



**THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF NIGERIA**

PATHFINDER

**MAY 2021 DIET
FOUNDATION LEVEL EXAMINATIONS**

Question Papers

Suggested Solutions

Marking Guides

and

Examiner's Reports

FOREWARD

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

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

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

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

NOTES

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

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
FOUNDATION LEVEL EXAMINATION – MAY 2021
FINANCIAL ACCOUNTING

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

SECTION A: MULTIPLE-CHOICE QUESTIONS (20 MARKS)

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

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

1. Which of the following is **NOT** correct about the definition of assets?
 - A. Resources which an entity must control
 - B. Resources which an entity must own
 - C. Resources which are expected to bring future benefits to an entity
 - D. Resources that their costs can be reliably measured
 - E. Resources for which liabilities arise from past events

2. Inventories are recognised at the net realisable value when this is lower than the cost price in order to satisfy the principle
 - A. Matching
 - B. Prudence
 - C. Accrual
 - D. Periodicity
 - E. Realisation

3. Which of the following is checked against a waybill to ensure that the goods ordered are the ones supplied?
 - A. Good received note
 - B. Purchase invoice
 - C. Purchase order
 - D. Store Issue voucher
 - E. Delivery note

4. Which of the following is **CORRECT** in respect of cash discount?
- A. Discount allowed is a deduction from trade payables
 - B. Discount received is a deduction from sales
 - C. Discount columns in cash book form part of the double entry
 - D. The total amount of discount on the debit side of cash book is an income
 - E. The total amount of discount on the credit side of cash book is discount received
5. A credit sale of ₦257,000 was recorded in the day book as ₦275,000. The effect is that
- A. Assets, liabilities and equity are understated
 - B. Assets, liabilities and equity are overstated
 - C. Assets and liabilities are overstated; no effect on equity
 - D. Assets and equity are overstated; no effect on liabilities
 - E. Equity and liabilities are understated; no effect on assets
6. Which of the following is the effect of a reduction in allowances for doubtful receivables?
- A. A reduction in gross profit
 - B. A reduction in profit for the period
 - C. A reduction in cash balance
 - D. Increase in profit for the period
 - E. Increase in cash balance
7. The bank balance in the books of Super on 1 April 2018 was ₦5,000,000 overdraft. The entity made a total payment of ₦13,116,300, the balance at 31 March 2019 was ₦8,145,600. How much cash was received by the entity during the year ended 31 March 2019?
- A. ₦ 9,970,700
 - B. ₦16,261,900
 - C. ₦18,116,300
 - D. ₦21,261,900
 - E. ₦26,261,900

8. An entity purchased an equipment for ₦20,000. The equipment was transported at ₦86, installation cost was ₦125, abnormal waste of materials was ₦15,000 and training cost of staff on the use of the machine was ₦255. How much should be recorded as the initial cost of the equipment?
- A. ₦20,000
 B. ₦20,086
 C. ₦20,125
 D. ₦20,211
 E. ₦20,466
9. Daoda purchased a piece of equipment for ₦930,000 on 1 September 2014. Depreciation was charged at 12.5% per annum on a straight-line basis from the date of purchase to 1 September 2018. The remaining useful life of the equipment was reviewed to 5 years at this date. The estimated residual value of the equipment was zero.
- Calculate the amount of depreciation charged to statement of profit or loss in respect of the equipment for the year ended 31 August 2019.
- A. ₦ 23,250
 B. ₦ 93,000
 C. ₦103,333
 D. ₦104,625
 E. ₦114,000
10. A business proprietor failed to maintain proper records, but you managed to ascertain that his opening capital, closing capital and drawings during the year were ₦225,000, ₦260,000 and ₦10,000 respectively. How much will be the profit during the period?
- A. ₦45,000
 B. ₦50,000
 C. ₦270,000
 D. ₦485,000
 E. ₦495,000
11. Ajani, Bala and Okon are in partnership sharing profit in ratio 5:4:2. During the period, the partnership made a profit of ₦18,200,000 after deducting partners' salary and interests on capital. Ajani and Bala guaranteed Okon minimum share of profit of ₦3,800,000. How much is Ajani's share of the profit?

- A. ₦4,472,727
- B. ₦6,400,000
- C. ₦6,618,181
- D. ₦7,781,818
- E. ₦8,000,000

12. In which of the following situations is partners' current accounts **NOT** required?

- A. First year of the partnership business
- B. Dissolution of partnership
- C. Change in partners' profit sharing ratio
- D. Admission of a partner
- E. Retirement of a partner

13. Which of the following is correct about the treatment of a partner with deficiency at the end of partnership dissolution?

- i. The partner may have to pay the whole deficiency
- ii. Insolvent partners' deficiency is borne by the solvent partners in the last agreed capital
- iii. Insolvent partners' deficiency is borne by the solvent partners in the profit or loss sharing ratio

- A. I and II
- B. II and III
- C. I and III
- D. I, II and III
- E. II

14. The following information relates to Owuro Enterprises

	₦
Opening inventory	124,000
Closing inventory	96,000
Purchases	2,972,100
Profit margin is 5%	

What is the gross profit for the period?

- A. ₦119,555
- B. ₦127,400
- C. ₦150,005
- D. ₦154,847
- E. ₦157,900

15. In accordance with IASS, IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*, which of the following is considered changes in accounting estimates?

- i. Changing the useful life of an asset
 - ii. Changing from cost model to revaluation model
 - iii. Change in the allowances for doubtful receivables
 - iv. Change from FIFO to weighted average for valuation of inventory
- A. I and II
 - B. I and III
 - C. II and III
 - D. II and IV
 - E. III and IV

16. Which of the following is **NOT** required to be disclosed under IAS 2, *Inventory*?

- A. Accounting policies adopted for measurement of inventory
- B. Physical count of inventory at the end of the period
- C. Amount of inventories recognised as expense during the period
- D. Carrying amount of inventories pledged as security for liabilities
- E. Carrying amount of inventories carried at fair value less cost of sale

17. When the statement of comprehensive income is prepared using nature of expenses method, the following information is disclosed, **EXCEPT**

- A. Gross profit
- B. Changes in inventories of finished goods
- C. Employee benefit expenses
- D. Depreciation and amortisation expenses
- E. Raw materials and consumables used

18. The following information relates to a limited liability company.

Authorised share capital of ₦650,000 of ₦0.50 each.
Issued and paid up capital of ₦376,000
Share premium of ₦234,000
The company paid dividends of 16 kobo per share

Calculate the total dividends paid

- A. ₦ 30,000
- B. ₦ 52,000
- C. ₦104,000
- D. ₦120,320
- E. ₦208,000

19. In preparing the profit or loss account of a sole trader, which of the following is deducted from goods available for sale to arrive at cost of sales?

- i. Inventory sold
- ii. Closing inventory
- iii. Lost inventory
- iv. Inventory withdrawn by owner

- A. I and II
- B. II and III
- C. II and IV
- D. I, II and III
- E. II, III and IV

20. Rent received in advance is

- i. Credit balance in rent account
- ii. Current asset in the statement of financial position
- iii. Liability in the statement of financial position
- iv. Debit balance in the rent account

- A. I and II
- B. I and III
- C. II and II
- D. II and IV
- E. III and IV

SECTION B: OPEN-ENDED QUESTIONS (80 MARKS)

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

QUESTION 1

a. Briefly explain the following fundamental accounting concepts used in the preparation of financial statements in accordance with IAS 1 – *Presentation of financial statement*

- i. Going concern (2 Marks)
- ii. Consistency of presentation (2 Marks)
- iii. Accrual (2 Marks)
- iv. Fair presentation (2 Marks)
- v. Substance over form (2 Marks)
- vi. Prudence (2 Marks)
- vii. Materiality (2 Marks)

- b. i. What is accounting standards? (2 Marks)
 ii. Explain the purpose of accounting standards (4 Marks)

(Total 20 Marks)

QUESTION 2

- a. The following is a summary of the cash book of Babagana Limited for the month of March 2019.

	₦'000		₦'000
Receipts	22,035	Balance b/f	18,415
Balance c/d	<u>8,310</u>	Payments	<u>11,930</u>
	<u>30,345</u>		<u>30,345</u>

All receipts are banked and payments made by cheque. On investigation, you discovered that:

- (i) Bank charges of ₦2,040,000 entered on the bank statement had not been entered in the cash book.
- (ii) Cheques drawn amounting to ₦4,005,000 had not been presented to the bank for payment.
- (iii) Cheques received amounting to ₦11,430,000 had been entered in the cash book and paid into the bank, but had not been credited by the bank until April, 2019.
- (iv) A cheque for ₦330,000 had been wrongly entered as a receipt in the cash book.
- (v) A cheque drawn had been overstated by ₦375,000.
- (vi) A cheque of ₦1,200,000 received had been returned by the bank. No adjustment had been made in the cash book.
- (vii) All dividends receivable are credited directly to the bank account. During March 2019, amounts totalling ₦930,000 were credited by the bank and no entries were made in the cash book.
- (viii) A cheque drawn for ₦90,000 had been incorrectly entered in the cash book as ₦990,000.
- (ix) The bank statement as at 31 March 2019 showed an overdraft of ₦17,430,000.

Required:-

- i. The adjustments required in the cash book (5 Marks)
- ii. Starting with balance as per bank statement, prepare a bank reconciliation statement as at March 31, 2019. (5 Marks)

- b. A book keeper extracted a trial balance and found that the credit side total exceeded the debit side by ₦5,500,000 and this amount was posted to a suspense account. It was subsequently discovered that the difference was caused by the following errors:
- (a) Sale of goods valued at ₦4,000,000 to F. Lola was posted to Felix Chukwu's account
 - (b) A purchase valued at ₦1,000,000 from Bada was posted to the debit of his account
 - (c) Sales returns book was undercast by ₦5,000,000
 - (d) Petty cash balance of ₦500,000 was omitted from the trial balance
 - (e) Cost of repairing plant ₦2,250,000 was charged to plant account as ₦200,000

You are required to prepare journal entries to rectify the errors. (10 Marks)

(Total 20 Marks)

QUESTION 3

- a. The following information was extracted from the books of Super Limited as at 1 July 2018

	₦
Cost:	
Property cost	6,000,000
Plant and machinery	2,419,000
Motor vehicles	585,000
Accumulated depreciation:	
Property	1,200,000
Plant and machinery	687,000
Motor vehicles	210,000

During the year ended 30 June 2019, the following transactions took place:

- (i) Additions to plant amounted to ₦231,000
- (ii) Plant which cost ₦415,500 with accumulated depreciation of ₦293,000 was sold for ₦129,000.
- (iii) The company bought a new car costing ₦61,500 and was given in a part-exchange allowance against an old car at a value of ₦15,871. The car that was being part exchanged originally cost ₦55,548 and had accumulated depreciation of ₦39,536.
- (iv) Depreciation is charged on PPE at the following rates:
 - Property 2% per annum straight line
 - Plant 20% per annum straight line
 - Motor vehicles 25% per annum reducing balance

Required:

- a. Calculate the gain or loss on disposal of plant and the old car. (5 Marks)
- b. Show the disclosure (Schedule of movement) under IAS 16-Property, Plant and Equipment in relation to the non-current assets for the year ended 30 June 2019. (15 Marks)

(Total 20 Marks)

QUESTION 4

Wakanda is an African-focused company in the sales of super-tech wrist watches with corporate logos. The wrist watches are purchased and sold in bulk on credit. The accountant is currently carrying out a reconciliation of the payables and receivables ledger control account balances which are ₦218,320,000 and ₦172,120,000 respectively to the total of the balances on the individual accounts in the payables and receivables ledgers, which are ₦197,660,000 and ₦156,134,000 respectively for the month of March 2019.

The following has been detected:

- (i) Cash received of ₦1,070,000 has been debited to the individual customer's account in the accounts receivable ledger.
- (ii) The total of discount received for the month, amounting to ₦17,150,000 has not been entered in the control account but has been entered in the individual ledger accounts.
- (iii) On listing-out, a supplier credit balance of ₦2,050,000 has been incorrectly treated as a debit.
- (iv) A cheque for ₦2,555,000 from a customer has been dishonoured. The correct double entry has been posted but the individual accounts have not been updated.
- (v) A petty cash payment to a supplier amounting to ₦630,000 has been correctly treated in the control account, but no entry has been made in the supplier's individual ledger account.
- (vi) A payment of ₦322,000 from a customer has been incorrectly entered in the accounts receivable ledger as ₦233,000.
- (vii) The purchases day book total for March has been undercast (understated) by ₦20,000,000.
- (viii) Total credit sales of ₦4,500,000 to an accountancy firm, TQ and Associates have been posted correctly to the ledger account but not recorded in the control account.
- (ix) Contras (set-offs) with the receivables ledger, amounting in the total to ₦20,040,000, have been correctly treated in the individual ledger accounts but no entry has been made in the control account.
- (x) Discounts allowed totalling ₦120,000 has not been entered in the control account.

Required:

- a. Prepare the Trade payable ledger control account and reconcile this to the sum total of the individual accounts in the trade payable ledger. (10 Marks)
 - b. Prepare the Trade receivable ledger control account and reconcile this to the sum total of the individual accounts in the trade receivable ledger. (10 Marks)
- (Total 20 Marks)**

QUESTION 5

- a. The nature and structure of business entities determine largely their accounting systems and processes.

On the basis of the above, you are required to explain seven advantages of a limited liability company over a sole proprietorship business. (14 Marks)
 - b. Outline **FOUR** uses of source documents in the process of producing financial information. (6 Marks)
- (Total 20 Marks)**

QUESTION 6

- a. "International Accounting Standards Board (IASB) Conceptual Framework describes the elements of financial statements as broad classes of financial effects of transactions and other events."
 - i. Explain **FIVE** elements of financial statements. (10 Marks)
 - ii. State **FOUR** models of measurement of the elements of financial statements. (2 Marks)
- b. Jayek Limited is a manufacturer of plastic buckets. On 1 January, 2018 Jayek Limited held 15,000 plastic buckets at ₦11,865,000. During the year ended 31 December 2018, Jayek Limited produced 120,000 plastic buckets, compared to a normal production level of 150,000 plastic buckets. 12,000 plastic buckets' inventories were held at 31 December 2018.

Production costs for the year were as follows:

	₦
Raw materials	42,000
Direct labour	2,000
Variable overheads	14,040
Fixed overheads	25,950

At the reporting date, net realisable value of the plastic buckets is higher than cost.

Required:

Using First-in-First-Out method within the context of IAS 2 *Inventory*, calculate the cost of plastic buckets sold during the period. (8 Marks)

(Total 20 Marks)

SOLUTION

PART 1 – MULTIPLE CHOICE QUESTIONS

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

MCQ Tutorials

7.

Cash book

	₦		₦'000
Cash received	26,261,900	Balance b/d	5,000,000
		Payment	13,116,300
		Balance c/d	8,145,600
	<u>26,261,600</u>		<u>26,261,600</u>

8. Determination of cost of equipment

	₦'000
Purchase cost	20,000
Transport cost	86
Installation cost	<u>125</u>
Initial cost of equipment	<u>20,211</u>

9. Computation of depreciation charged

Date		₦'000
1/4/2014	Cost	930,000
1/4/2014 - 31/8/2018	Accumulated depreciation $930,000 \times 12,5\% \times 4\text{yrs}$	<u>(465,000)</u>
1/4/2019	Carrying amount	<u>465,000</u>

Revised useful life 5 years
Revised depreciation $\frac{\text{₦}465,000}{5 \text{ years}}$ ₦93,000 per annum

10. Determination of profit for the period

	₦'000
Closing capital	260,000
Add drawings	<u>10,000</u>
	270,000
Less opening capital	<u>(225,000)</u>
Profit for the period	<u>45,000</u>

11. Share of distributable profits

	₦'000
Distributable profits	18,200
Allocate minimum guarantee to Okon	<u>(3,800)</u>
Balance due to Ajani and Bala	<u>14,400</u>
Ajani's share of the profit $\frac{5}{9} \times 14,400$	<u>8,000</u>

Note: $\frac{2}{11} \times \text{₦}18.2 \text{ million}$, which is ₦3,209,000 is less than the minimum guaranteed to Okon, hence the minimum share of profit was allocated to him.

14. Determination of gross profit for the period

	N'000
Opening inventory	124,000
Purchases	2,972,100
Closing inventory	<u>(96,000)</u>
Cost of goods sold	<u>3,000,000</u>
Profit margin of 5% is 5/95 of cost of good sold ; $5/95 \times 3,000,000$	<u>157,900</u>

Examiner's report

The question tests all the areas of the Financial Accounting Syllabus and covers concepts, principles and their application.

All the candidates attempted the questions and their performance was below average.

Candidates displayed inadequate knowledge of some accounting concepts and application of principles, thereby choosing the wrong options.

Candidates are advised to cover all sections of the syllabus and pay more attention to accounting concepts and application of principles.

SECTION A

SOLUTION 1

(a) i. **Going Concern**

- An entity is considered a going concern if the business entity is capable of earning a reasonable net income and there is no intention or threat from any source to curtail significantly its line of business in the near future.
- When financial statements are not prepared on a going concern basis, it should disclose the fact together with the basis on which they were prepared and the reason why the entity is not regarded as a going concern.

ii. **Consistency of presentation**

- The concept of consistency holds that when an entity selects an accounting policy, it should continue to use that policy in subsequent periods.
- The concept ensures that the accounting treatment of like items to be the same, from one accounting period to another, to allow for comparison.

- iii. **Accrual**
- The accrual basis of accounting means that the effects of transactions and other events are recognised as they occur and not as when cash or its equivalent is received or paid.
 - It dictates the period in which revenue and expenses should be recognised in the financial statements.
- iv. **Fair presentation**
- Financial statements should present information that is complete, neutral and free from error about the financial position, financial performance and cash flows of an entity.
 - An entity achieves a fair presentation through compliance with applicable IFRSs with additional disclosure when necessary.
- v. **Substance over form**
- This requires that business transactions should be recognised in the financial statements in accordance with their economic realities to the reporting entity, rather than their legal form.
 - If the economic reality is followed, then the financial statements will represent faithfully, the financial transactions that have occurred.
- vi. **Prudence**
- This concept requires the exercise of caution when making judgement under conditions of uncertainty.
 - The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated.
- vii. **Materiality**
- Information is material if its omission from, or mis-statement in the financial statements could influence the economic decisions of users.
 - Whether an item is material or not depends on the magnitude or its nature or both in the context of specific circumstances of the business.
 - An entity should present separately each material class of similar items; if a line item is not individually material, it is aggregated with other items in those statements or in the notes.
 - An item that is not significantly material to warrant separate presentation in those statements may warrant separate presentation in the note.

(b) i. **Accounting standards**

- These are common sets of principles and procedures that define the basis of financial accounting policies and practices.
- They apply to the whole spectrum of an entity's financial picture, including assets, liabilities, revenue, expenses and equity.
- They are authoritative statements of how particular types of transaction and event are reflected in the financial statements.

ii. **The purposes of accounting standards are to:**

- Improve the reliability of financial statements;
- Allow for inter-firm and intra-firm comparisons, which allows users of financial statements to check the progress of the firm and its position in the market.
- Allow effective interpretations of financial statements by users
- Ensure uniformity in the preparation of financial statements of organisations within the same industry.
- Ensure that financial statements of organisations are prepared in consistent manner every year
- Ensure that financial statements are prepared in a transparent manner, based on rules and principles

Examiner's report

The question tests candidates' knowledge of the nature and significance of accounting concepts and the objectives of accounting standards.

Majority of the candidates attempted the question and their performance was fair.

Candidates' commonest pitfall includes their inability to explain the significance of basic accounting concepts.

Candidates are advised to study the IASB Conceptual Framework for financial reporting and practice the Institute's past examination questions in this area.

