000	1,520,000	1,650,000	1,800,000	1,400,000
Net Salaries	430,000	500,000	650,000	720,000	740,000	770,000	770,000
Expenses	210,700	221,500	297,500	277,200	287,500	292,700	292,700
Salaries Deductions	39,400	48,400	49,480	58,700	52,750	57,650	57,650

Required:

Prepare a monthly columnar cash budget for the third quarter of the year.

(Total 20 Marks)

QUESTION 3

From the information given below, you are required to compute the price of store issues and the value of closing stocks using:

- i. First-In-First-Out (FIFO) basis
- ii. Last-In-First-Out (LIFO) basis

- January 2nd - Purchased 500 Units of XYZ at ₦40 per unit
- January 7th - Purchased 200 Units at ₦45 per unit
- January 10th - Issued 300 Units
- January 12th - Purchased 350 Units at ₦42 per unit
- January 15th - Issued 500 Units
- January 18th - Purchased 200 Units at ₦38 per unit

(Total 20 Marks)

QUESTION 4

- a. State clearly the distinction between system security and system control. (2 Marks)
- b. List and explain briefly the **THREE** supply chain management flows. (3 Marks)
- c. Define the following terms in relation to information system:
 - i. Quality assurance
 - ii. Quality control (4 Marks)

- d.
 - i. What is a quality information system? (2 Marks)
 - ii. State any **FIVE** characteristics of quality information system. (5 Marks)
 - e. Enumerate **TWO** examples in each of the following ethical, social and political issues as raised by information systems:
 - i. Ethical issues
 - ii. Human interaction issues
 - iii. Relationship issues
 - iv. Security issues (4 Marks)
- (Total 20 Marks)**

QUESTION 5

- a. Nowadays, e-commerce is becoming more popular in emerging economies.

You are required to:

- i. Define electronic commerce (e-commerce) (2 Marks)
 - ii. List **THREE** advantages and **TWO** disadvantages of e-commerce (5 Marks)
 - iii. State **FOUR** areas of application of e-commerce (4 Marks)
 - iv. State the distinction between B2C and B2B e-commerce models (2 Marks)
- b. Enumerate **FIVE** differences between e-commerce and e-business (5 Marks)
 - c. List **FOUR** e-commerce firms in Nigeria (2 Marks)
- (Total 20 Marks)**

QUESTION 6

- a. Storage controls are controls put in place at the database level where data is stored.
You are required to enumerate **FIVE** examples of storage controls. (5 Marks)
- b. State **ONE** major function of the following IT Department staff:
 - i. Software Engineer
 - ii. System Analyst
 - iii. Network Engineer
 - iv. Software Tester
 - v. Business Analyst (5 Marks)

- c. A system needs to be reviewed and maintained after it has been implemented.

You are required to:

- i. Define System maintenance (1 Mark)
 - ii. State **THREE** reasons for maintaining a system (3 Marks)
 - iii. Enumerate **THREE** reasons for adaptive maintenance (3 Marks)
- d. What is the distinction between Interview and Questionnaire methods of information gathering? (3 Marks)

(Total 20 Marks)

SECTION A

PART I - MULTIPLE CHOICE ANSWERS

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

Workings

(6)	144,000	3,624,000
	842,000	12,000,000
Difference	698,000	8,376,000
	$8,376,000/698,000$	= 12
	$12,000,000 - (842,000 \times 12)$	= 1,896,000

(9)				
Value of good output	S	11,520 x 250	=	2,880,000
	T	9,750 x 320	=	3,120,000
		TOTAL	=	<u>6,000,000</u>

Share of Joint cost
 $\frac{3,120,000}{6,000,000} \times (3,550,000 - 50,000) = \underline{1,820,000}$
Profit = 3,120,000 – 1,820,000 = 1,300,000

Examiner's report

This section contains 20 questions spread across the syllabus. The questions in this section were attempted by almost all the candidates and performance was fair as about 50% of those who attempted them scored above 50% of the marks allocated.

The commonest pitfall was that candidates did not give enough attention to this section, believing that one-mark questions are not critical. Candidates are advised to change their mindset because every mark counts.

SECTION B

SOLUTION 1

- a. A time series is a record of data over a period of time for example, sales revenue per month or revenue per quarter. Time series is a convenient way of representing historical information but more importantly, it might be used to make predictions about the future. This is done by continuing the series forward in time. In order to do this, the time series must be analysed into its component parts.

A change in value of an observed variable in a time series might be due to a combination of factors. These are described as the components of the time series. There are two models of a time series that differ in how these components are linked together.

There are two aspects to analysing a time series from historical data:

- estimating the trend line; and
- calculating the amount of these seasonal variations (monthly variations or daily variations).

The time series can then be used to make estimates for a future time period, by calculating a trend line value and then either adding or subtracting the appropriate seasonal variation for that time period.

Two methods of calculating a trend line are:

- Moving averages; and
- Linear regression analysis.

Linear regression analysis is a technique that produces a line of best fit for observed data.

Moving averages might be used to identify the underlying trend and then linear regression might be used to identify a line of best fit for the moving averages identified.

The technique involves smoothing out fluctuations in the underlying observed data by calculating averages for small groups of observations from that data.

- b. A 'seasonal variation' can be measured from historical data as the difference between the actual historical value for the time period, and the corresponding trend value.

These seasonal variation is then used to adjust a forecast trend value.

There are two models used to estimate seasonal variation:

- The additive model; and
- The proportional model or Multiplicative Model.

The additive model

This model assumes that seasonal variations above and below the trend line in each cycle add up to zero. Seasonal variations below the trend line have a negative value and variations above the trend line have a positive value.

The seasonal variation for each season (or daily variation for each day) is estimated as follows, when the additive assumption is used:

Calculate the difference between the moving average value and the actual historical figure for each time period.

Group these seasonal variations into the different seasons of the year (days of the week; months or quarters of the year).

Calculate the average of these seasonal variations for each season (or day; month; quarter).

If the total seasonal variations for the cycle do not add up to zero the difference is spread evenly across each season (or day; month; quarter).

This adjusted figure is the seasonal variation.

The proportional model

This model expresses the actual value in each season as a proportion of the trend line value.

When a proportional model is used to calculate seasonal variations, rather than the additive model, these seasonal variations for each time period are calculated by dividing the actual data by corresponding moving average or trend line value.

The sum of the proportions for each time period must add up to 1. This means that the total of the proportions quarterly data must sum to 4. If this is not the case the difference is spread evenly over each quarter.

Examiner's report

The question tests candidates' understanding of time series and models used to estimate seasonal variations. Few candidates attempted the question and performance was poor, as they did not understand the requirements. Candidates are encouraged to read widely for future examination and pay attention to every of the question detail.

Marking guide

	Marks
a. 1 mark for points underlined in the solution	10
b. 1 mark for points underlined in the solution	10
Total	20

SOLUTION 2

	JULY	AUGUST	SEPTEMBER
a. INFLOWS			
Sales collections	1,175,840.00	1,394,960.00	1,583,200.00
Loan obtained	-	500,000.00	-
Fixed deposit	951,550.00	-	-
Interest income	-	2,500.00	-
Total (A)	2,127,390.00	1,897,460.00	1,583,200.00
b. OUTFLOWS			
Purchases	848,400.00	948,360.00	1,033,200.00
Net Salaries	720,000.00	740,000.00	770,000.00
Expenses	277,200.00	287,500.00	292,700.00
Salaries deductions	49,480.00	58,700.00	52,750.00
Interest paid	-	5,000.00	5,000.00
Loan repayment	-	-	41,667.00
Fixed deposit	500,000.00	-	-
Bank Charges	23,950.80	20,395.60	21,953.17
Total (B)	2,419,030.80	2,059,955.60	2,217,270.17
Opening Balance	1,050,706.00	759,065.20	596,569.60
A-B	(291,640.80)	(162,495.60)	(631,570.17)
Closing Balance	759,065.20	596,569.60	(37,000.57)

WORKINGS

SALES

	April	May	June	July	August	September
	850,000	900,000	1,250,000	1,520,000	1,650,000	1,800,000
Credit Sales	680,000	720,000	1,000,000	1,216,000	1,320,000	1,440,000
Cash Sales	170,000	180,000	250,000	304,000	330,000	360,000
60%				600,000	729,600	792,000
20%				144,000	200,000	243,200
20%				136,000	144,000	200,000
5% Discount				(6,800)	(7,200)	(10,000)
1% Bad debt				(1,360)	(1,440)	(2,000)
				1,175,840	1,394,960	1,583,200

	May	June	July	August	September
SALES	900,000	1,250,000	1,520,000	1,650,000	1,800,000
PURCHASES	540,000	750,000	912,000	990,000	1,080,000
70%			638,400	693,000	756,000
30%			225,000	273,600	297,000
2% Discount			(15,000)	(18,240)	(19,800)
			848,400	948,360	1,033,200

	July	August	September
BANK CHARGES			
Purchases	848,400	948,360	1,033,200
Net Salaries	720,000	740,000	770,000
Expenses	277,200	287,500	292,700
Salaries deductions	49,480	58,700	52,750
Interest paid	-	5,000	5,000
Loan repayment	-	-	41,667
Fixed deposit	500,000	-	-
	2,395,080	2,039,560	2,195,317

1%	23,950.80	20,395.60	21,953.17
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Interest received			
0.50%	500,000.00	2,500.00	2,500.00

Interest paid			
1%	500,000.00	5,000.00	5,000.00

Loan repayment	$500000/12 =$	41,666.67
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Examiner's report

The question tests candidates' knowledge of preparing cash budgets. About 60% of the candidates attempted the question and candidates' performance was far below average with only about 35% of them scoring 50% and above of the marks allotted.

The major pitfall of most candidates was inability to differentiate between cash and non-cash items as instructed by the examiner. Candidates are, therefore encouraged to carefully study the examiners' report so as to help them in future examination.

