THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

INSIGHT

SEPTEMBER 2023 ATSWA EXAMINATIONS
PART III

Question Papers
Suggested Solutions
and
Examiners’ Comments
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THE ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA

ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
SEPTEMBER 2023 EXAMINATIONS (PART III)

PRINCIPLES OF AUDITING & ASSURANCE

PLEASE READ THESE INSTRUCTIONS BEFORE COMMENCEMENT OF THE PAPER

EXAMINATION INSTRUCTIONS

1. All solutions should be in ink. Any solution in pencil will not be marked.
2. Read all instructions on each part of the paper carefully before answering the questions.
3. Ensure that you do not answer more than the number of questions required for Section B (The Essay Section).
4. Check your pockets, purse and mathematical sets, etc to ensure that you do not have prohibited items such as telephone handset, electronic storage device, wrist watches, programmable devices or any form of written material on you in the examination hall. You will be stopped from continuing with the examination and liable to further disciplinary actions including cancellation of examination result if caught.
5. Do not enter the hall with anything written on your docket.
6. Insert your examination number in the space provided above.

TUESDAY, 26 SEPTEMBER, 2023
ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
PART III EXAMINATIONS – SEPTEMBER 2023

PRINCIPLES OF AUDITING & ASSURANCE

Time Allowed: 3 hours

SECTION A: PART I MULTIPLE-CHOICE QUESTIONS (30 Marks)

ATTEMPT ALL QUESTIONS

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 common interest between the External Auditor and the Internal Auditor?
   A. Responsibility
   B. Compliance with Statutory/Regulatory Requirements
   C. Effective Internal Control
   D. Asset Safeguarding
   E. Adequate Accounting System

2. Which of the following is NOT included in the contents of Management letter?
   A. Work done
   B. Internal Control Weakness
   C. Implication of the Weakness
   D. Limitation of the report
   E. Recommendation for improvement

3. Which of the following can assist the Auditor in obtaining an understanding of the Internal Control System by way of computer documentation?
   A. Analytical review procedure
   B. Substantive test procedure
   C. System Narrative
   D. System Flow Charts
   E. System Control

4. Which of the following means may a company use to remove the Auditor before the expiration of his term of office?
   A. Withdrawing the letter of appointment
   B. Executive Order Letter signed by the company’s Chief Executive
   C. Ordinary resolution
   D. Engaging the services of Economic and Financial Crimes Commission (EFCC)
   E. Engaging the services of the police
5. To make him independent of Management, an Auditor of a public limited liability company is usually appointed by
   A. Executive Directors
   B. Audit Committee
   C. Shareholders
   D. Corporate Affairs Commission
   E. Federal Internal Revenue Services

6. Which of the following should be included in an audit engagement letter?
   I. Objective and scope of Audit
   II. Management responsibilities
   III. Need to maintain professional competency
   IV. Need to maintain professional standards
   A. I and IV
   B. I and III
   C. I and II
   D. II and III
   E. II and IV

7. Under which of the following situation should an Auditor make voluntary disclosure?
   A. If the Auditor suspects his client is engaged in money laundering
   B. Where it is in public interest to disclose
   C. Where it is in the auditor’s interest to disclose
   D. If the auditor suspects his client has link with terrorists
   E. Where there exists a conflict of interest between the auditor and his client

8. Under which of the following circumstances is a written representation NOT suitable as audit evidence?
   I. That management has fulfilled their responsibility for the preparation and presentation of the financial statements
   II. That personal costs for three months in the year are correctly stated when the accounting records were unavailable
   III. That subsequent events requiring adjustment or disclosure in the financial statements have been dealt with appropriately
   IV. That all deficiencies in internal control known to management have been communicated to the auditor
   A. I and III
   B. II only
   C. I and IV
   D. III and IV
   E. I, III and IV
9. Which of the following substantive procedures provide evidence over the existence of trade receivables?
   A. Agreeing a sample of goods dispatched notes to sales invoices and to the sales ledger.
   B. Recalculating the allowance for uncollectible accounts
   C. Undertaking circularisation of receivables
   D. Inspect and review management’s receivables age analysis instructions
   E. Observe whether the client’s staff are following receivables documentation instructions

10. In most jurisdictions, the Auditor of a public interest entity will be appointed by
    A. Management
    B. Directors
    C. Federal Inland Revenue Services
    D. Corporate Affairs Commission
    E. Shareholders

11. An audit may never offer absolute assurance. Which of the following statements does **NOT** support this statement?
    A. There are inherent limitations in any accounting system and internal control
    B. Audit evidence is persuasive, not conclusive
    C. An audit is a matter of judgment
    D. In a simple audit, it should be possible for the Auditor to test all the transactions undertaken
    E. An Auditor is only responsible for forming and expressing an opinion on financial statements while the preparation and presentation of the financial statements are that of the Management of the entity

12. Which of the following is a type of audit included in the scope of responsibilities of the Auditor-General of your country?
    A. Systems audit
    B. Regulatory audit
    C. Program audit
    D. Corporate Governance audit
    E. Financial control audit

13. The duties of an Internal Auditor, **EXCLUDES**
    A. Operating audit
    B. Functional audit
    C. Organisational audit
    D. Value-for-Money audit
    E. Management audit
14. The Auditor-General can be removed **ONLY** on account of
   A. Age
   B. Disobeying the Chief Executive
   C. Disobeying the Parliament
   D. Misconduct
   E. Political affinity

15. The financial statement that shows whether the company is a ‘going concern’ is
   A. Cash Flow Statement
   B. Statement of Financial Position
   C. Statement of Profit or Loss and other Comprehensive Income
   D. Statements of Changes in Equity
   E. Value Added Statement

16. The recognition of the economic reality of transaction over its legal form is
   A. Going concern
   B. Prudence concept
   C. Historical cost
   D. Substance over form
   E. Consistency concept

17. An attitude of mind that is characterised by objectivity and integrity in the approach to audit work is
   A. Confidentiality
   B. Accuracy
   C. Competence
   D. Consistency
   E. Independence

18. The computation of ratios, the use of statistics, and the studying of trends is known as
   A. Parallel review
   B. Hot review
   C. Analytical review
   D. Compliance review
   E. Substantive test

19. Which of the following is a disadvantage of judgmental sampling?
   A. No special knowledge of quantitative analysis
   B. It is easy to use for a small client
   C. It is not ambiguous
   D. It is unscientific and subjective
   E. It is cost effective
20. An Auditor violates the professional ethical standards when she/he

A. Recruits staff for his client
B. Mentions the services he provides on the internet
C. Performs audit services for a percentage of the client’s turnover
D. Ends his firm’s name with the words “Chartered Accountant”
E. Makes available working papers for purposes of a peer review without the client’s consent

21. A true and fair view in financial statements requires that those statements comply with a comprehensive accounting system consistently applied on yearly basis and in conformity with all relevant legislations. Based on the above statement, a true and fair view may NOT be achieved if the

A. Presentation of the figures/balances in the financial statements is so obscured or complicated that they are difficult to interpret or understand
B. Figures on the financial statements are accurate in material amount
C. Financial Statements conform to accounting policies required by regulatory authorities, comply with accounting standards and present relevant information
D. Full description of the figures in the financial statements with proper disclosure of their substance
E. Financial Statements are prepared on a basis that is consistent with previous period and there is adequate disclosure if rules of consistency are not applied

22. Which of the following is the primary objective of an audit?

A. Assistance to the management in the establishment of effective auditing system
B. Expression of professional opinion on the financial statement of an enterprise
C. Prevention of fraud and errors
D. Detection of any form of irregularity
E. Report of the internal control weaknesses to the management

23. If an audit engagement is accepted but the auditor lacks knowledge about the client’s operations, she/he should

A. Reject the appointment outright
B. Transfer the audit work to an experienced and bigger audit firm
C. Employ a joint auditor who has experience on the nature of the client’s business
D. Obtain knowledge of matters relating to client’s business by hiring an expert
E. Obtain a legal advice on what to do
24. While conducting “Value-for-money audit”, the auditor should **NOT** concern himself with

A. The organisational structure, the allocation of responsibilities, the delegation of authority, and the system for making managers accountable
B. Whether management has defined its overall objectives adequately and its strategy for achieving those objectives
C. Whether alternative means of achieving objectives have been considered
D. The expectation gap and performance gap in existence
E. The existence and soundness of management’s arrangement for assessing competing priorities and programmes of work

25. Which of the following is **NOT** an advantage of automated working papers?

A. Standard forms do not have to be carried to audit location
B. The working papers will be neater and easier to review
C. Audit working papers can be transmitted for review through a modern, flash drive and so on
D. The risk of errors is reduced
E. Many files would have to be created on every asset

26. Which of the following is **NOT** considered by the auditor when reviewing the assets of an entity?

A. Alternative use of the assets
B. Basis of valuation
C. Remaining economic life
D. Purpose of the assets
E. Valuation date and age of the assets

27. When considering internal controls, the concept of reasonable assurance should be observed. This implies that

A. Establishing and maintaining internal controls is an important responsibility of management
B. The auditor should plan his audit engagement to remove the limitation inherent in the internal controls systems
C. The cost of an entity’s internal controls should not exceed the benefit expected to be derived.
D. Adequate safeguards over access to assets and records should permit an entity to maintain proper accountability
E. Internal controls may be ineffective due to mistakes in judgment and personal carelessness

28. Which of the following is **NOT** a technique of substantive test?

A. Enquiry
B. Computation
C. Vouching
D. Inspection
E. Walk through test
29. Which of the following is **NOT** an application control?
   A. Operation control
   B. Input control
   C. Output control
   D. Processing control
   E. Master-file control

30. Which of the following is **NOT** an exercise of due professional care?
   A. Prevention of fraud and irregularities
   B. Examination of all available corroborating evidence
   C. Reduction of audit risk to the barest minimum
   D. Review of the judgment exercised at every level of supervision.
   E. Bringing professional experience to the assignment.

**SECTION A: PART II SHORT ANSWER QUESTIONS**

(20 MARKS)

**ATTEMPT ALL QUESTIONS**

1. The risk that material misstatements that could occur will not be prevented or detected by internal controls is known as............................................

2. Auditing activities that focus on detecting a wide variety of fraudulent activities, the report of which is tenable in court is called............................................

3. A qualified opinion that relates to material limitation of scope is referred to as...........................

4. Financial information is ..................if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

5. The documents and matters of continuing importance which will be required for more than one audit are usually kept in ................. audit file.

6. All the information used or obtained by the Auditor in arriving at the conclusions on which the audit opinion is based is known as..............................

7. The set of questions used by Auditors to highlight precisely the areas of strength and weakness in internal control is called..............................

8. The process by which Auditors seek confirmation of the existence, ownership, cost/valuation and appropriate presentation/disclosure of assets and liabilities is known as..............................

9. The systems that provide the facilities for data to be passed to and from the central computer via remote terminals is known as..............................
10. The application of audit procedures to less than 100% (total population) of items within a class of transactions or account balances, such that all items in the population have a chance of being selected is known as ..........................................

11. The professional behaviour of members of a professional body are guided by..........................

12. Providing accounting as well as audit service to the same client carries a risk of..........................

13. The graphical representation of the internal control system of any entity with the use of standardised symbols is called.................................

14. Audits that are carried out because the law requires them to be carried out are called..........................

15. The use of documentation to support recorded transactions or amounts as an audit process whereby the Auditor starts with an account balance and goes backwards through the accounting system to the source documents is referred to as..........................

16. The risk that Auditors may unknowingly fail to appropriately modify their opinion on financial statements that are materially misstated is called.................................

17. The Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, together with such additional statements and notes as are identified as being within the scope of the audit opinion are referred to as..........................

18. The paragraph that states the factual statement of what the Auditor carried out in the audit of financial statement is called ......................

19. The memorandum accounts book used for monitoring government expenditure so as to ensure that there is no extra-budgetary spending is called......................

20. State the meaning of the acronym IPSAS .........................

SECTION B: ATTEMPT ANY FOUR QUESTIONS (50 MARKS)

QUESTION 1

a. i. Define an assurance engagement (2 Marks)
    ii. State an example of a form of assurance engagement (½ Mark)

b. State FIVE elements of an assurance engagement (10 Marks)

(Total 12½ Marks)
QUESTION 2

ISA 315: “Identifying and Assessing the Risks of Material Misstatement through understanding the Entity and its Environment” considers the components of an entity’s internal control system.

Required:

a. State **FIVE** components of an Entity’s Internal Control system. (2½ Marks)
b. Briefly discuss each component. (10 Marks)

(Total 12½ Marks)

QUESTION 3

Company Act in your Country requires every public company to establish an Audit Committee.

Required:

a. State the composition of the Audit Committee. (2½ Marks)
b. List **FIVE** objectives and functions of the Audit Committee. (10 Marks)

(Total 12½ Marks)

QUESTION 4

a. i. Define Value-For-Money Audit. (1 Mark)
    ii. List the **THREE** elements of Value-for-money. (1½ Marks)

b. State **FOUR** problems associated with the application of Value-for-Money audit in the public sector. (10 Marks)

(Total 12½ Marks)

QUESTION 5

a. Define the term ‘Audit Risk’ according to the Company Act in your Country. (2 Marks)

b. State **FIVE** benefits of Audit Risk Assessment. (7½ Marks)
c. State **THREE** limitations of Audit Risk Assessment. (3 Marks)

(Total 12½ Marks)

QUESTION 6

a. Who fixes the Auditor’s remuneration in accordance with the Company Act in your Country? (3 Marks)

b. State **THREE** persons **NOT** qualified to be appointed as auditor to either a private or a public company. (3 Marks)
c. Who are qualified to be members of the audit committee in line with the Company Act in your Country? (2½ Marks)

d. State **FOUR** information about the client company that the auditor should know in order to develop an effective audit approach. (4 Marks)

(Total 12½ Marks)

**SECTION A: PART I**

**MULTIPLE-CHOICE SOLUTIONS**

1. A
2. A
3. D
4. C
5. C
6. C
7. B
8. B
9. C
10. E
11. D
12. B
13. D
14. D
15. B
16. D
17. E
18. C
19. D
20. C
21. A
22. B
23. D
24. D
25. E
26. A
27. B
28. E
29. A
30. A

**Examiner's comment**

The entire syllabus was covered in setting questions in this part. There are 30 questions in which candidates are expected to pick the correct option. Options are so close that only one will be the correct answer.
SECTION A: PART II

SHORT-ANSWER SOLUTIONS

1. Control Risk
2. Forensic audit
3. Disclaimer
4. Material
5. Permanent
6. Audit Evidence
7. Internal Control Questionnaire (ICQ)
8. Verification
9. Online System
10. Sampling techniques
11. Code of Conduct
12. Self-review threat
13. System Flowchart
14. Statutory Audits
15. Vouching
16. Audit Risk
17. Financial Statements
18. Scope paragraph
19. Vote Book
20. International Public Sector Accounting Standards

Examiner’s comment

Short and brief answers are required for each question. Long sentences are not to be used in arriving answers to the questions. The entire syllabus is covered.

