THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

PATHFINDER

NOVEMBER 2025 DIET
SKILLS 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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INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – NOVEMBER 2025

FINANCIAL REPORTING

EXAMINATION INSTRUCTIONS

PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER

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

TUESDAY, NOVEMBER 18, 2025

DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – NOVEMBER 2025

FINANCIAL REPORTING

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

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

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

a. The aim of IAS 8 *"Accounting policies, changes in accounting estimates and errors"* is to enhance comparability of the entity's financial statements with previous periods and with the financial statements of other entities.

Required:
Discuss briefly any **TWO** limitations of retrospective application of accounting policy by an entity. (5 Marks)

b. Ayoka Foods Plc is a major player in the Foods and Beverages Industry. The following is the company's trial balance as at March 31, 2024.

	₦'000	₦'000
Equity shares of 50k each		84,000
Retained earnings		2,100
8% convertible loan notes		45,000
Freehold property at cost April 1, 2023		
- Land element ₦37.5 million (note iii)	112,500	
Plant and equipment at cost	111,750	
Accumulated depreciation April 1, 2023:		
- Building		15,000
- Plant and equipment		36,750
Current tax		1,200
Deferred tax		3,900
Inventory April 4, 2024 (note v)	54,000	
Trade receivables	70,650	
Bank		17,250
Trade payables		36,750
Revenue		509,470
Cost of sales	311,620	
Distribution costs	41,250	
Administrative expenses	46,050	
Loan interest paid	3,600	
	751,420	751,420

Additional information:

(i) An ordinary dividend of 5k per share was paid in November 2023 and charged to retained earnings.

(ii) The 8% ₦45 million convertible loan note was issued on April 1, 2023 at par. Interest is payable annually in arrears on March 31, each year. The loan note is redeemable at par on March 31, 2026 or convertible into equity shares at the option of the loan note holders on the basis of 45 ordinary shares for each ₦150 of loan note.

Ayoka Foods Plc finance director has calculated that to issue an equivalent loan note without the conversion rights, it would have to pay an interest rate of 10% per annum to attract investors.

The present value of ₦1.00 receivables at the end of each year based on discount rates of 8% and 10% are:

	8%	10%
Year end		
1	0.93	0.91
2	0.86	0.83
3	0.79	0.75

(iii) Non-current assets

On April 1, 2023, Ayoka Foods decided for the first time to value its freehold property at its current value. A qualified property valuer reported that the market value of the freehold property on this date was ₦120 million, of which ₦45 million related to the land. At this date, the remaining estimated life of the property was 20 years. Ayoka Foods Plc does not make a transfer to retained earnings in respect of excess depreciation on the revaluation of its assets. Plant is depreciated at 20% per annum using the reducing balance method.

All depreciation of non-current assets is charged to cost of sales.

(iv) The balance on current tax represents the under/over provision of the tax liability for the year ended March 31, 2023. The required provision for income tax for the year ended March 31, 2024 is ₦29.1 million. The difference between the carrying amount of the assets of Ayoka Foods (including the revaluation of the property in note (iii) above and their lower tax base at March 31, 2024 is ₦40.5 million. Ayoka Foods Plc's rate of income tax is 25%.

(v) The inventory of Ayoka Foods was not counted until April 4, 2024 due to operational reasons. At this date, its value at cost was ₦54 million and this figure has been used in the cost of sales calculation above. Between the year-end of March 31, 2024 and April 4, 2024, Ayoka Foods received a delivery of goods at a cost of ₦4.05 million and made sales of ₦11.7 million at a mark-up on cost of 30%. Neither the goods delivered nor the sales made in this period were included in Ayoka Foods purchases (as part of cost of sales) or revenue in the above trial balance.

(vi) On March 31, 2024, Ayoka Foods factored trade receivables with a book value of ₦15 million to Anike Ltd. Ayoka Foods received an immediate payment of ₦13.05 million and will pay Anike Ltd 2% per month on any uncollected balances. Any of the factored receivables outstanding after six months will be refunded to Anike. Ayoka Foods has derecognised the receivables and charged ₦1.95 million to administrative expenses. If Ayoka Foods had not factored these receivables, it would have made an allowance of ₦900,000 against them.

Required:

i) Prepare the statement of profit or loss and other comprehensive income for Ayoka Foods Plc for the year ended March 31, 2024. (12 Marks)

ii) Prepare the statement of changes in equity for Ayoka Foods Plc for the year ended March 31, 2024. (5 Marks)

iii) Prepare the statement of financial position of Ayoka Foods Plc as at March 31, 2024. (8 Marks)

Note:
Your answers and workings should be presented to the nearest ₦'000.

(Total 30 Marks)

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

QUESTION 2

a. IAS 33 "*Earning Per Share*" aims to provide a standardised approach to earnings per share (EPS) calculation and presentation, enhancing transparency and comparability across companies.

Required:

Identify **FIVE** features to be taken into consideration when computing earnings per share in accordance with the provisions of IAS 33. (2½ Marks)

b. The Capital structure of Edo Plc is made up of the following:

	₦'000
3,000,000 ordinary shares of ₦2.00 each	6,000
Retained earnings	12,750
10% loan notes	3,750
	22,500

In the last three months, the market value of Edo Plc shares has remained at ₦5.00 per share. Its current year's profit after tax is ₦15 million.

Edo Plc has decided to pay 25% scrip dividend to its shareholders from the current year's profit.

Required:
Explain the effect of this decision on:

(i) The market price of the company's share. (2½ Marks)
(ii) The earning per share. (2½ Marks)

c. Dideolu Group owns a number of freehold properties throughout the South East geographical zone of Nigeria. Three of these properties are rented out under annual contracts, the details of which are as follows:

Property	Life	Cost	Value as at 31/12/2023	Value as at 31/12/2024
		₦'000	₦'000	₦'000
1	50 years	300	413	338
2	40 years	270	360	315
3	15 years	225	263	270

All three properties were acquired on January 1, 2023, and their valuations are based on their ages at the date of valuation.

Property 1 is let to a subsidiary (60% of ownership) of Dideolu on normal commercial terms.

Property 2 and Property 3 are currently let on normal commercial terms to companies that are not related to Dideolu.

Dideolu adopts the fair value model of accounting for investment properties in accordance with IAS 40 *Investment Property* and the benchmark treatment for owner-occupied properties in accordance with **IAS 16** – *Property, Plant and Equipment*, annual depreciation where appropriate, is based on the carrying amount of assets at the beginning of the relevant accounting period.

Required:
Categorise properties 1, 2 and 3 in accordance with **IAS 16** and **IAS 40** giving appropriate reasons. (5 Marks)

d. **IAS 12** - *Income taxes,* sets out guidance for dealing with under provision and over provision of income taxes by reporting entities.

During the year ended December 31, 2024, Benson Ltd formalised and paid its liability for company tax on profit for year ended December 31, 2023, at an amount of ₦31.5 million. It had previously made an estimated provision for company income tax of ₦37.5 million in the financial statement for the year ended December 31, 2023. The Directors estimated the liability for the year ended December 31, 2024 at ₦36.8 million,

Required:
Explain the treatment of the above transactions in the financial statements of Benson Ltd for the year ended December 31, 2024, in respect of income tax.
(2½ Marks)

e. The objective of IAS 21: *The effect of changes in foreign exchange rates*, is to correctly account for foreign currency transactions and foreign operations in the financial statements of an entity as well as translate financial statements into a presentation currency.

Required:
Discuss the translation of foreign currency monetary and non-monetary items in the financial statements of an entity at the end of the reporting period. (5 Marks)

(Total 20 Marks)

QUESTION 3

a. Chike Oils Ltd is an oil and gas company operating in Nigeria. The management of the company presented the following summarised financial statements for the years ended December 31, 2022 and 2023.

Statement of profit or loss and other comprehensive income

	2023	2022
	₦'million	₦'million
Revenue	3,645	2,457
Cost of sales	(2,552)	(1,475)
Gross profit	1,093	982
Administrative costs	(467)	(270)
Distribution costs	(311)	(176)
Finance costs	(54)	(9)
Profit before taxation	261	527
Income tax expense	(81)	(153)
Profit for the year	180	374

Statement of financial position as at December 31

	2023		2022	
	₦'million	₦'million	₦'million	₦'million
Assets				
Non-current assets				
Property, plant and equipment		918		554
Intangible assets		405		270
Investment in shares:				
- Ducal Agro Ltd at cost		311		Nil
		1,634		824

Current assets				
Inventory	180		150	
Trade receivables	225		105	
Other receivables	Nil		165	
		405		420
Total assets		2,039		1,244
Equity and liabilities				
Ordinary shares of ₦1.00 each		585		338
Retained earnings		510		405
		1,095		743
Non-current liabilities				
10% secured loan notes	120		120	
12% secured loan notes	390		Nil	
		510		120
Current liabilities:				
Bank short term loan	74		15	
Trade payables	285		210	
Income tax payable	75		156	
		434		381
Total equity and liabilities		2,039		1,244

Additional information:

(i) Chike Oils Ltd acquires 60% interest in the equity shares of Ducal Agro Ltd, a commercial cocoa production company, in order to diversify its business portfolio and take advantage of the favourable incentives in agriculture recently announced by the Federal Government of Nigeria.

(ii) Ducal Agro Ltd increased its plantation acreage based on average yield per hectare.

(iii) No dividends were received from Ducal Agro Ltd and the value of its shares had not increased during the year ended December 31, 2023.

Required:

a. Calculate the following ratios for years 2022 and 2023:

   (i) Gross profit percentage;
   (ii) Net profit (before interest and tax) percentage; and
   (iii) Gearing ratio.

(9 Marks)

b. Comment on relevant qualitative factors that may impact on the company's performance. (6 Marks)

c. Prepare Chike Oils Ltd's cash flows from operating activities using the indirect method in accordance with IAS 7-*Statement of Cash Flows.*

(5 Marks)

(Total 20 Marks)

QUESTION 4

On April 1, 2024, Dimeji Ltd acquired 75% of the equity share capital of Dekunle Ltd. Dekunle Ltd had been experiencing difficult trading conditions and making significant losses. In allowing for Dekunle Ltd difficulties, Dimeji Ltd made an immediate cash payment of ₦1.50 per share. In addition, Dimeji Ltd will pay a further amount in cash on September 30, 2025, if Dekunle Ltd returns to profitability by that date. The value of this contingent consideration at the date of acquisition was estimated to be ₦2.7 million, but at September 30, 2024, in the light of confirming losses, its value was estimated at only ₦2.25 million. The contingent consideration has not been recorded by Dimeji Ltd. Overall, the directors of Dimeji Ltd expect the acquisition to be a bargain purchase leading to negative goodwill. At the date of acquisition, shares in Dekunle Ltd had a listed market price of ₦1.20 each.

Below are the summarised draft financial statements of both companies:

Statement of profit or loss for the year ended September 30, 2024

	Dimeji Ltd ₦'000	Dekunle Ltd ₦'000
Revenue	165,000	99,000
Costs of sales	(132,000)	(100,800)
Gross profit/(loss)	33,000	(1,800)
Distribution costs	(4,500)	(3,000)
Administrative expenses	(7,875)	(3,600)
Finance costs	(375)	nil
Profit/(loss) before tax	20,250	(8,400)
Income tax (expense)/relief	(5,250)	1,500
Profit/(loss) for the year	15,000	(6,900)

Statement of financial position as at September 30, 2024

	Dimeji Ltd	Dekunle Ltd
	₦'000	₦'000
Assets		
Non-current assets:		
Property, plant and equipment	61,500	31,500
Financial assets: Equity investment	24,000	nil
	85,500	31,500
Current assets	24,750	7,200
Total assets	110,250	38,700
Equity and liabilities:		
Equity		
Ordinary shares of ₦0.50 each	45,000	9,000
Retained earnings	42,750	18,000
	87,750	27,000
Current liabilities	22,500	11,700
Total equity and liabilities	110,250	38,700

Additional information:

(i) At the date of acquisition, the fair values of Dekunle Ltd's assets were equal to their carrying amounts with the exception of a leased property. This had a fair value of ₦3 million above its carrying amount and a remaining lease term of 10 years at that date. All depreciation is included in cost of sales.

(ii) Dimeji Ltd transferred raw materials at the cost of ₦6 million to Dekunle Ltd in June 2024. Dekunle Ltd processed all of these materials incurring additional direct cost of ₦2.1 million and sold them back to Dimeji in August 2024 for ₦13.5 million. As at September 30, 2024, Dimeji Ltd had ₦2.25 million of these goods in its inventory. There were no other intra-group sales.

(iii) Dimeji Ltd has recorded its investment in Dekunle Ltd at the cost of the immediate cash payment, other equity investments are carried at fair value through profit or loss as at October 1, 2023. The other equity investments have fallen in value by ₦300,000 during the year ended September 30, 2024.

(iv) Dimeji Ltd's policy is to value the non-controlling interests at fair value at date of acquisition. For this purpose, Dekunle Ltd's share price at that date can be deemed to be representative of the fair value of the shares held by the non-controlling interests.

(v) All items in the above statements of profit or loss are deemed to accrue evenly over the year unless otherwise indicated.

Required:

a. Prepare the consolidated statement of profit or loss for Dimeji Ltd group for the year ended September 30, 2024. (10 Marks)

b. Prepare the consolidated statement of financial position as at September 30, 2024. 10 Marks)

(Total 20 Marks)

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

QUESTION 5

a. The methods by which accounting standards are developed differ considerably throughout the world. It is often argued that there are two main systems of regulation that determine the nature of accounting standards: a rule-based; system and a principle-based system.

Required:

Explain the differences between the two systems and state which system is the most descriptive of International Financial Reporting Standards (IFRS) (5 Marks)

b. Immanuel Ltd is a private company that currently uses local accounting standards for its financial reporting. The Board of Directors of Immanuel Ltd is considering the adoption of International Financial Reporting Standards (IFRS) in the near future. The company has ambitious growth plans which involve extensive trading with many foreign companies and the possibility of acquiring at least one of its trading partners as a subsidiary in the near future.

Required:

Identify the advantages that Immanuel Ltd could gain by adopting IFRS for its reporting purposes. (10 Marks)

(Total 15 Marks)

QUESTION 6

Sustainability reporting is the practice of publicly disclosing a company's performance across Environmental, Social and Governance (ESG) factors. The goal is to drive concrete actions towards sustainability efforts and communicate progress to stakeholders.

Required:

a. Discuss the key features of sustainability reporting. (5 Marks)

b. State the objectives and benefits of sustainability reporting. (6 Marks)

c. Explain the importance of the activities of the International Sustainability Standards Board (ISSB) to global sustainability reporting. (4 Marks)

(Total 15 Marks)

QUESTION 7

a. The Institute of Chartered Accountants of Nigeria (ICAN) has a code of conduct; the Professional Code of Conduct, which its members and students must comply with.

However, professional acountants may find that their professional values conflict with personal goals due to responsibilities to employers, clients and the public.

Required:

(i) Identify and explain, giving practical examples, **FOUR** fundamental principles set out in ICAN code. (8 Marks)

(ii) Explain **FOUR** categories of threats to these fundamental principles. (4 Marks)

b. There are so many aspects of financial reporting that could be enhanced by the use of technology such as Artificial Intelligence (AI) and Robotics.

Required:

Discuss the merits that companies, accountants and auditors derive from deploying AI and Robotics in their businesses, operations and professional duties.

(3 Marks)

(Total 15 Marks)

SECTION A

SOLUTION 1

a) IAS 8-Accounting policies, changes in accounting estimates and errors require that, where there is a change in accounting policy, the change should be applied retrospectively.

Retrospective application is applying the new policy to transactions, events, or conditions as if it had always been applied.

The main limitations of retrospective application of accounting policy are its impracticability.

When it is difficult to apply retrospective application having made necessary effort to do so. This can occur for number of reasons among which are stated below:

i) **Period-specific effect**: It is impracticable to determine the period specific effect of applying retrospective application to all periods.
ii) **Cummulative effect:** It is impracticable to determine the cumulative effect of applying retrospective application at the beginning of the current period to all prior periods
iii) **Data unavailability:** A company may lack the original historical data required for the restatement because records were not kept in a way that would allow for the adjustment.
iv) **Unreasonable assumptions**: It may be impossible to apply the new policy without making significant and potentially unreliable, assumptions about management's intent or about the objective information that existed in the prior period.
v) **Excessive cost or effort:** The cost of collecting the necessary information can be prohibitively high or the effort required to recreate the data may be unreasonable.

1b(i)

Ayoka Foods Plc
Statement of comprehensive income for the year ended March 31, 2024

		₦'000	₦'000
Revenue			509,470
Cost of sales (w1)			(325,420)
Gross profit			184,050
Distribution cost			(41,250)
Administrative expenses (46,050-1,950+900 allowance)			(45,000)
Finance costs			(4,271)
Profit before tax			93,529
Income tax expense (w2)			(28,500)
Profit for the year			65,029
Other comprehensive income:			
-	Gain on valuation of property (w3)	22,500	
-	Deferred tax on revaluation (w3)	(5,625)	16,875
Total comprehensive income			81,904

b(ii)

Ayoka Foods Plc
Statement of changes in equity for the year ended March 31, 2024

	Share capital	Equity option	Revaluation reserve	Retained earnings	Total equity
	₦'000	**₦'000**	**₦'000**	**₦'000**	**₦'000**
Balance at April 1, 2023: (w4a)	84,000	nil	nil	10,500	94,500
8% loan note issued (note 5)		2,286			2,286
Dividend paid (w4b)				(8,400)	(8,400)
Comprehensive Income			16,875	65,029	81,904
Balance at March 31, 2024	84,000	2,286	16,875	67,129	170,290

b(iii)

Ayoka Food Plc
Statement of financial position as at March 31, 2024

Non-current asset			
Property plant and equipment	**Notes**	**₦'000**	**₦'000**
Freehold property	w6		116,250
Plant and equipment	w6		60,000
			176,250
Current asset			
Closing inventories	w7	58,950	
Trade receivables	w8	84,750	143,700
Total assets			319,950
Equity and liabilities			
Equity			
Ordinary share capital			84,000
Other components of equity	w3		2,286
			86,286
Reserves:			
Retained earnings		67,129	
Revaluation reserve		16,875	84,004
Total equity			**170,290**
Non-current liabilities			
8% convertible loan	w5	**43,385**	
Deferred tax	w2	10,125	53,510
Current liabilities:			
Trade payable		36,750	
Liabilities to Anike Ltd (Factoring company)		13,050	
Bank overdraft		17,250	
Income tax	w2	29,100	96,150
Total equity and liabilities			319,950

Workings

w1. Cost of sales

	₦'000
Amount per trial balance	311,620
Depreciation on building	3,750
Depreciation on plant and equipment	15,000
Adjustment to inventory ₦(4050- 9000)	(4,950)
Total	325,420

w2.

		₦'000
	Income tax expense	
a	Income tax	29,100
	Over provision	(1,200)
	Increase in movement in def. tax ₦(6,225-5625)	600
	Total income tax	28,500
b	Deferred tax	**₦'000**
	Opening def tax April 1, 2023	3,900
	Closing def tax March 31, 2024 (25% x ₦40,500)	10,125
	Increase in movement in deferred tax	6,225
	Deferred tax arising on revaluation recognised in OCI(25% x 22,500 revaluation surplus)	(5,625)
	Increase in deferred tax recognised in profit or loss	600

w3. Gain on revaluation – Freehold Property

	₦'000
Revalued amount April 1, 2023	120,000
Carrying amount April 1, 2023	97,500
Revelation surplus	22,500
Less deferred tax arising on revaluation	(5,625)
Net revaluation surplus	16,875

w4a

The retained earnings of ₦2.1million in the trial balance is after deducting the dividend paid of ₦8.4million. Therefore, the retained earnings at April 1, 2023 were ₦10.5million (₦2.1million + ₦8.4million).

w4b

The dividend paid in November 2023 was ₦8.4 million. This is based on 168 million shares in issue (84 million x 2): the shares are 50k each times 5k (i.e 168million x 5k).

w5a 8% Convertible loan note

				₦'000
Separate into debt and equity components				
Initial principal value				45,000
Less debt component				
Year	**Cashflow**	**DF@10%**	**PV**	
2024	3,600	0.91	3,276	
2025	3,600	0.83	2,988	
2026	3,600	0.75	2,700	
2026	45,000	0.75	33,750	
Debt component				42,714
Equity component				2,286

w5b Valuation of debt component at March 31, 2024

	₦'000
Debt component	42,714
Add an effective interest rate at 10%	4,271
Less Coupon rate at 8%	(3,600)
Closing balance of debt March 31, 2024	43,385

w6 Property, plant and equipment schedule

	Freehold property ₦'000	Plant and equipment ₦'000	Total ₦'000
Cost/revaluation April 1, 2023	112,500	111,750	224,250
Revaluation surplus	22,500	-	22,500
Cost/revaluation April 1, 2023	135,000	111,750	246,750
Accumulated depreciation			
Balance April 1, 2023	15,000	36,750	51,750
Deprecation for the year	3,750	15,000	18,750
Accm. Dep. March 3, 2024	18,750	51,750	70,500
Carrying amount April 1, 2023	97,500	75,000	172,500
Carrying amount March 31, 2024	116,250	60,000	176,250

		₦'000
w7	**Inventory**	
	Balance as per trial balance	54,000
	Less: good received after year-end	(4,050)
	Add: Cost of goods sold after year end, but part of inventory on March 31, ₦(11,700 x 100/130)	9,000
	Closing Inventory	58,950
w8	**Trade receivables**	
	Amount per trial balance	70,650
	Add factored receivables	15,000
	Less allowance	(900)
		84,750

Note: Factored receivables:

Ayoka Foods Plc still bears the risk of the non-payment of the receivables, hence the substance of this transaction is a loan. Thus the receivables must remain on Ayoka Foods Plc statement of financial position and the proceeds of the 'sale' treated as a current liability. The difference between the factored receivables (₦15,000) and the loan received (₦13,050) of ₦1.95million which has been charged to administrative expenses, should be reversed except for ₦900,000 which should be treated as an allowance for uncollectible receivables.

Examiner's report

The question tests candidates' knowledge of the principle and provisions of IAS 8- Accounting policies, changes in accounting estimates and errors. Candidates are also required to prepare the final accounts of a limited liability company which makes it possible to test the application of various provisions of relevant accounting standards such as IFRS 7, IAS 16, IAS 12 etc.

Most of the candidates attempted the question and performance was poor.

The common pitfall of candidates were as follows:

a. In ability to correctly calculate and properly present the dividend paid in the statement of changes in equity;

b. Failure to carry out backward reconciliation of inventory in other to determine the actual inventory balance as at the reporting date;

c. Wrong treatment of factoring of the receivables, which should have been accounted as short term loan in view of the fact that it was 'factoring with recourse 'it was however wrongly treated as 'factoring without recourse; and

d. Inability of candidate to correctly calculate revaluation reserve and other component of equity.

Candidates are advised to pay special attention to the preparation of final accounts of a single entity in accordance with relevant International Financial Reporting Standards (IFRS) accounting standards, as this is an area that the examiner might pay attention to at this level of the Institute's examination.

Marking guide

		Marks	Marks
a)	**Discussion of limitations of retrospective application of accounting policy by an entity**		
	stating two limitations at 1 mark each	2	
	discussion of two limitations at 1½ mark each	3	5
b)i	**Preparation of statement of profit or loss and other comprehensive income**		
	stating the title of the financial statement	½	
	determination of cost of sales	3	
	determination of profit before tax	3	
	determination of taxation and profit for the year	3	
	determination of gain on valuation of property	2	
	stating total comprehensive income	½	12
Ii	**Preparation of statement of changes in equity**		
	stating the title of the financial statement	¼	
	stating the opening balance of components of equity	¾	
	determining the equity component of 8% loan note issued	1½	
	stating dividend paid in the year	½	
	stating transfers to revaluation reserve and retained earnings	¾	
	stating closing balance of components of equity	1¼	5

iii **Preparation of statement of financial position**

stating the title of the financial statement	¼	
determination of the non-current assets	3	
determination of the current assets	1¼	
stating the total assets	¼	
stating the equity and reserves	1¼	
stating the non-current liabilities	¾	
stating the current liabilities	1	
stating total equity and liabilities	¼	8
Total		30

SOLUTION 2

(a) **Features for computing EPS under IAS 33**

The following features must be considered when determining earnings per share in accordance with IAS 33:

(i) Profit attributable to ordinary shareholders: The numerator of EPS must be profit after tax less any preference dividends;

(ii) Weighted average number of ordinary shares (WANOS): Shares must be time-apportioned based on when they were in issue during the period;

(iii) Effect of bonus and rights issues: Bonus issues and share splits require retrospective adjustment of all prior-period EPS;

(iv) Potential ordinary shares for diluted EPS: Options, convertibles and warrants must be assessed to determine whether they are dilutive;

(v) Contingently issuable shares: Shares that may be issued if certain conditions are met must be included when they become virtually certain; and

(vi) In calculating EPS, an entity should not include non-recurring items in the denominator

(b)

i. **Effect of scrip dividend on market price of share**

The effect of the scrip dividend on the market price of EDO Plc's share will be:
Current market price per share is ₦5.00
Total market value of the shares is 3,000,000 x ₦5.00 = ₦15,000,000

25% scrip dividend =25% of ₦15,000,000 = ₦3,750,000
new shares at ₦2.00 per share = ₦3,750,000 ÷ 2
= 1,875,000 shares

With scrip dividends the total number of shares becomes
3,000,000 + 1,875,000 = 4,875,000 shares

Since the total market value is ₦15,000,000,
The market price per share will be: ₦15,000,000 ÷ 4,875,000 shares
= ₦3.08 per share

ii. **Effect of scrip dividend on EPS**

Market price per share is expected to reduce to ₦3.08 per share
EPS prior to scrip dividend is ₦15,000,000/3,000,000 shares = ₦5.00 per share
EPS after scrip dividend will be ₦11,250,000/4,875,000 shares = ₦2.31 per share
That is EPS has fallen from ₦5.00 to ₦2.31

(c)

Categorisation of properties 1, 2 and 3 in accordance with IAS 16 and IAS 40

IAS 40 defines investment property as property (building, land or both) that is acquired and held by entity for the purpose of income generation or capital appreciation or both. On the other hand IAS 16 defines property, plant and equipment as asset acquired and held for use in production or supply of good or service, for rental or administrative purpose, and are held during more than one accounting period.

Categorisation:

Property 1

- This is rented out by Dideolu to one of its subsidiary. According to IAS 40, it would be categorised as IAS 16-Property plant and equipment under consolidated financial statement, since it is sold to a related company.
- If shown as PPE, deprecation of 6,000 (300,000/50years) is recognised in profit or loss for the year ended December 31, 2024

  Carrying amount of property is shown at 288,000 (300,000-12,000)

Property 2

- This was let to unrelated parties on commercial terms to earn rentals. It should be categorised as investment property under IAS 40
- Fair value loss of 45,000 (315,000-360,000) is recognised in profit or loss at December 31, 2024
- Fair value of investment property at N315,000 is recognised in statement of financial position as at December 31, 2024

Property 3

- This was let to unrelated parties on commercial terms to earn rentals. It should be categorised as investment property under IAS 40
- Fair value gain of ₦7,000 (₦270,000 - ₦263,000) is recognised in profit or loss for the year ended December 31, 2024.
- Fair value of investment property of ₦270,000 is recognised in statement of financial position as at December 31, 2024

(d)

Treatment of income tax

(i) An amount of ₦6million (₦37.5million - ₦ 31.5million) was over provided for in the previous year 2023.

(ii) Thus, the provision for the current year 2024 should be reduced by that amount of over provision. Hence, an expected liability of ₦36.8miilion would require a provision of ₦30.8million

(iii) The liability would still be ₦36.8million, as this is the amount expected to be paid.

(iv) Basically, the provision moves from the existing figure of ₦6million credit to the required level of ₦36.8million

(v) As explained in the calculation below:

	₦'m	₦'m
Taxation b/f – year 2023		37.5
Add: Tax provision for the year 2024	36.8	
Less: Over provision for tax 2023	(6)	30.8
Tax paid during year 2024		(31.5)
Tax liability as at year 2024		36.8

(e) **Translation of monetary and non-monetary items**

Under IAS 21, foreign currency items at the reporting date are treated differently depending on whether they are monetary or non-monetary.

i. Monetary items

- These are items receivable or payable in fixed units of currency (e.g., cash, receivables, payables, foreign loans)

- Monetary items are translated at the closing exchange rate at year-end. Exchange differences arising are recognised in profit or loss, except those relating to a net investment in a foreign operation which are taken to OCI.

ii. Non-monetary items measured at historical cost

- Examples include inventory and PPE under the cost model.

- These items are translated using the exchange rate at the date of the transaction (historical rate). No further re-translation is made at year-end because their values are not affected by future cash flows, but re-translation will be made when there is change in the fair value.

iii. Non-monetary items measured at fair value

- Examples include revalued PPE, investment property FV model, and FV financial assets.
- They are translated using the rate at the date the fair value was determined. The resulting exchange differences follow the same treatment as the fair value changes (i.e. to P&L or OCI) depending on the underlying standard.

Conclusion:

- IAS 21 ensures that monetary items reflect current exchange rates at reporting date,
- While non-monetary items are translated according to their measurement basis, ensuring consistency and faithful representation.

Examiner's report

The question tests the application of the provisions of various accounting standards such as IAS 33- Earnings per Share, IAS 12 – Income Taxation, IAS 40- Investment Properties, IAS 16 – Property Plant and Equipment and IAS 21- The Effect of Changes in Foreign Exchange Rates

Most of the candidate did not attempt the question and the few that attempted it performed below average.

Majority of the candidates that attempted the questions could not correctly apply the accounting standards, most especially IAS 33 in part 2(bi), IAS 12 and IAS 21.
Candidates are advised to pay more attention to this section of the syllabus for better performance in future examinations of the institute.

Marking guide

		Marks	Marks
a)	**Identification of five features for computing EPS under IAS-33**		
	- any five correct features at ½ mark each		2½
b)	**Effect of scrip dividend payment decision**		
	i) on the market price of the company's share:		
	- calculation of the amount of dividend	½	
	- calculation of new shares arising from dividend	½	
	- determination of total shares in issue	½	
	- calculation of market price per share after dividend	1	
	ii) on the earnings per share:		
	- calculation of EPS before dividend payment decision	1	
	- calculation of EPS after dividend payment decision	1	
	- determination of decrease in EPS	½	5
c)	**Categorisation of properties 1, 2 and 3 in accordance to IAS 16 and IAS 40**		
	- any five points on categorisation with reasons and examples at 1 mark each		5
d)	**Explanation of treatment of income tax**		
	- any five correct points at ¼ mark each	1¼	
	- any five correct calculations presented at ¼ each	1¼	2½
e)	**Discussions on the translation of foreign currency monetary and non-monetary items in financial statements**		
	- any five correct points at 1 mark each		5
	Total		20

SOLUTION 3

a)

Chike Oils Ltd
Computation of relevant ratios

		2023	2022
i)	**Gross profit percentage**		
	$\frac{\text{Gross profit}}{\text{Revenue}} \times \frac{100}{1}$	$\frac{1,093}{3,645} \times \frac{100}{1}$ =29.99%	$\frac{982}{2,457} \times \frac{100}{1}$ =39.97%
ii)	**NPBIT percentage**		
	$\frac{\text{Net profit before interest and tax}}{\text{Revenue}} \times \frac{100}{1}$	$\frac{261+54}{3,645} \times \frac{100}{1}$ =8.64%	$\frac{527+9}{2,457} \times \frac{100}{1}$ =21.82%
iii)	**Gearing ratio**		
	$\frac{\text{Fixed interest-bearing capital}}{\text{Fixed interest-bearing capital + equity}} \times \frac{100}{1}$	$\frac{510}{510+1,095} \times \frac{100}{1}$ =32.38%	$\frac{120}{120+743} \times \frac{100}{1}$ =13.90%

b. **Comments on relevant qualitative factors that may impact on the company's performance**

Qualitative factors that are likely to affect the company performance are discussed below:

(i) **Diversification strategy risk**
The company acquired 60% of Ducal Agro Ltd. Agriculture is weather-dependent and volatile, thus short-term performance may decline due to initial integration costs.

(ii) **Regulatory and economic environment**
Oil and gas companies face forex volatility, insecurity, pipeline vandalism and subsidy restructuring, all of which may depress margins.