Marking guide

Sales	1 mark for each correct entry	3
Loan	½ mark for each correct entry	½
Fixed deposit	½ mark for each correct entry	½
Interest income	½ mark for each correct entry	1
Total (A)		
Purchases	1 mark for each correct entry	3
Net Salaries	½ mark for each correct entry	1½
Expenses	½ mark for each correct entry	1½
Salaries deductions	½ mark for each correct entry	1½
Interest paid	½ mark for each correct entry	1
Loan repayment	½ mark for each correct entry	½
Fixed deposit	½ mark for each correct entry	½
Bank Charges	½ mark for each correct entry	1½
Total (B)		
Opening Balance	½ mark for each correct entry	½
A-B	½ mark for each correct entry	1½
Closing Balance	½ mark for each correct entry	1½
Total		20 Marks

SOLUTION 3

1 (a) PRICING OF STORE ISSUES USING FIFO									
Date	RECEIPTS			ISSUES			BALANCE		
	Qty	U/Cost	Value	Qty	U/Cost	Value	Qty	U/Cost	Value
Jan 2	500	40	20,000				500	40	20,000
Jan 7	200	45	9,000				500	40	20,000
							200	45	9,000
							700		29,000
Jan 10				300	40	12,000	200	40	8,000
							200	45	9,000
							400		17,000
Jan 12	350	42	14,700				200	40	8,000
							200	45	9,000
							350	42	14,700
							750		31,700

Jan 15				200	40	8,000			
				200	45	9,000			
				100	42	4,200			
				500		21,200	250	42	10,500
Jan 18	200	38	7,600				250	42	10,500
							200	38	7,600
							450		18,100

CLOSING STOCK VALUE: ₦18,100.00

(b) PRICING OF STORE ISSUES USING LIFO

Date	RECEIPTS			ISSUES			BALANCE		
	Qty	U/Cost	Value	Qty	U/Cost	Value	Qty	U/Cost	Value
Jan 2	500	40	20,000				500	40	20,000
Jan 7	200	45	9,000				500	40	20,000
							200	45	9,000
							700		29,000
Jan 10				100	40	4,000			
				200	45	9,000			
				300		13,000	400	40	16,000
Jan 12	350	42	14,700				400	40	16,000
							350	42	14,700
							750		30,700
Jan 15				150	40	6,000			
				350	42	14,700			
				500		20,700	250	40	10,000
Jan 18	200	38	7,600				250	40	10,000
							200	38	7,600
							450		17,600

CLOSING STOCK VALUE: ₦17,600.00

Examiner's report

The question tests candidates' understanding of materials pricing using First-In-First-Out (FIFO) and Last-In-First-Out (LIFO) methods.

About 90% of the candidates attempted the question and performance was good as about 60% of candidates scored 50% and above of the marks obtainable.

The major pitfall was lack of presentation skills.

Candidates are encouraged to prepare for future examinations using the ICAN Study Text.

Marking guide

	Ticks	Marks	Marks
i. Pricing of Store Issues using FIFO			
Jan 10 Issues Quantity	1 tick		
Jan 10 Unit Cost	1 tick		
Jan 10 Issues Value	1 tick		
Jan 15 Issues Quantity	3 ticks		
Jan 15 Unit Cost	3 ticks		
Jan 15 Issues Value	3 ticks		
Jan 7 Balance Quantity	1 tick		
Jan 7 Balance Value	1 tick		
Jan 10 Balance Quantity	1 tick		
Jan 10 Balance Value	1 tick		
Jan 12 Balance Quantity	1 tick		
Jan 12 Balance Value	1 tick		
Closing Stock Value	2 ticks		
½ mark per tick	20 ticks	10	
ii. Pricing of Store Issues using LIFO			
Jan 10 Issues Quantity	2 ticks		
Jan 10 Unit Cost	2 ticks		
Jan 10 Issues Value	2 ticks		
Jan 15 Issues Quantity	2 ticks		
Jan 15 Unit Cost	2 ticks		
Jan 15 Issues Value	2 ticks		
Jan 7 Balance Quantity	1 tick		
Jan 7 Balance Value	1 tick		
Jan 10 Balance Quantity	1 tick		
Jan 10 Balance Value	1 tick		
Jan 12 Balance Quantity	1 tick		
Jan 12 Balance Value	1 tick		
Closing Stock Value	2 ticks		
½mark per tick	20 ticks	10	20

SOLUTION 4

- a. System security refers to the policies, procedures and technical measures used to prevent unauthorised access, alteration, theft or physical damage to information systems.

OR

System security is the protection against unauthorized access or modification of information in storage processing or transit and against denial of service to authorized users

WHILE

System control consists of all the methods, policies and organisation procedures that ensure the safety of the organisation's assets including the accuracy and reliability of its accounting records and adherence to management standards.

OR

Is the control and implementation of a set of functions that prevents or eliminates degradation of any part of the system.

- b. The THREE supply chain management flows are:
- i. Product flow: has to do with the movement of goods from supplier to customer as well as customer returns or service needs;
 - ii. Information flow: involves transmitting orders and updating the status of delivery; and
 - iii. Financial flow: consists of credit terms, payment schedule, consignment and title ownership arrangement.

- c. i. Quality Assurance: This relates to the way information system is designed to ensure that the system is doing what it is expected to do.

OR

Processes and procedures that improves quality including training, documentation, monitoring and audit/ensures that products and services consistently meet or exceed customer's expectations.

- ii. Quality control: Relates to checks that are built into the information system or carried out by the organisation to ensure that the quality of the system is maintained.

OR

Is a process through which a business seek to ensure that product quality is maintained or improved.

- d. i. Quality information system is the system whose operations are fit for the purpose for which it is intended.
- ii. Characteristics of quality information system include:

- Storing, handling and managing the business information;
 - Ease of use for users of the system;
 - Reliability including no breakdowns and any issues encountered resolved quickly;
 - Support the work of the employees and objectives of the organisation;
 - Data held within the system is accurate and complete;
 - System operates at an acceptable speed;
 - Correct, appropriate and reliable information can be extracted from the system; and
 - System is supported by a robust set of policies, procedures, and controls.
- e. i. Ethical issues, e.g.
- intellectual property rights
 - electronic monitoring of employees
 - data utilisation
 - Personal privacy
 - Ethics of AI
 - Copyright
 - Liability
 - Technology
 - Access rights
 - Patents
 - Harmful actions
 - Lack of accountability
- ii. Human interaction issues, e.g.
- recruitment and retainment of technical personnel.
 - motivation
 - leadership
 - social presence
 - Organisational champions of information system
- iii. Relationship issues, e.g.
- development partnerships
 - virtual teams
 - group cohesiveness
 - collaboration
 - group facilitation
 - networking
 - buyer-supplier linkages

- iv. Security issues
 - misuse of data
 - virus/worms creation
 - intranet abuse
 - data perfection
 - fraud with systems use
 - standards and regulations

Examiner's report

The question tests candidates' understanding of system security and control of information systems. About 80% of the candidates attempted the question and performance was very good as more than 60% of the candidates scored 50% and above of the marks allotted.

Some candidates did not display sufficient knowledge of the quality of information systems. They are advised to study very well and cover all areas of the syllabus for future examinations.

Marking guide

	Ticks	Total Marks
a. $\frac{1}{2}$ ticks for each distinction	$1\frac{1}{2}$	3
b. 1 tick for each list and explanation	1	3
c. 2 ticks for each term	2	4
d. i. 1 tick for correct definition	1	1
ii. 1 tick for each characteristics	1	5
e. 1 tick each for correct examples	1	4
Total		20

SOLUTION 5

- a. i. Electronic commerce is the process of buying and selling of products and services over electronic systems such as the internet and other computer networks.

OR

It is the process of buying, transferring or exchanging products, services and /or information via computer network and the internet.

ii. **Advantages of e-commerce**

- E-commerce allows people to carry out businesses without the barriers of time and distance.
- The direct cost of sales for an order taken from a website is lower than through traditional means (paper-based).
- It is the cheapest means of doing business.
- It reduces both time and personnel required to complete business processes and reducing strains on other resources.
- It reduces the delivery time, labour cost and costs incurred in document preparation, detection and correction of errors, data entry, supervision expenses etc.
- It reduces buyer sorting-out time.
- Less time is spent in resolving invoices and order discrepancies.
- Wider reach and market availability.
- Ability to operate 24/7.
- Integration with other business systems.
- Very convenient for customers.
- Improved customer engagement.
- Easier management of inventory.

Disadvantages of e-commerce

- Lack of personal touch for it is difficult for customers to check the quality of product/services.
- Delivery of the product not immediate (takes time) unlike the traditional business where one get the product as soon as payment is made.
- E-commerce is prone to security threats for it is easier for hackers to get customers details.
- Dependence on technology
- Increased competition
- Lack of physical interaction with customers
- Difficulty in establishing trust
- Legal and regulatory compliance
- Initial investment and ongoing maintenance cost may be high

iii. **Areas of application of e-commerce**

- Mobile commerce
- Electronic fund transfer
- Supply chain management
- Internet marketing
- Online transaction processing
- Electronic data interchange (EDI)
- Internet banking
- B2B innovation
- Manufacturing

- Mobile application
- Digital shopping
- Multimedia
- Social networking
- Emails

iv. B2C = Business-to-Customer describes activities of business serving end users with products/services or electronic business relationship between business and final consumer e.g transaction between a commercial bank like first bank and individual customer.

B2B = Business-to-Business e-commerce that encompasses all electronic transactions of goods and services conducted between one company and another company. Example is a transaction between Central bank of Nigeria and a commercial bank.

b. Differences between e-commerce and e-business

- i. e-commerce is buying and selling of goods and services through the internet, e-business is an electronic presence of business through which all business activities are conducted through the internet.
- ii. e-commerce is e-business website, but e-business is not necessarily e-commerce.
- iii. e-commerce uses internet to connect to the rest of the world while e-business uses internet, intranet and extranet to connect with the parties.
- iv. e-commerce requires a website that can represent the business while e-business requires a website customer relationship management and enterprise resource planning for running the business over the internet.
- v. e-commerce includes transaction relating to money, but e-business include monetary and allied activities.
- vi. e-commerce is a major part of e-business.
- vii. In e-commerce, transactions are limited while in e-business transactions are unlimited.
- viii. e-commerce covers external business processes whereas e-business covers both internal and external processes/activities.

c. e-commerce firms in Nigeria

- i. Jumia Nigeria
- ii. Konga
- iii. Jiji Nigeria
- iv. OLX
- v. Deal Dey
- vi. SME Market Hub

- vii. SLOT
- viii. Kara
- ix. Payparte
- x. Kaiglo Nigeria
- xi. Supermart
- xii. Kusriap
- xiii. Ajebo market
- xiv. Obivezy
- xv. Printivo store etc.
- xvi. Yudala
- xvii. Ebeosi etc.

Examiner's report

The question tests candidates' understanding of electronic commerce (e-commerce).

About 95% of the candidates attempted the question and performance was very good as about 75% of the candidates scored 50% and above of the marks allocated.

A few candidates however, required to answer the question appropriately. They are advised to familiarise themselves with such terms when preparing for future examinations.