Marking guide

		Marks	Marks
(a)i.	Going concern -	2 points at 1 mark	
ii.	Consistency -	2 points at 1 mark	2
iii.	Accrual -	2 points at 1 mark	2
iv.	Fair presentation -	2 points at 1 mark	2
v.	Substance over form -	2 points at 1 mark	2
vi.	Prudence –	2 points at 1 mark	2
vii.	Materiality –	2 points at 1 mark	2
		<u>2</u>	14

b.	Definition of accounting standard for 2 marks	2
c.	Functions of accounting standards - Any 4 points at 1 mark	<u>4</u>
	Total	<u>20</u>

SOLUTION 2

ai In the books of Babagana Limited
Adjusted cash book

	N'000		N'000
Dividend received	930	Balance b/d	8,310
Cheque drawn overstated	375	Bank charges	2,040
Cheque drawn overstated	900	Paid cheque entered as receipt (330 X 2)	660
Adjusted balance c/d	<u>10,005</u>	Returned cheque	<u>1,200</u>
	<u>12,210</u>		<u>12,210</u>

ii Bank reconciliation statement

	N'000
Bank Reconciliation Statement	(17,430)
Bank as per bank statement	<u>11,430</u>
Add uncredited cheques	(6,000)
Less unrepresented cheque	<u>4,005</u>
	<u>10,005</u>

b. **JOURNAL**

	DR N'000	CR N'000
i. F. Lola Felix Chukwu Being correction of posting made to wrong account.	4,000	4,000
ii. Suspense account Trade payables – Bada Correction of item of ₦1,000,000 debited instead of credit to Bada	2,000	2,000
iii. Sales returns account Suspense account Adjustment of error in addition of sales Return Book.	5,000	5,000

iv. Petty cash		
Suspense account	500	
Adjustment of omission of ₦500,000 cash balance		500
v. Plant repairs account		
Plant account	2,250	
Suspense account		200
Transferring cost of repairs on plant erroneously charged to plant account as ₦2,000,000		2,050

Tutorial

	Suspense Account	
	₦'000	₦'000
Balance b/d	5,550	Sales returns 5,000
Payables	2,000	Petty cash 500
		Repairs and maintenance 2,050
	<u>7,550</u>	<u>7,550</u>

Examiner's report

This question tests candidates' ability to prepare adjusted cash book, bank reconciliation statement and correct account using the journal.

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

Candidates' commonest pitfalls were their inability to correct errors; they debited and credited wrong accounts.

Candidates are advised to pay more attention to the application of the double entry principle, and practice with past examination papers

Marking guide

		Marks	Marks
(a)i.	Adjusted cash book – 10 ticks at ½ mark	5	
ii.	Bank reconciliation statement- 10 ticks at ½ mark	<u>5</u>	10
b.	Naira sign	½	
	Journal entries 11 ticks at ½ mark	5½	
	Accounts debited and credited 11 ticks at ¼ mark	3¾	
	Narration 5 ticks at ¼ mark	<u>1¼</u>	<u>10</u>
	Total		<u><u>20</u></u>

SOLUTION 3

Super Limited

(a) Computation of gain or loss on disposal of plant for the year ended 30 June 2019

i) Plant and machinery

	N	N
Sales proceed		129,000
Cost	415,500	
Accumulated depreciation	<u>(293,000)</u>	
Carrying amount		<u>122,500</u>
Gain on disposal of plant		<u>6,500</u>

(ii) Gain or loss on disposal of car (Part exchange)

	N	N
Sales proceed		15,871
Cost	55,548	
Accumulated depreciation	<u>(39,536)</u>	
Carrying amount		<u>16,012</u>
Loss on disposal		<u>141</u>

Net Gain

	N
Plant and machinery	6,500
Motor car	<u>(141)</u>
	<u>6,359</u>

(iii) Super Limited

Statement of movement in property, plant and equipment for the year ended 30 June 2019

	Property	Plant & equipment	Motor vehicles	Total
	N	N	N	N
Cost/Valuation				
At 1 July 2018	6,000,000	2,149,000	585,000	9,004,000
Additions		231,000	61,500	292,500
Disposal		<u>(415,500)</u>	<u>(55,548)</u>	<u>(471,408)</u>
At 30 June 2019	<u>6,000,000</u>	<u>2,234,500</u>	590,952	<u>8,825,452</u>

Accumulated depreciation:				
1 July 2018	(1,200,000)	(687,000)	(210,000)	(2,097,000)
Disposal		293,000	39,536	332,536
Charge for the year	<u>(120,000)</u>	<u>(446,900)</u>	<u>(105,122)</u>	<u>(672,022)</u>
At 30 June 2019	<u>(1,320,000)</u>	<u>(840,900)</u>	<u>(279,479)</u>	<u>(2,436,486)</u>
Carrying amount				
At 30 June 2019	<u>4,680,000</u>	<u>1,393,600</u>	<u>327,044</u>	<u>6,400,644</u>
At 30 June 2018	<u>4,800,000</u>	<u>1,732,000</u>	<u>375,000</u>	<u>6,907,000</u>

Workings:

Computation of depreciation for the year

i) Property - 6,000,000 x 2% =		<u>₦120,000</u>
ii) Plant & machinery ₦2,334,500 x* 20%		<u>₦446,000</u>
iii) Motor vehicles ₦590,952 – (₦210,000 - 39,536) x 25%		<u>₦105,122</u>

Examiner's report

The question tests candidates' ability to calculate gain or loss on disposal of non-current assets and prepare the movement in property, plant and equipment in accordance with *IAS 16, Property, Plant and Equipment, (PPE)*

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

Candidates' commonest pitfalls were their inability to;

- calculate gain or loss on asset given in exchange for the acquisition of another,
- disclose the comparative balances of the movement in PPE on June 2018, and
- use the correct format as prescribed under IAS 16.

Candidates are advised to cover the aspect of PPE outlined in the Institute's syllabus and practice past examination questions.

Marking guide

		Marks	Marks
(a)i.	Gain on sale of plant	5 ticks at ½ mark	2½
ii.	Gain on sale of car	5 ticks at ½ mark	5
(b)	Movement on PPE	30 ticks at ½ mark	15
	Total		<u>20</u>

SOLUTION 4

Wakanda Tech Ltd

Trade payables ledger control account-

	₦'000		₦'000
Discount received	17,150	Balance b/f	218,320
Receivable ledger control	20,040	Purchases	20,000
Balance c/f	<u>201,130</u>		
	<u>238,320</u>		<u>238,320</u>
		Balance b/d	201,130

Reconciliation of individual payable balances with control account balance.

	₦'000
Balance as extracted	197,660
Credit balances incorrectly treated (2 x ₦2,050,000)	4,100
Petty cash payment	<u>(630)</u>
Net total agreeing with payable control account	<u>201,130</u>

Trade receivables ledger control account

	₦'000		₦'000
Balance b/f	172,120	Contra-Payable ledger control	20,040
Credit sales	4,500	Discounts	120
		Balance c/f	<u>156,460</u>
	<u>176,620</u>		<u>176,620</u>
Balance b/d	<u>156,460</u>		

Reconciliation of individual receivable balances with control account balance

	₦'000
Balances as per accounts receivable ledger	156,134
Cheque dishonoured	2,555
Mis-posting (₦322,000 - ₦233,000)	(89)
Cash received (₦1,070,000 *2)	<u>(2,140)</u>
Net total agreeing with receivables control account	<u>156,460</u>

Examiner's report

The question tests candidates' knowledge of posting transactions to payables and receivables control accounts and reconciling the balances in these accounts with their corresponding individual ledger accounts.

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

Candidates failed because they mixed up entries in the control accounts with their individual ledger accounts.

Candidates are advised to have adequate knowledge of the differences between the control accounts and the subsidiary ledger accounts.

Marking guide

			Marks	Marks
(a)				
i.	Payables control account	5 ticks at 1 mark	5	
ii.	Reconciliation with ledgers	5 ticks at 1 mark	<u>5</u>	10
(b)				
i.	Receivables control account	5 ticks at 1 mark	5	
ii.	Reconciliation with ledgers	5 ticks at 1 mark	<u>5</u>	<u>10</u>
Total				<u>20</u>

SOLUTION 5

Advantages of limited liability companies over sole proprietorship are:

- **Liability:** The liability of the shareholders of company is limited whereas that of sole proprietorship is unlimited.
- **Funding:** A limited liability company has access to capital market, this implies better access to fund than a sole proprietorship, which has limited source of capital.
- **Succession:** The chance is high that companies operate perpetually, succession plan is high whereas the death of a sole proprietor may likely lead to death of a business.
- **Legal Entity:** A company is an entity distinct from its owners. It can be sued and can sue whereas a sole trader cannot sue and be sued in the name of the sole trader. Thus, the chances of a sole trader to enter into enforceable contract is limited.
- **Ownership:** Ownership of a company can be transferred from one person to the other, whereas ownership of a sole trader cannot be transferred except if the business is sold.
- **Floating and fixed charges:** A limited liability company can mortgage its assets to take loan in the company's name whereas a sole trader cannot.
- **Law and registration :** A company is registered under the law (Companies and Allied Matters Act, 2020), this gives the entity better business opportunities than a sole proprietorship
- **Soundness of accounting system:** A company has good accounting system and control than a sole trader who most times do not prepare financial statements.
- **Risk bearing:** A sole trader bears more risk than a limited liability company. The sole proprietor bears the entire risk of survival alone whereas companies spread the risk across all shareholders. The risk of the shareholders is limited.

- Management. A sole trader manages the business alone whereas there is a separation of company's management from the company, this allows company to take better economic decisions.

b. The following are the uses of source documents:

- Source documents initiate business transactions.
- Source documents form the basis for maintaining the books of original entries.
- Source documents serve as evidence of financial transaction hence they help to guide against fraud.
- Source documents are signed by parties involved in business transactions, therefore they are not usually denied.
- They serve as sources of evidence to auditors in carrying out audit assignments.
- Sometimes the source documents' transactions may be from two or more sources which will compliment themselves.
- Alterations are not always possible when parties to the transaction have signed the documents

Examiner's report

The question tests candidates' knowledge of the advantages of a limited liability company over a sole proprietorship and the uses of source documents.

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

Candidates lost marks, in part 'b' of the question, because of their inability to explain the uses of source documents rather, they merely stated the types of source documents or mentioned the use of one or two source them.

Candidates are advised to pay more attention to all aspect of the ICAN Syllabus.

Marking guide

	Marks
(a) Advantages of a limited liability company over sole trader 7 points at 2 marks	14
(b) Uses of source documents 4 points at 1½ marks	<u>6</u>
Total	<u>20</u>

SOLUTION 6

ai. Elements of financial statements

- i. **Assets:** These are resources controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.
- ii. **Liabilities:** These are present obligations of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefit.
- iii. **Equity:** The residual interest in the assets of an entity after deducting all of its liabilities.
- iv. **Income:** This is the increase in economic benefit during the accounting period in form of inflows or enhancement of assets or decrease of liabilities that result in an increase in equity. Income comprises of both revenue and gains.
- v. **Expenses:** This is the decrease in economic benefits during the accounting period in form of outflows or depletion of assets or incurrences of Liabilities that result in decrease in equity, other than those relating to distributions to equity participants.

ii. Models of measurement of elements of financial statements

The models of measurement of elements of Financial Statements are as follows:-

- i. Historical Costs
- ii. Current Costs
- iii. Realizable (Settlement) value
- iv. Present value

b.

Cost of buckets sold during the period for the year ended 31 Dec 2018

	Units	Unit price (₦)	₦'000
Opening inventory	15,000	791	11,865
Cost of plastic buckets produced	<u>120,000</u>	815	<u>97,800</u>
	135,000		109,665
Closing inventory of plastic buckets	<u>(12,000)</u>	815	<u>(9,780)</u>
Cost of plastic buckets sold	<u>123,000</u>		<u>99,885</u>

Cost per unit of goods produced during the period	₦
Raw materials (42,000,000 / 120,000)	350
Direct labour (21,000,000 / 120,000)	175
Variable overheads (14,040,000/ 120,000)	117
Fixed overheads (26,950,000 / 150,000)	<u>173</u>
Cost of plastic buckets produced during the period	<u>815</u>

Examiner's report

The question tests candidates' knowledge on the nature of the elements of financial statements and the models for measuring them. The candidates ability to apply the first-in first-out method to determine cost of inventories was also tested.

Many candidates attempted the question and performance was average.

Candidates' commonest pitfalls were:

- Lack of the knowledge of the models of measurement of financial statement; and
- Inability to apply the FIFO method to calculate cost of goods sold.
- Candidates displayed lack of knowledge of calculating the fixed overhead absorption rate and the cost per unit.

Candidates are advised to practice more related questions in this area and use ICAN study text for better performance in future examinations.

Marking guide

		Marks	Marks
(a)			
i.	Five elements of financial statements:		
	- Listing the element	5 points at ½ mark	2½
	- Explaining each point	5 points at 1½ marks	<u>7½</u>
			10
ii.	Models for measuring elements	4 points at ½ mark	2
(b)	Cost per unit of buckets	8 ticks at ½ mark	4
	Cost of sales of bucket	8 ticks at ½ mark	<u>4</u>
	Total		<u><u>20</u></u>

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

FOUNDATION LEVEL EXAMINATION – MAY 2021

MANAGEMENT INFORMATION

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

SECTION A: MULTIPLE-CHOICE QUESTIONS (20 MARKS)

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

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

1. Which of the following best describes Prime Cost and Production Cost?
 - A. Prime cost is the same as production cost
 - B. Prime cost plus manufacturing indirect cost is production cost
 - C. Prime cost minus manufacturing overhead is production cost
 - D. Prime cost plus all direct costs is production cost
 - E. Prime cost plus fixed costs is production cost

2. Perpetual inventory is a method of recording inventory
 - A. Everyday
 - B. Every weekend
 - C. In perpetuity
 - D. After each physical stock count
 - E. After each movement in stock

3. Overhead apportionment is a process of
 - A. Charging costs to a number of cost centres or units
 - B. Direct allocation of costs to cost centres or cost units
 - C. Accounting for some portion of costs and carrying forward the balance
 - D. Sharing costs into direct and indirect elements
 - E. Differentiating between variable and fixed costs

4. Which of the following is **NOT** true about contribution?
 - A. Contribution equals sales minus variable costs
 - B. Contribution equals profit plus fixed costs
 - C. Zero contribution means total sales equal total variable costs
 - D. Contribution equals net profit
 - E. If total contribution fails to cover fixed costs, the result is a loss

5. Notional profit is
- A. Profit made by all companies in a nation
 - B. Profit estimated on an on-going contract at the end of a financial year
 - C. Profit earned from all branches of a business nationwide
 - D. Estimated profit on a job about to be commenced
 - E. Profit earned on a contract just concluded
6. Which of the following is **NOT** associated with process costing?
- A. Normal loss
 - B. Abnormal loss
 - C. Abnormal gain
 - D. Equivalent units
 - E. Cost of goods sold
7. Abnormal gain is calculated as
- A. Unexpected profit from price increase due to sudden jump in demand
 - B. Profit from sale of fixed assets
 - C. Normal loss minus actual loss
 - D. Donations and subventions received unexpectedly
 - E. Profit realised outside the normal course of business
8. A company uses 40,000 units of an item per annum. It is recorded that the holding costs are ₦4 per unit and ordering cost is ₦50 per order. The Economic Order Quantity is
- A. 2,500
 - B. 1,500
 - C. 1,000
 - D. 800
 - E. 500
9. Which of the following usually makes use of composite cost unit?
- A. Job costing
 - B. process costing
 - C. contract costing
 - D. batch costing
 - E. service costing

10. XYZ Company has the following budget for the coming year:

Production	144,000 units
Sales	140,000 units

Materials:

Usage per unit	4kg
Opening inventory	8,000 kg
Closing inventory	10,000 kg

The material purchase budget is

- A. 578,000kg
 - B. 574,000kg
 - C. 568,000kg
 - D. 562,000kg
 - E. 558,000kg
11. Last month when a company had an opening inventory of 16,500 units and closing inventory of 18,000 units, the profit using absorption costing was ₦40,000. The fixed production overhead rate was ₦10 per unit.

Using marginal costing, the profit for last month would be

- A. ₦75,000
 - B. ₦65,000
 - C. ₦55,000
 - D. ₦25,000
 - E. ₦15,000
- 12 You are given the following data:

	₦
Budgeted sales	500,000
Budgeted contribution	200,000
Budgeted profit	50,000

The break-even sales is

- A. ₦475,000
- B. ₦450,000
- C. ₦375,000
- D. ₦350,000
- E. ₦125,000

13. Which of the following is **NOT** a subset of a database?
- A. Record
 - B. Byte
 - C. Field
 - D. Text
 - E. Table
14. Which of the following is **NOT** a unit used for measuring the capacity of computer memory?
- A. Gigabyte
 - B. Multibyte
 - C. Megabyte
 - D. Byte
 - E. Kilobyte
15. A software program that is designed to perform a specific task is known as
- A. Operating system
 - B. System software
 - C. Localised software
 - D. Utility software
 - E. Application package
16. Which of the following is carried out by the control unit?
- A. Performs logical comparison
 - B. Receives the results of processing from the processor
 - C. Interprets the instructions
 - D. Performs multiplication and division
 - E. Performs addition and subtraction
17. Which of the following is **NOT** a function performed by a system software?
- A. Provision of utility services
 - B. Providing settings for application packages
 - C. Enabling the use of peripheral devices
 - D. Memory management
 - E. Providing suitable environment for program development
18. In a batch processing system, which of the following is the first stage?
- A. Data validation
 - B. Data verification
 - C. Job waiting in a queue

- D. Storage of output
 - E. Writing on printed sheet
19. Which of the following is **NOT** part of implementation activities during system development?
- A. Changeover procedures
 - B. System specification
 - C. End-user training
 - D. System testing
 - E. File conversion
20. The coding of data into a form that is not understandable to a casual reader is called
- A. Firewall
 - B. Password
 - C. Encryption
 - D. Digital Signature
 - E. Logging

SECTION B: OPEN-ENDED QUESTIONS (80 MARKS)

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

QUESTION 1

Cost-volume-profit analysis is used to show how costs and profits react or change with changes in the volume of activity.

- a. State **FIVE** assumptions underlying the above propositions (5 Marks)
- b. Sekeseke manufacturing company sold 250,000 units of its product called "CHAIN" at ₦20 per unit. The variable costs of ₦15 per unit consist of manufacturing cost of ₦12 and selling expenses of ₦3. The fixed costs incurred evenly throughout the year amounted to ₦486,000 consisting of administrative overhead of ₦300,000 and selling overheads of ₦186,000.

You are required to calculate:

- i. The breakeven point in Units and Naira (4 Marks)
- ii. The contribution/sales ratio (2 Marks)
- iii. The number of units that must be sold to earn a profit of ₦75,000 (2 Marks)
- iv. The number of units that must be sold to earn an after tax profit of ₦112,000, if the tax rate is 30% (3 Mark)
- v. The number of units required to break even if the variable cost increased by 6% and fixed cost by 2.5%. (4 Marks)

(Total 20 Marks)

QUESTION 2

Segelu Nigeria Limited is a construction company located in Bukuai Local Government. The company commenced the construction of a health centre building on 3 January, 2018 for a contract price of ₦30,000,000 with completion date of February 2019. Estimated cost of the contract was ₦21,000,000. The construction company's financial year end was 30 September 2018, with the following balances extracted from the books of accounts on that date.

	₦
Materials issued to site	3,220,000
Materials returned from site	250,000
Wages of workers paid	1,250,000
Own plant in use on site (at cost)	2,200,000
Plant hire and scaffolding	1,050,000
Head office expenses	1,220,000
Supervisory staff: direct	485,000
indirect	480,000
Value of work certified to 30 September 2018	16,200,000
Cost of work not yet certified	2,150,000
Progress payments	12,150,000
Material on site 30 September 2018	580,000
Workers' wages due but unpaid	125,000

Depreciation on plant is to be provided at the rate of 15% per annum on cost.