SECTION B

SOLUTION 1

a. (i) Assurance engagement is the engagement of an auditor or a firm to express an independent opinion on the financial statements that have been prepared by the directors or management of a company. The opinion is an expression of assurance about the financial statements that has been reviewed. It gives assurance to the company owners that the financial statements can be relied upon.

The Assurance can be provided by:

- **audit**: this may be external audit, internal or a combination of the two.

- **review**: this is a voluntary investigation, the resulting opinion of which is usually expressed in the form of negative assurance.
shareholders may not accept that the financial statements give a true and fair view. The statutory audit provides assurance as to the quality of the information displayed in the financial statements.

(ii) **Forms of Assurance Engagements:**

**Reasonable Assurance** – A high level of assurance provided by the practitioner’s conclusion expressed in a positive form, e.g. “*in our opinion the financial statements give a true and fair view*”. The objective of a statutory audit is to provide reasonable assurance. The law does not recognize the internal auditor and as such may not be able to express an assurance opinion.

**Limited Assurance** – A moderate level of assurance provided by the practitioner’s conclusion expressed in a negative form, e.g. “Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements do not give a true and fair view”. The objective of a review engagement is often to provide limited assurance.

b. **Five elements of an assurance engagement:**

i. A tripartite relationship consisting of the professional accountants that provided the services; the directors or responsible officers that prepared the financial statements; and the users of the assurance report e.g., shareholders, tax office and the researcher.

ii. The subject matter: This is the financial statements or cash flow forecast prepared by the responsible officer for the professional accountants to review.

iii. The suitable criteria: These are ‘the rules’ against which the subject matter is evaluated in order to reach an opinion e.g., CAMA, IFRS and ISA.

iv. The Evidence: This refers to all material information used by the professional accountant to arrive at his/her opinion.

v. The Assurance Report: This is the written report containing the professional accountant’s opinion presented to the users.

**Examiner’s comment**

a. (i) Definition of an assurance engagement is required. Candidates are expected to put in key words like expressing an independent opinion on financial statements. The assurance can be either audit or review.

(ii) Example of an assurance engagement like reasonable assurance or limited assurance is required to be given by the candidates.

b. Five elements that should be available in an assurance engagement are required by the examiner from the candidates.
**SOLUTION 2**

a. **Five Components of an Internal Control System are:**

1. The Control Environment
2. Risk Assessment
3. Control Procedures
4. Information and Communication System
5. Monitoring

b. (i) **The Control Environment**

This is the foundation of all other components of internal control. This refers to all the overall attitude, awareness and actions of directors and management regarding the internal control systems and its importance in the entity i.e. a strong control environment can complement specific control procedures but does not in itself ensure the effectiveness of the internal control system.

(ii) **Risk Assessment**

Managers need to assess business risk as part of designing and operating the internal control system to minimize errors and irregularities. Business risk represents factors, events and conditions that can prevent an organization from achieving its business objectives. If management assesses and responds to risk in an effective manner, the auditor will need to accumulate less evidence, as this lowers the control risk. Conditions that may increase business risk include new personnel, new technology, corporate restructuring, and foreign operations.

(iii) **Control procedures**

Control procedures sometimes called control activities represent policies and procedures and specific actions taken by a client’s management and employees that help ensure management’s directives are carried out. Control procedures involve establishing a policy of control and defining procedures to effect the policy. All control procedures should be analyzed for risk.

(iv) **Information and Communication system**

The information and communication component of internal control is a prerequisite for achieving management objective. Every organization is expected to capture pertinent information relating to both internal and external events and both financial and non-financial activities of the organization. Communication includes report production and distribution. For an audit, the auditor should obtain an understanding of the information system and the related business process relevant to financial reporting.
(v) **Monitoring**

Internal controls need to be monitored. Management should assess the quality of control performance on a timely basis. Monitoring involves the process of assessing the design of controls and their operation on a timely basis and taking necessary corrective actions. Example of monitoring controls include: Company Operating Manager’s Report and Published Financial Statement, analysis of customers’ complaints, periodic comparison of recorded amounts to actual assets, and examining internal auditors reports on control performance.

**Examiner’s comment**

The main component of an Internal Control System according to the contents of ISA 315 is tested. Candidates should be familiar with all the components required by ISA 315 for effective internal control.

**SOLUTION 3**

a. **Composition of the Audit Committee**

Section 404 (3) of CAMA 2020 states that the audit committee of a public company should have 5 (five) members i.e., 3 (three) shareholders and 2 (two) non-executive directors with at least one member being a member of a professional accounting body in Nigeria established by an Act of the National Assembly.

b. **Objectives and Functions of an Audit Committee**

Subject to such other additional functions and powers that the company’s articles may stipulate, the objectives and functions of the audit committee are to:

1. Ascertain whether the accounting and reporting policies of the company are in accordance with legal requirements and agreed ethical practices;
2. Review the scope and planning of audit requirements;
3. Review the findings on management matters in conjunction with the external auditor and departmental responses thereon;
4. Keep under review the effectiveness of the company’s system of accounting and internal control;
5. Make recommendations to the board with regard to the appointment, removal and remuneration of the external auditors of the company; and
6. Authorize the internal auditor to carry out investigations into any activities of the company which may be of interest or concern to the committee.
Examiner’s comment

Candidates’ knowledge of the composition of the Audit committee is required. The composition of the CAMA 2020 is different from the previous legislation.

Functions and objectives of audit committee is required. As this is a textbook material (CAMA 2020), there is a straightforward answer to the question.

However, the question should only limit itself to only functions and responsibilities of audit committee. Objective is a short statement and may be confusing to the candidates.

SOLUTION 4

a.  

i. **Definition of Value for Money Audit**

This is a measurement of how economic resources are efficiently employed. It is also to highlight areas of wastes and extravagant or unrewarding expenditure. It looks into failures to maximize receipts; financial arrangements that are detrimental to the treasury and weaknesses leading to them.

The essence is to determine whether an entity is acquiring, managing, or utilizing its resources in the most economical and efficient manner. It traces the causes of inefficiencies or uneconomical practices. Value-for-money Audit is defined as an objective professional and systematic assessment of:

i. The nature and function of an authority’s managerial systems and procedures;

ii. The economy and efficiency with which its services are processed; and

iii. The effectiveness of its performance in achieving objectives

Value for Money Audit also called Economy and efficiency audit

ii. **Elements of Value for Money Audit**

**Economic**

The economic element relates to historical, current and future financial implications of the service being delivered.

**Efficiency**

This element is an assessment of productivity or what is being received (service) for what is put in (cost).

**Effectiveness**

Finally, effectiveness is concerned with how the service and cost elements are achieving a positive impact from a strategic and user perspective.
b. **Problems in implementing Value for Money Audit:**

1. **Skills Requirements:** The success or otherwise of a value for money audit depends largely on the level of skills, knowledge and expertise of the individuals assigned to the task. Where this is deficient, the likely resultant effect will be an undependable report.

2. **Difficulty in Measuring Outputs and Efficiency:** Outputs and by extension efficiency as it relates to the public sector is quite fluid and difficult to quantify as a lot depends on the judgment exercised by public sector players. Furthermore, objectively quantifying maximization of public welfare as an output component is difficult to measure.

3. **Loopholes in Legislative Frameworks:** No sanction powers have been given to the office of the Auditor General of the Federation to compel MDAs to observe and comply with instructions issued for the purpose of instituting value for money audits in the respective offices. This is a major gap as operators generally will not subject their operations to audits except if compelled to do so.

4. **Unsatisfactory Performance of the Public Accounts Committee:** The major responsibility of the Public Accounts Committee is to ensure transparency and accountability as they are traditionally the public spending watchdog. However, a cursory look at the myriads of reported cases of financial irregularities in several MDAs indicate that their performance so far is less than desirable.

5. **Accounting Basis:** Public sector finance is rendered using the cash accounting basis rather than the accrual accounting basis associated with financial statement audits. This is capable of misrepresenting the true financial state of the entity.

6. **Absence of Sound Internal Control Systems:** Most public sector entities have defective internal control systems that do not allow auditors to place reliance on the integrity of the existing system. This therefore inhibits the ability of auditors assigned to the public sector engagements from producing qualitative work.

7. **Lack of Political Will:** To succeed, value for money audit requires the express and implicit approvals of political actors who are often the key decision makers for respective MDAs. Thus, where this is not in place, artificial barriers may be put in place that will frustrate the success of the audit engagement. In addition, where the exercise has been done, political will is required to see through the implementations of the recommendations made in the reports.

**Examiner’s comment**

a. (i) Candidates are required to give a simple definition of value-for-money audit.

(ii) Listing 3 elements of value-for-money
b. Candidates understanding of problems associated with the application of value-for-money audit in the public sector is required. The problems are exhaustive, but candidates are required to state only four of these problems.

**SOLUTION 5**

a) **Audit Risk**

The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated is known as “audit risk”.

Audit risk has three components:

i. Inherent risk
ii. Control risk
iii. Detection risk

b) **Benefits of Audit Risk Assessment**

Five benefits of Audit Risk Assessment

i. Saves audit cost and fees
ii. Reduces the possibility of under or over auditing
iii. Results in a more effective and efficient audit work
iv. Focuses the auditors’ attention on factors which are more likely to result in misstatement
v. Facilitates the use of sampling and the attendant benefits derived therefrom.

c) **Three limitations of audit Risk Assessment**

i. Subjective values have to be placed on inherent and control risk
ii. It may result in a mechanical approach which leads to a loss of auditor’s judgement
iii. The auditor may spend more time on the mechanic of the process and assessment at the expense of time spent obtaining audit evidence.

**Examiner’s comments**

The meaning of audit risk is required. Benefits and limitation of audit risk assessment are demanded by the examiner. However, audit risk is not in Company Act. It is an audit related matter which can only be found in Auditing Standards or guidelines.

**SOLUTION 6**

a) The auditors’ remuneration is fixed by the members of the company in a general meeting by an ordinary resolution or in such manner as the company may determine. However, in the case of an auditor appointed by directors of the company, the remuneration may be fixed by the directors, for the period expiring at the conclusion of the next annual general meeting of the company.
b) Persons not qualified to be appointed as auditor to either a private or a public company:

i. An officer of the company or of any associated company;

ii. A person who is a partner or in the employment of an officer of the company, or of any associated company; save that partnership with a person acting as a Secretary or Registration Officer of the company or any associated company shall not constitute a disqualification.

iii. An infant.

iv. A person found by a competent court to be of unsound mind.

v. A body corporate except that member of an incorporated partnership may be appointed.

vi. An undischarged bankrupt, unless he shall have been granted leave to act as an auditor of the company concerned by the court which adjudged him bankrupt.

c) Qualifications for the Audit Committee Members

Section 404 (3) of CAMA 2020 provides that the Audit Committee shall consists of five members comprising three shareholders and two non-executive directors. All members of the audit committee shall be financially literate; and at least one member shall be a member of a professional accounting body in Nigeria established by an Act of National Assembly.

d) Prior to acceptance of an engagement, the auditors should obtain a preliminary knowledge of the industry and ownership, management and operations of the prospective client, sufficient to enable the auditors to consider their ability and willingness to undertake the audit.

Following acceptance of an engagement, the auditors should obtain more detailed knowledge and information sufficient to enable them plan the audit, develop effective audit approach and understand the events and practices that have significant effect on the financial statement or their audit work.

What should be known about the client company includes:

i. General economic factors and industry conditions affecting the entity’s business.

ii. Important characteristics of the entity, its business, its financial performance, and its reporting requirements; including changes since the date of the last audit exercise.

iii. General level of competence of management and recent management changes.

iv. Accounting policies adopted by the entity and changes in those policies.
v. Effect of new legislation, accounting or auditing pronouncements  
vi. Regulatory framework, if any  
vii. Auditors’ cumulative knowledge of the accounting and internal control systems and any expected changes.  
viii. In succeeding periods, the auditors should consider the information gathered previously and should perform procedures designed to identify significant changes that have taken place since the last audit.

**Examiner’s comment**

a. Candidates’ understanding of those responsible for fixing the renumeration of auditor is required.  
b. Persons not qualified to be auditor of a company. Candidates should know those not qualified as stated in CAMA 2020  
c. Candidates’ knowledge of qualification of members of audit committee as specifically stated in CAMA 2020 is required. However, this question should be part of question No 3 as it stands out from questions in this number.  
d. Knowledge of the clients’ company which the auditor should know to have effective audit approach is required. Only four information is not required to be stated.
THE ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA

ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
SEPTEMBER 2023 EXAMINATIONS (PART III)

COST ACCOUNTING

PLEASE READ THESE INSTRUCTIONS BEFORE COMMENCEMENT OF THE PAPER

EXAMINATION INSTRUCTIONS

1. All solutions should be in ink. Any solution in pencil will not be marked.

2. Read all instructions on each part of the paper carefully before answering the questions.

3. Ensure that you do not answer more than the number of questions required for Section B (The Essay Section).

4. Check your pockets, purse and mathematical sets, etc to ensure that you do not have prohibited items such as telephone handset, electronic storage device, wrist watches, programmable devices or any form of written material on you in the examination hall. You will be stopped from continuing with the examination and liable to further disciplinary actions including cancellation of examination result if caught.

5. Do not enter the hall with anything written on your docket.

6. Insert your examination number in the space provided above.

WEDNESDAY, 27 SEPTEMBER, 2023
ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
PART III EXAMINATIONS – SEPTEMBER 2023

COST ACCOUNTING

Time Allowed: 3 hours

SECTION A: PART I MULTIPLE-CHOICE QUESTIONS (30 Marks)

ATTEMPT ALL QUESTIONS

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 Cost Accounting?
   A. It is exactly like financial accounting
   B. Are based on estimates and therefore, must be satisfied with reasonable accuracy
   C. Deals only with future costs and ignores historical costs
   D. Analyses historical costs only
   E. Relates to anyone using costing information

2. Which of the following is NOT a functional classification of cost?
   A. Selling and distribution cost
   B. Semi-fixed cost
   C. Research and Development cost
   D. Production cost
   E. Administrative cost

3. My Son Nig. Limited manufactures Sunfresh soap. The cost of producing 7,500 units is ₦240,000 while the cost of producing 10,500 units is ₦294,000. What will be the budgeted cost for 8,500 units?
   A. ₦218,000
   B. ₦228,000
   C. ₦238,000
   D. ₦248,000
   E. ₦258,000

4. The main objective of cost accounting is to
   A. Facilitate the preparation of statement of financial position
   B. Provide cost information to bankers
   C. Provide cost information to customers
   D. Provide cost information to management
   E. Facilitate the preparation of statement of comprehensive income
5. Which of the following is **NOT** an objective of cost accounting?