Marking guide

	Ticks	TotalMarks
a. i. 2 ticks for correct definition	2	1
ii. 1 tick each for correct points	1	6
iii. 1 tick for each application	14	
iv. 1 tick for each correct distinction	1	2
b. 1 tick for each difference	1	5
c. $\frac{1}{2}$ tick for each form	$\frac{1}{2}$	2
Total		20

SOLUTION 6

- a. Storage controls
 - i. File labeling in a particular order to prevent accidental loss of storage media.
 - ii. Segregation of duty between the input and storage officers.
 - iii. Access to storage media must be properly authorised.
 - iv. Access to the database must be properly authorised.
 - v. There must be a log file which records every activity carried out on the database.

- vi. Physical security of storage media environment including the data processing centre.
- vii. Regular file backup.
- viii. Proper custody of storage media to prevent data loss and damages.

b. Functions of IT Department staff

- i. Software Engineer: design and program system level software like operating systems, database systems, embedded systems as well as application software.
- ii. Systems Analyst: investigate and analyse business problems and then design information systems that provide a feasible solution in response to requests from their business or customer.

OR

A person who uses analysis design techniques to solve business problems using information technology.

- iii. Network Engineer: Setting up, administering, maintaining and upgrading communication systems, and network for an organisation.

OR

Network architect that designs, implements, manages and troubleshoot computer network of an organisation.

- iv. Software Tester: Preparing test scripts and testing applications before it is released to end – users. OR

A person responsible for checking and testing whether a software satisfies expectation for which the software was developed.

- v. Business Analyst: - function involves analysing User's needs, gathering and documenting requirements and creating a project plan to design the resulting technology solution.

OR

A person who processes, interprets and document business process, products, services and software through analysis of data.

c. System maintenance

- i. System maintenance is the process of modifying a system after it has been implemented and in use to correct errors and provide new facilities.
- ii. Purposes/reasons
 - To deal with unforeseen problems arising from the operations of the system.
 - To confirm that the planned objectives are being met and to take action(s) if there are deviations.
 - To ensure that the system is able to cope with the changing requirements of the system/business.

iii. Reasons for adaptive maintenance.

- User requests may have changed or ill defined when the system was designed.
- The system environment may have significantly changed.
- The system may have grown beyond the limits that were originally envisaged for it.

d. **Distinction between interview and question methods:**

Interview: this is the face – to – face discussion between system analyst (interviewer) and the respondents (interviewee or respondent), specialised other individuals with the knowledge of the system. The analyst asks questions and obtains answers, comments and suggestions. It is the most widely used fact – finding method.

WHILE

Questionnaire is a method of fact – finding for obtaining data and information from a large number of people in a uniform manner on specific issues. It consists of a set of questions written down by the questionnaires to be answered in writing by the respondents. It is a widely used method of fact – finding for collecting data and information from large number of respondents.

Examiner's report

The question tests candidates' understanding of storage control, IT department functions and system maintenance.

About 75% of the candidates attempted the question and performance was very good as about 65% of them scored 50% and above of the marks allocated. Some candidates mixed up the functions of some IT personnel.

Candidates are encouraged to lay more emphasis on this subject during preparations for future examinations.

Marking guide

		Tick	Total Marks
a.	1 tick for each example of storage	1	5
b.	1 tick each for functions	1	5
c. i.	1 tick for control definition	1	1
ii.	1 tick for each reason	1	3
iii.	1 tick each for reason	1	3
d.	$1\frac{1}{2}$ ticks for correct distinction	$1\frac{1}{2}$	3
	Total		20

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**FOUNDATION LEVEL EXAMINATION – MAY 2024****BUSINESS, MANAGEMENT & FINANCE****EXAMINATION INSTRUCTIONS****PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER**

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

WEDNESDAY, MAY 15, 2024**DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
FOUNDATION LEVEL EXAMINATION – MAY 2024
BUSINESS, MANAGEMENT & FINANCE

Time Allowed: 3¼ hours (including 15 minutes reading time)

SECTION A: MULTIPLE-CHOICE QUESTIONS (20 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT 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 best describes the objective of a Not-for-profit organisation?
 - A. Maximising benefits
 - B. Maximising of shareholders' wealth
 - C. Earn a return for the owners
 - D. Increase in market value
 - E. Capital growth

2. Co-operatives form of business are owned by the
 - A. Owners
 - B. Managers
 - C. Members
 - D. Investors
 - E. Governments

3. Which of the following is the focus of an informal organisation?
 - A. Process
 - B. Plan
 - C. Work
 - D. People
 - E. Organising

4. Which of the following is **NOT** an aspect of employment law?
 - A. Minimum wage
 - B. Working conditions
 - C. Cash flow
 - D. Redundancy
 - E. Discrimination

5. The purpose of data protection law is to protect the
- A. Managers
 - B. Owners
 - C. Governments
 - D. Individuals
 - E. Investors
6. Which of the following is **NOT** a feature of a profession?
- A. Admit new members to the profession
 - B. Award qualifications to individuals who achieve a required standard of skill or competence
 - C. Expel members from the profession, for professional conduct
 - D. High entry requirements
 - E. An extensive period of rigorous academic training in a particular area
7. The decisions and actions of all professional accountants in an organisation are guided by
- A. Organisational culture
 - B. Management
 - C. Professional trainings
 - D. Core values
 - E. Corporate code of ethics
8. An organisation that is not defined by, or limited to, the horizontal, vertical, or external boundaries imposed by a predefined structure is called a/an
- A. Matrix organisation
 - B. Boundaryless organisation
 - C. Divisonal organisation
 - D. Virtual organisation
 - E. Entrepreneurial organisation
9. Which of the following best describes the promotion of team spirit and unity among employees in an organisation?
- A. Togetherness
 - B. Equity
 - C. Esprit de Corps
 - D. Scalar Chain
 - E. Division of Work

10. According to McClelland motivation theory, a **N-ach** person seeks
- A. Authority
 - B. Achievement
 - C. Power
 - D. Affiliation
 - E. Effort
11. Which of the following is **NOT** a characteristic of a successful work team?
- A. The team should have a complex purpose
 - B. The team should have effective leadership
 - C. Its area of authority should be clearly defined
 - D. Provide benefits to the business
 - E. Morale or team spirit should be high
12. Which of the following does **NOT** describe the need for effective communication?
- A. Instructions and guidelines are properly understood
 - B. Individuals know what they are expected to do
 - C. Better co-ordination between people and groups
 - D. Arguments and conflicts in the work place are reduced
 - E. Openness, understanding and trust are eliminated
13. Which of the following components of a report is of a top priority?
- A. Subject
 - B. Writer
 - C. Objective
 - D. Reader
 - E. Structure
14. Which of the following is **NOT** a feature of effective report?
- A. Fit for purpose
 - B. Decisive
 - C. Persuasive
 - D. Correct in fact and language
 - E. Lasting

15. Which of the following does **NOT** represent short-dated financial instruments?
- A. Treasury bills
 - B. Bills of exchange
 - C. Commercial paper
 - D. Certificates of deposit
 - E. Equity finance
16. A method of issuing new shares for cash to a relatively small number of selected investors is called
- A. Financing
 - B. Public offer
 - C. Rights issue
 - D. Placing
 - E. Private offer
17. Calculate the present value, discounted at 15 percent, of receiving ₦500,000 at the end of year 4
- A. ₦245,836.22
 - B. ₦255,846.32
 - C. ₦265,856.42
 - D. ₦275,866.52
 - E. ₦285,876.62
18. Which of the following is an advantage of a partnership form of business?
- A. Unlimited liability for the individual partners
 - B. Minimal organisational effort and costs
 - C. Limited ability to raise large sums of money
 - D. Dissolved upon the death of any of the partners
 - E. Dissolved upon the withdrawal of any of the partner
19. Calculate the present value, discounted at 6 percent, of receiving ₦300,000 at the end of year 5
- A. ₦222,175.45
 - B. ₦223,176.45
 - C. ₦224,177.45
 - D. ₦225,178.45
 - E. ₦226,179.45

20. A series of regular or periodic payments of equal amounts are called
- A. Sinking funds
 - B. Premium
 - C. Annuities
 - D. Interest
 - E. Direct transfer

SECTION B: OPEN-ENDED QUESTIONS (80 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT FOUR OUT OF THE SIX QUESTIONS IN THIS SECTION

QUESTION 1

As maintained by Harold Koontz “management is an art of creating an environment in which people can perform and individuals can co-operate towards attainment of group goals”.

- a. Define the term “Self-efficacy”. (2 Marks)
- b. Briefly explain **FOUR** ways in which self-efficacy impact human functions. (8 Marks)
- c. Briefly explain the following concepts:
 - i. Management by objectives (MBO);
 - ii. Intrinsic rewards;
 - iii. Unity of direction;
 - iv. Communication style;
 - v. Queuing theory;(10 Marks)

(Total 20 Marks)

QUESTION 2

- a. Briefly explain the term “Financial engineering”. (3 Marks)
- b. Describe the relationship between financial accounting and management accounting. (4 Marks)
- c. State **FIVE** examples of Nigerian bond markets hosted by the Nigerian Exchange Limited (NGX). (5 Marks)
- d. Explain briefly the following financial concepts.
 - i. Certificate of deposits (CDS)
 - ii. Commercial paper (CP)
 - iii. Treasury bills (TB)
 - iv. Banker’s acceptances (BAs)(8 Marks)

(Total 20 Marks)

QUESTION 3

- a. Explain briefly **FIVE** ethical threats that could compromise a professional accountant's ability to comply with relevant laws and regulations. (5 Marks)
- b. Within the framework of a capital budget and strategic planning, state the **FIVE** steps of investment appraisal. (5 Marks)
- c. When companies retain profits in the business, the increase in retained profits adds to equity reserves.
- i. Explain **TWO** benefits of retaining profits in the business. (4 Marks)
- ii. Explain **THREE** reasons why there could be a limit to the amount of earnings available for retention. (6 Marks)
- (Total 20 Marks)**

QUESTION 4

- a. Define the term "Stakeholder". (2 Marks)
Explain briefly **THREE** internal stakeholders of a company. (6 Marks)
- b. State **FOUR** advantages and **FOUR** disadvantages of Joint ventures. (8 Marks)
- c. On the basis of qualification, nature of work, establishment and motive; distinguish between profession and employment. (4 Marks)
- (Total 20 Marks)**

QUESTION 5

- a. Conflict usually has a negative impact on the effectiveness of an organisation
- i. Explain **SIX** causes of conflict in an organisation. (6 Marks)
- ii. Explain **FOUR** characteristics of conflict. (4 Marks)
- b. Explain briefly **THREE** implications of expectancy theory for management. (6 Marks)
- c. State **TWO** disadvantages of Management by Objective (MBO). (4 Marks)
- (Total 20 Marks)**

QUESTION 6

Managers that do not design effective communication models risk the long-run survival of their organisations.