(iii) **Rising operating costs**
Administrative and distribution costs rose significantly (Administrative: ₦270m to ₦467m). This suggests cost inefficiency or inflationary pressures affecting profitability.

(iv) **Financing structure and solvency risk**
New 12% loan notes increased gearing from 13.9% to 32.38%, exposing the company to higher financial risk and interest burden.

(v) **Investment with no immediate return**
No dividend or value uplift from Ducal Agro Ltd indicates that the investment is not yet contributing to profit, affecting return on investment.

(vi) **Working capital pressure**
Trade receivables doubled (₦105m to ₦225m), possibly indicating weaker credit control.

(vii) **Management team and leadership**
The effectiveness, experience and decision-making abilities of the management team are crucial. Strong leadership can navigate challenges and inspire employees, while poor management can lead to inefficiency and financial losses.

(viii) **Employee engagement and morale**
Engaged and satisfied employees are more productive, innovative and less likely to leave the company. A positive workplace culture and good talent retention can lead to better overall performance.

(ix) **Company culture and values**
A strong positive company culture influences employee behavior, job satisfaction and the company's ability to attract and retain top talent.

(x) **Competitive advantage or business model**
Unique strengths that set a company apart (e.g., superior technology, innovative products, efficient operations) can lead to increased market share and higher profit margins.

(xi) **Product or service quality**
How well a product or service satisfies customer needs and wants directly impacts customer satisfaction and loyalty, which are key drivers of revenue growth.

(xii) **Industry trends and market growth**: The overall dynamics of the industry, including whether it is a high-growth or slow-growth market, will impact the company's potential for success.

(xiii) **Economic conditions**
General economic conditions, such as inflation rates, interest rates and overall market stability, can affect consumer spending, financing costs and business performance regardless of internal management.

(xiv) **Regulatory and legal environment**
Changes in government regulations, legal issues (such as pending litigation), or compliance costs can have a major financial impact.

(xv) **Supplier and partner relationships:**
Strong relationships with key vendors and partners can ensure a stable supply chain and better navigation of problems or disagreements when they arise.

(xvi) **Social responsibility and Environmental, Social and Governance (ESG) factors**
A company's commitment to ethical practices, community engagement and environmental stewardship can influence investor perception and customer trust, thereby impacting financial outcomes.

(c)

Chike Oils Ltd.
Statement of cash flows for the year ended December 31, 2023
(operating activities only)

	₦'million	₦'million
Operating activities:		
Profit before tax		261
Adjustment for non-cash and non-operating items:		
Finance cost		54
Movement in working capital:		
Increase in inventory ₦(180-150)	(30)	
Increase in trade receivables ₦(225-105)	(120)	
Decrease in other receivables ₦(165-0)	165	
Increase in trade payables ₦(285-210)	75	
		90
Cash flow from operating activities		405
Interest paid		(54)
Tax paid (wk1)		(162)
Net cash flows from operating activities		189

Workings: Determination of tax paid

	₦'million
Balance b/fwd	156
Income tax expenses (P or L)	81
Less balance c/d	(75)
Tax paid	162

Examiner's report

The question tests candidates' knowledge of ratio analysis and interpretation of financial statements as well as preparation of the statement of cash flow extract.

Most candidates attempted the question and performance was above average.

The main pitfall noted was that some candidates commented on the quantitative factors that affect the company's performance rather than discussing the qualitative factors.

Candidates are advised to read the question properly and ensure that they provide only relevant answers. Also, candidates should make use of the Institute's Pathfinders and relevant financial journals to aid their ability to interpret relevant financial statements.

Marking guide

		Marks	Marks
a)	**Computation of relevant ratios for the two years 2023 and 2022**		
	- correct calculation of gross profit percentage	3	
	- correct calculation of net profit margin	3	
	- correct calculation of gearing ratio	3	9
b)	**Comment on relevant qualitative factors that may impact on the company's performance**		
	- any six points at 1 mark each		6
c)	**Preparation of statement of cash flows for the year**		
	- stating the title	½	
	- stating the profit before tax	½	
	- adjusting for interest paid (finance cost)	½	
	- determining movement in working capital	2	
	- calculating tax paid	1	
	- determining cash flow from operating activity	½	5
	Total		20

SOLUTION 4

Dimeji Ltd
Consolidated statement of profit or loss for the year ended September 30, 2024

	₦'000
Revenue ₦(165,000+(99,000 x 6/12)-(6,000+13,500) intra group sales	195,000
Cost of sales (w1)	(163,950)
Gross profit	31,050
Distribution costs ₦(4,500+(3,000x 6/12)	6,000
Administrative expenses ₦(7,875+(3,600x 6/12) – 5,100 negative goodwill (w2)	(4,575)
Loss on equity investment	(300)
Decrease in contingent consideration ₦(2,700 – 2,250)	450
Finance costs	375
Profit before tax	20,250
Income tax expense ₦(5,250 – (1,500 x 6/12)	4,500
Profit for the year	15,750
Profit attributable to:	
Equity holders of the parent	16,875
Non-controlling interests	(1,125)
	15,750

Dimeji ltd
Consolidated statement of financial position as at September 30, 2024

	₦'000
Assets	
Non-current assets	
Property, plant and equipment (w3)	95,850
Financial asset: equity investments ₦(24,000 – 20,250 cash consideration) – 300 loss	3,450
	99,300
Current asset ₦(24,750 + 7,200 -900 URP)	31,050
Total assets	**130,350**
Equity and liabilities:	
Equity attributable to owners of the parent:	
Equity shares of ₦0.50 each	45,000
Retained earnings (w4)	44,625

	89,625
Non-controlling interest (w5)	4,275
Total equity	93,900
Current liabilities:	
Contingent consideration	2,250
Other current liabilities ₦(22,500 +11,700)	34,200
Total equity and liabilities	**130,350**

Workings:

w1 **Cost of sales**

	₦'000
Dimeji Ltd	132,000
Dekunle Ltd ₦(100,800 x 6/12)	50,400
Intra-group purchases ₦(6,000 + 13,500)	19,500
Unrealised profit in inventory (see below)	900
Additional depreciation on leased property ₦(3,000 ÷ 10 years x 6/12)	150
	163,950

The profit on the sale of the goods back to Dimeji Ltd is ₦5.4million ₦(13,500 – (6,000 + 2,100). Therefore, the unrealised profit in the inventory of ₦2.25million at September 30, 2024 is ₦900,000 ₦(5,400 x 2,250 ÷ 13,500)

w2 **Goodwill in Dekunle Ltd**

	₦'000	**₦'000**
Investment at cost: immediate cash consideration (9,000 x 2 (shares of ₦0.50) x 75% x 1.50)		20,250
Contingent consideration		2,700
Non-controlling interest ₦(18,000 x 25% x ₦1.20)		5,400
		28,350
Net assets (equity of Dekunle at September 30, 2024	27,000	
Add back post-acquisition losses ₦(6,900 x 6/12)	3,450	
Fair value adjustment for property	3,000	

Net asset at date of acquisition	(33,450)
Bargain purchase/negative goodwill: credited to profit or loss	5,100

Dekunle's adjusted post-acquisition losses for the year ended September 30, 2024 are ₦4.5million (₦6,900 x 6/12 + 150 additional depreciation + 900 URP)

Therefore, the non-controlling interest share of the losses is ₦1,125,000 (4.5million x 25%)

Note:

IFRS 3 on business combinations' says gain on bargain purchase (negative goodwill) should be credited to the acquirer, thus none of it relates to the non-controlling interests

Also IFRS 3 states that gain on bargain purchase should be recognised in the statements of profit or loss but not as a line item, which will eventually flow into retained earnings reserve.

w3. **Property, plant and equipment:**

	₦'000
Dimeji Ltd	61,500
Dekunle Ltd	31,500
Fair value adjustment	3,000
Additional depreciation	(150)
	95,850

w4. **Retained earnings:**

	₦'000
Dimeji Ltd	42,750
Dekunle's post-acquisition adjusted losses (4,500 x 75%)	3,375
Gain on bargain purchase	5,100
Loss on equity investment	(300)
Decrease in contingent consideration	450
	44,625

w5. **Non- controlling interests:**

	₦'000
At date of acquisition	5,400
Post-acquisition loss from statement of profit or loss	(1,125)
	4,275

Examiner's report

The question is on group accounts and it tests candidates' ability to prepare consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position.

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

The common pitfalls were as follows:

a. inability of candidates to properly account for the contingent considerations in the process of the acquisition of the subsidiary;

b. Most of candidates could not properly account for the gain on bargain purchase (Negative goodwill) in accordance with the provisions of IFRS 3 – Business combination;

c. Some candidates allocated part of the gain on bargain purchase (negative goodwill) to non- controlling interest which is against the provisions of IFRS 3, which specify that negative goodwill should only be credited to the acquirer; and

d. Other candidates could not correctly calculate the consolidated retained earnings and non-controlling interest.

Candidates are advised to pay attention to this section of the syllabus, practice past questions and answers on group accounts, and make use of the Institute of Chartered Accountants of Nigeria's study texts for better performance at this level of the Institute's examinations.

Marking guide

		Marks	Marks
a)	**Preparation of consolidated statement of profit or loss for the year**		
	- stating the title	¼	
	- determination of consolidated revenue	1	
	- calculation of consolidated cost of sales	3	
	- stating consolidated distribution costs	½	
	- calculating administrative expenses	1	
	- determining gain on bargain purchase	1¾	
	- stating decrease in contingent consideration	½	
	- calculation of profit before tax	½	
	- adjusting for income tax expense	½	
	- stating profit for the year attributable to parent and non-controlling interests	1	10
b)	**Preparation of consolidated statement of financial position as at year end**		
	- stating the title	¼	
	- calculation of consolidated property, plant and equipment	2¼	
	- stating the financial asset	1	
	- determining current assets	1	
	- stating total assets	¼	
	- stating the equity share capital	¼	
	- calculation of consolidated retained earnings	2	
	- calculation of non-controlling interest	1¼	
	- stating total equity	¼	
	- stating current liabilities and contingent consideration	1¼	
	- stating total equity and liabilities	¼	10
	Total		20

SOLUTION 5

a) Rule-based and Principle-based system

(i) A rule-based accounting system is likely to be very descriptive.

(ii) It is generally considered to be a system which relies on a series of detailed rules of accounting requirements that prescribe how financial statements should be prepared.

(iii) It is considered less flexible, but often more comparable and consistent than a principle-based system.

(iv) It could also be argued that rule-based system can lead to identifying loopholes.

(v) By contrast, a principle-based system relies on generally accepted accounting principles that are conceptually based and are normally supported or shored-up by a set of key objectives.

(vi) Principle-based system are more flexible than rule-based systems. however, they require judgement and interpretation, which could lead to inconsistences between two or more reporting entities and sometimes to the manipulation of financial statements.

(vii) IFRS are based on Conceptual Framework for Financial Reporting. They are therefore often regarded as being a principle-based system. Though, IFRS(s) do contain many rules and requirements that are often lengthy and complex, their critical feature is that IFRS rules are based on underlying concepts.

Conclusion

In reality, most accounting systems have an element of both rules and principles. Their designation as rule-based or principle-based depends on the relative importance and robustness of the principles compared to the volume and manner in which the rules are derived.

(b) Advantages of adopting IFRS by Immanuel Limited

(i) Facilitate international acquisitions and mergers
IFRS is instrumental in making international acquisition and mergers easier.

(ii) **Global understanding:** IFRS provides a common language for reporting financial results across borders. This makes it easier for firms operating in different jurisdiction to apply the same accounting standards so that potential buyers or merger partners can easily understand and assess the financial condition of the target company.

(iii) **Comparable financial statements:** With IFRS, comparative financial statements of companies from other countries can be compared easily. This comparability will enable investors and acquirers to assess with accuracy, the performance and the financial position of a company located anywhere in the world.

(iv) **Transparency and disclosure:** IFRS promotes transparency and extensive disclosure of financial information. Companies are required to provide information to the investors, regarding their overall financial performance, risks involved and key metrics about their companies. This reduces the uncertainty and risk for investors before planning acquisitions or mergers.

(v) **Alignment with global standards**: Most of the multinational companies are already following IFRS as the reporting framework. If an organisation acquires or merges with such a company, it will reduce integration issues and the complexity involved in getting the different accounting practices of the various entities to align with one another.

(vi) **Regulatory compliance**: Complying with IFRS becomes compulsory for numerous companies for listings or their entry to cross-border access capital. A company, henceforth, through IFRS, stays within the regulatory compliance, which in the future may aid in crossing border deals and acquisitions.

In a nutshell, IFRS fosters transparency, comparability and reliability in financial reporting. That is why IFRS becomes a key facilitator for international acquisitions and mergers.

(vii) Reduce the time, effort and cost of creating many reports

Amongst many significant benefits of the IFRS, of the main reasons is the creation of a worldwide standardised accountancy language. For this, a company can state their performance, regardless of the company being from a particular nation using the same language.

(viii) Offer greater flexibility in accounting practices

IFRS facilitates better decision-making since it ensures investors and analysts receive standardised and comparable financial information. A standard framework allows investment decisions to be made regardless of the location of the company concerned.

Information asymmetry is also reduced, which will result in much more accurate assessments of a company's financial performance and risk profiles. Better decision-making promotes better resource allocation, increases the confidence of investors, and generally leads to better overall functioning of capital markets.

(ix) Make it easy for companies to establish a business in other countries

Companies that apply IFRS are able to gain a competitive advantage by accessing international capital markets. Most stock exchanges worldwide require listed companies to prepare their financial statements under IFRS.

Applying this requirement allows companies to attract a wider base of global investors and even achieve a higher valuation. Access to international markets also allows companies to raise funds more easily, expand investor bases and increase the visibility of the company on the international stage.

(x) More information transparency and improved communication

IFRS ensures that transparent and consistent financial reporting is presented to stakeholders in such a manner that the company enjoys high credibility among investors, lenders and other stakeholders

(xi) Comparison of company ratings

Investor confidence is anchored on transparent financial reporting. IFRS's emphasis on clear and accurate financial disclosures enhances investor trust in the accuracy of reported financial information. This increased confidence can lead to positive effects on share prices and market capitalisation. Investor confidence drives higher market participation, lowers the cost of equity and has a positive impact on a company's overall valuation.

(xii) Prudent management in IFRS

IFRS requires companies to assess and disclose various types of risks in their financial statements, which include financial, operational and market risks. Through this, management can determine and assess the risks and implement appropriate mitigating strategies while making prudent decisions to safeguard the assets and interests of the organisation.

Examiner's report

The question tests rule-based and principle-based system of accounting standards as well as the advantages of adopting International Financial Reporting Standards.

Most candidates attempted the question and their performance was average.

Majority of the candidates were able to clearly state the advantages of adopting IFRS while some could not differentiate between rule-based and principle-based system of accounting standards

Accounting standards are the bedrock of financial reporting, hence candidates are advised to familiarise themselves with the basic principles and provisions of accounting standards.

Marking guide

		Marks	Marks
a)	**Differentiate between rule-based and principle-based accounting system**		
	- stating any five differences		5
b)	**Advantages of adopting IFRS for financial reporting**		
	- stating any five advantages of IFRS	2½	
	- Discussion of the five advantages of IFRS	7½	10
	Total		15

SOLUTION 6

a) **Key features of sustainability reporting**

(i) Forward-looking: Includes scenario analysis, forecasts and strategy alignment.
(ii) Materiality-driven: Focuses on ESG (Environmental, Social and Governance) issues that could affect enterprise value.
(iii) Quantitative and qualitative factors: Combines KPIs– Key Performance Indicators (e.g., emissions, water use) with narratives (e.g., governance practices).
(iv) Integrated with financial information: Increasingly aligned with financial reporting standards (e.g., IFRS S1 and S2).
(v) Standardised by global framework (GRI and IFRS)
(vi) Value chain oriented that is, it looks beyond the companies' immediate operations.

b) **The objectives and benefits of sustainability reporting**

The primary objective of sustainability reporting is to provide transparency and accountability on an organisation's impacts on the economy, environment and society, to assist internal and external stakeholders' decision-making.

(i) **Transparency and accountability:** Publicly disclosing performance related to environmental, social, and governance (ESG) issues demonstrates a commitment to responsible practices and builds trust with stakeholders and the public.

(ii) **Informed decision-making:** Providing clear, consistent and reliable data enables investors to assess long-term risks and opportunities, also allows customers and communities to align their values and make informed choices.

(iii) **Regulatory compliance:** Meeting mandatory national and international legal requirements helps avoid penalties and ensures the company operates within legal boundaries.

(iv) **Enhancing reputation and brand image**: Highlighting sustainability efforts can improve brand reputation and attract employees and customers who prefer sustainable and ethical brands.

(v) **Attracting capital:** Growing investor interest in ESG factors means transparent reporting is crucial for attracting investment and accessing financial markets.

(vi) **Identifying risks and opportunities:** The process helps businesses identify potential ESG risks (e.g., climate change, supply chain issues) and opportunities (e.g., cost savings from waste reduction, new markets for sustainable products) that may impact long-term performance.

(vii) **Strategic decision-making:** Sustainability data provides management with insights to make more effective strategic decisions, align business models with sustainable practices, and set clear, forward-looking goals and targets.

(viii) **Performance measurement and improvement:** Reporting allows an organisation to measure and monitor its performance against key metrics and industry peers, identifying areas for improvement and driving efficiency.

(ix) **Improving employee morale and retention**: Engaging employees in sustainability initiatives can boost morale and help retain talent, particularly among younger generations who prioritise working for responsible organisations.

Ultimately, sustainability reporting serves as a catalyst for positive change, promoting responsible business practices and contributing to the global goal of sustainable development, which balances economic growth, social inclusion, and environmental protection.

(c) **Importance of ISSB to Global Sustainability Reporting**

(i) Provides a single authoritative source of sustainability disclosure standards for capital markets.

(ii) Reduces the reporting burden on multinational companies by aligning standards.

(iii) Promotes trust, accountability and efficiency in ESG data used by investors, lenders and regulators.

(iv) Enables effective integration of sustainability performance into financial decision- making.

(v) The emergence of the ISSB marks a transformative milestone in the evolution of corporate reporting.

(vi) It addresses long-standing challenges of fragmentation and lack of comparability in sustainability disclosures.

(vii) Through IFRS S1 and S2, the ISSB aims at elevating the sustainability reporting to the same rigour, relevance and consistency as traditional financial reporting, ushering in a new era of integrated, global and investor-focused corporate transparency.

Examiner's report

The question is on sustainability reporting and it tests candidates' knowledge of the features and benefits of sustainability reporting as well as importance of International Sustainability Standards Board (ISSB) to global reporting.

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

Most of the candidates could not correctly states the features of sustainability reporting as well as the importance of the activities of ISSB to global reporting

Although this question relates to a new section of the financial reporting syllabus, candidates are, therefore, advised to make use of the study text of Financial Reporting in other to acquire the necessary skills on sustainability reporting for better performance in future examinations.

Marking guide

		Marks
a)	Discussion of any five key features of sustainability reporting	5
b)	Stating any six objectives and benefits of sustainability reporting	6
c)	Identifying and explaining four important activities of International Sustainability Standards Board (ISSB) to global sustainability reporting	4
	Total	15

SOLUTION 7

(a) ICAN's Professional code expresses its guidance in terms of five fundamental principles. These are:

Integrity
Members should be straightforward and honest in all professional and business relationships. Integrity implies not just honesty but also fair dealing and truthfulness. A chartered accountant should not be associated with reports, returns, communications or other information where they believe that the information:

- Contains a materially false or misleading statement;
- Contains statements or information furnished recklessly; or
- Omits or obscures information required to be included where such omission or obscurity would be misleading.

Objectivity
Members should not allow bias, conflicts of interest or undue influence of others to override their professional or business judgements.

A chartered accountant may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations.

Relationships that bias or unduly influence the professional judgment of the chartered accountant should be avoided.

Professional competence and due care
Practicing as a chartered accountant involves a commitment to learning over one's entire working life.

Members have a duty to maintain their professional knowledge and skill at such a level that a client or employer receives a competent service, based on current developments in practice, legislation and techniques. Members should act diligently and in accordance with applicable technical and professional standards.

Continuing professional development develops and maintains the capabilities that enable a chartered accountant to perform competently within the professional environments.

Confidentiality
Members must respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose such information to third parties without authority or unless there is a legal or professional right or duty to disclose.

Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of members or third parties.

Professional behaviour
Members must comply with relevant laws and regulations and should avoid any action which discredits the profession. They should behave with courtesy and consideration towards all with whom they come into contact in a professional capacity

(ii) **Threats to the fundamental principles**
The following five threats are identified by the International Federation of Accountants (IFAC).

Self-interest threat or conflict of interest: These occur when the financial and other interests of the professional accountant, or a close family member, in appropriately affect the accountant's decisions or actions.

Self-review threat: This is the threat that a professional may not review appropriately some work done previously by him or by another individual within the same firm. A typical example is a situation where a professional accountant prepares the annual financial statements for a client and then is appointed to do the audit.

Advocacy threat: This type of threat can occur when an accountant promotes the point of view of a client, for example by acting as a professional witness in a legal dispute. This may impair the objectivity of the accountant.

Familiarity threat: This is the threat that results from long or close relationship with the client such that an accountant might become too sympathetic to client and more willing to accept the client's point of view.

Intimidation threat: A professional accountant might find that his objectivity and independence is threatened either real or perceived pressure.

(b) **Benefits of Artificial Intelligence (AI) and robotics**

(i) **Increased efficiency and productivity:** AI simplifies repetitive accounting tasks, freeing up time for professionals to focus on more strategic and value-added activities. This shift enhances productivity and efficiency, allowing accountants to concentrate on areas where their expertise is most impactful.

(ii) **Improved customers experience:** Using chat GPT to draft email, can save time. AI can be used for customers' support.

(iii) **Enhanced data analysis and predictions:** AI algorithms are capable of rapidly analysing financial data, making them powerful tools for identifying patterns and predicting trends. By examining transactions, cash flows and budgets, AI helps individuals and businesses manage their financial data more efficiently and make informed decisions.

(iv) **Costs savings:** AI-driven process automation enables accounting firms to save time and reduce costs by handling routine tasks efficiently. This allows professionals to focus on strategic initiatives, boosting productivity and profitability while minimising operational expenses.

(v) **Creation of new job opportunities:** One of the most significant ways that AI is creating job opportunities is through the development and deployment of AI systems, cloud-based system or AI -powered tools.

(vi) **Robotic Process Automation (RPA) software:** This has been demonstrated to be effective in handling routine and monotonous aspects of the accountant's job

(vii) **Automating repetitive and mundane tasks:** AI enables accountants track changes in business financial information from various sources.

Examiner's report

The part (a) of the question tests candidates' knowledge of professional ethics while part (b) is on information technology (Artificial Intelligence and Robotics)

Majority of the candidates attempted the questions and their performance was above average.

Some of the candidate could not correctly identify and discuss the threats to the fundamental principles of professional code of conduct.

Candidates are advised to pay more attention to all sections of the syllabus for better performance in future examinations of the Institute.

Marking guide

		Marks	Marks
a)	Identifying and explaining four fundamental principle of ICAN professional code of conduct	8	
	Explaining four categories of threats to the fundamental principles	4	12
b)	Discussing three merits of Artificial Intelligence (AI) and Robotics in business operations and professional duties		3
	Total		15

 Examination No...........................

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – NOVEMBER 2025

AUDIT, ASSURANCE AND FORENSICS

EXAMINATION INSTRUCTIONS

PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER

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

WEDNESDAY, NOVEMBER 19, 2025

DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – NOVEMBER 2025

AUDIT, ASSURANCE AND FORENSICS

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

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

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

Forensic investigations are usually reactive to prove, or disagree, on suspicions or wrong doings and provide evidence for legal proceedings. They may also be proactive to prevent unethical conducts. The practitioner must possess necessary skills and pre-requisites to avoid professional negligence in the course of engagements.

Required:

Explain:

a. The phrase "professional negligence of a forensic practitioner". (4 Marks)
b. **THREE** ways by which professional negligence may occur during the course of a forensic investigation. (6 Marks)
c. **FOUR** consequences of professional negligence to practitioners. (4 Marks)
d. How professional negligence may be mitigated or managed. (6 Marks)
e. **FOUR** skills that the forensic practitioner must possess. (4 Marks)
f. **TWO** codes of ethics and the circumstances that might be applicable in different countries. This is considering the fact that ethical views differ between countries and cultures, and the behaviour and circumstances that might be considered slightly unethical in one country might be perfectly normal or acceptable in another. (4 Marks)
g. **ONE** artificial intelligence tool that can enhance the work of the auditor. (2 Marks)

(Total 30 Marks)

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

QUESTION 2

Oghenebiko Limited is a medium scale merchandising company based in Port Harcourt. The company sells goods on credit terms to customers and your firm is the company's external auditor.

Required:

a. Explain **FIVE** risks the company is exposed to in invoicing and dispatch of goods. (5 Marks)

b. Present **FIVE** control objectives to eliminate or reduce the risks highlighted in (a) above. (5 Marks)

c. Explain **FIVE** suitable principal controls that would assist in the achievement of the control objectives stated in (b) above. (5 Marks)

d. Explain **FIVE** tests the auditor could apply in order to determine whether the controls established operate effectively. (5 Marks)

(Total 20 Marks)

QUESTION 3

In the course of the audit of Naija Wazobia Limited, the Audit Senior discovered a figure of ₦55 million as intangible assets in the statement of financial position.

Further enquiry revealed that the figure related to the development of a new product.

Required:

a. Discuss **FIVE** criteria to be met for development costs to be recognised as intangible assets. (10 Marks)

b. Explain **FIVE** audit procedures that would enable the auditor make informed judgment on the figure of intangible assets. (10 Marks)

(Total 20 Marks)

QUESTION 4

The public perception of the external audit process shows a misapprehension of the role of the auditor. This misplaced public expectation causes what is referred to as the "audit expectation gap."

Required:

Explain:

a. The public perception of the auditor's role and responsibilities. (8 Marks)

b. **TWO** components of the "audit expectation gap". (4 Marks)

c. **FOUR** ways to close the "audit expectation gap". (8 Marks)

(Total 20 Marks)

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

QUESTION 5

Integrity Ventures Limited (IVL) operates 50 trucks for the evacuation of wastes from individual homes under the public private participation (PPP) programme. The individual home owners pay cash or cheques to the company every month, as and when due.

The following procedures are applied to the cash and cheques received:

(i) the cashier collects the cash or cheques and records the receipts in the cash/cheque received register and then places all the monies into the locked cabinet;
(ii) the contents of the cabinet are counted each day and after every few days, they are banked by any available member of the finance team;
(iii) the cashier records the details of the cash register into the cash receipts day book and also updates the sales ledger;
(iv) usually on a monthly basis, the cashier prepares a bank reconciliation statement; and
(v) if this process is missed in a month, it is done the following month.

Required:
For the cash and bank transactions:
a. Identify and explain **FIVE** deficiencies in the system of Integrity Ventures Limited. (5 Marks)
b. Suggest **FIVE** controls to address these deficiencies. (5 Marks)
c. Explain **FIVE** tests the auditor of IVL would perform to assess the effectiveness of these controls. (5 Marks)

(Total 15 Marks)

QUESTION 6

You are the Audit Senior in charge of the audit of a medium-sized company. You advised the management to correct discovered misstatements to which the management had not complied. In line with the provision of ISA 450-*Evaluation of misstatements identified during the audit,* you have accumulated these uncorrected misstatements for discussion with the senior assurance team.

Required:
a. Explain the objectives of the auditor as per the ISA 450, which requires a list of the uncorrected misstatements to be attached to the letter of representation. (5 Marks)
b. Explain **FIVE** requirements of the auditor as regards misstatements identified during the audit as per ISA 450. (10 Marks)

(Total 15 Marks)

QUESTION 7

You have recently been hired by Ecofriends Greens, a company that deals with renewable energy, to provide assurance services on its annual "Environmental Impact Assessment" (EIA) report. The report is to be submitted to the relevant Federal Government Agency and, also, to attract new investors in the light of current dispensation in the power industry. The report would include key performance indicators (KPI) in respect of total amount of carbon emissions saved by customers, who already have solar energy installed.

Required:

a. Explain what type of assurance services Ecofriends require and why. (4 Marks)

b. Discuss **THREE** key risks associated with the provision of this assurance engagement. (6 Marks)

c. Explain **FIVE** procedures you would undertake in this engagement. (5 Marks)

(Total 15 Marks)

SECTION A

SOLUTION 1

(a) "Professional negligence of the forensic practitioner" when conducting forensic investigation, refers to failure of the forensic practitioner to:

(i) comply with professional standards of care;
(ii) provide detailed attention expected of him, leading to avoidable errors or omission that can compromise the integrity of evidence, investigation or court proceedings;
(iii) prevent injury to a person or, damage property through the practitioners action;
(iv) observe duty of care to his client; like the doctor would do to his patient; and
(v) act with regard to the safety and right of others.

(b) Ways by which professional negligence may occur during a forensic investigation include:

(i) Investigation–related negligence
- Inadequate planning: This occurs when the practitioner does not have adequate or comprehensive investigation plan on the assignment. This will invariably lead to overlooking required evidence or his inability to meet the investigation deadline.
- Inexperience or lack of required skill: Professional due care may be breached, if the practitioner is not duly experienced or lacks required skills. Professional accountants are not expected to take up any assignment for which they lack required skill or sufficient training.
- Insufficient resources: This will occur when the professional or forensic firm lacks adequate resources for the engagement. This would include time, finance and personnel for the engagement.

(ii) Evidence-related negligence: Evidence obtained should be able to prove or disprove allegations. However, negligence occurs when:
- evidence is corrupted as a result of improper handling, storage or transmission; and
- evidence collection and analysis are inadequate: Evidence, be it physical, digital and testimony obtained in a forensic investigation must be appropriate and sufficient to stand as a proof or disproof of allegation or assertion. Failure to properly analyse evidence, including misinterpretation or misrepresentation might lead to negligence.

(iii) Reporting–related negligence: The forensic investigation is expected to provide a report at the end of the investigation, however, negligence may occur when:

- the report is not complete, inaccurate and/ or not timely. This might lead to misinformed decision-making;
- there is poor or lack of documentation of findings, such as property documentation, investigation findings, conclusion, recommendation and supporting evidence; and
- investigation findings and recommendations are not duly communicated to relevant stakeholders.

(iv) Other manners where negligence may occur

- Conflict of interest: This will compromise the integrity of the investigation.
- Objectivity: Lack of objectivity is viewed as a breach of required standard of care.
- If investigation findings and recommendations are influenced by bias and prejudice.
- Consideration of *Res Ipsa Loquitur* (The thing speaks for itself): That is, the event/circumstance implies negligence. The burden of proof now shifts to the defendants.
- Failure to comply with established procedures, protocols or standards.

(c) Consequences of professional negligence to the practitioner

(i) Loss of credibility: The professional firm may suffer loss of reputation.
(ii) Financial consequences: Financial loss would arise when there is negligence in carrying out forensic investigation.
(iii) Professional sanction: There may be professional sanction against the practitioner – determined by the gravity of negligence.
(iv) Justice: There might be miscarriage of justice as justice may be delayed, or denied the relevant party.
(v) Stress: There may be emotional stress or harm to the client.

(d) Professional firms engaging in forensic investigation may avoid or manage negligence by adhering to the following:

(i) providing continuous training and education for all the staff, especially on new developments in forensics;

(ii) assessing the risks involved in the engagement and providing procedures for responding to identified risk;

(iii) peer review: There should be peer review among professional firms on forensic engagements as this will assist in identifying and addressing potential errors, reliability and other critical areas;

(iv) development and upgrading procedures: Procedures may change where there are latest developments in forensic investigations like computer forensics. Professional accounting firms should follow the update and bring it in the procedures of the assignment;

(v) periodic or annual conduct of quality management assurance in forensic investigation engagement by the professional firm; and

(vi) adequate monitoring and evaluation of investigation process will enhance quality services by identifying arrears for improvement.

(e) The skills that the forensic practitioner must possess include:

(i) accounting;
(ii) data analytics;
(iii) fraud detection;
(iv) interrogative;
(v) custody and preservation of evidence;
(vi) investigative;
(vii) presentation – ability to communicate understandably; and
(viii) legal.