You are required to prepare:

- a) The contract account as at 30 September, 2018 assuming the contract commenced 3 January 2018.
- b) Contractee account
- c) An extract from the construction company's financial position at 30 September 2018.

(Total 20 Marks)

QUESTION 3

Koloko Wakama Plc trades in farm feeds. The following information relate to the movement of inventory for the month of June 2019:

Date	Units	Cost/Unit
June 6	20,000	₦10.00
June 16	15,000	₦12.50
June 26	30,000	₦15.00

The following issues were made to the production floor from the store department:

Date	Units
June 8	8,000
June 18	10,000
June 24	6,000
June 29	20,000

You are required to:

- a. Determine the value of closing inventory and the value of the materials issued as at the end of June, 2019 using
 - i. First-in-first-out (FIFO) method (7 Marks)
 - ii. Last-in-first-out (LIFO) method (7 Marks)
 - b. List **SIX** factors to be considered in choosing methods of pricing material issued to production. (6 Marks)
- (Total 20 Marks)**

QUESTION 4

From the information below, prepare a monthly cash budget for Wareroom Trading Limited for the first three months of 2020 using a columnar format.

	NOV 2019	DEC 2019	JAN 2020	FEB 2020	MAR 2020
	₦	₦	₦	₦	₦
Sales	850,000	950,000	720,000	750,000	780,000
Purchases	360,000	360,000	300,000	400,000	350,000

- (i) All sales are on credit, collectable 50% in 30 days, 25% in 60 days, 20% in 90 days and balance regarded as bad debts.
- (ii) All purchases are also on credit, payable 40% in 30 days and 30% each in 60 and 90 days respectively.

- (iii) A new generator costing ₦455,000 will be acquired in February under a 30-day credit agreement.
- (iv) An old car will be sold for ₦50,000 cash in February.
- (v) Monthly salaries are ₦80,000 payable as and when due.
- (vi) Commission on sales are 5% payable to sales agents 2 months in arrears.
- (vii) Company income tax of ₦235,000 is due and payable in January.
- (viii) An investment is expected to bring in ₦60,000 gross in February, subject to 10% withholding tax.
- (ix) The staff christmas party in December is expected to cost the company a total of ₦90,000, though 60% of the expenses will be settled the following month.
- (x) Assume an overdraft of ₦283,000 on 31 December 2019.

Show all workings.

(Total 20 Marks)

QUESTION 5

- a. Define computer forensics. (2 Marks)
- b. State **TWO** uses of computer forensics. (2 Marks)
- c. List **FIVE** techniques used in forensic process and briefly describe each. (10 Marks)
- d. Define social networking, stating **TWO** benefits and **TWO** risks of social networking. (6 Marks)

(Total 20 Marks)

QUESTION 6

- a. Define Decision Support System (DSS). (2 Marks)
- b. List **FIVE** DSS packages that can be used to explore alternatives. (5 Marks)
- c. Enumerate **THREE** advantages and **TWO** disadvantages of DSS. (5 Marks)
- d. State **FOUR** benefits and **FOUR** lapses of information technology to each of the individual, the organisation and the government. (8 Marks)

(Total 20 Marks)

SECTION A

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

Workings

$$\begin{aligned}\text{Question 2 EOQ} &= \sqrt{\frac{2 \cdot \text{Co} \cdot \text{D}}{\text{Cc}}} \\ \text{Where Co} &= \text{Ordering cost per order} \\ \text{D} &= \text{Demand per annum} \\ \text{Cc} &= \text{Carrying cost per item per annum} \\ &= \sqrt{\frac{2 \times 40,000 \times \text{N}50}{\text{N}4}} \\ &= \sqrt{\frac{4,000,000}{\text{N}4}} = 1,000 \text{ units}\end{aligned}$$

Question 6 Materials purchase budget:

Production	Units
	144,000
Usage per unit	4kg
Material requirements	576,000kg
Add closing inventory	<u>10,000 kg</u>
	<u>586,000 kg</u>
Less opening inventory	<u>8,000 kg</u>
Material purchase budget	<u>578,000 kg</u>

Question 11

Closing Inventory	18,000 units
Opening Inventory	<u>16,500</u> units
Difference	1,500 units
Overhead rate	₦10/units
Overhead added to inventory	₦ 15,000
Using marginal costing profit will be	₦ 40,000 +15,000
	₦ 55,000

Question 12

Fixed cost = contribution-profit
Fixed cost = 200,000-50,000
Fixed cost = 150,000
CMR = contribution ÷ sales
CMR = 200,000 ÷ 500,000 = 0.4
BEP = FC ÷ CMR
BEP = 150,000 ÷ 4 = N375,000

Examiner's report

This section contains 20 questions with a fair coverage of the major parts of the syllabus.

It was attempted by all candidates and performance was above average as over 70% of the candidates scored 10 marks or above.

Candidates are advised to put in more efforts in this area as it is a mark booster.

SECTION B

SOLUTION 1

a. Assumptions underlying cost-volume-profit analysis are:

- i. All costs can be resolved into fixed and variable elements;
- ii. The only factor affecting revenue and cost is volume or activity level;
- iii. Total fixed cost will remain constant while total variable costs vary proportionately with activity level;
- iv. The method of production, level of technology and efficiency remain unchanged;
- v. There are no inventory (stocks) level change or that stocks are valued at marginal cost only;
- vi. Within the relevant range of activity being considered, costs and revenue behave in a linear fashion;
- vii. The analysis of cost volume profits relates to a single product or constant sale mix;
- viii. Variable cost per unit is constant;
- ix. The selling price per unit is equally constant over the entire range of output;
- x. Mixed costs can be separated into variable and fixed elements.

b. Contribution = selling price – variable costs

$$= (\text{N}20-15) = \text{N}5$$

i. Break-even points (units) $\frac{\text{fixed cost/contribution/units}}{}$
 $= \frac{\text{N}486,000/5}{} = 97,200 \text{ units}$

Break-even point (value) $\text{fixed cost/contribution} \times \text{selling price}$
 $\text{N}486,000/5 \times \text{N}20 = \text{N}1,944,000$

ii. Contribution sales ratio $= \frac{\text{contribution}}{\text{Sales}} \times 100\% = \frac{\text{N}5/20}{} \times 100\%$
 $= 25\%$

iii. No of units required to earn a profit of $\text{N}75,000$

Fixed cost + target profit/contribution per unit
 $486,000 + 75,000/5 = 112,200 \text{ units}$

iv. Units required to earn after tax profit of $\text{N}112,000 =$

$$\left\{ \text{Fixed cost} + \frac{\text{Target Profit}}{1 - \text{Tax rate}} \right\} \div \text{Contribution/Unit}$$

$$= \left\{ 486,000 + \frac{112,000}{1 - 0.3} \right\} \div 5$$

$$= (486,000 + 160,000) \div 5$$

$$= 646,000 \div 5 = 129,200 \text{ units}$$

v. Units required to breakeven in revised situation.

$$\frac{\text{New fixed costs}}{\text{New contribution/unit}} = \frac{\text{N}486,000 \times 1.025}{\text{N}20 - (\text{N}15.00 \times 1.06)}$$

$$= \frac{\text{N}498,150}{\text{N}4.1} = 121,500 \text{ Units}$$

Examiner's report

This question tests candidates' knowledge of cost-volume-profit analysis. It was attempted by about 80% of the candidates and performance was above average as about 65% of the candidates scored 50% or above of the marks allocated.

The major pitfall was inability of candidates to correctly state the assumptions underlying cost-volume-profit analysis, but they did well in the computational aspect of the question.

Candidates are enjoined to also give attention to the theoretical part of the subject when preparing for future examinations.

Marking guide

a.	Five assumptions underlying breakeven analysis	5
b.	Determination of contribution per unit	1
i.	Breakeven point in units	1½
	BEP (Naira)	1½
ii.	C/S ratio	2
iii.	BEP with target profit	2
iv.	BEP after tax profit	3
v.	BEP with reversed situation	4
	Total	<u>20</u>

SOLUTION 2**SEGELU NIGERIA CONSTRUCTION LIMITED****HEALTH CENTRE BUILDING CONTRACT ACCOUNT FOR THE YEAR ENDED 30
SEPTEMBER 2018**

	₦	₦		₦
Material issued to site		3,220,000	Materials returned from site	250,000
Wages - paid	1,250,000		Materials at site c/d	580,000
- Accrued	<u>125,000</u>	1,375,000	Plant on site c/d	1,952,500
Plant at cost		2,200,000	Cost of work certified	5,097,500
Hiring of plants		1,050,000	Cost of work not yet certified	2,150,000
Supervisory staff: direct		485,000		
Supervisory staff: indirect		480,000		
Head office expenses		<u>1,220,000</u>		
		<u>10,030,000</u>		<u>10,030,000</u>
Cost to date		5,097,500	Value of work certified	<u>16,200,000</u>
Profit taken (wki)		5,551,250		
Profit suspense c/d		<u>5,551,250</u>		
		<u>16,200,00</u>		<u>16,200,00</u>
Material on site b/d		580,000	Profit in suspense b/d	5,551,250
Plant on site b/d		1,952,500		

CONTRACTEE ACCOUNT

	₦		₦
Value of work certified	16,200,000	Payment on account	12,150,000
		Balance c/d	<u>4,050,000</u>
	<u>16,200,000</u>		<u>16,200,000</u>

c.

SEGELU CONSTRUCTION LIMITED
Statement of Financial Position Extract

	₦	₦
Non-current Assets:		
Plant at cost	2,200,000	
Less depreciation	<u>247,500</u>	<u>1,952,500</u>
Current Assets:		
<u>Inventory</u>		
Material on site	580,000	
Work-in-progress	<u>648,750</u>	1,228,750
Current Liability:		
Accrued wages		125,000

Workings (i)

Calculation of profit to be taken (notional profit)

	₦	₦
Value of work certified		16,200,000
Cost to date	7,247,500	
Less cost of work not certified	<u>2,150,000</u>	<u>5,097,500</u>
Notional profit		<u>11,102,500</u>

Profit to be taken

<u>Notional profit</u> x <u>cash received</u> x <u>2/3</u>	
Value of work certified	
<u>= $\frac{11,102,500 \times 12,150,000 \times 2/3}{16,200,000}$</u>	<u>₦5,551,250</u>

Workings (ii)

Work in progress

Cost to date	7,247,500
Add profit taken	<u>5,551,250</u>
	12,798,750
Less cash received	<u>12,150,000</u>
Work in progress	<u>648,750</u>

Examiner's report

This question tests candidates' understanding of contract accounts including extracts of the financial statements at year end.

About 80% of the candidates attempted the question and performance was above average as about 60% of the candidates scored above 50% of the marks allocated.

The major pitfall was the inability of candidates to correctly compute the notional profit and the figures to be disclosed in the statement of financial position.

To perform better in this area in future examinations, candidates are advised to ensure they can recall important formulas of the subject.

Marking guide

Definition of contract costing	2
Contract costing account 21 ticks @ ½	10½
Contractee account 3 ticks @ ½	1½
Extract of financial position 6 ticks @ ½	3
Working notional profit	1
Profit realized or taken	1
Work in progress determination	<u>1</u>
Total	<u>20</u>

SOLUTION 3

a.

KOLOKO WAKAMA

Store ledger account for June, 2019 using FIFO method

	RECEIPTS			ISSUES			BALANCE	
	Qty	Price ₦	Value ₦	Qty	Price ₦	Value ₦	Qty	Value ₦
June 6	20,000	10	200,000	-			20,000	200,000
June 8				8,000	10	80,000	12,000	120,000
June 16	15,000	12.5	187,500				27,000	307,500
June 18				10,000	10	100,000	17,000	207,500
June 24				2,000	10	20,000		
				<u>4,000</u>	12.5	<u>50,000</u>		
				6,000		70,000	11,000	137,500
June 28	30,000	15	450,000				41,000	587,500
June 29				11,000	12.5	137,500		
				9,000	15	135,000		
						<u>522,500</u>	21,000	315,000

Store ledger account for the month of June 2019 using LIFO method

Date	RECEIPTS			ISSUES			BALANCE	
	Qty	Price ₦	Value ₦	Qty	Price ₦	Value ₦	Qty	Value ₦
June 6	20,000	10	200,000				20,000	200,000
June 8				8,000	10	80,000	12,000	120,000
June 16	15,000	12.5	187,500				27,000	307,500
June 18				10,000	12.5	125,000	17,000	182,500
June 24				5,000	12.5	62,500		
				1,000	10	10,000		
							11,000	110,000
June 26	30,000	15	450,000				41,000	560,000
June 29				20,000	15	300,000	21,000	260,000
						<u>577,500</u>		

- b. Factors to be considered in materials pricing are as follows:
- i. The nature of the business undertaken by the company;
 - ii. Frequency or changes in price level of bought-in materials and components. i.e, price stability;
 - iii. The ratio of materials costs to total costs;
 - iv. Difference in the volume of discount;
 - v. The need for uniformity within an organisation;
 - vi. The system of cost accounting in operation in the organisation, whether historical or standard;
 - vii. The frequency at which issues of items will be made;
 - viii. The frequency at which materials are purchased;
 - ix. The facilities available for calculating issues prices, that is whether the system is computerised or not;
 - x. Impact of material pricing on company profitability; and
 - xi. Accounting standard.

Examiner's report

This question tests candidates' ability to compute inventory balances using different methods of inventory valuation.

About 80% of the candidates attempted the question and performance was good, especially in the computational aspect. About 70% of the candidates who attempted the question scored 50% or above of the marks allocated. However, many of the candidates performed poorly in the "b" part requesting for factors to be considered in choosing methods of material pricing.

Candidates are reminded that the theory aspect of the subject is as important as the computational aspect and should be accorded equal attention during their preparation for future examinations.

Marking guide

a. Store ledger using FIFO method	14 ticks × ½	7
Store ledger using LIFO method	14 ticks × ½	<u>7</u>
		14
b. Factors to be considered in material pricing		<u>6</u>
		<u>20</u>

SOLUTION 4

WAREROOM TRADING LIMITED

INFLOWS	JANUARY	FEBRUARY	MARCH
	₤	₤	₤
Sales	687,500	767,500	745,000
Sales of car	-	50,000	-
Investment income	-	54,000	-
Total (A)	687,500	871,500	745,000
OUTFLOWS			
Purchases	252,000	336,000	358,000
Salaries	80,000	80,000	80,000
Purchase of Generator	-	-	455,000
Sales Commission	42,500	47,500	36,000
Company Income Tax	235,000	-	-
Staff Christmas Party	54,000	-	-
Total (B)	663,500	463,500	929,000
BALANCE			
Opening Balance	(283,000)	(259,000)	149,000
A-B	24,000	408,000	(184,000)
Closing Balance	(259,000)	149,000	(35,000)

Workings

Sales Collections

<u>Sales</u>	<u>Dec.2019</u>	<u>Jan. 2020</u>	<u>Feb. 2020</u>	<u>Mar. 2020</u>
	₤	₤	₤	₤
Nov 2019-850,000	425,000	212,500	170,000	-
Dec 2019-950,000	-	475,000	237,500	190,000
Jan 2020-720,000	-	-	360,000	180,000
Feb 2020- 750,000	-	-	-	375,000
Mar 2020-780,000	-	-	-	-
		<u>687,500</u>	<u>767,500</u>	<u>745,000</u>

Purchase Payment

<u>Purchases</u>	<u>Dec. 2019</u>	<u>Jan. 2020</u>	<u>Feb. 2020</u>	<u>Mar. 2020</u>
Nov. 2019-360,000	144,000	108,000	108,000	-
Dec. 2019-360,000	-	144,000	108,000	108,000
Jan. 2020-300,000	-	-	120,000	90,000
Feb.2020-400,000	-	-	-	160,000
Mar.2020-350,000	-	-	-	-
		<u>252,000</u>	<u>336,000</u>	<u>358,000</u>

Sales Commission			
<u>Month</u>	<u>Sales</u>	<u>5% Commission</u>	<u>Amount Paid</u>
	<u>₦</u>	<u>₦</u>	<u>₦</u>
Nov 2019	850,000	42,500	-
Dec 2020	950,000	47,500	-
Jan 2020	720,000	36,000	42,500
Feb 2020	750,000	37,500	47,500
Mar 2020	780,000	39,000	36,000

Examiner's report

This question tests candidates' ability to prepare cash budgets. About 85% of the candidates attempted this question and performance was very good as above 70% of the candidates who attempted the question scored 50% or above of the marks allocated.

The only pitfall was poor application of accrual principles in determining the exact amount of cash inflow or outflow.

Candidates are enjoined to improve upon their understanding of accrual principles in the future.

Marking guide

	Mark
Title	½
Entries in the columnar cashflow (30 ticks x ½)	15
Workings: Sale collection (3 ticks x ½)	1½
Purchases Payment (3 ticks x ½)	1½
Sales Commission (3 ticks x ½)	½
	<u>20</u>

SOLUTION 5

- a. Computer Forensics is the process of identifying, preserving, analyzing and presenting digital evidence in a manner that is legally acceptable.

OR

This is a discipline that combines elements of law and computer science to collect and analyse data from computer systems, networks, wireless communications and storage devices in a way that is admissible as evidence in a court of law.

OR

The process of examining computers and digital media with the aim of identifying, preserving, recovering, analysing and presenting such evidence for legal matters.

b. Uses of Computer Forensics

- i. In legal cases, computer forensics techniques are frequently used to analyse computer systems belonging to defendants.
- ii. It is used to recover data in the event of hardware or software failure.
- iii. To analyse a computer system after a break-in in order to determine how the attackers gained access and what the attacker did.
- iv. To gather evidence against an employee that is undergoing investigation in an organisation.
- v. To gain information about how computer systems work for the purpose of debugging, evaluation and performance optimisation.
- vi. For system auditing and internal control.
- vii. Detection of fraud, misappropriation and excesses.
- viii. For reliability of financial reporting.

c. Techniques used in forensic process

- i. **Live Analysis:** This is a situation where the investigation is done on a running system especially within an operating system by using a customised or existing historical data to extract evidence.
- ii. **Cross-drive Analysis:** This technique analyses information held on multiple hard drives or storage and correlates the data. This can also be applicable to correlation of pieces of social media networks of individual in order to identify any unusual activities.
- iii. **File Recovery:** This technique allows an investigator to recover deleted files hidden on the operating system after being deleted from the physical machine.
- iv. **Password Recovery:** This technique helps an organisation to recover password protected files without having access or knowledge of the password. This is made possible through the use of forensic tools.
- v. **Timeline Analysis:** This technique establishes a chronological trail and analyses preceding and succeeding events in a system.
- vi. **Key searching:** This technique helps to analyse and identify vulnerabilities and threat to a system.
- vii. **Stochastic forensic:** This technique uses stochastic properties of the computer system to investigate activities lacking digital artefacts. Its major use is to investigate data theft.
- viii. **Steganography:** This technique is the process of hiding data inside of a picture or digital image e.g. hiding pornographic images of children or other information that a given criminal does not want to have

discovered. Forensics experts can fight this by looking at the hash of the file and comparing it to the original image, while the image appears the same, the hash changes as the data changes.

- x. **Analysis tools:** Typical forensic analysis includes a manual review of materials on the media, reviewing the windows registry of suspect information, discovering and cracking passwords, keyword searches for topics related to crime, and extracting e-mail and picture for review.
- d. Social networking is the use of dedicated websites and applications to create a profile, establish a link in order to find and interact with other users with similar interests to one's own.

OR

It is the use of website that allows registered members or users to create profiles, upload photos and videos, send and receive messages and keep in touch with friends, families and colleagues. Examples of social networking platforms include: Facebook, Twitter, WhatsApp, Instagram, etc.