- a. Define the term "Formal communication". (2½ Marks)
- b. State **FIVE** attributes of effective communication system. (7½ Marks)
- c. List **SIX** features of effective reports. (6 Marks)
- d. State **FOUR** features of bad reports. (4 Marks)
- (Total 20 Marks)**

SECTION A

PART I - MULTIPLE CHOICE ANSWERS

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

Tutorial

MCQ 17

$$P = 500,000 \left[\frac{1}{(1+0.15)^4} \right] = \text{₹ } 500,000 \times 0.5717.53 = 285,876.62$$

MCQ 19

$$P = 300,000 \left[\frac{1}{(1+0.06)^5} \right] = \text{₹ } 300,000 \times 0.7473 = 224,177.45$$

Examiner's report

Section A of the paper comprises of twenty mandatory multiple-choice questions. The questions test candidates' comprehension of the various aspects of the syllabus. This section is compulsory and was attempted by almost all the candidates. All the candidates attempted the questions and more than 50% of the candidates scored above average. Candidates should be encouraged to cover all aspects of the syllabus. ICAN study text and Pathfinder offer the required guidance.

Marking guide

Section A

MCQs 1-20 Award 1 mark each for any correct option stated, up to a maximum of 20 marks

20 Marks

SECTION B

SOLUTION 1

- a. Self-efficacy is the measure of the belief in one's own ability to succeed in a given situation that is, to complete tasks and reach goals. It reflects confidence in the ability to exert control over one's own motivation, behavior and environment.
- b. Levels of self-efficacy impact human functions in a number of ways.
 - i. **Motivation:** People with high self-efficacy are more likely to make the effort to complete a task and persist with those efforts than people with low self-efficacy. However, this can also manifest as high self-efficacy people being over-confident, less thorough and less well-prepared compared to someone with low self-efficacy.
 - ii. **Behaviour choice:** High self-efficacy generally leads to tasks being undertaken, whereas low self-efficacy generally leads to tasks being avoided. High self-efficacy beyond one's ability level to complete a task can lead to poor execution of the task, whereas self-efficacy significantly below ability levels can lead to under-achievement and stifle growth. The optimal level of self-efficacy is considered to be slightly above ability.
 - iii. **Thought patterns and responses:** High self-efficacy people will attribute failure to external factors, whereas low self-efficacy people will blame themselves. Barriers and obstacles will stimulate high self-efficacy employees whereas they will tend to discourage low self-efficacy employees. Employees with high self-

efficacy tend to take a broader overview of a task and embrace 'big-picture' thinking whereas low self-efficacy employees will limit their thinking and focus on achieving rather than exceeding. Low self-efficacy employees tend to think that tasks are harder than they actually are. This then can result in poor planning and increased stress levels.

- iv. **Academic productivity:** It has been argued that students with high self-efficacy demonstrate better academic performance than those with low self-efficacy. This is because they are more likely to proactively take control of their learning experience, participate in class and enjoy hands-on learning experiences.

c. **Brief explanation of the following concepts.**

i. **Management by Objectives (MBO)**

Management by Objectives is a management approach that emphasises the establishment of clear objectives and goals for individuals and teams within an organisation. It involves setting specific, measurable, achievable, relevant and time-bound (SMART) objectives that align with the overall organisational goals. MBO aims to create a sense of direction and focus, promote employee engagement and motivation as well as improve organisational performance. It typically involves a collaborative process between managers and employees, where objectives are jointly established, progress is monitored, and feedback is provided regularly.

ii. **Intrinsic rewards**

Intrinsic rewards refer to the internal or psychological rewards that individuals experience as a result of engaging in a particular activity or task. These rewards are inherently satisfying and enjoyable and come from within the individual. Examples of intrinsic rewards include a sense of accomplishment, personal fulfillment, enjoyment of the work itself, a feeling of competence, or the opportunity for personal growth and development. Unlike extrinsic rewards such as money or external recognition, intrinsic rewards are derived directly from the activity or task and can significantly impact an individual's motivation and engagement.

iii. **Unity of direction**

Unity of direction is a principle of management that emphasises the need for all individuals and groups within an organisation to work towards a common goal. It suggests that there should be a single plan of action and a coordinated effort to achieve the organisation's objectives. Unity of direction ensures that everyone understands the organisation's overall direction, strategies, and priorities, and that their individual efforts are aligned with the larger goals. It helps minimise conflicts, duplication of efforts and confusion, thereby improving organisational efficiency and effectiveness.

iv. **Communication style**

Communication style refers to the manner in which individuals express themselves, convey information and interact with others during the communication process. It encompasses various elements such as verbal and nonverbal cues, tone of voice, choice of words, listening skills, and overall communication approach. Communication styles can vary widely among individuals and can be influenced by cultural, personal and situational factors. Effective communication styles involve clarity, active listening, empathy, adaptability and the ability to convey information in a manner that is easily understood by the intended audience.

v. **Queuing theory**

Queuing theory is a branch of mathematics and operations research that deals with the study and analysis of queues or waiting lines. It provides a framework for understanding and optimising the behaviour and performance of systems involving the arrival, service, and departure of entities (such as customers, vehicles, or data packets) in a sequential manner. Queuing theory helps in analysing factors such as average waiting time, queue length, service capacity, arrival rates and service rates to optimise system performance and resource allocation. It finds applications in various fields, including telecommunications, transportation, healthcare and customer service, where waiting lines are prevalent.

(Total 20 Marks)

Examiner’s report

The question is in three parts. The first part requires the definition of self-efficacy while the second part demands a brief explanation of how self-efficacy impacts human functions. The third requires candidates to explain the following concepts: management by objectives (MBO); intrinsic rewards; Unity of Direction; Communication style; and Queuing theory. Majority of the candidates attempted the question and the pass rate was above average. Candidates should be encouraged to be using ICAN Study Text and Pathfinder as guide.

Marking guide

	Marks	Marks
a. Award a maximum of 2 marks for stating the correct definition of self-efficacy	2	
b. Award a maximum of 2 Marks each for the correct explanation of any four ways in which self-efficacy impacts human functions (2 x 4)	8	
c. Award a maximum of 2 marks each for the correct explanation of the concepts (2 x 5)	10	
Total	<u>10</u>	<u>20</u>

SOLUTION 2

- a. Financial engineering involves the use of mathematical techniques to solve financial problems. Tools and knowledge are drawn from the fields of statistics, economics, computer science and applied mathematics to address current financial issues; and devise new and innovative financial products. Financial engineering is sometimes called quantitative analysis and is primarily used by investment banks, insurance agencies, hedge funds and commercial banks.

Financial engineering can also be used to refer to strategies adopted by companies to maximise profits or other metrics through derivatives that address unusual risks faced by a party in a transaction; structuring a purchase or sale in a way that better addresses the interests of the buyer or seller; and using new methods to compute the fair value of new or existing financial instrument.

- b. **The relationship between financial accounting and management accounting**

Financial accounting and management accounting are two branches of accounting that serve different purposes within an organisation.

- i. Financial accounting focuses on the preparation, presentation, and reporting of financial information to external stakeholders, such as investors, creditors, and regulatory authorities. Its primary objective is to provide accurate and reliable financial statements, including the statement of profit or loss, statement of financial position and statement of cash flows that reflect the financial performance and position of the organisation. One aspect of financial accounting is the assessment of financial performance and financial position using accounting ratios such as return on capital employed, gearing, profitability ratios and working capital ratios. Users of financial reports can try to use the information in financial statements to make predictions about the future. Ratio analysis is also an element of financial management, because the attitude of shareholders and other investors to a company will depend largely on prospects for its financial performance and the strength of its capital structure.
- ii. Management accounting is concerned with the provision of financial information to internal stakeholders, specifically the management of an organisation. Its primary objective is to support managerial decision-making, planning and control. Management accounting provides information such as cost analysis, budgeting, performance measurement and variance analysis to help managers make informed decisions and effectively manage the organisation's resources. An aspect of management accounting is strategic management accounting, which is concerned with providing senior management with information to assist with the long-term (strategic) planning and control.

- iii. Financial accounting focuses on historical financial data and follows Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS). Management accounting is more flexible and can tailor its reports and analysis to meet the specific needs of management. Financial accounting is primarily concerned with external reporting and compliance, whereas management accounting is focused on internal decision-making and performance evaluation.
 - iv. Financial accounting and management accounting overlap in the area of working capital management. Staff in the financial accounting department might have the day-to-day responsibility for trade receivables, in particular the collection of payments. An aspect of management accounting is to provide information for inventory control, such as information about economic order quantities and reorder levels.
- c. The following are the examples of the Nigerian bond markets hosted by the Nigerian Exchange Limited (NGX):
- i. Federal government bonds;
 - ii. FGN savings bonds;
 - iii. State/local government bonds;
 - iv. Supranational bonds;
 - v. Corporate bonds; and
 - vi. Eurobonds
- d. i. Certificates of deposit (CDs): Certificates of deposit are financial instruments issued by banks or financial institutions to depositors acknowledging that the bank is holding a short term bank deposit on which interest is being earned. CDs typically have a fixed maturity date and pay a fixed interest rate. They are considered to be low risk investments because they are insured by the Nigeria Deposit Insurance Corporation (NDIC). CDs offer a higher interest rate compared to regular savings accounts but generally have penalties for early withdrawal before the maturity date.
- ii. Commercial paper (CP): Commercial paper refers to short-term unsecured promissory notes issued by corporations, financial institutions, or government entities to meet their short-term funding needs. It is typically issued at a discount to its face value and has maturities ranging from a few days to a few months. Commercial paper is a common instrument used by highly rated companies to raise funds quickly and at a lower cost compared to other forms of borrowing. Investors in commercial paper include money market funds, institutional investors and other entities seeking short-term investments with relatively low risk.

- iii. Treasury bills (TBs): Treasury bills are financial instruments acknowledging a short-term debt issued by governments to finance their short-term funding requirements. They are typically issued by central banks on behalf of the government and have maturities of less than one year, usually 91 days, 182 days, or 364 days. Treasury bills are considered to be low-risk investments as they are backed by the full faith and credit of the government. The buyer or holder of a bill can hold the bill until maturity, when it should be redeemed. Alternatively, the bill holder can sell the bill in a secondary market before maturity. Bills are redeemable at face value (at 'par') and do not pay interest. Therefore, their market value is always below their redemption value or face value.
- iv. Banker's acceptances (BAs): Banker's acceptances are short-term financial instruments that arise from a time draft or bill of exchange drawn on and accepted by a bank. They are commonly used in international trade transactions to facilitate payments between importers and exporters. A banker's acceptance represents a bank's unconditional promise to pay the holder of the instrument a specified amount at a future date. They are typically traded at a discount to their face value in the secondary market and are considered to be relatively low-risk investments due to the involvement of banks in the transaction.

