



**THE INSTITUTE OF CHARTERED  
ACCOUNTANTS OF NIGERIA**

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# **INSIGHT**

**MARCH 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  
MARCH 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, 28 MARCH, 2023**

**DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA  
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA  
PART III EXAMINATIONS – MARCH 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 types of Audit is designed to determine whether a governmental entity's procurement practices are sound?
  - A. Financial Statement Audit
  - B. Operational Audit
  - C. Program Audit
  - D. Compliance Audit
  - E. Value for money Audit
  
2. Which of the following best describes due care?
  - A. Tact in avoiding legal liability
  - B. Requisite skill and diligence
  - C. Reasonable infallibility
  - D. Freedom from undue influence
  - E. Reduction of risk
  
3. Which of the following is **NOT** one of the five elements of an assurance engagement?
  - A. Sufficient and appropriate evidence
  - B. Suitable criteria
  - C. A three-party relationship consisting of a responsible party, users and subject matter
  - D. A written report in the appropriate form
  - E. Subject matter

4. Which of the following is **NOT** a level of assurance provided by an assurance engagement?
- A. Absolute Assurance
  - B. Negative Assurance
  - C. Reasonable Assurance
  - D. Limited Assurance
  - E. Positive Assurance
5. Which of the following is **TRUE** with respect to appointment of Auditors?
- A. Auditors are appointed by the members and automatically stay in office until resignation or removal.
  - B. Auditors must be appointed by the Board of Directors every year
  - C. Auditors are appointed by the members every year
  - D. Auditors are appointed by the Board of Directors every three years
  - E. Auditors are appointed by management
6. The Auditor is **NOT** required to deliver a written statement of circumstances if s/he
- A. Is not confirmed as auditor at the annual general meeting
  - B. Does not seek reappointment at the next annual general meeting for any reason
  - C. Is removed from office
  - D. Resigns before the expiration of his/her term of office
  - E. Decides to become the secretary to the Board
7. Which of the following is **NOT** a threat to compliance with one or more of the fundamental principles in the code of Ethics and Conduct?
- A. Familiarity
  - B. Advocacy
  - C. Self-review
  - D. Intimidation
  - E. Competence
8. An advocacy threat would arise if the auditor
- A. Prepare and audit the financial statements
  - B. Promotes the client's position to the extent that objectivity is compromised
  - C. Acts on behalf of a competitor company
  - D. Becomes too sympathetic to the client's interest
  - E. Investigates a case of cash misappropriation

9. Which of the following statements regarding the auditor's report and audit opinion is **TRUE**?
- A. The auditor's report is part of the Financial statements
  - B. The audit opinion is part of the auditor's report
  - C. The auditor's report is the same as the audit opinion
  - D. The auditor's report is part of the audit opinion
  - E. The directors' report is part of the auditor's report
10. Which of the following is **NOT** part of the financial statements on which an auditor should report on?
- A. Notes to the Financial statements
  - B. Cash flow statement
  - C. Statement of Financial position
  - D. Director's report
  - E. Statement of Profit or Loss
11. An unmodified audit report does **NOT** imply that
- A. All transactions have been recorded and are reflected in the financial statements
  - B. Management provided the auditor with all relevant information
  - C. The financial statements have been prepared in accordance with the applicable financial reporting framework
  - D. Frauds had not occurred in the financial period
  - E. The financial statements had been prepared in accordance with Companies Act
12. Which of the following is **NOT** the right of a statutory Auditor?
- A. To receive notices of and attend general meetings
  - B. To have access to all company accounting books and records
  - C. To receive information and explanations from officers of the company
  - D. To attend board meetings
  - E. To attend the meeting where a resolution is passed to remove him/her as the auditor

13. The fundamental principles in the Member's code of ethics and conduct, **EXCLUDE**
- A. Professional competence and due care
  - B. Professional behavior
  - C. Objectivity
  - D. Honesty
  - E. Independence
14. To whom does code of Ethics and Conduct apply?
- A. Only to associate members who are Auditors
  - B. Only to associate members, affiliates and students working in auditing firms
  - C. To all associates, fellows, registered accountants, and students
  - D. Only to all associate members
  - E. Only to all fellows
15. Which of the following statements about the presentation of sections in the auditor's report is correct?
- A. A section headed "Basis of opinion" is presented before the "opinion" section
  - B. A section headed "Basis of opinion" is presented after the "qualified opinion" section
  - C. An "Emphasis of matter" section is presented before the "Basis of opinion" section
  - D. A section headed "qualified opinion" is presented before a "Basis for qualified opinion section
  - E. A section headed "other information" is presented before "Audit Opinion" section
16. Which of the following is **NOT** a form of audit opinion in an auditor's report?
- A. Disclaimer
  - B. Unmodified
  - C. Emphasis of matter
  - D. Qualified
  - E. Adverse
17. The Internal Audit will **NOT** carry out
- A. Information systems audit
  - B. Statutory Audit
  - C. Value for money assignment
  - D. Fraud investigation
  - E. Operational Audit

18. Which of the following is an expert on whose work an auditor may seek to place reliance on?
- A. A payroll processing company
  - B. A property valuer
  - C. A professional accountant who prepares consolidated financial statements
  - D. An internal Auditor
  - E. A peer reviewer
19. Which of the following is **TRUE** of the “other matter paragraph” in an auditor’s report?
- A. It is an alternative name for an “Emphasis of matter” paragraph
  - B. It may be used to refer to information in the director’s report that conflicts with the financial statement
  - C. It may be used to draw attention to matters of most significant to the audit
  - D. It is used to draw attention to a matter that is appropriately disclosed in the financial statement.
  - E. It is used to draw attention to a matter that is appropriately presented in the financial statement
20. The auditor of ABC & Co believes that trade receivables are materially misstated because some amounts appear to be irrecoverable. The Directors have refused to adjust the financial statements.
- What form of audit opinion should the auditor give?
- A. An unmodified opinion
  - B. An adverse opinion on the basis of a material misstatement
  - C. A qualified opinion on the basis of material misstatement
  - D. A qualified opinion on the basis on insufficient audit evidence on the recoverability of the debts
  - E. An unqualified opinion
21. The most effective procedure in safeguarding non-current assets is
- A. Adequate insurance of non-current assets
  - B. Regular physical inspections against a non-current assets register
  - C. Maintaining a non-current asset register
  - D. Assigning a unique identification number to each non-current asset
  - E. Keeping non-current asset under locks and keys

22. The auditor has discovered a ₦1,000 calculation error in the depreciation expenses for the year. The directors have refused to alter the financial statements. The carrying amount of the non-current assets is ₦1m and draft profit for the year is ₦150,000.00
- What is the most appropriate form of audit opinion?
- A. Qualified opinion on the basis of insufficient evidence
  - B. Unmodified with an emphasis on matter paragraph to draw attention to the error
  - C. Qualified opinion on the basis of a misstatement
  - D. Unmodified opinion
  - E. Modified opinion
23. Which of the following would be considered before accepting a new appointment as auditor?
- I. The potential fee
  - II. The reputation of the audit firm
  - III. Ethical threats and safeguards
  - IV. The available resources
  - V. Audit risk
- A. II, III, IV and V
  - B. III and IV
  - C. I, II, III, IV and V
  - D. I, III and IV
  - E. I, II and V
24. Which of the following statements about a letter of engagement is **TRUE**?
- A. Once sent, the term of the letter of engagement will stand until the auditor resigns or is removed from office
  - B. It is sent by the auditor to record the agreed terms and conditions of the audit engagement
  - C. It is sent from the new client to the auditor setting out the audit requirements
  - D. For recurring audits, a letter of engagement must be issued every year
  - E. It is sent by the management to record the agreed terms and conditions of the audit assignment

25. A new auditor has been asked to replace an existing auditor. Which of the following statements is **TRUE**?
- I. The new auditor can decide whether it is necessary to communicate with the existing auditor
  - II. Both the new auditor and existing auditor must have the client's permission to communicate
- A. Neither I nor II
  - B. I
  - C. II
  - D. Both I and II
  - E. I followed by II
26. An engagement letter will **NOT** include
- A. The fee arrangement
  - B. The proposed auditor's report
  - C. A statement that management is responsible for providing all information that the auditor requests
  - D. A statement about the risk of misstatement because of inherent limitation in audit
  - E. A statement stating the responsibilities of each party in the engagement
27. What is the appropriate action if a prospective client does not give permission to the proposed new auditor to communicate with the existing or predecessor auditor?
- A. Attempt to find out the information by other means and then decide whether to accept or decline the appointment
  - B. Decline the appointment
  - C. Contact the existing auditor anyway
  - D. Accept the appointment anyway as communication is only a matter of professional courtesy
  - E. Report to the professional body and accept the appointment
28. Which of the following best describes general Information Technology controls?
- A. Controls over systems access, data records and program development and maintenance
  - B. Controls over transaction cycles, such as revenue, purchases and wages
  - C. Controls over the initiation, recording, processing and reporting of transactions
  - D. Controls designed to ensure the integrity of the accounting records
  - E. Controls to ensure accuracy and completeness of recorded transactions

29. The risk of material misstatement in the financial statements prior to audit depends on
- A. Audit risk
  - B. Control risk and Detection risk
  - C. Inherent risk, Control risk and Detection risk
  - D. Inherent risk and Control risk
  - E. Control risk
30. Which of the following would **NOT** contribute to inherent risk?
- A. Complex transactions
  - B. A new computerised accounting system
  - C. High accounting staff turnover
  - D. Poor supervision of accounting staff
  - E. Strengthening the Internal Audit Department

**SECTION A: PART II**

**SHORT ANSWER QUESTIONS**

**(20 MARKS)**

**ATTEMPT ALL QUESTIONS**

1. The Audit process begins when an entity engages an independent .....and ends with a/an ..... report
2. Operational audits are usually performed by .....
3. An audit process that assesses the efficiency and effectiveness of management's operations rather than the fair presentation of management's financial statement is called.....
4. Assurance engagements relate only to financial measures and results. **TRUE** or **FALSE**
5. The Accounting Officer of government Ministries, Departments and Agencies (MDAs) is called.....
6. The evaluation of financial information made by a study of plausible relationships among financial and non-financial data is known as.....
7. Detailed methods or techniques used by an independent auditor such as observation, documentation, confirmation, mechanical tests of accounting data, comparisons and inquiries is known as .....

8. An event which provides additional evidence relating to conditions existing at the Financial Position date is called.....
9. Tests of transactions and balances and other procedures such as analytical review which seek to obtain audit evidence as to completeness, accuracy and validity of all records is known as.....
10. The type of tests directed towards the design or operation of an internal control policy or procedure to assess its effectiveness in preventing or detecting material misstatements in a financial statement is known as.....
11. No one acts in the Office of the Auditor-General of the country for a period exceeding..... except with a resolution duly passed by the Senate/Legislature
12. The firm adherence to laid down rules and regulations in the conduct of the nation's business with the aim of ensuring probity, accountability, transparency, effectiveness and efficiency in management of economic resources is called.....
13. The body established by government to harmonise all existing government policies and practices on Public procurement and ensuring probity, accountability and transparency in the procurement process is known as.....
14. Who has the power to conduct periodic checks of all government statutory corporations, commissions, agencies including all persons and bodies established by an Act of the National Assembly/Legislature?
15. A computer-assisted audit technique in which fictitious test data are integrated with actual client data without the computer department's knowledge, thus allowing the auditor to compare the client's output with the results expected by the auditor is called.....
16. The meeting usually held in the auditor's office with the engagement team at the conclusion of the field work is called.....
17. The procedure used by auditors to ensure that all relevant matters are attended to before the audit report is signed is called.....
18. Low ..... refers to a situation where an auditor offers to render audit services at less than the market rate



#### **QUESTION 4**

The Government in your country set up the Budget Monitoring and Price Intelligence Unit (BMPIU) called the “Due Process” Office.