(f) TWO codes of ethics that are issued for application, based on different ethical views between countries and cultures are:

(i) **Rules-based codes of ethics**
Rules-based codes of ethics apply to specific action that an accountant must take in specific circumstances, even if the circumstances are varied and complex, since the specific rules are made in advance and should not be varied, even with the changing environment. A rule book cannot easily make allowances for national and cultural differences.

(ii) **Principle-based codes of ethics**
These are codes of ethics issued by regulating bodies containing general principles of ethical behaviour that require the accountant to act in accordance with the principles, using judgment in deciding whether in each case a particular course of action is a proper and ethical one.

(g) Artificial intelligence tools that can enhance the work of the auditor include:

(i) Data analytics and visualisation: These tools process large data sets using statistical tools to reveal anomalies and potential fraud.

(ii) Ai powered cloud-based audit platforms with analytics: This integrates data from various sources, automatically gathers evidence, supports risk assessment, sampling and audit strategy adjustments.

(iii) Robotic process automation (RPA): This helps to automate compliance, control testing, transaction monitoring. This is good for risk and control audits and for recurring audit procedures, for example, using drone for inventory count.

(iv) Natural language processing (NLP): This reviews and extracts important information from client documents e.g. minutes of Board meetings.

(v) Continuos monitoring tool: This tracks high-risk activities continuously and supports fraud prevention rather than just defection.

(vi) Machine learning (ML) predictive analytic models: This tool helps to detect abnormal journal entries, identifies more risky accounts and transactions and supports fraud-risk analysis.

Examiner's report

The question tests candidates' knowledge of professional negligence of a forensic practitioner, codes of ethics and application of AI tools for audit purpose.

Being a compulsory question, virtually all the candidates attempted it, but the performance was poor.

The commonest pitfalls were apparent apathy of candidates to the forensics part of the new syllabus and the misrepresentation of the "external" codes of ethics for fundamental professional ethics which are "internal".

Candidates are strongly advised to adequately cover every part of the examination syllabus.

Marking guide

		Marks	**Marks**
(a)	Explanation of the phrase "professional negligence of a forensic practitioner" (1 mark each for any explanation, subject to a maximum of 4 points).		4
(b)	Ways by which professional negligence may occur (1 mark each for any point, subject to a maximum of 3 points)	3	
	(1 mark each for any explanation, subject to a maximum of 3 correct points)	3	6
(c)	Consequences of professional negligence (1 mark each for any point, subject to a maximum of 4 points)		4

(d)	**How professional negligence may be mitigated or managed** (1 mark each for any point, subject to a maximum of six points)		6
(e)	**Skills of the forensic practitioners** (1 mark each for any skill, subject to a maximum of 4 skills)		4
(f)	**Two types of ethics codes** (1 mark each for any correct code, subject to a maximum of 2 codes)	2	
	(1 mark each for any explanation, subject to a maximum of 2 explanations)	2	4
(g)	**Artificial intelligence (AI) tool that can enhance the worth of the auditor**		2
	TOTAL		**30**

SOLUTION 2

(a) The risk that Oghenebiko Limited is exposed to in invoicing and dispatch of goods on credit include:

- (i) goods might not be dispatched to some customers' orders;
- (ii) goods might be dispatched twice for some customers' orders;
- (iii) goods might be dispatched to customers who do not have sufficient credit facility or credit limit;
- (iv) goods might be dispatched to some customers without invoices;
- (v) some customers may claim non-receipt of goods already dispatched to them;
- (vi) the company may experience insolvency due to untimely and non-settlement of bills;
- (vii) there may be high collection costs or fees, consequent upon pursuing over-due payments or settlements; and
- (viii) sales return may not be properly recorded.

(b) The control objectives to eliminate or reduce the above risks include:

- (i) dispatch of goods should be to only authorised dealer or customer;
- (ii) dispatch of goods should not be made twice for same sales order;
- (iii) dispatch of goods should be made only to customers with sufficient credit facility or credit limit;
- (iv) there should be an invoice prepared for every dispatch note;
- (v) customers should duly acknowledge receipt of goods on the goods delivery note;

(vi) customers should settle their bills and commitments as and when due;
(vii) additional unnecessary collection costs should be avoided as this would be an unnecessary burden; and
(viii) there should be authorised credit notes for all goods returned by customers.

(c) The suitable principal controls would include:

(i) sequentially pre-numbered dispatch notes and good delivery notes (GDNs) should be attached to copies of specific customer orders. The GDN should be signed by authorised member of the dispatch staff;
(ii) customers should acknowledge receipt of goods by signing the delivery notes for confirmation every time;
(iii) there should be confirmation of available credit facility or limit from the finance/accounts department;
(iv) each sales invoice should be linked to a copy of the dispatch note and customer order;
(v) Sales invoices should be sequentially pre-numbered and signed by the customer evidencing receipt of goods;
(vi) proper assessment of the customer should be initially made to avoid non-fulfilment of financial commitments; and
(vii) there should be proper authorisation of issuance of sequentially numbered delivery notes to customers.

(d) The tests of control the auditor should apply include:

(i) the auditor should check some delivery notes to confirm that customers sign them;
(ii) the auditor should confirm lists of sequential invoicing showing customer order numbers and dispatch numbers;
(iii) there should be a check to ensure that all goods delivery notes are sequentially numbered and so applied;
(iv) the auditor should confirm customers' acknowledgement of receipts of goods on duly signed goods delivery notes;
(v) there should be a confirmation of authorisation of credit facility or limit by responsible officer;
(vi) the credit limit should be checked by an auditor for unauthorised increase or decrease;
(vii) the auditor should check a list of credit notes to ensure that they cross-refer to appropriate sales invoice numbers; and

(viii) the auditor should check that appropriate segregation of duties exists, including, but not limited to the officers in charge of dispatch and those who prepare sales invoices.

Examiner's report

The question tests candidates' knowledge of tests of control in a credit sales system.

About 70% of the candidates attempted the question. The performance was below average.

The most common pitfall was inability of candidates to translate their theoretical knowledge to practical scenarios, and situations.

Candidates are advised to cultivate the ability of relating their knowledge to practical situations, especially since this is skills level of the professional examinations. They should also make use of the Institute's Study Texts.

Marking guide

		Marks
(a)	Risks the company is exposed to invoicing and dispatch of goods on credit (1 mark each for one risk, subject to a maximum of 5 marks)	5
(b)	Control objectives to eliminate or reduce the risks in (a) above (1 mark each for any point, subject to a maximum of 5 points)	5
(c)	Principal controls to assist in achieving control objectives in (b) above (1 mark each for any control, subject to a maximum limit of 5 controls)	5
(d)	Tests the auditor could apply to test effective operation of controls (1 mark for each test, subject to a maximum of 5 tests)	5
	TOTAL	**20**

SOLUTION 3

(a) The criteria to be met for development costs to be recognised as intangible assets as stated by IAS 38

(i) The technical feasibility of completing the intangible assets so that it will be available for use or sale as a commercial product or service.

(ii) The intention, as stated in the minutes of management meetings or discussion paper, to complete the intangible asset and use or sell it.

(iii) The ability to use or sell the intangible asset.

(iv) The ability to demonstrate how the intangible asset will generate probable future economic benefits, market for the output of the product/intangible asset or usefulness internally.

(v) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

(vi) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

(b) **The audit procedures that would assist the auditor determine the qualification of the figure as intangible assets**

(i) Assess the feasibility of the project and product, and also assess other matters like:

- projection and forecasts;
- production and marketing;
- funding requirements; and
- ability to complete, use or sell the asset.

(ii) Inspect development contracts and records, supporting and safeguarding patents.

(iii) Test controls concerning the documentation and safekeeping of relevant scientific notes, discoveries and conclusions.

(iv) Test a sample of development costs for appropriate capitalisation.

(v) Confirm that development costs are properly amortised over their useful lives or reviewed annually for impairment as necessary.

(vi) Obtain written representation from management as to the commitment to complete the project and either to use or sell it.

(vii) Review the minutes of meetings of directors or those charged with governance on matters relating to the development of the new product.

Examiner's report

The question tests candidates' knowledge of recognition of development costs as intangible assets.

Above 35% of the candidates attempted the question and the performance was poor.

The commonest pitfall was that, though the area being tested is covered by an accounting standard, the candidates could not provide relevant procedures that would make the auditor make informed decisions on the intangible assets.

Marking guide

		Marks
(a)	Criteria for development costs to be recognised as intangible assets (2 marks for each correct point, subject to a maximum of 5 points)	10
(b)	Audit procedures to enable the auditor make informed judgement on the figure of intangible assets (2 marks for each procedure, subject to a maximum of 5 points)	10
	TOTAL	**20**

SOLUTION 4

(a) There are misunderstandings in the expectations of the public as against the role and responsibilities of the external auditors in law and relevant regulations. Consequent upon this different perception, there is emergence of "audit expectation gap".

The perception of the public is that:

(i) the auditor's report amounts to a certificate that the financial statements are correct and accurate and can be relied upon for all decision-making purposes;
(ii) the auditor has a duty to prevent and detect fraud;
(iii) the auditor checks all the transactions for the relevant period;
(iv) the auditor should take responsibility for the financial statements; and
(v) auditors are seen as protectors and guardians of interests of investors and other stakeholders

(b) The components of audit expectation gap include:

(i) Reasonableness gap: The difference between what the public unreasonably expects auditors to achieve and what they can reasonably accomplish.
(ii) Performance gap: This represents the gap between what the society can reasonably expect auditors to achieve and the auditor's perceived performance in achieving those goals.
(iii) Evolution gap: The ongoing need for the audit profession to evolve to meet changing needs and expectation of the public.

(c) Ways to address or close the "audit expectation gap" include:

(i) Education and communication: Improving communication and educating users about how the audit process can narrow the gap.

(ii) Strengthened auditors' responsibilities: The audit profession needs to consider accepting new demands for auditor's responsibilities in the current context.

(iii) Regulatory action: Regulations and standards setting the process can take action to address the misperception and narrow the gap.

(iv) Longer and responsible audit reports: Providing more detailed information in the audit report can improve clarity for users and reduce the expectation gap.

(v) Corporate governance code: Enhancing of corporate governance code to strengthen the role and responsibilities of directors for good internal control and accounting system.

Examiner's report

The question tests the candidates' knowledge on audit expectation gap.

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

The commonest pitfall was inability to judiciously treat part (a) that required candidates to explain the public perception of the auditor's role and responsibilities.

Candidates are advised to properly understand the requirements of a question before attempting it to earn good marks.

Marking guide

		Marks
(a)	Explanation of public perception of auditor's roles and responsibilities (2 marks for each correct point, subject to a maximum of 4 points)	8
(b)	Components of "audit expectation gap" (2 marks each for any component, subject to a maximum of 2 points)	4
(c)	Ways to close the "audit expectation gap" (2 marks for each way, subject to a maximum of 4 points)	8
	TOTAL	**20**

SOLUTION 5

(a) **The deficiencies in the system of Integrity Ventures Limited**

(i) Cash and cheques are secured in a cabinet and only banked every few days. A cabinet is not adequate for security of considerable cash received, as it can easily be stolen.

(ii) The cashier collects cash and records the receipt into the cash register. No segregation of duties.

(iii) Cash and cheques are banked only every few days by any member of the finance team. No specific staff member is given the responsibility.

(iv) Cash should ideally not be held overnight, as it is not secure. Also, if any member of the team banks cash, then this could result in very junior staff having undue access to significant amounts of cash, even with no fireproof safe and relevant issurance policy.

(v) The cashier updates both the cash book and the sales ledger. This is lack of segregation of duties, as the cashier could incorrectly enter a receipt and this would impact both the cash book and the sales ledger.

(vi) Bank reconciliations are not performed every month, and when prepared, they do not appear to be reviewed by a senior member of the Finance Department. Errors in the cash cycle may not be promptly identified, if reconciliations are not performed frequently.

(b) **Controls to address the deficiencies as stated above**

(i) Cash and cheques should be ideally banked daily, if not, then it should be stored in a fire proof safe and access to this safe should be restricted to supervisors or responsible officers.

(ii) A second member of the accounts team or staff independent of the accounts team should assist with recording cash received in the register.

(iii) Cash and cheques should be banked daily.

(iv) The cashier should prepare the paying-in-slip from the cash register.

(v) A responsible individual should have responsibility for banking the cash daily.

(vi) The cashier should update the cash book from the cash register. A member of the sales ledger team should update the sales ledger.

(vii) Bank reconciliations should be performed monthly. A responsible individual should then review them properly.

(viii) With cash takings increasing, it should be necessary to have insurance cover for cash handling and cash holding.

(c) Tests the auditors would perform to assess the effectiveness of the controls

(i) Enquire of management where the cash takings not banked are kept.
(ii) Inspect the location to ensure cash is suitably secure.
(iii) Observe cash collection process to assess if the control is operating effectively.
(iv) Inspect the paying-in-slips and books to see if cash and cheques have been banked daily.
(v) Review bank statements against the cash register to confirm all amounts were banked promptly.
(vi) Enquire of staff as to who performs the banking process and confirm that the person is suitably responsible.
(vii) Observe the process for recording cash received into the relevant ledgers and note if the segregation of duties is enforced.
(viii) Review the file of bank reconciliations for evidence of regular performance and proper review by senior finance team members.
(ix) Ensure that adequate insurance cover is taken for cash handling and cash holding, as necessary.

Examiner's report

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

About 85% of the candidates attempted the question, but the performance was just fair.

The commonest pitfall was repetition of controls to address the deficiencies in the system as tests the auditor would have to perform to test the effectiveness of the controls.

Candidates are advised to prepare well for their examinations and cultivate the habit of using their skill to simulate real life situations.

Marking guide

		Marks
(a)	Deficiencies in the system of Integrity Ventures Limited (1 mark for each deficiency, subject to a maximum of 5 deficiencies)	5
(b)	Controls to address the deficiencies in (a) above (1 mark for each control, subject to a maximum of 5 controls)	5
(c)	Tests the auditor would perform to assess effectiveness of the controls (1 mark for each test, subject to a maximum of 5 tests)	5
	TOTAL	**15**

SOLUTION 6

(a) The objectives of the auditor as per ISA 450, requiring a list of the uncorrected misstatements to be attached to the letter of representation are to evaluate the effect of:

   (i) identified misstatements on the audit; and
   (ii) any uncorrected misstatements on the financial statements.

(b) ISA 450 requires the auditor to:

   (i) accumulate all misstatements identified during the audit, unless they are clearly trivial;
   (ii) decide if the overall audit strategy and audit plan need to be revised if the total misstatements identified during the audit, approach or could approach misstatements;
   (iii) communicate all misstatements found during the audit to an appropriate level of management and request that the misstatements be corrected;
   (iv) obtain the reasons for the management's refusal to correct the misstatements and take those reasons into account when evaluating whether the financial statements as a whole are free from material misstatements;
   (v) decide whether uncorrected misstatements are material, individually or when added together. In making this assessment, the auditor should take into account the size, nature and circumstances of the misstatements and the effect of any uncorrected misstatements from prior period;
   (vi) reaccess materiality per ISA 320, prior to evaluating the effect of uncorrected material misstatements;
   (vii) communicate to those charged with governance the effect which uncorrected misstatements may have on the audit report;
   (viii) request a written representation from management as to whether it believes the effects of uncorrected misstatements are material individually, or in total; and
   (ix) document

      - the amount below which misstatements would be regarded as trivial;
      - all misstatements accumulated during the audit and whether they have been corrected; and
      - the conclusion as to whether uncorrected misstatements are material individually, or in total.

Examiner's report

The question tests candidates' knowledge of ISA 450 *Evaluation of misstatements identified during the audit.*

About 40% of the candidates attempted the question and the performance was generally poor.

The most common pitfall was exhibition of a poor understanding of the question.

Candidates are advised to cover all parts of the examination syllabus and make use of the Institute's Study Texts and other publications.

Marking guide

		Marks
(a)	**Objectives of the auditor per ISA 450 on uncorrected misstatements** (2½ marks for each correct point, subject to a maximum of 2 points)	5
(b)	**Requirements of the auditor as regards identified misstatements as per ISA 450** (2 marks for each requirement, subject to a maximum of 5 points)	10
	TOTAL	**15**

SOLUTION 7

(a) The type of assurance services required

(i) Reasonable assurance: Ecofriends would like to present high level of confidence to users and customers by concluding that the Environmental Impact Assessment report is "true and fair".

(ii) Limited assurance: The engagement can be a limited assurance because of complexities in data collection which may be costly. Also, the moderate level of confidence is needed by the intended user - for only record purpose in the government agency.

(b) The key risks associated with this engagement involving non-financial data include:

(i) Inherent risk of management bias: The management of Ecofriends has the tendency to present the most favourable EIA report to attract users and investors.

(ii) Risk of measurement uncertainty: To quantify "carbon dioxide emission" can be complex and subjective, depending on assumptions and estimates.

(iii) Risk of expertise: The assurance firm may not have adequate specialised knowledge to assess the relevant management calculation and assumptions.

(iv) Inadequate control: There may not have been adequate internal controls over data collection and calculation, leading to inaccurate information.

(c) Procedures to be undertaken in this assignment include:

(i) obtaining an understanding of Ecofriends methodology of collection and calculation of carbon emission data;
(ii) collecting quantitative data, select conversion factors and calculate emission;
(iii) performing analytical procedures comparing company current data with previous year's or industry benchmark and analyse;
(iv) considering hiring an expert for necessary review;
(v) reviewing disclosures and record findings; and
(vi) issuing an assurance report.

Examiner's report

The question tests candidates' knowledge of assurance engagements.

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

The commonest pitfall was candidates' lack of knowledge of types of assurance services.

Candidates are advised not to shy away from the area of assurance engagement, since it is a veritable integral part of modern auditing syllabus.

Marking guide

		Marks
(a)	Types of Assurance Services required by Ecofriends Green (2 marks for each type, subject to a maximum of 2 types)	4
(b)	Risks associated with provision of the assurance engagements (2 marks for each risk, subject to a maximum of 3 points)	6
(c)	Procedures to be taken in this assurance engagement (1 mark for each procedure, subject to a maximum of 5 points)	5
	TOTAL	**15**

ICAN/252/Q/B3 **Examination No………………..**

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – NOVEMBER 2025

TAXATION

EXAMINATION INSTRUCTIONS

PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER

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

TUESDAY, NOVEMBER 18, 2025

DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – NOVEMBER 2025

TAXATION

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

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

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

Mr. Ajah Oke who lives in the city of Port Harcourt, runs a small business in the name of Oke and Sons Enterprises. The enterprise commenced business in September 2020. The business is involved in buying and selling as well as the manufacture of locally made spices.

In the last two years, Mr Ajah Oke has been having challenges with the tax authorities over his tax obligations to the State, especially in the area of his personal income tax. He has approached you as a tax expert to help him ascertain the actual tax liabilities for the current year of assessment in order to enable him have a smooth relationship with the tax authorities.

He provided the following information regarding his business for the year ended October 31, 2023:

	₦'000	₦'000
Gross profit		43,000
Less:		
Salaries	6,600	
Admin expenses	7,750	
Motor running expenses	1,250	
Medical expenses	80	
Donation	750	
Transport and traveling	900	
Rent and rates	1,200	
Telephone	300	
Printing and stationery	950	
Repairs and maintenance	4,800	
Interest expenses	1,500	
Bad debts	780	
Legal expenses	650	
Entertainment expenses	890	

Depreciation of factory equipment	2,640	
Miscellaneous expenses	1,550	
		(32,590)
Net profit		**10,410**

Additional information

(i) The building used for the business also houses Mr. Ajah Oke and 2/3 of rent and rates represents the part of the building used for the business.
(ii) Entertainment cost included 1/3 of the amount spent for Mr. Ajah Oke's private birthday celebration.
(iii) Legal expenses included ₦400,000 paid to a legal practitioner to defend a sale of the company's product by a representative of the business.
(iv) 15% of the miscellaneous expenses were personal in nature to Mr. Ajah Oke.
(v) Donations were made to Isogi Community Association.
(vi) Also included in the miscellaneous expenses, was the equipment purchased for the factory worth ₦600,000.
(vii) Turnover was understated by ₦2,700,000.
(viii) Bad debts were stated after a recovery of a specific debt of ₦260,000.
(ix) Repairs and maintenance included reconstruction of the entrance gate of the business premises at a cost of ₦1,600,000.
(x) ₦160,000 of the interest expense relates to part of the loan used to settle his personal expenditure.
(xi) Allowable expenses of ₦770,000 were omitted from the accounts.
(xii) Mr. Ajah Oke earned other income as follows:

	2022	**2023**	**2024**
	₦	**₦**	**₦**
Interests (net)	75,000	74,000	78,000
Rents (net)	502,000	600,000	650,000
Dividends (gross)	214,000	270,000	320,000

(xiii) A qualifying capital asset was sold during the period and it resulted in a balancing charge of ₦1,200,000. Capital allowance already claimed on the asset at the time of disposal was ₦900,000.
(xiv) The unutilised capital allowance brought forward as agreed with the tax authority was ₦1,000,875 and the capital allowance for the year under review was agreed at ₦2,200,000.
(xv) The medical expenses incurred included ₦200,000 spent on his mum's health.

(xvi) Mr. Ajah Oke contributed to a recognised pension fund and has a life assurance policy on himself and his spouse. The details included:

- Pension contribution for the year was ₦500,000
- Annual life assurance premium paid: ₦1,200,000 (himself); ₦1,100,000 (his wife).

Required:

a. Compute the adjusted profits of the enterprise. (12 Marks)

b. Compute Mr. Ajah Oke's income tax liabilities for the relevant year of assessment. (10 Marks)

c. Explain the requirements for the registration of sole proprietors for income tax purposes. (4 Marks)

d. Explain the conditions when minimum tax applies in the computation of personal income tax. (4 Marks)

(Total 30 Marks)

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

QUESTION 2

a. Zarin Limited commenced business on November 1, 2019. It has its registered office in Ibadan.

The company prepares its accounts to December 31, every year. The audited financial statements for the year ended December 31, 2023 revealed the following:

	₦'000	₦'000
Gross profit		68,000
Expenses:		
Salaries	16,200	
Repairs and maintenance	13,000	
Bad debts	1,200	
Depreciation	8,600	
Rent of premises	11,000	
Advertisement	1,500	
Motor expenses	400	
Printing and stationery	870	
Donations	340	
Allowance for doubtful debts	670	
Audit fees	2,300	
Bank charges	1,672	

Legal fees	1,300	
Transport and travelling	1,200	(60,252)
		7,748
Profit on sale of car		6,800
Profit for the year		**14,548**

Additional information provided is as follows:

- Machinery purchased in 2020, with a tax written down value of ₦1,050,000, was sold for ₦2,500,000 during the year. The capital allowances claimed on the machinery up to the time of sale was at ₦1,600,000.

- Repairs and maintenance comprised:

	₦
Motor vehicle purchased	7,000,000
Repairs on building	3,200,000
Repairs on machinery	2,800,000
	13,000,000

- Donations were made as follows:

	₦
The Boys Brigade	140,000
Sani Social Club	200,000
	340,000

- Legal fees comprised:

	₦
Retainership	800,000
Court fines	500,000
	1,300,000

- Bad debts included the sum of ₦280,000 as general provision.

- Salaries include a ₦350,000 paid to the private domestic servant of the Chief Executive Officer.

- Additional capital expenditure incurred in January 2023, included:

	₦
Plant and machinery	2,400,000
Buildings	2,250,000
Furniture and fittings	1,500,000
Motor vehicles	8,500,000

- The company's turnover for the period was ₦115,000,000.

Required:

(i) Compute adjusted profit of Zarin Limited. (6 Marks)

(ii) Compute the income tax liabilities of Zarin Limited for the relevant year of assessment. (4 Marks)

(iii) Explain the conditions to be met as provided in Section 77(5) of Finance Act 2019, if Zarin Limited opts to settle its tax liability by way of instalments. (2 Marks)

b. Section 24 of CITA (as amended) and the 7th schedule restrict the interest deductible by a Nigerian company or a fixed base of a foreign company in Nigeria, which incurs any expenditure by a way of interest or similar nature in respect of debt issued by a foreign connected person.

The CEO of Gogo Nigeria Limited, who is your friend, has provided the following information relating to the transactions between the company and its parent company, Yetiz Limited, in the UK for the year ended December 31, 2024:

	₦
Net profit before tax	15,000,000
The following have been deducted in arriving at the net profit:	
Interest on loan paid to:	
Yetiz Limited (UK)	2,500,000
Other creditors	1,350,000
Depreciation	870,000

Additional information provided showed the payment of ₦800,000 to third parties in respect of loan obtained in generating tax-exempt profits.

Required:

(i) Compute the interest deductible for the relevant assessment year. (5 Marks)

(ii) Explain the tax implication of excess interest not fully deducted in a year of assessment as a result of the restriction of schedule 7 of the Finance Act. (3 Marks)

(Total 20 Marks)

QUESTION 3

Ganzi Nigeria Limited is a manufacturing company which commenced business in 2011. The Managing Director (MD) of the company received a letter from the Federal Inland Revenue Service intimating the management of its desire to carry out a VAT audit. The list of documents required for the audit were forwarded to the MD on August 30, 2025, with a request that a preliminary meeting be fixed for September 2, 2025.

The VAT Inspectors visited the company on October 15, 2025, to commence the audit and during the field work, all the accounting documents were made available to them. During the exit interview, the VAT Inspectors stated that there was an under remittance of VAT. Based on the foregoing, ₦8 million was computed as the VAT payable for the year under review. The Managing Director has approached you to recompute the VAT payable to ascertain the amount computed by the VAT Inspectors.

The following information was extracted from the books of the company for the year ended December 31, 2024.

		₦'000
(i)	Monthly VAT was remitted to FIRS as and when due. (There was no opening or closing inventory for each of the months)	
(ii)	Gross revenue (VAT inclusive)	220,000
(iii)	Purchase of raw materials (VAT inclusive)	108,200
(iv)	Purchase of spare tyres for office vehicles (VAT inclusive)	280
(v)	Transport and travelling (VAT inclusive)	2,500
(vi)	Office equipment (VAT inclusive)	8,200
(vii)	Professional fees (VAT inclusive)	4000
(viii)	Furniture and fittings (VAT inclusive)	1,020
(ix)	Bank charges (VAT inclusive)	750
(x)	Sales returns	1,200
(xi)	Power plant repairs (VAT inclusive)	1,200
(xii)	Miscellaneous expenses (VAT inclusive)	120
(xiii)	Returns of raw materials purchased	600
(xiv)	Motor vehicle repairs (VAT inclusive)	82
(xv)	Value of exempted/zero-rated supplies included in revenue	15,000

You were appointed as the Tax Consultant to advise the company on the proposed additional assessment and other tax matters.

Required:

a. Compute the VAT payable for the year ended December 31, 2024 (Ignore penalty and interest). (8 Marks)

b. Explain why some items in the list were treated differently. (6 Marks)

c. Explain registration and deregistration requirements for VAT. (6 Marks)

(Total 20 Marks)

QUESTION 4

Al-Juda Finance Limited is a licensed non-interest financial institution in Nigeria. In 2024 financial year, it engaged in the following transactions with its clients:

(i) **Murabaha transaction:** Al-Juda purchased machinery worth ₦100 million from a supplier and sold it to a client at a mark-up of 20%, payable in 5 equal annual instalments. VAT of 7.5% was charged on the initial purchase.

(ii) **Ijarah lease:** Al-Juda acquired vehicles worth ₦35 million and leased them to another client for annual rentals of ₦15 million over 4 years. The lease agreement provides that the vehicles will remain the property of Al-Juda.

(iii) **Sukuk issuance:** Al-Juda issued Sukuk bonds worth ₦200 million, backed by a pool of real estate assets. Investors are entitled to annual returns equivalent to 15% of the investment, derived from lease rentals on the properties.

(iv) **Takaful arrangement:** Al-Juda operates a takaful scheme where members contribute monthly amounts into a common fund. At the end of the year, a surplus of ₦15 million was distributed back to the contributors based on their participation ratio. Agreements were signed by Al-Juda and the participants.

The company sought advice on the correct Nigerian tax treatment of each of these transactions to ensure compliance and avoid double taxation.

Required:

a. Explain the tax implications of each of the four transactions, taking into consideration the provisions of the Non-Interest Finance (Taxation) Regulations, 2022. (16 Marks)

b. Explain the challenges Al-Juda Finance Limited may face in applying relevant Nigerian tax legislation to these products. (4 Marks)

(Total 20 Marks)

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

QUESTION 5

Tax legislation is very important for the development of the Nigerian economy. In 2023, the National Assembly of Nigeria passed the Finance Act 2023, in which several amendments were made to existing tax laws.

Required:

a. Discuss the importance, challenges, and impact of tax legislation on the Nigerian economy. (10 Marks)

b. Discuss the impact of the tax system on the economy. (5 Marks)

(Total 15 Marks)

QUESTION 6

The Federal Inland Revenue Service (FIRS) was established to administer the different taxes and laws specified in the First Schedule to FIRS (Establishment) Act 2007 or other laws made or to be made, from time to time by the National Assembly and to account for all the relevant taxes collected.

Required:

a. Explain the powers and functions of the Federal Inland Revenue service. (10 Marks)

b. Enumerate the enforcement powers of FIRS. (3 Marks)

c. Explain the power to compound offences. (2 Marks)

(Total 15 Marks)

QUESTION 7

Withholding tax (WHT) is an advance payment of income tax deducted from the payments made to a taxable person for the supply of goods and services pending the determination of the final income tax liability. It helps to curb tax evasion and serves as a veritable tool for government revenue. A taxpayer whose income has suffered withholding tax deductions can use the credit notes issued by the tax authority in reducing his final income tax liability.

Required:

a. Explain the rights and obligations of taxpayers under the withholding tax regime. (3 Marks)

b. Explain the procedures for filing WHT returns. (3 Marks)

c. Explain the conditions under which a small company, as defined under Section 105 of CITA, and a body unincorporated of equivalent attributes are exempt from the requirement to deduct WHT at source from any transaction. (2 Marks)

d. Submit Nigeria Limited has been in business for many years. The company make up its accounts to December 31, annually. The extracts from its books for the years ended December 2023 and 2024 are as follows:

	2023	**2024**
	₦	**₦**
Bank interest received (gross)	3,000,000	2,800,000
Debenture interest (gross)	920,000	870,000
Dividend received from Sammy Limited (Net)	860,000	800,000
Dividend paid to shareholders (gross)	4,000,000	3,500,00

Required:

Determine the net withholding tax payable or receivable on dividends and interests by Submit Nigeria Limited. (7 Marks)

(Total 15 Marks)

NIGERIAN TAX RATES

1. CAPITAL ALLOWANCES

	Initial %	Annual %
Building Expenditure	15	10
Industrial Building Expenditure	15	10
Mining Expenditure	95	Nil
Plant Expenditure (excluding Furniture & Fittings)	50	25
Manufacturing Industrial Plant Expenditure	50	25
Construction Plant expenditure (excluding Furniture and Fittings)	50	Nil
Public Transportation Motor Vehicle	95	Nil
Ranching and Plantation Expenditure	30	50
Plantation Equipment Expenditure	95	Nil
Research and Development Expenditure	95	Nil
Housing Estate Expenditure	50	25
Motor Vehicle Expenditure	50	25
Agricultural Plant Expenditure	95	Nil
Furniture and Fittings Expenditure	25	20

2. INVESTMENT ALLOWANCE Up to August 31, 2023 (10%); and Finance Act 2023 (NIL)
3. RATES OF PERSONAL INCOME TAX

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

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

   After the relief allowance and exemption had been granted, the balance of income shall be taxed as specified in the tax table above.
4. COMPANIES INCOME TAX RATE: Finance Act 2019 specifies:
   30% (Large Company)
   20% (Medium-Sized Company)
   0% (Small Company)
5. TERTIARY EDUCATION TAX: 2% of assessable profit (up to December 31, 2021)
   2.5% of assessable profit (with effect from January 1, 2022) and 3% of assessable profit, with effect from September 1, 2023 (Finance Act 2023)
6. CAPITAL GAINS TAX 10%
7. VALUE ADDED TAX 7.5%
8. HYDROCARBON TAX 15% (Petroleum prospecting Licence and Marginal Fields Companies)
   30% (Petroleum Mining Lease Companies)

SECTION A

SOLUTION 1

(a)

Oke and Sons Enterprises
Computation of adjusted profits
For 2024 year of assessment

	₦	₦
Net profit per accounts		10,410,000
Understated turnover		2,700,000
Bad debts recovered		260,000
		13,370,000
Add: Disallowable expenses:		
Rent and rates	400,000	
Entertainment	296,667	
Miscellaneous expenses	232,500	
Donations	750,000	
Equipment purchased	600,000	
Reconstruction of entrance gate	1,600,000	
Interest on loan (personal)	160,000	
Medial expenses	200,000	
Depreciation	2,640,000	6,879,167
		20,249,167
Less: Allowable expenses		(770,000)
Adjusted profit		19,479,167

Workings:

i. Rent and rates for private use ($^1/_3$ x ₦1,200,000) = ₦400,000

ii. Entertainment (₦890,000 x $^1/_3$) = ₦296,667

iii. Miscellaneous expenses (₦1,550,000 x 0.15) = ₦232,500

iv. Balancing charge to be subjected to tax is restricted to the amount of capital allowance already claimed on the asset, which is ₦900,000.