(Total 20 Marks)

Examiner's report

The question is in four parts. The first part tests the candidates' knowledge of financial engineering". The second part examines the connection between financial accounting and management accounting. The third part requests five examples of Nigerian bond markets hosted by NGX. The fourth part requires candidates to explain the following concepts: Certificates of deposits (CDs); Commercial paper (CP); Treasury bills (TB); and Bankers acceptances (BAs). More than half of the number of candidates attempted the question and majority scored above average.

For better performance in future examinations, candidates are strongly advised to cover the entire syllabus in their preparation for this subject and make adequate usage of the study text.

Marking guide

	Marks	Marks
a. Award a maximum of 3 marks each for stating the correct definition of financial engineering	3	
b. Award a maximum of 1 mark each for any 4 relationship correctly described (1 x 4)	4	
c. Award a maximum of 1 mark each for the examples of the Nigerian bond market stated (1 x 5)	5	
d. Award 2 marks (maximum) each for correctly explaining the stated financial concepts. (2 x 4)	8	
Total		<u>20</u>

SOLUTION 3

a. The ethical threats

- i. **Self-interest threat:** The threat that a financial or other interest will inappropriately influence the professional accountant's judgment or behaviour;
- ii. **Self-review threat:** The threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed by himself or herself, or by another individual within the professional accountant's firm or employing organisation, on which the accountant will rely when forming a judgment as part of providing a current service;
- iii. **Advocacy threat:** The threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised;
- iv. **Familiarity threat:** The threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work; and
- v. **Intimidation threat:** The threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, for example, attempts to exercise undue influence over the professional accountant.

b. The steps of investment appraisal within the framework of a capital budget and strategic planning include:

- i. Generating capital investment proposals in line with the company's strategic objectives;
- ii. Forecasting relevant cash flows relating to the project;
- iii. Evaluating the projects;
- iv. Implementing projects which satisfy the company's criteria (i.e. project that will earn a satisfactory return on investment); and
- v. Monitoring the performance of investment projects to ensure that they perform in line with expectations.

c. (i) **Benefits of retaining profits in business**

- **Cheap source of financing:** When new equity is raised by issuing shares, there are large expenses associated with the costs of the issue. When equity is increased through retained earnings, there are no issue costs because no new shares are issued.
- **Availability of funds:** The finance is readily-available, without having to present a case to a bank or new shareholders. Shareholder approval is not required for the retention of earnings.
- **Increased financial reserves:** Retaining profits allows a company to build up its financial reserves, which enhances its stability and flexibility.
- **Cushion against financial challenges:** By retaining earnings, a company can create a cushion to withstand economic downturns, unexpected expenses, or other financial challenges. It provides a source of internal funding that can be used for investments, expansion initiatives, research and development, or strategic opportunities without relying solely on external financing.
- **Enhances growth:** Retained profits can fuel the growth and expansion of a company. By reinvesting earnings back into the business, a company can finance new projects, acquire assets, develop new products or services, or enter new markets. Retained profits can provide a reliable and cost-effective source of capital for these endeavours, enabling the company to pursue its long-term growth objectives.

(ii) **Reasons why there could be a limit to the amount of earnings available for retention**

- i. **Availability of profits:** The company might not earn large profits. Earnings can only be retained if the company is profitable.
- ii. **Efficiency:** Retained earnings must be used efficiently, to provide a suitable return on investment. Unless retained earnings contribute to

- future growth in earnings and dividends, shareholders will demand higher dividends and lower earnings retention.
- iii. **Dividend policy:** Earnings are either retained or paid out to shareholders as dividends. By retaining earnings, a company is therefore withholding dividends from its shareholders. A company might have a dividend policy, and its shareholders might have expectations about what future dividends ought to be. Earnings retention is therefore restricted by the constraints of dividend policy.
 - iv. **Capital requirements and debt obligations:** Companies may have substantial capital requirements or debt obligations that limit the amount of earnings available for retention. If a company needs to repay loans or meet interest payments, it may have to allocate a significant portion of its earnings towards these obligations, leaving limited funds for retention.
 - v. **Dividend expectations and shareholder demands:** Shareholders often expect a return on their investment in the form of dividends. If a company has a consistent dividend policy or has made commitments to distribute a certain percentage of profits as dividends, it may have limited funds available for retention. Balancing the interests of shareholders and the need for capital retention can be a challenging task.
 - vi. **Regulatory and legal constraints:** Some industries or jurisdictions impose regulatory or legal constraints on the amount of earnings that can be retained by a company. These constraints may be in the form of dividend payout ratios, capital adequacy requirements or other financial regulations. Such limitations can restrict the amount of earnings available for retention and influence a company's capital allocation decisions.

Examiner's report

The question is in three parts (a) of the question examines candidates' knowledge of the ethical threats that could compromise a professional accountant's ability to comply with relevant laws and regulations. Part (b) requests candidates to state the five steps of investment appraisal. Part (c) is in two subparts and it requests the benefits of retaining profits in business and reasons why there could be a limit to the amount of earning available for retention. Above average attempted the question and the pass rate was above average.

Candidates are expected to have a mastery of the contents of the syllabus through adequate usage of ICAN Study Text and Pathfinders.

Marking guide

	Marks	Marks
a. Award a maximum of 1 mark each for explaining 5 ethical threats that could compromise an accountant's ability to comply with relevant laws and regulations. (1 x 5)	5	
b. Award a maximum of 1 mark for each of the 5 steps of investment appraisal correctly explained. (1 x 5)	5	
c. i. Award a maximum of 2 marks each for a correct explanation of any 2 benefits of retaining profits in the business (2 x 2)	4	
ii. Award a maximum of 2 marks each for correctly explaining 3 reasons why there could be a limit to the amount retained from earnings. (2 x 3)		
	<u>6</u>	
Total		<u><u>20</u></u>

SOLUTION 4

- a. A stakeholder is an individual, group or entity that has an interest or concern in an organisation or project and is affected by its activities, decisions, or outcomes. Stakeholders can include individuals or groups such as employees, shareholders, customers, suppliers, government agencies, local communities and even competitors.
- b. **The internal stakeholders of a company are:**
- i. **Shareholders or owner:** Shareholders are individuals or entities that own shares or equity in the company. They have a financial interest in the company's performance and profitability. Shareholders may include individual investors, institutional investors or even employees who own company stock through employee stock ownership plans (ESOPs). They may participate in decision-making through voting rights and have expectations of receiving dividends or capital appreciation on their investment. The main shareholders are not usually involved in the day-to-day management. Shareholders in a large company are usually investors, seeking to earn a return on their investment in the form of dividends and higher share price. Shareholders leave the management of their company to the board of directors and executive management team. However, they might become more closely involved in the company and try to influence the decisions of the directors, when they feel that their interests are threatened.

- ii. **Executive directors and senior managers:** The management team and executives within the company form another important internal stakeholder group. They are responsible for making strategic decisions, overseeing day-to-day operations and ensuring the company's success. Their interests may include achieving financial targets, enhancing the company's reputation and maximising shareholder value. A board of directors might consist of executive directors and non-executive directors. Executive directors are usually full-time employees of the company, whereas non-executives are not. As executives and full-time employees, executive directors are involved in the management of the company. Their interests are therefore often similar to the interests of other senior executives, who do not have a position on the board of directors.
- iii. **Managers and employees:** Employees are a crucial internal stakeholder group. They contribute to the day-to-day operations of the company and are directly affected by its decisions and performance. Employees may have a vested interest in the company's success as it can affect their job security, career growth opportunities, compensation and working conditions. Managers in the middle and junior ranks of a management hierarchy might have ambitions to become senior managers. However, their interests and concerns are different. Often, junior managers and other employees share common interests such as pay, working conditions, job security, job satisfaction and quality of life.

c. **Advantages of a joint venture**

- i. Provides opportunity to gain new insights and expertise.
- ii. Enables access to specialised technology, staff and other resources.
- iii. It is of a limited lifespan and short-term commitment in the event that the project fails, risks and costs are jointly shared.
- iv. Eradicates the risk of discrimination.

Disadvantages of a joint venture

- i. Flexibility can be restricted.
- ii. Degree of partners' involvement may not be equal.
- iii. Clash of cultures and management styles may impair the success of the venture.
- iv. It has unclear and unrealistic objectives.

d. **Comparison of profession and employment.**

Basis	Profession	Employment
Qualification	Certified professional knowledge is essential	Determined by the employer and specified in the job specification
Nature of work	Rendering highly skilled and professional services	Performance based on job analysis
Establishment	Membership of a specified professional body is required	Contract of employment usually forms the basis of employment
Motives	The motive is to render service and charge fees	The motive is to serve as a means of livelihood

(Total 20 Marks)

Examiner's report

The question is in four parts. Part (a) tests the concept of "Stakeholder". Part (b) requires an explanation of the internal stakeholders. Part (c) tests the advantages and disadvantages of Joint Ventures and part (d) examines the distinguishing factors between profession and employment. Majority of the candidates attempted the question and the pass rate was good.

For better performance in future examinations, candidates should concentrate on the usage of the ICAN Study Text.

Marking guide

	Marks	Marks
a. Award a maximum of 2 marks for stating the correctly defining 'stakeholder'	2	
b. Award a maximum of 2 marks each for correctly explaining 3 internal stakeholders in a company. (2 x 3)	6	
c. Award a maximum of 1mark each for correctly stating the advantages /disadvantages of the joint ventures. (1 x 4) + (1 x 4)	8	
d. Award a maximum of ½ Mark each for the required distinguishing factors correctly explained (½ x 8)	4	
Total	<u>4</u>	<u><u>20</u></u>

SOLUTION 5

a. i. Causes of conflict in an organisation

- Conflict can arise when individuals are unclear about their respective areas of responsibility, so that one person believes that another is trying to take away his authority and responsibility. Conflict occurs because each individual believes that he has the responsibility for doing something, and it is not the responsibility of the other person.
- Conflict can arise when workgroups are unclear about their respective area of responsibility. Each workgroup believes that it has the decision-making responsibility and not the other group.
- Conflict may occur when one person or group thinks that another person or group is deliberately trying to spoil what he is or they are trying to do, by being deliberately unhelpful or critical. For example, there may be conflict between the operations division and finance department of a company if the operations division's management want to invest in new equipment and the finance department will not allow them to have the money to invest.
- Conflict may occur when two workgroups are pursuing incompatible objectives. Similarly, conflict may occur between management and trade union representatives, because management act in the best interests of the organisation and its owners, and the trade union representatives try to get the best terms of employment for their members.
- On a personal level, conflict can arise when one individual thinks he can tell another person what to do, but the other person refuses to follow his instructions or recognises his authority.
- Conflict may even occur when operational managers are advised by specialist. The operational managers may feel that the specialists are being deliberately unhelpful in the advice they give. The specialists might feel that their advice is being wasted when it is ignored.
- Conflict may occur due to the nature of the work involved, so that for one person or group to succeed, another group has to fail. Operational departments may have conflicts with regulators and checkers for this reason.
- Political conflict may occur at the most senior level of the organisation, for example among the directors and senior managers of a company.
- Conflict might arise due to personality differences and natural ways of approaching a task. For example, there may be conflict between a

conservative employee who favours a measured and structured approach to implementing a new piece of technology versus a more adventurous and care-free employee who favours a try it, see what happens and worry later approach.