Benefits of Social Networking

1. Modern and quick way for employees to discuss ideas, post news, ask questions and share links.
2. Can target a wide audience which improves recruitment potential
3. Social network allows organisation to target selected groups or individuals thereby fostering more of a friendship rather than corporate relationship.
4. It is a vastly expanded research resource that can be accessed by employees about other organisation and products for marketing campaigns.
5. Promotes open communication leading to enhanced information discovery and delivery.
6. Offers opportunity to a wide spectrum business contracts.
7. Helps improve business reputation and client base with minimal expense on advertisement.
8. Integrating social networking into business strategy will enable business to prosper in the long run.
9. It is a fast medium for feedbacks to organisations from their customers.
10. By visiting competitors' social media pages, organisations will understand the edge that their competitors have over them.

Risks of social networking

1. Provides an extra channel for hackers to attack and launch spam or viruses.
2. Can result in negative comments from disgruntled employees about the organisation.
3. Potential legal consequence if employees use sites to view objectionable, illicit or offensive materials.
4. Increased risk of employees succumbing to online spam resulting in identity or data theft.
5. Lost productivity if workers are using the sites for personal use rather than work related activity.
6. Employees may send negative messages, status up, etc.
7. It exposes organisations to the prying eyes of their competitors.

Examiner's report

This question tests candidates' knowledge of computer forensics and social networking.

The question was attempted by about 60% of the candidates and performance was just fair as about 50% of those who attempted the question scored 50% or above of the marks allocated.

Many candidates lacked good grammatical construction and ability to define terms correctly.

Candidates are advised to take the information technology aspect of the subject more seriously in the future and improve on their English grammar.

Marking guide

		Marks
A	Definition of computer forensics	2
B	Stating two users of computer forensics @ 1 mark	2
c i.	Listing out 5 techniques used in forensics process @ 1mark	5
ii.	Describing each of the 5 techniques @ 1 mark	5
d i.	Definition of social networking	2
ii.	Stating 2 benefits @ 1 mark	2
iii.	Stating 2 risks @ 1 mark	<u>2</u>
	Total	<u>20</u>

SOLUTION 6

- a. Decision Support System (DSS) is an interactive, flexible and adaptable computer based information system developed for supporting the solution of non-structured management problem for improved decision making

OR

DSS is a computer based information system that utilises data, provides easy to use interface to assist managers in the retrieval of pertinent information from a body of database to facilitate decision making.

OR

DSS is a collection of computer programs and data that is used to assist the tactical level of management with the analysis of information that will assist in decision making within an organisation.

b. **Decision Support System packages**

- i. Modeling and simulation packages.
- ii. Spreadsheet packages e.g Microsoft Excel, Apache, etc.
- iii. Statistical packages for social scientists (SPSS).
- iv. Forecasting packages.
- v. Non-linear and linear programming packages.
- vi. Regression analysis packages.
- vii. Financial modeling packages.
- viii. Sensitivity and risk analysis packages.
- ix. Microsoft Access (DBMS).
- x. Accounting packages e.g Sage, Microsoft, Tally.
- xi. SQL Report Generator.

c. **Advantages of DSS**

- i. It provides information and analysis for making decisions.
- ii. It makes better use of organisation's data resources.
- iii. It is used to examine multiple alternative solutions.
- iv. It improves control and communication.
- v. It provides better understanding of the business.
- vi. It simplifies the rigorous manual computation of data.
- vii. It enables tactical level managers to give detailed report of analysis for decision making.

Disadvantages of DSS

- i. The computer skills required to obtain results may not be adequate.
- ii. It requires preparation and analysis time to get desired information.
- iii. It is difficult to quantify the benefits of DSS to justify cost.
- iv. It is difficult to maintain data integrity.
- v. It is detail-oriented as it involves detailed analysis of situation under investigation for decision making.
- vi. It provides moderate support for external data and graphical capabilities.

d. Benefits of Information Technology

- i. Faster communication speed for sending messages via e-mail to everyone efficiently.
- ii. It lowers communication cost by use of internet, telephone, mailing, etc
- iii. With the use of internet as reliable mode of communication, information is accessed and retrieved from anywhere and at any time.
- iv. Using information technology, people can share and exchange through discussion groups, mailing lists and forums on the internet.
- v. Information technology creates paperless environment via sharing and retrieving of information through digital medium like e-mail, online chat and instant messaging.
- vi. It is a borderless source for services and information retrieval, interactivity, accessibility and versatility.

Lapses

- i. Fraudsters now explore IT media like e-mails, social media, etc to defraud their victims.
- ii. There is identity theft where criminals impersonate individuals for financial gain, e.g ATM withdrawal alert after ATM card and password has been stolen.
- iii. There is hacking of codes and passwords to gain unauthorised entry into computer system or network.
- iv. IT permits the society to be easily accessible to visual materials like display of unwholesome activities.
- v. There is high cost of installation and maintenance.
- vi. There is loss of information confidentiality.
- vii. Addiction of some users to unhealthy and irrelevant surfing of sites.

Examiner's report

This question tests candidates' knowledge of Decision Support System and also the benefits and lapses of information technology to the users.

About 70% of candidates attempted this question but performance was just fair as about 55% of the candidates scored 50% or above of the marks allocated.

The major pitfalls were bad grammar and inability to define information technology terms correctly. Generally, many candidates tried to avoid the information technology aspect of the subject.

Candidates are advised to attach equal importance to information technology as they do to the costing aspect of the subject in the future examinations.

Marking guide

			Marks
a.	Definition of DSS		2
b.	5 DSS packages @ 1 mark		5
c.	3 advantages of DSS @ 1 mark	3	
	2 disadvantages of DSS @ 1 mark	2	5
d.	4 benefits of IT @ 1 mark	4	
	4 lapses of IT @ 1 mark	<u>4</u>	<u>8</u>
			<u>20</u>

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

FOUNDATION LEVEL EXAMINATION – MAY 2021

TAXATION

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

SECTION A: MULTIPLE-CHOICE QUESTIONS (20 MARKS)

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

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

1. Which of the following is **NOT** a principle of taxation?
 - A. Equity
 - B. Certainty
 - C. Convenience
 - D. Simplicity
 - E. Residency

2. Which of the following is **NOT** a source of tax laws in Nigeria?
 - A. Budget and pronouncement of relevant Ministries
 - B. The Constitution of the Federal Republic of Nigeria
 - C. Circulars issued by and practices of the Inland Revenue
 - D. Opinion of a local government chairman
 - E. Case laws

3. How many members of a State Board of Internal Revenue shall constitute a quorum at any meeting?
 - A. 10
 - B. 8
 - C. 7
 - D. 5
 - E. 3

4. Which of the following is **NOT** a function of the Joint Tax Board?
 - A. Exercise the powers or duties conferred on it by the PITA and other Acts
 - B. Advise the Federal Government on request, in respect of rates and capital allowances and other taxation matters, having effect throughout Nigeria in respect of any proposed amendment to PITA
 - C. Advise the Federal Government, on request, in respect of double taxation agreement with any other country
 - D. Advise the State Board on all its powers and duties

- E. Impose its decision, on matters of procedure and interpretation of PITA, on any State, for purposes of conforming to agreed procedures or interpretations
5. In the development and implementation of the National tax policy, the Federal Ministry of Finance, has a pivotal role to play and shall take appropriate steps to ensure that it receives cooperation from the following, **EXCEPT**
- A. The President and the Governors
 - B. Legislature
 - C. Ministry of Finance
 - D. Ministries, departments and agencies (MDAs)
 - E. A local government Chairman
6. When undertaking a professional activity, a tax practitioner may be faced with a conflict of interest when he
- A. Undertakes a professional service for a group of companies as per his brief
 - B. Undertakes a professional service for a new client
 - C. Undertakes a professional activity relating to a particular matter for two or more clients whose interests with respect to that matter are in conflict
 - D. Refuses to undertake a professional activity relating to a particular matter for two or more clients whose interests with respect to that matter are in conflict
 - E. Undertakes a professional activity relating to separate and distinct services for two different clients
7. Within how many months after the end of an accounting year should an existing company file its tax returns with the Federal Inland Revenue Service?
- A. 12 months
 - B. 10 months
 - C. 8 months
 - D. 6 months
 - E. 4 months
8. The tax payable as determined by the Tax Appeal Tribunal is payable within.....of the date of notice of assessment, notwithstanding that an appeal may be pending on same, before the Federal High Court.
- A. 6 months
 - B. 5 months
 - C. 3 months
 - D. 2 months
 - E. 1 month

9. In line with the Federal Inland Revenue Service (Establishment) Act, 2007, any excess withholding tax deducted should be refunded within..... of the decision of the Service of refund.
- A. 120 days
 - B. 90 days
 - C. 60 days
 - D. 40 days
 - E. 30 days
10. Which of the following is **NOT** a vatable person?
- A. A firm
 - B. A limited liability company
 - C. A sole trader
 - D. An individual
 - E. A public educational institution
11. In respect of VAT, a person who fails to notify the FIRS of any change of address within one month of such change is liable to pay a penalty of
- A. ₦25,000
 - B. ₦20,000
 - C. ₦15,000
 - D. ₦10,000
 - E. ₦5,000
12. Which of the following is **NOT** assessed on *ad-valorem* basis?
- A. Share capital of companies
 - B. Mortgage and debenture loans
 - C. Property valuation
 - D. Promissory notes
 - E. Admission as solicitor or notary public
13. Which of following is **NOT** a function of a Commissioner of Stamp Duties?
- A. He is the administrative head of the department
 - B. He has the duties of assessing documents on appropriate duties and imposing penalties where applicable
 - C. Adjudication
 - D. Stamping or embossments
 - E. He varies the stamp duties rate from time to time to reflect realities

14. The rate of import duty on live reptiles, including snakes and turtles is
- A. 25%
 - B. 20%
 - C. 15%
 - D. 10%
 - E. 5%
15. Tax imposed on goods and services that are considered to be non-essentials is
- A. Excise duty
 - B. Value added tax
 - C. Non-essential tax
 - D. Luxury tax
 - E. Essential tax
16. Section 24(2) of Lagos State Land Use Charge Law 2018, states that the time allowed for an appeal to the tribunal shall be.....after the date of delivery of the demand notices
- A. 90 days
 - B. 60 days
 - C. 45 days
 - D. 30 days
 - E. 14 days
17. Under the National Health Insurance Act, Cap N42 LFN 2004, an employer who has a minimum of ten employees in the private sector is expected to pay 10%, while the employee pays..... of his basic salary.
- A. 10%
 - B. 8%
 - C. 5%
 - D. 4%
 - E. 2%
18. Which of the following is **NOT** a consideration that influences the identification of badges of trade?
- A. The subject matter of the realisation
 - B. The length of period of ownership
 - C. The frequency or number of similar transactions
 - D. The circumstances that were responsible for the realisation
 - E. The date of incorporation of the company.

19. For an existing business, the basis of assessment is
- Continuity basis
 - Accrual basis
 - Preceding year basis
 - Actual basis
 - Succeeding year basis
20. The minimum tax payable by a company engaged in air or sea transport business shall not be less than..... of the full sum receivable in respect of carriage of passengers, mails, livestock or goods shipped or loaded into an aircraft in Nigeria.
- 20%
 - 10%
 - 5%
 - 2%
 - 1%

SECTION B: OPEN-ENDED QUESTIONS (80 MARKS)

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

QUESTION 1

Chief Adio Jaiyesimi, a Chartered Accountant, died in London after a brief illness on June 10, 2015.

He was survived by four children namely: Akeem; Ayodeji; Olabisi; and Adekunle. He created a trust for the benefits of his four children. The records of the trustee for the year ended December 31, 2020, have revealed the following:

	₦
Adjusted trading profits for the year ended December 31, 2020	36,400,000
Dividend (gross)	305,000
Rental income (gross)	820,000
Interest received (gross)	118,500
Sundry income	24,800

Additional information:

(i) Fixed annuity paid to Deji, his first child	81,000
(ii) Fixed remuneration for the trustee	500,000
(iii) Variable remuneration of the trustee – 5% of gross income	

(iv)	Allowable expenses of the trustee as agreed	60,000
(v)	Capital allowances as agreed with the Revenue	395,000
(vi)	Discretionary payments were made by the trustee in agreement with the trust deed as follows:	
	Akeem	300,000
	Ayodeji	250,000
	Olabisi	220,000
	Adekunle	180,000
(vii)	One third of the distributable income is to be shared equally among the children.	

Required:

- a. Compute the net distributable income in the hand of the trustee. (13 Marks)
- b. Compute the assessable income in the hand of each beneficiary. (7 Marks)
- (Total 20 Marks)**

QUESTION 2

- a. Atlat Airline Limited was incorporated in New York, USA, on June 6, 1993. It is engaged in the carriage of mails, passengers and livestock into and out of Nigeria.

The company's worldwide statement of profit or loss as at December 31, 2018, has revealed the following:

	₦	₦
Income from passengers flown from New York to Nigeria		510,720,000
Income from passengers loaded and flown out of Nigeria		241,305,000
Income from cargo loaded into aircraft to Nigeria from other routes		181,300,100
Income from cargo freight from Nigeria to New York		102,960,000
		<u>1,036,285,100</u>
Operating expenses:		
Staff salaries	328,000,000	
Depreciation	12,750,000	
Use of airport facilities	49,800,000	
Hotel bills for passengers	16,250,000	
Hotel bills for airline crew	21,670,200	
Gifts to airport staff for gratifications	1,081,000	
Purchase of twin engine	54,700,000	
Allowance for doubtful debts	11,810,400	
Other overhead expenses	7,960,000	
		<u>(504,021,600)</u>
		<u><u>532,263,500</u></u>

Additional information:

- (i) The Federal Inland Revenue Service is satisfied that the tax authority in New York computes and assesses a company which operates an aircraft on a basis not materially different from that prescribed by Companies and Allied Matters Act Cap C21 LFN 2004 (as amended).
- (ii) The tax authority in New York has certified the adjusted profit and depreciation allowance ratios.
- (iii) Out of the overhead expenses, ₦2,194,500 relates to disallowable expenses.

Required:

Compute the taxes payable in Nigeria by Atlat Airline Limited for the relevant assessment year. (16 Marks)

- b. "E-commerce" and e-business present a major challenge for tax administrators given the often multi-jurisdictional nature of the transactions and the potential anonymity of the parties.

Based on the above, it is, therefore, crucial to give the subject a critical examination through the lenses of relevant statutes.

Required:

State the tax complexities of "e-commerce" and "e-business". (4 Marks)

(Total 20 Marks)

QUESTION 3

The Personal Income Tax Act Cap P8 LFN 2004 (as amended) defines employment to include any appointment or office whether public or otherwise for which remuneration is payable.

An employer shall register with the relevant tax authority for the purposes of deducting income tax from its employees with or without formal notification or direction by the relevant tax authority.

Required:

- a. Define an "itinerant worker". (2 Marks)
- b. Explain the conditions for taxation of income from employment. (10 Marks)
- c. State the penalties payable by employers who failed to file returns of emoluments paid to employees in the preceding year on January 31, of each year, with the relevant tax authority.

(8 Marks)

(Total 20 Marks)

QUESTION 4

- a. Under the provisions of Companies Income Tax Act Cap C21 LFN 2004 (as amended), for an expenditure to be allowable for tax purposes, it should be an expenditure incurred wholly, exclusively, necessarily and reasonably in earning the income of the company.

Despite the above – stated assertion, some donations are still allowable for tax purposes.

Required:

State the conditions that must be met before a donation is allowed for tax purposes. (8 Marks)

- b. Mr. James Adegun has been in Japan for so many years. There is pressure from his parents in Nigeria to return to the country to take advantage of so many favourable economic policies being put in place by the government.

Mr. James Adegun had a sudden meeting with you sometime in 2019 and intimated you of his desire to return to Nigeria. He was of the opinion that his business associates in Japan would be willing to invest in a free trade zone in Nigeria.

Required:

State **SIX** special tax incentives for enterprises operating in a free trade zone in Nigeria. (12 Marks)

(Total 20 Marks)

QUESTION 5

- a. In 2018, the 8th Assembly, House of Assembly, Lagos State, enacted the Land Use Charge Law 2018, to provide for the consolidation of property and land based charges and make provisions for the levying and collection of land use charge in Lagos State and for connected purposes.

Required:

State the **offences** and their **penalties** as stated in sections 29 and 30 of the law. (8 Marks)

- b. Mr. James Ado who is a successful businessman built a house for commercial purposes at Surulere, Lagos, in 2018.

You are given the following information:

- (i) The area of the land parcel is 3,600 square metres.
- (ii) The average market value of a land parcel in the neighbourhood, on a per square metre basis is ₦17,000 as determined by the professional valuers appointed by the Commissioner.
- (iii) The total developed floor area of building on the plot of land is 2,000 square metres.
- (iv) The average construction value of medium quality buildings and improvements in the neighbourhood, on a square metre basis, is put at ₦200, based on the market value of the property as determined by professional valuers.
- (v) The depreciation rate for the buildings and improvements of land based on age of building is put at 1%.
- (vi) The annual relief rate is 40%.
- (vii) The annual charge rate expressed as a percentage of the assessed market value of the property is 0.76% of the assessed value.

Required:

Compute the land use charge payable by Mr. James Ado.

(12 Marks)

(Total 20 Marks)

QUESTION 6

The National Tax Policy (NTP), 2017, provides the fundamental guidelines for the orderly development of the Nigeria tax system. The policy is expected to achieve the following specific objectives, among others:

- (i) Provide clarity on the roles and responsibilities of stakeholders in the tax system;
- (ii) Guide the operation and review of the tax system;
- (iii) Serve as a point of reference for all stakeholders on taxation;
- (iii) Provide the basis for future tax legislations and administration; and
- (iv) Provide benchmark on which stakeholders shall be held accountable.

Tax administration in Nigeria cuts across the three tiers of government. This tax policy document establishes clear guidelines on crucial tax administration issues.

In the context of the Nigeria Tax Policy, tax authorities at all levels shall administer their mandates in accordance with the following:

Registration of taxable persons;
Tax compliance;
Efficiency of administration;
Technology and tax intelligence; and
Dispute resolution.

Required:

Explain the administration of the mandates of tax authorities at the State level.

(20 Marks)

NIGERIAN TAX RATES

1. CAPITAL ALLOWANCES

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

2. INVESTMENT ALLOWANCE 10%

3. RATES OF PERSONAL INCOME TAX

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

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

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

- | | |
|------------------------------|---------------------------|
| 4. COMPANIES INCOME TAX RATE | 30% |
| 5. TERTIARY EDUCATION TAX | (2% of Assessable Profit) |
| 6. CAPITAL GAINS TAX | 10% |
| 7. VALUE ADDED TAX | 7.5% |

SECTION A**MULTIPLE – CHOICE QUESTIONS**

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

SECTION A - MCQ

Examiner's report

The questions cover all the components of the syllabus.

Most of the candidates attempted the questions and the performance was above average. The commonest pitfalls were the inability of the candidates to provide correct solutions to questions 5, 16 and 20.

Candidates are advised to cover all the topics in the syllabus before they sit for the Institute's examinations.

SECTION B

SOLUTION 1

(a) Chief Adio Jaiyesimi Trust

Computation of the net distributable income in the hand of the trustee

	₦	₦
Income:		
Trading profit	36,400,000	
Capital allowances	<u>(395,000)</u>	36,005,000
Dividend (gross)		305,000
Rental income (gross)		820,000
Interest received (gross)		118,500
Sundry income		<u>24,800</u>
Gross income		37,273,300
Expenses:		
Fixed annuity paid to Akeem	81,000	
Trustee's remuneration:		
Fixed	500,000	
Variable (5% of gross income)	1,863,665	
Allowable expenses of the trustee	<u>60,000</u>	<u>(2,504,665)</u>
Computed income		34,768,635
Discretionary payments:		
Akeem	300,000	
Ayodeji	250,000	
Olabisi	220,000	
Adekunle	<u>180,000</u>	<u>(950,000)</u>
Amount available for distribution		33,818,635
Dividend (gross)		<u>(305,000)</u>
Net amount available for distribution		33,513,635

Distribution:

Akeem	2,792,803	
Ayodeji	2,792,803	
Olabisi	2,792,803	
Adekunle	<u>2,792,803</u>	<u>(11,171,212)</u>
Net distributable income assessable to tax in the hand of the trustee		<u>22,342,423</u>

(b) Chief Adio Jaiyesimi Trust**Computation of assessable income in the hands of each beneficiary**

	Akeem ₦	Ayodeji ₦	Olabisi ₦	Adekunle ₦	Total ₦
Fixed annuity		81,000			81,000
Discretionary payments	300,000	250,000	220,000	180,000	950,000
Share of net distributable income	<u>2,792,803</u>	<u>2,792,803</u>	<u>2,792,803</u>	<u>2,792,803</u>	<u>11,171,212</u>
Assessable income of the beneficiaries	<u>3,092,803</u>	<u>3,123,803</u>	<u>3,012,803</u>	<u>2,972,803</u>	<u>12,202,212</u>

Examiner's report

The question tests candidates' knowledge of the computations of net distributable income and assessable income in the hands of a trustee and beneficiaries, respectively.