(b)

Oke and Sons Enterprises
Computation of tax liabilities
For 2024 assessment year

	₦	₦
Adjusted profit		19,479,167
Add: Balancing charge		900,000
		20,379,167
Capital allowances:		
B/f from A. Y. 2023	1,000,875	
For the year	2,200,000	(3,200,875)
Add: Other income		
Interest (gross) – ₦74,000/0.9	82,222	
Rent (gross) – ₦600,000/0.9	666,667	
Dividend (gross)	270,000	1,018,889
		18,197,181
Less: Franked investment income		(270,000)
		17,927,181
Less: Tax exempts:		
Pension	500,000	
Life assurance premium	2,300,000	(2,800,000)
Gross income		15,127,181
Less: Consolidated relief allowance		
(₦200,000 + (20% of ₦15,127,181)		(3,225,436)
Chargeable income		11,901,745

Computation of personal income tax

	₦	₦
First ₦300,000 @ 7%		21,000
Next ₦300,000 @ 11%		33,000
Next ₦500,000 @ 15%		75,000
Next ₦500,000 @ 19%		95,000
Next ₦1,600,000 @ 21%		336,000
Next ₦8,701,745 @ 24%		2,088,419
₦11,901,745		
		2,648,419
Less: Withholding tax paid:		
Interest	8,222	
Rent	66,667	(74,889)
Net tax payable		2,573,530

(c) **Requirements for the registration of sole proprietors for income tax purposes**

To register for tax as a sole proprietor in Nigeria, the taxpayer must:

i. first register the business name with Corporate Affairs Commission (CAC);
ii. apply for a tax identification number (TIN);
iii. register with the relevant tax authority of the State as soon as business operation commences by completing the prescribed form and forwarding it to the relevant tax authority.

(d) **Conditions when minimum tax applies in the computation of personal income tax**

The specific conditions for the application of minimum tax are:

i. **No taxable income**: Minimum tax is applied if the taxpayer has no taxable income for the relevant year, often due to significant personal reliefs allowances and deductions (such as pension contributions national health insurance scheme contributions, life assurance premiums, consolidated relief allowance, etc).

ii. **Tax liabilities is less than minimum tax**: It also applies if the actual income tax calculated using the standard graduated tax rates is less than the amount derived from the minimum tax calculation.

Exemption: Individuals earning the national minimum wage or less are exempt from all income tax provisions. Since May 1, 2024, the national minimum wage is ₦70,000 per month, which translates to ₦840,000 per annum.

Examiner's Report

Part (a) of the question tests the candidates' knowledge of the computation of adjusted profit of an enterprise, whilst part (b) relates to the ascertainment of personal income tax of the proprietor. Candidates are also expected to explain the requirements for the registration of sole proprietors for income tax purposes and the conditions when minimum tax applies in the computation of personal income tax in parts (c) and (d), respectively.

This being a compulsory question, all the candidates attempted the question and their performance was above average.

The common pitfalls of the candidates were their inability to:

a) identify allowable and disallowable expenses; and
b) explain the requirements for the registration of sole proprietors for income tax purposes.

Candidates are advised to read widely and be conversant with the provisions of the Personal Income Tax Act Cap. P8 LFN 2004 (as amended) before sitting for subsequent examinations to enhance better performance.

Marking Guide

1(a)		Marks	Marks
	Computation of adjusted profit		
	- Heading	1½	
	- Net profit per accounts	1	
	- Understated turnover	2	
	- Bad debts recovered	2	
	- Disallowable items – (½ mark each for nine disallowable items)	4½	
	- Allowable expenses	1	12
(b)	**Computation of Mr. Ajah Oke's income tax liabilities**		
	- Heading	½	
	- Adjusted profit	½	
	- Balancing charge	½	
	- Capital allowance - b/f	½	
	- - for the year	½	
	- Other income - Interest (gross)	½	
	- - Rent (gross)	½	
	- - Dividend (gross)	½	
	- Franked investment income	½	
	- Tax exempts – Pension	½	
	- - Life assurance premium	½	
	- Consolidated relief allowance	½	
	- Computation of personal income tax (½ mark each for the six entries)	3	
	- Withholding tax paid – Interest	½	
	- - Rent	½	10
(c)	**Requirements for the registration of sole proprietors for income tax purposes**		
	- Registration of the business name with CAC	1	
	- Application for a tax identification number (TIN)	1	
	- Registration with the relevant tax authority of a State on commencement of business	1	
	- Filling the prescribed form and forwarding it to the relevant tax authority	1	4
(d)	**Conditions when minimum tax applies in the computation of personal income tax**		
	- No taxable income	1	
	- Explanation	1	
	- Tax liability is less than minimum tax	1	
	- Explanation	1	4
	Total		**30**

SOLUTION 2

(a) i.

Zarin Nigeria Limited
Computation of adjusted profit
For 2024 year of assessment

	₦	₦
Net profit per accounts		14,548,000
Add back disallowable expenses:		
Depreciation	8,600,000	
Donations	200,000	
Allowance for doubtful debts	670,000	
Legal fees: court fines	500,000	
Repairs and maintenance: vehicle purchased	7,000,000	
Bad debts – general provision	280,000	
Salaries	350,000	17,600,000
		32,148,000
Less profit on sale of car		(6,800,000)
Adjusted profit		25,348,000

(ii)

Zarin Nigeria Limited
Computation of income tax liabilities
For 2024 year of assessment

	₦
Adjusted profit	25,348,000
Add balancing charge	1,450,000
	26,798,000
Less: Capital allowances	(12,556,250)
Total profits	14,241,750
Companies income tax @ 30% of total profit	4,272,525
Tertiary Education tax @ 3% of adjusted profit	760,440

Zarin Nigeria Limited
Computation of capital allowances
For 2024 year of assessment

	Building	Plant & machinery	Motor vehicle	Furniture & fittings	Capital allowance
Initial all'ce %	15	50	50	25	₦
Annual all'ce %	10	25	25	20	
Investment allce %	--	10	-	-	
	₦	₦	₦	₦	
2024 tax year (1/1/23-31/12/23)					
Cost	2,250,000	2,400,000	8,500,000	1,500,000	
Cost	0	0	7,000,000	0	
	2,250,000	2,400,000	15,500,000	1,500,000	
IA	(337,500)	(1,200,000)	(7,750,000)	(375,000)	9,662,500
AA	(191,250)	(300,000)	(1,937,500)	(225,000)	2,653,750
IA	-	-	-	-	240,000
					12,556,250
TWDV	1,721,250	900,000	5,812,500	900,000	

Note:

Given the fact that the plant and machinery was purchased in January 2023, investment allowance was granted on the asset as it was bought before September 1, 2023.

(iii) Every company shall make payment of tax due on or before the due date of filing as stated in section 55 of CITA (as amended), in one lump sum or instalments provided that, where the taxpayer pays in instalments:

- the taxpayer shall first write with evidence of payment of the first instalment, and obtain the approval of the Service to pay in such number of instalments as may be approved by the Service; and
- The final instalment must be paid on or before the due date of filing.

b (i) **Gogo Nigeria Limited**

Computation of interest deductable

For 2025 year of assessment

	₦	₦
Net profit per accounts		15,000,000
Interest deducted:		
Yetiz Limited (UK)	2,500,000	
Other creditors	1,350,000	
Depreciation	870,000	4,720,000
EBITDA		19,720,000
Total interest deductible before restriction:		
Interest on loan- Yetiz Limited (UK)	2,500,000	
Others creditors	1,350,000	
Total interest	3,850,000	
Less: Interest for tax exempt profit	(800,000)	
Interest qualifying for deduction	3,050,000	
Restriction:		
30% of EBITDA (30% of ₦19,720,000)	=	₦5,916,000

Amount of interest deductible in 2025 assessment year is lower of:

i. 30% of EBITDA (₦19,720,000)	=	₦5,916,000
ii. Interest qualifying for deduction	=	₦3,050,500

This is ₦3,050,000.

(ii) **Tax implication of excess interest not fully deducted in a year of assessment.**

Where any amount of interest or deduction of similar nature has been disallowed, such amount may be carried forward for a period of not more than 5 years from the year for which the excess interest expenditure was first computed. The amount so carried forward shall constitute interest for the purpose of computing the restriction for succeeding years.

Examiner's Report

Part (a) of the question tests the candidates' knowledge of the computation of companies income tax liabilities, whilst part (b) requires the candidates to explain the restriction on interest deductible by a Nigerian company or a fixed base of a foreign company in Nigeria, in any year of assessment, in respect of debt issued by a foreign connected person.

About 85% of the candidates attempted the question but the performance was fair.

Some of the candidates having disallowed the cost of vehicle purchased (₦7,000,000) in the computation of adjusted profit, failed to capture it as an addition to motor vehicle in the computation of capital allowances. Additionally, in part (b) of the question, some candidates could not compute the interest deductible by Gogo Nigeria Limited on the loan granted by its parent company in UK - Yetiz Limited.

Candidates are advised to read relevant texts on taxation of companies, ICAN Pathfinders and Study Text when preparing for future examinations.

Marking guide

		Marks	Marks
(a) i.	**Computation of adjusted profit of Zarin Limited**		
	- Heading	1½	
	- Net profit per accounts	½	
	- Disallowed expenses - (½ mark each for seven disallowable expenses)	3½	
	- Profit on sale on car	½	6
ii.	**Computation of income tax liabilities of Zarin Limited**		
	- Heading	¾	
	- Adjusted profit	¼	
	- Balancing charge	¼	
	- Capital allowances (total)	¼	
	- Capital allowance – Cost	¼	
	- Initial allowance (¼ mark each)	1	
	- Annual allowance (¼ mark each)	1	
	- Investment allowance	¼	4
iii.	**Conditions to be met when a company opts to settle its tax liability by way of instalments**		
	- Evidence of payment of the first instalment	½	
	- Approval by the Service to pay in such number of instalments	½	
	- Payment of final instalment on or before the due date of filing	1	2
(b) i.	**Computation of the interest deductible in respect of Gogo Nigeria Limited**		
	- Net profit per accounts	½	
	- Interest deducted - Yetiz Limited (UK)	½	
	- Other creditors	½	
	- Depreciation	½	
	- Computation of interest deductible before restriction		
	- Yetiz Limited (UK)	½	
	- Other creditors	½	
	- Interest for tax exempt profit	½	
	- Restriction to 30% of EBITDA	½	
	- Lower of 30% of EBITDA and interest qualifying for deduction	1	5

ii. **Tax implications of excess interest not fully deducted in a year of assessment**

- Where any amount of interest or deduction of similar nature has been disallowed	1	
- Amount to be carried forward for a period of not more than 5 years from the year for which the excess interest expenditure was first computed	1	
- The amount carried forward shall constitute interest for the purpose of computing the restriction for succeeding years	1	3
Total		20

SOLUTION 3

(a)

Ganzi Nigeria Limited
Computation of VAT payable
For the year ended December 31, 2024

	₦'000	₦'000
Gross revenue	220,000	
Less sales returns	(1,200)	
Less value of exempted/ zero rated supplies included in gross revenue	(15,000)	
Net revenue	203,800	
Output tax (₦203,800 x $^{7.5}/_{107.5}$)		14,218.60
Less: Input tax		
Purchases of raw materials	108,200	
Less: Returns	(600)	
Net purchases	107,600	
Input VAT ($^{7.5}/_{107.5}$ x ₦107,600)		(7,506.98)
VAT payable		6,711.62

(b) The VAT Act 2004 (as amended) limits input tax as a deduction from output tax to the tax on goods purchased or imported directly for resale and goods which form the inventory in trade used for direct production of any product on which the output tax is charged.

VAT paid on any overhead, service and general administration of business outfit which otherwise can be expensed through the statement of profit or loss shall not be allowed as input tax.

VAT paid on any capital item and asset shall be capitalised along with the cost of acquisition and shall not be allowed as input tax.

(c) **Requirements for registration and deregistration for VAT as contained in Section 8 of VAT Act (as amended)**

i. A taxable person must register with the Federal Inland Revenue Service within six months of the Act or within six months of commencing business, whichever is earlier.

ii. Government ministries, etc., as agents of the Board: Every government ministry, statutory body and other agency of government shall register as agent of the FIRS for the purpose of collection of tax under this Act. Every contractor transacting business with a government ministry, statutory body and other agencies of the federal, state or local government shall produce evidence of registration with the FIRS as a condition for obtaining a contract.

iii. Where a taxable person permanently ceases to carry on a trade or business in Nigeria, the taxable person shall notify the Service of its intention to deregister for tax purposes within 90 days of such cessation of trade or business. Where taxable supplies are made after the date of cessation, such supplies will be deemed to have been made on the day immediately preceding cessation. Where the taxpayer fails to notify the Service on cessation of business, penalties for failure to file returns will continue to apply.

Examiner's Report

Part (a) of the question tests the candidates' knowledge of the computation of VAT payable, whilst parts (b) and (c) relate to VAT paid on some expenses which is not allowed as input VAT and registration and deregistration requirements for VAT, respectively.

About 80% of the candidates attempted the question, but the performance was average.

The common pitfall of the candidates was their inability to explain the requirements for registration and deregistration of taxable persons for VAT purposes.

Candidates are advised to read the provisions of Value Added Tax Act Cap. V1 LFN 2004 (as amended), Finance Acts, the Institute's Pathfinder and Study Text in their preparations for subsequent examinations.

Marking guide

		Marks	Marks
(a)	**Computation of VAT payable by Ganzi Limited**		
	- Heading	1	
	- Gross revenue	1	
	- Less sales returns	1	
	- Less value of exempted/zero rated supplies	1	
	- Output tax	1	
	- Less input tax:		
	- Purchases of raw materials	1	
	- Less returns	1	
	- Input VAT (total)	1	8
(b)	**Why some items were treated differently**		
	- Vat Act 2004 allows input tax on goods purchased or imported directly for sale	2	
	- Vat paid on any overhead, service and general administration of business outfit shall not be allowed as input tax	2	
	- VAT paid on any capital item and asset shall be capitalised along with the cost of acquisition and shall not be allowed as input tax	2	6
(c)	**Registration and deregistration for VAT**		
	- Registration of taxable persons	2	
	- Government ministries, etc as agents of the Board	2	
	- When a taxable person permanently ceases to carry on a trade or business in Nigeria	2	6
	Total		20

SOLUTION 4

(a) Tax implications of the transactions

i. Murabaha (machinery financing)

- The purchase of the asset by the financial institution is subject to both VAT and withholding tax.
- The initial purchase price is treated as a loan provided by the financial institution to the customer.
- The markup (profit) of ₦20,000,000 (20% x ₦100,000,000) is treated as interest and it is subject to withholding tax (WHT).

- The loan repayments (the price paid by the customer, excluding the markup) are exempt from VAT, stamp duties, and capital gain tax (CGT).
- The markup earned by the non-interest financial institution is subject to the companies income tax (CIT).
- The WHT deducted on the markup is remitted to the relevant tax authorities in line with WHT regulations.
- Agreements executed in the course of the transaction are generally subject to stamp duties.

ii. **Ijarah (Lease of vehicles)**

- For the lessor, the interest element of the lease rentals is subject to CIT, WHT, and VAT.
- For the lessee, lease payments are allowable income tax expenses if the asset is used for income generation.
- Only the lessor can claim capital allowances on the leased asset.

iii. **Sukuk issuance (₦200m bonds)**

- Returns to investors of 15% of ₦200,000,000 = ₦30,000,000 is treated as interest-equivalent and subject to withholding tax like conventional bonds interest.

- Returns on investment (profit share) distributed to Sukuk holders are subject to a 10% WHT which is typically a final tax to the recipient.
- Transfer of Sukuk certificates are subject to stamp duty unless exempt under capital market rules.
- Income from corporate Sukuk issuances are subject to CIT.

iv. **Takaful (insurance scheme)**

- Contributions treated as premiums not taxable to Al-Juda.
- Surplus distribution (₦15,000,000) returned to participants by Al-Juda is subject to withholding tax (WHT).
- Commissions and management fees earned by the Al-Juda are taxable under VAT as the prevailing rate of 7.5%.
- Agreements between participants and Al-Juda attract stamp duty.

(b) **Challenges under Nigerian tax legislations**

These include:

i. lack of adequate legal framework for islamic finance and reliance on circulars;
ii. risk of double/multiple taxation on Murabaha and Sukuk (VAT, stamp duty, CGT);
iv. capacity gaps amongst tax officials in understanding Shari'ah-compliant structures;
iv. lack of secondary markets;
v. competition from conventional banks;
vi. low public awareness;
vii. shortage of trained personnel with the necessary knowledge, etc.

Examiner's Report

Part (a) of the question tests the candidates' knowledge of the provisions of Non-Interest Finance (Taxation) Regulations 2022. Additionally, in part (b), candidates are required to explain the challenges a taxpayer may face in applying the provisions of the regulations to its products.

About 40% of the candidates attempted the question and performance was poor.

Many candidates avoided this question like a plague. Those who attempted the question displayed poor knowledge of the provisions of the Non-interest Finance (Taxation) Regulations, 2022, as evidenced in their explanations of the tax implications of the transactions.

Candidates should be conversant with the provisions of the relevant tax laws and circulars, and also ensure that they cover all areas of the syllabus adequately when preparing for subsequent examinations.

Marking guide

		Marks	Marks
(a)	**Tax implications of the specified transactions of a licensed non-interest financial institution**		
	- Murabaha (Machinery financing) (1 mark each for any correct tax implication identified subject to a maximum of 5 points)	5	
	- Ijarah (Lease of vehicles) (1 mark each for any correct tax implication identified subject to a maximum of 3 points)	3	
	- Sukuk issuance (₦200m bonds) (2 marks each for any correct tax implication subject to		

maximum of 2 points)	4	
- Takaful (Insurance scheme) (1 mark each for any correct tax implication subject to maximum of 4 points)	<u>4</u>	16
(b) **Challenges Al-Juda Finance Limited may face in applying relevant tax legislations to these products** (1 mark each for any correct challenge mentioned subject to maximum of 4 points)		<u>4</u>
Total		<u>**20**</u>

SOLUTION 5

(a) i. **Importance of tax legislation to the economy include:**

- **Revenue generation**: Tax legislation provides the framework for revenue generation.
- **Economic growth:** Tax legislation can influence economic growth by encouraging investment and job creation.
- **Fairness and equity**: Tax legislation can promote fairness and equity by redistributing wealth and income.
- **Taxpayer compliance**: Tax legislation provides the framework for taxpayer compliance and enforcement.

ii. **Challenges facing tax legislations include**:

- **Complexity**: Tax legislation can be complex and difficult to understand.
- **Evasion and avoidance**: Tax legislation must address tax evasion and avoidance.
- **Inequality**: Tax legislation must address issues of inequality and fairness.
- **Globalisation**: Tax legislation must address the challenges of globalisation and international taxation.

iii. **Impact of tax legislation on the Nigerian economy include:**

- **Enhancing economic diversification**: Tax laws have played a role in reducing reliance on oil revenue by increasing non-oil tax collection, particularly through VAT and companies income tax (CIT).

- **Encouraging foreign direct investment (FDI):** While tax incentives attract investors, inconsistent tax policies and multiple taxation challenges sometimes deter FDI. The pioneer status incentive which grants tax holidays, has been a key tool in attracting new investments.
- **Controlling inflation and cost of living**: Higher taxes on essential goods and services, such as VAT increases, contribute to inflation. Businesses often pass tax burdens to consumers, raising the cost of living.
- **Boosting small and medium enterprises (SMEs):** Recent legislation, like tax exemptions for small businesses earning below ₦25 million annually, supports SMEs. However, states, and local governments still creates financial burdens for businesses.
- **Boosting public sector development**: Revenue from taxation funds infrastructure, healthcare, and education. However, inefficiencies in tax collection and corruption often limit the full potential of these funds.

(b) **Impact of tax system on the Nigerian economy**

The tax system can have a significant impact on the economy, as follows:

i. **Positive impact**

- **Revenue generation**: Taxes provide revenue for the government to fund public goods and services.
- **Economic stabilisation**: Taxes can help stabilise the economy by reducing inflation or stimulating economic growth.
- **Redistribution of income**: Taxes can redistribute income from high-income individuals to low-income individuals through progressive taxation.

ii. **Negative impact**

- **Economic inefficiency:** Taxes can create economic inefficiencies by distorting market incentives and reducing economic growth.
- **Tax evasion and avoidance**: Taxes can lead to tax evasion and avoidance, reducing tax revenue and increasing inequality.
- **Inflation**: taxes can contribute to inflation if they increase the cost of production and consumption.

iii. **Other impact**

- **Investment and entrepreneurship**: Taxes can influence investment and entrepreneurship by affecting the after-tax return on investment.
- **Labour market**: Taxes can affect the labour market by influencing the supply of labour and the demand for labour.
- **Business competitiveness**: Taxes can affect business competitiveness by increasing the cost of doing business.

Examiner's Report

Part (a) of the question tests the candidates' knowledge of the importance, challenges, and impact of tax legislation on the Nigerian economy. Additionally, candidates are required to discuss the impact of the tax system on the economy.

About 80% of the candidates attempted the question but performance was poor.

The common pitfall of some of the candidates was their inability to explain the impact of tax legislation on the Nigerian economy.

Candidates are advised to be conversant with relevant tax laws, read the Institute's Pathfinder and Study Texts for effective preparation for future examinations.

Marking guide

		Marks
(a)	**Transpiracy challenges and impact of tax legislations on the Nigerian economy** (2 marks each for any correct point subject to a maximum of five points)	10
(b)	**Impact of tax system on the Nigerian economy** (1 mark each for any correct point subject to a maximum of 5 points)	5
	Total	**15**

SOLUTION 6

(a) The powers and functions of the Federal Inland Revenue Service (FIRS) are as conferred on it by Federal Inland Revenue Service (Establishment) Act 2007 or by any other enactment or law on such matters on which the National Assembly has power to make law. Section 8(1) of FIRS (E) Act 2007 states that the FIRS shall:

i. assess persons including companies, enterprises chargeable with tax;

ii. assess, collect, account and enforce payment of taxes as may be due to the government or any of its agencies;

iii. collect, recover, and pay to the designated account any tax under any provision of this Act or any other enactment or law;

iv. in collaboration with the relevant ministries and agencies, review the tax regimes and promote the application of tax revenues to stimulate economic activities and development;

v. in collaboration with the relevant law enforcement agencies, carry out with a view to enforcing compliance with a view to enforcing compliance with the provisions of this Act;

vi. make, from time time, a determination of the extent of financial loss and such other losses by government arising from tax fraud or evasion and such other losses arising from tax waivers and other related matters;

vii. adopt measures to identify, trace, freeze, confiscate or seize proceeds derived from tax fraud or evasion;

viii. adopt measures which include compliance and regulatory actions, introduction and maintenance of investigative and control techniques on the detection and prevention of non-compliance;

ix. collaborate and facilitate rapid exchange of information with relevant national or international agencies or bodies on tax matters;

x. undertake exchange of personnel or other experts with contemporary agencies for purposes of comparative experience and capacity building;

xi. establish and maintain a system for monitoring international dynamics of taxation in order to identify suspicious transactions and the perpetrators and other persons involved;

xii. provide and maintain access up to date and adequate data and information on all taxable persons, individuals, corporate bodies or all agencies of government involved in the collaboration of revenue for the purposes of efficient, effective and correct tax administration and to prevent tax evasion or fraud;

xiii. maintain database, statistics, records, and reports on persons, organisations, proceeds, properties, documents or other items or assets relating to tax administration including matters relating to waivers, fraud or evasion;

xiv. undertake and support research on similar measures with a view to stimulating economic development and determine the manifestation, extent, magnitude and effects of tax fraud, evasion and other matters that affect effective tax administration and make recommendations to the government on appropriate intervention and preventive measures;

xv. collate and continually review all policies of the Federal Government relating to taxation and revenue generation and undertake a systematic and progressive implementation of such policies;

xvi. liase with the office of the Attorney-General of the Federation all government security and law enforcement agencies and such other financial supervisory institutions in the enforcement and eradication of tax related offences;

xvii. issues taxpayer identification number to every taxable person in Nigeria in collaboration with States Boards of Internal Revenue and Local Government Councils;

xviii. carry out and sustain rigorous public awareness and enlightenment campaign on the benefits of tax compliance within and outside Nigeria;

xix. carry out oversight functions over all taxes and levies accruable to the Government of the Federation and as it may be required, query, subpoena, sanction and reward any activities pertaining to the assessment, collection of and accounting for revenue accruable to the federation;

xx. provide assistance in the collection of revenue claims or any other administrative assistance in tax matters with respect to any agreement or arrangement made between the government of the Federal Republic of Nigeria and the government of any country or other persons or bodies as may be deemed necessary in that regards; and

xxi. carry out such other activities as are necessary or expedient for the full discharge of all or any of the functions under this Act.

(b) Enforcement powers of FIRS

Section 36 of FIRS (Establishment) Act 2007, provides for the enforcement powers of the Service as follows:

i. the Service may co-opt the assistance and cooperation of any of the law enforcement agencies in the discharge of its duties;

ii. the law enforcement officers shall aid and assist an authorised officer in the execution of any warrant of distraint and the levying of distraint;

iii. any tax officer armed with the warrant issued by a Judicial Officer and accompanied by a number of law enforcement officers as may be determined by the Executive Chairman shall:

- enter any premise covered by such warrant and search for, seize and take possession of any book, document or other article used or suspected to have been used in the commission of an offence;
- inspect, make copies of , or take extracts including digital copies from any book, record, document or computer, regardless of the medium used for their storage or maintenance;
- search any person who is in or on such premises;
- open, examine and search any article, container or receptacle;
- open any outer or inner door or window of any premises and enter or otherwise forcibly enter the premises and every part thereof; or
- remove by reasonable force any obstruction to such entry, search, seizure or removal as he is empowered to effect; and

iv. no person shall be bodily searched under this section except by a person who is of the same gender as the person to be bodily searched.

(c) FIRS power to compound offences

The FIRS may compound any offence under this Act by accepting a sum of money not exceeding the maximum fine specified for the offence. The FIRS shall issue an official receipt for any money received.

It should be noted, however, that not all offences can be compounded.

Examiner's Report

The question ests the candidates' knowledge of the powers and functions of the Federal Inland Revenue Service (FIRS).

About85% of the candidates attempted the question but performance was average.

The common pit fall of some of the candidates was their inability to explain the enforcement powers of FIRS, including the powers to compound offences.

Candidates are advised to familarise themselves with the examination structure, question types and all areas of the syllabus, by studying past examination papers and the Institute's Study Text.

Marking guide

		Marks	Marks
(a)	**Powers and functions of the FIRS** (2 marks each for any correct point subject to a maximum of 5 points)		10
(b)	**Enforcement powers of FIRS** (1½ marks each for any correct point subject to a maximum of 2 points)		3
(c)	**FIRS power to compound offencer**		
	- Accepting a sum of money not exceeding the maximum amount of fine specified for the offence	1	
	- FIRS shall issue an official receipt	1	2
	Total		15

SOLUTION 7

(a) **Rights and obligations of taxpayers under the withholding tax regime**

The recipient of a payment that has suffered tax by deduction at source is entitled to demand from the payer, evidence that the payer has not only deducted the tax, but has also accounted for the tax to the relevant tax authority.

The evidence should be the original receipt issued by the relevant tax authority; otherwise, he is unlikely to be given credit for the tax already paid against his total tax liability for a given year of assessment.

In completing his annual tax return, the recipient is obliged to disclose his income from all sources and claim the tax reliefs that are due to him. Even where an income is tax exempt, he is obliged to disclose or declare the income and claim the exemption.

Failure to declare a source of income, even though the income may be exempt from tax, borders on tax evasion which is a punishable offence.

(b) **Procedures for filing WHT returns**

It is expected that a schedule of withholding tax payable should be prepared by applying the correct WHT rate on each transaction/payment made during the month. Thereafter, a cheque for the amount due to the FIRS is raised and forwarded plus the WHT schedule (in both soft and hard copies) to one of the approved collecting banks for processing.

The WHT schedule is then uploaded onto the FIRS portal and once accepted, an electronic receipt (e-receipt) is generated as acknowledgement that the process is successful.

Thereafter, the bank submits copies of the WHT schedule and evidence of payment at the local FIRS office for processing of both the bulk receipt and individual receipts (WHT credit notes).

(c) A body corporate, being a small company as defined under section 105 of the Companies Income Tax Act (as amended) and a body unincorporate of equivalent attributes are exempt from the requirement to deduct tax at source from any transaction, provided that the:

i. supplier has a valid tax identification number (TIN); and
ii. value of the transaction is ₦2,000,000.00 or less during the relevant calendar month.

(d) **Submit Nigeria Limited**
Computation of net withholding tax payable
For 2024 – 2025 years of assessment

	2023	2024
	₦	₦
Gross dividends received	955,556	888,889
Withholding tax @ 10%	95,556	88,889
Withholding tax on dividends paid	400,000	350,000
Net withholding tax payable by Submit Ltd.	304,444	261,111
Withholding tax on bank interest @ 10%	300,000	280,000
Withholding tax on debenture interest @ 10%	92,000	87,000
Withholding tax payable on interest received	392,000	367,000

Examiner's Report

The question tests the candidates' knowledge of the provisions of the Deduction of Tax at Source (Withholding) Regulations, 2024, with emphasis on rights and obligations of taxpayers, procedures for filing returns, and the conditions under which a small company are exempt from the requirement to deduct WHT at source from any transaction.

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

Many of the candidates could not explain the rights and obligations of taxpayers under the withholding tax regime.

Candidates are advised to be conversant with the provisions of the Deduction of Tax at Source (Withholding) Regulations, 2024, read ICAN Study Texts, and Pathfinders when preparing for subsequent examinations.

Marking guide

		Marks	Marks
(a)	**Rights and obligations of taxpayers under withholding tax regime**		
	- Evidence should be the original receipt issued by the relevant tax authority	1	
	- Disclosure of all income from all sources by the recipient	1	
	- Completing the annual tax returns and the disclosure of income from all sources	1	3
(b)	**Procedures for filing WHT returns**		
	- Schedule of WHT tax payable should be prepared by applying correct WHT rate	½	
	- Cheque for the amount due to the FIRS is raised and forwarded plus WHT schedule (hard & soft copies) to one of the approved collecting banks for processing	½	
	- WHT schedule should be uploaded to FIRS portal and once accepted, an electronic receipt is generated	1	
	- The bank submits copies of the WHT schedule and evidence of payment at the local FIRS office	1	3
(c)	**Conditions under which a small company under CITA and a body unincorporated are exempt from requirement to deduct WHT at source:**		
	- Supplier has a valid tax identification number (TIN)	1	
	- Value of the transaction is ₦2,000,000 or less, during the relevant calendar month	1	2
(d)	**Determination of withholding tax payable or receivable on dividend**		
	- Heading	1	
	- Gross dividend received (2023 & 2024)	1	
	- Withholding tax @ 10% (2023/2024)	1	
	- Withholding tax on dividend paid (2023/2024)	1	
	- Withholding tax on bank interest payable (2023/2024)	1	
	- Withholding tax on debenture interest (2023/2024)	1	
	- Withholding tax payable on interest received (2023/2024)	1	7
	Total		15

ICAN/252/Q/B4 Examination No...................