A. Provide information to aid control  
B. Ascertain cost and facilitate pricing  
C. Provide information for decision making  
D. Investigate fraud  
E. Assist in planning

6. Which of the following is relevant in respect of issuance of material to production department?

A. Store Requisition Note  
B. Purchase Requisition Note  
C. Goods Received Note  
D. Store Credit Note  
E. Local Purchase Order

7. In process costing, which of the following material losses can be regarded as a normal loss due to?

A. Accident  
B. Evaporation during production  
C. High material costs  
D. Careless handling of materials  
E. Obsolete materials

8. In base inventory method of pricing materials issue, the term “Base Inventory” represents the

A. Quantity of inventory being issued  
B. Average inventory  
C. Opening inventory  
D. Maximum inventory  
E. Minimum inventory

**Use the following information to answer questions 9 to 11**

The following information were extracted from the stock record of Kilanko Limited.

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Units</th>
<th>Unit Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/4/2022</td>
<td>Opening Stock</td>
<td>1,200</td>
<td>GH¢40:00</td>
</tr>
<tr>
<td>5/4/2022</td>
<td>Receipt</td>
<td>500</td>
<td>GH¢45:00</td>
</tr>
<tr>
<td>10/4/2022</td>
<td>Receipt</td>
<td>1,200</td>
<td>GH¢50:00</td>
</tr>
<tr>
<td>15/4/2022</td>
<td>Issue</td>
<td>2,500</td>
<td></td>
</tr>
</tbody>
</table>
Using Last-In-First-Out Pricing Method

9. What is the value of stock as at 10/4/2022?
   A. GH¢115,000  
   B. GH¢117,000  
   C. GH¢126,500  
   D. GH¢130,500  
   E. GH¢139,500

10. What is the value of stock after issuing to production on 15/4/2022?
    A. GH¢27,000  
    B. GH¢25,000  
    C. GH¢20,000  
    D. GH¢18,000  
    E. GH¢16,000

11. What is the valuation of 2,500 units issued to production?
     A. GH¢112,500  
     B. GH¢114,500  
     C. GH¢115,500  
     D. GH¢117,500  
     E. GH¢118,500

12. Which of the following wage payment incentive plans does not guarantee payment of wages on time basis?
    A. Halsey Plan  
    B. Rowan Plan  
    C. Differential Piece Rate Plan  
    D. Gantt’s Task Plan  
    E. Bonus Plan

13. Which of the following is NOT a method of remuneration under the incentive payment by result scheme?
    A. High day rate scheme  
    B. Premium bonus scheme  
    C. Profit sharing scheme  
    D. Differential piece work  
    E. Combination of time and piece work scheme

14. In relation to labour costing, which of the following is NOT a method of recording time spent on a job?
    A. Daily time sheet  
    B. Token/disc method  
    C. Job card  
    D. Labour cost card  
    E. Piece work card
15. Director’s remuneration and related expenses are part of

A. Production Overhead
B. Distribution Overhead
C. Selling Overhead
D. Administration Overhead
E. Direct Overhead

16. The single rate of overhead absorption which is used or computed for the entire factory is called …………….. rate

A. Actual overhead
B. Blanket overhead
C. Pre-determined overhead
D. Departmental overhead
E. Systematic overhead

17. The sharing of overheads of service cost centres between the production cost centres using some suitable bases is called secondary

A. Allocation
B. Collection
C. Absorption
D. Apportionment
E. Classification

18. Which of the following is NOT a limitation of job order costing?

A. By adopting pre-determined overhead rate in job costing, we get all the advantages of budgetary control
B. It is expensive to operate as it requires detailed clerical work
C. With the increase in the clerical work the chances of errors are increased
D. It cannot be efficiently operated without highly developed production control system
E. The costs ascertained are historical in nature as they were compiled after incidence and therefore do not provide control of cost unless it is used with standard costing system.

19. When a contract is not completed at the end of an accounting year, profit on incomplete contract is transferred to statement of

A. Profit or Loss
B. Reserves
C. Profit or Loss and work-in-progress
D. Cashflow
E. Financial Position
20. A type of process loss which does **NOT** affect the cost per unit of units produced is known as
   A. Normal loss
   B. Abnormal loss
   C. Seasonal loss
   D. Contract loss
   E. Standard loss

21. Individual products, each with significant sales value, produced simultaneously from an identical raw material is known as
   A. Joint products
   B. By-products
   C. Common products
   D. Good products
   E. Defective products

22. Which of the following is used in hospitals for determining cost?
   A. Specific Order Costing
   B. Unit Costing
   C. Service Costing
   D. Uniform Costing
   E. Process Costing

23. Which of the following is **NOT** an objective of uniform costing?
   A. Provides reliable data for making inter-unit comparisons of cost performance
   B. Provides the difference in technology used by member firms
   C. Helps to arrive at the cost of production for the industry on a common basis acceptable to all firms
   D. Provides data to compare the cost of production and the production efficiencies between one firm and others
   E. Ensures that the product prices are based on authentic data.

24. Which of the following methods would a company use to improve profit where production capacity is lower than market requirement?
   A. Make or Buy decision
   B. Standing cost
   C. Outsourcing
   D. Discontinuing a product line
   E. Joint product decision.

25. An overriding planning limitation on the activities of an organisation is usually referred to as a/an
   A. Forecasting Factor
   B. Trend Factor
   C. Principal Factor
   D. Functional Factor
   E. Equilibrium Factor
26. P/V ratio shows the relationship between
   A. Variable Costs and Sales
   B. Volume and Sales
   C. Contribution and Sales
   D. Volume and Variable Costs
   E. Fixed Costs and Sales

27. Standard costing helps in
   A. Measuring efficiency
   B. Reducing losses
   C. Controlling cost
   D. Cost fixing
   E. Limitation of prices

28. In a situation where demand forecasting is difficult, budget can be prepared using
   A. Production budgeting
   B. Sales budgeting
   C. Financial budgeting
   D. Flexible budgeting
   E. Fixed budgeting

29. Which of the following is a major characteristic of zero-based budgeting?
   A. Each budget item is to be identified and evaluated critically from the scratch each time a new budget is formulated
   B. Total accuracy is not certain in budgeting because budgets are based on estimates
   C. There are inherent uncertainties in the system and budget assumptions are not real
   D. It ensures capital investment resources are provided as required by management
   E. The divisibility of products and resources are justified through the fractions of commodities that cannot be produced.

30. A standard that is based on perfect operating condition is called a/an
   A. Ideal Standard
   B. Basic Standard
   C. Attainable Standard
   D. Loose Standard
   E. Budgeted standard
SECTION A: PART II  
SHORT-ANSWER QUESTIONS  
(20 Marks)  
ATTEMPT ALL QUESTIONS  

Write the correct answer that best completes each of the following statements/questions.

1. The following information relates to Product ‘Scent’. Breakeven point is 9,000 units; Variable Cost per unit is ₦75 and fixed expenses per annum is ₦270,000. Find the selling price per unit of Product ‘Scent’.

2. Under the LIFO method of material pricing and issues, a period of higher price will result in.................

3. For a certain work order, standard time is 20 hours and wages is ₦50 per hour. If a worker’s actual time is 13 hours. What will be the wages of the worker under Rowan Bonus System?

4. Labour turnover ratio is measured by ......................

5. Allotment of proportion of cost items to cost centres is known as....................

6. Actual factory overheads less recovered factory overheads are called..............

7. A statement which provides for the assembly of the detailed cost of a centre or a cost unit is known as.........................

8. Loss incurred on incomplete contract is usually transferred to ................

9. When cash ratio is 85% in an organisation, it implies that the percentage of money retained will be..............

10. A stage in a production process where separate products are capable of being identified is called........

11. The cost which can be conveniently identified with and directly allocated to a cost centre or cost object in an economically feasible way is known as....................

12. The achievement of real and permanent lowering in the unit cost of products manufactured or services rendered without impairing their suitability for the use intended or diminution in the quality of the product is called .....................

13. Likely rent of own building proposed to be used for a new project is an example of..........................
14. The systematic regulation of inventory level which is required for control over materials is known as ……………………. 

15. A comprehensive statement of all costs required to complete a job, which is prepared to enable the determination of the price to be charged on that job is called…………. 

16. The verification of cost accounts and a check to ensure that they adhere to the cost accounting principles, plans, procedures, and objectives is known as……….. 

17. The primary factor to be considered when setting up a costing system is ........... 

18. The grouping of cost according to their common characteristics is called……….. 

19. The cost which is normally incurred at a given level of output in the condition in which that level of output is normally attained and which is treated as a part of cost of production is called……………….. 

20. A system of symbols designed to be applied to a classified set of items in order to give a brief accurate reference facilitating entry, collation and analysis is called ……………….. 

**SECTION B:** ATTEMPT ANY FOUR QUESTIONS (50 Marks) 

**QUESTION 1** 

Asese Nigeria Limited is a notable manufacturer of Asese soap. The following information relating to its activities for the year ended March 2022 were extracted from its books. 

- Weekly demand: 500 units 
- Cost of placing an order: ₦400 
- Item cost: ₦100 
- Holding cost: 20% of item cost 
- Normal Usage: 50 units per week 
- Minimum Usage: 25 units per week 
- Re-order period: 4-6 weeks 

Assuming 4 weeks make a month and 50 weeks make a year, you are required to determine the following: 

a. Maximum inventory level 

b. Re-order level 

c. Economic order quantity 

d. Minimum inventory level
e. Numbers of order per annum
f. Frequency of order
g. Average inventory per annum
h. Total holding cost per annum
i. Total ordering cost per annum
j. Total relevant cost per annum

(Total 12½ Marks)

QUESTION 2

The following information relates to BOZZ & Sons Limited for the month of March 2022

<table>
<thead>
<tr>
<th>Particulars</th>
<th>GH¢'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials purchased (credit)</td>
<td>300,000</td>
</tr>
<tr>
<td>Direct materials issued to production</td>
<td>225,000</td>
</tr>
<tr>
<td>Wages (30% Indirect)</td>
<td>180,000</td>
</tr>
<tr>
<td>Wages charged to production</td>
<td>150,000</td>
</tr>
<tr>
<td>Manufacturing expenses incurred</td>
<td>126,000</td>
</tr>
<tr>
<td>Manufacturing overheads charged to production</td>
<td>138,000</td>
</tr>
<tr>
<td>Selling and distribution costs</td>
<td>30,000</td>
</tr>
<tr>
<td>Finished product at cost</td>
<td>300,000</td>
</tr>
<tr>
<td>Sales</td>
<td>450,000</td>
</tr>
<tr>
<td>Receipts from customers</td>
<td>105,000</td>
</tr>
<tr>
<td>Paid to suppliers</td>
<td>165,000</td>
</tr>
</tbody>
</table>

You are required to use the data provided above to prepare detailed cost journal entries for the above transactions

(Total 12½ Marks)

QUESTION 3

Agbomabiwon Social Club runs a library for its members. The management of the Club provided the following information in respect of its library department:

- Number of club members: 5,200
- Number of library members: 1,000
- Library fee per library member: ₦1,000 per month
- Fine for late return of books: ₦10 per book per day
- Average No. of books returned late: 500 books per month
- Average No. of days each book is returned late: 5 days
- Number of available old books: 50,000 books
- Cost of new books: ₦3,000 per book
- Number of books purchased per year: 1,200 books
- Cost of maintenance per old book per year: ₦10.80
Staff details are as follows:

<table>
<thead>
<tr>
<th></th>
<th>No of Staff</th>
<th>Salary per staff (₦)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Librarian</td>
<td>01</td>
<td>50,000 per month</td>
</tr>
<tr>
<td>Assistant Librarian</td>
<td>03</td>
<td>35,000 per month</td>
</tr>
<tr>
<td>Clerk</td>
<td>01</td>
<td>20,000 per month</td>
</tr>
</tbody>
</table>

You are required to prepare the:

a. Cost of maintaining the library per annum excluding the cost of new books (5 Marks)

b. Cost incurred per club member per month on the library including the cost of new books (5 Marks)

c. The monthly and yearly net income from the library (2½ Marks)

(Total 12½ Marks)

QUESTION 4

Famous Nig. Limited provides the following figures for a four-week period. In this period there was a special one-day holiday due to national event.

- Standard working – 8 hours per day, 5 days per week
- Maximum capacity – 50 employees
- Actual working – 40 employees
- Actual hour expected to be worked per 4 weeks – 6,400 hours
- Standard hours expected to be earned per 4 weeks – 8,000 hours
- Actual hours worked on the four-week period – 6,000 hours
- Standard hours earned in the four-week – 7,000 hours

a. You are required to calculate:
   i. Efficiency ratio
   ii. Activity ratio
   iii. Capacity usage ratio
   iv. Capacity utilisation ratio
   v. Calendar ratio (No decimal places) (10 Marks)

b. List FIVE problems of standard costing (2½ Marks)

(Total 12½ Marks)
**QUESTION 5**

Koomuno Limited manufactures baby toys. The company currently sells 60,000 pieces representing 60% of its installed capacity at L$150 per unit. Other information in respect of the cost of sale is as provided below:

- Direct Material: L$40
- Direct Wages: L$10
- Works Overheads (50% Fixed): L$60
- Sales Overheads (25% Variable): L$10

In the current year, the company intends to produce the same number of toys but anticipates that:

i. The fixed charges will go up by 10%
ii. Direct labour will increase by 20%
iii. Direct materials will increase by 5%
iv. Selling price cannot be increased.

Under this circumstance, it obtained an order for a further 20% of its capacity at a price of L$90 per unit.

**You are required to determine:**

a) If the company should accept the special order
   
   (3½ Marks)

b) The net profit of the company assuming the special order is accepted
   
   (9 Marks)
   
   (Total 12½ Marks)

**QUESTION 6**

Relief Limited has a plant capacity of 40,000 units per annum. However, the company is not operating at full capacity presently.

The actual figures for the year were:

- **Selling Price:** GMD500 per unit
- **Material Cost:** GMD200 per unit
- **Variable Manufacturing Cost:** GMD150 per unit
- **Fixed cost:** GMD2,700,000
In order to improve capacity utilisation, the following proposals were put forward by the management:

i. Reduce selling price by 10%, or
ii. Spend additional GMD1,300,000 on sales promotion.