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

The commonest pitfalls of the candidates were their inability to deduct capital allowances from trading profit and dividend from amount available for distribution before arriving at the net amount available for distribution between the beneficiaries and the trustee.

Candidates are advised to pay attention to the computations of taxable income in the hands of trustees and beneficiaries.

Marking guide

	Marks	Marks
(a) Heading	1/2	
Income (1/2 mark each for any correct income)	2 1/2	
Capital allowances	1/2	
Gross income	1/2	
Expenses (1/2 mark for each correct expense)	2	
Computed income	1/2	
Discretionary payments (1/2 mark for each correct payment)	2	
Amount available for distribution	1/2	
Deduction of gross dividend	1/2	
Net amount available for distribution	1/2	
Distribution (1/2 mark for each correct amount)	2	
Net distributable income assessable to tax in the hands of the trustee	<u>1</u>	13
(b) Heading	1/2	
Fixed annuity	1/2	
Discretionary payments (1/2 mark for each correct amount)	2	
Share of distributable income (1/2 mark for each correct amount)	2	
Assessable income of the beneficiaries (1/2 mark for each correct amount)	<u>2</u>	<u>7</u>
		<u><u>20</u></u>

SOLUTION 2

- (a) **Atlat Airline Limited**
Computation of taxes payable
For 2019 assessment year

	₦
Income:	
Income from passengers loaded and flown out of Nigeria	241,305,000
Income from cargo freight from Nigeria to New York	<u>102,960,000</u>
	<u><u>344,265,000</u></u>
Assessable profit is ₦204,242,940 (income derived from Nigeria x 59.33% (vii))	204,242,940
Capital allowances is ₦4,234,460 (income derived from Nigeria x 1.23% (viii))	<u>(4,234,460)</u>
Total profit liable to tax in Nigeria	<u><u>200,008,480</u></u>

Companies income tax payable (~~₦~~200,008,480 x 30%) = ₦60,002,544.00

Tertiary education tax payable (~~₦~~204,242,940 x 2%) = ₦4,084,858.80

Minimum tax payable is 2% of the full sums receivable in respect of the carriage of passengers, mails, livestock or goods shipped or loaded into an aircraft in Nigeria = ₦344,265,000 x 2%
= ₦6,885,300

Given the fact that the minimum tax payable of ₦6,885,300 is lower than the companies income tax payable of ₦ 60,002,544, the latter becomes payable.

Workings:

(i) **Computation of adjusted profit**

	₦	₦
Net profit per accounts		532,263,500
Add:		
Depreciation	12,750,000	
Gifts to airport staff for gratifications	1,081,000	
Purchase of twin engine	54,700,000	
Allowance for doubtful debts	11,810,400	
Overhead expenses	<u>2,194,500</u>	<u>82,535,900</u>
Adjusted profit		<u>614,799,400</u>

(ii) **Computation of adjusted profit ratio**

$$\frac{\text{Adjusted profit}}{\text{Worldwide income}} \times 100\% = \frac{\text{₦}614,799,400}{\text{₦}1,036,285,100} \times 100\% = 59.33\% \text{ approximately}$$

Please note that the ratio used was the actual adjusted profit ratio not 59.33% as shown above.

(iii) **Computation of depreciation allowance ratio**

$$\frac{\text{Depreciation}}{\text{Worldwide income}} \times 100\% = \frac{\text{₦}12,750,000}{\text{₦}1,036,285,100} \times 100\% = 1.23\%$$

ALTERNATIVE SOLUTION

Atlat Airline Limited

Computation of taxes payable in Nigeria For 2019 assessment year

	₦	₦
Income from passengers loaded and flown out of Nigeria		241,305,000.00
Income from cargo freight from Nigeria to New York		<u>102,960,000.00</u>
		344,265,000
<u>Add: Allowable expenses</u>		
Use of airport facilities	49,800,000.00	
Staff salary	328,000,000.00	
Hotel bill for passengers	16,250,000.00	
Hotel bill for airline crew	21,670,200.00	
Other overhead expenses	<u>5,765,500.00</u>	
	<u>421,485,700.00</u>	
Proportion applicable to operations in Nigeria		
$\frac{\text{₦ } 421,485,700}{\text{₦ } 1,036,285,100} \times \text{₦ } 344,265,000$		<u>140,022,060</u>
Adjusted profit		204,242.940
Less: Capital allowances		
$\text{₦ } 344,265,000 \times 1.23\%$		<u>4,234,460</u>
Total profit		<u>200,008,480</u>
CIT @ 30%	₦ 200,008,480	<u>₦60,002,544.00</u>
TET @ 2%	₦204,242,940	<u>₦4,084,858.80</u>

(b) **Tax complexities in “e-commerce” and “e-business”**

With the accessibility to internet across borders, e-commerce transactions can involve people who are residents of more than one country, therefore, income arising out of such transactions may be taxed in more than one country.

E-commerce raises twin problems:

- (i) The determination of the character of income that is generated by the e-commerce transaction: is it royalty, business profit, or fees for technical service?
- (ii) The determination of income liable to tax, which necessitates the establishment of the existence of permanent establishment (PE) and determination of attributes of income, if any, to the PE.

Income characterisation

The Act as well as the tax treaties impose different tax treatments on different types of cross-border incomes, for example, business profits are generally sourced to the country where the income – producing business is based and taxed on a net basis. Royalty income, on the other hand, is generally sourced to the country where intellectual property was used (e.g. the country where the consumer of the intellectual property is resident) and may be subject to gross withholding taxes.

The digital world raises a number of problems with respect to income characterisation issues. Cross-border transactions involving the transmission of digital goods and services often make it difficult to determine whether a transfer of product has occurred, whether services have been performed, or whether an intangible product has been licensed. The problem is that transactions involving e-commerce are very difficult to track, thereby making it difficult for the tax authority to impose tax.

The existence of permanent establishment

Under the Nigerian tax system, companies resident in Nigeria are liable to pay tax on their global income, whilst non-resident companies are subject to tax in Nigeria only on the activities carried out within Nigeria through a permanent establishment.

For a non-resident company, therefore, where a tax liability arises in more than one jurisdiction, the company can seek relief from double taxation under existing double taxation treaties, which are by and large, adaptations of the OECD model tax convention.

The main challenge posed by e-commerce to the Nigerian tax system is that the law that governs direct taxes, that is, income taxes, are presently premised on the concept of permanent establishment (PE) as presently defined in the double taxation treaties. With the advent of e-commerce, the need for physical presence in the country receiving the goods or services is removed or at best diminished. This creates the problem of how to determine the right to tax profits that are derived from e-transactions.

On indirect taxes (VAT), the major challenge is how to track e-commerce transactions for purpose of VAT collection.

Examiner's report

The question tests candidates' knowledge of taxation of foreign air companies in Nigeria, and tax complexities of e-commerce and e-business.

About 80% of the candidates attempted the question. Candidates demonstrated a poor understanding of the question and its requirements, hence performance was below average.

In part (a) of the question, the commonest pitfalls of the candidates were their inability to compute adjusted profit ratio and depreciation allowance ratio. Additionally, some of them could not compute minimum tax liability and were unable to differentiate between allowable and allowable expenses. In part (b), most of the candidates could not explain the complexities of e-commerce and e-business.

Candidates are advised to familiarize themselves with the principles guiding the taxation of foreign air companies in Nigeria and the taxation of e-commerce and e-business.

Marking guide

	Marks	Total
(a) Heading	1	
Income from passengers loaded and flown out of Nigeria	$\frac{1}{2}$	
Income from cargo freight from Nigeria to New York	$\frac{1}{2}$	
Assessable profit	1	
Capital allowances	1	
Total profit	$\frac{1}{2}$	
CIT payable	1	
TET payable	1	
Minimum tax computation	1	
Computation of adjusted profit:		
Net profit per accounts	$\frac{1}{2}$	
Add backs (1 mark for each correct answer)	5	
Adjusted profit	1	
Computation of adjusted profit ratio	1	
Computation of depreciation allowance ratio	<u>1</u>	16
(b) Income characterization	2	
The existence of permanent establishment	<u>2</u>	<u>4</u>
		<u>20</u>

Marking guide (Alternative solution)

	Marks	Marks
(a) Heading	1	
Income (1 mark for each Nigerian income)	2	
Allowable expenses (1 mark for each correct answer)	5	
Computation of proportion applicable to operation in Nigeria (1 mark for total of allowable expenses and 1 mark for ratio)	2	
Adjusted profit	1	
Computation of capital allowances	2	
Total profit	1	
Companies income tax computation	1	
Tertiary education tax	<u>1</u>	16
(b) Income characterisation	2	
Existence of permanent establishment	<u>2</u>	<u>4</u>
		<u>20</u>

SOLUTION 3

(a) **“Itinerant worker”** means an individual irrespective of his status, who works at any time in any State during a year of assessment (other than as a member of the armed forces) for wages, salaries or livelihood by working in more than one State and work for a minimum of twenty (20) days in at least three (3) months of every assessment year.

(b) **Conditions for taxation of income from employment**

While PITA 2004 (as amended) provides for the taxation of individuals in Nigeria, it makes special provisions for the taxation of those in employment. Section 10 of PITA provides that the gain or profit from an employment shall be deemed to be derived from Nigeria if:

- (i) The duties of the employment are wholly or partly performed in Nigeria, unless:
 - The duties are performed on behalf of an employer who is in a country other than Nigeria and the remuneration of the employee is not borne by a fixed base of the employer in Nigeria;
 - The employee is not in Nigeria for a period or periods amounting to an aggregate of 183 days, (inclusive of annual leave or temporary period of absence) or more in any twelve months period commencing in a calendar year and ending either within that same year or the following year; and
 - The remuneration of the employee is liable to tax in that other country, under the provisions of the avoidance of double taxation treaty with other country.
- (ii) The employer is in Nigeria or has a fixed base in Nigeria;
- (iii) The gain or profit from any employment exercised in Nigeria shall be deemed to be derived from Nigeria whether the gains or profits from the employment are received in Nigeria or not;
- (iv) The gains or profits from any employment, the duties of which are wholly or mainly performed in Nigeria shall be deemed to be derived from Nigeria during any period of leave of the employee from the employment, and any period of his temporary absence on duty from Nigeria; and
- (v) Notwithstanding the above provisions, the gains or profits of an individual from any employment as a seafarer, other than any such employment in the Nigerian Navy or the Nigerian Ports Plc, shall be deemed to be derived from Nigeria only during any period in which the individual is serving under articles which he had signed in Nigeria or is

performing stand-by duty on board a ship preparatory to his signing articles in Nigeria.

(c) Penalties payable by employers who failed to file returns of all emoluments paid to employees in the preceding year with relevant tax authorities

Not later than thirty first day of January of each year, an employer is required to file a return with the relevant tax authority of all emoluments paid to employees in its employment in the preceding year. The return in respect of the employees shall show the total emoluments of each employee during the year, the tax relief, if any, and the total tax deducted from the employee.

The return specified above shall be accompanied by a statement and a declaration on form H1 or any other form approved or prescribed by the relevant tax authority.

Any employer who contravenes the above provisions shall be liable on conviction to a penalty of ₦500,000 in case of a body corporate and ₦50,000 in case of an individual.

Examiner's report

The question tests candidates' knowledge of taxation of employment income and the penalties payable by an employer for failing to file returns of emoluments paid to employees in the preceding year to the relevant tax authority in a State.

About 70% of the candidates attempted the question. Candidates demonstrated a poor understanding of the question, hence performance was poor.

Parts (a) and (b) were poorly attempted by the candidates as some of them could not explain "itinerant worker" and the conditions for taxation of income from employment. Additionally, they could not state the penalties payable by a corporate body or an individual for not filing tax returns in respect of all emoluments paid to employees in the preceding year.

Candidates are advised to read ICAN Study Text and Pathfinder when preparing for subsequent examinations to ensure better performance in future.

Marking guide

	Marks	Marks
(a) Definition of “itinerant worker”		2
(b) Conditions for taxation of income from employment (2 marks for each point)		10
(c) Penalties payable by an employer who failed to file returns		
2 marks for the due date of filing and information to be disclosed	2	
2 marks for documents to be attached to the return	2	
Penalties:		
2 marks for the penalty for corporate body	2	
2 marks for the penalty for an individual	<u>2</u>	<u>8</u>
		<u>20</u>

SOLUTION 4

- (a) The conditions for allowing donations made by a company as deduction in ascertaining the profit or loss chargeable to tax are as follows:
- (i) The donations must be made to the funds, bodies, institutions in Nigeria contained in the fifth schedule to CITA;
 - (ii) Donations must be made out of profit, that is, donations shall not be allowed in circumstances where it will increase the loss of a company or convert its profit into loss;
 - (iii) Donations must not be of a capital nature except donations to a university or other tertiary or research institutions; and
 - (iv) Donations must not exceed 10% of the company’s total profit for an assessment year before any deduction for donation. In the case of donation to a tertiary or research institution, up to 15% of total profit or 25% of tax payable in the year, whichever is higher, is allowable.
- (b) Approved enterprises in free trade zones in Nigeria shall be entitled to the following incentives:
- (i) Legislative provisions pertaining to taxes, levies, duties and foreign exchange regulations shall not apply within the zones;
 - (ii) Repatriation of foreign capital investment in the zones at any time with capital appreciation of the investment;
 - (iii) Remittance of profits and dividends earned by foreign investors in the zones;
 - (iv) No import or export licenses’ shall be required;
 - (v) Up to 25% of production may be sold in the customs territory against a valid permit and on payment of appropriate duties;

- (vi) Rent – free land at construction stage; thereafter, rent shall be as determined by the authority;
- (vii) Up to 100% foreign ownership of business in the zones is allowable; and
- (viii) Foreign managers and qualified personnel may be employed by companies operating in the zones.

Examiner’s report

The question is divided into two parts. Part (a) tests candidates’ knowledge of the conditions that must be met before a donation is allowed for tax purposes, whilst part (b) tests their knowledge on tax incentives for enterprises operating in a free trade zone.

Approximately 75% of the candidates attempted the question and performance was poor.

The commonest pitfall of the candidates was their inability to explain the incentives available for enterprises operating in free trade zones in Nigeria.

Candidates are advised to read widely before sitting for the Institute’s examinations.

Marking guide

	Marks
(a) Conditions that must be met before a donation is allowed for tax purposes (2 marks for each condition)	8
(b) Special incentives for enterprises operating in a free trade zone in Nigeria (2 marks for each incentive subject to a maximum of six incentives)	<u>12</u>
	<u>20</u>

SOLUTION 5

(a) **Offences and penalties as stated in Land Use Charge Law 2018, are as follows:**

(i) Offences

These include:

- Refusing or neglecting to comply with any provision of this law when required to do so by the property identification officer or an assessor;
- Preventing, hindering, or obstructing any property identification officer or an assessor in the course of his lawful duty; and
- Removing, damaging or destroying a property identification plaque on any property or building.

(ii) Penalties

These include:

- In respect of (a)(i) above, any person who commits any of the offences shall be liable on summary conviction to a maximum fine of two hundred and fifty thousand Naira only (N250,000.00) or to a maximum term of imprisonment for a period of three (3) months or both;
- Any person who incites another person to refuse to pay any rate under the LUC law on or before the day on which it is payable; or incites or assists any person to misrepresent in any way the chargeable capacity, commits an offence and will be liable on summary conviction to a maximum fine of two hundred and fifty thousand naira only (N250,000.00) or to a maximum term of imprisonment for a period of three (3) months or both; and
- Where a person who has received a LUC demand notice fails to pay the amount within the period specified in the notice, the charge payable shall be increased by the following percentage –
 - Between forty five (45) calendar days and seventy five (75) calendar days – 25%;
 - Between seventy five (75) calendar days and one hundred and five (105) calendar days – 50%; and
 - Between one hundred and five (105) calendar days and one hundred and thirty five (135) calendar days – 100%.

If payment is not made after 135 calendar days, the property on which the LUC is payable shall be liable to enforcement under the provisions of the law by the state or its appointed agent until all outstanding taxes, penalties and administrative charges are paid.

The owner is, however, entitled at any time to apply to the Commissioner for a release of the property and other moneys accruing to the owner upon payment of the outstanding taxes, penalties and administrative charges.

Note

It is pertinent to state that the penalties were reviewed in 2020 as follows:

- In respect of (a)(i) above, any person who commits any of the offences shall be liable on summary conviction to a maximum fine of one hundred thousand Naira only (₦100,000.00) or to a maximum term of imprisonment for a period of three (3) months or both;
- Any person who incites another person to refuse to pay any rate under the LUC law on or before the day on which it is payable; or incites or assists any person to misrepresent in any way the chargeable capacity, commits an offence and will be liable on summary conviction to a maximum fine of one hundred thousand Naira only (₦100,000.00) or to a maximum term of imprisonment for a period of three (3) months or both; and
- Where a person who has received a LUC demand notice fails to pay the amount within the period specified in the notice, the charge payable shall be increased by the following percentage-
- Between forty five (45) calendar days and seventy five (75) calendar days – 10%;
- Between seventy five (75) calendar days and one hundred and five (105) calendar days – 20%; and
- Between one hundred and five (105) calendar days and one hundred and thirty five (135) calendar days – 50%.

(b) **Mr. James Ado**

Computation of land use charge payable

Land use charge formula is

(Land value + building developments value) x relief rate x charge rate interpreted as

$$LUC = [(LA \times LR) + (BA \times BR \times DR) \times RR \times CR]$$

Where LUC = Annual amount of land use charge

LA = Area of the land parcel in square metres

LR = The average market value of a land parcel in the neighbourhood

- BA = The total developed floor area of building on the plot of land in square metres
- BR = The average construction value of medium quality buildings and improvements in the neighbourhood
- DR = The depreciation rate for the building and improvements of land
- RR = The rate of relief from tax
- CR = The annual charge rate expressed as a percentage of the assessed market value of the property.

Land value		₦
3,600 x ₦17,000	=	61,200,000
Building development value		
2,000 x ₦200 x 1%	=	4,000
Total of land and building development value		<u>61,204,000</u>

Using the formula, the land use charge payable is,
 = ₦61,204,000 x 40% x 0.76%
 = **₦186,060.16**

Examiner's report

The question tests the candidates' knowledge on offences and penalties payable under the Land Use Charge Law, 2018, of Lagos State, and the computation of land use charge payable on a property.

About 30% of the candidates attempted the question and they demonstrated a poor understanding of the question, hence performance was poor.

The commonest pitfalls were candidates' inability to explain the specified offences and penalties in Land Use Charge Law, 2018, of Lagos State, and they could not compute the land use charge payable on a property in Lagos State.

Candidates are advised to read relevant study materials in order to perform well in future examinations.