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – NOVEMBER 2025

PERFORMANCE MANAGEMENT

EXAMINATION INSTRUCTIONS

PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER

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

WEDNESDAY, NOVEMBER 19, 2025

DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – NOVEMBER 2025

PERFORMANCE MANAGEMENT

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

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

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

Azuka Nig. Plc is a listed company that manufactures high quality products for use by the bakery industry. These high quality products help in facilitating significant and sustainable growth to Baking outfits. The Company has its prime plants in Abuja and a factory in Lagos where it manufactures these products using skilled labour and quality materials available from its suppliers. The market for the product is high. The bakery products produced are of three classes, Super-class, Medi-class and Mini-class.

The following information relates to the production and sales of each of the products at the Lagos factory:

	Mini-class	Medi-class	Super-class
Direct material cost	₦50,000	₦71,000	₦90,000
Direct labour @₦6,000 per hour	₦12,000	₦15,000	₦18,000
Variable overhead @ ₦3,000 per machine hour	₦6,000	₦9,000	₦12,000
The unit sales price	₦90,000	₦110,000	₦125,000
Annual production in units	500	300	200

The total fixed overhead budgeted for the year in Lagos factory is ₦12,000,000. The company has enough direct labour force for production capacity.

The available machine hours are 2,500 hours. The investment cost for the Lagos Plant is ₦35 million at a cost of capital of 10%.

As a result of the limitation in the Lagos plant capacity, the company decided to establish the Port Harcourt plant where the 3 major types of bakery product will be produced.

The variable cost structure will be maintained while the company intends to implement the following changes in the new plant:

(i) Unit selling price of mini-class will be reduced by 10%, but the quantity of production and sales will increase by 15%;

(ii) Unit selling price of medi-class will be increased by 5%, but the quantity of production and sales will reduce by 10%; and

(iii) Unit selling price of Super-class and quantity of production and sales will be maintained.

The following information is available for the factory in Port Harcourt.

(i) The annual fixed overhead is estimated at ₦9,000,000;

(ii) The available machine and labour hours are enough to achieve desired production capacity; and

(iii) The investment is ₦38million at ruling rate of 10%.

You are required to:

a. Using the marginal costing approach, compute the optimal product mix that will be produced in the Lagos Plant in order to maximise profit showing the net profit by the product. (6 Marks)

b. Using the throughput accounting model, determine which of the three products is more profitable in Lagos Plant and show the net profit made by the plant. (7 Marks)

c. Prepare a marginal costing statement showing the profit generated in the Port Harcourt Plant. (4 Marks)

d. Compute the breakeven sales in units and value for Port Harcourt Plant. (6 Marks)

e. Prepare the marginal costing statement of the company using your solution in a. and c above. (4 Marks)

f. Using the residual income approach, explain the viability of the two plants. (3 Marks)

(Total 30 Marks)

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

QUESTION 2

Shagala Agro-Allied Company Limited is a manufacturer of home-made perfumes, and has been in business since October 1960, with the third generation in the family business. Mr. Adams Osha the grandson of Chief Amos Shagala the founder of the business retired in 1994.

The company has been having series of liquidity issues especially with the settlement of suppliers and employees. Mr. Adams has observed that business normally experiences two seasons in a year. Off-season which normally occurs in the first-two months of the quarter and On-season which happens in the last month of the quarter.

You are provided with the following information:

a. Sales and Inventory information:

	November 2024	December 2024	January 2025	February 2025	March 2025	April 2025
Sales Budget (Units)	40,000	60,000	60,000	65,000	75,000	80,000
End of the month inventory (units)	10,000	10,000	12,000	15,000	25,000	25,000

b. The selling price per unit is ₦800.

c. 10% of sales proceeds are on cash basis; 50% of the credit sales are collected in the month after sales and 45% the month after.

d. Materials amounting to ₦400 per kilogram produced are purchased one month in advance of production and half payment is made immediately in the month of purchase and balance the month following.

e. Direct labour and variable overhead costs were ₦150 and ₦100 per unit produced respectively.

f. The payment term for direct labour is one-fifth ($^1/_5$) during the month and balance in the month following. Variable overheads are settled 50% during the month and balance a month later.

g. Indirect labour cost of ₦600,000 payable per month.

h. Depreciation is provided for uniformly at ₦500,000 per month which is included in the variable overhead cost.

i. The fixed overheads cost is ₦600,000 per month during off-season and ₦700,000 during on-season. Out of this, the quarterly insurance premium for fire insurance is ₦100,000 payable in the first month of each quarter. The balance of fixed overhead is payable on applicable months.

j. Dividend for the year ended December 31, 2024 amounting to ₦2 million are expected to be declared in March, 2025 and payment to be spread evenly during the months of the first quarter and first month in the second quarter of the year.

k. An obsolete equipment was sold for ₦10 million in December, 2024 on three months' credit.

l. The company has an overdraft facility to the tune of ₦3,250,000 with a popular micro-finance bank in the State at the beginning of the quarter.

m. Dividend amounting to ₦6.5 million from an old investment in a giant construction company is expected to be received in the 2nd month of the quarter.

You are required to:
Prepare a monthly cash budget for the first quarter of 2025. **(20 Marks)**

QUESTION 3

Kolade Electronics Ltd. is an electronics assembly company which makes two types of television – plasma screen TV and LCD screen TVs. The company operates within a highly competitive market and is constantly under pressure to reduce prices. Kolade Electronics Ltd. operates a standard costing system and performs a detailed variance analysis of both products on a monthly basis. Extracts from the management information for the month of July 2025 are shown below:

		Notes
Total number of units made and sold	1,400	1
Material price variance	₦56,000,000A	2
Total labour variance	₦60,500,000A	3

Notes

1. The budgeted total sales volume for TVs was 1,180 units, consisting of an equal mix of plasma screen TVs and LCD screen TVs. Actual sales volume was 750 plasma TVs and 650 LCD TVs. Standard sales prices are ₦700,000 per unit for the plasma TVs and ₦600,000 per unit for the LCD TVs. The actual sales prices achieved during November were ₦660,000 per unit for plasma TVs and ₦580,000 per unit for LCD TVs. The standard contributions for plasma TVs and LCD TVs are ₦380,000 and ₦360,000 per unit respectively.

2. The sole reason for this variance was an increase in the purchase price of one of its key components, X. Each plasma TV and each LCD TV requires one unit of component X, for which Koalde Electronics Ltd's standard cost is ₦120,000 per unit. Due to a shortage of components in the market place, the market price for November went up to ₦170,000 per unit for X. Kolade Electronics Ltd actually paid ₦160,000 per unit for it.

3. Each plasma TV uses 2 standard hours of labour and each LCD TV uses 1·5 standard hours of labour. The standard cost for labour is ₦140,000 per hour and this also reflects the actual cost per labour hour for the company's permanent staff in November. However, because of the increase in sales and production volumes in November, the company also had to use additional temporary labour at the higher cost of ₦180,000 per hour. The total capacity of Kolade Electronics Ltd permanent workforce is 2,200 hours production per month, assuming full efficiency. In the month of July, the permanent workforce were wholly efficient, taking exactly 2 hours to complete each plasma TV and exactly 1·5 hours to

produce each LCD TV. The total labour variance therefore relates solely to the temporary workers, who took twice as long as the permanent workers to complete their production.

You are required to:

a. Calculate the following for the month of November, showing all workings clearly:
   (i) The sales price variance and sales volume contribution variance; (4 Marks)
   (ii) The material price planning variance and material price operational variance; and (4 Marks)
   (iii) The labour rate variance and the labour efficiency variance. (5 Marks)

b. Explain the reasons why Kolade Electronics Ltd would be interested in the material price planning variance and the material price operational variance. (7 Marks)

(Total 20 Marks)

QUESTION 4

Adamu Ventures Ltd has two operating divisions, X and Y, which are treated as profit centres for the purpose of performance reporting.

Division X makes two products, Product A and Product B. Product A is sold to external customers for ₦496 per unit. Product B is a part-finished item that is sold only to Division Y.

Division Y can obtain the part-finished item from either Division X or from an external supplier. The external supplier charges a price of ₦440 per unit.
Department Y produces Product C which is sold at a mark up of 25% of cost which is the company sales policy.

The production capacity of Division X is measured in total units of output. Each unit requires the same direct labour time. The costs of production in Division X are as follows:

Cost Element	**Product A**	**Product B**
	₦	₦
Variable cost	368	384
Fixed cost	152	152
Total unit cost	520	536

a. **You are required to:**
   i. Determine the optimal transfer price or price range for Product B? (3 Marks)
   ii. Determine what would be the optimal transfer price for Product B if there is spare production capacity in Division X? (3 Marks)

iii. Determine what would be the optimal transfer price for Product B if Division X is operating at full capacity due to a limited availability of direct labour and there is unsatisfied external demand for Product A? (5 Marks)

b. The following additional information relate to the business activities in the two divisions of Adamu Ventures Ltd:

Particular			
		Dept. X	**Dept. Y**
Product A:	Production / Sales units	300,000	-
Product B:	Production of part finished items	200,000	-
Product B:	Procurement from external suppliers	-	160,000
Product C:	Sales	-	360,000
Investment Capital		₦90 million	₦120 million
Cost of Capital		15%	15%

You are required to:

i. Prepare an operating statement showing the optimal profit the Divisions can generate in the period when operating at full capacity with no spare capacity. (4 Marks)

ii. Using the return on investment and residual income approaches provide a comparative analysis of the performance of the divisions for the period. (5 Marks)

(Total 20 Marks)

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

QUESTION 5

Vestapricy Nig. Plc manufactures and sells a single product. The following data have been extracted from the current year's budget:

Item	**Amount**
Contribution per unit	₦4,800
Total monthly fixed costs	₦9,000,000
Monthly profit	₦10,200,000
Contribution to sales ratio	40%

The company's production capacity is not fully utilised in the current year and three possible strategies are under consideration. Each strategy involves reducing the unit selling price on all units sold with a consequential effect on the volume of sales.

The detailed effect of each strategy is as follows:

Strategy	Reduction in unit selling price	Expected increase in monthly sales volume over budget
	%	%
A	5	10
B	10	20
C	15	30

The company does not hold inventory of finished goods.

You are required to:
Calculate:

a. i. The selling price per unit of the product for the current year. (2 Marks)
   ii. The monthly sales in units and value for the current year. (2 Marks)
   iii. The current year's break-even point in units and value. (2 Marks)
   iv. The margin of safety in units and value. (2 Marks)

b. Determine which **ONE** of the three strategies should be adopted by the company in order to maximise its monthly profits. (4 Marks)

c. Discuss **THREE** challenges likely to be encountered in the development of an organisation's management information system. (3 Marks)

(Total 15 Marks)

QUESTION 6

Afam foods is in the food processing and production business. The group comprises 20 companies, each of which specialises in a particular food. For example, some companies manufacture sweets and confectionaries whereas others produce loaves of bread, drinks or other basic consumer food.

One of the companies in the Afam group is Abimbola Nigeria Limited, which produces bread, cakes and similar products. It produces 4 million loaves of bread each day and supplies 20% of the total loaves of bread demand for the country in which it operates. Abimbola Nigeria Ltd's strategy is to sell as many loaves of bread as possible, making only a small margin on each loaf sold. This strategy has worked well in the past because most customers base their decision to purchase loaves of bread more on the prices than on the quality of the product.

In the recent past, Abimbola Nigeria Ltd had two instances of adverse publicity about the quality of its bread.

You are required to:

a. State and discuss the different sources of information that could be referred to by the management of Abimbola Nigeria Ltd in order to monitor the quality of bread that is being supplied. Give examples of the information that each source might provide. (9 Marks)

b. Explain, in general terms, the key factors that determine success for a new information system (IS) in an organisation. (6 Marks)

(Total 15 Marks)

QUESTION 7

John Nig. Limited is launching a new, innovative product into the market and will need to decide on the right price for the product. The product's expected life is 3 years. Given the high level of costs which have been incurred in developing the product, John Nig. Limited wants to ensure that it sets its price at the right level and has therefore consulted a market research company to help it do this. The research, which relates to similar but not identical products launched by other companies, has revealed that at a price of ₦60, annual demand would be expected to be 250,000 units. However, for every ₦2 increase in selling price, demand would be expected to fall by 2,000 units and for every ₦2 decrease in selling price, demand would be expected to increase by 2,000 units.

A forecast of the annual production costs which would be incurred by John Nig. Limited in relation to the new product are as follows:

Annual production(units)	**200,000**	**250,000**	**300,000**	**350,000**
	₦	₦	₦	₦
Direct material	2,400,000	3,000,000	3,600,000	4,200,000
Direct labour	1,200,000	1,500,000	1,800,000	2,100,000
Overheads	1,400,000	1,550,000	1,700,000	1,850,000

You are required to:

a. Calculate the total variable cost per unit and total fixed overheads. (3 Marks)

b. Calculate the optimum selling price for the new product and calculate the resulting profit for the period.
Note: If P = a - bx; then, MR = a - 2bx. (7 Marks)

c. The sales director is unconvinced that the sales price calculated in (b) above is the right one to charge on the initial launch of the product. He believes that a high price should be charged at launch so that those customers who are prepared to pay a higher price for the product can be ''skimmed off" first.

Required:
Discuss the conditions which would make price skimming a more suitable pricing strategy for John Nig. Limited and recommend whether John Nig. Limited should adopt this approach instead. (5 Marks)

(Total 15 Marks)

Formulae

Learning curve

$Y = ax^b$

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

a = the time taken for the first unit of output

x = the cumulative number of units produced

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

LR = the learning rate as a decimal

Demand curve

P = a – bQ

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

a = price when Q = 0

MR = a – 2bQ

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

$$Y = a + bX$$

where

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

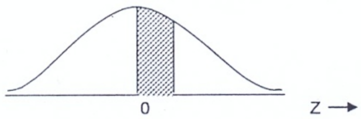
$$a = \frac{\sum y}{n} - \frac{b\sum x}{n}$$

Coefficient of determination (r^2)

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

NORMAL DISTRIBUTION

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



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

SECTION A

SOLUTION 1

Azuka Nig. Ltd

a. Optimal product mix that will maximise Lagos Plant profit using marginal costing approach.

	MI	ME	SU
	₦	₦	₦
Selling price	90,000	110,000	125,000
Direct material	50,000	71,000	90,000
Direct labour	12,000	15,000	18,000
Variable overhead	6,000	9,000	12,000
Total variable cost	68,000	95,000	120,000
Contribution	22,000	15,000	5,000
Machine hours per unit	2 hours	3 hours	4 hours
Contribution per hour	₦ 11,000	₦ 5,000	₦ 1,250
Ranking	1st	2nd	3rd

Allocation of available Machine hours:

Available machine hours		2,500 hrs
Production of Product MI	500 units x 2	(1,000) hrs
Balance		1,500 hrs
Production of ME	300 units x 3	(900) hrs
Balance		600 hrs
Production of SU	= 600hour /4 150 units =	(600) hrs

Contribution:	₦
MI = 500 units x 22,000	= 11, 000,000
ME = 300 units x 15, 000	= 4,500,000
SU = 150 units x 5,000	= 750,000
Total contribution	16,250,000
Less fixed cost	(12,000,000)
Net profit	4,250,000

b. Determination of most profitable product and Lagos Plant net profit using throughput accounting.

	MI	ME	SU
Selling Price	₦ 90,000	₦110,000	₦125,000
Direct material	₦50,000	₦71,000	₦90,000
Throughput returns	₦40,000	₦39,000	₦35,000
Machine hours per unit	2 hours	3 hours	4 hours
Throughput returns /hour	₦20,000	₦13,000	₦8,750

Operating costs

		₦
Variable costs less material	₦18,000 x 500 + ₦24,000 x300 + ₦30,000 x 200 = ₦9,000,000+ ₦7,200,000 + ₦6,000,000	= 22,200,000
Fixed cost		= 12,000,000
Total operating cost		= 34,200,000

Total hours = 2,500 Machine hours

Operating cost per hour ₦34,200,000/2,500 = ₦13,680

Throughput Accounting ratio = Throughput return per hour/Operating cost per hour

	MI	ME	SU
Throughput returns /hour	₦20,000	₦13,000	₦8,750
Operating cost per hour	₦13,680	₦13,680	₦13,680
Throughput Accounting ratio	1.4620	0.9503	0.6396
Ranking	1st	2nd	3rd

Allocation of available machine hours:

Available machine hours		2,500 hrs
Production of Product MI	= 500 units x 2 =	(1,000) hrs
Balance		1,500 hrs
Production of ME	= 300 units x 3 =	(900) hrs
Balance		600 hrs
Production of SU	= 600hour /4 150 units=	(600) hrs

Throughput returns :

		₦	₦	₦
MI	=	500 units x 40,000 =	N20,000,000	
ME	=	300 units x 39,000 =	11,700,000	
SU	=	150 units x 35,000 =	5,250,000	36,950,000
Operating cost				(34,200,000)
Net Profit				2,750,000

c. Marginal costing statement showing the profit generated in the Port Harcourt Plant.

	Mini- class	Medi-class	Super-class	
Adjusted Sales quantity	1.15 x 500	0.90 x 300	200	
	575	270	200	
Adjusted selling price	0.9 x ₦90,000	1.05 x ₦110,000	₦125,000	
	₦81,000	₦115,500	₦125,000	
Variable costs:	₦	₦	₦	₦
Direct material	50,000	71,000	90,000	
Direct labour @₦6,000 per hour	12,000	15,000	18,000	
Variable overhead @ ₦3,000 per Machine hour	6,000	9,000	12,000	
Variable cost	68,000	95,000	120,000	
Contribution per unit	13,000	20,500	5,000	
Total contribution	7,475,000	5,535,000	1,000,000	14,010,000
Fixed cost				(9,000,000)
Net Profit				5,010,000

d. Breakeven sales in units and value for Port Harcourt Plant.

Breakeven point in Units in a Multi-product:=Fixed Cost/Weighted Contribution

	Mini-class	Medi-class	Super-class	
Contribution per unit	₦13,000	₦ 20,500	₦ 5,000	
Quantities in units	575	270	200	1045
Proportion	0.55	0.25837	0.19133	1.00

Weighted Contribution = ₦7150 + ₦5,296.585 + ₦958.15 = ₦13,404.735

BEP in Units = ₦9,000,000/₦13,404.735 = 671 units

Share of Product 369 173 129

Breakeven point in Value = FC/Weighted Contribution ratio

	Mini-class	Medi-class	Super-class
Contribution per unit	₦13,000	₦20,500	₦5,000
Selling price	₦81,000	₦115,500	₦125,000
C/S ratio	0.1605	0.1775	0.04

Sales Revenue	₦46,575,000	₦31,185,000	₦25,000,000	₦102,760,000
Sales Proportion	0.45324	0.30347	0.24329	1.00
Weighted C/S ratio	0.07275	0.05387	0.00973	0.13635
BEP in value =	₦9,000,000 / 0.13635			= ₦66,006,601
Share of Products =	₦29,916,832	₦20,031,023		₦16,058,746

e. Marginal costing statement of the company using solution in a and c.
Marginal costing profit statement for the two plants and company)

Particulars	Lagos Plant	Port Harcourt Plant	Company
	₦'000	₦'000	₦'000
Sales	96,750	102,760	199,510
Less: Variable costs	(80,500)	(88,750)	(169,250)
Contribution	16,250	14,010	30,260
Fixed cost	(12,000)	(9,000)	(21,000)
Net Profit	4,250	5,010	9,260

f. Use the residual income approach, explain the viability of the two plants.

Particulars	Plant one	Plant two
	₦'000	₦'000
Sales	96,750	102,760
Less Variable costs	(80,500)	(88,750)
Contribution	16,250	14,010
Fixed cost	(12,000)	(9,000)
Net Profit	4,250	5,010
Imputed cost	(3,500)	(3,800)
Residual Income	750	1,210

From the above report, the residual income referred to as the economic profit shows that both Plants are very viable generating positive residual incomes of ₦750,000 and ₦1,210,000 for Lagos and Port Harcourt plants respectively.

Examiner's report

This is a compulsory question under the new syllabus and dwells on advanced costing techniques with special emphasis on marginal costing, throughput accounting, breakeven analysis under conditions of limiting factor constraints. The question also tests candidates ability to determine the performance of the two plants (Lagos and Port Harcourt Plants) using the residual income parameter. The first part of the question tests candidates' ability to compute maximum profit in the Lagos plant where there exists limiting factor. The second question tests candidates ability to determine company's machine utilisation rate for each machine and also establish the machine hours per unit of product produced under the throughput accounting model. The third question dwells on the preparation of marginal costing statement for Port Harcourt Plant in view of issues of sensitivity analysis on selling price and quantity under a non-limiting factor situation in the plant. The fourth part of the question dwells on the determination of breakeven quantities and values for multi-product situation in the Port Harcourt Plant taking into consideration the effect of sensitivity analysis on product selling prices and quantities. The fifth part of the question is to prepare the company profitability statement using the marginal costing approach. The final part dwells on determination of the viability of the two plants using the residual income approach.

The question being a compulsory question was well attempted.

The candidates' performance was however average (about 45%).

The major pitfalls were:

► candidate inability to compute the operating costs as well as operating cost per available hour; and

► inability of most candidates to differentiate between the use of limiting factor in conventional marginal costing and throughput analysis in preparing marginal costing statements.

It is recommended that candidates use ICAN study manual and other Performance Management text books in preparing for future examination.

Marking guide

Sect.	**Description**	**Marks**	**Marks**	**Total**
a.	Calculation of optimal product mix that maximises Lagos Plant profit using marginal costing approach ($^1/_6$ for each tick = $^1/_6$ x 36)		6	
b.	Determination of most profitable product and Lagos Plant net profit using throughput accounting (¼ each for 28 ticks)		7	
c.	Marginal costing profit statement ($^1/_4$ each for 16 ticks)		4	
d.	Calculation of breakeven sales in units and value for Port Harcourt plant ($^1/_4$ each for 24 ticks)		6	
e.	Marginal costing profit statements for the two plants and the company ($^1/_3$ each for 12 ticks)		4	
f.	Preparation of residual income for the plants ($^1/_4$ each for 12 ticks)		3	30

SOLUTION 2

SHAGALA AGRO-ALLIED COMPANY LIMITED
Monthly cash budget – First quarter

	JAN	FEB	MAR	TOTAL
Cash inflows:	₦'000	₦'000	₦'000	₦'000
Cash sales	4,800	5,200	6,000	16,000
Cash from trade receivables	34,560	41,040	42,840	118,440
Disposal of asset	-	-	10,000	10,000
Dividend receipt	-	6,500	-	6,500
Total receipts	39,360	52,740	58,840	150,940
Cash outflow:	₦'000	₦'000	₦'000	₦'000
Payment for trade payable	26,000	30,600	33,000	89,600
Direct labour	9,060	9,480	10,710	29,250
Variable overhead	5,600	6,000	7,150	18,750
Indirect labour	600	600	600	1,800
Fire insurance	100	-	-	100
Fixed overhead	500	600	700	1,800
Dividend payment	500	500	500	1500
Total payments	42,360	47,780	52,660	142,800
Net cash flow	(3,000)	4,960	6,180	8,140
Balance b/f	(3,250)	(6,250)	(1,290)	(3,250)
Balance c/f	(6,250)	(1,290)	4,890	4,890

Workings

1. **Number of units produced**

	November	December	January	February	March	April
Sales	40,000	60,000	60,000	65,000	75,000	80,000
Closing	10,000	10,000	12,000	15,000	25,000	25,000
Opening	-	(10,000)	(10,000)	(12,000)	(15,000)	(25,000)
Production	**50,000**	**60,000**	**62,000**	**68,000**	**85,000**	**80,000**

2. **Sales schedule**

	November	December	January	February	March	April
Sales unit	40,000	60,000	60,000	65,000	75,000	80,000
Selling price	x 800	x 800	x 800	x 800	x 800	x 800
Total Sales (₦'000)	32,000	48,000	48,000	52,000	60,000	64,000
Cash (10%)	3,200	4,800	4,800	5,600	6,000	6,400
Cash (November)		14,400	12,960	-	-	-
Cash (December)			21,600	19,440		
Cash (January)				21,600	19,440	
Cash (February)	-	-	-	-	23,400	21,060
			39,360	46,240	48,840	

3. Material purchase schedule

	November	December	January	February	March	April
Units purchased	60,000	62,000	68,000	85,000	80,000	
Purchase price	x 400	x 400	x 400	x 400	x 400	
Total Purchase (₦'000)	24,000	24,800	27,200	34,000	32,000	
Cash (November)	12,000	12,000	-	-	-	
Cash (December)	-	12,400	12,400	-	-	
Cash (January)	-	-	13,600	13,600	-	
Cash (February)	-	-	-	17,000	17,000	
Cash (March)	-	-	-	-	16,000	16,000
			26,000	30,600	33,000	

4. Direct labour cost schedule

	November	December	January	February	March	April
Units produced	50,000	60,000	62,000	68,000	85,000	80,000
Unit cost	x 150	x 150	x 150	x 150	x 150	x 150
Total Cost (₦'000)	7,500	9,000	9,300	10,200	12,750	12,000
Cash (November)	1,500	6,000	-	-	-	-
Cash (December)	-	1,800	7,200	-	-	-
Cash (January)	-	-	1,860	7,440	-	-
Cash (February)	-	-	-	2,040	8,160	-
Cash (March)	-	-	-	-	2,550	10,200
			9,060	9,480	10,710	

Variable overhead cost

Particulars	December 24	January 25	February 25	March 25	April 25
Production in units	60,000	62,000	68,000	85,000	80,000
	₦'000	₦'000	₦'000	₦'000	₦'000
Production (x ₦100)	6,000	6,200	6,800	8,500	8,000
Less Depreciation	500	500	500	500	500
	5,500	5,700	6,300	8,000	7,500
Accrual (50%)		2,850	3,150	4,000	
Accrual (50%)		2,750	2,850	3,150	
Total payment to VOH Accruals		5,600	6,000	7,150	

Examiner's report

The question tests candidate's ability to prepare cash budget.

The question was well attempted and performance was average.

The major pitfalls observed were:

► candidates' lack of viewership of the principles of management of debtor and creditor balances as required in the question;
► candidates' inability to treat the cash overdraft as a negative balance; and
► candidates' inability to note that 3 months credit for obsolete equipment sold in December, 2024 , will be received in March, 2025.

It is recommended that candidates use ICAN study manual and other approved text books on Performance Management when preparing for future examination.

Marking guide

		Marks	Marks	Total
Q2	Monthly cash budget including workings (1/4 mark for each tick)		20	20

SOLUTION 3

Kolade Electronics

(a) (i) Sales price variance and sales volume variance

Sales price variance = (actual price – standard price) x actual volume

Plasma TVs	(660,000 - 700,000) = – 40,000 x 750	=	30,000,000 A
LCD TVs	(580,000- 600,000) = –20,000 x 650	=	13,000,000 A
			43,000,000 A

Sales volume contribution variance = (actual sales volume – budgeted sales volume) x standard margin

Contribution Margin for Plasma = ₦380,000
Contribution Margin for LCD = ₦360,000

Plasma TVs	750 - 590 = 160 x 380,000 =	60,800,000 F
LCD TVs	650 - 590 = 60 x 360,000 =	21,600,000 F
	1,400 - 1,180 = 220	82,400,000 F

(ii) Material price planning and purchasing operational variances

Material planning variance = (original target price – general market price at time of purchase) x quantity purchased

(₦120,000 – ₦170,000) x 1,400 = ₦70,000,000 A

Material price operational variance = (general market price at time of purchase – actual price paid) x quantity purchased

(₦170,000 – ₦160,000) x 1,400 = ₦14,000,000 F

(iii) Labour rate and labour efficiency variances

Labour rate variance = (standard labour rate per hour – actual labour rate per hour) x Actual hours worked by temporary workers:

Total hours needed if staff were fully efficient = (750 x 2) + (650 x 1·5)
= 2,475 hours.
Permanent staff provide 2,200 hours, therefore excess = 2,475 – 2,200
= 275 hours.
However, temporary workers take twice as long, therefore hours worked
= 275 x 2 = 550.
Labour rate variance relates solely to temporary workers, therefore ignore permanent staff in the calculation.

Labour rate variance = (₦140,000 – ₦180,000) x 550 = ₦22,000,000 A

Labour efficiency variance = (standard labour hours for actual production – actual labour hours worked) x standard rate

(275 – 550) x ₦140,000 = ₦38,500,000 A

(b) **Explanation of planning and operational variances**

Before the material price planning and operational variances were calculated, the only information available as regards material purchasing was that there was an adverse material price variance of ₦56,000,000. The purchasing department will be assessed on the basis of this variance, yet, on its own, it is not a reliable indicator of the purchasing department's efficiency.

The reason it is not a reliable indicator is because market conditions can change, leading to an increase in price, and this change in market conditions is not within the control of the purchasing department.

By analysing the materials price variance further and breaking it down into its two components – planning and operational – the variance actually becomes a more useful assessment tool. The planning variance represents the uncontrollable element and the operational variance represents the controllable element.

The planning variance is really useful for providing feedback on how skilled management is in estimating future prices.

This can be very easy in some businesses and very difficult in others. Giving this detail could help to improve planning and standard setting in the future, as management will be increasingly aware of factors which could create volatility in their forecasts.

The operational variance is more meaningful in that it measures the purchasing department's efficiency given the market conditions which prevailed at the time. As can be seen in Kolade, the material price operational variance is favourable, which demonstrates that the purchasing department managed to acquire the component which was in short supply at a better price than expected. Without this breakdown in the variance, the purchasing department could have been held accountable for the overall adverse variance which was not indicative of their actual performance. This is, therefore, a fairer method of assessing performance and will, in turn, stop staff from becoming demotivated.

The material Price planning variance + Material Price operational variance equals Material Price Variance = ₦70,000,000A + ₦14,000,000F = ₦56,000,000A

Examiner's report

This question tests candidates' ability to deal with questions on advanced variance analysis.

The question was well attempted by candidates but performance was below average.

The major pitfalls observed were candidates' inability to compute, determine and interpret sales related variances, material pricing variances as it relates to planning and operational aspects and labour variances.

It is recommended that candidates use ICAN study materials on Performance Management when preparing for future examination.

Marking guide

		Marks	Marks	Total
a.i.	Calculation of sales price variance and sales volume variance ($^1/_3$ mark each for 6 ticks)	4		
a.ii.	Material planning and operational variances ($^1/_2$ mark each for 8 ticks)	4		
a.iii.	Labour rate and labour efficiency variances ($^1/_2$ mark each for 10 ticks)	5	13	
b.	Explanation of planning and operational variances (3½ marks each for any 2 points)		7	20

SOLUTION 4

ADAMU VENTURES

(a)

i. Optimal transfer price or price range for product B

Since the only consumer of product B is Division Y, the minimum transfer price should be set at marginal cost less any cost savings due to internal sales.

The variable cost per unit of product B is ₦384, hence the minimum transfer price should be set at ₦384 per unit of B.

The maximum transfer price per unit for B would be the price that the external supplier charges Division Y, which is ₦440.

Hence, the optimal transfer price per unit would lie between a minimum of ₦384, and a maximum of ₦440.

ii. Optimal transfer price for product B if there is spare capacity

If Division X has spare production capacity, then the units of product B have no opportunity cost and should be transferred to Division Y at variable cost less any cost savings due to internal sales. The transfer price would therefore be ₦384 per unit.

iii. Optimal transfer price for product B if division X operates at full capacity

If Division X is at full capacity and would forego sales of product A to supply product B to Division Y, then the units of product B would have to be transferred at marginal cost less any cost savings plus the contribution forgone on sales of product A. The contribution per unit of A is ₦128 (i.e. ₦496 – ₦368). Thus, the optimal transfer price would be ₦384 + ₦128 = ₦512.