- Non-compliance with rules, regulations and policies can be a common cause for conflict between those breaching the rules and those advocating compliance.
- Simple misunderstanding through ineffective communication can be another common cause of conflict in the workplace. For example, written communication may not easily convey body language or elicit constructive dialogue and hence misrepresent the tone with which it was sent.
- Conflict may arise where quotas and incentives generate competition for a scarce resource. Whilst on the one hand healthy competition can be good motivator, it can also lead to destructive and divisive behaviour such as sabotage and deliberate misinformation.

ii **Characteristics of conflict**

- Conflict usually has a negative impact on the effectiveness of an organisation.
- There may be unfriendly rivalries between workgroups, departments or individuals.
- The individuals or groups in conflict are unlikely to communicate openly with each other.
- There may be inter-departmental disputes and arguments.
- Individuals or groups will be unwilling to listen to ideas from others with whom they are in conflict. There will be a refusal to co-operate.
- The opponents or rivals will constantly make accusations of wrongful treatment or improper behaviour.
- Individuals are likely to feel frustrated in their work and put the blame on the 'enemy'.
- There may be disputes over rights and responsibilities.

b. **Implications of expectancy theory for management**

- i. Motivation depends partly on valence, which is the strength of an individual's desire for particular rewards. Managers should therefore try to find out what their employees do want.
- ii. Motivation also depends on expectancy. Some individuals do not believe that they are able to achieve better performance by trying harder. They may lack self-confidence, or lack training. Alternatively, they may not be in a position to affect performance, in which case motivation will be very low, and possibly nil. Management must consider ways of trying to increase the expectancy of their employees, for example by providing

training and development, giving them the resources, they need to do the job or by providing supervision and guidance.

iii. Instrumentality may also affect motivation. Managers must keep the promises that they have given of rewards for performance and try to make sure that employees believe that the managers will keep their promises.

c. Disadvantages of MBO

i. MBO is often challenging and lengthy to implement needing what can be perceived as an unnecessarily expensive underlying goal tracking system.

ii. Implementing MBO requires commitment across the whole organisation; however, significant employees' resistance do occur.

(Total 20 Marks)

Examiner's report

The question is in three parts. Part (a) tests the candidates' abilities to explain the causes and characteristics of conflicts. Part (b) tests their abilities to explain the implications of expectancy theory for management. Part (c) examines the disadvantages of Management by Objectives (MBO). Majority of the candidates attempted the question and above 50% of them passed.

Candidates should be encouraged to cover all aspects of the syllabus while preparing for future examinations by making adequate use of ICAN Study Text.

Marking guide

		Marks	Marks
(a) i.	Award a maximum of 1 Mark each for any 6 causes of conflicts explained (1 x 6)	6	
ii.	Award 1 Mark each for any 4 characteristics of conflicts explained. (1 x 4)	4	
(b)	Award 2 Marks each for any 3 implications of expectancy theory for management correctly explained. (2 x 3)	6	
(c)	Award a maximum of 2 Marks each for any 2 disadvantages of MBO stated (2 x 2)	4	
	Total	<u>4</u>	<u>20</u>

SOLUTION 6

- a. Formal communication refers to the official, structured, and predefined channels of communication within an organisation. It follows established lines of authority, hierarchy, and organisational structure. Formal communication is typically documented, recorded, and can include official memos, reports, emails, or meetings that follow a prescribed format or protocol.
- b. **Attributes of effective communication system**
- i. Clarity
 - ii. Consistency
 - iii. Active listening
 - iv. Feedback
 - v. Appropriate medium
 - vi. Timing and timeliness
- c. **Features of an effective report:**
- i. Fit for purpose
 - ii. Decisive
 - iii. Easy to read and follow
 - iv. Correct in fact and language
 - v. Conciseness
 - vi. Persuasive
 - vii. Action-based
 - viii. Clarity
 - ix. Get to the point
 - x. Accuracy and reliability
 - xi. Organisation and structure
 - xii. Relevance and focus
 - xiii. Actionable recommendations
- d. **Features of a bad report:**
- i. Does not serve its purpose
 - ii. Leaves the reader's questions unanswered
 - iii. Hard work, boring and irritating to read
 - iv. Still needs basic editing
 - v. Unconcise
 - vi. Leaves the reader unconvinced or in disagreement
 - vii. Over-uses the passive voice
 - viii. Is muddled and illogical
 - ix. Is story-like rather than business-like
 - x. Indecisive

Examiner's report

The question is in four parts. The first part requires the definition of "formal communication" and the second part request the attributes of effective communication. The third part requires that the candidates list the features of effective reports while the feature of bad reports were demanded in the fourth part. Majority of the candidates attempted the question and a high percentage of the candidates passed.

For better performance in future examinations, candidates are encouraged to concentrate on the usage of the ICAN Study Text and Pathfinder.

Marking guide

	Marks	Marks
a. Award a maximum of 2½ marks for stating the correct definition of 'formal communication'	2 ½	
b. Award 1½ marks each for any 5 attributes of effective communication correctly stated (1½ x 5)	7½	
c. Award 1 Mark each for any 6 features of effective reports listed (1 x 6)	6	
d. Award 1 Mark each for any 4 features of bad reports stated (1 x 4)	4	
Total	<u>4</u>	<u>20</u>

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**FOUNDATION LEVEL EXAMINATION – MAY 2024****BUSINESS LAW****EXAMINATION INSTRUCTIONS****PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER**

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

THURSDAY, MAY 16, 2024**DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

FOUNDATION LEVEL EXAMINATION – MAY 2024

BUSINESS LAW

Time Allowed: 3¼ hours (including 15 minutes reading time)

SECTION A: MULTIPLE-CHOICE QUESTIONS (20 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT 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. Under the 1999 Constitution, the list that contains matters which a House of Assembly could legislate upon to the exclusion of the National Assembly is the
 - A. Exclusive Legislative List
 - B. Concurrent Legislature List
 - C. Discretionary Legislative List
 - D. Residual Legislative List
 - E. Remainder Legislative List

2. Which of the following is **NOT** required to hold an Annual General Meeting?
 - A. A one-member company
 - B. A micro company
 - C. A private company
 - D. A municipal company
 - E. An unlimited liability company

3. Who among the following is eligible to be appointed as administrator of a company?
 - A. A chartered accountant
 - B. A legal practitioner
 - C. Administrator-General
 - D. An insolvency practitioner
 - E. A public administrator

4. The maximum turnover of a small company is
 - A. ₦20 million
 - B. ₦50 million
 - C. ₦80 million
 - D. ₦100 million
 - E. ₦120 million

5. The documents of incorporation that regulate the company's external relations is the
- A. Articles of Association
 - B. Articles of incorporation
 - C. Memorandum of Association
 - D. Memorandum of Understanding
 - E. Bye-law
6. The two types of insolvency recognised by the law are
- A. Directors' and shareholders' insolvency
 - B. Members and company insolvency
 - C. CAC and company insolvency
 - D. Corporate and personal insolvency
 - E. Receiver and shareholders insolvency
7. Which of the following is a tort that affects economic interest?
- A. Nuisance
 - B. Champerty
 - C. Libel
 - D. Trespass
 - E. Passing off
8. In a sale of goods contract, goods that are not identified and agreed upon at the time of contract are
- A. Generic goods
 - B. Prospective goods
 - C. Specific goods
 - D. Unascertained Goods
 - E. Perishable Goods
9. An agreement for the bailment of goods with an option to buy the goods is a contract of
- A. Insurance
 - B. Hire purchase
 - C. Sale of goods
 - D. Agency
 - E. Credit sale
10. In a contract of insurance, the consequence of non-disclosure of material facts by either party to the contract where the duty exists is to render the contract
- A. Unacceptable
 - B. Voidable
 - C. A nullity
 - D. Vain
 - E. Derelict

11. An offer that is **NOT** accepted within the time fixed by the offeror is said to be terminated by
 - A. Death
 - B. Rejection
 - C. Revocation
 - D. Counter offer
 - E. Lapse of time
12. The agency relation that arises in emergencies or situations of urgent commercial need is agency of
 - A. Ratification
 - B. Estoppel
 - C. Condonation
 - D. Necessity
 - E. Needs
13. A payee/endorser in possession of a bill that he obtained after giving consideration to the drawer /endorser is
 - A. Drawer
 - B. Drawee
 - C. Bearer
 - D. Holder for value
 - E. Indorser
14. The law that allows an internet service provider to keep all traffic data and subscribers' information and to intercept electronic communication that could support criminal investigation or proceeding is
 - A. 419 Act
 - B. Computer 201 Violation Act, 2022
 - C. Anti-Scam Act, 2012
 - D. Nigerian Data Protector Regulation Act, 2019
 - E. The Cybercrime Act, 2015
15. A moral persuasion against wrongdoing or unacceptable conduct in a given society is called
 - A. Laws
 - B. Morality
 - C. Lifestyle
 - D. Ethics
 - E. Values
16. The minimum number of designated partners that a limited liability partnership must have is
 - A. 1
 - B. 2
 - C. 3
 - D. 4
 - E. 5

17. To constitute the offence of stealing, the conversion or taking of another person's property must be done with the intention to
- A. Deprive the owner permanently of it
 - B. Shield the property
 - C. Bail the property
 - D. Destroy the property
 - E. Move the property
18. Which of the following means Alternative Dispute Resolution?
- A. Private hearing
 - B. Public hearing
 - C. General intervention
 - D. Conciliation
 - E. Commission of Inquiry
19. The removal of an employee without formalities is called
- A. Termination
 - B. Dismissal
 - C. Probation
 - D. Suspension
 - E. Interdiction
20. When a Will fails or is declared invalid by the court, the administration of the estate of the testator will be governed by rules of
- A. Intestacy
 - B. Testacy
 - C. Equity
 - D. Good conscience
 - E. Trust

SECTION B: OPEN-ENDED QUESTIONS (80 MARKS)

INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT FOUR OUT OF THE SIX QUESTIONS IN THIS SECTION

QUESTION 1

- a. i. The Supreme Court of Nigeria usually follows its previous decisions on the same subject matter and similar facts.