Marking guide

	Marks	Marks
(a) Offences		
(1 mark for each correct offence)	3	
Penalties		
(½ mark for each correct penalty)	<u>5</u>	8
(b) Heading	1	
Land value	2	
Building developments value	3	

Formula:

½ mark for each of the formulae

4

Ascertainment of correct land use charge payable

2

12
20

SOLUTION 6

Tax administration in Nigeria cuts across the three-tiers of government. This tax policy document establishes clear guidelines on crucial tax administration issues. In the context of the Nigeria tax policy, tax authorities at State level shall administer their mandates in accordance with the following:

(a) Registration of taxable persons

All taxable persons shall be registered and issued with taxpayer identification number (TIN) applicable nationwide. Tax authorities should leverage on the database of the Central Bank of Nigeria (CBN) on bank verification number (BVN), National Identify Management Commission (NIMC), Nigeria Communication Commission (NCC), Corporate Affairs Commission (CAC), Federal Road Safety Commission (FRSC), Nigeria Immigration Service (NIS) and other relevant sources. The current uncoordinated registration by different agencies should be harmonised.

(b) Tax compliance

Government shall apply all available resources and tools at their disposal to ensure that taxpayers voluntarily comply with their tax obligations. In order to improve voluntary compliance, the relevant tax authority in the State should ensure:

- (i) That the option for self-assessment is in place, and the process and procedures are simple;
- (ii) Development of frameworks for tax amnesty in order to expand the tax net;
- (iii) Focus on taxpayers' services;
- (iv) Constant tax education and enlightenment;
- (v) The overall performance of the tax system is measured and reported periodically; and
- (vi) The establishment of a system to recognize and honour compliant taxpayers.

(c) Efficiency of administration

The following are important in ensuring an efficient tax administration:

(i) Payment processing and collection

Collection system shall leverage on modern technology towards advancing ease of payment and prevention of revenue losses.

- (ii) **Record keeping**

Tax authorities shall partner with the relevant agencies to set up automated systems and adequately train tax officials in the use and maintenance of such systems. Electronic systems of record keeping in line with global best practices should be entrenched to enhance the tax administration process.
 - (iii) **Exchange of information**

Tax authorities shall develop an efficient framework for cooperation and sharing of information with other tax authorities. This will mitigate tax evasion and revenue losses.
 - (iv) **Enforcement of tax laws**

Tax authorities shall ensure the enforcement of civil and criminal sanctions as provided under the various tax laws.
 - (v) **Funding of tax departments**

Government shall provide adequate funding for tax departments. Accordingly, government should ensure that an adequate percentage of revenue collected should be provided to the departments for their operations.
 - (vi) **Funding for tax refunds**

Government shall provide adequate funding to meet refund obligations. Tax authorities shall ensure timely and efficient payment of refunds.
 - (vii) **Ease of paying taxes**

Tax authorities shall ensure that payment procedures and documentation are convenient and cost effective.
- (d) **Technology and tax intelligence**

Tax relevant tax authority in a State shall ensure:

 - (i) Deployment of technology to aid all aspects of tax administration;
 - (ii) The integrity and regular update of the database; and
 - (iii) A workable and secure structure for intelligence and information gathering.

(e) **Dispute resolution**

In the event of any dispute, the tax authority and relevant stakeholders shall leverage all amicable means of dispute resolution including arbitration and only resort to judicial determination as a last resort.

Examiner's report

The question tests the candidates' knowledge on the provisions of the National Tax Policy (NTP), 2017, with emphasis on the administration of the mandates of the relevant tax authority in each State.

About 65% of the candidates attempted the question and the performance was poor.

The commonest pitfall was candidates' lack of knowledge of the administration of the mandates of the relevant tax authority in a State. They spent time discussing the functions of the Joint Tax Board (JTB).

Candidates are advised to pay attention to this particular aspect of the syllabus.

Marking guide

	Marks
Registration of taxable persons	2
Tax compliance (1 mark for each correct answer subject to a maximum of 4 points)	4
Efficiency of administration (2 marks for each correct answer subject to a maximum of 4 points)	8
Technology and tax intelligence (2 marks for each correct answer subject to a maximum of 2 points)	4
Dispute resolution	<u>2</u>
	<u>20</u>

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

FOUNDATION LEVEL EXAMINATION – MAY 2021

BUSINESS, MANAGEMENT & FINANCE

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

SECTION A: MULTIPLE-CHOICE QUESTIONS (20 MARKS)

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

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

1. A technique used in evaluating the level of power of interest a stakeholder has in a company is termed
 - A. Mendelow matrix
 - B. Blanchard matrix
 - C. Hertberg model
 - D. BCG matrix
 - E. Porter five model

2. Which of the following is **NOT** a feature of entrepreneurial organisation?
 - A. There is no formal management structure
 - B. Owner does not delegate decision-making to other people
 - C. The entrepreneurial leader dominates the organisation
 - D. Entrepreneurial leader focuses on people and not the work
 - E. Owner is closely involved in the day-to-day operations of the business

3. A business organisational structure that creates segments on the basis of products or geographical location is best described as a structure
 - A. Functional
 - B. Regional
 - C. Service
 - D. Divisional
 - E. Matrix

4. Which of the following is **NOT** a feature of boundaryless organisational structure?
- A. Extensive use of teams
 - B. Elimination of organisational hierarchy
 - C. Authorises teams to make decisions
 - D. Face-to-face meetings
 - E. Builds teams without geographical barriers
5. An organisation with no tangible identity and whose employees may not have strong loyalty culture would be said to be operating astructure.
- A. Network
 - B. Modular
 - C. Virtual
 - D. Hollow
 - E. Boundaryless
6. The practice of moving jobs outside the country where an organisation is based in order to take advantage of incentives in the destination country is termed
- A. Outsourcing
 - B. Outshoring
 - C. Offshore outsourcing
 - D. Offsourcing
 - E. Offshoring
7. Which of the following activities may **NOT** be taken as part of manufacturing function in an organisation?
- A. Engineering and maintenance work
 - B. Physical delivery of goods to customers
 - C. Production planning and control
 - D. Quality control and checking
 - E. Inspection of finished goods

1. Which of the following is **NOT** part of the **FIVE** dimensions to differences in organisation culture as propounded by Hofstede?
 - A. Uncertainty avoidance dimension
 - B. Medium – termism orientation
 - C. Power-distance dimension
 - D. Individualism versus collectivism dimension
 - E. Masculinity versus femininity

2. Most e-mail systems support the use of folders to help manage and file e- mails. The e-mail system will normally include some standard folders except
 - A. Inbox
 - B. Sent
 - C. Maps
 - D. Deleted
 - E. Drafts

3. Which of the following attributes best describes a formal work team?
 - A. Comes together through the social interaction of its members
 - B. No specific objective or tasks
 - C. Decisions are taken by the group leader
 - D. Can be much more efficient in communicating information
 - E. Free entry and free exit

4. Which of the following is **NOT** a factor of motivation?
 - A. Wants
 - B. Rewards
 - C. Personality
 - D. Perceptions
 - E. Expectations

5. Herzberg in his two-factor theory identified two groups of factors causing dissatisfaction or satisfaction with work. Which of the following is a motivating factor?
 - A. Salary
 - B. Supervision
 - C. The work itself
 - D. Working conditions
 - E. Relationship with the boss

6. Which of the following **CANNOT** be classified amongst the scientific or classical management theorist?
- A. Elton Mayo
 - B. Henri Fayol
 - C. Lyndall Urwick
 - D. Frederick Taylor
 - E. David McClelland
7. Brown borrowed ₦150,000 at 6% p/a simple interest for 18 months, what is the value of interest due at the end of the period?
- A. ₦ 13,200
 - B. ₦ 13,500
 - C. ₦ 13,800
 - D. ₦ 14,000
 - E. ₦ 14,200
8. Blake wants to borrow ₦120,000 from Jerry. Blake is willing to pay back ₦127,000 in 3 months, what simple interest rate will he pay?
- A. 21.33%
 - B. 22.33%
 - C. 23.33%
 - D. 24.33%
 - E. 25.33%
 - F.
9. What is the effective rate for an account that pays 9.0% compounded monthly?
- A. 9.18%
 - B. 9.28%
 - C. 9.38%
 - D. 9.48%
 - E. 9.58%
10. Assuming a 6.5% time preference rate, what is the present value of ₦120,000 received two years from now?
- A. ₦104,799.11
 - B. ₦105,799.11
 - C. ₦106,799.11
 - D. ₦107,799.11
 - E. ₦108,799.11

11. Which of the following is **NOT** an advantage of accounting rate of return (ARR) method of investment appraisal techniques?
- A. It is based on accounting profit
 - B. Measures profitability
 - C. Simple to calculate
 - D. Widely understood
 - E. Focuses on all the years of the project's life
12. Which of the following is **NOT** a source of long-term funds for a public limited liability company?
- A. Retained earnings
 - B. Bonus issue
 - C. Rights issue
 - D. Initial public offer (IPO)
 - E. Further offer
13. Which of the following is relevant to investment decisions?
- A. Committed cost
 - B. Notional cost
 - C. Present cost
 - D. Stock cost
 - E. Apportionment of overheads cost

SECTION B: OPEN-ENDED QUESTIONS (80 MARKS)

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

QUESTION 1

- a. Protectionism takes the form of government measures to discourage or prohibit imports of foreign goods. State **TWO** measures countries adopt to protect industries against foreign competition. (4 Marks)
- b. Theoretically, disequilibrium in international payments could be rectified by a fall in the exchange value of the currency of countries that have a deficit in

their balance of payments in goods and services. What are the implications of taking this measure? (6 Marks)

- c. Governments of nations sometimes use economic policies to achieve political, social or economic objectives. As an integral part of the Nigerian government's medium term fiscal framework, there is a proposal to remove fuel subsidy in 2021. According to economic theory, state **TEN** possible economic impacts of the removal of fuel subsidy in Nigeria. (10 Marks)

(Total 20 Marks)

QUESTION 2

An important contribution to ideas about the management of teams was made by Belbin. He studied the behaviour of individuals in teams and the 'team role' that each individual plays. He defined a team role as 'our tendency to behave, contribute and interrelate with others in a particular way'.

You are required to:

- a. State and describe briefly the **THREE** main groups of Belbin team roles. (6 Marks)
- b. For each of the **THREE** Belbin groups, state and describe the **THREE** team roles it includes. (9 Marks)
- c. According to Belbin, what are the factors that contribute to the most successful team work? (5 Marks)

(Total 20 Marks)

QUESTION 3

CASHIO Limited must choose between two investments, Project ABUWA and Project BRIWA. It cannot undertake both investments. The expected cash flows for each project are:

Year	Project ABUWA	Project BRIWA
	₦	₦
0	(800,000)	(800,000)
1	200,000	600,000
2	360,000	240,000
3	360,000	20,000
4	170,000	-

The company has a policy that the maximum permissible payback period for an investment is three years and if a choice has to be made between the two projects, the project with the earlier payback will be chosen.

Required:

- a. Calculate the payback period for each project:
 - i. Assuming that cash flows occur at that year end
 - ii. Assuming that cash flows after Year 0 occur at a constant rate throughout each year (16 Marks)
- b. Which project should be selected according to the company's payback rule (2 Marks)
- c. State the reasons for your decision in (b) above. (2 Marks)

(Total 20 Marks)

QUESTION 4

Felfred Limited is contemplating buying a new item of equipment to facilitate the improvement of the quality of services provided to customers of the company. Two models of the needed equipment are currently available in the market. The two machines, Xetoy and Whytox would cost ₦750,000 and ₦1,500,000 respectively. Additional information in relation to the two equipment is as stated below:

	Equipment Xetoy	Equipment Whytox
Estimated Lifespan	5 years	5 years
Expected Cash inflows / Year	₦	₦
2021	500,000	500,000
2022	500,000	500,000
2023	300,000	600,000
2024	200,000	600,000
2025	100,000	600,000
Disposal value	50,000	100,000

Based on Net Present Value (NPV) and Discounted Payback Period methods of investment appraisal, you are required to select the equipment in which the value of shareholders will be maximised. Costs of installation for Xetoy and Whytox are ₦50,000 and ₦100,000 respectively. The company's minimum required rate of return is currently at 12%. (20 Marks)

(Total 20 Marks)

QUESTION 5

Leadership means giving a lead to others. A leader gives guidance and direction and the others ('followers') follow the lead that they are given.

You are required to:

- a. Describe the main elements of Adair's concept of action-centred leadership. (6 Marks)
- b. State the main skills required within each of Adair's **THREE** leadership groups. (11 Marks)

c. Explain Adair's 50/50 rule.

(3 Marks)
(Total 20 Marks)

QUESTION 6

a. In a normal situation or circumstance, employees are expected to report unethical or illegal conduct to the supervisor or manager. State **TWO** problems that may arise that would make an employee to use a different reporting channel. (5 Marks)

b. State the expectations of the public in respect of the accountants and the professional bodies they affiliate with. (5 Marks)

c. What are the roles expected of the professional accountancy bodies in promoting ethical behaviour in the business environment? (10 Marks)

(Total 20 Marks)

SOLUTION MCQs

1. A

2. D

3. D

4. D

5. C

6. E

7. B

8. B

9. C

10. C

11. A

12. C

13. E

14. B

15. C

16. C

17. B

18. A

19. B

20. C

20 marks

Workings

Question 14

$$I = P.r.t$$

$$I = \text{₦} 150,000(0.06)(18/12) = \text{₦} 13,500$$

Question 15

$$A = P(1 + rt)$$

$$127,000 = 120,000(1 + .25r)$$

$$127,000 = 120,000 + 30,000r$$

$$7,000 = 30,000r$$

$$r = 7,000/30,000$$

$$r = 0.2333 = 23.33\%$$

Question 16

$$r_E = (1 + r/m)^m - 1$$

$$r_E = (1 + 0.09/12)^{12} - 1$$

$$r_E = 1.093806898 - 1$$

$$r_E = 0.093806898$$

$$r_E = 9.38\%$$

Question 17

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

$$P = 120,000(1 + .065)^{-2}$$

$$P = 120,000(0.8816)$$

$$P = \text{₦}105,799.11$$

Examiner's report

The questions test students' understanding of the entire syllabus. It was attempted by all the candidates being a compulsory question.

The performance was above average.

SECTION B

SOLUTION 1

- (a) Measures adopted by countries to protect industries against foreign competition are as stated below:
- i. the imposition of high import taxes on goods coming into the country
 - ii. setting quota limits on the amount of goods that can be imported
 - iii. putting a ban on imports of some types of good.

- (b) Implications of a fall in the exchange value of the currency of countries that have a deficit in their balance of payments in goods and services.
- i. Local currency becomes cheaper relative to other currencies.
 - ii. Exports to the debtor country therefore become relatively cheaper and buyers in other countries will buy more of them.
 - iii. Imports from other countries become relatively more expensive consequently domestic buyers will buy fewer imported goods (and might switch to buying more domestically-produced goods).
 - iv. If exports go up and imports fall, the balance of payments position in goods and services will improve.
 - v. A very substantial change in foreign currency exchange rates is needed to rectify a very large disequilibrium in international payments.
 - vi. Inflation increases prices of goods and services.
 - vii. Increase in remittance from abroad (inflows).
- (c)
- i. Deregulation and removal of the subsidy will lead to initial inflationary pressures
 - ii. The market will open up to investors
 - iii. Significant capital will flow into the downstream sector
 - iv. More private refineries will open for business in Nigeria
 - v. Market will self-regulate
 - vi. Prices for refined petroleum products and related goods and services will revert to natural market levels
 - vii. Competition will force prices down
 - viii. Less pressure on foreign reserves
 - ix. Government would gain access to funds to develop infrastructure
 - x. Borrowing will reduce
 - xi. Increased local investment Foreign Direct Investment (FDI) in the oil sector;
 - xii. Reduced importation of refined products significantly in the medium to long term.

Examiner's report

The question examines candidates on protectionism. Majority of the candidates attempted the question and the performance was average. The main pitfall is inability of students to identify measures that can be adopted to protect industries against foreign competition.

Candidates are encouraged to make adequate use of the study pack for subsequent examinations.

Marking guide

	Details	Mark	Total
1 a	Any 2 points x 2 marks	4	
b	Any 4 x 1½ marks	6	
c	Any 10 points x 1 mark	10	20

SOLUTION 2

- (a) The nine team roles are grouped into three broad groups:
- i. **Doing/Acting (Action Focused Team Roles)**
Some team members are good at getting things done. When they discover what needs to be done, they do it or encourage others to do it.
 - ii. **Problem-Solvers and Thinkers (Thought Focused Team Roles)**
Teams are often confronted with problems and difficulties that need to be resolved. Some team members need to be good at finding answers to problems.
 - iii. **Showing Concern for People (People Focused Team Roles)**
A team is a group of individuals acting together in a work environment. A successful team needs members who have skills in bringing the team together, by showing concerns for others, by helping others or through communicating well with others and showing a concern for the team as a unit.
- (b) **Doing/Acting (Action Focused Team Roles)**
- i. **Implementer:**
He is a well-organised and predictable person. He takes basic ideas and makes them work in practice. However, he can be slow.
 - ii. **Shaper:**
He is a person with energy, and full of action. He challenges other members of the team to move forward and make progress. However, he can be insensitive to the feelings of others.
 - iii. **Completer/finisher:**
He is a person who is reliable in seeing a task through to the end and getting it finished. He sorts out minor problems and makes sure that everything is working well. However, he can worry too much and may not trust other people.

Problem-Solvers and Thinkers (Thought Focused Team Roles)

- i. **Plant:**
He is a person who solves difficult problems with original and creative ideas. However, he is a poor communicator and may ignore details.
- ii. **Monitor/evaluator:**
He is a person who 'sees the big picture'. He thinks accurately and carefully about issues. However, he may lack energy and the ability to inspire other people.
- iii. **Specialist:**
He is a person who is driven by a pursuit of knowledge and information, and wants to go into detail. The 'specialist' role is a behavioural characteristic rather than functional specialism. However, he becomes an expert in some key areas and will solve problems in those areas. He may be disinterested in all other areas of the team's activities.

Showing Concern for People (People Focused Team Roles)

He is a respected leader who helps everyone else in the team to focus on their particular tasks. However, he may be seen as wanting to control things too much.

- i. **Team worker:**
He is a person who cares for individuals and the team, and who is a good listener. He works hard to resolve social problems between other team members. However, he may find it hard to take difficult decisions.
- ii. **Resource-investigator:**
He is a person who explores new ideas and possibilities with enthusiasm, and discusses them with others. He is a good 'networker'. However, he may be over-optimistic and may lose energy after an initial period of enthusiasm.

(c) Belbin suggested that teams will work most successfully when team members:

- i. Appreciate a suitable balance amongst the different roles
 - ii. Understand their role in the team
 - iii. Work to their strengths, and
 - iv. Try to manage their weaknesses
- Can assess the role or roles played by each team member, and identify the roles that the current team members do not fulfil.

Examiner's report

The question tests candidates' knowledge of Belbin team roles. Majority of the candidates attempted the question and their performance was average. The major pitfall for candidates is inadequate coverage of the ICAN study pack.

Candidates are encouraged to use the study pack adequately for subsequent examinations.

Marking guide

	Details	Marks
2 a	Stating the 3 broad groups x 1 mark	3
	Explaining the 3 broad groups x 1 mark	3
b i	Stating the team roles x ½ mark	1½
	ii Explaining the 3 team roles x ½ mark	1½
iii	Stating the 3 team roles x ½ mark	1½
	Explaining the 3 team roles x ½ mark	1½
c	5 points x 1 mark	5
	Total	20

SOLUTION 3

PROJECT ABUWA

Year	Cash Flow ₦
0	(800,000)
1	200,000
2	360,000
3	360,000
4	170,000

PROJECT BRIWA

Cumulative Cash Flow ₦	Cash Flow ₦	Cumulative Cash Flow ₦
(800,000)	(800,000)	-800,000
-600,000	600,000	-200,000
-240,000	240,000	40,000
120,000	20,000	60,000
290,000		

- (a) i. Assuming that cash flows occur at year end

$$\text{Pay Back Period} = A + \frac{B}{C}$$

Where;

A = the last year with a negative cumulative cash flow

B = the absolute value of cumulative net cash flow at the end of the period A
(the last year with a negative cumulative cash flow)

C = the total cash inflow during the period following period A

Workings:

- (i) Assuming cash flows occur at a constant rate throughout the year:

Project ABUWA will pay back after

$$2 \text{ years} + \{(240,000 / 360,000) \times 12 \text{ months}\} \\ = 2 \text{ years } 8 \text{ months}$$

Project BRIWA will pay back after

$$1 \text{ year} + \{(200,000 / 240,000) \times 12 \text{ months}\} \\ = 1 \text{ year } 10 \text{ months}$$

If cash flows occur at the end of each year, project ABUWA will pay back at the end of year 3 and project BRIWA will pay back at the end of year 2.