##### **Required:**

- a. Define the term Due Process (3 Marks)
- b. List **FIVE** objectives of introducing this process. (5 Marks)
- c. List **FIVE** functions of National Council on Procurement. (2½ Marks)
- d. What are the Auditor’s objectives when carrying out a review of the Due process (2 Marks)

**(Total 12½ Marks)**

#### **QUESTION 5**

In the audit of financial statements of companies, auditors and their clients communicate with Representation Letters, Management Letters, Engagement Letters and Audit Reports.

##### **Required:**

- a. Distinguish between a Representation Letter and an Engagement Letter (2½ Marks)
- b. List major issues that would be discussed in an Engagement Letter. (6 Marks)
- c. State and explain the different types of qualified reports and the circumstances that would lead to each type of qualified report. (4 Marks)

**(Total 12½ Marks)**

#### **QUESTION 6**

There are many misconceptions about the role of the auditors which lead to the “Audit Expectation Gap”.

##### **Required:**

- a. What is Audit Expectation Gap? (2½ Marks)
- b. What are the roles of auditors in auditing a company’s financial statements? (5 Marks)
- c. Why will an audit not guarantee that the financial statements are free of material misstatements? (5 Marks)

**(Total 12½ Marks)**

## **SECTION A: PART 1**

### **MULTIPLE-CHOICE SOLUTIONS**

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

#### **Examiner's comment**

1 -30 Questions cover all the sections of the syllabus. 1 mark for correct option.  
Q3 has no correct option, and this is given as a bonus mark.  
75% of the candidates scored more than 18 marks.

## **SECTION A: PART II**

### **SHORT-ANSWER SOLUTIONS**

1. Auditor, Audit
2. Internal auditors
3. Value for money audit
4. False
5. Director-General/Permanent Secretary
6. Analytical review
7. Audit procedures
8. Adjusting Events
9. Substantive test
10. Test of Controls
11. 6 months
12. Due process
13. Bureau of Public Procurement
14. Auditor-General for the Federation
15. Integrated test facility
16. Debriefing
17. Audit completion checklist
18. Balling
19. Audit programme
20. Board of Directors/Audit Committee

#### **Examiner's comment**

1 – 20 Questions cover the entire syllabus. 1 mark for each question.  
Average score was 12 marks.

## **SECTION B**

### **SOLUTION 1**

- (a) The examination of records and financial statements of an entity should be carried out by an independent person or body so as to express an unbiased opinion on the truth and fairness view presented by the financial statements. Such an independent person would be free from any influence by the management of the company.

- (b) Statutory provisions that were made to protect the independence of the auditor include the following:
- i. Auditors are normally appointed by the shareholders of the company at annual general meetings and not by the directors (except under certain circumstances such as casual vacancy) would the directors appoint the auditor.
  - ii. The directors of a company cannot sack or remove the auditor of that company. It is only the shareholders that can remove the auditor. This helps to boost the independence of the auditor.
  - iii. The remuneration of the auditor is fixed or ratified by the shareholders.
  - iv. There is an audit committee that serves as a bridge between the auditor and the management of the company.
- (c) Requirements for a person or body to be qualified as an auditor of a company:
- i. He/she must belong to a recognised professional accounting body.
  - ii. He/she must have obtained practice license of a professional accountancy body of the home/host country.
  - iii. He/she must not be a servant or an officer of a company.
  - iv. He/she must have been disqualified by means of legislative instrument issued at the instance of the Registrar/commissioner of companies or a court of a competent jurisdiction.
- (d) Auditors are required to make specific reference in the audit report as to the truth and fairness of the state of the company's affairs of the period end; the truth and fairness of the statement of profit or loss and other Comprehensive Income; and whether the accounts have been properly prepared in accordance with the Companies and Allied Matters Act as amended. (CAMA)

CAMA requires certain matters to be specifically reported on:

- (i) Whether proper accounting records are kept. Whether accounts are in agreement with the accounting records and returns.
- (ii) Whether all information and explanation were received from the directors and officers of the company.
- (iii) Whether details of directors emoluments were correctly disclosed.
- (iv) Whether details of loans and other transactions in favor of directors and related parties were correctly disclosed.
- (v) Whether information given in the directors' report are consistent with the accounts.

### **Examiner's comment**

- a) The question tests candidates understanding of the reasons why financial statements should be audited by an "independent" person or body.
- b) Testing provisions that are available to protect the independence of the auditor.
- c) Testing the qualification(s) an auditor must possess to be qualified for appointment as an auditor.
- d) Testing the legal requirements an auditor must comply with before issuing a report that the financial statements show a true and fair view.

Average score was 8 marks.

### **SOLUTION 2**

- a) Audit Planning Memorandum (APM) is the audit plan documentation prepared by the Auditors containing all of the information obtained and the decision reached in the process of Audit Planning Programme. The objectives of Audit Planning Memorandum are to provide a formal record of the planning process and the programme, communicated to the audit team.
- b) Audit Planning Memorandum has the following features:
  - i. A brief historical background
  - ii. Audit planning timetable
  - iii. Job or assignment administration
  - iv. The audit strategy
  - v. Audit programme
  - vi. Analytical audit procedures
  - vii. Audit sampling procedures
  - viii. Summary review
- c) Advantages of Audit Planning Memorandum:
  - i. It serves as a basis for directing and controlling audit work.
  - ii. It serves as a basis for reviewing an audit work.
  - iii. It provides future references in respect of audit assignment.
  - iv. It is useful for training audit staff.
  - v. It provides evidence of proper audit planning in case of litigation.
  - vi. It provides a basis for comparison of audit plan and actual performance.

- d) Reasons why an Auditor may not seek reappointment:
- i. Where the auditor finds it difficult to obtain necessary information and explanation from previous audit.
  - ii. Where the company is engaging in criminal activities.
  - iii. Where audit risk is seen to be getting high.
  - iv. Where the management of the company lacks integrity and are perceived to be of dubious character.
  - v. Unpaid audit fees.

**Examiner's comment**

- a) Testing the candidates understanding and usage of Audit Planning Memorandum.
- b) Main features of audit planning memorandum.
- c) Requiring candidates to list five advantages of audit planning memorandum.
- d) Reasons why an auditor may not wish to seek reappointment.

Poor performance on (a), (b) and (c). Question (d) was attempted with good marks. 40% of the candidates attempted this question.

**SOLUTION 3**

- (a) Computer related risks can be classified into two:

- i. General or Organisational risks.
- ii. Application or Procedural risks.

i. General or Organisational risks :

These are those risks existing in the environment in which systems and programs are developed and operated on a day-to-day basis.

ii. Application of procedural risks:

These are those risks which exist over the computer input, processing output as well as updating and maintenance of the master file of individual applicants processed within the computer based accounting system.

- (b) Examples of Computer Related Risks:

General or Organisational risks examples include:

- i. Programming errors.
- ii. System design error.
- iii. The use of computer for unauthorised purpose.
- iv. Loss of computer file.
- v. Damage to the computer hardware.

Application or procedural risks examples include:

- i. Unauthorised input of data.
- ii. Incomplete input of data.
- iii. Incorrect computer output.
- iv. Invalid updating of master file record.
- v. Incomplete updating of master file record.

#### **Examiner's comment**

- a) Testing candidates' knowledge about various types of computer related risks.
- b) Candidates are required to mention five examples of computer related risks.

Less than 30% of candidates attempted this question. The average marks were below 8

#### **SOLUTION 4**

- (a) The due process is a mechanism put in place by the Federal Government of Nigeria to ensure strict compliance with rules and procedures guiding the award of contracts at the federal level. The policy is to ensure that the award of government contracts entails transparency and accountability.
- (b) Objectives of Introducing Due Process:
  - i. To harmonise and update all Federal government policies and practices in public procurement.
  - ii. To ensure that project conceptualization and packaging match the defined priorities and targets as set in annual appropriations.
  - iii. To strictly enforce the due process principles of transparency, competition and efficiency and value for money in the procurement of public goods, works and services
  - iv. To ensure efficiency and integrity based on monitoring of the implementation of all federal government projects in line with due process principles.
  - v. To prove extra budgetary spending by ministries, departments and agencies by ensuring that only projects with due appropriation by the National Assembly are certified and thus funded for execution.
  - vi. To prevent contract inflation by ensuring cost reasonableness, accuracy and comparability of all public contracts with national, regional and global costs.

**(c) Functions of National Council on Procurement**

The council shall:

- i. Consider, approve and amend the monetary and prior review of thresholds for the application of the provisions of the Procurements Act by procuring entities.
- ii. Consider and approve policies in Public Procurement;
- iii. Approve the appointment of Directors of the Bureau;
- iv. Receive and consider for approval, the audited accounts of the Bureau of Public procurement;
- v. Approve changes in the procurement process to adapt to improvement in the modern technology and
- vi. Give such other directives and perform such other functions as may be necessary to achieve the objective of this act.

**(d) The External Auditors' objectives when carrying out a review of "Due Process" are as follows:**

- i. To confirm whether Federal Government rules and regulation have been complied with when awarding contracts.
- ii. To ascertain transparency and accountability in the award of contracts.
- iii. To ascertain openness, competition, merit, right cost, and value for money.
- iv. To detect fraud or error in the award of contracts.
- v. To report findings on the review of due process to the appropriate authorities.

**Examiner's comment**

- a) Candidate's knowledge of the term Due process is required.
- b) Listing five objectives of introducing Due process.
- c) Testing candidate's knowledge of functions of National Council on Procurement.
- d) Testing candidate's knowledge of auditors objectives when carrying out a review of the Due Process.

Candidates' attempt of the question was 60%. Average score was 7 marks.

**SOLUTION 5**

- a. Representation letter is a letter normally written by the management of a company to the auditor of that company in which management confirms those oral information earlier given to the auditor during the course of his audit and their responsibility for the financial statement. Engagement letter on the other hand is a letter written by the auditor of a company to the management of that company in which the auditor confirms his own understanding and confirmation of his acceptance of the audit engagement.

b. The major issues that would be discussed in the engagement letter include:

- i. A statement setting out the auditor's responsibilities as to examination and expression of opinion on an enterprise's financial statement
- ii. A statement setting out the client's responsibilities as to maintenance of proper accounting records, preparation financial statements and implementation of effective system of internal control.
- iii. A statement disclaiming the auditor's responsibilities as to detection of fraudulent practices and other financial irregularities' but that the weakness identified in the systems will be brought to the client management's attention.
- iv. A statement setting out the basis on which fees for audit and other professional services will be computed.
- v. A statement that the auditor would request for representations from management on crucial matters affecting the financial statements.
- vi. Usually ends with acknowledgements and acceptance by the directors, evidenced by signing

c. Types of qualified audit reports and the circumstances that would lead to each type:

|    | <b>TYPE OF QUALIFIED REPORT</b>   | <b>CIRCUMSTANCES LEADING TO IT</b>  |
|----|---|---|
| 1. | QUALIFIED OPINIONS RELATING TO LIMITATIONS ON SCOPE IMPOSED BY THE ENTITY | A limitation on the scope of the auditor's work may sometimes be imposed by the entity (for example, when the terms of the engagement specify that the auditor will not carry out an audit procedure that the auditor believes is necessary)  |
|    |   | A scope limitation may be imposed by circumstances (for example, when the timing of the auditor's appointment is such that the auditor is unable to observe the counting of physical inventories). It may also arise when in the opinion of the auditor, the entity's accounting records are inadequate or when the auditor is unable to carry out an audit procedure believed to be desirable. |

|    |   |   |
|----|---|---|
| 2. | QUALIFIED OPINIONS RELATING TO DISAGREEMENT WITH MANAGEMENT | The auditor may disagree with management about matters such as the acceptability of accounting policies selected, the method of their application, or the adequacy of disclosures in the financial statements. If such disagreements are material to the financial statements, the auditor may express a qualified opinion. |
|----|---|---|

### Examiner's comment

- a) Testing candidate's understanding of differences between a Representation Letter and an Engagement Letter.
- b) Listing major issues that would be discussed in an Engagement Letter.
- c) Testing Candidate's understanding of different types of qualified reports and circumstances that would lead to each type of qualified report.