Based on the two proposals stated above, you are required to:

a. Calculate the number of units to be sold to earn a profit of GMD500,000 per annum (8½ Marks)

b. Assuming full capacity utilisation, determine the margin of safety in units and value. (4 Marks)

(Total 12½ Marks)

SECTION A: PART I

MULTIPLE CHOICE SOLUTIONS

1. B
2. B
3. E
4. D
5. D
6. A
7. B
8. E
9. D
10. E
11. B
12. C
13. A
14. E
15. D
16. B
17. D
18. A
19. A
20. B
21. A
22. C
23. B
24. C
25. C
26. C
27. A
28. D
29. A
30. A
Workings

QUESTION 3

Using High and Low Method

<table>
<thead>
<tr>
<th>Units</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>10,500</td>
</tr>
<tr>
<td>Low</td>
<td>(7,500)</td>
</tr>
<tr>
<td>3,000</td>
<td></td>
</tr>
</tbody>
</table>

Variable cost/unit = N54,000
3,000

Variable cost/unit = N18 per unit

@ high point

294,000 = a + 18(10,500)

a = 294,000 – 189,000

a = N105,000

@ low point

240,000 = a + 18(7,500)

a = 240,000 – 135,000

a = N105,000

Y = a + bx

Cost Allowance when 8,500 units is expected to be produced?

y = N105,000 + 18(8,500)

y = N105,000 + 153,000

y = N258,000

QUESTION 9 – 11 USING LAST-IN-FIRST-OUT (LIFO) METHOD

<table>
<thead>
<tr>
<th>Date</th>
<th>Details</th>
<th>RECEIPT</th>
<th>ISSUES</th>
<th>BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>GhC</td>
<td>GhC</td>
<td>GhC</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Qty</td>
<td>UP</td>
<td>Amount</td>
</tr>
<tr>
<td>1/4/22</td>
<td>Balance b/f</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5/4/22</td>
<td>Receipt</td>
<td>500</td>
<td>45:00</td>
<td>22,500</td>
</tr>
<tr>
<td>10/4/22</td>
<td>Receipt</td>
<td>1,200</td>
<td>50:00</td>
<td>60,000</td>
</tr>
<tr>
<td>15/4/22</td>
<td>Issues</td>
<td>2,500</td>
<td></td>
<td>114,500</td>
</tr>
</tbody>
</table>

9. The value of stock as at 10/4/2022 = GhC130,500

10. The value of stock after issuing to production on 15/4/2022 = GhC16,000

11. The valuation of 2,500 units issued to production = GhC114,500
Examiner’s comment

This part of the question, which has 30 multiple choice questions covering almost all sections of the entire syllabus, was attempted by virtually all candidates, being compulsory. Performance was good as about 70% of the candidates scored 50% and above of the marks allocated.

Many candidates did not prepare fully, hence the below average performance by some of them.

Candidates are advised to study every section of the syllabus as whatever is included in the syllabus is examinable.

SECTION A: PART II

SHORT-ANSWER SOLUTIONS

1. ₦105
2. Lower Profit
3. ₦877.50
4. Labour Turnover = Number of Workers Replaced ÷ Average number of workers x 100
5. Apportionment of costs
6. Under/Over Absorbed factory Overhead
7. Cost Sheet/Card
8. Statement of profit/loss and other Comprehensive Income
9. 15%
10. Split off point/ Separation point
11. Direct Cost
12. Cost Reduction
13. Notional cost/Imputed cost
14. Inventory Control
15. Job Cost Card/Estimate
16. Cost Audit
17. Nature of the Business
18. Cost classification
19. Normal Cost
20. Coding
**Workings**

1. Break even (Units) = \[ \text{Fixed Cost} \div \text{Contribution per unit} \]
   
   Contribution per unit = Selling Price/Unit – Variable Cost/unit
   
   9,000 units = ₦270,000
   
   \[ \text{SP} - ₦75 = \frac{₦270,000}{9,000} \]
   
   \[ ₦270,000 = 9,000\text{SP} - 675,000 \]
   
   \[ ₦270,000 + ₦675,000 = 9,000\text{SP} \]
   
   \[ \text{SP} = \frac{₦945,000}{9,000} = ₦105 \]

3. Total wages under Rowan

   \[ \text{Hours worked} \times \text{Rate/hr} + \left( \frac{\text{Time Taken}}{\text{Time Allowed}} \right) \times \text{Time Saved} \times \text{Rate/hr} \]
   
   \[ = (13 \times 50) + \left( \frac{13}{20} \times 7 \times 50 \right) \]
   
   \[ = ₦650 + 227.5 \]
   
   \[ = ₦877.50 \]

**Examiner’s comment**

This part of the question, which comprises 20 short answer questions, covers a broad range of the whole syllabus, and being compulsory, was attempted by virtually every candidate. Performance was average as only about 50% of those who attempted the question scored 50% and above of the marks allocated.

The major issue on the part of candidates was lack of adequate preparation. Most of them only prepared for the popular topics, forgetting that every topic listed in the syllabus is examinable.

Candidates are enjoined not to be selective in their future preparations as questions can be picked from any topic.

**SECTION B**

**SOLUTION 1**

**Asese Nigeria Limited**

**Inventory Management**

a. Maximum level = Re-order level + re-order quantity – (minimum rate consumption x minimum re-order period)

   \[ = 450 + 1000 – (25 \times 4 \text{ weeks}) = 1,350 \text{ units} \]
b. Re-order Level (ROL) = Maximum Usages x Maximum Re-order Period
   = 75 units x 6 weeks = 450 units

c. \( EOQ = \sqrt{\frac{2DO_C}{C_C}} \)
   
   \[ \sqrt{\frac{2 \times 25,000 \times 400}{20\% \text{ of } \text{₦}100}} \]
   
   \( EOQ = 1,000 \text{ units} \)

d. Minimum Level = Re-order – (normal rate consumption x normal re-order period)
   = 450 units – (50 Units x 5 weeks) = 200 units

e. Numbers of orders = \( \frac{D}{EOQ} \)
   = \( \frac{25,000}{1,000} \)
   = 25 orders

f. Frequency of orders = \( \frac{\text{No of weeks}}{\text{No of Orders}} \)
   = \( \frac{50}{25} \)
   = 2 times per week

g. Average inventory level = \( \frac{1}{2} \) (maximum inventory level + minimum inventory level)
   = \( \frac{1}{2} \) (1,350 units + 200 kg) = 775 units
   Alternatively, = minimum level + \( \frac{1}{2} \) re-order quantity
   = 200 units + (1000 x \( \frac{1}{2} \)) = 700 units

h. Holding Cost per annum = \( \frac{EOQ \times H_c}{2} \)
   = \( \frac{1,000 \times \text{₦}20:00}{2} \)
   = \text{₦}10,000

i. Ordering Cost per annum = \( \frac{D \times O_c}{EOQ} \)
   = \( \frac{25,000 \times \text{₦}400}{1,000} \)
   = \text{₦}10,000

j. Total relevant cost per annum = Ordering Cost + Holding Cost
   = \text{₦}10,000 + \text{₦}10,000
   = \text{₦}20,000
**Workings**

i. Annual demand $= 500 \text{ units} \times 50 \text{ weeks} = 25,000 \text{ units}$

ii. Average Usage $= \frac{\text{Minimum Usage} + \text{Maximum Usage}}{2}$

\[ 50 = \frac{25 + \text{Maximum Usage}}{2} \]

\[ 50 \times 2 = 25 + \text{Maximum Usage} \]

Maximum Usage $= 100 - 25$

Maximum Usage $= 75 \text{ units}$

**Examiner’s comment**

This question tests candidates’ understanding of inventory control. About 80% of the candidates attempted the question but performance was good as about 75% of those who attempted them scored 50% and above of the marks allocated. A few of the candidates performed poorly though.

The major pitfall among some candidates was lack of deep understanding of the topic.

Candidates are advised to study and acquire full knowledge and understanding of the affected topics against the future examinations.
**SOLUTION 2**

**BOZZ & Sons Nig. Ltd.**  
**General Journal**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>DR GhC’000</th>
<th>CR GhC’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Store Ledger Control Account</td>
<td>300,000</td>
<td></td>
</tr>
<tr>
<td>Creditors Account</td>
<td></td>
<td>300,000</td>
</tr>
<tr>
<td>Work-in-Progress Ledger Account</td>
<td>225,000</td>
<td></td>
</tr>
<tr>
<td>Store Ledger Control Account</td>
<td></td>
<td>225,000</td>
</tr>
<tr>
<td>Wages Control Account</td>
<td>126,000</td>
<td></td>
</tr>
<tr>
<td>Factory Overhead Control Account</td>
<td></td>
<td>180,000</td>
</tr>
<tr>
<td>Factory Overhead Control Account</td>
<td>54,000</td>
<td></td>
</tr>
<tr>
<td>Bank Account</td>
<td></td>
<td>45,000</td>
</tr>
<tr>
<td>Work-in-Progress Ledger Account</td>
<td>150,000</td>
<td></td>
</tr>
<tr>
<td>Wages Control Account</td>
<td></td>
<td>105,000</td>
</tr>
<tr>
<td>Factory Overheads Control Account</td>
<td></td>
<td>138,000</td>
</tr>
<tr>
<td>Factory Overheads Control Account</td>
<td>126,000</td>
<td></td>
</tr>
<tr>
<td>Bank Account</td>
<td></td>
<td>126,000</td>
</tr>
<tr>
<td>Work-in-Progress Ledger Account</td>
<td>138,000</td>
<td></td>
</tr>
<tr>
<td>Factory Overheads Control Account</td>
<td></td>
<td>138,000</td>
</tr>
<tr>
<td>Selling &amp; Distribution Overheads Control Account</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td>Bank Account</td>
<td></td>
<td>30,000</td>
</tr>
<tr>
<td>Finished Goods Control Account</td>
<td>300,000</td>
<td></td>
</tr>
<tr>
<td>Work-in-Progress Ledger Account</td>
<td></td>
<td>300,000</td>
</tr>
<tr>
<td>Cost of Sales Account</td>
<td>330,000</td>
<td></td>
</tr>
<tr>
<td>Finished Goods Control Account</td>
<td></td>
<td>300,000</td>
</tr>
<tr>
<td>Selling &amp; Distribution Overheads Control Account</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td>Sales Ledger Control Account</td>
<td>450,000</td>
<td></td>
</tr>
<tr>
<td>Sales Account</td>
<td></td>
<td>450,000</td>
</tr>
<tr>
<td>Bank Account</td>
<td>105,000</td>
<td></td>
</tr>
<tr>
<td>Sales Ledger Control Account</td>
<td></td>
<td>105,000</td>
</tr>
<tr>
<td>Account Payables (Creditor) Account</td>
<td>165,000</td>
<td></td>
</tr>
<tr>
<td>Bank Account</td>
<td></td>
<td>165,000</td>
</tr>
</tbody>
</table>
Examiner’s comment

This question tests candidates’ knowledge of interlocking accounts with emphasis on basic ledger postings. About 50% of the candidates attempted this question and only about 30% of them scored 50% and above of the marks allocated.

Several candidates never liked this topic and it reflected in their performances.

Candidates are advised to understand that interlocking accounts is an integral part of the syllabus and cannot be wished away. Also, they should familiarise themselves with the topic because it will continue to feature in the examinations.

SOLUTION 3

Agbomabiwon Social Club

a. Cost of maintaining the Library per annum excluding the cost of new books

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff Cost – Librarian (₦50,000 x 12 mths x 1)</td>
<td>600,000</td>
</tr>
<tr>
<td>Assistant Librarian (₦35,000 x 12 mths x 3)</td>
<td>1,260,000</td>
</tr>
<tr>
<td>Clerk (₦20,000 x 12 mths x 1)</td>
<td>240,000</td>
</tr>
<tr>
<td>Book Maintenance Cost (50,000 books x ₦10.80)</td>
<td>540,000</td>
</tr>
<tr>
<td>Total Cost of Maintaining the Library per Annum</td>
<td>2,640,000</td>
</tr>
</tbody>
</table>

b. Cost incurred per member per month on the library including the cost of new books

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of new books (1,200 books @ ₦3,000 each)</td>
<td>3,600,000</td>
</tr>
<tr>
<td>Total Cost of Maintaining the Library per Annum</td>
<td>2,640,000</td>
</tr>
<tr>
<td>Total Cost Incurred of Maintaining the Library per annum</td>
<td>6,240,000</td>
</tr>
<tr>
<td>Number of Months in a year</td>
<td>12</td>
</tr>
<tr>
<td>Cost Incurred per Month (₦6,240,000 ÷ 12)</td>
<td>520,000</td>
</tr>
<tr>
<td>Number of Members</td>
<td>5,200</td>
</tr>
<tr>
<td>Cost Incurred by Members per Month (₦520,000 ÷ 5,200)</td>
<td>₦10</td>
</tr>
</tbody>
</table>

c. The net income from the Library monthly and per annum

<table>
<thead>
<tr>
<th>Description</th>
<th>Monthly</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Library Fees (1,000 Members @ ₦1,000)</td>
<td>1,000,000</td>
<td>12,000,000</td>
</tr>
<tr>
<td>Late Penalty Fines (500 books x 5 days x ₦10)</td>
<td>25,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>1,025,000</td>
<td>12,300,000</td>
</tr>
<tr>
<td>Less Total Cost Incurred</td>
<td>(520,000)</td>
<td>(6,240,000)</td>
</tr>
<tr>
<td>Net Income</td>
<td>505,000</td>
<td>6,060,000</td>
</tr>
</tbody>
</table>
Examiner’s comment

This question tests candidates’ knowledge of Service Costing. The question was well attempted by about 70% of the candidates but performance was appreciable as about 70% of them scored 50% and above of the marks allotted to the question.

The only pitfall was in part (C) which required both monthly and annual income, but several candidates only did either of the two.

Candidates are advised to acquire more knowledge on the interpretation of instructions in their future preparations.

**SOLUTION 4**

Famous Nig. Ltd.

Calculation of Different Ratios

i. Efficiency Ratio = \( \frac{\text{Standard Hours}}{\text{Actual Hours}} \times 100\% \)
   
   \[
   = \frac{7,000}{6,000} \times 100\% = 117\%
   \]

ii. Activity Ratio = \( \frac{\text{Standard Hours}}{\text{Budgeted Hours}} \times 100\% \)
   
   \[
   = \frac{7,000}{6,400} \times 100\% = 109\%
   \]

iii. Capacity Usage Ratio = \( \frac{\text{Budgeted Hours}}{\text{Standard Hours Expected}} \times 100\% \)
   
   \[
   = \frac{6,400}{8,000} \times 100\% = 80\%
   \]

iv. Capacity Utilisation Ratio = \( \frac{\text{Actual Hours}}{\text{Budgeted Hours}} \times 100\% \)
   
   \[
   = \frac{6,000}{6,400} \times 100\% = 94\%
   \]

v. Calendar Ratio = \( \frac{\text{Available Working Days}}{\text{Budgeted Working Days}} \times 100\% \)
   
   \[
   = \frac{(5 \times 4) - 1}{5 \times 4} \times 100\% = 95\%
   \]
a. Problems of Standard Costing

i. The problem of setting accurate standards

ii. Revision of standards is costly, and some firms ignore it

iii. Non-achievement of unrealistic standards may have an adverse effect on the morale and motivation of the employees.

iv. Standard costing system is costly and unsuitable in job order industries where the production is of a non-repetitive nature.

v. In case of small concerns, it is expensive to operate standard costing system

vi. Where the system has not yet been fully accepted, there is duplication in recording in as much as inventory pricing etc. must be done both at standard and actual price.

vii. Sometimes it becomes difficult to set up standard costs in view of the uncertain economic conditions, for example, high fluctuations in prices.

viii. Standard costing facilitates only cost control and not cost reduction

ix. It is time consuming to install.