- (ii) Assuming that cash flows after Year 0 at a constant rate throughout each year:

$$\text{Pay Back Period} + \frac{\text{Initial Outlay}}{\text{Annual Constant Cash Flow}}$$

PROJECT ABUWA

Cash flow after year 0 = ₦ 200,000

$$\text{Pay Back Period} = \frac{\text{₦}800,000}{\text{₦}200,000} \\ = 4 \text{ years}$$

PROJECT BRIWA

Cash flow after year 0 = ₦600,000

$$\text{Pay Back Period} = \frac{\text{₦}800,000}{\text{₦}600,000} \\ = 1.33 \text{ years}$$

Assuming cash flows after Year 0 is at a constant rate throughout each year, project ABUWA will pay back at the end of year 4 and project BRIWA will pay back at the end of year 2.

- (b) According to the company's pay back rule, the preferred choice is project BRIWA.

- (c) Cashio Ltd maximum permissible payback period for an investment is 3 years. Under the first assumption wherein cash flows occur at the year end, the two projects paid back within three years. The Pay Back Period method rules state that where two projects are mutually exclusive, the project with a shorter payback should be selected. Project Briwa was therefore selected because it will pay back itself in a 1 year and 10 months' time as against project Abuwa that will pay back itself in 2 years 8 months' time.

Cashio Ltd maximum permissible payback period for an investment is 3 years. Under the second assumption wherein cash flows after Year 0 occur at a constant rate throughout each year, Project Briwa was selected because it will pay back itself in a 1 year and 4 months' time as against Project Abuwa that will pay back itself in 4 years' time. Additionally, Project Abuwa was disqualified because its calculated Pay Back Period of 4 years is above the company's maximum of 3 years.

Total 20 Marks

Examiner's report

The question tests candidates' knowledge of project evaluation. Majority of the candidates attempted the question and the performance was average. The major pitfall for candidates is inadequate understanding of the ICAN study pack.

Candidates are encouraged to use the study pack adequately for subsequent examinations.

Marking guide

	Details	Marks
a	5 ticks as indicated in the table x 1 mark	5
	Solution under the first assumption	6
	Solution under the second assumption	5
b	Stating the right project	2
c	Stating 2 reasons x 1 mark each	2
		<hr/> 20

SOLUTION 4

Using Discount Factors at 4 Significant Figures

Xetoy

Year	Cash Flow ₦	DF@ 12%	P V ₦	Cum P V ₦
2020	-800,000	1.0000	-800,000	-800,000
2021	500,000	0.8928	446,400	-353,600
2022	500,000	0.7972	398,600	45,000
2023	300,000	0.7118	213,540	
2024	200,000	0.6355	127,100	
2025	150,000	0.5674	85,110	
		NPV	488,750	

$$\text{Discounted Payback Period} = 1 \text{ year} + \frac{353,600}{398,600} \times 12$$

$$\text{Discounted Payback Period} = 1.88 \text{ years}$$

Whytox

Year	Cash Flow ₦	DF @ 12%	PV ₦	Cum P V ₦
2020	-1,600,000	1.0000	-1,600,000	-1,600,000
2021	500,000	0.8928	446,400	-1,153,600
2022	500,000	0.7972	398,600	-755,000
2023	600,000	0.7118	427,080	-327,920
2024	600,000	0.6355	381,300	53,380
2025	700,000	0.5674	397,180	
		NPV	450,560	

$$\text{Discounted Payback Period} = 3 \text{ years} + \frac{327,920}{381,300} \times 12$$

$$\text{Discounted Payback Period} = 3 \text{ years} + 10.32 \text{ months}$$

	Xetoy	Whytox
Initial outlay	₦ 800,000	₦ 1,600,000
Discounted Payback	1.88 years	3.86 years
NPV	₦488,750	₦450,560

Project Xetoy will pay back earlier and also has the higher NPV. Therefore, Project Xetoy should be selected.

OR

Using Discount Factors at 3 Significant Figures

Xetoy

Year	Cash Flow ₦	DF@ 12%	P V ₦	Cum P V ₦
2020	-800,000	1.000	-800,000	-800,000
2021	500,000	0.893	446,500	-353,500
2022	500,000	0.797	398,500	45,000
2023	300,000	0.712	213,600	
2024	200,000	0.636	127,200	
2025	150,000	0.567	85,050	
		NPV	470,850	

$$\text{Discounted Payback Period} = 3 \text{ years} + \frac{353,500}{398,500} \times 12$$

$$\text{Discounted Payback Period} = 1.87 \text{ years}$$

$$\text{Approx} = 1.92 \text{ years}$$

Whytox

Year	Cash Flow ₦	DF @ 12%	PV ₦	Cum PV ₦
2020	-1,600,000	1.000	-1,600,000	-1,600,000
2021	500,000	0.893	446,500	-1,153,500
2022	500,000	0.797	398,500	-755,000
2023	600,000	0.712	427,200	-327,800
2024	600,000	0.636	381,600	53,800
2025	700,000	0.567	396,900	
		NPV	450,700	

$$\text{Discounted Payback Period} = 3 \text{ years} + \frac{327,800}{381,600} \times 12$$

$$\text{Discounted Payback Period} = 3.86 \text{ years}$$

$$\text{Approx} = 3.83 \text{ years}$$

	Xetoy	Whytox
Initial outlay	₦ 800,000	₦ 1,600,000
Discounted Payback	1.87 years	3.86 years
NPV	₦470,850	₦ 450,700

Project Xetoy will pay back earlier and also has the higher NPV. Therefore, Project Xetoy should be selected.

Examiner's report

The question tests candidates' knowledge of investment appraisal. The performance was averagely good. The major pitfall for candidates is inadequate usage of the ICAN study pack.

Candidates are encouraged to use the study pack adequately for subsequent examinations.

Marking guide

	Details	Marks	Marks
a	Project Xetoy		
	Stating correct cash out flow in year x 2020	1/4	
	Stating correct cash out flow in year 2025	1/4	
	Stating correct df @ 12% for each year (5 x 1/2 mark)	2 1/2	
	Stating correct PV from year 2020 – 2025 (7 x 1/2 mark)	3 1/2	
	Stating correct Cum. PV from year 2020 – 2022 (3 x 1/2 mark)	1 1/2	
	Correct calculation of discounted Payback (2 1/2 marks)	1	
	Whytox		
	Stating correct cash out flow in year 2020	1/4	
	Stating correct cash out flow in year 2025	1/4	
	Stating correct df @ 12% for each year (5 x 1/2 mark)	2 1/2	
	Stating correct PV from year 2020 – 2025 (7 x 1/2 mark)	3 1/2	
	Stating correct Cum. PV from year 2020 – 2024 (5 x 1/2 mark)	2 1/2	
	Correct calculation of discounted Payback (2 x 1/2 mark)	1	
	Correct choice of project to be undertaken (1 mark)	1	20

SOLUTION 5

- (a) i. Task:
The action that is taken to achieve the task while adequately meeting the demands of the task
- ii. Team:
Managing and maintaining the team to encourage effective teamwork and group's cohesion.
- iii. Individual: The action that is taken to address and meet team member's individual needs

(b) i. **Achieving the task**

- i. Define the task and the objectives/goals
- ii. Make the plan for achieving the task
- iii. Identify and acquire the resources needed
- iv. Establish responsibilities for group members
- v. Set standards and target performance standards
- vi. Establish reporting systems
- vii. Control actual performance through comparison with the performance
- viii. Review on completion of the task

ii. **Managing the team**

- i. Agree standard of performance/behaviour
- ii. Establish the culture of the group
- iii. Maintain ethical standards and discipline
- iv. Resolve conflicts between group members
- v. Change the balance/ membership of the group when necessary
- vi. Develop the ability of the team members to work together
- vii. Build team morale. Motivate the group as a team
- viii. Develop the collective skills and maturity of the group
- ix. Facilitate communications – within the group and externally
- x. Consult with the group
- xi. Give the group feedback on its performance
- xii. Provide group training

(iii) **Managing individuals**

- i. Understand the team members as individuals (personality, skills, needs)
- ii. Assist individuals
- iii. Give support to individuals
- iv. Appreciate individuals
- v. Agree individual responsibilities and objectives
- vi. Make use of the strengths and skills of the individual
- vii. Reward individuals (for example with more responsibility or higher status)
- viii. Train and develop individual team members

(c) **Adair's 50/50 rule**

Leadership is influential, but effective leadership on its own is not sufficient.

- i. 50% of motivation comes from within the individual. The other 50% of motivation comes from influences outside the individual, including the influence of the leader.

- ii. 50% of building a successful team comes from the team members and 50% comes from the leader of the team.

Total 20 Marks

Examiner’s report

The question tests candidates’ knowledge of Leadership. Majority of the candidates attempted the question and the performance was good. The major pitfall for candidates is inadequate usage of the ICAN study pack.

Candidates are encouraged to use the study pack adequately for subsequent examinations.

Marking guide

Details	Mark	Total
A Stating the 3 main elements x 1 mark	3	
Describing the 3 main elements x 1 mark	3	
b i. Stating any 8 main skills required within achieving the task x ½ mark	4	
ii. Stating any 8 main skills required for managing the team x ½ mark	4	
iii. Stating any 6 main skills required for managing individuals x ½ mark	3	
2 points to explain Adairs 50/50 rule x 1½ marks	3	
		20

SOLUTION 6

- (a) An employee would use a different reporting channel in the following situations:
 - i. When the supervisor or manager is involved in the illegal or unethical activity
 - ii. When the employee has spoken to the supervisor or manager about the problem, but the supervisor or manager has dismissed it as something that is not important.
 - iii. When the employee has spoken to the supervisor or manager about the problem, but the supervisor or manager has taken no action

- (b) The general public has a very high expectation of the accountancy profession. Reasons advanced to support this view include but are not limited to the fact that:
 - i. Detecting and reporting any serious misdemeanor or crime
 - ii. Protecting health and public safety
 - iii. Preventing the public from being misled by a statement or action by an individual or an organisation

- iv. Exposing the misuse of public funds and corruption in government
- v. Revealing the existence of any conflict of interests of those individuals who are in a position of power or influence
- vi. Many non-accountants do not have much understanding of accounting issues and so, rely on accountants to ensure that financial reporting is reliable and 'fair.'
- vii. Professional accountants in practice (Auditors) are seen, by many members of the public as a safeguard against fraud.
- viii. The public is of the view that accountancy profession is guided by ethical standard.

(c) The role of the accountancy bodies should be that of offering unflinching support to reinforce this public perception of an ethical profession. This can be achieved by:

- i. Formulation, promotion and enforcement of acceptable levels of behaviour of members
- ii. Setting standards of behaviour and communication of such standard through a code of ethics as well as examination and training systems
- iii. Identifying area of concern and deliberating on them with members through consultation and debate
- iv. Setting minimum standards through their system of regulation
- v. Representing the concerns of the profession and explaining the approaches that the profession has adopted in order to resolve ethical conflicts to the public at large
- vi. Issuing codes of conduct
- vii. Issuing codes of ethics
- viii. Expecting all their members to comply with the requirements of the codes of conduct and ethics
- ix. Ensuring members act in the public interest whenever the situation or circumstance demands

Total 20 marks

Marking guide

Details	Marks
a Stating any 2 problems x 2½ marks	5
b Stating any 2 expectation of the public x 2½ marks	5
c Stating any 5 roles x 2 marks	<u>10</u>
Total	<u>20</u>

Examiner's report

The question tests candidates' understanding of the expected roles of professional accountancy bodies in promotion ethical behaviour. Majority of the candidates attempted the question and the performance was average.

Candidates are encouraged to use the ICAN study pack adequately for improved performance.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

FOUNDATION LEVEL EXAMINATION – MAY 2021

BUSINESS LAW

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

SECTION A: MULTIPLE-CHOICE QUESTIONS (20 MARKS)

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

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

1. Which of the following is not a written law?
 - A. Act
 - B. Decree
 - C. Bye-law
 - D. Edict
 - E. Common law

2. Which of the following is not an equitable remedy?
 - A. Injunction
 - B. Specific performance
 - C. Damages
 - D. Rescission
 - E. Rectification

3. The length of notice that a company must give to a member for an Extraordinary General Meeting is
 - A. 15 days
 - B. 17 days
 - C. 19 days
 - D. 21 days
 - E. 25 days

4. The power of a partner to bind the firm is revoked by
 - A. Amortisation
 - B. Merger
 - C. Restructuring
 - D. Dissolution
 - E. Articulation

5. Which of the following is an option for a company that is in financial distress in Nigeria?
- A. Receivership
 - B. Subrogation
 - C. Novation
 - D. Upsizing
 - E. Redemption
6. Members of professional bodies are regulated by law and
- A. Ethical codes
 - B. Peer review
 - C. Morality
 - D. Clients
 - E. Conditional ties
7. A person that procures property or credit by a cheque that is dishonoured could be charged with
- A. Stealing by trick
 - B. False procurement
 - C. Obtaining by false pretence
 - D. Contracting by fraud
 - E. Conversion
8. In verifying a customer's account, a bank shall require its body corporate customer to provide, among other things, valid official documents of a transaction by it of not more than
- A. 3 months
 - B. 4 months
 - C. 5 months
 - D. 6 months
 - E. 7 months
9. The internal records of an Internet Service Provider (ISP) of a customer's online activity is admissible in evidence as business records if
- A. Implied
 - B. Implicated
 - C. Authenticated
 - D. Ratified
 - E. Annexed

10. An acceptance that is subject to contract indicates a
- A. Continuing negotiation
 - B. Void contract
 - C. Valid contract
 - D. Voidable contract
 - E. Closed negotiation
11. An offer to receive an offer is known also as an
- A. Intention to receive acceptance
 - B. Invitation to treat
 - C. Inclusion of consideration
 - D. Implosion of offer
 - E. A considerate offer
12. Which of the following is not a tort that affects economic interest?
- A. Detinue
 - B. Conversion
 - C. Passing off
 - D. Deceit
 - E. Bailment
13. A hire purchase contract does not involve transfer of
- A. Possession
 - B. Title
 - C. Indemnity
 - D. Proposal
 - E. Inventory
14. Which of the following is not a subject matter of a sale of goods contract?
- A. Motor car
 - B. Ascertained goods
 - C. Unascertained goods
 - D. Specific goods
 - E. Personality
15. A contract by which the representative of a party is to receive a specific sum of money on the occurrence of an event that is bound to happen is a contract of
- A. Insurance
 - B. Novation
 - C. Compensation

- D. Assurance
 - E. *Quantum meruit*
16. The contract by which a person is subject to the control of his master is a contract of
- A. Control
 - B. subjugation
 - C. Tortal involvement
 - D. Service
 - E. Work
17. Where there is no certainty of intention in a trust relationship, the grantee
- A. Returns the property to the public trustee
 - B. Gives the property to a charitable organisation
 - C. Approaches the donor's counsel
 - D. Distributes the property to the donee's next-of-kin
 - E. Takes the property absolutely
18. The process by which parties to a dispute engage the assistance of a neutral third party to intervene in resolving the dispute is called
- A. Mediation
 - B. Conciliation
 - C. Arbitration
 - D. Facilitation
 - E. Fence building
19. Who, of the following, is not a special agent?
- A. Factor
 - B. Broker
 - C. Auctioneer
 - D. *Del credere* agent
 - E. Vendor
20. Under the Money Laundering (Prohibition) Act, except through a financial institution, a cash payment of not more than ₦5,000,000 must not be made by a/an
- A. Private company
 - B. Body corporate
 - C. Non-governmental organisation having incorporated trustees
 - D. Individual
 - E. Government agency

SECTION B: OPEN-ENDED QUESTIONS (80 MARKS)

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

QUESTION 1

- a. The Constitution of the Federal Republic of Nigeria has a number of key features.

Required:

State **FOUR** characteristics of the Constitution of the Federal Republic of Nigeria. (4 Marks)

- b. Kokori and Jendor have a dispute arising from non-execution of a contract that Kokori awarded to Jendor about four years ago. Kokori intends to go to court on the matter, and he has been advised that the matter falls under one of the two broad divisions of law.

Required:

State **FOUR** characteristics of the broad division of law that applies to the dispute between Kokori and Jendor. (4 Marks)

- c. Oguche and Agoro have been friends for twenty-five years. They agreed to trade together by contributing money to buy textile materials from Aswani market in Lagos, Aba market in Abia State, and Sabongari market in Kano. The two friends have been buying the materials and sharing them for sale in towns and villages in Oyo State, Nigeria. Recently, Agoro bought textile materials from Kano when he visited his political associates in that city. Agoro resold the materials at a huge profit, and when Oguche became aware of that fact, he approached Agoro, demanding a share in the profit of the resale, basing his entitlement on the argument that they are partners. Agoro has refused to share the profit with Oguche, and the latter has approached you for an advice.

Required:

- i. Advise Oguche on whether or not he is entitled to a share in the profit that Agoro made. (6 Marks)
- ii. Would you have advised Oguche differently if the two friends had a registered partnership under the name and style "Oguche and Agoro Ventures"? (6 Marks)

(Total 20 Marks)

QUESTION 2

- a. The lead regulatory agency for companies in Nigeria is the Corporate Affairs Commission, which is established by the Companies and Allied Matters Act.

Required:

State **FOUR** functions of the Corporate Affairs Commission. (8 Marks)

- b. Adigwe and his two sons caused Adigwe and Sons Limited to be incorporated and became the first directors of the company. The company traded profitably for five years after it was incorporated, but it is about to be wound up because it owes trade creditors a huge amount of money. Adigwe holds 95% of the issued shares of the company while each of his two sons holds 2^{1/2}%. The creditors of Adigwe and Sons Limited have discovered that the assets of the company are insufficient to satisfy their claims and have filed an action to recover the money from Adigwe who holds most of the shares of the company.

Required:

Explain to the creditors of Adigwe and Sons Limited their chance of succeeding in their claim against Adigwe. (8 Marks)

- c. Receivership is an alternative to company liquidation.

Required:

Explain receivership.

(2 Marks)

(Total 20 Marks)

QUESTION 3

- a. The Companies and Allied Matters Act classifies companies broadly into 'private company' and 'public company'.

Required:

State **FOUR** characteristics **each** of a private company and a public company respectively. (8 Marks)

- b. Okonto, an employee of a Federal Government Agency, had a parcel of land allocated to him in the proposed estate of the Agency in Abuja. To facilitate the building of a bungalow on the land pursuant to the Agency's staff home ownership scheme, the Agency gave Okonto a housing loan. Okonto purchased an application form with the housing loan from one of the major political parties so as to contest for a senatorial seat in his home state on the platform of that party. Okonto planned to build the bungalow later from his income as a Senator.

Required:

Explain to the Director-General of Okonto's Agency the legal implication of Okonto's action in criminal law. (6 Marks)

- c. Evidence generated by a Global System for Mobile communication (GSM) phone is admissible by the courts.

Required:

Explain the nature of GSM phone evidence and the duty of a person that seeks to tender it in court in proof of a financial transaction. (6 Marks)

(Total 20 Marks)

QUESTION 4

- a. Preliminaries of a contract may involve an offer or invitation to treat.