More than 80% of candidates attempted this question. Average score was 9 marks.

### SOLUTION 6

- (a) Audit Expectation Gap is defined as a gap between the role of an auditor as perceived by the profession and the expectation of the users of financial statements.
- (b) Roles of Auditor in auditing a company's financial statements
  - 1. To make a report to members of the company on the financial statements laid before members at the Annual General Meeting and to state whether the financial statements show a true and fair view and have been properly prepared in accordance with the provisions of the Companies and Allied Matters Acts.
  - 2. To consider if any information in Directors' Report is inconsistent with the financial statements and to report that fact.
  - 3. To form an opinion as to whether
    - i. Proper accounts have been kept by the company;
    - ii. Proper returns adequate for their audit have been received from branches not visited by him;
    - iii. The company's financial statements are in agreement with the accounting records and returns; and
    - iv. He has received such information and explanation as he thinks necessary from the company's officers

4. To outline in his report details of directors' remuneration, loans to officers, transactions involving directors and other connected persons or related parties as defined (if not disclosed in the financial statements).
  5. To make other special reports in various circumstances.
  6. To make a 'statement of circumstances' when he ceases to hold office for any reason.
- (c) Audit will not guarantee that the financial statements are free from material misstatements as a result of some limitations to what the auditors can do. They are as stated below:
- i. The auditors' opinion is neither a guarantee of the future viability of the entity nor an assurance of management's efficiency and effectiveness even though the auditor, during the audit work, pays attention to both matters: neither of them represents the main purpose of an audit.
  - ii. An audit work is focused on examining financial records and statements relating to past transactions and the verification of assets and liabilities held by the client at the end of the relevant accounting period. There is no guarantee or assurance from the auditors that what happened in the past will apply to the future.
  - iii. The primary concern of auditors is how the decisions of management affect the financial statements and to recommend ways of improving the control systems. Auditors do not conduct extensive review of efficiency.
  - iv. Auditors express an "opinion"; they do not certify whether a set of accounts is completely correct. What is "reasonable assurance" depends largely on what a user of financial statements expects from the auditor's report.
  - v. It is not practically possible for the auditor to examine all items within an account balance or class of accounts.
  - vi. There is the possibility of collusion and misrepresentation for fraudulent purposes, and many audit evidence are persuasive (indicating what is probable) rather than conclusive (indicating what is definite).

#### **Examiner's comment**

- a) Candidate's understanding of what is audit expectation gap.
- b) Roles of an auditor in auditing the financial statements of a company.
- c) Understanding reasons why an audit will not guarantee financial statements to be free of material misstatements.

Good attempt in (a) and (b). However, (c) was not properly answered.

**THE ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA**



**ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA  
MARCH 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, 29 MARCH, 2023**

**DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA  
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA**

**PART III EXAMINATIONS – MARCH 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 methods uses income instead of cash-flow in investment appraisal?
  - A. Payback Period
  - B. Accounting Rate of Return
  - C. Internal Rate of Return
  - D. Net Present Value
  - E. Profitability Index
  
2. A budget which is regularly updated by adding a further accounting period (month or quarter) when the earliest accounting period has expired is known as
  - A. Continuous budget / rolling budget
  - B. Static budget.
  - C. Current budget.
  - D. Fixed budget
  - E. Incremental budget
  
3. The factor which influences the level of cost and links activity resources consumption to product output is known as Cost
  - A. Object
  - B. Pool
  - C. Factor
  - D. Driver
  - E. Element
  
4. Which of the following is **NOT** a characteristic of contract costing?
  - A. High proportion of direct costs
  - B. Surplus materials
  - C. Difficulties of cost control
  - D. Continuous operation
  - E. Low indirect costs

5. Which of the following cost pool-cost driver relationship is INCORRECT?
- Machine Costs- Machine hour
  - Engineering support - Requisition raised
  - Set-up -Number of set-ups
  - Inspection- Number of inspections
  - Materials handling -Materials movement
6. A company decided on an overhead absorption rate of ₦20.50 per machine hour based on 27,500 budgeted machine hours in the period. During the same period, actual total overhead expenditure amounted to ₦975,000 and 50,000 machine hours.
- By how much was total overhead under or over-absorbed for the period?
- Under absorbed     ₦32,500
  - Over absorbed     ₦32,500
  - Under absorbed     ₦50,000
  - Over absorbed     ₦50,000
  - Under absorbed     ₦70,000
7. In which of the following costing techniques is direct cost charged to cost units and fixed cost attributable is written off against contribution?
- Process costing
  - Activity based costing
  - Marginal costing
  - Absorption costing
  - Contract costing
8. Which of the following industries does **NOT** use job costing?
- Interior decoration
  - Advertising
  - Ship building
  - Oil industry
  - Road construction

**Use the following information to answer questions 9 and 10**

A unit of a product is expected to take 6 hours to manufacture. Labour is paid ₦5/hour. During 2022, actual outputs were 4,000 units and labour cost ₦80,000 (16,000 hours at ₦5/hour).

9. What is the labour productivity ratio for 2022?
- 160%
  - 155%
  - 150%
  - 112.5%
  - 105%

10. Calculate the actual labour cost per unit
- A. ~~£~~30
  - B. ~~£~~25
  - C. ~~£~~20
  - D. ~~£~~15
  - E. ~~£~~12
11. Products will be regarded as joint products if
- A. Markets for the products are different
  - B. Both products require further processing
  - C. Management decides that they should be so regarded
  - D. Revenue from both products are significant
  - E. Processing costs can be easily apportioned
12. The technique for assessing the relative value of jobs to establish differentials in terms of the amount paid to employees is known as
- A. Valuation
  - B. Remuneration technique
  - C. Job evaluation
  - D. Merit rating
  - E. Value analysis

**Use the following information to answer questions 13 and 14.**

Melody Limited has budgeted to sell 84,000 units of product BAGUN during the month of February 2021. The standard fixed overhead cost per unit is Le4.

During the period, the actual results were as follows:

Production and sales 90,000 units, while the actual fixed overhead incurred is Le378,000.

13. What is fixed overhead expenditure variance?
- A. Le45,000 (F)
  - B. Le42,000 (F)
  - C. Le42,000 (A)
  - D. Le40,000 (F)
  - E. Le24,000 (A)
14. Calculate the fixed overhead volume variance
- A. 18,000 (F)
  - B. 20,000 (F)
  - C. 24,000 (A)
  - D. 24,000 (F)
  - E. 25,000 (A)

15. Which of the under listed factors is **NOT** considered as an assumption of Economic Order Quantity?
- A. Ordering cost
  - B. Cost of holding inventory
  - C. Storage facility
  - D. Annual demand
  - E. Re-order level
16. DAN Limited manufactures a single product, "GAD". Budgeted production output of product "GAD" during December is 2000 units. Each unit of product requires 6 labour hours for completion. Labour is paid at a rate of L\$70 per hour. The direct labour cost budget for December is
- A. L\$903,000
  - B. L\$870,000
  - C. L\$840,000
  - D. L\$836,000
  - E. L\$830,000
17. Which of the following tools and techniques is **NOT** used for cost control?
- A. Budgetary control
  - B. Standard control
  - C. Material control
  - D. Labour control
  - E. Product design control
18. The main reason for providing for notional charges is to
- A. Be kept in a bank account for future use
  - B. Bring out a prudent and realistic profit figure
  - C. Reward the capital provider and the landlord
  - D. Increase distributable profit
  - E. Differentiate the cost accounts from the financial accounts
19. Which of the following costing method usually makes use of composite cost unit?
- A. Job costing
  - B. Process costing
  - C. Contract costing
  - D. Batch costing
  - E. Service costing

20. Which of the following techniques represents the time frame usually expressed in years, which makes the cash inflows from a capital investments appraisal of project to equal the initial outflow?
- A. Internal Rate of Return
  - B. Accounting Rate of Return
  - C. Pay Back Period
  - D. Net Present Value
  - E. Profitability Index
21. In contract costing, the addition of cost to date and profit recognised less progress payment received from the Contractee is known as
- A. Notional charges
  - B. Work-in-progress
  - C. Value of work certified
  - D. Profit suspense
  - E. Notional profit
22. Costing methods refers to the systems of cost finding and ascertainment, which of the following methods is **NOT** a costing method?
- A. Job costing
  - B. Service costing
  - C. Standard costing
  - D. Batch costing
  - E. Contract costing
23. The cost accounting system which focuses on the output of the organisation and then works backwards to attribute cost to inventories and cost of sales is known as
- A. Throughput costing
  - B. Life cycle costing
  - C. Backflush accounting
  - D. Target costing
  - E. Planned costing
24. Which of the following is **NOT** related to stores documents?
- A. Purchase requisition
  - B. Bin card
  - C. Material requisition
  - D. Material transfer note
  - E. Debit note

25. A factor which at any time is an overriding limitation on the activities of an organisation is said to be
- Forecasting factor
  - Trend factor
  - Principal budget factor
  - Functional factor
  - Equilibrium factor
26. The method of applying the same basic costing methods, principles and techniques to several undertakings that are in the same industry, trade association or group is known as
- Standard costing
  - Process costing
  - Absorption costing
  - Uniform costing
  - Contract costing
27. In evaluating budget performance, an item of cost is said to have adverse variance when
- Actual cost of operation is impossible to determine
  - Budgeted cost of operation is less than actual costs
  - Actual cost of operation is less than budgeted costs
  - Budgeted cost of operation is equal to actual costs
  - Budgeted cost of operation is not available
28. The following information was extracted from a company's budget for 2022

|                  | GH¢       |
|------------------|-----------|
| Opening payables | 300,000   |
| Closing payables | 150,000   |
| Purchases        | 2,800,000 |

**Calculate the purchase payment for the year**

- GH¢3,500,000
- GH¢2,950,000
- GH¢2,900,000
- GH¢2,650,000
- GH¢2,500,000

29. The department, location or item of equipment through which a product pass or work is done to facilitate production is known as
- Cost driver
  - Cost department
  - Cost center
  - Production department
  - Materials department
30. Joint product costs may **NOT** be accounted for through which of the following?
- Physical units
  - Sales value at point of separation
  - Observation cost at split-off point
  - Net realisable value
  - Value after further processing

**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.**

- The name given to the model developed to determine the most optimal number of items of materials to be ordered is .....
- Costing method used when identical units are produced through series of sequence production is known as.....

**Use the following information to answer questions 3 and 4.**

| Month | Standard Hours | Cost Incurred |
|-------|----------------|---------------|
| 1     | 1,750          | GMD36,250     |
| 2     | 1,800          | GMD36,600     |
| 3     | 2,100          | GMD38,700     |
| 4     | 2,450          | GMD41,150     |

With the use of High-low method of cost estimation,

- The variable cost per standard hour is .....
- Fixed cost incurred per month is.....
- The process of assigning overhead costs to products or services produced is known as.....

6. If the budgeted overhead for Assembly department of XYZ Plc is ₦3,750,000 and the budgeted direct labour hours is 75,000, what is overhead absorption rate for the Assembly department?
7. The Net Present Value of ₦3,791,000 investments in a plant with five years' useful life, ₦1,350,000 annual cash savings and 8% rate of return with no salvage value is .....
8. An organised approach to the identification and elimination of unnecessary costs of running a business is called.....
9. A cost that differs for each decision option and is therefore relevant is known as.....
10. In Break-even Analysis, the term used to indicate by how much sales may decrease before a loss occurs is known as.....
11. The difference between budgeted hours of work and the actual hours worked, multiplied by the standard absorption rate per hour is known as..... variance
12. The method of reflecting more accurately, in product costs, those activities which influence the level of support overhead is called.....
13. The main objective of cost accounting is to provide detailed information for planning, control and .....
14. A costing technique in which all production costs are included as part of the cost of items or cost units is known as.....
15. The costs that can be eliminated when a particular cost objective or section is discontinued or changed is known as.....
16. A procedure that enables an organisation to plan by comparing actual result against budgeted result either to secure by individual action the objective of that policy or to provide a basis for its revision is called.....
17. The body of managers in an organisation responsible for preparation, supervision and overall responsibility for budget setting process is known as.....
18. The increase in output arising where the actual loss is less than normal loss or expected loss is called.....