Examiner's comment

This question tests candidates’ knowledge of accounting ratios area of Standard Costing. About 60% of the candidates attempted this question and about 50% of them were able to score 50% and above of the marks allocated. Part B of the question was on the problems of standard costing, which was an easy one.

The major pitfall among candidates was wrong formulae.

Candidates should understand that interpretation of results are better and faster achieved with formulae; they should therefore learn them by heart when preparing for future examinations.

SOLUTION 5

Koomuno Nig. Ltd.

(a) Minimum Price to be Recommended by Koomuno Nig. Ltd. for the Special Order

<table>
<thead>
<tr>
<th>Details</th>
<th>Unit Cost</th>
<th>Total Cost @ 20,000 units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Materials (₦40 + 5% increase)</td>
<td>42:00</td>
<td>840,000</td>
</tr>
<tr>
<td>Direct Labour (₦10 + 20% increase)</td>
<td>12:00</td>
<td>240,000</td>
</tr>
<tr>
<td>Variable Overheads:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Works Overheads (₦60 X 50%)</td>
<td>30:00</td>
<td>600,000</td>
</tr>
<tr>
<td>Sales Overheads (₦10 X 25%)</td>
<td>2:50</td>
<td>50,000</td>
</tr>
<tr>
<td>TOTAL RELEVANT COST</td>
<td>86:50</td>
<td>1,730,000</td>
</tr>
<tr>
<td>Special Offer Price</td>
<td>₦90:00</td>
<td>₦1,800,000</td>
</tr>
<tr>
<td>Contribution</td>
<td>₦3:50</td>
<td>₦70,000</td>
</tr>
</tbody>
</table>
Determination of the net profit of Koomuno Nig. Ltd. assuming the special offer is accepted

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (60,000 x ₦150)</td>
<td>9,000,000</td>
</tr>
<tr>
<td>Less Variable Cost:</td>
<td></td>
</tr>
<tr>
<td>Direct Material (60,000 x ₦42)</td>
<td>2,520,000</td>
</tr>
<tr>
<td>Direct Labour (60,000 unit x ₦12)</td>
<td>720,000</td>
</tr>
<tr>
<td>Variable Overheads:</td>
<td></td>
</tr>
<tr>
<td>Works Overheads (60,000 x ₦30)</td>
<td>1,800,000</td>
</tr>
<tr>
<td>Sales Overheads (60,000 x ₦2.50)</td>
<td>150,000</td>
</tr>
<tr>
<td>Contribution</td>
<td></td>
</tr>
<tr>
<td>Contribution of the Special Order</td>
<td></td>
</tr>
<tr>
<td>Contribution of the Special Order</td>
<td>3,810,000</td>
</tr>
<tr>
<td>Less Fixed Overheads:</td>
<td></td>
</tr>
<tr>
<td>Works Overheads {((60,000 x ₦30) + 10% Increase)}</td>
<td>1,980,000</td>
</tr>
<tr>
<td>Sales Overheads {((60,000 x ₦2.50) + 10% Increase)}</td>
<td>495,000</td>
</tr>
<tr>
<td>Net Profit</td>
<td>1,405,000</td>
</tr>
</tbody>
</table>

**Examiner’s comment**

This is a straightforward question on Marginal Costing/Decision Making. The question was attempted by about 80% of the candidates and performance was above average as about 70% of them scored 50% and above of the marks allotted.

A few candidates found it difficult to correctly arrive at the optimal decision, probably due to lack of adequate knowledge.

Adequate mastery of the topic should naturally not present a challenge to a hardworking and smart candidate.
SOLUTION 6

Relief Nig. Ltd.

a. Based on the two proposals, how many units should be sold to earn a profit of ₦500,000 per annum?

Proposal I – Reduce Selling Price by 10%

New Selling Price = ₦500 x (100% - 10%) = 450

Less: Variable Cost per Unit
Material Cost 200
Variable Manufacturing Cost 150 350
Contribution/Unit 100

Break even Point (units) at Desired Profit = \( \frac{Fixed\ Cost + Desired\ Profit}{Contribution/Unit} \)

= \( \frac{₦2,700,000 + ₦500,000}{₦100} \)

= 32,000 Units

Proposal II – Spend Additional ₦1,300,000 on Sales Promotion

Selling Price = 500

Less: Variable Cost per Unit
Material Cost 200
Variable Manufacturing Cost 150 350
Contribution/Unit 150

New Fixed Cost = ₦2,700,000 + ₦1,300,000 = ₦4,000,000

Break even Point (units) at Desired Profit = \( \frac{Fixed\ Cost + Desired\ Profit}{Contribution/Unit} \)

= \( \frac{₦4,000,000 + ₦500,000}{₦150} \)

= 30,000 Units

b. Using the full capacity of the company, determine the margin of safety in units and value under the two proposals

Proposal I

Margin of Safety (Units) = Full Capacity (Units) – Break even Point (Units)
= 40,000 units – 32,000 units
= 8,000 Units

Margin of Safety (₦) = MOS (Units) x Selling Price/Unit
= 8,000 units x ₦450
= ₦3,600,000
**Proposal II**

Margin of Safety (Units) = Full Capacity (Units) – Break even Point (Units)

\[ = 40,000 \text{ units} - 30,000 \text{ units} \]

\[ = 10,000 \text{ Units} \]

Margin of Safety (₦) = MOS (Units) x Selling Price/Unit

\[ = 10,000 \text{ units} \times ₦500 \]

\[ = ₦5,000,000 \]

**Examiner’s comment**

This is a question on Cost-Volume-Profit emphasising profit planning.

About 60% of the candidates attempted the question and about 65% of them scored 50% and above of the allotted marks.

Several candidates had good knowledge of this topic and it is therefore a mark booster. We however discovered some mix-ups between contribution and margin of safety in the presentation by some candidates, which cost them some marks.

Candidates are enjoined to engage in adequate preparations in the future. The use of ICAN’s INSIGHT is recommended.
THE ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA

ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
SEPTEMBER 2023 EXAMINATIONS (PART III)
TAXATION

PLEASE READ THESE INSTRUCTIONS BEFORE COMMENCEMENT OF THE PAPER

EXAMINATION INSTRUCTIONS

1. All solutions should be in ink. Any solution in pencil will not be marked.

2. Read all instructions on each part of the paper carefully before answering the questions.

3. Ensure that you do not answer more than the number of questions required for Section B (The Essay Section).

4. Check your pockets, purse and mathematical sets, etc to ensure that you do not have prohibited items such as telephone handset, electronic storage device, wrist watches, programmable devices or any form of written material on you in the examination hall. You will be stopped from continuing with the examination and liable to further disciplinary actions including cancellation of examination result if caught.

5. Do not enter the hall with anything written on your docket.

6. Insert your examination number in the space provided above.

WEDNESDAY, 27 SEPTEMBER, 2023
ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
PART III EXAMINATIONS – SEPTEMBER 2023
TAXATION

Time Allowed: 3 hours

SECTION A: PART I MULTIPLE-CHOICE QUESTIONS (30 Marks)

ATTEMPT ALL QUESTIONS

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 source of Nigerian tax laws?
   A. Constitution of the Federal Republic
   B. Court judgments until overruled
   C. Opinions of tax experts
   D. Circulars issued by and practices of Inland Revenue
   E. Opinions of a Chairman of local government

2. Which of the following is NOT a basic concept in taxation?
   A. Tax base
   B. Tax rate
   C. Tax burden
   D. Tax shift
   E. Tax evasion

3. Which of the following is NOT a means of evading tax?
   A. Failure to furnish returns
   B. Entering into artificial transactions
   C. Change from sole proprietor to partnership
   D. Refusing to register with relevant tax authorities
   E. Overstating expenses so as to reduce taxable profit

4. Tax appeals can be lodged NOT later than 30 days if the delay in lodging the notice of appeal is due to the following, EXCEPT
   A. Sickness of objector
   B. The objector’s absence from the country
   C. There is no unreasonable delay on the part of the objector
   D. Objector’s ignorance of the date of lodgment
   E. Any other reasonable clause
5. A quorum is formed at any meeting of the State Internal Revenue Board where there is in attendance the Chairman

A. And one Director  
B. Or a Director and two other members  
C. And three other members  
D. And seven other members  
E. Or a Director and four other members

6. Which of the following is **NOT** an example of a direct tax?

A. Personal income tax  
B. Companies income tax  
C. Excise duty  
D. Education tax  
E. Capital gains tax

7. Which of the following is **NOT** a fundamental canon of taxation?

A. Simplicity  
B. Diversification  
C. Flexibility  
D. Equity and fairness  
E. Convenience

8. In the context of Nigerian tax policy, tax authorities at all levels shall administer their mandates in accordance with the following, **EXCEPT**

A. Dispute resolution  
B. Efficiency of administration  
C. Registration of taxable persons  
D. Preparation of accounts for tax purposes  
E. Tax compliance

9. The time limit for objection by any company that disputes a tax assessment raised on it by a tax authority is within ........ days from the date of the service of the notice of the assessment.

A. 60  
B. 30  
C. 15  
D. 90  
E. 40
10. Which of the following is **NOT** an objective of value added Tax (VAT)?
   A. To increase government revenue
   B. To make the tax system more transparent
   C. To reduce tax evasion practices
   D. To decrease exports
   E. To simplify tax collection procedure

11. Which of the following is **NOT** an example of instruments assessed by fixed stamp duties?
   A. Guarantor form
   B. Proxy form
   C. Share capital of companies
   D. Appointment of a receiver
   E. Memorandum of understanding

12. Which of the following is **NOT** an objective of withholding tax?
   A. To discourage, minimise or prevent incidence of tax evasion
   B. To widen the tax net of the government
   C. To serve as a veritable source of revenue to the government
   D. To serve as a collection mechanism for income tax
   E. To decrease tax burden of a taxpayer

13. Which of the following is **NOT** a content of payment schedule of withholding tax?
   A. The names and addresses of the directors of the two parties involved in the transaction
   B. The name of the taxpayer who suffered the deduction
   C. The total amount payable
   D. The rate of the tax applied
   E. The tax identification number of the taxpayer

14. Which of the following criteria is **NOT** taken into consideration in ascertaining what constitutes “sales in ordinary course of business”?
   A. The location of the company
   B. The inclusion of the transaction/activity in the object of the memorandum of association
   C. The nature and practice of the taxpayer’s business and industry
   D. The history of the taxpayer in relation to the activity
   E. The frequency of the transaction
15. Which of the following is NOT a benefit of adjudication in stamp duties?
   A. It shows the genuiness of the document
   B. It confers tax clearance certificate to the payer
   C. It certifies the statutory requirement
   D. It makes instrument once adjudicated, admissible for all purposes notwithstanding any objection as to the duty to be paid
   E. It is the first step in disputing the views of stamp duties office of the correct amount of duty

16. Which of the following area of import and export is not subject to restriction and prohibition?
   A. Prohibition authorised by the world trade organisation (WTO) agreements
   B. Currency
   C. The prevention or relieve of critical shortages of food stuffs
   D. The protection of the health and life of humans, animals and plants
   E. Establishment of non-governmental organisation (NGO)

17. Which of the following is NOT a type of capital allowance?
   A. Investment allowance
   B. Initial allowance
   C. General allowance
   D. Balancing allowance
   E. Annual allowance

18. Which of the following is NOT a member of the Nigerian Customs Service Board?
   A. The Legal Adviser to the Nigeria Custom Service Board
   B. The Chairman of the Federal Inland Revenue Service
   C. The Minister of Trade and Industries
   D. Controller-General of Customs
   E. All the Deputy Controllers-General

19. Which of the following duties was amended by the Finance Act 2020?
   A. Pharmaceutical product from 35% to 25%
   B. Agricultural equipment from 35% to 20%
   C. Tractors (HS headings 8701) from 35% to 5%
   D. Motor vehicle from 35% to 15%
   E. Motor vehicle from 20% to 10%
20. Which of the following is **not** a luxury item?
   A. High-end jewellery
   B. Private jets
   C. First class ticket on airlines
   D. Residential mansion in Federal Capital Territory (FCT) Abuja
   E. Champagne

21. Allowance usually granted in lieu of depreciation for tax purposes is called
   A. General allowance
   B. Personal allowance
   C. Departmental allowance
   D. Capital allowance
   E. Taxation allowance

22. Which of the following is **not** a tax exempt item under the Personal Income Tax (Amendment) Act 2011?
   A. Gratuity
   B. Life assurance premium
   C. National housing funds contribution
   D. National health insurance scheme contribution
   E. Consolidated relief allowance

23. Which of the following is a benefit-in-kind?
   A. Year-end bonus
   B. Official remuneration of an employee
   C. Official non-monetary remuneration of an employee
   D. Tax paid by employee
   E. Official remuneration of management staff

24. Which of the following is **not** an investment income on which withholding tax is deductible?
   A. Rent
   B. Interest
   C. Royalty
   D. Dividend
   E. Consultancy and professional services

25. Which of the following is an allowable expenses in the determination of assessable profit?
   A. Cost of defending traffic offence
   B. Depreciation
   C. Specific allowance for doubtful debts
   D. Donations to political parties
   E. Income tax provision
26. Which of the following is **NOT** a consideration that influence the identification of the badges of trade?

A. The length of period of ownership
B. The frequency or number of similar transactions
C. The subject matter of realisation
D. The location of the business
E. The circumstances that were responsible for the realisation

27. Which of the following is **NOT** usually dealt with in a partnership agreement for tax purposes?

A. Profit or loss sharing ratio
B. Amount to be contributed by each partner as capital
C. Salary, if any payable to a partner
D. The rate of interest payable if any on capital
E. Marital status of partners

28. In the absence of a partnership agreement or deed, interest on loan advanced by a partner to the firm is allowed at the rate of

A. 3%
B. 4%
C. 5%
D. 6%
E. 10%

29. Which of the following is **NOT** liable to pay the tax due from settlements, trusts and estates?

A. The executor
B. The trustee
C. The employer
D. The beneficiary including any annuitant
E. The settlor or the person who created the trust in circumstances where he can direct the disposition of the income or the right there to.