Required:

State **TWO** situations in which the Supreme Court may depart from its previous decisions. (4 Marks)

ii. The Received English Law has three components.

Required:

State **TWO** types of Received English Law. (4 Marks)

b. The Companies and Allied Matters Act provides for freedom of association with business organisations.

Required:

State **THREE** grounds upon which a member of a limited liability partnership may cease to become a member of the organisation. (6 Marks)

c. The persons that desire to manage the estate of a deceased person may need to apply for letters of administration.

Required:

Explain **TWO** situations that could warrant the need to apply for letters of administration. (6 Marks)

(Total 20 Marks)

QUESTION 2

a. The Companies and Allied Matters Act makes copious provisions for corporate insolvency in Nigeria.

Required:

State **THREE** tests of corporate insolvency in Nigeria. (6 Marks)

b. A partnership is one of the business organisations that the Companies and Allied Matters Act provides for.

Required:

Explain **THREE** rules that could be applied to determine the existence of a partnership. (6 Marks)

c. The Audit Committee has objectives and functions under the Companies and Allied Matters Act, subject to the provisions of the articles of the company.

Required:

State and explain **FOUR** statutory functions of the Audit Committee.

(8 Marks)

(Total 20 Marks)

QUESTION 3

a. Certain agents are classified as special agents.

Required:

Explain the following special agents:

i. Factor (3 Marks)

ii. *Del credere* agent (3 Marks)

- b. Consideration is an element of a contract.
Required:
State **FOUR** rules that govern consideration. (6 Marks)
- c. The Corporate Affairs Commission is the statutory body that regulates the affairs of business organisations in Nigeria.
Required:
Explain **FOUR** functions of the Corporate Affairs Commission. (8 Marks)
(Total 20 Marks)

QUESTION 4

- a. Decisions during company meetings are made by passing of resolutions.
Required:
State **FOUR** company matters that require the passing of a special resolution. (4 Marks)
- b. Gabriel is a shareholder in Zee Zee Company Plc. He desires to transfer his shares to his son who has just graduated from the Nigerian Law School as a sign of his appreciation of his excellent performance in the Bar Final examination.
Required:
- i. Advise Gabriel on his competence to transfer his shares to his son. (2 Marks)
 - ii. Which legal step must Gabriel take to transfer the shares? (2 Marks)
 - iii. State **TWO** reasons for which Zee Zee Company PLC may reject the transfer of Gabriel's shares to his son. (4 Marks)
- c. For the conversion of a movable thing to amount to stealing, the prosecution must prove a fraudulent intent.
Required:
- i. Explain what the intent states concerning money. (4 Marks)
 - ii. James promised to send some people to Canada on scholarship. He collected money from them for the purpose. He did not send them and did not refund the money on demand or within a reasonable time. Explain the liability of James, if any. (4 Marks)
- (Total 20 Marks)**

QUESTION 5

- a. A contract of hire purchase is different from other contractual relationships.
Required:
State **FOUR** ways of terminating a hire purchase contract. (6 Marks)

- b. A limited liability company based in Ibadan employed the services of two accountants to work in the organisation. The letters of appointment given to the accountants contain a clause that the new employees will be on probation for a period of 6 months.

Required:

- i. Explain the clause in the letters of appointment, which states that the two accountants would be on probation for a period of six months. (1½ Marks)
 - ii. How could the contract of the two accountants be terminated, if their employment were for an indefinite period of time? (1½ Marks)
 - iii. Would your answer be different if the contract of employment of the two accountants were for a term certain? (1½ Marks)
 - iv. What remedies will be available to the two accountants if their contract for a term certain is wrongfully terminated? (1½ Marks)
- c. The Money Laundering (Prohibition) Act requires financial institutions to keep special surveillance on some transactions.

Required:

State **TWO** transactions that require the special surveillance of financial institutions. (4 Marks)

- d. Biz Limited manufactures an efficient ceiling fan that is fast selling. The ceiling fan, which is branded 'Biz', is the most preferred in the market. Magomago Limited recently introduced its own ceiling fan, which is branded 'Bizz' into the market, and customers have been purchasing it significantly, thereby reducing the market share of 'Biz' fan.

Required:

Explain the implication of Magomago Limited's action in the law of torts. (4 Marks)

(Total 20 Marks)

QUESTION 6

- a. As a general rule in sale of goods, only the owner of goods or any person acting with his authority could transfer title to it. This is otherwise known as the *nemo dat quod non habet* rule.

Required:

State **SIX** exceptions to the rule. (6 Marks)

- b. It is important for all professionals to avoid negligence in handling the matters of their clients.

Required:

State **TWO** elements of negligence. (2 Marks)

c. Arbitration is an Alternative Dispute Resolution mechanism.

Required:

State **SIX** essentials of arbitration.

(6 Marks)

d. The Central Bank of Nigeria is the banker's bank.

Required:

State **FOUR** principal objects of the Central Bank of Nigeria under its enabling Act.

(6 Marks)

(Total 20 Marks)

SECTION A

PART I - MULTIPLE CHOICE ANSWERS

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

Examiner's report

The questions achieved a very good spread over the syllabus.

All the candidates attempted the questions, and performance was very good.

SECTION B

SOLUTION 1

- a. i. The Supreme Court will depart from its previous decisions in the following circumstances:
- Where the previous decision was reached *per in curiam*; and
 - Where there are two conflicting past decisions of the court, the court will overrule one and follow the other.
- ii. The following are the types of Received English Law:
- The Common Law of England;
 - Doctrines of Equity; and
 - Statutes of General Application.
- b. A person may cease to be a member of a limited liability partnership on the following grounds:
- i. In accordance with his agreement with the other partners;
 - ii. In the absence of such an agreement, after the expiration of at least a thirty-day notice in writing to the effect; on the person's death;
 - iii. On the dissolution of the partnership;
 - iv. When declared to be of unsound mind by a court of competent jurisdiction; or
 - v. If after applying to court to be so adjudged, he has been declared insolvent.
- c. The situations that raise the need to apply for letters of administration are as follows:
- i. Where a person dies leaving a Will but fails to name an executor in the Will or named an executor who is unable or refuses to obtain probate from the Probate Division of the High Court. In the latter situation, the Will would be annexed to the application for letters of administration which is then known as letters of administration cum testament annexo, that is, letters of administration with the Will annexed; or
 - ii. Where a person dies without making a Will at all or dies intestate; or
 - iii. Where a person leaves a Will but nonetheless dies intestate as to some beneficial interests in his real or personal estate. In other words, some of his properties are not covered by his Will, and he is intestate in respect of them.

Examiner's report

The question tests candidates' understanding of Supreme Court powers, types of received English Law, cessation of limited partnership membership, and obtaining of letters administration.

75% of the candidates attempted the question, and their performance was well above average.

The major pitfall of the candidates was their inadequate understanding of cessation of limited partnership membership.

Candidates are advised to focus more on limited partnership and limited liability partnership in ICAN Study Text for their future preparation.

Marking guide

	Marks
a. (i) Stating the situations in which the supreme court may depart from its previous decisions (1 mark for each correct answer, subject to a maximum of 4 points)	4
(ii) Stating the components of received English law (1 mark for each component of received English law, subject to a maximum of 4 points)	4
b. Stating grounds when a partner can cease to be a member of a limited liability partnership (2 marks for each correct answer, subject to a maximum of 3 points)	6
c. Explaining situations that could warrant the need to apply for letters of administration (3 marks for each correct answer, subject to a maximum of 2 points)	<u>6</u>
Total	<u>20</u>

SOLUTION 2

- a. The tests for corporate insolvency under the Companies and Allied Matters Act of Nigeria are as follows:
- i. A company's inability to pay a debt exceeding ₦200,000 within three weeks after a demand for payment has been made; **or**
A company's inability to pay a debt of a sum to be determined by a regulation issued by Corporate Affairs Commission.
 - ii. A wholly or partially satisfied court process issued in respect of a judgment debt; **or**

If execution or other process used on a judgement, act or order of any court in favour of a creditor of the company is returned unsatisfied in the whole or in part;

- iii. A court's determination after taking into account any contingent or prospective liability of the company that the company is unable to pay its debts; and
 - iv. A situation in which the company's liabilities exceed its assets.
- b. The rules that could be used to determine the existence of partnership are:
- i. There must be a business. Business is defined as including trade, profession, and vocation;
 - ii. The business must be carried on by, or behalf of, the partners. Each partner is therefore an agent of the other partners in carrying on the business of the company; and
 - iii. There must be profit-making and profit-sharing. Sharing of profits means sharing of profits equally, unless otherwise agreed by the partners.
- c. The Audit Committee has the following objectives and functions, subject to the provisions of the articles of the company, to:
- i. Determine if the accounting and reporting policies of the company comply with the requirements of law and agreed ethical practices;
 - ii. Review the scope and planning of audit requirements;
 - iii. Review findings on management matters in conjunction with the external auditor and departmental responses thereon;
 - iv. Keep under review the effectiveness of the company's system of accounting and internal control;
 - v. Make recommendations to the board of directors on the appointment, removal and remuneration of the company's external auditors; and
 - vi. Authorise the internal auditor to carry out investigations of any activities of the company, which is of interest or concern to the committee.

Examiner's report

The question tests candidates' understanding of the tests for corporate insolvency, elements of a valid partnership, and the statutory functions of the audit committee.

Attempt rate was about 60%, and performance was average.

Candidates' major pitfalls were lack of understanding of corporate insolvency tests and elements of a partnership.

Candidates are advised to study the areas of their deficiency more carefully in the ICAN Study Text and other relevant books.

Marking guide

	Marks
a. Stating tests of corporate insolvency (2 marks each for any rule test of corporate insolvency, subject to a maximum of 3 points)	6
b. Explaining rules for determining the existence of partnership (2 marks each for determining the existence of partnership, subject to a maximum of 3 points)	6
c. Stating and explaining statutory functions of the audit committee (2 marks each for correctly stating and explaining the statutory functions of the audit committee, subject to a maximum of 4 points)	<u>8</u>
Total	<u>20</u>

SOLUTION 3

- a. i. **Factor:** A factor is a mercantile agent who in the course of his business has the authority to sell goods or to consign goods or raise money on security for goods.
- ii. ***Del credere agent:*** A *del credere* agent is an agent, who in return for a higher rate of commission, promises to indemnify the principal if the third party with whom he contracts in respect of goods fails to pay or deliver under the contract. A *del credere* agent is a surety of the buyer.
- b. The rules governing consideration are as follows:
- i. Consideration must move from the promisee, but not necessarily to the promisor;
 - ii. Consideration must be sufficient but does not necessarily need to be adequate;
 - iii. Consideration must not be illegal, immoral, or contrary to public policy;
 - iv. Consideration must be definite, not vague;
 - v. Consideration may be executory (i.e. to be done in the future) or executed (present) but must not be past; and
 - vi. Consideration must not be something that the promisee is already bound, either by contract or public duty, to do or refrain from doing.