(b) i. Operating statement

	Division X	Division Y	Company
	₦	₦	₦
Sales:			
Product A to external parties (300,000 x ₦496)	148,800,000		148,800,000
Product B to Division Y (200,000 x ₦512)	102,400,000	-	-
Product C (₦512 x 1.25 x 360,000)		230,400,000	230,400,000
Total Sales	251,200,000	230,400,000	379,200,000
Variable costs Product A (300,000 x ₦368)	110,400,000		110,400,000
Product B (200,000 x ₦384)	76,800,000		76,800,000
Transfer cost to Y (200,000 x 512)	-	(102,400,000)	-
External supply to Y(160,000 x ₦ 440)		70,400,000	70,400,000
Total Variable cost	187,200,000	172,800,000	257,600,000
Contribution	64,000,000	57,600,000	121,600,000
Fixed costs			
Product A (300,000 x ₦152)	(45,600,000)		
Product B (200,000 x ₦152)	(30,400,000)		76,000,000
Profit /(Loss)	(12,000,000)	57,600,000	45,600,000

Profit/(Loss)

ii. Comparative analysis of performance

	Division X	Division Y
	₦	₦
Profit/(loss)	(12,000,000)	57,600,000

Investment	90,000,000	120,000,000
	%	%
ROI	-13.333	48
Cost of capital	15%	15%
	₦	₦
Profit/(loss)	(12,000,000)	57,600,000
Charge on capital employed	(13,500,000)	(18,000,000)
Residual Income (RI)	(₦25,500,000)	39,600,000

Due to the transfer price policy of operating at full capacity, Division X is not able to charge a share of its fixed costs to division Y, thus Division X having incurred fixed overhead on all 500,000 units produced is operating at a loss of ₦12m while Division Y with no fixed overhead cost is operating at a Profit of ₦57.6 million.

The ROI for division X is therefore negative 13.333% on its investment while Division Y generates a 48% returns per Naira invested.

Division X generates a residual loss of ₦25.5million while Division Y generates a residual income of ₦39.60 million. The cost of capital for both Divisions is the same at 15% but Division Y has a higher investment base.

Examiner's report

The question tests candidates' knowledge of transfer pricing and calculation of the operating performance of the divisions of the company.

The question was well attempted since it is a popular question and performance was above average.

The major pitfall observed was candidates' inability to decipher the transfer pricing implication on operating statement of Adamu Ventures Ltd when it is operating at full capacity with no spare capacity.

It is advised that candidates use ICAN study materials on Performance Management when preparing for future examination.

Marking guide

		Marks	Marks	Total
a.i.	Correct explanation of optimal transfer price or price range for product B	3		
a.ii.	Correct explanation for optimal transfer price for product B if there is spare capacity	3		
a.iii.	Correct explanation for optimal transfer price for product B if Division X operates at full capacity	5	11	
b.i.	Operating statement (¼ mark each for 16 ticks)	4		
b.ii.	Comparative analysis of performance (½ mark each for 10 ticks)	5	9	20

SOLUTION 5

VESTAPRICY

a.

i. Selling Price per unit = Contribution divided by C/S ratio = ₦4,800/0.4 = ₦12,000

ii. Monthly sales in Value and units = Monthly contribution divided by C/S ratio

Monthly contribution = Monthly profit + Monthly Fixed costs.

₦10,200,000 + ₦9,000,000 = ₦19,200,000

Monthly sales In value = ₦19,200,000/0.4 = ₦48,000,000

Monthly sales in units = ₦48,000,000/₦12,000 = 4,000 units.

iii. Current year's BEP in value = Fixed cost divided by C/S ratio x 12 Months

= ₦9,000,000 /0.4 = ₦22,500,000 x 12 = ₦270,000,000

BEP in units = ₦270,000,000/unit selling price = ₦270,000,000/₦12,000

= 22,500 units

iv. Margin of Safety in units and value

	In Units	In Value
Annual Total Sales (4,000 x12)	48,000	576,000,000
Sales in BEP	22,500	270,000,000
Margin of Safety	25,500	306,000,000
Alternatively, if monthly,		
Total sales	4,000	48,000,000
Sales in BEP	1,875	22,500,000
	2,125	25,500,000

b. **Determination of the strategy which the company should adopt**

	Strategy A	Strategy B	Strategy C
Sales Volume (Units)	4,400	4,800	5,200
Selling Price Per Unit (₦)	11,400	10,800	10,200
Variable Cost per Unit (₦)	7,200	7,200	7,200
Contribution Per Unit (₦)	4k,200	3,600	3,000
	₦	₦	₦
Total Contribution	18,480,000	17,280,000	15,600,000
Fixed cost	(9,000,000)	(9,000,000)	(9,000,000)
	9,480,000	8,280,000	6,600,000

Comment

Based on the calculations above, strategy A is the strategy that will maximise the monthly profits of the company and should be adopted.

c. Challenges to the development of MIS in an organisation

The major challenges confronted by organisations when developing a Management Information System (MIS) include:

- Employees resistance to change to existing systems and processes which can hinder user adoption;
- Lack of understanding of the new system may lead to lack of clear requirements and this may affect business alignment;
- Developing and implementing a robust MIS requires adequate funding. However, budget constraints may bring about insufficient funding and inadequate resource allocation;
- Developing an MIS that ensures data integrity, confidentiality, and ethical usage requires strong security protocols and careful consideration of legal and regulatory compliance. Data Security from unauthorised access and privacy concerns are critical issues that must be considered;
- An MIS developed today might become outdated quickly, making it difficult for organisations to keep pace with new innovations and maintain a system that remains relevant and competitive. There is, therefore, the need for adequate consideration on rapidity of technological advancements; and
- There is need to configure adequate training and skill gaps management in the development of MIS.

Overcoming these hurdles requires strong management commitment, effective communication, and strategic planning.

Examiner's report

The question tests candidates' knowledge of break-even analysis, sensitivity analysis and effect on company performance. The question also tests candidates' knowledge of challenges that affect the development of management information system.

The various sub-questions in this main question were well attempted and performance was above average.

The observed major pitfall was the candidates' inability to properly analyse the sensitivity issues that were brought about by the implementation of the three strategies adopted to generate better company performance.

It is advised that candidates use ICAN study materials on Performance Management when preparing for future Institute Examination.

Marking guide

		Marks	Marks	Total
a.i.	Calculation of selling price per unit	2		
a.ii.	Monthly sales value and in unit	2		
a.iii.	BEP in units	2		
a.iv.	Margin of safety in value and units	2	8	
b.	Determination of strategy to adopt		4	
c.	Challenges to development of MIS in an organisation (1 mark each for any 3 points)		3	15

SOLUTION 6

AFAM Foods/ABIMBOLA Nig. Ltd.

a. Information required by Abimbola Nig Ltd - a food processing organisation can be internal and external information. The internal information are generated from internal sources while external information can be generated from external sources. Internal sources are from the internal units of sales, production, marketing, purchasing, accounting, Payroll, Administration etc. while the external sources of information like government units, creditors, debtors, banks, investors, general public, newspapers, bulletins, competitors bulletin etc. The following are internal accounting information:

Sources	Information
Sales ledger system	Invoices, sales volume, customers, value of sales
Purchase ledger system	Purchases, credit notes, debit notes, purchases
Payroll system	employees, hours worked, wages, tax deducted
Fixed asset system	date of purchase, depreciation charge, resale value.
Production information	
Production	machine break down, product scheduling, output
Sales and marketing	market research, demand pattern seasonal variation.
The external sources of information include:	
Suppliers	Product prices, product specification
Newspapers and journals	Share prices, competitors information, technology development, national and local market survey.
Employees	wage demand, working conditions
Customers	Product prices
Banks	Market and national finance information
Government	Tax policy, inflation rates, demographic statistics
Internet	e-mail, Goggle information

b. Key factors that determines the success of information system

Many factors determine the success of an information system (IS). Key elements that determine the success of information system include:

- effective planning;
- change management;
- data quality and accuracy;
- user satisfaction;
- alignment with business goals;
- System and information quality;
- information quality; and
- the ability to facilitate better decision-making are crucial.
- **Organisational Factors:** Factors like top management support, resource allocation, and IT expertise play a crucial role in the overall success of the IS.
- **Communication:** Effective communication within the organisation is vital for understanding IS needs and for successful implementation

Examiner's report

The question tests candidates ability to knowledge of various sources of information relating to food processing and production businesses. The information bothers on importance of financial and non-financial information and their key success factors that will ensure the success of a new information system.

The question was well attempted and performance was above average.

The major pitfall observed was the candidates' inability to mention critical and key success factors for the new information system.

It is advised that candidates use ICAN study materials on performance management when preparing for future Institute's Examination.

Marking guide

		Marks	Marks	Total
a.	Sources of accounting information (3 marks each for any 3 points)		9	
b.	Factors that determine sources of information system (2 marks each for any 3 points)		6	15

SOLUTION 7

JOHN NIG. LTD

a) Variable cost per unit

Material cost =₦2,400,000/200,000 = ₦12 per unit

Labour cost = ₦1,200,000/200,000 = ₦6 per unit

Variable overhead cost using high-low method:

(₦1,850,000 - ₦1,400,000)/(350,000 - 200,000) = ₦3 per unit

	₦
Direct material	12
Direct labour	6
Variable overhead	3
	21

Fixed cost =₦1,400,000 – (200,000 x 3) =₦800,000

b) Optimum price

Demand function

Demand function is P = a + bx, where:

P = Price per unit

x = quantity

b = ΔP/Δx = -2/2000 = -0.001

Therefore P = a - 0.001x

Find value for "a" by substituting the known values for P and x:

60 = a - (0.001 x 250,000)

a = 310

(Note: This is the maximum selling price, that is, the price at which no quantity will be demanded.)

Therefore P = 310 - 0.001x

Identify marginal cost (MC)

MC = unit variable = ₦21

Identify total revenue (TR)

$TR = (P)(x) = (310 - 0.001x)(x)$

$= 310x - 0.001x^2$

Identify marginal revenue (MR)

$MR = dTR/dx = 310 - 0.002x$

Equate MC and MR to find x

$21 = 310 - 0.002x$

$x = 144,500$

Substitute x into demand function to find P

P = 310 - (0.001 x 144,500) = ₦165.50

Calculate profit

Total contribution = 144,500 x (₦165.50 - 21)	= ₦20,880,250
Fixed cost	(800,000)
Profit	₦20,080,250

c) Market skimming

As the sales director suggests, market skimming is a strategy which initially charges high prices for the product in order to take advantage of those buyers who want to buy it as soon as possible, and are prepared to pay high prices in order to do so.

If certain conditions exist, the strategy could be a suitable one for John Ltd. The conditions are as follows:

- Where a product is new and different, so that customers are prepared to pay high prices in order to gain the perceived status of owing the product early. All we know about John Ltd's product is that it is "innovative", so it may meet this condition.
- Where products have a short life cycle this strategy is more likely to be used, because of the need to recover development costs and make a profit quickly. John Ltd's product have a three-year life cycle, which make it fairly short.
- Where high prices in the early stages of a product's life cycle are expected to generate high initial cash inflows. If this is the case here, then skimming would be useful to help John Ltd cover the high initial development costs which it has incurred.
- Where barriers to entry exist, which deter other competitors from entering the market, otherwise, they will be enticed by the high prices being charged. These might include prohibitively high investment costs, patent protection or unusually strong brand loyalty.

  According to the information given, high development costs were involved in this case, which would be a barrier to entry.

- Where demand and sensitivity of demand to price are unknown. In John Ltd's case, market research has been carried out to establish a price. However, this information is based on the launch of similar but not identical products, so it is not really known just how accurate it will be to cover the high initial development costs which it has incurred. John Ltd's product in this case does only have a three-year life cycle, which makes it fairly short.

- Where high prices in the early stages of a product's life cycle are expected to generate high initial cash inflows. If this is the case here, then skimming would be useful to help John Ltd cover the high initial development costs which it has incurred.

Examiner's report

This question tests candidates' knowledge of optimum pricing techniques using marginal cost approach for new innovative product. The second part of the question tests candidates knowledge of price skimming strategy when the company is about to launch its product in a new market.

The question was well attempted and performance was average.

The major pitfall observed was candidates' lack of understanding that marginal cost can be related to variable costs using the formula shown in the question: $P=a - bx$; Then $MR = a - 2bx$.

It is recommended that candidates use ICAN study materials on Performance Management when preparing for future examination.

Marking guide

		Marks	Marks	Total
a.	Variable cost per unit (½ mark each for 4 points)	2		
	Fixed overhead	<u>1</u>	3	
b.	Calculation of optimum price			
	(½ mark each for 14 ticks)		7	
c.	Discussion of market skimming			
	(2 ½ marks each for any 2 points)		<u>5</u>	15

ICAN/252/Q/B5 Examination No........................

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – NOVEMBER 2025

FINANCIAL MANAGEMENT

EXAMINATION INSTRUCTIONS

PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER

1. Check your pockets, purse, mathematical set, etc. to ensure that you do not have prohibited items such as telephone handset, electronic storage device, programmable devices, wristwatches or any form of written material on you in the examination hall. You will be stopped from continuing with the examination and liable to further disciplinary actions including cancellation of examination result if caught.

2. Write your **EXAMINATION NUMBER** in the space provided above.

3. Do **NOT** write anything on your question paper **EXCEPT** your examination number.

4. Do **NOT** write anything on your docket.

5. Read all instructions in each section of the question paper carefully before answering the questions.

6. Do **NOT** answer more than the number of questions required in each section, otherwise, you will be penalised.

7. All solutions should be written in **BLUE** or **BLACK INK**. Any solution written in **PENCIL** or any other **COLOUR OF INK** will not be marked.

8. Cross out **ALL UNUSED SPACES ON ALL PAGES** of the Answer Booklet.

9. You are required to attempt **Question ONE (compulsory), any TWO Questions in Section B and any TWO Questions in Section C.**

10. Check that you have collected the correct question paper for the examination you are writing.

THURSDAY, NOVEMBER 20, 2025

DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – NOVEMBER 2025

FINANCIAL MANAGEMENT

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

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

SECTION A: **COMPULSORY QUESTION** **(30 MARKS)**

QUESTION 1

Aboki Ltd is considering whether to set up a division to manufacture a new product, the Zinco. The following statement has been prepared, showing the projected profitability per unit of the new product as follows:

	₦	₦
Selling Price		2,200
Less:		
Direct labour (2 hours at ₦250 per hour)	500	
Material (3 kg at ₦150 per kg)	450	
Overheads	1,150	
		2,100
Net profit per unit		100

A feasibility study, recently undertaken at a cost of ₦5,000,000, suggests that a selling price of ₦2,200 per Zinco should be set. At this price, it is expected that 10,000 units of Zinco would be sold each year. Demand for Zinco is expected to cease after 5 years. Direct labour and material costs would be incurred only for the duration of the product life.

Overheads per unit have been calculated as follows:

			₦
Variable overheads			250
Rent (see note 1 below)	-	₦800,000 ÷ 10,000 units	80
Manager's salary (see note 2 below)	-	₦700,000 ÷ 10,000 units	70

Depreciation (see note 3 below)	-	₦5,000,000 ÷ 10,000 units	500
Head office costs (see note 4 below)	-	2 hours at ₦125 per hour	250
			1,150

(1) Zinco would be manufactured in a factory rented specially for the purpose. Annual rental would be ₦800,000 payable only for as long as the factory was occupied.

(2) A manager would be employed to supervise production of Zinco, at a salary of ₦700,000 per annum. The manager is at present employed by Aboki Ltd, but is due to retire in the near future on an annual pension of ₦200,000, payable by the company. If he continued to be employed, his pension would not be paid during the period of his employment. His subsequent pension rights would not be affected.

(3) Manufacture of the Zinco would require a specialised machine costing ₦25,000,000. The machine would be capable of producing Zinco for an indefinite period, although due to its specialised nature it would not have any resale or scrap value when the production of Zinco ceases. It is the policy of Aboki Ltd to provide depreciation on non-current assets using the straight-line method. The annual charge of ₦5,000,000 for the new machine is based on a life of 5 years, equal to the period during which Zinco is expected to be produced.

(4) Aboki Ltd allocates its head office fixed costs to all products at the rate of ₦125 per direct labour hour. Total head office fixed costs would not be affected by the introduction of the Zinco to the company's range of products.

The cost of capital of Aboki Ltd is estimated at 5% per annum, and you may assume that all costs and prices given above will remain constant. All cash flows would arise at the end of each year, with the exception of the cost of the machine which would be payable immediately. The Directors of Aboki Ltd are very confident about the accuracy of all the estimates given above with the exception of those relating to product life, annual sales volume and material cost per Zinco.

Required:

a. Calculate the net present value based on the estimates provided, to show whether Aboki Ltd should proceed with the manufacture of Zinco. (16 Marks)

b. Prepare a statement showing how sensitive the net present value of manufacturing Zinco is, to errors of estimation in each of the three factors: product life; annual sales volume and material cost per Zinco. (6 Marks)

c. Assess the strengths and weaknesses of sensitivity analysis as a method of evaluating risk and uncertainty in capital project appraisal. How does simulation provide an improvement over sensitivity analysis in this regard? (8 Marks)

(Total 30 Marks)

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

QUESTION 2

KT is a small company which distributes spare parts in the motor industry. The company has been experiencing cash flow problems recently, and the directors have decided to examine the working capital cycle with a view to seeing whether they can release some cash through better working capital management.

The company has a very steady level of sales and purchases throughout the year. Credit sales were ₦3,600,000 during the year ended 30 April 2025 and credit purchases were ₦2,400,000. Trade receivables and trade payables at 30 April 2025]were ₦630,000 and ₦200,000 respectively. The company's inventory figure has been approximately ₦480,000 throughout the year.

The Directors are of the opinion that careful credit management could reduce trade receivables days to 40. The company could reduce inventories by 30% without adversely affecting sales. Trade payables would be prepared to wait up to 50 days for payment.

Required:

a. (i) Calculate KT's working capital cycle in days, using the figures relating to transactions for the year ended 30 April 2025 and the balances outstanding at that date. (4 Marks)

(ii) Calculate the working capital cycle in days based on the directors' hypothetical figures. (4 Marks)

b. Explain any **TWO** importance of working capital cycle to companies, using the figures calculated in part (a) above to illustrate your explanation. (4 Marks)

c. Calculate the amount of cash that would be released, if KT implemented the new inventory control and credit management policies suggested by management. (3 Marks)

d. Describe the main difficulties to be overcome in order to put the Directors' new policies into practice. (5 Marks)

(Total 20 Marks)

QUESTION 3

NigerGold Plc., a listed company in the bottled water and fruit juice business, is considering investing in the premium coffee shop business by launching a chain of branded outlets in Lagos and Abuja.

Because the coffee shop business has a different business risk profile from its current operation, management decides to base the project's risk on a pure-play comparator from the coffee business.

You are given:

Comparator company data (coffee sector):

- Equity beta= 1.50
- Debt-to-equity ratio = 0.4 (market value basis)
- Corporate tax rate = 30%

Project financing plan:

- NigerGold will finance the project with a D/E ratio of 0.6 (market value basis)
- Pre-tax cost of debt for the project = 12%

Market data:

- Risk-free rate = 8%
- Market risk premium = 6%

The project is expected to have the same business risk as the comparator coffee shop business.

Required:

a. i) Calculate the asset beta for the coffee shop business using the comparator company's data. (1½ Marks)

ii) Re-lever the asset beta to reflect the project's capital structure. (1½ Marks)

iii) Calculate the project's cost of equity using CAPM. (1½ Marks)

iv) Calculate the project's WACC. (2½ Marks)

v) Identify and discuss **FOUR** reasons why the coffee shop business's asset beta might differ from NigerGold's existing bottled water and fruit juice business. (5 Marks)

b. Identify and discuss **FIVE** challenges associated with the use of proxy companies in determining the beta factor of a new project. (8 Marks)

(Total 20 Marks)

QUESTION 4

a. A merchant in the United Kingdom has agreed to sell goods to an importer in the USA at an invoice price of $150,000. Of this amount, $60,000 will be payable on shipment, $45,000 one month after shipment and $45,000 three months after shipment.

The quoted foreign exchange rates ($ per £) at the date of shipment are as follows:

Spot	1.690 - 1.692
One month	1.687 - 1.690
Three months	1.680 - 1.684

The merchant decided to enter into appropriate forward exchange contracts through his bank to hedge these transactions.

Required:

i) State the presumed advantages of doing this. (3 Marks)

ii) Calculate in pound sterling the amount that the merchant would receive. (6 Marks)

iii) Comment with hindsight on the wisdom of hedging in this instance, assuming that the spot rate at the dates of receipt of the two instalments of $45,000 were as follows:

First instalment	1.694 - 1.696
second instalment	1.700 - 1.704

(5 Marks)

b. Describe how foreign exchange transactions (using futures) would differ from those assumed in part (a) above. (6 Marks)

(Total 20 Marks)

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

QUESTION 5

Critically discuss why different companies might choose to adopt different levels of financial gearing, even within the same industry. **(15 Marks)**

QUESTION 6

a. Outline the major government activities that influence financial management and illustrate how government activities affect companies in achieving their financial objectives. (10 Marks)

b. What major characteristics of capital project decisions make them so strategic in nature? (5 Marks)

(Total 15 Marks)

QUESTION 7

ZK Plc. is a listed company that sells fashion clothes over the internet. Financial markets have criticised the company recently because of the high levels of debt that it has maintained in its statement of financial position.

The company's debt consists of ₦150 million of 8% bonds that are due for repayment by 31 March 2028. Financial markets indicate it would not be possible to issue a new loan under the same conditions. The market value of the bonds is ₦90 per ₦100 nominal.

ZK Plc's draft statement of financial position as at 31 March 2025 is as follows:

	₦'million
Ordinary shares of ₦1	100
Reserves	20
	120
8% bonds (at nominal value)	150
	270
Non-current assets	200
Net current assets	70
	270

Non-current assets consist of ₦150 million of capitalised development costs and ₦50 million of land and buildings.

The company's share price has fallen consistently over the past two years as follows:

	Price per share
31 March 2023	₦20
31 March 2024	₦8
31 March 2025	₦4

The company intends to make a 1-for-2 rights issue at an issue price of ₦2.50 on 30 June 2025. It is assumed that the cum rights price at the issue date will be ₦4. Immediately thereafter, all the proceeds will be used to redeem debt at its nominal value and thereby reduce its gearing.

Required:

a. Calculate the gearing (that is, debt/equity) of ZK Plc at 31 March 2025, using both
   i. book values; and
   ii. market values (3 Marks)

b. Evaluate:
   i) the weaknesses; and
   ii) the benefits
   of the two methods used to calculate gearing in requirement (a) above. (6 Marks)

c. Calculate the gearing of ZK Plc in market value terms, immediately after the rights issue and redemption of debt. (6 Marks)

(Total 15 Marks)

Formulae

Modigliani and Miller Proposition 2 (with tax)

$$K_{EG} = K_{EU} + (K_{EU} - K_D)\frac{V_D}{V_{EG}}(1 - t)$$

Asset Beta

$$\beta_A = \left[\frac{V_E}{(V_E + V_D(1 - T))}\beta_E\right] + \left[\frac{V_D(1 - T)}{(V_E + V_D(1 - T))}\beta_D\right]$$

Equity Beta

$$\beta_E = \beta_A + (\beta_A - \beta_D)\left(\frac{V_D}{V_E}\right)(1 - t)$$

Growing Annuity

$$PV = \frac{A_1}{r - g}\left(1 - \left(\frac{1 + g}{1 + r}\right)^n\right)$$

Cash Management

i) Optimal sale of securities, Baumol model:

$$\text{Optimal sale} = \sqrt{\frac{2 \times \text{Annual cash disbursements} \times \text{Cost per sale of securities}}{\text{interest rate}}}$$

ii) Spread between upper and lower cash balance limits, Miller-Orr model:

$$\text{Spread} = 3\left[\frac{\frac{3}{4} \times \text{transaction cost} \times \text{variance of cash flows}}{\text{interest rate}}\right]^{\frac{1}{3}}$$

Annuity Table

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

Where r = discount rate

n = number of periods

Discount rate (r)

Periods

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

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

SECTION A

SOLUTION 1

a) **Calculation of NPV (₦000)**

Years	0	1 - 5
Machine	(25,000)	-
Factory rental	-	(800)
Manager's salary (W4)	-	(700)
Variable production costs (W5)	-	(12,000)
Total outflows	(25,000)	(13,300)
Sales revenue	-	22,000
NCF	(25,000)	8,700
PVF at 5%	1	4.329
PV	(25,000)	37,662

NPV = ₦12,667,000

The NPV of the project is positive and if all other factors are held constant, it should be accepted.

Working Notes

1. **Machine depreciation:** is irrelevant, being a non-cash item.
2. **Head office costs:** These are non-incremental costs and therefore irrelevant
3. **Feasibility study:** The amount spent on feasibility study is a sunk cost and therefore irrelevant.
4. Only the extra salary payable to the manager is relevant.

	₦000
Salary	700
Pension saved	(200)
Incremental salary	500

5. **Variable costs**

The only relevant costs per unit are:

	₦
Direct labour	500
Material	450
Variable overheads	250
	1,200

Total per annum = 1,200 × 10,000 units = ₦12,000,000.

b) **Sensitivity analysis**

i) **Life of project**: The breakeven life of the project can be calculated using discounted payback period (DPBP).

Year	NCF	PVF at 5%	PV	CUM PV
	₦000		₦000	₦000
0	(25,000)	1	(25,000)	(25,000)
1	8,700	0.952	8,282	(16,718)
2	8,700	0.909	7,729	(8,810)
3	8,700	0.864	7,517	(1,293)
4	8,700	0.823	7,160	5,867

DPBP = 3 + (1,293/7,160) = 3.18 years

The sensitivity margin = (4 – 3.18)/4 = 20.5%. This means that the life of the project can be shortened by 20.5%.

ii) **Annual sales volume**

SM (sales volume) = NPV/PV of contribution

PV of contribution = 10,000 units (₦2,200 – 1,200) × 4.329=₦43,290,000

SM = ₦12,662/43,290 = 29.25%

This means that the current sales volume of 10,000 units can fall by maximum of 29.25%. Thus, the minimum sales volume is 10,000 × (100 – 29.25) % = 7075 units.

iii) **Material price**

SM = NPV/PV of material cost

PV of material cost = 10,000 × ₦450 × 4.329 = ₦19,480,500

SM = ₦12,662/₦19,480.50 = 65%

This means that the material price of ₦450 per unit can **increase** by 65%. Thus the breakeven price per unit is ₦450 × (100 + 65) % = ₦742.50 per unit.

Summary and comments

The above calculations show that the manufacture of Zinco would still be worthwhile if product life fell to 3.2 years, or if annual sales fell to 7,075 units, or if material costs increased to ₦742.50 per unit of Zinco. These figures represent percentage errors of 36%, 29% and 65%, respectively on the original estimates. If the actual figures were within these percentages of the original estimates, the decision to go ahead would still be valid. These are large percentages and the NPV is therefore remarkably insensitive to errors in the three factors.

c) **Introduction**

In capital budgeting, decisions are made under conditions of uncertainty. Future cash inflows, costs, and discount rates are often subject to change, and managers need techniques to evaluate how such uncertainty affects project viability. Sensitivity analysis and simulation are two widely used approaches. While sensitivity analysis provides a straightforward way of identifying the effect of changes in individual variables, it has important limitations. Simulation techniques, particularly Monte Carlo simulation, offer a more comprehensive approach by modelling uncertainty in a probabilistic manner.

Strengths of sensitivity analysis

i. **Simplicity and clarity** - The technique is easy to understand and implement. Managers can see directly how project outcomes (e.g., NPV, IRR) respond to changes in assumptions such as sales volume, costs, or discount rate.

ii. **Identification of critical variables** - Sensitivity analysis highlights which factors exert the greatest influence on project success, guiding management attention and control.
iii. **Communication tool** - Results can be presented graphically (e.g., tornado diagrams), making it easier to convey the project's vulnerability to stakeholders.
iv. **Decision support** - Provides useful "what-if" scenarios that allow managers to test the robustness of a project under alternative conditions.

Weaknesses of sensitivity analysis

i. **One-variable-at-a-time limitation** - In practice, variables are interrelated. For instance, sales volume and price are likely to move together, but sensitivity analysis cannot capture such interactions.
ii. **No probability information** - While it shows how outcomes change if assumptions vary, it does not indicate how likely such variations are.
iii. **Arbitrary input ranges** - The percentage changes used (e.g., ±10%) are subjective and may not reflect real uncertainty.
iv. **Linear assumption** - It often assumes a straight-line relationship between variables and outcomes, overlooking possible non-linear effects.
v. **Static approach** - Sensitivity analysis ignores management's ability to adapt or revise decisions over the life of a project.

How simulation improves on sensitivity analysis

Simulation addresses these shortcomings by allowing multiple uncertain variables to vary simultaneously according to assigned probability distributions. In particular:

i. **Probabilistic outcomes** - Simulation generates a distribution of possible NPVs rather than a single-point estimate, showing the probability of achieving different levels of return.
ii. **Interdependence of variables** - Correlations between inputs (e.g., price and demand, costs and output) can be modelled.
iii. **Holistic risk assessment** - Thousands of iterations can be run to capture the combined effect of uncertainty, providing expected values, standard deviations, and probabilities of loss.
iv. **Strategic insights** - Managers obtain a richer understanding of risk exposure, making it possible to compare projects not only by expected NPV but also by risk profile.

Limitations of Simulation must also be acknowledged: it requires large amounts of reliable data, complex modelling, and sophisticated software. Moreover, results depend heavily on the accuracy of the assumed probability distributions.

Conclusion

Sensitivity analysis remains a useful first step in risk assessment: it is simple, highlights critical variables, and supports communication. However, its weaknesses - especially the inability to incorporate probabilities and multiple variable interactions - limit its effectiveness as a stand-alone tool. Simulation provides a more advanced and realistic means of assessing risk by producing a full probability distribution of project outcomes. Together, both methods can complement each other: sensitivity analysis for preliminary screening, and simulation for deeper, probabilistic evaluation.

Examiner's Report

This compulsory scenario-based question tests:

Calculation of Net Present Value (NPV), with emphasis on identifying relevant and irrelevant costs;

Sensitivity analysis of NPV in relation to estimation errors; and

Evaluation of the strengths and weaknesses of sensitivity analysis and simulation in capital project appraisal.

Approximately 99% of candidates attempted this question.

Performance was extremely poor. About 95% of candidates scored below average, with fewer than 5% achieving up to half of the allocated marks.

Candidates' commonest pitfalls were that most of the candidates could not identify the relevant costs nor calculate relevant ratios and NPV to evaluate the project.

Candidates are advised to master the various financial management techniques and their application to scenarios.

Marking guide

Question Number	Question Component	Question Requirement	Total Marks Allotted
1	a	Net Present Value of the proposed project – manufacture of Zinco.	16 marks
	b	Sensitivity of NPV to errors of estimation of product life, annual sales volume and material cost per unit of Zinco	6 marks
	c	Assessment of the strengths and weaknesses of sensitivity analysis as a method of evaluating risk and uncertainty in capital project appraisal. Also, how simulation provide an improvement over sensitivity analysis in this regard.	8 marks
		Total	30 marks

SOLUTION 2

a)i) **Last year's actual:**

$$\text{Inventory turnover} = \frac{\text{Average Inventory}}{\text{Credit Purchases}} \times 365$$

$$\text{Inventory turnover} = \frac{480{,}000}{2{,}400{,}000} \times 365 = 73 \text{ days}$$

$$\text{Trade receivables turnover} = \frac{\text{Average Receivables}}{\text{Credit Sales}} \times 365$$

$$\text{Trade receivables turnover} = \frac{630{,}000}{3{,}600{,}000} \times 365 = 64 \text{ days}$$

$$\text{Trade payables turnover} = \frac{\text{Average Payables}}{\text{Credit Purchases}} \times 365$$

$$\text{Trade payables turnover} = \frac{200,000}{2,400,000} \times 365 = 30 \text{ days}$$

Working capital cycle = 73 + 64 – 30 =107 days

ii) Director's hypothetical proposal:

Inventory turnover = 73 × 70% = 51 days

Trade receivables turnover = 40 days

Trade payables turnover = 50 days

Working capital cycle = 51 + 40 – 50 = 41 days

b) Two Importance of working capital management from the above computations.

i. **Liquidity/cash availability**
The working capital cycle measures how long cash is tied up in operations. KT's current cycle is 106.5 days, which means cash invested in inventory and receivables is tied up for over 3 months. This requires either a large cash reserve or external finance. If the company is short on cash, it may miss supplier payments or lose discounts.

ii. **Cost of financing and profitability**
Longer cycles increase the need to borrow, raising interest expense and reducing net profit. For KT, reducing the cycle from 106.5 to 41.1days, which is in line with the director's target, would shorten the cash conversion time by 65.4days, which will in turn reduce financing needs and interest cost and improve net profit.

iii. **Appropriate length of working capital cycle**
The directors must also make sure that the working capital cycle is long enough to ensure that the company has sufficient liquid assets to meet the overall business objectives. The company must have sufficient inventories and trade receivables to provide customers with an adequate service and cannot take excessive advantage of trade payables without losing all credibility.

c) New inventory level = ₦336,000 = ₦144,000 released

New trade receivables level = $\frac{40}{365} \times$ ₦3,600,000 = ₦394,521 = ₦235,479 released

New trade payables level = $\frac{50}{365} \times$ ₦2,400,000 = ₦328,767 = ₦128,767 released

Total cash inflow = ₦508,246

d) **The difficulties to overcome to implement the directors' new policies**

Customer relations and risk of lost sales

Tightening credit terms to reduce receivables days to 40 may anger customers or push them to competitors, causing lost sales. Some customers may truly need longer credit, which is restricted by the new policy.