## QUESTION 2

Deligent Construction Company accepted a GBAKA road construction contract awarded by FAD Limited. The cost accountant estimated the total cost of the contract to be ₦4,750,000 and it is anticipated that there will be further cost of ₦750,000. The following balances were extracted from the company records relating to the construction of the GBAKA road as at 30 June 2022.

|  | ₦         |
|--|-----------|
| Plant purchased for the project              | 1,873,750 |
| Materials delivered to site                  | 528,800   |
| Material issued to site from main store      | 557,450   |
| Plant transferred from North Project         | 377,000   |
| Materials transferred from North project     | 100,375   |
| Payment to Sub-contractors                   | 450,000   |
| Site expenses                                | 337,000   |
| Head office expenses apportioned to the site | 62,500    |
| Material on site at 30-06-2022               | 410,000   |
| Expenses prepaid as at 30-06-2022            | 48,375    |
| Value of plant on site at 30-06-2022         | 1,435,000 |
| Wages for site workers                       | 390,000   |
| Accrued wages as at 30-06-2022               | 105,000   |
| Value of work certified issued by Architect  | 2,013,800 |

At 30<sup>th</sup> June 2022, the cost of work was ₦1,374,500 and the progress payment received from FAD Limited was ₦1,250,000

### Required:

- Prepare the contract account for the GBAKA Road construction project for the year ended 30-06-2022 (11 Marks)
  - Contractee's Account (1½ Marks)
- (Total 12½ Marks)**

### QUESTION 3

ALAJTUNE Chemical Limited is a newly established company, supplying chemicals for farming. The following information relates to the company activities:

| Month    | Material purchased | Sales  | Wages incurred | Overheads |
|----------|--------------------|--------|----------------|-----------|
|          | ₦'000              | ₦'000  | ₦'000          | ₦'000     |
| January  | 10,000             | 15,000 | 3,000          | 5,000     |
| February | 12,500             | 20,000 | 3,500          | 6,000     |
| March    | 12,500             | 30,000 | 5,000          | 8,000     |
| April    | 17,500             | 25,000 | 4,500          | 7,000     |
| May      | 15,000             | 35,000 | 6,000          | 9,000     |
| June     | 12,500             | 30,000 | 5,000          | 8,000     |
| July     | 12,500             | 25,000 | 4,500          | 7,000     |
| August   | 15,000             | 25,000 | 4,500          | 7,000     |

The following details are also relevant:

- (i) Expected cash balance on April 30 will be ₦11,000,000
- (ii) Debtors are expected to pay two months after delivery
- (iii) Wages will be paid within the month they are due
- (iv) It is the company's policy to pay creditors for the materials purchased three months after receipt
- (v) There is a month's delay in paying the overhead expenses
- (vi) Included in the overhead amount is ₦1,000,000 representing depreciation on motor cars used for delivery.
- (vii) It is expected that 10% of the monthly sales are for cash while 90% are on credit.
- (viii) The company is expected to repay a loan of ₦12,500,000 at the end of May.
- (ix) Two new machines costing ₦22,500,000 are to be acquired in June out of which ₦7,500,000 will be paid on delivery and ₦7,500,000 in each of the succeeding months.
- (x) A commission of 5% is paid to agents on all the sales on credit during the month following the sales to which it relates.

**You are required to:**

Prepare a Cash Budget for each of the months of May, June and July using a columnar format. Show workings. **(Total 12½ Marks)**

#### QUESTION 4

ADAWA Limited manufactures a special product called rubber soles for use in its production cycle. A rubber sole sells for Le15. The current output is 100,000 units per month which represents 62.5% of installed capacity.

Costs per unit of production are as follows:

|                                | <b>Le</b> |
|--------------------------------|-----------|
| Direct materials               | 5         |
| Direct labour cost             | 3         |
| Variable overheads             | 0.75      |
| Fixed factory overhead         | 1.50      |
| Fixed administrative overheads | 1.00      |
| Variable selling expenses      | 0.25      |
| Total                          | 11.50     |

SONGA Limited a customer of ADAWA Limited recently placed an order for 40,000 rubber soles at Le10 per unit.

#### Required:

- Based on the above information, advise ADAWA Limited whether to accept the offer or not. (Ignore variable selling in your computation) (6½ Marks)
  - What is the maximum price the company should be willing to pay to an outside supplier who is interested in manufacturing this product? (2 Marks)
  - What would be the effect on the monthly contribution margin if the sales price was reduced to Le14 resulting in a 10% increase in sales volume? (4 Marks)
- (Total 12½ Marks)**

**QUESTION 5**

- a. Explain the payback period technique of investment appraisal (3 Marks)
- b. ADONA Company plans to launch a new product line to produce its major products. In this wise, the company plans to acquire either new locally made machine or order second hand machine from abroad. The relevant information for the two proposed machines is:

|                         |               | <u>New Local</u><br><u>Machine</u> | <u>Second Hand</u><br><u>Machine</u> |
|-------------------------|---------------|------------------------------------|--------------------------------------|
|                         | <b>Period</b> | <b>GH¢</b>                         | <b>GH¢</b>                           |
| Original purchase price | 0             | 1,000,000                          | 1,000,000                            |
| Cash inflows in years   | 1             | 100,000                            | 500,000                              |
|                         | 2             | 200,000                            | 500,000                              |
|                         | 3             | 600,000                            | 100,000                              |
|                         | 4             | 700,000                            | 50,000                               |
|                         | 5             | 800,000                            | 50,000                               |

Select the appropriate machine to be acquired on the basis of payback period technique of investment appraisal (6 Marks)

- c. List **FOUR** advantages and **THREE** disadvantages of the payback period technique of investment appraisal (3½ Marks)
- (Total 12½ Marks)**

**QUESTION 6**

The budget of Modstone Limited for the manufacture of product KIU in three departments showed:

| <b>Departments</b>       | <b>Weaving</b> | <b>Proofing</b> | <b>Finishing</b> |
|--------------------------|----------------|-----------------|------------------|
|                          | <b>GMD</b>     | <b>GMD</b>      | <b>GMD</b>       |
| Production overheads     | 1,125,000      | 875,000         | 465,000          |
| Number of units produced | 6,000          | 5,000           | 5,000            |
| Labour hour per unit     | 6.25           | 7               | 6.2              |

During the year, actual results were as follows:

| <b>Departments</b>  | <b>Weaving</b> | <b>Proofing</b> | <b>Finishing</b> |
|---------------------|----------------|-----------------|------------------|
|                     | <b>GMD</b>     | <b>GMD</b>      | <b>GMD</b>       |
| Production overhead | 1,146,585      | 914,375         | 471,975          |
| Actual labour hours | 39,750         | 36,400          | 33,480           |

**You are required to:**

- a.
  - i. Calculate the predetermined departmental absorption rates for the period. (3½ Marks)
  - ii. Determine the under/over absorption of overheads for each department for the same period. (4½ Marks)
- b. The basis of absorbing overhead costs into product cost should be appropriate for the product or service as selected by the organisation.  
  
List **FIVE** bases of calculating overhead absorption rate. (2½ Marks)
- c. Comment briefly on the treatment of under and over absorption of overhead rates. (2 Marks)

**(Total 12½ Marks)**

## **SECTION A: PART I**

### **MULTIPLE-CHOICE SOLUTIONS**

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

- 17. E
- 18. B
- 19. E
- 20. C
- 21. B
- 22. C
- 23. C
- 24. E
- 25. C
- 26. D
- 27. B
- 28. B
- 29. C
- 30. C

### Workings

No. 6

$$\text{Overhead absorbed} = \text{OAR} \times \text{machine hours} = \text{₦}20.50 \times 50,000 \text{ machine hours} \\ = \text{₦}1,025,000$$

Therefore, over/under absorption = Actual overhead incurred – overhead absorbed =  
~~₦975,000~~ - ~~₦1,025,000~~ = ~~₦50,000~~ under absorbed.

No. 9

$$\text{Labour productivity ratio} = \frac{\text{Standard hours of actual production}}{\text{Actual hours of actual production}} \times 100\%$$

$$\text{Therefore, } \frac{4,000 \times 6}{16,000} \times 100 = 24,000/16,000 = 150\%$$

No.10

$$\text{Actual labour cost per unit} = \text{actual labour cost/ actual production} \\ \frac{\text{₦}80,000}{4,000} = \text{₦}20/\text{unit}$$

No.13

$$\text{Fixed overhead expenditure variance} = (\text{Budgeted fixed overhead- actual fixed overhead}) (\text{BC} - \text{AC}) = (84,000 \times \text{₦}4 - \text{₦}378,000) = \text{₦}42,000 \text{ A}$$

No.14

$$\text{Fixed overhead volume variance} = (\text{BQ} - \text{AQ}) \text{FOAR/UNIT} \\ (84,000 - 90,000) \text{₦}4 = 24,000 \text{ F}$$

No.16

Total labour cost budget= production × labour hour × rate/hour labour hour.

Therefore, 2,000 units × 6 × ₦70 = ₦840,000

No.28

Collection for the year is = ₦300,000 + ₦2,800,000 - ₦150,000 = ₦2,950,000

**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 75% of the candidates scored 50% and above of the marks allocated.

Many candidates restricted their preparation to the popular topics in the syllabus, hence poor 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. Economic Order Quantity (EOQ)
2. Process costing
3. GMD7.00
4. GMD24,000
5. Overhead absorption
6. ₦50/direct labour hour
7. ₦1,599,145
8. Value Engineering
9. Differential costs
10. Margin of safety
11. Fixed overhead efficiency variance
12. Activity based costing (ABC)
13. Decision making
14. Absorption costing/total costing/ whole costing
15. Avoidable costs
16. Budgetary control
17. Budget committee
18. Abnormal gain
19. Reconciliation
20. Just in time purchasing and just in time production.

## Workings

No. 3

| Using High-low Method |              |               |
|-----------------------|--------------|---------------|
| Month                 | Hours        | Cost          |
| 4                     | 2,450        | 41,150        |
| 1                     | <u>1,750</u> | <u>36,250</u> |
|                       | <u>700</u>   | <u>4,900</u>  |

$$\text{Variable cost/hour} = \text{₦}4,900/700 = \text{₦}7.00/\text{hr}$$

No.4

Computation of fixed cost – using either of the two levels

|                             | High level |              | Low level |
|-----------------------------|------------|--------------|-----------|
|                             | ₦          |              | ₦         |
| Total cost                  | 41,150     |              | 36,250    |
| Variable cost(₦7<br>×2,450) | 17,150     | (₦7 × 1,750) | 12,250    |
| Fixed cost                  | 24,000     |              | 24,000    |

No. 6

$$\text{OAR} = \frac{\text{Budgeted fixed overhead}}{\text{Budgeted direct labour hours}} = \frac{\text{₦}3,750,000}{75,000 \text{ hours}} = \text{₦}50$$

No.7

$$\text{Investment amount} = \text{₦}3,791,000$$

$$\text{Annual cash flow} = \text{₦}1,350,000$$

$$\text{Discount Factor} = 8\%$$

$$\text{Cum. Disc Factor} = \frac{1 - (1.08)^{-5}}{.08} = 3.9927$$

$$\text{PV} = 3.9927 \times \text{₦}1,350,000 = \text{₦}5,390,145$$

$$\text{NPV} = \text{PV} - \text{Investment}$$

$$= \text{₦}5,390,145 - 3,791,000$$

$$= \text{₦}1,599,145$$

## 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 below average as only about 40% of those who attempted the question scored 50% and above of the marks allocated.