Required:

Distinguish an offer from an invitation to treat. (6 Marks)

- b. Luandem resides in Rayfield area of Jos and has many helpful neighbours. The closest of these neighbours is Dakkas, a specialist in landscaping. Luandem travelled to Maiduguri as a volunteer to assist the International Commission of the Red Cross in caring for Internally Displaced Persons (IDPs). The escalation of internal displacement made it impossible for Luandem to return to Jos on time to the extent that he spent six months of the rainy season there instead of a month that he planned to spend. Seeing that Luandem's compound was overgrown with weeds, Dakkas took it upon himself to mow the lawns twice a month for four months. In addition, he planted roses as hedges to the compound.

Luandem returned from Maiduguri last month and promised to pay Dakkas a sum of ₦100,000 for his labour of love in taking care of his compound in his absence. Dakkas has waited for two months in expectation of the payment. He is hard pressed for money presently because of his son's demand for school fees. Therefore, he intends to sue Luandem for the money after repeated demands by him and failed promises by Luandem.

Required:

Explain the principle of the law of contract that applies to Dakkas' plan and apply it in advising Dakkas. (8 Marks)

- c. Negligence is a tort that professional accountants must guard against in their relationship with their clients.

Required:

Define negligence and state the **THREE** elements that a litigant must prove to succeed in an action for negligence. (6 Marks)

(Total 20 Marks)

QUESTION 5

- a. Thabita called Ijeda, a distributor of different brands of cement, and expressing her intention to buy 500 bags of a good cement. A notice board in front of Ijeda's shop has a notice that reads, "Cement for sale at ₦1,500". Thabita transferred the sum of ₦750,000 to Ijeda electronically and called at the latter's store to collect 500 bags of "Dan" Cement, each of which sells for ₦2,000. Ijeda's shop attendant asked Thabita's assistants to take "Ele" Cement, that sells for ₦1,500, but Thabita insists that she had paid for 500 bags of "Dan" Cement which now belong to her.

Required:

- i. Applying the Sale of Goods Law/Act, explain the classification of the subject matter of the transaction between Thabita and Ijeda. (2 Marks)
- ii. Explain the significance of the classification of the subject matter. (3 Marks)
- b. Kabir took possession of a Toyota Sienna bus from Auto Distributors Limited so as to add to his fleet of commercial mini vans. The price of the bus is ₦3.6 million payable in ten equal monthly instalments. Kabir intends to terminate the agreement that he has with Auto Distributors Limited after he has used the bus for two months and paid two instalments because his brother, Jamal, has just given him the same type of mini van.

Required:

State the nature of the agreement and **FIVE** ways of terminating it. (6 Marks)

- c. Materiality of facts is important in fixing the duties of the insured under a contract of insurance.

Required:

- i. Explain the current law on material facts in insurance contract.
- ii. Before the law, state a fact that would be material in a proposal for life assurance. (2 Marks)
- d. Arbitration is an Alternative Dispute Resolution (ADR) mechanism.

Required:

How is an arbitral panel composed or constituted?

(3 Marks)

(Total 20 Marks)

QUESTION 6

- a. Osagie is a customer of Kash Bank Plc. He drew a cheque for the sum of ₦150,000 in favour of Osula. When Osula presented the cheque for payment at the nearest branch of Kash Bank Plc., the teller returned the cheque unpaid, telling him to get back to Osagie. Osula insists that the teller must tell him the state of Osagie's account.

Required:

- i. State **THREE** reasons for which the Kash Bank Plc. could be wrong in returning Osagie cheque unpaid. (3 Marks)
- ii. State **THREE** reasons for which Kash Bank Plc. could lawfully disclose the state of Osagie's account. (3 Marks)
- b. Esero, who lives in Maiduguri with his family, has three children in a high school. He intends to create a trust on his housing estate towards financing the education of his children up to postgraduate level. He has come to you for an advice.

Required:

- i. Explain the law on the mode of creating the trust. (4 Marks)
- ii. State the **THREE** essentials of the proposed trust (3 Marks)
- c. There are a few tests for distinguishing employment relations

Required:

Applying the **organisation test**, distinguish between contract of employment and contract for employment. (7 Marks)

(Total 20 Marks)

MCQ - SOLUTIONS

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

Examiner's report

The 20 questions covered the entire syllabus with 100% attempt rate. General performance was good, as about 60% of candidates scored pass mark or above. Candidates appeared to have skipped some areas of the syllabus and are advised to study the ICAN Study Text diligently.

SECTION B: SOLUTION TO OPEN-ENDED QUESTIONS

SOLUTION 1

- a. The characteristics of the Constitution of the Federal Republic of Nigeria are the following:
 - i. Supremacy;
 - ii. Being written and rigid;
 - iii. Federalism;
 - iv. Separation of powers;
 - v. Fundamental Rights; and
 - vi. Rule of law

- b. The features of the proceedings that Kokori and Jendor will pass through include the following:
 - i. The parties will be the Plaintiff (Kokori) and Defendant (Jendor)
 - ii. The aim will be compensation through damages for breach or an order of specific performance.
 - iii. The standard of proof will be 'preponderance of evidence' or 'balance of probabilities'.
 - iv. Being a civil action, Kokori, the aggrieved party, must initiate the action of proceeding.
 - v. The action must be initiated not later than six years from the time the dispute arose.
 - vi. The verdict will be 'liable' or 'not liable'.

- c. The issues in this hypothetical case revolve round the nature of the relationship between Agoro and Oguche (the parties) as follows:
 - i. Since Oguche and Agoro agreed to share textile material purchased from their common pool of funds and not the profit of the venture. Oguche is not entitled to a share in the profit that Agoro made from the textile materials that the latter bought from Kano and resold at a huge profit.

The parties are not partners because they have no agreement to share profits, which is an essential element of a partnership in addition to business and carrying on of business by or on behalf of the partners (***Ugoji v Uzoukwu***).

- ii. If the parties had a registered partnership under the name and style “Oguche and Agoro Ventures, Oguche would have been entitled not only to carry on and manage the business with Agoro, but also share the profits with him.

Oguche and Agoro would have been obliged to share the profits of the business equally in the absence of an agreement to the contrary between them.

Examiner’s report

The questions test candidates’ knowledge of the characteristics of the Nigerian 1999 Constitution, features of civil proceedings, and the elements of a partnership.

Attempt rate was about 80% and performance was generally good as over 60% of candidates scored pass mark or above.

Candidates’ pitfall was their inadequate understanding of the characteristics of civil proceedings and elements of partnership. They are advised to study the ICAN Study Text diligently in future.

Marking guide

	Marks	Marks
a) Stating any 4 characteristics of the Nigerian 1999 Constitution (1 mark each)		4
b) Stating any 4 characteristics of the divisions of law applicable to contractual disputes(1 mark each)		4
i. The legal issue involved is the test of existence of partnership, Applying principle to case as non-existence of partnership because of no agreement to share profit.	3	
	3	6
ii. If partnership is registered, partnership exists for the registered partnership oguche and Agoro would share profit equally.	4	
	2	6
	Total	<u>20</u>

SOLUTION 2

- a. By virtue of Section 7 of the Companies and Allied Matters Act, the Corporate Affairs Commission has the functions to:
 - i. Administer the Companies and Allied Matters Act, regulate and supervise the formation, incorporation, registration, management and winding up of companies under the Act;

- ii. Establish and maintain companies registry and offices in all the states of the federation that are suitably and adequately equipped to perform its statutory functions;
 - iii. Arrange or conduct an investigation into the affairs of any company where the interests of the shareholders and/or public so demand;
 - iv. Perform such other functions as may be specified by the Companies and Allied Matters Act or any other enactment; and
 - v. Undertake such other activities as are necessary or expedient for giving full effect to the provisions of the Companies and Allied Matters Act.
- b. The trade creditors of Adigwe and Sons Limited will not be able to recover from Adigwe the money that the company owes them. This is because of the principle of separate personality that treats a company as a distinct person from its members as from the date indicated on the company's certificate of incorporation. In the case of *Salomon Vs Salomon*, the unsecured creditors of a company failed to make Salomon liable for the debts of the company on the basis of his majority shareholding.

The applicable law does not require balance of powers between the shareholders of the company. In addition, in the absence of fraud, the court will not lift the veil of incorporation so as to treat Adigwe as one and the same person with Adigwe and Sons Limited for the purpose of liability.

- c. Receivership is the right of a secured creditor to appoint a receiver to manage the company's assets that are the subject of a company creditors' security. Receivership entails appointing a person to sell the company's assets or collect any income arising from the assets, subject to the charge so as to satisfy the company's outstanding debts to the creditor.

Examiner's report

The questions test candidates' knowledge of functions of the Corporate Affairs Commission, separate legal entity of incorporated companies, and receivership under company insolvency.

Attempt rate was about 70% and performance was good, as over 60% of candidates score pass mark and above.

Candidates' major pitfall was their inadequate understanding of the principles of corporate personality and receivership. They are advised to study the ICAN Study Text diligently.

Marking guide

	Marks	Marks
(a) Stating any 4 functions of the Corporate Affairs Commission (2 marks each).		8
(b) Legal issue involved is separate legal personality of a company (Salomon vs Salomon)	5	
Lifting of veil of incorporation is involved.	<u>3</u>	8
(c) Explaining receivership as secured creditor's right to appoint receiver to manage assets that are creditor's security.		<u>4</u>
	Total	<u>20</u>

SOLUTION 3

- a. The Companies and Allied Matters Act classifies companies into private and public companies.

A private company has the following attributes:

- i. A statutory minimum membership of 2 and a maximum membership of 50 (excluding member-employees);
- ii. A name that ends with "Limited" or "Ltd., indicating that it is a company
- iii. limited by share, or Ltd/Gte, indicating that it is limited by guaran
- iv. A minimum authorized capital requirement of ₦10,000, at least 25% of which the subscribers must keep subscribed at all times;
- v. It is prohibited from inviting the members of the public to subscribe for its shares or deposit money in it; and
- vi. A minimum of two directors requirement.

A public company has the following attributes:

- i. A minimum authorized capital requirement of ₦500,000, at least 25% of which the subscribers must keep subscribed at all times;
- ii. A minimum membership of two, and an unlimited maximum membership;
- iii. A name ending with "Public limited company or "Plc.";
- iv. The capacity to invite members of the public to subscribe for its shares;
- v. A minimum of two directors requirement; and
- vi. An obligation to hold a statutory meeting within six months of its incorporation.

- b. The issue in this case is the commission of the offence of theft by Okonto. Where it concerns money, theft is defined as fraudulent taking of the money, which is capable of being stolen, with intent to use the money at the will of the person who takes or converts it, although the person may intend afterwards to repay the money to the owner. This was what Okonto did when he expended the loan that his Agency granted him for housing on the purchase of an application form to seek an elective post with the plan to build the bungalow later.

In *State Vs Odimayo* (1967) N.M.L.R 92, the accused received a loan from a housing corporation to build a house on a piece of land which he mortgaged to the corporation. He expended the money instead on an election contest. He was rightly convicted of stealing because the money still belonged to the corporation until he used it for the specific purpose for which he received it, and it made no difference that he might have intended to repay it afterwards.

- c. Evidence from Global System for Mobile communication (GSM) phone is a form of computer or electronic evidence. Since mobile phones are also computers, the principles applicable to computer printouts are applicable to messages generated by or from GSM phones. A GSM gadget or telephone itself that contains valuable information could be tendered in court together with whatever message or information is stored therein as documentary evidence, in proof of a financial transaction.

The only duty of the tendering party is to read it and demonstrate its contents in open court in a manner that is similar to the reading of ordinary documentary evidence when admitted in evidence and taken as read.

Examiner's report

The questions test candidates' knowledge of the characteristics of private and public companies, fraudulent diversion/conversion of funds under criminal law, and admissibility of phone evidence by the court.

About 60% of candidates attempted the question and pass rate was about 50%.

Candidates' major pitfall was shallow knowledge of electronic evidence in court proceedings.

Candidates are advised to read the ICAN Study Text to broaden their knowledge of this area of the law.

Marking guide

	Marks	Marks
a) Stating 4 characteristics a private company	4	
Stating 4 characteristics of a public company (1mark each)	<u>4</u>	8
b) Legal issue involved is fraudulent conversion of fund	4	
Okonto is liable to conviction for stealing and to refund the loan obtained	<u>2</u>	6
c) Explaining the law on admissibility of GSM phone evidence by the court	4	
Stating duty to demonstrate GSM phone content as ordinary documentary evidence	<u>2</u>	<u>6</u>
	Total	<u>20</u>

SOLUTION 4

- a. An offer is a definite, clear, and final proposition made by an offeror to an offeree with the clear intention to be bound by the terms of the offer if accepted. An offer is the final proposal that transforms the offeror's promise into a contractual obligation when accepted by the offeree. (*Union Bank of Nigeria Ltd v Saw Nig Ltd & Ors* (1994) .

An invitation to treat is describable as an invitation to negotiate, an invitation to chaffer, or an invitation to negotiate. It is a preliminary step towards an offer, or a communication that invites the other party to make an offer. The negotiation between parties may or may not lead to the making of an offer by the interested party. Examples include display of goods in shop windows, invitation to tender, advertisement of goods in periodicals, and invitation to an auction.

- b. The principle that applies to the relationship between Luandem and Dakkas is that of past consideration. It is to the effect that consideration may be executory (futuristic) or executed (given in anticipation of an agreed act or forbearance), but it must not be past.

Applying the foregoing principle to the relationship between Luandem and Dakkas, the promise by Luandem is not actionable because it was made after Dakkas had completed the acts of taking care of Luandem's compound, which acts, the latter did not request for.

- c. Negligence simply means carelessness or inadvertence. An act or omission is considered negligent where a person did not take necessary care to avoid the consequence of his act or the omission. No wrong or bad intention needs to be proved for liability to attach in negligence. Negligence has also been described

as a breach of a legal duty to take care by the defendant, which results in damage to the plaintiff.

For an act or omission to be declared negligent, the following three elements must be present:

- i. A legal duty to take care by the defendant must exist;
- ii. There must be a breach of that legal duty; and
- iii. A consequential damage to the plaintiff must have arisen from the act or omission.

Examiner's report

The questions test candidates' understanding of offer, invitation to treat and past consideration under law of contract as well as negligence and its features.

Over 60% of candidates attempted the question and general performance was good, as 60% of the candidates scored pass mark or above.

Candidates showed inadequate understanding of past consideration and negligence. They are advised to study ICAN Study Text for better understanding of the areas.

Marking guide

	Marks	Marks
a) Explain offer	3	
Explain invitation to treat	<u>3</u>	6
b) Legal issue involved is past consideration in contract	4	
Relating principle to case as past consideration which is not actionable	<u>4</u>	8
c) Explaining negligence	3	
Stating 3 elements which litigant must prove (1 mark each)	<u>3</u>	<u>6</u>
	Total	<u>20</u>

SOLUTION 5

- a. (i) The cement that Thabita paid for are classified as unascertained goods. These are goods that are not identified and agreed upon at the time of the agreement between Thabita and Ijeda.
- (ii) This classification is significant in determining when property passes from the owner to the buyer and is relevant at the time of contract. Unascertained goods are not subject of a sale of goods contract because property in the said goods cannot pass until the goods are ascertained.

- b. The agreement between Kabir and Auto Distributors Limited is a hire purchase agreement.

The agreement may be terminated by:

- i) A mutual agreement of the parties to rescind the agreement;
- ii) The performance of all the obligations under the agreement;
- iii) A provision in the agreement which allows the hirer to terminate the contract at any stage of the agreement without prejudice to his option to purchase the goods;
- iv) Supervening circumstances like fire, destruction, act of God and other similar circumstances outside the control of the parties;
- vi) Repudiation by an aggrieved party, since the aggrieved party may sue for the breach of an express or implied term and may, in addition, repudiate such agreement; or
- vii) An order or judgment of court for conversion or detinue, which may in effect bring the agreement to an end.

- c. i. Section 58 of the Insurance Act 2004, Laws of the Federation of Nigeria states the law on material fact as follows:
“Where an insurer requires an insured to complete a proposal form ... for insurance, the form shall be drawn up in such manner as to elicit all such information as the insurer considers material in accepting the application for insurance of the risk; and any information not specifically requested shall be deemed not to be material”.
- ii. Where the contract is that of life assurance, the fact that the person whose life is to be insured suffers from some serious or terminal illness will be material to the risk and worthy of disclosure.
- d. The parties to the dispute may determine the number of arbitrators. If the parties fail to determine the number, the arbitrators shall be three in number.

Each party to the dispute shall appoint one person each, while the two shall combine to appoint the third person.

Examiner's report

The questions test candidates' knowledge and application or classification of goods in sale of goods transactions, ways of terminating hire purchase contract, and arbitral panel composition under alternative dispute resolution.

About 60% of candidates attempted the question and general performance was average.

Major pitfall of candidates is shallow understanding of life insurance contract and alternative dispute resolution mechanism.

Candidates are advised to read the ICAN Study Text as guide.

Marking guide

	Marks	Marks
a) i. The legal issue involved is goods classified as unascertained goods	2	
ii. Significance of the classification of goods is to determine when property passes	<u>3</u>	5
b) The agreement is hire purchase Stating 5 ways of terminating hire purchase agreement (1 mark each)	<u>1</u> <u>5</u>	6
c) i. Explaining material facts in insurance contract	4	
ii. Stating one material fact to be disclosed in life insurance	<u>4</u>	<u>8</u>
d) <ul style="list-style-type: none"> • Stating that the parties may determine the number of arbitrators • Stating that the arbitrators shall be deemed to be three where the parties fail to determine the number • Stating the appointment of one arbitrator by each party and the third by both parties 	1 1 <u>1</u>	 <u>3</u>
	<u>Total</u>	<u>20</u>

SOLUTION 6

- a. In the case of Osula and Kash Bank Plc.,
- i. Kash Bank Plc. could be wrong in returning Osagie's cheque unpaid if
 - Osagie's account is in fund;
 - Osagie has made credit arrangement with the bank;
 - Osagie's mandate (e.g. cheque) was regularly drawn; or
 - There is no legal impediment against repayment.
 - ii. Kash Bank Plc. could lawfully disclose the state of Osagie's account if
 - The disclosure is under compulsion of law;
 - There is a public duty to disclose;
 - The disclosure is in the interest of the bank; or
 - Osagie has consented to the disclosure
- b. **The advice to Esero is as follows:**
- i. Esero must create the trust in writing. "All declarations or creations of trusts or confidences of any land, tenements, or hereditaments, shall be manifested and proved by some writing signed by the party who is by law enabled to declare such trust, or by his Will in writing, or else, they shall be utterly void and of no effect."
 - ii. The elements that will determine the validity of the proposed trust are:
 - Certainty of words or intention;
 - Certainty of object; and
 - Certainty of subject matter
- c. Applying the organisation test laid down by Lord Denning, MR in the case of Macdonald Evan, under a contract of service, a person is employed as part of the business and his work is done as an integral part of the business, but under a contract for service, although such work is done for the business, it is not integrated into it, but merely accessory to it.

Going by this test, an engineer who works in the technical department of a company would be a servant of the company despite the fact that he is a professional, but if he was a contractor whose services, the company engaged in carrying out a particular project, he would be an independent contractor.

Examiner's report

The questions test candidates' knowledge of reasons for bank to dishonor customer's cheque or advisable customer's creation and elements of trust, and employment contract.

Attempt rate was about 70% and performance was good, as over 60% candidates scores pass mark and above.

Candidates did not have adequate understanding of reasons for which a bank could disclose information on a customer's account and the distinction between contract of employment and contract for employment. ICAN Study Text will make them more knowledgeable in the areas.

Marking guide

	Marks	Marks
a) i. Stating 3 reasons for which a bank could dishonour a customer's cheque (1 mark each)	3	
ii. Stating 3 reasons for which Kash bank Plc could discourse the state of Osagie's account (1 mark x 3)	<u>3</u>	6
b) i. Explaining creation of trust	3	
ii. State 3 essentials of trust (1 mark each)	<u>4</u>	7
c) Explaining contract of employment	4	
Explain contract for employment	<u>3</u>	<u>7</u>
	Total	<u>20</u>