Credit control systems and administration

Achieving 40 days needs robust credit checks, invoicing, collection procedures, and probably additional staff/training or software, this may increase administration costs.

Inventory control/stock out risk

Reducing inventory by 30% risks stock outs and lost sales, if forecasting is poor. KT must improve demand forecasting, adopt just-in-time ordering, ensure supplier reliability, and possibly invest in inventory management systems.

Supplier negotiation/relationship risk

Extending payables to 50 days depends on suppliers' willingness. Suppliers may refuse, demand earlier payment, or withdraw discounts. Negotiation may require demonstrating consistent ordering, improved forecasting, or a willingness to accept other terms.

Operational change management & costs

Implementing all changes requires management time, staff training, possible system upgrades (accounting/inventory systems), and an implementation plan. There may be short-term costs (consultancy, software, and training) and internal resistance to new procedures.

Supplier negotiation

Extending payables to 50 days needs supplier agreement; suppliers may demand higher prices/shorter terms or forfeiture of early payment discounts.

Systems and processes

Need better IT, credit scoring, inventory management (e.g., JIT, EOQ), and staff training - time and cost to implement.

Examiner's Report

This question tests knowledge of Working Capital Management.

About 80% of the candidates attempted this question.

Approximately 80% of the candidates scored less than 50% of the marks allocated.

Performance was poor due to inability of many candidates to apply their theoretical knowledge to practical situations, as required by the question.

Candidates should practise the application of their knowledge to practical situations.

Marking guide

Question Number	Question Component	Question Requirement	Total Marks Allotted
2	Ai	To calculate Working capital cycle in days.	4 marks
	Ii	To calculate working capital cycle in days based on the director's hypothetical figures	4 marks
	B	To write two importance of working capital cycle to companies using the figures calculated in part (a) above	4 marks
	C	To calculate the amount of cash that would be released if KT implemented the new inventory control and credit management policy.	3 marks
	D	To describe the main difficulties to be overcome in order to put the Directors' new policies into practice.	5 marks
		Total	20 marks

SOLUTION 3

a) i) Asset beta of coffee shop sector

$$\beta_A = \left[\frac{V_E}{(V_E + V_D(1-T))}\beta_E\right] + \left[\frac{V_D(1-T)}{(V_E + V_D(1-T))}\beta_D\right]$$

Where:

- $\beta_E = 1.50$
- $(1 - T) = 1 - 0.30 = 0.70$
- $D/E = 0.4$

$$\beta_A = \frac{100 \times 1.50}{100 + 40(1-0.30)} + 0 = 1.17$$

ii) **Re-lever asset beta for project capital structure**

$$\beta_E = \beta_A + (\beta_A - \beta_D)\left(\frac{V_D}{V_E}\right)(1 - t)$$

$= 1.17 + (1.17 - 0)(0.6)\ (1\text{-}0.3)=1.66$

iii) **Project cost of equity (CAPM)**

$K_E = R_f + \beta_E \times MRP$
$K_E = 8 + (1.66 \times 6) = 17.96$ or (say) 18%

iv) **Project WACC**

Weights:

- D/E = 0.6 → Let E = 1 → D = 0.6 → Total = 1.6
- Weight of equity (W_e) = 1 / 1.6 = 0.625
- Weight of debt (W_d) = 0.6 / 1.6 = 0.375

After-tax cost of debt:

K_d(after tax) = 12% × (1 - 0.30) = 8.4%

WACC = ($W_e \times K_E$) + ($W_d \times K_d$ after tax)

= (0.625 × 17.96%) + (0.375 × 8.4%) = 14.38%

v) **Reasons why coffee shop sector's asset beta might differ from bottled water/juice business**

Reason	**Explanation**
1. Cyclicality of demand	Coffee shop sales are more discretionary, depending heavily on consumer incomes and urban lifestyle spending, making them more sensitive to economic cycles.
2. Operating leverage	Coffee shops have high fixed overheads (rent, staff), increasing earnings volatility compared to bottled water production.
3. Input cost exposure	Coffee beans and dairy are often imported, exposing coffee shop global commodity price and exchange rate risk, bottled water uses mainly local inputs.
4. Customer behaviour and brand sensitivity	Coffee shops rely on brand loyalty and foot traffic; consumer preferences can shift quickly due to trends, increasing volatility compared to more stable water/juice demand.

b) **Challenges associated with using proxy companies to determine the beta factor of a new project include:**

i. **Differences in business risk profile**
- A proxy company may not engage in exactly the same activities as the project under appraisal.
- Even within the same industry, variations in product mix, technology, customer base, or competitive positioning can lead to differences in systematic risk.
- This makes the proxy's beta an imperfect measure of the project's true risk.

ii. **Differences in financial structure**
- Beta reflects both business risk and financial (gearing) risk.
- If the proxy company's capital structure differs significantly from that intended for the project, the derived beta will be biased.
- Adjustments must be made (e.g., ungearing and re-gearing), but these rely on assumptions about debt levels and costs that may not hold in practice.

iii. **Data limitations and estimation errors**
- Proxy betas are usually estimated from historical share price data.
- For smaller or less liquid companies, the data may be thin, noisy, or subject to non-trading biases, which distorts the beta.
- As a result, the reliability of the proxy beta is questionable, especially if few suitable listed proxies exist.

iv. **Impact of non-comparable diversification**
- Many listed companies are diversified across several sectors, whereas the project may be narrowly focused.
- The proxy company's beta may therefore reflect risks irrelevant to the project.
- Isolating the relevant part of the beta is difficult and can lead to underestimation or over estimation of the project's risk.

v. **Changing market conditions and risk profiles**
- Proxy betas are backward-looking, based on historical relationships between the company's returns and the market.
- If industry risk, regulation, technology, or macroeconomic conditions change, the proxy's past beta may no longer be valid for the new project's future.
- This temporal mismatch reduces the usefulness of the proxy.

Examiner's Report

This question tests capital structure as it relates to investment and cost of capital. About 75% of the candidates attempted this question.

Performance was poor, with less than 25% of the candidates scoring above 50%. Most candidates did not understand the computation and the context of the application of the beta factors.

Candidates should endeavour to master the theories, techniques and applications covered in Financial Management, as they will be required in Strategic Financial Management at the Professional level of the examination.

Marking guide

Question Number	Question Component	Question Requirement	Total Marks Allotted
3	Ai	To calculate the asset beta for the coffee shop business using the comparator company's data.	1½ marks
	Ii	To re-lever the asset beta to reflect the project's capital structure.	1½ marks
	Iii	To calculate the project's cost of equity using CAPM.	1½ marks
	Iv	To calculate the project's WACC.	2½ marks
	V	To identify and discuss four reasons why the coffee shop business' asset beta might differ from NigerGold's existing bottled water and fruit juice business.	5 marks
	3b	To identify and discuss five challenges associated with the use of proxy companies in determining the beta factor of a new project.	8 marks
		Total	**20 marks**

SOLUTION 4

(a) i. **Presumed advantages of entering forward contracts**

- Locks the exchange rate for each receipt so the merchant knows exactly how many pounds it will receive - removes FX uncertainty.
- Protects profit margins and cash-flow planning (helpful for budgeting, pricing, dividend/capital planning).
- No initial cash outlay (for typical non-premium forwards) and straightforward to arrange through the bank.
- Avoids adverse currency moves between shipment and later receipts.
- Counterparty certainty (contractual with the bank) - unlike leaving exposure to spot market volatility.

(Please note minor downsides: opportunity loss if spot moves favorably, bank credit/counterparty risk, and forward amounts/dates must match receipts exactly or leave basis/exposure).

ii. **Calculation of sterling amount the merchant would receive (using the bank's quotes $/£ when the merchant is selling $ to buy £)**

Given quotes ($ per £) and logic used

- When the merchant sells USD to receive GBP, the bank sells £ to the merchant at its ask (the higher $/£). So we divide USD by the bank's ask rate to get £.

Rates used:

- Spot ask = 1.692 ($/£)
- 1-month forward ask = 1.690
- 3-month forward ask = 1.684

Receipts:

1. Immediate (on shipment) — $60,000 at spot 1.692
   £ = 60,000 ÷ 1.692 = £35,460.99
2. One month after shipment — $45,000 at 1-month forward 1.690
   £ = 45,000 ÷ 1.690 = £26,627.22
3. Three months after shipment — $45,000 at 3-month forward 1.684
   £ = 45,000 ÷ 1.684 = £26,722.09

Total sterling received (hedged) =
£35,460.99 + £26,627.22 + £26,722.09 = £88,810.30
(Amounts rounded to 2 decimal places)

iii) **Hindsight comment - was hedging wise?**

Assuming that the actual spot quotes at the times the two $45,000 instalments arrived were:

- First instalment spot quote: 1.694 – 1.696 → merchant would have bought £ at the bank's ask 1.696 if unhedged.
- Second instalment spot quote: 1.700 – 1.704 → bank's ask 1.704.

If the merchant had left those receipts unhedged, conversion would give:

- First instalment unhedged: 45,000 ÷ 1.696 = £26,533.02
- Second instalment unhedged: 45,000 ÷ 1.704 = £26,408.45
- (Spot - immediate receipt still remains £35,460.99 as above.)

Total sterling unhedged = £35,460.99 + £26,533.02 + £26,408.45 = £88,402.46.

Comparison:

Hedged total = £88,810.30

Unhedged total = £88,402.46

Hedging gained ≈ £407.84 (i.e. merchant received ~£408 more by hedging)

Conclusion:
Given the actual spot movements (spot ask rates turned out higher than the forward rates the merchant locked in), hedging was wise in this instance - it produced a modest but real improvement in pound receipts of £407.84 and removed the risk of further adverse moves.

b) **How using foreign-exchange (FX) futures would differ from the forward assumed above**

Key differences the merchant would face, if it uses FX futures instead of bank forwards:

i. **Standardisation vs customisation**
   - Futures are exchange-traded, standardised contract sizes and set delivery months; forwards are OTC and can be tailored to exact amounts and dates.
   - Practical effect: the merchant might have to use several futures contracts (or over/under hedge), if contract sizes/delivery months do not match the $60k/45k/45k schedule exactly - basis risk.

ii. **Daily marking-to-market and margins**
- Futures are marked-to-market daily with margin requirements (initial margin + variation margin). Gains/losses are settled daily in cash. Forwards settle only at maturity (no daily cash flows).
- This means potential margin calls (cash flow requirement) even though the ultimate economic exposure is similar.

iii. **Credit risk / clearinghouse**
- Futures have lower counterparty credit risk because the exchange's clearinghouse guarantees performance. Forwards expose the merchant to bank counterparty risk.

iv. **Liquidity and transparency**
- Futures are typically more liquid and have transparent pricing; forwards depend on bank quotes and may have larger bid-ask spreads for nonstandard sizes/dates.

v. **Settlement and delivery**
- Many FX futures are closed out before delivery (cash settled); physical delivery is possible, but less common. Forwards commonly result in actual currency conversion at maturity.

vi. **Accounting and regulatory differences**
- Margining and daily gains/losses can affect balance-sheet/working capital and accounting. Futures may trigger different hedge accounting treatments against forwards.

vii. **Transaction costs and flexibility**
- Futures exchange fees and margin opportunity cost versus bank spread and any forward commission - total cost profile differs and depends on contract availability and bank terms.

Implication for the merchant:

Futures could be attractive for credit and price transparency, but may not match the exact amounts and timing of the three receipts, and would introduce daily margin cash flows. For a merchant needing precise, date-specific cover for $60k/45k/45k, tailored forwards through the bank are usually more convenient despite the OTC counterparty exposure.

Examiner's Report

This question tests foreign exchange transactions and derivatives, specifically forward contracts.

About 60% of the candidates attempted this question.

Less than 30% of the candidates scored 50% of the marks allotted.

Candidates showed vague understanding of the core concepts of foreign exchange transactions. Many failed to differentiate between foreign exchange futures and forward contracts.

Improved preparation is necessary to master these concepts, which are essential for a chartered accountant.

Marking guide

Question Number	Question Component	Question Requirement	Total Marks Allotted
4	4ai	To state the advantages of forward exchange contracts.	3 marks
	aii	To calculate in pound sterling, the amount that the merchant would receive.	6 marks
	aiii	To Comment with hindsight on the wisdom of hedging in this instance, assuming that the spot rates at the dates of receipt of the two instalments of $45,000 were as follows: First installment 1.694 – 1.696 Second installment 1.700 – 1.704	5 marks
	4b	To describe how foreign exchange transactions (using futures) would differ from those assumed in part (a) above.	6 marks
		Total	**20 marks**

SOLUTION 5

Companies operating in the same industry face broadly similar economic conditions and competitive pressures, yet they often adopt different levels of financial gearing (debt vs. equity). This can be explained by differences in company-specific circumstances, strategic choices, and external pressures.

i. **Differences in business risk and earnings volatility**
Firms with more stable revenues can tolerate higher gearing, while those with volatile earnings prefer lower gearing to avoid financial distress. For example, within the airline industry, a budget airline with diversified routes may carry more debt than a smaller regional airline dependent on one route. Thus, even within the same sector, cash flow predictability shapes capital structure decisions.

ii. **Asset structure and collateral availability**
Companies with more tangible, asset-backed collateral (e.g., real estate, machinery) can borrow more easily than firms reliant on intangibles (brands, technology). For example, in Nigerian cement production, Dangote Cement (with significant fixed assets) can sustain higher gearing than a smaller cement distributor relying on leased facilities. This means that the nature of assets differentiates debt capacity, even among peers.

iii. **Growth opportunities and investment strategy**
High-growth firms often rely on equity to preserve flexibility and avoid the burden of debt servicing, while mature firms with steady cash flows may gear up to enhance returns. For example, a new fintech company in Nigeria may prefer low gearing to remain agile, while a long-established bank may use higher gearing to exploit tax shields.
This means that the stage of business life cycle affects gearing choices within the same sector.

iv. **Management risk appetite and strategic philosophy**
Some management teams are conservative and prefer stability, while others adopt aggressive strategies, accepting higher gearing to boost returns on equity. For example, two construction firms bidding for government contracts may adopt very different gearing policies depending on the management's appetite for risk. Thus, corporate culture and leadership strongly influence capital structure.

v. **Ownership structure and control considerations**
Family-controlled or closely held firms may avoid equity issuance to preserve control, leading to higher gearing. Widely held public firms may be more willing to issue equity. For example, in Nigeria, many family-owned manufacturing companies rely heavily on bank loans rather than share issues to avoid dilution of family control. This means that ownership concerns drive gearing choices even among similar firms.

vi. **Tax position and profitability**
Debt provides a tax shield, but this benefit depends on the firm's profitability. Loss-making companies cannot exploit tax deductions, so they may prefer equity. For example, a profitable telecoms operator might use high gearing to reduce its tax bill, while a struggling competitor avoids debt due to inability to claim tax shields. Tax efficiency differs across firms, leading to different gearing strategies.

vii. **Access to capital markets and banking relationships**
Larger or more reputable companies often find it easier to borrow at lower interest rates, while smaller or riskier firms face higher costs of debt. For example, Nestlé Nigeria can secure favourable syndicated loans, whereas a smaller food processor may find equity financing cheaper than expensive bank debt. Thus, market credibility influences gearing choices within the same industry.

viii. **Macroeconomic and country-specific factors**
Firms within the same industry but exposed to different international markets or currencies may adopt different gearing levels. For example, an oil servicing company with contracts paid in USD may be comfortable with USD-denominated loans, while a domestic-focused rival avoids debt exposure to exchange rate risks. The implication of this is that the currency exposure and geopolitical risks affect gearing tolerance.

ix. **Agency costs and bankruptcy costs**
High debt increases bankruptcy/financial distress probability and may lead to agency conflicts - managers may prefer low debt to reduce distress risk.

x. **Regulatory and industry norms**
Some industries (banks, utilities) have standard leverage norms driven by regulation or practice; deviation may signal risk or mismanagement.

Examiner's Report

This question tests financial gearing and capital structure of companies.

About 80% of the candidates attempted this question.

Approximately 50% of the candidates scored above 50% of the allocated marks.

Candidates' Commonest Pitfalls was that candidates who performed poorly demonstrated inadequate understanding of the requirements of the question.

Candidates should endeavour to cover the syllabus effectively.

Marking guide

Question Number	Question Component	Question Requirement	Total Marks Allotted
5	5	To critically discuss why different companies might choose to adopt different levels of financial gearing, even within the same industry.	15 marks

SOLUTION 6

a) Major government activities that influence financial management

i. Monetary policy
- Controlled by the Central Bank through interest rates, money supply, and credit regulation.
- Affects cost of borrowing, availability of credit, and investment decisions.

ii. Fiscal policy
- Government spending and taxation policies shape overall demand in the economy.
- Influences company sales, profitability, and cash flow.

iii. Regulations and legislations
- Company law, securities regulation, labour law, and environmental standards all affect financial management.
- Determine reporting obligations, capital structure choices, and compliance costs.

vi. **Taxation policy**

- Corporate income tax, capital gains tax, and value-added tax directly influence net profits and dividend policy.
- Tax incentives may encourage investment in specific sectors.

v. **Foreign exchange and trade policy**

- Exchange rate controls, tariffs, import restrictions, and export promotion measures affect cost structures and international competitiveness.

vi. **Government borrowing and debt management**

- High government borrowing can crowd out private investment and push up interest rates.
- The issuance of government securities competes with corporate securities for investor funds.

vii. **Industrial and investment policies**

- Incentives, subsidies, and infrastructure development influence capital budgeting and location of projects.
- Special schemes (e.g., free trade zones, pioneer status) may reduce costs and improve returns.

viii. **Stability and governance**

- Political stability, anti-corruption efforts, and enforcement of property rights create an enabling environment for financial decision-making.

Illustrations of how government activities affect companies

i. **Monetary policy example**

- If the Central Bank raises interest rates, bank lending becomes costlier. A company may defer expansion financed by debt, slowing growth and affecting its objective of maximising shareholder wealth.

ii. **Fiscal policy example**

- Increased government capital spending on infrastructure (e.g., roads, power) reduces operating costs for manufacturing firms, improving profitability.

iii. **Taxation example**

- A reduction in corporate income tax leaves more retained earnings available, supporting dividend payment or reinvestment into growth projects.

vi. **Foreign exchange control example**

- If the government restricts access to foreign exchange, an importing company may face higher costs and supply shortages, frustrating its cost minimisation and profitability objectives.

v. **Industrial policy example**

- A company producing solar panels may benefit from tax holidays and subsidies for renewable energy, helping achieve long-term investment returns.

b) **Major characteristics of capital project decisions that make them strategic**

i. **Large capital outlay**

- Capital projects usually require substantial financial investment, often stretching the resources of the organisation.
- Wrong decisions can tie up funds in unproductive assets.

ii. **Long-term impact**

- These projects typically involve long time horizons, with cash flows and benefits extending many years into the future.
- They lock the firm into a chosen course of action for a significant period.

iii. **Irreversibility (or High exit costs)**

- Once undertaken, capital projects are often difficult or costly to reverse (e.g., specialised machinery, infrastructure).
- Poor choices may lead to sunk costs and under-utilised resources.

iv. **Uncertainty and risk**

- Because of the long life span, projects are exposed to market, technological, economic, and regulatory risks.
- Forecasting benefits and costs is therefore uncertain.

v. **Strategic fit**

- Capital projects usually define or alter the future direction of the business, such as entering new markets, adopting new technology, or expanding capacity.
- They must align with the organisation's overall strategy.

vi. **Impact on competitive position**

- Successful projects can enhance competitive advantage through cost efficiency, differentiation, or innovation.
- Poorly chosen ones can weaken competitiveness.

vii. **Influence on stakeholders**

- Decisions affect not just shareholders but also employees, customers, and the community (e.g., environmental impact, job creation).
- This makes them politically and socially significant.

Examiner's Report

This question tests the knowledge of influence of government activities on financial management and the strategic nature of capital projects.

About 95% of the candidates attempted this question.

About 40% of them scored above 50% of the marks allotted.

Candidates' commonest pitfall was that candidates who performed poorly did not adequately illustrate how government activities influence financial management or did not understand the strategic nature of capital projects.

It is essential that candidates fully understand the impact of government activities on financial management and the strategic nature of capital project decisions.

Marking guide

Question Number	Question Component	Question Requirement	Total Marks Allotted
6	A	To outline the major government activities that influence financial management and illustrate how government activities affect companies in achieving their financial objectives.	10 marks
	B	Major characteristics of capital project decisions that make them so strategic in nature.	5 marks
		Total	15 marks

SOLUTION 7

a) i) **Book values**

$$\text{Debt/equity} = \frac{150}{120} = 125\%$$

ii) **Market values**

$$\text{Debt/equity} = \frac{135}{400} = 33.75\%$$

b) **Evaluate weaknesses and benefits of book verse market gearing**

Book value gearing - weaknesses

i. **Outdated valuations:** Book values (historic costs) do not reflect current market valuations of debt or equity - may misrepresent true leverage.

ii. **Ignores market expectations:** Book gearing does not capture investor perception/risk which affects cost of capital.

Book value gearing - benefits

Simplicity and accounting consistency: Easy to compute from financial statements and consistent for regulatory/contractual tests.

Market value gearing - benefits

Reflects current economic reality: Market values incorporate current investor expectations, current share price and debt trading price - gives a more accurate view of the firm's economic leverage and cost of capital.

Market value gearing - weaknesses

i. **Volatility:** Market prices fluctuate day-to-day and may be driven by temporary sentiment or liquidity effects, giving noisy leverage signals.

ii. **Market distortion on small or illiquid stocks:** For thinly traded equity, market value can be unrepresentative.

c) Proceeds raised = ₦2.5 × 50 million = ₦125 million

$$\text{Ex rights price} = \frac{[₦2.5 + (2 \times ₦4)]}{3} = ₦3.5$$

Value of equity after rights issue = ₦3.5 × 150 million = ₦525 million

Value of debt after rights issue = (₦150 million - ₦125 million) × 0.90 = ₦22.5 million

$$\text{Gearing} = \frac{22.5 \text{ million}}{525 \text{ million}} = 4.29\%$$

Examiner's Report

This question tests financial gearing using book values and market values bases and the evaluation of the approaches.

About 75% of the candidates attempted this question.

About 30% of the candidates scored above 50% of marks allotted.

Candidates' commonest pitfall is the main challenge was part (7c), particularly the calculation of the ex-rights price, which many candidates either avoided or answered incorrectly.

Candidates are admonished to study to understand basic concepts in financial management fully.

GENERAL COMMENT:

Candidates writing this paper are advised to pay particular attention to the details and applications of each concept, technique, approach covered under this subject, as they will be required for good performance in Strategic Financial Management at the Professional level of the examination.

Marking guide

Question Number	Question Component	Question Requirement	Total Marks Allotted
7	a.	Calculating the gearing (that is, debt/equity) of ZK Plc at 31 March 2025, using both i. Book values; and ii. Market values	3 marks
	b.	i. The weaknesses; and ii. The benefits Of the two methods used to calculate gearing in requirement (a) above	6 marks
	c.	To calculate the gearing at ZK Plc in market value terms, immediately after the rights issue and redemption of debts.	5 marks
		Total	15 marks

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – NOVEMBER 2025

PUBLIC SECTOR ACCOUNTING & FINANCE

EXAMINATION INSTRUCTIONS

PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER

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

THURSDAY, NOVEMBER 20, 2025

DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

SKILLS LEVEL EXAMINATION – NOVEMBER 2025

PUBLIC SECTOR ACCOUNTING & FINANCE

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

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

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

Tadepe State Government is one of the 26 state governments of Federal Republic of Wazobia. The state government adopted Treasury Single Accounting (Direct method) and prepares its accounts using IPSAS accrual basis.

There have been wide-spread rumours of fraud since the retirement of the Accountant-General of the State, about two years ago. However, the rumours were not substantiated by adequate information. The Commissioner of Finance of the State invited you to his office as the new Accountant-General of the State and handed over some of the financial data from treasury department to you as detailed below:

The trial balance for the year ended December 31, 2023, is as follows:

	Debit	Credit
	₦'million	**₦'million**
Property, plant and equipment		
Motor vehicles	15,000	
Land and building (land is ₦15 billion)	60,000	
Furniture	1,500	
Equipment	7,500	
Plant and machinery	15,000	
Receivables:		
Rates	300	
Licenses and fees	180	
Rent of government property	150	
Prepayment: Insurance	24	
Inventories: Office stationery	12	
Cash and cash equivalents	48	
Acc. prov. for depreciation PPE:		
Motor vehicle		3,000
Building		6,000
Furniture		108
Equipment		75
Plant and machinery		1,500

Accrued expenses:		
Consultancy		45
Utility bill		27
Capital grant from the Federal Government		450
Reserves		90,000
Accumulated net surplus/ (deficit)	1,491	
Total	**101,205**	**101,205**

The following transactions took place in the Office of the Accountant-General for the year ended December 31, 2024.

(i) Listed below are the revenue and expenditure items for the year ended December 31, 2024

NCOA	Description	₦'million
30040	Personnel emoluments	55,230
30050	Ministry of Finance	39,300
20030	Licences and fees	390
20050	Rates	450
20060	Rent of government property	480
20040	Sale of land	234
30060	Ministry of Education	132
30030	Consolidated revenue fund charges	318
20010	Statutory allocation from Federal Government	148,500
20020	State internally generated revenue	24,690
20080	Other grants	1,680
20070	Share of value added tax	72
30020	Office of the Secretary to the Government	99
30070	Ministry of health	261
20090	Miscellaneous receipts	183
30080	Agriculture and water resources	126
30090	Ministry of Works and Housing	6,438
30100	Ministry of Commerce and Industry	114
30130	Other charges	33
30120	Miscellaneous	654
40000	Capital expenditure	786
30110	Ministry of Local Government and Chieftaincy Affairs	42

(ii) Code 2 is used as prefix for revenue, 3 for recurrent expenditure and 4 for capital expenditure.

(iii) Preliminary investigations carried out revealed the following irregularities, which occurred and were discovered within the year:

- Included in the payments of the expenses under Ministry of Health were various duplicated vouchers amounting to ₦21 million;

- There were some falsifications in the bills for items bought for the provision of water under other charges. The total discrepancies amounted to ₦9 million.

(iv) The following agreed revenue demand notices were sent to the indigenes of the State during the year.

Details	₦'million
Local licences and fees	450
Local rates	555
Rent on state government property	516

(v) Included in the payments under works and housing is the cost of motor vehicles of ₦75 million while medical equipment costing ₦105 million was included in Ministry of Health expenses.

(vi) Included in the payments under works and housing is the cost of land including construction of access roads, certificate of occupancy, etc, amounting to ₦300 million. The land was acquired by the State Government and sold to local prospective land owners at a cost of ₦1,560,000 per plot. The land consists of 200 standard plots for the construction of houses of their choice. Only 150 plots were fully subscribed and paid for during the year.

(vii) Included in the payments under Ministry of Finance is the cost of office stationery of ₦75 million, while the value of office stationery based on inventory sheet as at December 31, 2024 was ₦19.5 million.

(viii) Capital grant from the Federal Government was received on December 31, 2023 and utilised in 2024.

(ix) The capital expenditure paid during the year was for the acquisition of land for the new state general hospitals.

(x) Some of the accounting policies for depreciation adopted by the government include the following depreciation rates:

	%
Motor vehicle	20
Building	2
Furniture	10
Equipment	15
Plant and machinery	15

Note: All non-current assets were purchased at the beginning of the year.

(xi) The following expenses were incurred, but not settled as at end of the year.

	₦'million
Consultancy (Finance department)	45
Utility (Other charges)	18
Repairs and maintenance (Works and housing)	27
Salaries and wages (Personnel department)	69
Insurance (Finance department)	16.5

You are required to prepare:

(a) The journal entries to record the loss of fund. (2 Marks)

(b) The statement of financial performance for the year ended December 31, 2024. (14 Marks)

(c) The statement of financial position as at December, 31 2024 (14 Marks)

(Total 30 Marks)

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

QUESTION 2

(a) Accountability is an obligation to answer for the execution of one's assigned responsibilities. It is the requirement to provide explanation about the stewardship of public money and how this money has been used.

Required:

Discuss **FIVE** strategies that must be adopted to promote accountability in public finance management in Nigeria. (10 Marks)

(b) International Organisation of Supreme Audit Institutions (INTOSAI) is an autonomous, independent and non-political organisation that serves as a global umbrella for the external government audit community. INTOSAI is composed of the Supreme Audit Institutions (SAIs) from over 185 countries. Its main goals are to promote good governance, transparency, accountability and the efficient use of public resources, through the development of professional auditing standards and capacity building for SAIs.

Required:

(i) Identify and explain the **FOUR** codes of ethics of INTOSAI. (4 Marks)

(ii) Identify **SIX** basic postulates for the auditing standards of INTOSAI. (6 Marks)

(Total 20 Marks)

QUESTION 3

(a) Identify the disclosures to be made by an entity in respect of social benefits as provided by IPSAS 42 - Social Benefits. (10 Marks)

(b) Kando State has remained devastated by series of bandit attacks for about 8 months of year 2023. Many of the inhabitants have become displaced and live in persistent fear. This led to the concerns of the State government to address the challenges brought about by the menace. To this end, three Internally Displaced Persons' (IDP) camps were created to cater for the wellbeing of those displaced from various villages and towns.

Food items, bedding and sanitation materials were procured for the IDPs. In order to see that controls are exercised at the camps; the following eligibility criteria were established:

(i) That all the IDPs in the various camps are duly registered; and
(ii) That all the IDPs have their NIN as proof of being Nigerians.

The following cost estimates and donations were made to the three IDP camps:

S/N	Details	₦'000
(i).	Bedding materials procured for IDP camps	23,500
(ii)	Salaries of IDP camps personnel	16,200
(iii)	Food items donated by Red Cross Society	6,500
(iv)	Procurement of sanitation materials	12,500
(v)	Food items donated by United Nations Development Programme (UNDP)	20,500

The expenses were paid and all items were duly distributed to the IDP camps in 2024.

Required:
Record the transactions of Kando State using journal entries. (10 Marks)
(Total 20 Marks)

QUESTION 4

(a) Budgeting by public sector entities is an integral part of their activities. Infact, when the budget is not approved, expenditure can only be incurred through the issuance of provisional expenditure general warrant.

Required:
Identify and explain **FIVE** uses of budget in the public sector. (10 Marks)

(b) Okoko State Governor set up poultry farming in order to meet one of the promises he made to the electorates when he was campaigning for the governorship position. He is however, apprehensive about the viability of the project and its ability to finance itself in view of the increasing production cost. The expected cash-in-hand as at January 1, 2026, is ₦13,000,000.

The following information concern the budgeted sales and purchases of the farm:

	Sales budget ₦'000	Purchases budget ₦'000
October 2025	300,000	-
November 2025	250,000	150,000
December 2025	500,000	350,000
January 2026	400,000	250,000
February 2026	420,000	350,000
March 2026	450,000	400,000

Analysis of records shows that debtors settle according to the following pattern
50% within the month of sale
30% in following month
20% in the second month

All purchases are on credit. Past experience shows that 80% of the purchase costs are settled in the month of transaction and the balance in the following month. Overhead costs of 75% of the purchases of the month will have to be paid monthly. Monthly allocation of ₦100 million will be given by the state government.