- c. The Companies and Allied Matters Act provides that the functions of the Corporate Affairs Commission shall be to –
- i. Administer the CAMA, including the registration, regulation and supervision of:
 - The formation, incorporation, management, striking off and winding up of companies, business names, management and removal of names from the register; and
 - The formation, incorporation, management and dissolution of incorporated trustees.
 - ii. Establish and maintain company's registry and office in each State of the Federation, suitably and adequately equipped to perform its functions under this Act or any other law;
 - iii. Arrange or conduct an investigation into the affairs of any company, incorporated trustees, or business names where the interest of the shareholders, members, partners, or public so demands;
 - iv. Ensure compliance by companies, business names and incorporated trustees with the provisions of the CAMA and such other regulations as may be made by the Corporate Affairs Commission;
 - v. Perform such other functions as may be specified in this Act or any other law; and
 - vi. Undertake such other activities as are necessary or expedient to give full effect to the provisions of the CAMA.

Examiner's report

The question tests candidates' knowledge of special agency, rules on consideration in the law of contract, and the functions of the Corporate Affairs Commission.

Attempt rate was about 65%, and performance was above average.

Candidates' major pitfall was their lack of understanding of the rules on consideration.

Candidates are advised to study consideration more diligently in the ICAN's Study Text.

Marking guide

	Marks	Marks
a. (i) Explaining the special agent of factor (3 marks for correct explanation of factor)	3	
(ii) Explaining the special agent <i>del credere</i> (3 marks for correct explanation of special agent <i>del credere</i>)	<u>3</u>	6
b. Stating rules governing consideration (1½ marks for each rule governing consideration, subject to a maximum of 4 points)		6
c. Explaining functions of Corporate Affairs Commission (CAC) (2 marks for each function of CAC, subject to a maximum of 4 functions)		<u>8</u>
Total		<u><u>20</u></u>

SOLUTION 4

- a. The following company matters require a special resolution of the general meeting:
- i. Alteration of the business or object clause;
 - ii. Change of the company's name;
 - iii. Alteration of any provision of the memorandum of association;
 - iv. Reduction of capital;
 - v. Change in the liability of the directors from limited to unlimited;
 - vi. Winding up of the company (voluntary winding up);
 - vii. Re-registration of a private company as public company;
 - viii. Alteration of the articles of association; and
 - ix. Creation of capital reserve.
- b.
- i. Gabriel, a shareholder of Zee Zee PLC, a public company, has the right to transfer his shares to his son as a general rule. This is because shares in a public company are freely transferable.
 - ii. He can achieve this purpose by the execution of an instrument of transfer and filing it with the company.
 - iv. Zee Zee Company PLC may reject the transfer for the following reasons:
 - If the shares are not fully paid up; and
 - Where Zee Zee PLC has a lien on Gabriel's shares.
- c.
- i. In the case of money, the relevant intent is to use it at the will of the person who takes or converts it, although he may intend afterwards to repay the money to the owner. The implication of this test is that

when someone uses money and is unable to repay the money when asked to do so or at a reasonable time the Law will presume that he has converted the money, notwithstanding his intention to repay the money to the owner.

- ii. The issue in the case is whether the conduct of James by his failure to refund the money he collected would amount to conversion or stealing.

His failure to refund the money on demand or at a reasonable time fails the test laid down under the Criminal Code to the effect that anybody in possession of somebody's money, who uses such a money but fails to refund it could be convicted of stealing. Therefore James is guilty of stealing.

Examiner's report

This question tests candidates' understanding of special resolution and transfer of shares in company law, as well as elements of conversion in criminal law.

Attempt rate was about 60% and performance was average.

Candidates' major pitfall was their insufficient understanding of all aspects of the question.

Candidates are to intensify their study of all the aspects of this question in the ICAN Study Text and other materials.

Marking guide

	Marks
a. Stating company matters that require special resolutions (1 mark for each matter that requires special resolution, subject to a maximum of 4 points)	4
b. (i) Stating when a shareholder can competently transfer his shares in a public limited liability company (2 marks for correct answer)	2
(ii) Stating steps to transfer shares in a public limited liability company (1 mark for each correct step, subject to a maximum of 2 steps)	2
(iii) Stating reasons why a public limited liability company may reject transfer of shares (2 marks each for any reason, subject to a maximum of 2 points)	4
c. (i) Explaining intent in conversion relating to money (4 marks for correct description of intent in conversion relating to money)	4

- (ii) **Explaining when receipt of money amounts to conversion**
(4 marks for correct description of when receipt of money amounts to conversion)

Total

4
20

SOLUTION 5

- a. **A hire purchase agreement may be terminated through:**
- i. A mutual agreement of the parties to rescind the agreement;
 - ii. The performance of all the obligations under the agreement;
 - iii. A provision in the agreement, which allows the hirer to terminate the contract at any stage of the agreement, without prejudice to his option to purchase the goods;
 - iv. Supervening circumstances like fire, destruction, act of God and other similar circumstances, outside the control of the parties;
 - v. Repudiation by an aggrieved party, since the aggrieved party may sue for the breach of an express or implied term and may in addition repudiate such agreement; or
 - vi. An order or judgment of court for conversion or detinue, which may in effect bring the agreement to an end.
- b.
- i. The clause in the letters of appointment of the two accountants that they would be on probation for a period of six months means that the company would, during a period of six months study the competence of the two accountants for the job they are employed for, as well as test their skill and suitability for the job.
 - ii. If the employment of the two accountants were for an indefinite period, their services could only be terminated by a reasonable notice or payment in lieu of notice.
 - iii. If their employment were for a term certain, their employment could not be terminated until the expiration of the term.
 - iv. The remedies that will be available to the two accountants if their contract for a term certain is wrongfully terminated, is their entitlement to all their earnings on the contract as if they had been allowed to run the full term.
- c. The transactions which financial institutions are required to keep special surveillance on, under the Money Laundering (Prohibition) Act are transactions that:
- i. Involve a frequency, which is unjustifiable or unreasonable;
 - ii. Are surrounded by conditions of unusual or unjustified complexity; and
 - iii. Appear to have no economic justification or lawful objective.

- d. Magomago Limited would be liable for the tort of passing off for branding its ceiling fan with a name that so closely resembles an existing brand name, so as to deceive the prospective buyers of ceiling fans. Biz Limited is entitled to sue Magomago for damages and injunction.

Examiner's report

The question tests candidates' knowledge of termination of hire purchase contract, probation and termination in employment law, special surveillance of financial institutions against money laundering, and the tort of passing off.

Attempt rate was about 65%, and performance was good.

Candidates' major pitfalls were inadequate understanding of probation and termination in employment law.

Candidates are advised to focus on employment law more intensely in their future preparation.

Marking guide

	Marks
a. Stating ways of terminating a hire purchase contract (1½ marks each for any way of terminating a hire purchase contract, subject to a maximum of 4 points)	6
b.(i) Explaining probation clause in a letter of appointment (1½ marks for correct description of probation clause in a letter of appointment)	1½
(ii) Stating how a contract of employment for an indefinite period could be terminated (1½ marks for correct description of how a contract of employment for an indefinite period could be terminated)	1½
(iii) Stating how a contract of employment for a term could be terminated (1½ marks for correct explanation of how a contract of employment for a certain term could be terminated)	1½
(iv) Stating remedies for wrongful termination of a contract of employment for a term certain (1½ marks for correct explanation of remedies for wrongful termination of a contract of employment for a term certain)	1½
c. Stating transactions which require special surveillance of financial institutions (2 marks each for stating transactions which require special surveillance of financial institutions, subject to a maximum of 2 points)	4
d. Explaining the implications of acts of passing off in the law of torts (4 marks for correct explanation of the implications of acts of passing off in the law of torts)	4
Total	<u>20</u>

SOLUTION 6

- a. The exceptions to the *nemo dat quod habet* rule are as follows:
 - i. Sale in market overt;
 - ii. Sale under a voidable title ;
 - iii. Estoppel;
 - iv. Sale by a seller in possession;
 - v. Sale by a buyer in possession;
 - vi. Sale by mercantile agents; and
 - vii. Sale under common law or statutory powers.

- b. The elements of negligence are as follows:
 - i. Duty of care;
 - ii. Breach of the duty; and
 - iii. Consequential damage or injury.

- c. The essentials of arbitration are as follows:
 - i. There must be a dispute between the parties concerning some disagreement over a point of law or fact;
 - ii. The dispute or difference must be justiciable;
 - iii. The parties must voluntarily agree to resolve the dispute through third party mediation;
 - iv. The agreement to submit to arbitration must not be illegal;
 - v. The parties must have inserted the Scott v Avery Clause in the said agreement mandating them to submit to arbitration in the present or in the future;
 - vi. There must be a form a reference of the dispute to the decision of the third party;
 - vii. That third party must expressly or impliedly be required to decide according to law; and
 - viii. It must be a term of the contract that the award shall be final and binding and that the parties must act in good faith.

- d. The principal objects of the Central Bank of Nigeria under its enabling Act are to:
 - i. Ensure monetary and price stability;
 - ii. issue legal tender currency in Nigeria;
 - iii. Maintain external reserves to safeguard the international value of the legal tender currency;
 - iv. Promote a sound financial system in Nigeria; and
 - v. Act as banker and provide economic and financial advice to the Federal Government.

Examiner's report

The question tests candidates' knowledge of the exceptions to the *nemo dat quod non habet* rule, elements of negligence, essentials of arbitration, and the objects of the Central Bank of Nigeria.

The rate of attempt was about 50%, and pass rate was around 65%.

Candidates' major pitfalls were their inadequate understanding of the *nemo dat quod* rule and essentials of arbitration.

Candidates are advised to focus more on the *nemo dat quod* rule and essentials of arbitration in the ICAN Study Text.

Marking guide

	Marks
a. Stating the exceptions to the rule of <i>nemo dat quod non habet</i> (1 mark for each exception to the rule of <i>nemo dat quod non habet</i> , subject to a maximum of 6 points)	6
b. Stating elements of negligence (1 mark for each element of negligence, subject to a maximum of 2 points)	2
c. Stating essentials of arbitration (1 mark for each essential of arbitration, subject to a maximum of 6 points)	6
d. Stating principal functions of the Central Bank of Nigeria (CBN) (1½ marks for each function of the CBN, subject to a maximum of 4 points)	<u>6</u>
Total	<u>20</u>