30. Which of the following is **NOT** a basis of computing income tax payable?

A. Dividend basis
B. Total profit basis
C. Turnover basis
D. Minimum tax basis
E. Total assets basis
SECTION A: PART II  SHORT ANSWER QUESTIONS  (20 MARKS)

ATTEMPT ALL QUESTIONS

Write the correct answer that best completes each of the following questions/statements

1. Unrelieved loss which can no longer be carried forward upon ceasation of a business is known as ……………………………………

2. The type of assessment that a tax authority will raise if a taxpayer wants to move to foreign countries is known as……………………

3. The tax paid in the rateable value of any property situated in a local government area in Nigeria is known as …………………

4. Tax appeals before the Federal High Court must be on points of …………………..

5. The decision of Tax Appeal Tribunals are recorded in writing by the Chairman and a certified true copy is given to the appellant or the Federal Inland Revenue Service (FIRS) on request within ………………. of the decision.

6. The Fifth Schedule of CITA as amended by section 57 of the Finance Act 2020 allows a tribunal to conduct its hearing ………………….. via virtual means using such technology or application as may be necessary to ensure fair hearing.

7. Value added tax (VAT) paid by a company is expected to be remitted to the relevant tax office within…………………. days of the month following the month of transaction.

8. Tax paid by a taxable person to the supplier of taxable goods and a service purchased or supplied to him is known as ………………………… tax.

9. A tax invoice shall be issued on supply whether or not payment is made at the time of ……………………

10. The stamp duty that varies with the consideration for the document being stamped is called ……………………..duty.

11. The common feature of investment income is that it is subject to ……………………. tax

12. Withholding tax represents the ……………………………….. tax on franked investment income, in the hands of the recipients.
13. The platforms used for dissemination of tax information due to its wide reach and appeals to the younger generation are called ………………………………

14. Which software can allow for real time status monitoring of financial matters including their tax implications?

15. At meetings of the Joint Tax Board (JTB), a quorum shall be constituted by ………………………………

16. The authority that is responsible for formulating the general policy guidelines for the Nigerian Customs Service is ………………………………

17. A relief that is granted in the year of assessment in the basis period of which a qualifying capital expenditure was incurred is ………………………………

18. The withholding tax rate for construction of roads, bridges, buildings and power plants is ………………………………

19. The basis period for the first year of assessment under section 29 (3) of the Companies Income Tax Act Cap C21 LFN 2004 (as amended) is ………………………………

20. The dividend received by one company from another after deduction of withholding tax is called ………………………………

**SECTION B: ATTEMPT ANY FOUR QUESTIONS (50 MARKS)**

**QUESTION 1**

Some individuals or companies have formed the habit to avoid paying tax. The government has introduced some measures to bring taxpayers into the tax net. The introduction of tax clearance certificate is one of such measures.

**Required:**

a. State **SEVEN** transactions in respect of which tax clearance certificate must be produced. (10½ Marks)

b. Section 87 of Personal Income Tax Act (PITA) 2004 as amended, established the State Board of Internal Revenue Service (SIRS).

**Required:**

State the quorum for a valid meeting of the State Board of Internal Revenue under section 87(3) of the Act. (2 Marks)

**(Total 12½ Marks)**
QUESTION 2

The National Tax Policy (NTP) provides the fundamental guidelines for the orderly development of the Nigerian tax system by recommending certain fundamental features that all existing and future taxes are expected to align with.

Required:

a. Explain **FIVE** of the recommended guiding principles.  
(7½ Marks)

b. State **FIVE** specific objectives of the National Tax Policy.  
(5 Marks)

(Total 12½ Marks)

QUESTION 3

Doyin Manufacturing Ventures Limited is based in Omi-Adio, Oyo State. The company sold its vatable product to Ekemode Wholesalers Ventures, for ₦4,000,000 in 2021. Ekemode Wholesalers in turn sold the product to a retailer, Mrs. Egunjobi for ₦7,000,000 who finally sold to consumers for ₦8,400,000. You are to assume there was no closing inventory at each stage of the transaction.

Required:

a. Compute total Value Added Tax (VAT) payable to Federal Inland Revenue Service.  
(10 Marks)

b. State **THREE** merits and **TWO** demerits of VAT.  
(2½ Marks)

(Total 12½ Marks)

QUESTION 4

Apena Limited is a medium-sized manufacturing company located in Abileowo, Oyo State. The company made the following transactions during the year ended December 31, 2022:

- **March 7, 2022**: ₦300,000 was paid to Mr. Oluaye, an estate surveyor for the services rendered to the company during the month.
- **April 2, 2022**: ₦700,000 was paid to Roamlade Limited as a fee for technical services rendered.
- **May 10, 2022**: ₦850,000 was paid as interim dividends to individual shareholders of the Company.
- **June 20, 2022**: ₦18,500,000 was paid to Damilade Limited for purchase of goods used in the ordinary course of business.
- **September 15, 2022**: ₦400,000 was paid to a management consultant, Richard.
November 13, 2022  ₦1,100,000 was paid to Kadupe Limited as royalty.

December 28, 2022  ₦600,000 was paid to the director of the company as director’s fees.

**Required:**

Compute the withholding tax payable to

a. Federal Inland Revenue Service  
   (4½ Marks)

b. State Board Of Internal Revenue  
   (8 Marks)
   **(Total 12½ Marks)**
QUESTION 5

Alamu, Bembo and Logudu have been in partnership as professional builders for more than ten years.

The operational result of the partnership for the year ended June 30, 2021, is shown below:

<table>
<thead>
<tr>
<th>Description</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit</td>
<td>20,100,000</td>
</tr>
<tr>
<td>Deduct:</td>
<td></td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>6,775,000</td>
</tr>
<tr>
<td>Transport and travelling</td>
<td>800,000</td>
</tr>
<tr>
<td>Insurance</td>
<td>175,000</td>
</tr>
<tr>
<td>Rent and rates</td>
<td>400,000</td>
</tr>
<tr>
<td>Offices expenses</td>
<td>700,000</td>
</tr>
<tr>
<td>Professional fees</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Allowance for doubtful debts</td>
<td>325,000</td>
</tr>
<tr>
<td>Staff loan written off</td>
<td>135,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>3,900,000</td>
</tr>
<tr>
<td>Interest on loan by</td>
<td></td>
</tr>
<tr>
<td>Alamu</td>
<td>227,500</td>
</tr>
<tr>
<td>Interest on capital accounts:</td>
<td></td>
</tr>
<tr>
<td>Alamu</td>
<td>112,500</td>
</tr>
<tr>
<td>Bembo</td>
<td>157,500</td>
</tr>
<tr>
<td>Logudu</td>
<td>180,000</td>
</tr>
<tr>
<td>Net profit for the year</td>
<td>4,712,500</td>
</tr>
</tbody>
</table>

Other relevant information is as follows:

(i) Allowance for doubtful debts was based on 20% of debts over 10 months old.
(ii) Office expenses include a donation of N400,000 to an old people’s home.
(iii) Capital allowances agreed with the Revenue was N4,750,000.
(iv) Partners profit sharing ratio is Alamu 5, Bembo 7, Logudu 8.

Required:

a. Compute the income of the partnership for tax purposes. (6 Marks)

b. Compute the chargeable income of each partner for tax purposes. (6½ Marks)

(Total 12½ Marks)
QUESTION 6

a. Mogaji Limited is a Nigerian company engaged in the production of plastic products in Apatapete, Oyo State. The company’s accounts for the year ended December 31, 2021, disclosed a net profit of ₦10 million after charging the following:

<table>
<thead>
<tr>
<th>Expense</th>
<th>₦’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff salaries</td>
<td>2,000</td>
</tr>
<tr>
<td>Rent paid on MD’s residential accommodation</td>
<td>3,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,000</td>
</tr>
<tr>
<td>Penalty and fines</td>
<td>200</td>
</tr>
</tbody>
</table>

It was disclosed that the annual basic salary of the company’s Managing Director was ₦1,500,000 while other allowances amounted to ₦4,000,000.

Required:

a. Compute the adjusted profit of the company for the year ended December 31, 2021. (6½ Marks)

b. State SIX expenses not allowed in the ascertainment of profit or loss of a company as provided by section 27 CITA 2004 (as amended). (6 Marks)

(Total 12½ Marks)

NIGERIAN TAX RATES

1. CAPITAL ALLOWANCES

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Initial %</th>
<th>Annual %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building Expenditure</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Industrial Building Expenditure</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Mining Expenditure</td>
<td>95</td>
<td>Nil</td>
</tr>
<tr>
<td>Plant Expenditure (excluding Furniture &amp; Fittings)</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>Manufacturing Industrial Plant Expenditure</td>
<td>50</td>
<td>Nil</td>
</tr>
<tr>
<td>Construction Plant expenditure (excluding Furniture and Fittings)</td>
<td>50</td>
<td>Nil</td>
</tr>
<tr>
<td>Public Transportation Motor Vehicle</td>
<td>95</td>
<td>Nil</td>
</tr>
<tr>
<td>Ranching and Plantation Expenditure</td>
<td>30</td>
<td>50</td>
</tr>
<tr>
<td>Plantation Equipment Expenditure</td>
<td>95</td>
<td>Nil</td>
</tr>
<tr>
<td>Research and Development Expenditure</td>
<td>95</td>
<td>Nil</td>
</tr>
<tr>
<td>Housing Estate Expenditure</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>Motor Vehicle Expenditure</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>Agricultural Plant Expenditure</td>
<td>95</td>
<td>Nil</td>
</tr>
<tr>
<td>Furniture and Fittings Expenditure</td>
<td>25</td>
<td>20</td>
</tr>
</tbody>
</table>
2. **INVESTMENT ALLOWANCE**

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.

<table>
<thead>
<tr>
<th>Taxable Income (₦)</th>
<th>Rate of Tax (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 300,000</td>
<td>7</td>
</tr>
<tr>
<td>Next 300,000</td>
<td>11</td>
</tr>
<tr>
<td>Next 500,000</td>
<td>15</td>
</tr>
<tr>
<td>Next 500,000</td>
<td>19</td>
</tr>
<tr>
<td>Next 1,600,000</td>
<td>21</td>
</tr>
<tr>
<td>Over 3,200,000</td>
<td>24</td>
</tr>
</tbody>
</table>

   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**
   - Large Companies (over ₦100million A/Turnover) 30%
   - Medium Companies (₦25million to ₦100Million A/Turnover) 20%
   - Small Companies (less than ₦25million A/Turnover) 0%

5. **TERTIARY EDUCATION TAX**
   (2.5% of Assessable Profit)

6. **CAPITAL GAINS TAX**
   10%

7. **VALUE ADDED TAX**
   7.5%

**SECTION A: PART I**

**MULTIPLE-CHOICE SOLUTIONS**

1. E
2. E
3. C
4. D
5. E
6. C
7. B
8. D
9. B
10. D
11. C
12. E
13. A
14. A
15. B
16. E
17. C
18. C
19. C
20. D
21. D
22. E
23. C
24. E
25. C
26. D
27. E
28. D
29. C
30. E

Examiner's comment
All the candidates attempted the Multiple-Choice Questions. It is important to note that the MCQs covered virtually all aspects of the syllabus. The general performance was above average.

SECTION A: PART II

SHORT-ANSWER SOLUTIONS

1. Terminal loss
2. Jeopardy / protective assessment
3. Tenement rate
4. Law
5. 3 months
6. Remotely
7. Twenty – one
8. Input
9. Transaction
10. Ad–valorem
11. Withholding tax
12. Final
13. Social media platforms
14. Data analytic software
15. Seven members or their representatives
16. Nigerian Customs Services Board
17. Initial allowance
18. 2.5%
19. Date of commencement of business to the end of its first accounting period
20. Franked investment income
Examiner's comment

The SAQs covered the major aspects of the syllabus. All the candidates attempted the questions and the general performance was encouraging.

SECTION B

SOLUTION 1

The transactions in respect of which a tax clearance certificate must be produced are as follows:

a. Application for government loan for industry or business;
b. Registration of motor vehicle;
c. Application for firearms licence;
d. Application for foreign exchange or exchange control permission to remit funds outside Nigeria;
e. Application for certificate of occupancy;
f. Application for award of contract by government, its agencies and registered companies;
g. Application for approval of building plans;
h. Application for trade licence;
i. Application for transfer of real property;
j. Application of import and export licence;
k. Application for agent licence;
l. Application for pools or gaming licence;
m. Application for registration as a contractor;
n. Application for distributorship;
o. Confirmation of appointment as Chairman or member of public board, institution, commission, company or to any other similar position made by the government;
p. Stamping of guarantors form for Nigerian passport;
q. Application for registration of a limited liability company or of a business name;
r. Application for allocation of market stalls;
s. Appointment or election into public office;
t. Change of ownership of vehicle by the vendor;
u. Application for plot of land;
v. Stamping of statement of the nominal share capital of a company to be registered and increase in the registered share capital of the company; and
w. Stamping of statement of the amount of loan capital.

1(b) Quorum

Any five members of the State Board of Internal Revenue of whom one shall be the Chairman or a director, shall constitute a quorum
Examiner’s comment

This is a two-part question testing candidates’ knowledge on Tax Clearance Certificate and State Board of Internal Revenue. About 72% of the candidates attempted the question and the general performance was above average.

SOLUTION 2

2. (a) The following are examples of the National tax policy (NTP) recommended guiding principles of the Nigerian tax system that all existing and future taxes are expected to align with:

i. **Equity and fairness**
   Nigeria Tax system should be fair and equitable devoid of discrimination. Taxpayer should be required to pay according to their ability.

ii. **Simplicity, certainty and clarity**
   Tax laws and administrative processes should be simple, clear and easy to understand.

iii. **Convenience**
   The time and manner for the fulfillment of tax obligation shall take into account the convenience of taxpayers and avoid undue difficulties.

iv. **Low compliance cost**
   The financial and economic cost of compliance to the taxpayer should be kept to the bearest minimum.

v. **Low cost of administration**
   Tax administration in Nigeria should be efficient and cost – effective in line with international best practices.

vi. **Flexibility**
   Taxation must be flexible and dynamic to respond to changing circumstances in the economy in a manner that does not retard economic activities.

vii. **Sustainability**
   The tax system should promote sustainable revenue, economic growth and development. There should be a synergy between tax policies and other economic policies of government.

2(b) The following are the specific objectives of National tax policy:

i. Guide the operation and review of the tax system;

ii. Provide the basis for future tax legislations and administration;

iii. Serve as a point of reference for all stakeholders on taxation;

iv. Provide benchmark on which stakeholders shall be held accountable; and

v. Provide clarity on the roles and responsibilities of stakeholders in the tax system.
Examiner’s comment

This is a good question on the National Tax Policy. About 85% of the candidates attempted the question. The general performance was below average. The major pitfall was lack of proper understanding of the National Tax Policy (NTP).

SOLUTION 3

3. (a) Computation of VAT payable to FIRS for the year ended December 31, 2021.