The major pitfall 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**

a. Functional classifications of costs

- Production costs
- Administrative costs
- Marketing, selling and distribution costs
- Research and development costs

i. **Production costs**

These are the direct costs of manufacturing a cost unit. It comprises of direct materials consumed in the factory, direct factory wages and other direct expenses incurred in connection with production.

ii. **Administrative costs**

These are the costs of formulating policy, directing and controlling operations not related directly to production, selling, distribution or research and development.

iii. **Marketing, selling and distribution costs**

These are marketing costs incurred in securing orders, publicising and presenting to customers the products of the undertaking in suitably attractive forms at acceptable prices and delivery of the goods to customers. This cost also includes after sales service or processes.

iv. **Research and development costs**

These are the costs of seeking new ideas, materials, methods of production and improved products and the development and design of such ideas so that they can be applied to formal production.

b. **COMPUTATION OF COST DRIVERS RATES:**

|                        |   |
|------------------------|---|
| Production set-ups     | $L\$120,000/60 = L\$2,000$                                      |
| Machine cost           | $L\$189,000/9,000 \text{ hours} = L\$21/\text{hour}$            |
| Handling material cost | $L\$33,000/200 \text{ requisition} = L\$165/\text{requisition}$ |
| Ordering cost          | $L\$18,000/90 \text{ orders} = L\$200/\text{order}$             |

**PRODUCTION OVERHEADS COST PER UNIT USING ACTIVITY BASED COSTING**

|                        | A            | B            | C            |
|------------------------|--------------|--------------|--------------|
|                        | L\$          | L\$          | L\$          |
| Production set-ups     | 34           | 25           | 14.4         |
| Machine cost           | 21           | 31.5         | 42           |
| Handling material cost | 4.95         | 8.25         | 4.62         |
| Ordering costs         | <u>4.00</u>  | <u>3.00</u>  | <u>3.20</u>  |
|                        | <u>63.95</u> | <u>67.75</u> | <u>64.22</u> |

**ALTERNATIVE SOLUTION**

**TOTAL OVERHEAD ABSORBED**

| <b><u>PRODUCT</u></b>   | <b>A</b>      | <b>B</b>       | <b>C</b>       |
|-------------------------|---------------|----------------|----------------|
|                         | <b>L\$</b>    | <b>L\$</b>     | <b>L\$</b>     |
| Production Set-up Cost  | 34,000        | 50,000         | 36,000         |
| Machine Cost            | 21,000        | 63,000         | 105,000        |
| Handling Material Cost  | 4,950         | 16,500         | 11,550         |
| Ordering Material Cost  | 4,000         | 6,000          | 8,000          |
| Total Overhead Absorbed | <u>63,950</u> | <u>135,500</u> | <u>160,550</u> |

Overhead Absorbed per each Product =  $\frac{\text{Total Overhead Absorbed}}{\text{Units Produced}}$

$$\text{Product A} = \frac{\text{L\$63,950}}{1,000} = \underline{\text{L\$63:95}}$$

$$\text{Product B} = \frac{\text{L\$135,500}}{2,000} = \underline{\text{L\$67:75}}$$

$$\text{Product C} = \frac{\text{L\$160,550}}{2,500} = \underline{\text{L\$64:22}}$$

**WORKINGS**

**1. PRODUCT SET-UP**

$$\text{OAR} = \frac{\text{L\$120,000}}{17+25+18} = \underline{\text{L\$2,000}}$$

|                                  |                |
|----------------------------------|----------------|
| Product Set-up Overhead Absorbed | L\$            |
| Product A – L\$2,000 x 17 runs   | = 34,000       |
| Product B – L\$2,000 x 25 runs   | = 50,000       |
| Product C – L\$2,000 x 36 runs   | = 30,000       |
|                                  | <u>120,000</u> |

## 2. MACHINE COST

Budgeted Machine Hours

Product A – 1,000 units x 1 hour = 1,000

Product B – 2,000 units x 1.5 hours = 3,000

Product C – 2,500 units x 2 hours = 5,000

9,000 Budgeted Machine Hours

OAR = L\$189,000

9,000 = L\$21

Machine Cost Overhead Absorbed L\$

Product A – L\$21 x 1,000 hours = 21,000

Product B – L\$21 x 3,000 hours = 63,000

Product C – L\$21 x 5,000 hours = 105,000

189,000

## 3. HANDLING MATERIAL COST

OAR = L\$33,000

30+100+70 = L\$165

Product Set-up Overhead Absorbed L\$

Product A – L\$165 x 30 Requisitions = 4,950

Product B – L\$165 x 100 Requisitions = 16,500

Product C – L\$165 x 70 Requisitions = 11,550

33,000

## 4. ORDERING MATERIAL COST

OAR = L\$18,000

20+30+40 = L\$200

Product Set-up Overhead Absorbed L\$

Product A – L\$200 x 20 Orders = 4,000

Product B – L\$200 x 30 Orders = 6,000

Product C – L\$200 x 40 Orders = 8,000

18,000

### Examiner's comment

This question is in two parts. Part A tests candidates' understanding of functional classification of costs while B tests their knowledge of Activity-Based Costing. About 70% of the candidates attempted the question but performance was poor as only about 35% of those who attempted them scored 50% and above of the marks allocated. It was worse in the Part B as several candidates displayed total lack of understanding of activity-based costing.

The major pitfall among the candidates was lack of deep understanding in Part A and total lack of knowledge in Part B.

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

## SOLUTION 2

### DELIGENT CONSTRUCTION COMPANY

#### CONTRACT ACCOUNT FOR THE GBAKA ROAD CONSTRUCTION PROJECT FOR THE YEAR ENDED 30 JUNE 2022

|                            | ₦                |                            | ₦                |
|----------------------------|------------------|----------------------------|------------------|
| Plant purchased            | 1,873,750        | Material on site c/d       | 410,000          |
| Material delivered to site | 528,800          | Value of plant on site c/d | 1,435,000        |
| Material issued            | 557,450          | Prepaid expenses           | 48,375           |
| Wages paid                 | 390,000          | Cost to date               | 2,888,500        |
| Accrued wages              | 105,000          |                            |                  |
| Plant transferred in       | 377,000          |                            |                  |
| Material transferred       | 100,375          |                            |                  |
| Sub-contractors charges    | 450,000          |                            |                  |
| Site expenses              | 337,000          |                            |                  |
| Head office expenses       | <u>62,500</u>    |                            |                  |
| Total                      | <u>4,781,875</u> |                            | <u>4,781,875</u> |
| Cost to date               | 2,888,500        | Value of work certified    | 2,013,800        |
| Profit taken               | 264,550          | Cost of work not certified | <u>1,514,000</u> |
| Profit suspense            | <u>374,750</u>   |                            |                  |
|                            | <u>3,527,800</u> |                            | <u>3,527,800</u> |

#### CONTRACTEE'S ACCOUNT

|                         | ₦                |                                   | ₦                |
|-------------------------|------------------|-----------------------------------|------------------|
| Value of work certified | 2,013,800        | Payment on account(cash received) | 1,250,000        |
|                         |                  | Balance c/d                       | <u>763,800</u>   |
|                         | <u>2,013,800</u> |                                   | <u>2,013,800</u> |

#### Workings

1. Cost of work not certified = Cost to date – Cost of work certified  
 $\text{₦}2,888,500 - \text{₦}1,374,500 = \text{₦}1,514,000$

2. Calculation of profit to be taken

|                                 |                    |                    |
|---------------------------------|--------------------|--------------------|
| Value of work certified         |                    | 2,013,800          |
| Cost to date                    | 2,888,500          |                    |
| Less cost of work not certified | <u>(1,514,000)</u> | <u>(1,374,500)</u> |
| Notional Profit                 |                    | <u>639,300</u>     |

Profit to be taken =  $\frac{2}{3} \times \text{Notional profit} \times \frac{\text{Cash received}}{\text{Value of work certified}}$

$$= \frac{2}{3} \times \text{₦}639,300 \times \frac{1,250,000}{2,013,800} = \text{₦}264,550$$

## **ALTERNATIVE SOLUTION**

### **DELIGENT CONSTRUCTION COMPANY**

### **CONTRACT ACCOUNT FOR THE GBAKA ROAD CONSTRUCTION PROJECT FOR THE YEAR ENDED 30 JUNE 2022**

|                            | ₦                |                            | ₦                |
|----------------------------|------------------|----------------------------|------------------|
| Plant purchased            | 1,873,750        | Material on site c/d       | 410,000          |
| Material delivered to site | 528,800          | Value of plant on site c/d | 1,435,000        |
| Material issued            | 557,450          | Prepaid expenses           | 48,375           |
| Wages paid                 | 390,000          | Cost of work certified     | 1,374,500        |
| Accrued wages              | 105,000          | WIP c/d                    | 1,514,000        |
| Plant transferred in       | 377,000          |                            |                  |
| Material transferred       | 100,375          |                            |                  |
| Sub-contractors charges    | 450,000          |                            |                  |
| Site expenses              | 337,000          |                            |                  |
| Head office expenses       | <u>62,500</u>    |                            |                  |
| Total                      | <u>4,781,875</u> |                            | <u>4,781,875</u> |
| Cost of work certified     | 1,374,500        | Value of work certified    | 2,013,800        |
| Profit taken               | 264,550          |                            |                  |
| Profit suspense            | <u>374,750</u>   |                            |                  |
|                            | <u>2,013,800</u> |                            | <u>2,013,800</u> |

### **Examiner's comment**

This question tests candidates' knowledge of Contract Costing. Part A requested for the preparation of the main contract account while B required an extract of the contractee's account. About 85% of the candidates attempted this question and about 60% of them scored 50% and above of the marks allocated.

Several candidates had the challenge of poor presentation and some others could not correctly determine the profit to be taken on an ongoing contract at year-end.

Candidates are advised to understand that presentation is an integral part of answering questions and the examiner's instructions should be faithfully adhered to. Also, they should familiarise themselves with the simple formula regarding the proportion of profit to recognise at financial year-end on contracts which could not be fully executed at the cut-off date.

### SOLUTION 3

#### CASH BUDGET FOR MAY, JUNE AND JULY

|                     | MAY            | JUNE           | JULY           |
|---------------------|----------------|----------------|----------------|
| INFLOWS:            | ₦'000          | ₦'000          | ₦'000          |
| Cash sales          | 3,500          | 3,000          | 2,500          |
| Credit sales        | <u>27,000</u>  | <u>22,500</u>  | <u>31,500</u>  |
| Total (A)           | <u>30,500</u>  | <u>25,500</u>  | <u>34,000</u>  |
| OUTFLOWS:           |                |                |                |
| Creditors           | 12,500         | 12,500         | 17,500         |
| Wages               | 6,000          | 5,000          | 4,500          |
| Overheads           | 6,000          | 8,000          | 7,000          |
| Commission          | 1,125          | 1,575          | 1,350          |
| Loan repayment      | 12,500         | —              | —              |
| Machine acquired    | —              | <u>7,500</u>   | <u>7,500</u>   |
| Total (B)           | <u>38,125</u>  | <u>34,575</u>  | <u>37,850</u>  |
| Net Cash Flow (A-B) | <u>(7,625)</u> | <u>(9,075)</u> | <u>(3,850)</u> |
| Balance b/d         | <u>11,000</u>  | <u>3,375</u>   | <u>5,700</u>   |
| Balance b/f         | <u>3,375</u>   | <u>(5,700)</u> | <u>(9,550)</u> |

#### Workings:

##### RECEIPTS FROM SALES

|                   | JANUARY | FEBRUARY | MARCH  | APRIL  | MAY    | JUNE   | JULY   | AUGUST |
|-------------------|---------|----------|--------|--------|--------|--------|--------|--------|
|                   | ₦'000   | ₦'000    | ₦'000  | ₦'000  | ₦'000  | ₦'000  | ₦'000  | ₦'000  |
| Sales             | 15,000  | 20,000   | 30,000 | 25,000 | 35,000 | 30,000 | 25,000 | 25,000 |
| Cash sales        | 1,500   | 2,000    | 3,000  | 2,500  | 3,500  | 3,000  | 2,500  | 2,500  |
| Credit sales      | 13,500  | 18,000   | 27,000 | 22,500 | 31,500 | 27,000 | 22,500 | 22,500 |
| Cash from debtors |         |          | 13,500 | 18,000 | 27,000 | 22,500 | 31,500 | 27,000 |

##### COMMISSION PAID ON CREDIT SALES

|                 | 13,500 | 18,000 | 27,000 | 22,500 | 31,500 | 27,000 | 22,500 | 22,500 |
|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Commission 5%   | 675    | 900    | 1,350  | 1,125  | 1,575  | 1,350  | 1,125  | 1,125  |
| Commission paid |        | 675    | 900    | 1,350  | 1,125  | 1,575  | 1,350  | 1,125  |

### Examiner's Comment

This question tests candidates' knowledge of Cash Budgeting and requested them to prepare a columnar cash book from a set of given information. The question was attempted by about 70% of the candidates but performance was below average as only about 40% of them scored 50% and above of the marks allotted to the question.