Required
Prepare the Okoko State Government's cash budget for the farm project for the first quarter (January to March) of the year 2026. (10 Marks)

(Total 20 Marks)

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

QUESTION 5

(a) Environmental sustainability refers to managing natural resources responsibly to meet current needs, without compromising the ability of future generations to meet their own. It involves balancing ecological, economic and social goals to ensure a healthy planet for all.

Required:
Identify and explain **FIVE** key aspects and **FIVE** examples of environmental sustainability. (10 Marks)

(b) Sub-national governments can access the capital market to raise fund to finance investment opportunities that have potentials to accelerate growth and development in their jurisdictions.

Required:
Identify **FIVE** problems facing the state governments in financing projects through the capital market. (5 Marks)

(Total 15 Marks)

QUESTION 6

(a) Debt management is a key component of public finance management that enables the government to meet its financing needs at minimum costs and within acceptable levels of risk. One of the diagnostic tools that government uses in managing its debt portfolio is to annually conduct a Debt Sustainability Analysis (DSA).

Required:
Explain the term "Debt Sustainability Analysis", identifying **THREE** of its objectives and **FIVE** benefits. (10 Marks)

(b) Debt conversion is the exchange of monetary instruments e.g. promissory notes or par bonds for tangible assets or other financial instruments.

Required:
Identify **FIVE** objectives of debt conversion programme (5 Marks)

(Total 15 Marks)

QUESTION 7

(a) A business cycle is a cycle of fluctuations in the the Gross Domestic Product (GDP) around its long-term natural growth rate. It explains the expansion and contraction in economic activity that an economy experiences over time.

Required:
Identify and explain the **FIVE** phases of a typical business cycle. (10 Marks)

(b) The cost effectiveness analysis (CEA) is an approach for selecting among alternative lines of action in public sector organisations regarding their effectiveness in attaining specified objectives.

Required:
Identify the procedure of cost effectiveness analysis in the appraisal of public project. (5 Marks)

(Total 15 Marks)

SECTION A

SOLUTION 1

(a) **Tadepe State Government**

Journal entries to record the loss of fund

	DR ₦' million	CR ₦' million
Non-personal advances	30	
Ministry of Health		21
Other charges		9

Being fraudulent payment/overpayment made and discovered within the current financial year

(b) **Tadepe State Government**

Statement of financial performance for the year ended December 31, 2024

Code	Details	₦' million	₦' million
	Revenue		
20010	Statutory allocation from Federal Government		148,500.00
20020	Share of state internally generated revenue		24,690.00
20030	Licences and fees (Wk 1)		450.00
20040	Profit on sale of land		9.00
20050	Rates (Wk 1)		555.00
20060	Rent on local government property (Wk 1)		516.00
20070	Share of value added tax		72.00
20080	Other grants		1,680.00
20090	Miscellaneous receipts		183.00
	Capital grant from Federal Government		450.00
	Total revenue		**177,105.00**
	Expenditure		
30040	Personnel emoluments (Wk 2)	55,299.00	
30050	Ministry of Finance (Wk 2)	39,265.50	
30060	Ministry of Education	132.00	
30030	Consolidated revenue fund charges	318.00	
30080	Agriculture and water resources	126.00	
30020	Office of the Secretary to the Government	99.00	
30070	Primary health care department (Wk 2)	135.00	
30090	Ministry of Works and Housing (Wk 2)	6,090.00	
30100	Ministry of Commerce and Industry	114.00	
30130	Other charges (Wk 2)	15.00	
30120	Miscellaneous	654.00	
30110	Ministry of Local Government and Chieftaincy	42.00	
	Depreciation (Wk 3)		
	- Motor vehicles	3,015.00	
	- Building	900.00	
	- Furniture	150.00	
	- Equipment	1,140.75	
	- Plant and machinery	2,250.00	

Office stationery (Wk 4)	<u>67.50</u>	
Total expenditure		**<u>109,812.75</u>**
Surplus for the year		67,292.25
Accumulated net surplus/ (deficit) b/f		<u>(1,491.00)</u>
Accumulated net surplus/ (deficit) c/f		**<u>65,801.25</u>**

(c) **Tadepe State Government**

Statement of financial position as at December 31, 2024

Non-current assets	**Cost/ valuation ₦' million**	**Accum. Dep/Amort ₦' million**	**Carrying amount ₦' million**
Property, plant and equipment:(Wk 5)			
Motor vehicles	15,075.00	6,015.00	9060.00
Land and building (land is ₦ 15billion)	60,000.00	6,900.00	53,100.00
Land for primary health centers	786.00		786.00
Furniture	1,500.00	258.00	1,242.00
Equipment	7,605.00	1,215.75	6,389.25
Plant and machinery	<u>15,000.00</u>	<u>3,750.00</u>	<u>11,250.00</u>
Total	**<u>99,966.00</u>**	**<u>18,138.75</u>**	**81,827.25**
Current assets			
Receivables:			
Rates		405.00	
Licenses and fees		240.00	
Rent of state government property		186.00	
Non-personal advance		30.00	
Inventories-Office stationeries		19.50	
Investment in land		75.00	
Cash and cash equivalents (Wk 6)		<u>73,194.00</u>	
Total current assets			<u>74,149.50</u>
Total assets			**<u>155,976.75</u>**
Net assets/ equity			
Reserves			90,000.00
Net surplus			**<u>65,801.25</u>**
Total net assets/equity			**155,801.25**
Current liabilities			
Accrued expenses:			
Consultancy		45.00	
Utility bill		18.00	
Salaries and wages		69.00	
Repairs and maintenance		27.00	
Insurance		<u>16.50</u>	
Total current liabilities			<u>175.50</u>
Total equity and liabilities			**<u>155,976.75</u>**

Workings

Wk 1: Analysis of receipts transferred to statement of performance (SFP)

Details	**Licences and fees**	**Rates**	**Rent of government property**
	₦' million	**₦' million**	**₦' million**
Cashbook	390	450	480
Receivables b/f	(180)	(300)	(150)
	210	150	330
Receivables c/f	240	405	186
Transfer to SFP	**450**	**555**	**516**

Wk 2: Analysis of expenses charged to SFP

Details	**Works and housing**	**Health**	**Finance**	**Personnel**	**Other charges**
	₦' million	**₦' million**	**₦' million**	**₦' million**	**₦' million**
Cashbook	6,438	261	39,300	55,230	33
Motor vehicles	(75)				
Cost of land	(300)				
Cost of medical equipment		(105)			
Office stationeries			(75)		
Net payment	6,063	156	39,225	55,230	33
Accruals b/f					
Consultancy			(45)		
Utility					(27)
	6,063	156	39,180	55,230	6
Prepayment b/f					
Insurance			24		
Accruals c/f					
Consultancy			45		
Utility					18
Repairs and maintenance	27				
Salaries and wages				69	
Insurance			16.5		
	6,090	156	39,265.50	55,299	24
Duplication/falsification		(21)			(9)
Balance charged to SFP	**6,090**	**135**	**39,265.50**	**55,299**	**15**

Wk 3: Calculation of depreciation charged to SFP

Details	Motor vehicles ₦' million	Building ₦' million	Furniture ₦' million	Equipment ₦' million	Plant and machinery ₦' million
Cost as at 1/1/24	15,000	45,000	1,500	7,500	15,000
Additions	75			105	
Cost as at 31/12/24	15,075	45,000	1,500	7,605	15,000
Depreciation rates	20%	2%	10%	15%	15%
Charged to SFP	**3,015**	**900**	**150**	**1,140.75**	**2,250**

Wk 4: Office stationery charged to SFP

Details	₦' million
Bal as at 1/1/24	12
Additions	75
	87
Bal as at 31/12/24	(19.5)
Amount charge to SFP	**67.5**

Wk 5: Property, plant and equipment schedule

Details	Motor vehicles ₦' million	Building ₦' million	Furniture ₦' million	Equipment ₦' million	Plant and machinery ₦' million
Cost as at 1/1/24	15,000	45,000	1,500	7,500	15,000
Additions	75			105	
Cost as at 31/12/18	**15,075**	**45,000**	**1,500**	**7,605**	**15,000**
Depreciation rate per annum	20%	2%	10%	15%	15%
Acc. Dep. as at 1/1/24	3,000	6,000	108	75	1,500
Depreciation charged	3,015	900	150	1,140.75	2,250
Acc. Dep. as at 31/12/24	6,015	6,900	258	1,215.75	3,750
Carrying amount	**9,060**	**38,100**	**1,242**	**6,389.25**	**11,250**

Wk 6: Cashbook for the year ended December 31, 2024

Details	₦' million	₦' million
Balance b/f		48
Receipts		
Statutory allocation from Federal Government		148,500
Share of state internally generated revenue		24690
Licences and fees		390
Sale of land		234
Rates		450
Rent of government property		480
Share of value added tax		72
Other grants		1,680
Miscellaneous receipts		183
Total receipts		**176,727**
Payments		
Personnel emolument	55,230	
Ministry of Finance	39,300	
Ministry of Education	132	
Consolidated revenue fund charges	318	
Agriculture and water resources	126	
Office of the Secretary	99	
Ministry of Health	261	
Ministry of Works and Housing	6,438	
Ministry of Commerce and Industry	114	
Other charges	33	
Miscellaneous	654	
Capital expenditure	786	
Ministry of Local Government and Chieftaincy Affairs	42	
Total payments		**103,533**
Balance c/f		**73,194**

Examiner's report

The question is in three parts. Part (a) of the question tests candidates' knowledge on the preparation of journal entries to record loss of government fund. Parts (b) and (c) require the candidates to prepare statements of financial performance and position.

All the candidates attempted the question and their performance was below average

The common pitfalls were the inability of the candidates to prepare journal entries to record loss of government fund.

Candidates are advised to have adequate knowledge of the relevant provisions of the syllabus and to make use of the Pathfinder and the Study Text of the Institute for better performance in the Institute's future examinations.

Marking guide

		Marks	Marks
(a)	**Journal entries**		
	Title	¼	
	Entries	¾	
	Narration	1	2
(b)	**Statement of financial performance**		
	Title	¼	
	Correct calculation of total revenue	2¾	
	Correct calculation of total expenditure	4¾	
	Correct calculation of net surplus for the year	½	
	Accumulated net surplus/ (deficit) b/f	¼	
	Correct calculation of surplus carried forward	½	
	Workings		
	Correct calculation of income to be recognised during the year.	¾	
	Correct calculation of expenses to be charged during the year.	2½	
	Correct calculation of depreciation charges for the year .	1¼	
	Calculation of office stationeries to be charged during the year	½	14
(c)	**Statement of financial position**		
	Title	¼	
	Correct calculation of total non-current assets	5	
	Correct calculation of total current assets	2	
	Correct calculation of total assets	¼	
	Correct calculation of total current liabilities/ total liabilities.	1½	
	Correct calculation of reserves and net surplus	½	
	Correct calculation of total assets and equity	½	
	Workings		
	Property, plant and equipment schedule		
	Correct calculation of cost at the end of the year.	1¼	
	Correct calculation of accumulated depreciation at the year end.	1¼	
	Adjusted cashbook		
	Recognition of balance b/f	¼	
	Correct calculation of total receipts	½	
	Correct calculation of total payments	½	
	Correct calculation of closing balance	¼	14
	Total		**30**

SOLUTION 2

(a) To further promote accountability in public sector finance management in Nigeria the following strategies are canvassed:

(i) Accountability need to be integrated with all aspects of public sector finance management in order to preserve the public trust in government and its officials. All persons in positions of public leadership must demonstrate moral leadership and leadership by example. Anybody who has responsibility to manage any aspect of the public's business has to show accountable leadership.

(ii) To make democracy and democratic accountability work, there must be credible elections where the people are allowed to freely and transparently choose their political leaders.

(iii) It is essential for the judiciary to be strengthened and made truly independent. One way of achieving this is by ensuring the financial autonomy of the judiciary.

(iv) Whistle blowing should be encouraged in the public sector whereby any public official who encounter mismanagement or wrong doing in the conduct of government business may blow the whistle by taking the case to the public arena. The prospect that somebody may go public can deter some officials contemplating wrong doing.

(v) All unethical and corrupt practices should be exposed, as much as possible, while those who indulge in them should be- promptly and severely punished in accordance to the law. To this end, there should be full implementation of the Freedom of Information Act (FOIA) so as to promote openness and feedback in public governance and management.

(vi) The use of civil society groups and the mass media as means of strengthening accountability is still rather under developed in Nigeria. As such, it will advance the cause of public accountability in no small way if the development and growth of civil society organisations (CSO) are encouraged in the country.

(vii) There should be strict compliance with due process and public procurement procedure as spelt in the Public Procurement Act (2007), as doing this will help curb corrupt practices and instill financial discipline in budget implementation by the public bureaucracy. Moreover, there should also be strict adherence to the provisions of the Fiscal Responsibility Act.

(viii) The present method of secret declaration of assets by public officers leaves much to be desired. As such, there is need to institute a more open method of declaring assets, so as to afford the opportunity for patriotic citizens to scrutinise and report any incorrectly declared assets to the appropriate authorities.

(ix) All public organisations should be audited regularly and the release of such audit reports should be expeditious and timely. Cases of frequent delay of audit reports do not augur well for accountability and should be avoided.

(x) To make the Public Complaints Commission (PCC) more effective, it should be constitutionally conferred with enforcement powers.

(xi) All anti-graft bodies, such as, the EFCC, ICPC, etc. should be further strengthened by way of being adequately staffed, equipped and funded to make them more effective institutional mechanisms for fighting corruption. Furthermore, other law enforcement agencies notably the police should be strengthened, so as to build their capacity to detect, investigate, prosecute and even deter or prevent corruption.

(xii) There is need for ethical reawakening through public ethical training and reorientation of public officers and members of the larger society to help them rediscover the traditional African virtues of honesty, integrity and hardwork. Since citizens can no longer afford to be passive onlookers while corrupt public officials loot the national treasury, they should endeavour to be proactive in enforcing public accountability.

(xiii) The immunity clause should be expunged from the Nigerian constitution. By so doing, political leaders who are suspected for corrupt practices can be prosecuted while in office. Furthermore, those who rig elections should be prosecuted in accordance with the law as a way of creating some deterrence. A special electoral court should be established in this regard.

(b) Code of ethics and basic postulates for the auditing standards

(i) Codes of ethics

- **Integrity**: Auditors have a duty to adhere to high standards of behaviour in the course of their work and in their relationships with the staff of audited entities.
- **Independence, objectivity and impartiality:** Personal or external interests should not impair the independence of auditors. There is a need for objectivity and impartiality in the work and the reports, which should be accurate and objective. Conclusions in opinions and reports should be based exclusively on evidence obtained and assembled in accordance with the SAI's auditing standards.
- **Professional secrecy:** Auditors should not disclose information obtained in the auditing process to third parties, except for the purposes of meeting the SAI's statutory responsibilities.

- **Competence:** Auditors must not undertake work which they are not competent to perform.

(ii) **Basic postulates for the auditing standards**

- The Supreme Audit Institutions (SAI), that is, the Auditor General, should consider compliance with the INTOSAI auditing standards in all matters that are deemed material. Certain standards may not be applicable to some of the work done by SAIs, including those organised as Courts of Account, nor to the non-audit work conducted by the SAI. The SAI should determine the applicable standards for such work to ensure that it is of consistently high quality.
- The SAI should apply its own judgment to the diverse situations that arise in the course of government auditing.
- With increased public consciousness, the demand for public accountability of persons or entities managing public resources has become increasingly evident so there is a need for the accountability process to be in place and operating effectively.
- Development of adequate information, control, evaluation and reporting systems within the government will facilitate the accountability process. The management is responsible for correctness and sufficiency of the form and content of the financial reports and other information.
- Appropriate authorities should ensure the promulgation of acceptable accounting standards for financial reporting and disclosure relevant to the needs of the government and audited entities should develop specific and measurable objectives and performance targets.
- Consistent application of acceptable accounting standards should result in the fair presentation of the financial position and the results of operations.
- The existence of an adequate system of internal control minimises the risk of errors and irregularities. It is the responsibility of the audited entity to develop adequate internal control systems to protect its resources. It is also the obligation of the audited entity to ensure that controls are in place and functioning to help ensure that applicable statutes and regulations are complied with and that probity and propriety are observed in decision-making. The auditor should submit proposals and recommendations where controls are found to be inadequate or missing.

- Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit.
- All audit activities should be within the SAI's audit mandate.
- Legislative enactments would facilitate the co-operation of audited entities in maintaining and providing access to all relevant data necessary for a comprehensive assessment of the activities under audit.
- SAIs should work towards improving techniques for auditing the validity of performance measures.
- SAIs should avoid conflict of interest between the auditor and the audited entity.

Examiner's report

The question is in two parts. Part (a) of the question requires the candidates to discuss strategies that must be adopted to promote accountability in the public sector finance management in Nigeria. Part (b) is in two sections, section (i) requires the candidates to identify and explain the codes of ethics of International Organisation of Supreme Audit Institutions (INTOSAI), while section (ii) requires the candidates to identify basic postulates for the auditing standards of INTOSAI.

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

The commonest pitfall was the inability of the candidates to demonstrate proper understanding of the requirements of the question.

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

Marking guide

		Marks	Marks
(a)	**Strategies that must be adopted to promote accountability in the public sector**		
	Any five strategies		10
(b).	**Code of ethics and basic postulates for the auditing standards**		
(i).	Identification of four code of ethics concerns	2	
	Explanation of the code of ethics identified	2	
(ii).	Identification of six postulates auditing standards	6	10
	Total		**20**

SOLUTION 3

(i) Disclosures to be made in respect of social benefits as provided by IPSAS 42- Social Benefits:

An entity shall disclose information that:

(i) Explains the characteristics of its social benefit schemes; and

(ii) Explains the demographic, economic and other external factors that may affect its social benefit schemes.

In order to meet the requirements above, an entity shall disclose:

(i) Information about the characteristics of its social benefit schemes, including:

- The nature of the social benefits provided by the schemes (e.g. retirement benefits, unemployment benefits, child benefits);
- Key features of the social benefit schemes, such as a description of the legislative framework governing the schemes, a summary of the main eligibility criteria that must be satisfied to receive the social benefits and a statement about how additional information about the scheme can be obtained; and
- A description of how the schemes are funded, including whether the funding for the schemes is provided by means of a budget appropriation, a transfer from another public sector entity or by other means.

(ii) If a scheme is funded (whether in full or in part) by social contributions, the entity shall provide:

- A cross reference to the location of information about those social contributions and any dedicated assets (where this information is included in the entity's financial statements); or
- A statement regarding the availability of information on those social contributions and any dedicated assets in another entity's financial statements and how that information can be obtained.
- A description of the key demographic, economic and other external factors that influence the level of expenditure under the social benefit schemes. This description may be presented in aggregate, where the same demographic, economic and other external factors impact several social benefit schemes in a similar manner;
- The total expenditure on social benefits recognised in the statement of financial performance, analysed by social benefit scheme; and
- A description of any significant amendments to the social benefit schemes made during the reporting period, along with the description of the expected effect of the amendments. Amendments to a social benefit scheme include, but not limited to:
  - ➢ Changes to the social benefits provided; and
  - ➢ Changes to the eligibility criteria, including the individuals and/or households covered by the social benefit scheme.

(b) **Kando State Government**

Preparation of journal entries for three IDP camps

	Details	DR ₦'000	CR ₦'000
2023			
	Social benefits expenses	23,500	
	Payables		23,500
	To recognise social benefits (bedding materials) as well as liability		
	Social benefits expenses	16,200	
	Payables		16,200
	To recognise social benefits (salaries of IDP personnel) as well as liability		
	Assets (Inventory of food items)	6,500	
	Donation		6,500
	To recognise inventory (food items) received from Red Cross Society		
	Social benefits expenses	12,500	
	Payables		12,500
	To recognise social benefits (sanitation materials) as well as liability		
	Assets (food items)	20,500	
	Donation		20,500
	To recognise inventory (food items) received from UNDP		
2024	Payables	23,500	
	Bank		23,500
	Being payment of liability (bedding materials)		
	Payables	16,200	
	Bank		16,200
	Being payment of liability (salaries of personnel)		
	Social benefit expenses	6,500	
	Inventory		6,500
	Being delivery of inventory of food items from Red Cross Society to IDPs		
	Payables	12,500	
	Bank		12,500
	Being payment of liability (sanitation materials)		
	Social benefit expenses	20,500	
	Inventory		20,500
	Being delivery of inventory of food items form UNDP to IDPs		

Examiner's report

The question is in two parts. Part (a) of the question requires the candidates to identify the disclosures to be made by an entity in respect of social benefits as provided by IPSAS 42 - Social Benefits, while part (b) of the question requires the candidates to record cost estimates and donations that were made to some Internally Displaced Persons (IDP), using journal entries.

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

The commonest pitfall was the inability of the candidates to properly identify the disclosures to be made by an entity in respect of social benefits as provided by IPSAS 42 - Social Benefits.

Candidates are advised to read widely and ensure they have adequate knowledge of the relevant sections of the syllabus. They should also make use of the Pathfinder and the Study Text of the Institute and other relevant learning materials on this aspect of the syllabus for better performance in future examinations.

Marking guide

		Marks	Marks
(a)	**Disclosures to be made as provided by IPSAS 42- Social Benefits**		
	Identification of ten disclosures		10
(b)	**Preparation of journal entries for three IDP camps**		
	Correct journal entries	5	
	10 correct narrations	5	10
	Total		20

SOLUTION 4

(a) **Uses of budget**

Budgets are used for the following:

(i) **Planning:** Budgets are plans in which monetary values are assigned to what are to be achieved in a determinable future time, for example, a year.

(ii) **Communication:** Budgets assist in communicating horizontally and vertically. When budgets are being prepared, individuals, groups, communities and associations will inform government about their areas of interests. This is upward communication. When the budget is approved, government communicates the details to members of the public and publishes it in selected newspapers. This is an example of downward communication.

(iii) **Motivation:** Government motivates its staff through promotions and improved conditions of service, for assisting in the full and successful implementation of the budget.

(iv) **Standard for measurement of performance:** Since a budget is a target, it is a measure of performance. What is achieved is recorded and compared with the target. The process of implementation draws management attention to problematic areas.

(v) **Evaluation of economic and social policy:** Budgets are used to solve social problems of inflation and unemployment.

(vi) **Cost reduction technique project appraisal:** Evaluation of operations and procedures may result in cost savings.

(b) **Okoko State Government**

Farm Project

Cash budget for January to March 2026

	January	February	March
Receipts	**₦'000**	**₦'000**	**₦'000**
Bal B/F	13,000	55,500	(7,000)
Sales –November 2025	50,000	-	-
Sales –December 2025	150,000	100,000	-
Sales – January 2026	200,000	120,000	80,000
Sales – February 2026	-	210,000	126,000
Sales –March 2026	-	-	225,000
Monthly allocation	100,000	100,000	100,000
(A) Total receipts	**513,000**	**585,500**	**524,000**
Payments			
Purchases- December 2025	70,000	-	-
Purchases- January 2026	200,000	50,000	
Purchases- February 2026	-	280,000	70,000
Purchases- March 2026	-	-	320,000
Overheads	187,500	262,500	300,000
(B) Total payments	**457,500**	**592,500**	**690,000**
(C) (Total receipts – Total payments)	**55,500**	**(7,000)**	**(166,000)**

Examiner's report

The question is in two parts. Part (a) of the question requires candidates to identify and explain uses of budget in the public sector, while part (b) of the question deals with the preparation of state government cash budget.

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

The common pitfalls were the inability of some candidates to identify and explain the uses of budget in the public sector.

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

Marking guide

		Marks	Marks
a.	**Uses of budget**		
	Identification of five uses of budget	5	
	Explanation of uses of budget identified	5	10
b.	**Preparation of cash budget**		
	Title	1	
	Calculation of total receipts	4½	
	Calculation of total payments	3	
	Surplus (Total receipts – Total payments)	1½	10
	Total		**20**

SOLUTION 5

(a) **Key aspects of environmental sustainability include:**

(i) **Conserving natural resources:** This involves using resources like water, forests and minerals at a rate that allows for replenishment and avoids depletion.

(ii) **Protecting ecosystems:** Preserving biodiversity, habitats and ecological processes to maintain healthy and resilient natural systems.

(iii) **Reducing pollution:** Minimising the release of harmful substances into the environment, including air and water pollution.

(iv) **Combating climate change:** Reducing greenhouse gas emissions, transitioning to renewable energy sources and adapting to the impacts of climate change.

(v) **Promoting sustainable consumption and production:** Encouraging responsible consumption patterns and production methods that minimise environmental impact.

(vi) **Supporting sustainable development:** Integrating environmental considerations into economic and social development planning.

Examples of environmental sustainability in practice:

(i) **Renewable energy:** Utilising solar, wind and other renewable energy sources to reduce reliance on fossil fuels.

(ii) **Sustainable agriculture:** Employing agricultural practices like crop rotation, no-till farming, and integrated pest management to protect soil health and minimise pesticide use.

(iii) **Sustainable forestry:** Implementing selective logging and reforestation practices to ensure long-term forest health.

(iv) **Waste reduction and recycling:** Reducing waste generation through conscious consumption choices and diverting materials from landfills through recycling programmes.

(v) **Water conservation:** Implementing water-efficient technologies and practices to reduce water consumption and protect water resources.

(vi) **Green building:** Designing and constructing green buildings that minimise energy and water consumption, usage sustainable materials and promoting healthy indoor environments.

(b) **Problems facing state governments in financing projects through capital market**

The problems include:

(i) Poor accounting system on the part of the state government;

(ii) Lack of qualified personnel to effectively evaluate, appraise and monitor projects;

(iii) Poor performance of existing state government projects, which act as disincentive to potential investors;

(iv) Inability of government to introduce and market viable projects to the investing public;

(v) Lack of awareness of the potential investment by the investing public; and

(vi) Preference for short-term investments by the public.

Examiner's report

The question is in two parts. Part (a) of the question requires the candidates to identify and explain the key aspects of environmental sustainability with examples, while part (b) of the question requires the candidates to identify problems facing the state government in financing projects through the capital market.

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

The common pitfalls were the inability of the candidates to identify and explain the key aspects of environmental sustainability with examples, while in part (b) some of the candidates could not identify problems facing the state government in financing projects through the capital market.

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

Marking guide

		Marks	Marks
(a)	**Key aspects and examples of environmental sustainability include**		
	Identification of five key aspects	2½	
	Explanation of key aspects identified	2½	
	Identification of five examples	2½	
	Explanation of examples identified	2½	10
(b)	**Problems facing state governments in financing projects through capital market**		
	Identification of five problems		5
	Total		**15**

SOLUTION 6

(a) **Debt Sustainability Analysis (DSA)**

This is when government is able to service all its debts without undue stress or adjustments to its revenue and expenditure balances in the medium to long term. Debt is sustainable when government's current and future streams of income cover expenditure.

Objectives of DSA

(i) To evaluate government's ability to finance its programmes and at the same time service the ensuing debt without undue pressure on its revenue stream.
(ii) To reduce chances of excessive increase of debt.
(iii) To recommend for a borrowing that limits risk of debt distress.
(iv) To help guide countries and donors in mobilising critical financing for low-income countries.

Benefits of DSA

(i) To integrate fiscal and debt issues more effectively into economic analysis.
(ii) To make comparison across countries, as it raises the profile of fiscal and debt issues in low-income countries.
(iii) To dissuade policy makers from pursuing policies that deliver short–term benefits at the cost of creating unsustainable debts in the future.
(iv) To allow policy makers to identify the economic sectors that are responsible for excessive debt accumulation.
(v) To assess the impact of and response to powerful technological and demographic changes that constrains government policies in the long-run.
(vi) To quantify the fiscal impact of population aging, immigration and other long–run population changes.

(b) **Objectives of debt conversion programme**

As stated in the guidelines on debt conversion programme for Nigeria, the scheme is established to:

(i) Reduce Nigeria's external debt service, thereby reducing the stock of outstanding foreign currency-denominated debt in order to alleviate debt service burden;
(ii) Improve and make economic environment attractive to foreign investors;
(iii) Serve as additional incentive for repatriation of flight capital;
(iv) Stimulate employment-generating investments in industries with significant dependence on local input;
(v) Encourage the creation and development of export-oriented industries, thereby diversifying the export base of the Nigerian economy; and
(vi) Increase access to appropriate technology, external market and other benefits associated with foreign investment.

Examiner's report

The question is in two parts. Part (a) of the question requires the candidates to explain the term "Debt Sustainability Analysis", its objectives and benefits, while part (b) asks the candidates to identify the objectives of debt conversion programme.

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

The common pitfalls were the inability of some candidates to explain the term "Debt Sustainability Analysis", its objectives and benefits. Also, some candidates could not identify the objectives of debt conversion programme.

Candidates are advised to make use of the Pathfinder and the Study Text of the Institute for better performance in the future examinations.

Marking guide

		Marks	Marks
a.	**Debt Sustainability Analysis (DSA)**		
	Explanation of DSA	2	
	Identification of three objectives	3	
	Identification of five benefits	5	10
b.	**Debt conversion programme**		
	Identification of five objectives		5
	Total		**15**

SOLUTION 7

(a) **Phases of the business cycle**

(i) **Expansion:** The first stage in the business cycle is expansion. In this stage, there is an increase in positive economic indicators such as employment, income, output, wages, profits, demand and supply of goods and services. Debtors are generally paying their debts on time; the velocity of the money supply is high and investment is high. This process continues as long as economic conditions are favourable for expansion.

(ii) **Peak:** The economy then reaches a saturation point, or peak, which is the second stage of the business cycle. The maximum limit of growth is attained. The economic indicators do not grow further and are at their highest. Prices are at their peak. This stage marks the reversal point in the trend of economic growth. Consumers tend to restructure their budgets at this point.

(iii) **Recession:** The recession is the stage that follows the peak phase. The demand for goods and services starts declining rapidly and steadily in this phase. Producers do not notice the decrease in demand instantly and go on producing, which creates a situation of excess supply in the market. Prices tend to fall. All positive economic indicators such as income, output, wages, etc., consequently start to fall.

(iv) **Depression:** There is a commensurate rise in unemployment. The growth in the economy continues to decline and as this fall below the steady growth line, the stage is called a depression.

(v) **Trough:** In the depression stage, the economy's growth rate becomes negative. There is further decline until the prices of factors, as well as the demand and supply of goods and services, contract to reach their lowest point. The economy eventually reaches the trough. It is the negative saturation point for an economy. There is extensive depletion of national income and expenditure.

(vi) **Recovery:** After the trough, the economy moves to the stage of recovery. In this phase, there is a turnaround in the economy, and it begins to recover from the negative growth rate. Demand starts to pick up due to low prices and, consequently, supply begins to increase. The population develops a positive attitude towards investment and employment and production starts increasing. Employment begins to rise and, due to accumulated cash balances with the bankers, lending also shows positive signals. In this phase, depreciated capital is replaced, leading to new investments in the production process. Recovery continues until the economy returns to steady growth levels.

(b) **Procedure of cost effectiveness analysis in the appraisal of a public project**

The procedures are:

(i) **Objective definition:** The objective is to determine the actual target. What are the projects?

(ii) **Sourcing and assessment of alternatives:** After the public project has been determined, what are the cost alternatives that are available? The information in this regard must be collated.

(iii) **Selection of measure to be adopted:** The types of approaches which will enable management to achieve the set objectives within a reasonable period of time must be determined.

(iv) **Development of cost estimates:** Cost estimates should be collated, addressing the issues of what to include and how to measure them.

(v) **Taken the final decision:** Having ascertained the adequacy of cost effectiveness measures and relying on the information on cost estimates, the public sector organisation determines the final decision, based on the principle of least cost.

Examiner's report

The question is in two parts. Part (a) of the question requires candidates to identify and explain the phases of a typical business cycle. Part (b) of the question requires the candidates to identify the procedure of cost effectiveness analysis in the appraisal of public project.

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

The commonest pitfall was the inability of many candidates only to identify and explain the phases of a typical business cycle. Also, only few candidates were able to identify the procedure of cost effectiveness analysis in the appraisal of public project.

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

Marking guide

		Marks	Marks
a.	**Phases of the business cycle**		
	Identification of any five phases	2½	
	Explanation of phases identified	7½	10
b.	**Procedure of cost effectiveness analysis in the appraisal of a public project**		
	Identification of procedures		5
	Total		**15**