<table>
<thead>
<tr>
<th>Stage</th>
<th>VAT payable (₦)</th>
</tr>
</thead>
<tbody>
<tr>
<td>i.</td>
<td></td>
</tr>
<tr>
<td>Manufacturer (Doyin Ltd). sales value</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Gross VAT @ 7.5%</td>
<td>300,000</td>
</tr>
<tr>
<td>Net VAT</td>
<td>300,000</td>
</tr>
<tr>
<td>ii.</td>
<td></td>
</tr>
<tr>
<td>Wholesaler (Ekemode) sales value</td>
<td>7,000,000</td>
</tr>
<tr>
<td>Gross VAT @ 7.5%</td>
<td>525,000</td>
</tr>
<tr>
<td>Net VAT (₦525,000 − ₦300,000)</td>
<td>225,000</td>
</tr>
<tr>
<td>iii.</td>
<td></td>
</tr>
<tr>
<td>Retailer (Egunjobi) sales value</td>
<td>8,400,000</td>
</tr>
<tr>
<td>Gross VAT @ 7.5%</td>
<td>630,000</td>
</tr>
<tr>
<td>Net VAT (₦630,000 − ₦525,000)</td>
<td>105,000</td>
</tr>
<tr>
<td>VAT payable to FIRS</td>
<td>630,000</td>
</tr>
</tbody>
</table>

3. (b) (i) **Merits of value added tax (VAT) include:**

- Reliable source of government revenue;
- It is a consumption tax, hence very easy to collect;
- It eliminates the narrow scope and cascading effects of the repealed sales tax law;
- Fairness is established because consumers pay the tax in line with their consumption of goods and services received; and
- It can be used as a tool of fiscal policy. Items can be exempted, tax rate can be changed to achieve specific economic objectives.

(ii) **Demerits of VAT include:**

- High administrative cost on the part of the government;
- High cost of keeping records by the companies/agents;
- Injustice in the distribution of the VAT proceeds;
- Corruption on the part of tax officials can render VAT ineffective; and
- Problem of inadequate information can make VAT administration ineffective.

Examiner’s comment

This is a straight-forward question on Value Added Tax. About 70% of the candidates attempted the question. The general performance was above average.
**SOLUTION 4**

(a) Computation of withholding tax payable to Federal Inland Revenue Service (FIRS)

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction</th>
<th>Amount N</th>
<th>WHT rate %</th>
<th>WITHHOLDING TAX N</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 2, 2022</td>
<td>Payment of technical fee to Roamlade Ltd.</td>
<td>700,000</td>
<td>10</td>
<td>70,000</td>
</tr>
<tr>
<td>November 13, 2022</td>
<td>Payment of royalty to Kadupe Ltd.</td>
<td>1,100,000</td>
<td>10</td>
<td>110,000</td>
</tr>
<tr>
<td></td>
<td>Total WHT payable to FIRS</td>
<td></td>
<td></td>
<td><strong>N 180,000</strong></td>
</tr>
</tbody>
</table>

(b) Computation of withholding tax payable to State Internal Revenue Service (SIRS)

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction</th>
<th>Amount N</th>
<th>Rate %</th>
<th>WHT N</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 7, 2022</td>
<td>Payment to Mr. Olaoye</td>
<td>300,000</td>
<td>5</td>
<td>15,000</td>
</tr>
<tr>
<td>May 10, 2022</td>
<td>Payment of dividend to individual shareholders</td>
<td>850,000</td>
<td>10</td>
<td>85,000</td>
</tr>
<tr>
<td>Sept. 15, 2022</td>
<td>Payment to management consultant - Richard</td>
<td>400,000</td>
<td>5</td>
<td>20,000</td>
</tr>
<tr>
<td>December 28, 2022</td>
<td>Payment of director’s fees</td>
<td>600,000</td>
<td>10</td>
<td>60,000</td>
</tr>
<tr>
<td></td>
<td>Total withholding tax payable to SIRS</td>
<td></td>
<td></td>
<td><strong>N 180,000</strong></td>
</tr>
</tbody>
</table>

**Examiner’s comment**

This is a computation question on Withholding tax. About 90% of the candidates attempted the question. The general performance was encouraging.
SOLUTION 5

(a) Alamu, Bembo and Logudu

Computation of adjusted income of the partnership for the year ended June 30, 2021

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit for the year</td>
<td>4,712,500</td>
<td></td>
</tr>
<tr>
<td>Add disallowable expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for doubtful debts</td>
<td>325,000</td>
<td></td>
</tr>
<tr>
<td>Office expenses (donation)</td>
<td>400,000</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>3,900,000</td>
<td></td>
</tr>
<tr>
<td>Staff loan written off</td>
<td>135,000  4,760,000</td>
<td></td>
</tr>
<tr>
<td>Adjusted/assessable income</td>
<td>9,472,500</td>
<td></td>
</tr>
<tr>
<td>Capital allowances</td>
<td>(4,750,000)</td>
<td></td>
</tr>
<tr>
<td>Divisible profit/computed income</td>
<td>4,722,500</td>
<td></td>
</tr>
</tbody>
</table>

(b) Computation of chargeable income

<table>
<thead>
<tr>
<th></th>
<th>Alamu N</th>
<th>Bembo N</th>
<th>Logudu N</th>
<th>Total N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest in capital</td>
<td>112,500</td>
<td>157,500</td>
<td>180,000</td>
<td>450,000</td>
</tr>
<tr>
<td>Share of profit (5:7:8)</td>
<td>1,180,625</td>
<td>1,652,875</td>
<td>1,889,000</td>
<td>4,722,500</td>
</tr>
<tr>
<td></td>
<td>1,293,125</td>
<td>1,810,375</td>
<td>2,069,000</td>
<td>5,172,500</td>
</tr>
<tr>
<td>Interest on loan</td>
<td>227,500</td>
<td>0</td>
<td>0</td>
<td>227,500</td>
</tr>
<tr>
<td>Total income</td>
<td>1,520,625</td>
<td>1,810,375</td>
<td>2,069,000</td>
<td>5,400,000</td>
</tr>
<tr>
<td>Consolidated relief allowance</td>
<td>504,125</td>
<td>562,075</td>
<td>613,800</td>
<td>1,680,000</td>
</tr>
<tr>
<td>Chargeable income</td>
<td>1,016,500</td>
<td>1,248,300</td>
<td>1,455,200</td>
<td>3,720,000</td>
</tr>
</tbody>
</table>

Workings

Alamu: \(N200,000 + 20\% \text{ of } N1,520,625 = N504,125\)

Bembo: \(N200,000 + 20\% \text{ of } N1,810,375 = N562,075\)

Logudu: \(N200,000 + 20\% \text{ of } N2,069,000 = N613,800\)

Examiner’s comment

This is a computation question on Partnership Taxation. About 60% of the candidates attempted the question. The general performance was below average. The major pitfall was that most of the candidates could not adequately differentiate between adjusted profit and chargeable profit. Candidates should study very well to cover all aspects of the syllabus.
SOLUTION 6

a. **Mogaji Limited**

**Computation of adjusted profit for the year ended December 31, 2021**

<table>
<thead>
<tr>
<th></th>
<th>₦</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit per accounts</td>
<td>10,000,000</td>
</tr>
<tr>
<td><strong>Add:</strong></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Penalty and fines</td>
<td>200,000</td>
</tr>
<tr>
<td>Rent paid on M.D’s residential accommodation</td>
<td>3,000,000</td>
</tr>
<tr>
<td><strong>Less:</strong> Rent Allowable (100% of Basic Salary)</td>
<td>(1,500,000)</td>
</tr>
<tr>
<td>Excess rent disallowed</td>
<td>1,500,000</td>
</tr>
<tr>
<td><strong>Adjusted profit</strong></td>
<td><strong>12,700,000</strong></td>
</tr>
</tbody>
</table>

b. **Expenses not allowed in the ascertainment of the profit or loss of a company for a period include:**

i. Capital repaid or withdrawn and any expenditure of a capital nature;

ii. Sums recoverable under an insurance or contract of indemnity;

iii. Taxes on income or profits, except tax levied outside Nigeria on profits, which are chargeable to tax in Nigeria and in respect of which double tax relief is not available;

iv. Depreciation;

v. Any expense whatsoever incurred within or outside Nigeria involving related parties as defined under the transfer pricing regulations, except to the extent that it is consistent with the transfer pricing regulations;

vi. Any expense incurred in deriving tax exempt income losses of capital nature and any expenses allowable as a deduction under the Capital Gains tax Act for the purpose of determination of chargeable gains;

vii. Any compensating payment made by a borrower which qualified as dividends under section 9 (1)c of this Act, to its approved agent or to a lender in a regulated securities lending transaction;

viii. Any penalty prescribed by any Act of the National Assembly for violation of any statute; and

ix. Any tax or penalty borne by a company on behalf of another person.

**Examiner’s comment**

This is a straightforward question on Companies Income Tax. About 70% of the candidates attempted the question and the general performance was above average. However, about 30% of the candidates could not provide correct answers on allowable expenses in the computation of the adjusted profit of a limited liability company.
THE ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA

ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
SEPTEMBER 2023 EXAMINATIONS (PART III)

MANAGEMENT

PLEASE READ THESE INSTRUCTIONS BEFORE COMMENCEMENT OF THE PAPER

EXAMINATION INSTRUCTIONS

1. All solutions should be in ink. Any solution in pencil will not be marked.

2. Read all instructions on each part of the paper carefully before answering the questions.

3. Ensure that you do not answer more than the number of questions required for Section B (The Essay Section).

4. Check your pockets, purse and mathematical sets, etc to ensure that you do not have prohibited items such as telephone handset, electronic storage device, wrist watches, programmable devices or any form of written material on you in the examination hall. You will be stopped from continuing with the examination and liable to further disciplinary actions including cancellation of examination result if caught.

5. Do not enter the hall with anything written on your docket.

6. Insert your examination number in the space provided above.

TUESDAY, 26 SEPTEMBER, 2023
ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
PART III EXAMINATIONS – SEPTEMBER 2023

MANAGEMENT

Time Allowed: 3 hours

SECTION A: PART I MULTIPLE-CHOICE QUESTIONS (30 Marks)

ATTEMPT ALL QUESTIONS IN THIS SECTION

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

1. Which of the following is NOT an output based classification of business?
   A. Basic Industries
   B. Capital goods industries
   C. Consumer goods industries
   D. Intermediate goods industries
   E. Agro-based industries

2. Which of the following is found in memorandum of association?
   A. Procedure for auditing and accounting
   B. Appointment and termination of directors
   C. The type of business
   D. Procedures for the issue and transfer of shares
   E. Rights and responsibilities of shareholders

3. Which of the following is NOT an influencer of globalisation?
   A. Mass migration
   B. Cultural alliances
   C. Improved transportation services
   D. International agreements on trade
   E. A level of economic activity that has outgrown national markets

4. Social responsibility is examined from the perspective of the following, EXCEPT
   A. Economic responsibility
   B. Political responsibility
   C. Philanthropic responsibility
   D. Legal responsibility
   E. Ethical responsibility
5. Running through the definitions of management, the following concepts are highlighted, **EXCEPT**
   A. Process
   B. Effectiveness
   C. Resources
   D. Globalisation
   E. The Manager

6. Which of the following is **NOT** a feature of a profession?
   A. Formal education
   B. Independent office
   C. Bureaucratic
   D. Fees
   E. Social responsibility

7. Which of the following is **NOT** a principle of planning?
   A. Reflective thinking
   B. Planning premises
   C. Timing and sequence of operations
   D. Balancing
   E. Innovation

8. Which of the following is **NOT** an advantage of individual decision making?
   A. The decision maker is convinced that the decision is right
   B. Decision is fast
   C. Job satisfaction of the manager will be high
   D. Implementation of the decision will be fast
   E. The manager’s experience is brought to bear on the decision

9. Which of the following is **NOT** a purpose-based organisation?
   A. Business organisation
   B. Non-profit (service) organisation
   C. Bureaucratic organisation
   D. Mutual benefit organisation
   E. Commonwealth organisation

10. The need for coordination depends on the following, **EXCEPT**
    A. Division of work
    B. The interdependence between work units and departments
    C. The need for correspondence
    D. Economy and efficiency
    E. Reconciliation of goals of individuals with that of the organisation.
11. Control helps organisation in the following ways, **EXCEPT**
   A. Adapting to changing condition
   B. Coping with organisation complexity
   C. Minimising cost
   D. Minimising overbearing
   E. Minimising errors

12. Which of the following is **NOT** a step in the strategic management process?
   A. Mission, vision and objective development
   B. Continual review
   C. SWOT analysis
   D. Evaluation of strategies
   E. Formulation of strategies

13. Which of the following is **NOT** an activity involved in human resource planning?
   A. Forecasting human resources research efforts
   B. Forecasting future human resources needs
   C. Detailed analysis of the organisation's workforce
   D. Matching labour demand and supply
   E. Developing strategies to meet the organisation's human resources needs

14. Which of the following is **NOT** a basis of segmenting consumer products?
   A. Income
   B. Geography
   C. Social class
   D. Convenience
   E. Age

15. Which of the following is **NOT** a secondary function of commercial banks?
   A. Transfer of money
   B. Credit creation
   C. Clearance of cheque
   D. To work as trustees
   E. To provide letter of credit.

16. The choice of the type of product system to be adopted is influenced by
   A. Product layout
   B. Functional layout
   C. Disposal of waste
   D. Ventilation
   E. Degree of customer contact
17. Which of the following is **NOT** a content theory of motivation?
   A. Equity Theory
   B. Frederick Herzberg’s two-factor theory
   C. Douglas McGregor’s Theory X and Theory Y
   D. Clay Alderfer’s ERG Theory
   E. Abraham Maslow’s Hierarchy of Needs Theory.