Several candidates had the challenge of correctly determining the timing of cash inflows and outflows for items not involving immediate cash payments, especially credit sales and credit purchases.

Candidates are advised to be more circumspect on the timing of cash flows in their future preparations.

### SOLUTION 4

#### ADAWA LIMITED

##### a. DECISION TO ACCEPT OR REJECT SONGA LTD OFFER

|   | TOTAL COST    |                  | COST PER UNIT |               |
|---|---------------|------------------|---------------|---------------|
|   | Le            | Le               | Le            | Le            |
| Sales revenue (Le10×40,000)               |               | 400,000          |               | 10:00         |
| Less relevant costs:                      |               |                  |               |               |
| Direct materials (Le5×40,000)             | 200,000       |                  | 5             |               |
| Direct labour (Le3×40,000)                | 120,000       |                  | 3             |               |
| Variable overheads (Le0.75×40,000)        | 30,000        |                  | 0.75          |               |
| Variable selling expenses (Le0.25×40,000) | <u>10,000</u> | <u>(360,000)</u> | <u>0.25</u>   | <u>(9:00)</u> |
| CONTRIBUTION                              |               | <u>40,000</u>    |               | <u>1:00</u>   |

#### Recommendation:

The offer from Songa Limited should be accepted since it will increase the company contribution Le40,000. This decision is based on the criteria of variable cost of production less than the offer price.

##### b. Relevant cost of production per unit

|                     | Le          |
|---------------------|-------------|
| Direct material     | 5:00        |
| Direct labour       | 3:00        |
| Variable overhead   | <u>0:75</u> |
| Total relevant cost | <u>8:75</u> |

**Recommendation:**

The management of Adawa will be willing to pay to an outside supplier the maximum price of marginal cost of production of Le8.75 per unit which is the relevant cost to the company.

c. **CONTRIBUTION MARGIN STATEMENT FOR THE MONTH**  
**IF THE SELLING PRICE IS REDUCED TO ₦14/UNIT AND 10% INCREASE IN SALES VOLUME**

**PRESENT POSITION**

|                                    | Le            | Le               |
|------------------------------------|---------------|------------------|
| Sales revenue (100,000×Le15)       |               | 1,500,000        |
| Less relevant cost production:     |               |                  |
| Direct material (Le5×100,000)      | 500,000       |                  |
| Direct labour (Le3×100,000)        | 300,000       |                  |
| Variable overhead (Le0.75×100,000) | 75,000        |                  |
| Variable selling (Le0.25×100,000)  | <u>25,000</u> | <u>(900,000)</u> |
| CONTRIBUTION                       |               | <u>600,000</u>   |

**REVISED POSITION**

|  | Le            | Le               |
|--|---------------|------------------|
| Sales revenue(Le14×1.1×100,000)                    |               | 1,540,000        |
| Less relevant costs:                               |               |                  |
| Direct materials(Le5×1.1×100,000)                  | 550,000       |                  |
| Direct labour(Le3×1.1×100,000)                     | 330,000       |                  |
| Variable overheads(Le0.75×1.1×100,000)             | 82,500        |                  |
| Variable selling expenses(Le0.25× 1.1<br>×100,000) | <u>27,500</u> | <u>(990,000)</u> |
| CONTRIBUTION                                       |               | <u>550,000</u>   |

**Decision:**

Based on the computation above, the proposed reduction in selling price and increment in sales volume will reduce total contribution by Le50,000 (Le600,000- Le550,000)

**Examiner's Comment**

This question tests candidates' knowledge of Marginal Costing with emphasis on decision making. Part A focuses on deciding whether to accept a special order or not, while B is on price fixing if the product was sourced from an external manufacturer. Part C required the candidate to compute the effect on contribution of a variation in selling price and sales volume. About 60% of the candidates attempted this question but only about 40% of them were able to score 50% and above of the marks allocated.

The major pitfall among candidates was wrong interpretation of the principle governing short-term decision making, especially that of accepting special orders.

Candidates should understand the two major principles governing short-term decision making are, firstly, there should have been idle production capacity; and second, fixed costs are irrelevant.

## **SOLUTION 5**

### a. Payback Period Investment Appraisal Technique

The Payback period shows the number of years over which the investment would be recouped and measures how fast the investor can recover his/her initial investment. It is a measure of liquidity and it ignores all other cash flows after the payback period. This is the method of investment appraisal based solely on cash flows and not profit. The payback period pays attention to the shortness of the project, the shorter the period of recovery of initial investment, the more acceptable the project.

For uniform cash inflows, the payback period is calculated as follows:

$$\text{Payback Period} = \frac{\text{Initial Capital Investment}}{\text{Annual net cash flows}}$$

For irregular or non-constant cash flows the procedure is to add the cash flows until the initial outlay is recouped.

The decision rule is:

The project is accepted if the expected payback period is less than the maximum acceptable payback period.

The project is rejected if the project period payback is greater than the acceptable Payback period.

In respect of multiple projects, the project with the least payback period is accepted.

### b. Computation of Payback Period

#### LOCAL MACHINE

| Year | Items          | Net Cashflows | Cumulative Net Cashflows |
|------|----------------|---------------|--------------------------|
| 0    | Initial Outlay | (1,000,000)   | (1,000,000)              |
| 1    | Cashflow       | 100,000       | (900,000)                |
| 2    | Cashflow       | 200,000       | (700,000)                |
| 3    | Cashflow       | 600,000       | (100,000)                |
| 4    | Cashflow       | 700,000       | -----                    |

$$\begin{aligned} \text{Payback period} &= 3 \text{ years and } \frac{100,000}{700,000} \times 12 \text{ months} \\ &= \underline{3 \text{ year and 2 months}} \text{ (approximately)} \end{aligned}$$

### **SECOND HAND MACHINE**

| Year | Items          | Net Cashflows | Cumulative Net Cashflows |
|------|----------------|---------------|--------------------------|
| 0    | Initial Outlay | (1,000,000)   | (1,000,000)              |
| 1    | Cashflow       | 500,000       | (500,000)                |
| 2    | Cashflow       | 500,000       | 0                        |

$$\text{Payback period} = \underline{2 \text{ years}}$$

Decision: secondhand machine from abroad is considered more suitable because it has the least payback period of 2 years as against 3 years and 2 months for new locally made machine.

#### **c. Advantages of payback period**

- i. It is simple to calculate
- ii. It is easy to understand
- iii. Of all the appraisal techniques, It least exposes the company to the problem of uncertainty/risks since it focuses on shortness of project payback of the initial outlay
- iv. It is generally used in practice as a first screening method more importantly for the companies with liquidity problems
- v. Payback period is universally used especially by SMES.
- vi. It uses cash flows and not accounting profits
- vii. Cost computation is less relative to others
- viii. Enhances liquidity and foster company growth by favouring quick returns project
- ix. Reduces time related risks by choosing project with the quickest payback period.

#### **Disadvantages of payback period include the following:**

- i. Payback period ignores the application of time value of money
- ii. It fails to consider entire cashflows
- iii. It is regarded as first bail test because it concentrates on recovery of initial investment (baits) and pays no attention to size of profits
- iv. It does not consider the risk factor
- v. Payback period technique is biased against long term project
- vi. The cut-off period for deciding what is acceptable is arbitrary

- vii. It does not consider the overall worth of a project
- viii. It consider liquidity of project but not profitability

**Examiner’s Comment**

This is a three-part question on the Payback Method of Investment Appraisal Technique. The question was attempted by about 70% of the candidates and performance was above average as about 60% of them scored 50% and above of the marks allotted.

A few candidates found it difficult to correctly compute the simple payback period, probable due to lack of adequate preparation.

Of all investment appraisal techniques, payback period is the simplest, therefore adequate mastery of the topic should naturally not present a challenge to a hardworking and smart candidate.

**SOLUTION 6**

a. **MODSTONE LTD- Computation of Departmental Overhead Absorption Rate**

| Departments                    | Weaving   | Proofing | Finishing |
|--------------------------------|-----------|----------|-----------|
| Number of units                | 6,000     | 5,000    | 5,000     |
| Labour hours/unit              | 6.25      | 7        | 6.2       |
| Total hours required           | 37,500    | 35,000   | 31,000    |
|                                | ₦         | ₦        | ₦         |
| Budgeted production overheads  | 1,125,000 | 875,000  | 465,000   |
| Labour hours required          | 37,500    | 35,000   | 31,000    |
| Pre-determined absorption rate | ₦30/hour  | ₦25/hour | ₦15/hour  |

**Computation of Departmental Over/Under Absorption of Overhead**

|                                | ₦         | ₦       | ₦       |
|--------------------------------|-----------|---------|---------|
| Actual labour hours            | 39,750    | 36,400  | 33,480  |
| Overhead absorption rate/hour  | ₦30       | ₦25     | ₦15     |
| Overhead absorbed              | 1,192,500 | 910,000 | 502,200 |
| Actual overhead incurred       | 1,146,585 | 914,375 | 471,975 |
| Over/(under) absorption of O/H | 45,915    | (4,375) | 30,225  |

**b. Basis of absorption:**

The following are the most common bases of absorption of overhead (or overhead recovery rates)

- i. A percentage of direct material cost
- ii. A percentage of direct labour cost
- iii. A percentage of prime cost
- iv. A rate per machine hour
- v. A rate per direct labour hour
- vi. A unit of production
- vii. A percentage of factory cost
- viii. A percentage of sales

**c. Treatment of over/under absorption of overhead**

Over-absorption varies when amount absorbed for the period is greater than amount incurred, then profit or loss account will be credited with the amount over- absorbed.

On the other hand, under-absorption shows the amount incurred is greater than amount absorbed which results to a debit transaction into profit or loss account.

**Examiner's Comment**

This is a three-part question on Overhead Absorption comprising predetermined absorption rates, bases of calculating absorption rates and determination of over- and under-absorption. About 40% of the candidates attempted the question but only about 35% of them scored 50% and above of the allotted marks.

Several candidates obviously avoided this topic during their preparations otherwise it should have been a mark booster. We discovered several mix-ups between over- and under-recovery, which is an evidence of poor preparation.

**THE ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA****ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA  
MARCH 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, mathematical set, 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, 29 MARCH, 2023**

**DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA  
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA  
PART III EXAMINATIONS – MARCH 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 describes the burden ratio at which a business or person is taxed?
  - A. Tax base
  - B. Tax rate
  - C. Tax burden
  - D. Tax incidence
  - E. Tax assessment
  
2. The economic term for the division of a tax burden between buyers and sellers is referred to as
  - A. Tax base
  - B. Tax rate
  - C. Tax requirement
  - D. Tax incidence
  - E. Tax assessment
  
3. The ..... should work towards ensuring that there is only one revenue agency per level of government
  - A. President, governors and local government chairman
  - B. Governors and local government chairman
  - C. President and governors
  - D. Local government chairman and governors
  - E. Judiciary

4. Which of the following is **NOT** a function of the Technical Committee of the State Internal Revenue Service Board?
- A. Consider all tax matters that requires professional and technical expertise and make recommendations to the board
  - B. Advise the State board on all its powers and duties
  - C. Attend to such other matters as may from time to time be referred to it by the board
  - D. Have powers to co-opt additional staff from within the state service, in the discharge of its duties.
  - E. Advise the Federal board on any aspect of the functions and powers of the Federal Inland Revenue Service (FIRS)
5. With the implementation of the Finance Act 2019, compensation for loss of office below ..... is now exempted from capital gains tax
- A. ~~₦~~5 million
  - B. ~~₦~~7.5 million
  - C. ~~₦~~10 million
  - D. ~~₦~~12 million
  - E. ~~₦~~15 million
6. Based on the Finance Act 2021, the effective education tax rate is
- A. 2%
  - B. 2½%
  - C. 3%
  - D. 3½%
  - E. 5%
7. The ..... is responsible for the assessment and collection of the education tax
- A. Federal Inland Revenue Service
  - B. State Inland Revenue Service
  - C. Local Government
  - D. Ministry of Finance
  - E. Ministry of Education

8. The principle of ..... requires an accountant **NOT** to compromise professional or business judgment because of bias, conflict of interest or undue influence of others
- A. Integrity
  - B. Objectivity
  - C. Professional competence and due care
  - D. Confidentiality
  - E. Professional judgment
9. According to Section 55(3) of CITA, the penalty required of a defaulting company in the first month in which it fails to file its annual returns is
- A. ₦20,000
  - B. ₦25,000
  - C. ₦30,000
  - D. ₦35,000
  - E. ₦40,000
10. Any director, manager, secretary, servant or agent of a defaulting company who is found guilty of connivance, neglect or acquiescence to the commission of the offence, of non-compliance with the provision of Section 55(3) of CITA, could be liable to a fine of
- A. ₦100,000
  - B. ₦175,000
  - C. ₦200,000
  - D. ₦250,000
  - E. ₦300,000
11. Based on the Finance Act, 2021, a daily administrative penalty of ..... is payable by a taxpayer who prevents the FIRS in accessing its records and this penalty will accrue each day, the failure continues persist
- A. ₦12,500
  - B. ₦15,000
  - C. ₦20,000
  - D. ₦25,000
  - E. ₦30,000

12. For an appeal to be valid before the Federal High Court, which of the following is **NOT** true?
- A. Amount involved must not be less than ₦600
  - B. The appeal must be on points of law
  - C. Notice of appeal must be given to the Tax Appeal Tribunal within 30 days after the date of the judgement of the Tax Appeal Tribunal
  - D. The grounds of law on which the decision of the Tax Appeal Tribunal is being challenged should be stated
  - E. The name and address of the applicant
13. For an appeal to be valid before the Court of Appeal and Supreme Court, which of the following is **NOT** true?
- A. Amount involved must not be less than ₦1,000
  - B. The appeal must be on the points of law
  - C. Notice of appeal against the decision of the Federal High Court must be given within 30 days after the judgement of the Federal High Court.
  - D. Notice of appeal against the decision of the Federal High Court must be given within 60 days after the judgement of the Federal High Court.
  - E. The grounds of law on which the decision of the Federal High Court is being challenged should be stated
14. Certain goods and services are classified as zero-rate. These goods and services are within the ambit of VAT Act, but the applicable rate is 0%. These include the following, **EXCEPT**
- A. Non-oil exports
  - B. Goods and services purchased by the disabled
  - C. Goods and services purchased by diplomats
  - D. Humanitarian donor funded project includes project undertaken by non-government organisations, religious and social clubs or societies recognised by law whose activity is not for profit and in the public interest.
  - E. Luxury goods
15. Within how many days of the month, following the month of transaction, is VAT expected to be remitted to the relevant tax office?
- A. 7 days
  - B. 14 days
  - C. 21 days
  - D. 30 days
  - E. 45 days

16. Which of the following is NOT an example of fixed duties?
- A. Certificate of occupancy (C of O)
  - B. Memorandum of understanding (MOU)
  - C. Guarantor forms
  - D. Power of Attorney
  - E. Deed of assignment
17. Which of the following is NOT a benefit of adjudication?
- A. It satisfies the statutory requirements
  - B. The instrument is admissible for all purpose not withstanding any objection as to the duty required to be paid
  - C. It confers tax clearance certificate to the payer
  - D. It shows the genuineness of the instrument
  - E. It is the first step in disputing the views of stamp duties office of the correct amount of duty
18. The total education tax collected in a year are disbursed in the ratio ..... amongst the universities, polytechnics and colleges of education
- A. 1:1:1
  - B. 2:1:1
  - C. 4:3:3
  - D. 6:2:2
  - E. 3:2:1
19. The applicable withholding tax rate on dividends in Nigeria is
- A. 2.5%
  - B. 5%
  - C. 7.5%
  - D. 10%
  - E. 12.5%
20. The applicable withholding tax rate on technical and management fees of individuals is
- A. 2.5%
  - B. 5%
  - C. 7.5%
  - D. 10%
  - E. 12.5%

21. The primary basis for the customs valuation of goods shall be
- A. Cash price
  - B. Total cost of goods imported
  - C. Transaction value
  - D. Credit value
  - E. Free on Board
22. If any person, without the authority of the customs officer, opens any door or lock of any warehouse or government warehouse, or to any goods in a warehouse, commits an offence and he/she is liable to a penalty of
- A. ₦500,000
  - B. ₦750,000
  - C. ₦1,000,000
  - D. ₦1,200,000
  - E. ₦1,500,000
23. The rate of stamp duties is..... for every ₦200 of the consideration of certain real estate transactions like mortgages
- A. 25 kobo
  - B. 50 kobo
  - C. 75 kobo
  - D. ₦1
  - E. ₦1.25k
24. Which of the following does **NOT** attract ad-valorem duties?
- A. Mortgages
  - B. Bills of exchange
  - C. Lease documents
  - D. Policy of life insurance
  - E. Promissory note
25. Small companies can only claim the capital allowances on capital expenditure when the turnover crosses the threshold of
- A. ₦20m
  - B. ₦25m
  - C. ₦27m
  - D. ₦30m
  - E. ₦35m

26. Which of the following type of employment is specified in Paragraph 1 of the First Schedule to PITA 2004 (as amended)?
- A. Foreign employment
  - B. Individual employment
  - C. External employment
  - D. Private employment
  - E. Local employment
27. In case of employees who are involved in other businesses, which of the following is a non-allowable deduction according to section 21 of PITA 2004 (as amended)?
- A. Any allowance for bad and doubtful debt of a specific nature
  - B. Any bad debt written off
  - C. Domestic or private expense
  - D. A sum payable by way of interest on money borrowed and employed as capital in acquiring the income
  - E. Irrecoverable bad debt
28. Which of the following is a non-allowable deduction in computing the gain or profit from rental income for tax purposes?
- A. Tenement rates or land use charge
  - B. Cost of advertising for tenants
  - C. Any expenses incurred for repairs and maintenance of the building
  - D. Bad debt incurred
  - E. Any expenditure of capital nature
29. Small and medium-sized companies engaged in primary agricultural production shall be granted a pioneer status for the initial period of .....years
- A. 5
  - B. 4
  - C. 3
  - D. 2
  - E. 1
30. A person who receives real property under a Will is known as
- A. Devisee
  - B. Beneficiary
  - C. Legatee
  - D. Life tenant
  - E. Trustee

**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. Total profit is determined by deducting loss relief and capital allowances from ..... profit.
2. The tax system usually involves a tripartite aspect, namely the tax policy, the tax laws, and .....
3. The effect of a tax on the production or consumption of the product being taxed is called .....
4. The statutes empowering a person or body to take certain action, especially to make regulations, rules, or orders are known as ..... Acts
5. The authorities charged with the responsibility of ensuring that tax payment procedures and documentation are convenient and cost effective is .....
6. The tax system should be designed to promote social, political and ..... development
7. According to the Joint Tax Board (JTB) as established by Section 86 of the Personal Income Tax Act, Cap P8 LFN 2004 (as amended), ..... members or their representatives shall constitute a quorum?
8. The principle that requires an accountant to comply with relevant laws and regulations and avoid any conduct that the accountant knows or should know might discredit the profession is .....
9. Within ..... months of commencement of business a company is required to register for tax purposes with the Federal Inland Revenue Service
10. If any company disputes a tax assessment raised on it by the tax authority, the time limit it may give a notice of objection, to the Federal Inland Revenue Service, seeking a review or revision of the assessment from the date of service of the notice of assessment is .....
11. Tax paid by a taxable person to the supplier of taxable goods and a service purchased or supplied to him is known as .....



- c. Multiple taxation is a tax regime under which various and similar types of taxes are imposed on taxpayers by different tiers of government and this is still a problem in Nigeria today.

**Required:**

Explain **FIVE** causes of multiplicity of taxes in Nigeria.

(5 Marks)

**(Total 12<sup>1</sup>/<sub>2</sub> Marks)**

**QUESTION 2**

- a. Explain tax clearance certificate and state the conditions for granting it.

(4<sup>1</sup>/<sub>2</sub> Marks)

- b. Tax avoidance and tax evasion have been two concepts usually misunderstood.

**Required:**

Explain the **TWO** concepts and state **FIVE** main differences between them.

(8 Marks)

**(Total 12<sup>1</sup>/<sub>2</sub> Marks)**

**QUESTION 3**

Digital transformation has been disrupting taxation in recent times.

**Required:**

- a. Briefly discuss some of the new technologies disrupting the taxation industry.

(7<sup>1</sup>/<sub>2</sub> Marks)

- b. Explain **FIVE** aspects of tax administration that TAXPRO MAX (a locally developed tax management solution) can handle.

(5 Marks)

**(Total 12<sup>1</sup>/<sub>2</sub> Marks)**

**QUESTION 4**

- a. Most often, the terms "e-business" and "e-commerce" are used interchangeably but they are not necessarily synonymous.

**Required:**

Explain briefly **FIVE** differences between them.

(5 Marks)

- b. There has been continuous debate on whether or not e-commerce should be allowed to take place in a tax-free environment either by specific legislation or by continued government inaction. However, there are divergent users that support the taxation of profit arising out of e-commerce.

**Required:**

Discuss **FIVE** of these different opinions.

(7<sup>1</sup>/<sub>2</sub> Marks)

**(Total 12<sup>1</sup>/<sub>2</sub> Marks)**

## QUESTION 5

In January 2018, Gbile Enterprises acquired a warehouse at a cost of ₦85million. Other acquisition expenses incurred on the property were 5% of the cost of acquisition as professional fees, 1% for legal fees, and ₦300,000 as valuation fee.

On April 30, 2019, a mini terrace apartment was constructed in an available excess space at a cost of ₦21million. On July 1 2019, the building was sold to Jane & Co, a sister company to Gbile Enterprises for ₦28million at a supposed arm's length transaction. However, the valuers opined that the actual market value was ₦35 million. On 1 November 2019, Gbile Enterprises sold the remaining property for ₦94,850,000 million after paying for the following expenses:

|                                | ₦         |
|--------------------------------|-----------|
| (i) Improvements prior to sale | 1,500,000 |
| (ii) Estate Agency fees        | 850,000   |
| (iii) Legal fees               | 1,200,000 |
| (iv) Advertising               | 400,000   |
| (v) Other professional fees    | 500,000   |

### Required:

- a. Compute the capital gains tax for the relevant years of assessment. (9 Marks)
  - b. Explain the concept of roll-over relief and state what the law specifies about the time limit for claiming roll-over relief. (3½ Marks)
- (Total 12½ Marks)**

## QUESTION 6

In 2021, the FIRS issued an information circular on “guidelines on the tax treatment of non-governmental organisations (NGOs), to provide clarifications on the application of the provisions of CITA, PITA, CGT and VAT Acts on the income, operations and activities of NGOs.