18. Leadership model can be represented thus: \( L = f(l, f, s) \)
    In the above model, ‘S’ represents
   A. System
   B. Synergy
   C. Strategy
   D. Situation
   E. Simple

19. Which of the following is **NOT** a function of informal groups?
   A. Affiliation needs
   B. Sense of identity
   C. Provide a vehicle of socialisation and training
   D. Maintenance of self-esteem
   E. Reduce uncertainty in the social environment of its members

20. Conflicts in an organisation may emanate from the following areas, **EXCEPT**
    A. Differences in values or perfections
    B. Poor leadership style
    C. Differences in status
    D. Competition for resources in a group
    E. Differences in background

21. Which of the following is **NOT** a principle of communication?
    A. Completeness
    B. Charity
    C. Concreteness
    D. Consideration
    E. Conciseness

22. Which of the following stages **CANNOT** be identified in the implementation of Business Process Re-engineering?
    A. Diagnosis stage
    B. Evaluation stage
    C. Reconstruction stage
    D. Idea generation stage
    E. Redesign stage
23. Which of the following is **NOT** another name for Business Process Re-engineering?
   A. Business Process Redesign
   B. Business Process Management
   C. Business Transformation
   D. Business Process Change Management
   E. Business Retrogressive Innovations

24. Which of the following is **NOT** an approach to organisational effectiveness?
   A. System Resource approach
   B. Internal Process approach
   C. Command Team approach
   D. Goal approach
   E. Competing values approach

25. Which of the following is **NOT** a model of organisational effectiveness?
   A. The BCG Growth model
   B. The Command Team Effectiveness model
   C. The Dynamic Five-Factors Model of leadership
   D. The Star model
   E. The 7-s model

26. Which of the following is **NOT** a procedure of O & M study?
   A. Selection of the work for the study
   B. Examination of the existing method
   C. Develop the improved method
   D. Installation of the new method
   E. Controlling of the new method

27. Which of the following is **NOT** considered in the design of forms?
   A. Content
   B. Colour
   C. Language
   D. Purpose
   E. Ease of processing

28. Which of the following is **NOT** a prevention and protective measure for safety in an office?
   A. Good medical facilities
   B. Periodic Risk Assessment
   C. Hazard Elimination
   D. Substitution
   E. Investigating accidents as they occur and taking corrective actions
29. Which of the following method is **NOT** a filing system?
   A. Alphabetical filing system
   B. Open filing system
   C. Alpha – numeric filing system
   D. Subject filing system
   E. Geographical filing system

30. Which of the following addresses the individual’s contribution to organisational effectiveness based on personal values, preferences and interest?
   A. Competing values model
   B. Process model
   C. System model
   D. Goal model
   E. Star model

**SECTION A: PART II**

**SHORT ANSWER QUESTIONS**

**(20 MARKS)**

**ATTEMPT ALL QUESTIONS**

*Write the correct answer that best completes each of the following questions/statements.*

1. ......................... industry is concerned with combining several raw materials and processing them into a single unit (output).

2. The ......................... environment can be viewed as the state of the application of scientific principles and mechanical arts to various tasks of the society.

3. ......................... is concerned with the structures and systems of control by which managers are held accountable to those who have a legitimate stake in an organisation.

4. ......................... is the essence of managership for achieving harmony among individual efforts toward the accomplishment of group goals.

5. In Henri Mintzberg 10 Roles Approach to management, ......................... role involves the manager generating new ideas, initiating new projects/programmes as well as seeking and identifying opportunities to promote improvement and needed change.

6. ......................... isolated the responsibilities of the executive and enumerated them using the acronym POSDCORB, which stands for Planning, Organising, Staffing, Directing, Coordinating, Reporting and Budgeting.

7. ......................... is a general guide that specifies the broad parameters within which organisation members are expected to operate in pursuit of organisational goals.
8. .................. is a graphical method of displaying various parts of the decision-making process including courses of action, risks involved and likely outcomes.

9. .................. organisation comprises patterns of relationship, communication channels and authority structure recognised by management for the purpose of achieving the goals of the organisation.

10. A .................. is the process of assessing the present and potential ability of a prospective employee to do a job.

11. .................. is the systematic gathering, analysis and interpretation of data to aid decision-making in areas such as the type of products to make, the price to charge, how to distribute and promote the product.

12. .................. refers to a collection of financial institutions, set up for the purpose of granting long-term loans.

13. The motivational theories that deal with the factors within the individual which start, energise, direct, maintain and stop behaviour is called .................. theories.

14. .................. teams are made up of employees from about the same hierarchical level, but from different work areas coming together to perform a task.

15. .................. is the emotional attachment people have toward the company they work for.

16. .................. is the process of creating a core business process with the goal of improving output quality or reducing cost through the introduction of information technology.

17. In the implementation of Business Process Re-engineering, the stage where the company reviews the existing strategy and business processes and based on the reviews, the business processes for improvement are targeted and IT opportunities are identified is called ..................

18. .................. approach of organisational effectiveness proposes that an effective organisation is one that satisfies the demands of those constituencies in its environment.

19. The provision of beautiful office environment that creates a pleasant ambience or scenery in an office that facilitates work, attracts customers and motivates workers is called ..................

20. .................. is a statement of commitment of the management to safety and health at work. In some developed countries, this is required by law.
SECTION B: ATTEMPT ANY FOUR QUESTIONS (50 MARKS)

QUESTION 1

a. Manufacturing industries are divided into FOUR categories. List and explain the categories. (6 Marks)

b. State THREE reasons partnership can be dissolved (4½ Marks)

c. State TWO of the contents of Article of Association. (2 Marks)

(Total 12½ Marks)

QUESTION 2

a. Frederick Winslow Taylor scientific management philosophy hinged on some principles. State FIVE of these principles. (7½ Marks)

b. Henri Fayol categorised the activities of industrial undertakings into some activities. State FIVE of these activities. (5 Marks)

(Total 12½ Marks)

QUESTION 3

a. State FIVE advantages of informal organisations. (5 Marks)

b. State FIVE reasons subordinates may be reluctant to accept delegated authority. (7½ Marks)

(Total 12½ Marks)

QUESTION 4

a. Identify and explain FIVE classifications of industrial products. (7½ Marks)

b. List FIVE stages of a new product development process (5 Marks)

(Total 12½ Marks)

QUESTION 5

a. What is conflict? - (2 Marks)

b. Conflict can be at individual, group or organisational levels. List and explain the types of conflicts at organisational level. (6½ Marks)

c. State FOUR organisational conflict management steps. (4 Marks)

(Total 12½ Marks)
QUESTION 6

a. Define Emotional Intelligence.  
   (2½ Marks)

b. List FIVE features of Emotional Intelligence.  
   (5 Marks)

c. State FIVE importance of Emotional Intelligence in the work place.  
   (5 Marks)
   (Total 12½ Marks)

SECTION A: PART 1

MULTIPLE-CHOICE SOLUTIONS

1. E
2. C
3. B
4. B
5. D
6. C
7. D
8. A
9. C
10. C
11. D
12. B
13. A
14. D
15. B
16. E
17. A
18. D
19. C
20. E
21. B
22. D
23. E
24. C
25. A
26. E
27. B
28. A
29. B
30. A
Examiner’s comment

The questions covered all the areas of the syllabus. All the candidates attempted the questions and the performance was averagely good. About 55% of the candidates that attempted these questions scored above average. The major pitfall of the candidates were poor preparation and inadequate usage of the study pack. The candidates are advised to guide against these pitfalls.

SECTION A: PART II

SHORT-ANSWER SOLUTIONS

1. Synthetic
2. Technological
3. Corporate governance
4. Coordination
5. Entrepreneurial
6. Luther Gulick
7. Policy
8. Decision tree
9. Formal
10. Selection Test
11. Marketing Research
12. Capital market
13. Content/Need
14. Cross functional
15. Organisational commitment
16. Business Process Re-engineering
17. Envision stage
18. Strategic constituencies
19. Office Landscaping
20. Safety Policy

1 mark each for any correct answer stated.

Examiner’s comment

The questions covered all parts of the syllabus. All the candidates attempted the questions and the performance was fairly good. The performance of 52% was largely due to inadequate usage of the study pack. The candidates are advised to make use of the study pack adequately for improved performance.
SECTION B

SOLUTION 1

(a) Manufacturing industries are divided into the following four categories:

i. **Analytical Industry:** These are industries concerned with separating a single material input into several elements. In a refinery (oil industry) crude oil, which is the single input, is used in the production of many products like petrol, diesel, kerosene and lubricating oils.

ii. **Synthetic Industry:** This is concerned with combining several raw materials and processing them into a single unit (output). For example, limestone, gypsum, silica, iron oxide etc., are crushed, mixed and blended to form cement.

iii. **Process Industry:** It is concerned with the processing of materials through different stages of production so as to make the final product. For example, cotton is processed through several stages like cleaning, ginning, spinning, weaving, bleaching, dyeing, etc., to convert it into cloth.

iv. **Assembly Line Industry:** This involves joining various components and parts to produce a single product. For example, a car, television set, dress, etc., is made by joining together, several different component parts.

(b) Partnership can be dissolved for any of the following reasons:

i. Court order
ii. Technical insolvency
iii. Mutual agreement
iv. Completion of the assignment or task for which the partnership was established.
v. Death of a partner

(c) The contents of Article of Association are:

i. Appointment and termination of directors
ii. Procedures for the issue and transfer of shares
iii. Rights and responsibilities of shareholders
iv. Procedure for auditing and accounting

**Examiner’s comment**

The question was structured to test the knowledge of the candidates on categories of manufacturing industries, why partnership can be dissolved and contents of articles of association. About 92% of the candidates attempted the question and roughly 84% passed. The major pitfall of the candidates who performed poorly were inadequate preparation and usage of the study pack.
SOLUTION 2

(a) Frederick Taylor’s scientific management philosophy was hinged on:
   i. Replacing rules of thumb with principles of science so that the best method for performing each task could be determined.
   ii. The scientific selection of workers so that each worker would be given responsibility for task or job for which he or she is most suited.
   iii. Divide responsibility for managing and for working; and devise scientific education and training programmes.
   iv. Ensuring co-operation between workers and managers to provide work environment that reinforces optimal work results in a scientific manner.
   v. Providing incentives to workers using the piece rate system.

(b) Henri Fayol divided the activities of industrial undertakings into:
   i. Technical (Production)
   ii. Commercial (Buying, selling and exchange)
   iii. Financial (Optimum use of capital resources)
   iv. Accounting (protection of property and person)
   v. Accounting (recording and taking stock of costs, profits and liabilities, keeping balance sheet and compiling statistics)
   vi. Managerial (planning, organizing, commanding, coordinating and controlling).

Examiner’s comment
The question tested the candidates’ understanding of the principles behind Frederick Winslow Taylor Scientific Management philosophy and Henri Fayol’s categorisation of the activities of industrial undertakings. About 65% of the candidates attempted the question and about 55% passed. Candidates are advised to prepare more seriously for the examination by religiously reading their study pack to understanding.

SOLUTION 3

(a) The advantages of informal organisation are:
   i. Informal organisation may fill in gaps, if any, in the abilities of managers.
   ii. Informal organisation may help in solving work problems of members.
   iii. Informal groups develop certain norms of behaviour which differentiate between good and bad conduct and between legitimate and illegitimate activities.
   iv. Informal groups recognise talented workers as their leaders.
v. A manager can build better relations with his subordinates through informal contacts.

vi. Informal groups often fill up communication gap which might arise in the organisation.

(b) Reasons why subordinates are reluctant to accept delegated authority are:

i. Some subordinates want to avoid responsibility and risks, and therefore prefer their managers to make all the decisions. Such subordinates avoid or abhor delegated authority.

ii. The fear of criticism for mistakes discourages subordinates interest in delegated authority.

iii. Fear of work overload on the part of the subordinates. The subordinates may already have more work than they can do.

iv. Lack of self-confidence on the part of the subordinates.

v. Additional responsibility should attract additional incentives, but when this situation is not the practice in the organisation; subordinates may not be interested in delegated assignment.

vi. Some subordinates feel that they do not have relevant information to guide them in the delegated assignment.

**Examiner’s comment**

The question was structured to test the candidates’ understanding of informal organisations particularly their advantages and why subordinates are reluctant to accept delegated authority. About 90% of the candidates attempted the question and about 72% passed. Candidates are enjoined to prepare more seriously for the examination by adequately making use of the study pack.

**SOLUTION 4**

(a) Industrial products may be classified into the following:

i. **Raw materials**: refer to unprocessed industrial goods that are used to produce other goods. Raw materials consist of farm products (wheat, cotton, livestock, fruits, vegetables) and natural products (fish, lumber, crude petroleum, iron ore).

ii. **Installations**: include fixed assets or expensive major goods that do not form part of the finished product but are expended or subjected to wear and tearing during the period of utilisation. Examples of installation are factory buildings, large plants and equipment.

iii. **Accessories**: are industrial products used to aid production operations of an organisation but which do not have any significant effect on its scale of production. Accessories like installations do not form part of the final product but they are not as costly as the latter. Examples of accessories include office equipment such as computers, typewriters, portable tree-cutting machines, forklift trucks and factory hand tools.
iv. **Office Supplies**: These do not become part of the finished product, but are depleted during production. These include products used for business/office services such as office consumables—paper, ink, marker, toner, stationery, etc.; maintenance and repair services (window cleaning, computer repair) and business advisory services (legal, management consulting, and advertising). Such services are usually supplied under contract.

v. **Production supplies**: These include operating supplies (lubricants, coal, paper, pencils) and repair and maintenance items (paint, nails, brooms). Supplies are the convenience products of the industrial field because they are usually purchased with a minimum of effort or comparison.

vi. **Components**: are industrial products that become part of the finished product. Component parts require no processing again before they are assembled in the finished product. Examples include spare parts of vehicles, tyres, buttons, bolts and nuts.

(b) **Stages of new product developments process are:**

   a. Define objectives
   b. Idea generation and screening
   c. Business Analysis
   d. Product Research and Development
   e. Test Marketing
   f. Commercialisation

**Examiner’s comment**

The question attempted to test the candidates’ understanding of industrial product classifications and the stages of new product development process. About 55% of the candidates attempted the question and about 50% passed. Candidates should devote more time to studying using the study pack so as to improve their performance.

**SOLUTION 5**

(a) Conflict is a disagreement between two or more organisational members or group arising from the fact that they must engage in inter dependent work activities and/or from the fact that they have different status, goals, values and perceptions. Alternatively, it can be referred to as a situation of misunderstanding or lack of consensus.

(b) Types of conflict at organisational level are:

   i. **Horizontal Conflict**: between employees or departments at the same hierarchical level in an organization.
ii. **Vertical hierarchical Conflict**: This occurs usually in superior/subordinate relations.

iii. **Line and staff Conflict**: This is a clash of domains caused by dividing expertise, authority and roles.

iv. **Inter-organizational conflict**: This refers to conflict between an organisation and other organisations.

(c) The steps that can be adopted to manage organisational conflict are:

i. Clearly define rules and regulations governing group activities.
ii. Ensure the free flow of information in the group.
iii. Define the role of each member in the group.
iv. Encourage group members to take part in the decision-making process
v. Encourage frequent interactions among members
vi. It may be necessary to bring an outsider to help resolve the conflict

**Examiner’s comment**

The question tested the candidates’ understanding of organisational conflict, types and its management. About 88% of the candidates attempted the question and 62% passed. Candidates are encouraged to devote more time to their study by reading their study pack to understanding.

**SOLUTION 6**

(a) Emotional Intelligence is the ability to understand, use, and manage your own emotions in positive ways to relieve stress, communicate effectively, empathise with others, overcome challenges and defuse conflict.

(b) The features of Emotional Intelligence are:

i. Self-awareness
ii. Self regulation
iii. Motivation
iv. Empathy
v. Social skills

(c) The importance of Emotional Intelligence are:

i. It allows for better team work
ii. You can deal with change
iii. You can handle those tough conversations
iv. It is an essential people skill
v. It is a key feature of a strong leader
Examiner’s comment

The question was structured to test candidates’ understanding of emotional intelligence, its features and importance in their work place. About 82% of the candidates attempted the question and 64% passed. Candidates are enjoined to prepare more seriously for the examination by adequately making use of the study pack.