### Required:

- a. Explain the meaning of “Public Character” according to provisions of section 105 of CITA (as amended). (2½ Marks)
  - b. What are the registration procedures of an NGO with FIRS for tax purposes? (6 Marks)
  - c. According to Section 55(1) of CITA (as amended), state the content of the tax returns to be filed by NGOs. (4 Marks)
- (Total 12½ Marks)**

## NIGERIAN TAX RATES

### 1. CAPITAL ALLOWANCES

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

2. INVESTMENT ALLOWANCE 10%

### 3. RATES OF PERSONAL INCOME TAX

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

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

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

### 4. COMPANIES INCOME TAX RATE

|                |     |
|----------------|-----|
| Small company  | 0%  |
| Medium company | 20% |
| Large company  | 30% |

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

### **Examiner's comment**

The Multiple-Choice Questions covered the entire syllabus. The questions are of good standard. All the candidates attempted the questions. The general performance was good.

### **SECTION A: PART II**

#### **SHORT-ANSWER SOLUTIONS**

1. Adjusted profit
2. Tax administration
3. Tax impact
4. Enabling
5. Relevant tax authorities
6. Economic
7. Seven
8. Professional behaviour
9. 6 months
10. Within thirty (30) days
11. Input tax
12. Small Company
13. Exempted
14. Stamp duties
15. Ad-valorem
16. State Internal Revenue Service
17. Unearned income
18. 5%
19. Preceding
20. 10%

### **Examiner's comment**

The questions covered virtually all aspects of the syllabus. All the candidates attempted the questions. The general performance was above average.

## **SECTION B**

### **SOLUTION 1**

a)

- (i) **Direct tax:** This type of tax is levied directly on the taxpayer's income. The tax payer bears the burden of the tax liability.

Examples include Companies income tax, Pay-As-You-Earn (PAYE), Capital gains tax, Personal income tax, Tertiary Education tax payable by companies

- (ii) **Indirect tax:** This is levied on goods and services. It could be specific; in which case, a fixed amount is imposed on a commodity per unit or, it could be ad-valorem if the tax levied is a certain percentage of the cost of the commodity.

Examples of indirect taxes include import and export duties, excise duties, value added tax.

b) **Principles of a good tax system include:**

- (i) **Certainty:** It is important that the taxpayer should know the exact amount he/she is expected to pay, the basis of the taxation and the rate of tax applicable and the relevant tax authority to pay to.
- (ii) **Economy in collection cost:** The cost of collecting taxes should be relatively lower than the amount of tax collected.
- (iii) **Convenience:** The method and timing of tax payment must be convenient to the taxpayers. It must be easy to locate the taxpayers.
- (iv) **Efficiency:** Both the compliance and administrative cost must be kept lower than the revenue raised in order to avoid any resentment from the taxpayers especially those of them with smaller income the process of levying and collection must be efficient, transparent and must not cause economic distortion to the taxpayers.
- (v) **Equity:** Taxes should be seen to be fair in order to gain acceptability of the taxpayers. It is important that attention be paid to vertical equity and horizontal equity. Vertical equity involves a system whereby the rich pay higher than the poor, whilst horizontal equity is a situation which requires equal treatment to people in similar situations.
- (vi) **Flexibility:** The tax system must be flexible for it to serve as a veritable fiscal tool. The rate of tax should be capable of being altered without much difficulty.

(vii) **Neutrality:** A good tax system should not distort the economic choices in any form as to cause excess tax burden. Taxes should be neutral and should not be made to impinge adversely on economic activity.

**c) Causes of multiple taxes in Nigeria**

The causes of multiple taxation in Nigeria include:

- a) Lack of funding, particularly for most states, may result in multiple taxation when the states attempt to source for funds through levying of taxes, without taking into consideration whether or not such taxes are being levied either by the Federal or local governments;
- b) Some state governments deliberately deny their local governments the revenue due to them. Consequently, a local government, as a way of survival, desperately and aggressively focuses on any drive that will generate revenue to it;
- c) Lack of tax education and awareness;
- d) All the tiers of government usually fail to adequately fund their departments and agencies, thus, making them resort to imposing illegal levies and taxes;
- e) Multiplicity of revenue agencies;
- f) Overlapping taxing rights as contained in the Constitution and the Taxes and Levies (Approved List for Collection) Act, Cap. T2 LFN,2004; and
- g) Manual tax administration system and unorthodox tax collection.

**Examiner's comment**

This is a simple three-part question.

The part 'a' is about the types of taxes. Part 'b' tested candidates' understanding of the canons of taxation and part 'c' is about multiplicity of taxes in Nigeria.

About 98 percent of the candidates attempted the question and the general performance was good.

**SOLUTION 2**

- a) A tax clearance certificate (TCC) is a document issued by the Federal Inland Revenue Service in respect of companies and the State Internal Revenue Service Board in respect of individuals, showing that the applicant's tax affairs are in order.

The following are the conditions for granting TCC:

- (i) Taxes have been paid up to date;
- (ii) Penalties and interest raised have been paid;

- (iii) Tax returns have been filed up to date; and
- (iv) There are no outstanding tax queries, audit or investigation.

b) **Tax avoidance** arises in a situation where the taxpayer arranges his financial affairs in a form that would make him pay the least possible amount of tax, for example, avoidance of value added tax can be achieved by anyone that does not buy the goods and/or services on which VAT is levied.

Apart from boycotting the goods or services, tax avoidance schemes are carried out after a critical review of the tax laws. The taxpayer would then implement devices to exploit loopholes in the tax laws that would enable him avoid or minimize tax.

It should be noted that to a very large extent, tax avoidance is legal once it is done within the limits permissible by the tax laws.

**Tax evasion** is a contravention of tax laws whereby a taxable person neglects to pay the tax due or reduces the tax liability by making fraudulent or untrue claims on the income tax forms or returns. Put differently, tax evasion is the act whereby the taxpayer achieves minimization of tax paid through illegal means. Tax evasion involves outright fraud and deceit, for example, through deliberate omission of a source of the taxpayer's income from his returns or deliberate understatement of income.

Tax avoidance and tax evasion can be compared as follows:

| S/N | TAX AVOIDANCE  | TAX EVASION  |
|-----|--|--|
| 1.  | Legal  | Illegal  |
| 2.  | Achievable through exploiting loopholes in tax laws                      | Achievable through deliberate action of fraud and deceit.  |
| 3.  | Results in taxpayer paying minimum tax possible without breaking the law | Results in taxpayer not paying correct tax or paying minimum tax through the breaking of tax laws.                           |
| 4.  | Supported by the courts in decided cases                                 | No support by the courts   |
| 5.  | No criminal liability  | Tax evader could be charged to court for criminal offences with the consequent fines, penalties and, at times, imprisonment. |
| 6.  | When stretched to the extreme, the scheme could be disregarded.          | At any level, Revenue Service will frown at tax evasion  |

|    |   |   |
|----|---|---|
| 7. | No Revenue Service investigation. Prior years assessments will not be reopened. | Revenue Service investigation will be instituted. Revenue Service has the power to open prior assessments beyond the six year statute of limitation, subject to Court approval. |
|----|---|---|

### Examiner's comment

The question tested the knowledge of the candidates on the Tax clearance certificate, Tax avoidance and Tax evasion.

About 85 percent of the candidates attempted the question. Generally, the candidates demonstrated good knowledge of the question, and the general performance was above average.

### SOLUTION 3

- a) Some of the new technologies disrupting the taxation industry include:
- (i) **Cloud computing technology:** Many accounting software are hosted in the cloud. Some of them come along with modules for tax management used for:
    - Automated tax computation;
    - Tax returns preparation and filing;
    - Tax planning and forecasting; and
    - Tax payment; etc.

Cloud-based tax management solutions afford tax practitioners the opportunity to work remotely from practically any device with internet connection and serve their clients from any location at any time. It further helps tax practitioners to facilitate collaborations among themselves and clients.
  - (ii) **Artificial intelligence and robotics:** Traditionally, tax practitioners put a lot of efforts in collating and analysing financial data in order to serve their clients and taxpayers. Artificial Intelligence (AI) and Robotics make it easier for tax practitioners to simplify and accelerate various data-related tasks. Robotic Process Automation (RPA) software has been demonstrated to be effective in handling routine and monotonous aspects of the tax man's job. AI is capable of making tax practitioners and administrators more productive as its algorithms allow machines to take over time-consuming, repetitive, and redundant tasks. Rather than just crunch numbers, tax professionals will be able to spend more time delivering actionable insight on tax implications of past and future transactions of the company. Machines can help reduce costs and errors

by streamlining operations. Also, AI would enable tax practitioners focus on high value functions such as tax advisory services based on deeper insights of client's data.

- (iii) **Blockchain technology:** Blockchain technology became popular globally through the advancements in digital currency transactions such as Bitcoin. Many businesses now leverage on the blockchain technology to record their financial and non-financial transactions in an open, secured and decentralised ledger. Where the tax consultant or the tax authorities are made part of the transaction flow and given access to the data chain, it makes it possible for all parties to see each transaction and determine the tax implication. The blockchain can equally be used to facilitate tax payments to the government at highly reduced processing cost. Blockchain enables smart contracts, protecting and transferring ownership of assets, verifying people's identities and credentials, etc. Once blockchain is widely adopted, and challenges around industry regulation are overcome, it will benefit businesses by reducing costs, increasing traceability and enhancing security.
- (iv) **Data analytics technology:** Data has become the new cash as it is extremely crucial to make useful business financial decisions. Today, data is not just numbers and spreadsheets that accountants and tax practitioners have been familiar with for years. It also includes unstructured data that can be analysed through automated solutions. Data analytic software can allow for real-time status monitoring of financial matters including their tax implications. Data is the fuel that powers other technology trends that are transforming finance and accounting. In the financial realm, data produces valuable insights, drives results and creates a better experience for clients. Since everything leaves a digital footprint, the unprecedented digitalisation of our world is creating opportunities to glean new insights from data that was not possible before. These insights help tax administrators to improve internal operations and build revenue for the government. Through data analytics software, tax practicing firms could offer more valuable advisory services to their clients.
- (v) **Social media technology:** Social media platforms have been with us for a while and they have become useful tools in the hands of tax practitioners and administrators. Primarily, the social media platforms are used for dissemination of tax information due to its wide reach and appeal to the younger generation. Beside information sharing, platforms such as Facebook; Instagram; Twitter; LinkedIn; etc; are useful for collaboration among tax professionals and institutions. A lot of tax practitioners have made themselves more visible and attractive to clients through the use of social media platforms.

- (vi) **Mobile app technology:** Tax practitioners can use their mobile devices to access the financial data of their clients anytime and anywhere especially where the client has adopted cloud accounting technology. Also, tax administrators and practitioners could develop and deploy mobile apps which taxpayers and clients respectively could download and install for tax updates and news.
- b) Aspects of tax administration that TAXPRO MAX can handle include the following:
- (i) **E-registration:** Deployment and use of a robust and integrated tax management software makes it possible for accurate taxpayers' data to be captured by the tax authority. Each taxpayer enrolled is assigned a unique tax identification number (TIN) and it is now possible for taxpayers to do self enrolment through a web application service.
  - (ii) **E-assessment:** When taxpayers file returns electronically, it is possible for their tax liabilities to be computed and assessment notice generated automatically and sent to their email accounts.
  - (iii) **E-payments:** Technology has made it possible for taxpayers to make payments through several electronic channels, such as point of sale (POS); internet banking; bank transfers; unstructured supplementary service data (USSD) or even using their credit/debit cards from the comfort of their homes.
  - (iv) **E-filing:** Most integrated tax management solutions come along with a module that facilitates electronic filing. This enables taxpayers to file their returns from their offices without the stress of going to the tax office which might be several kilometers away. For instance, the FIRS has been encouraging taxpayers to make use of the recently deployed TaxPro solution to file their periodic tax returns, including VAT and CIT returns.
  - (v) **E-tax calculator:** Modern tax authorities develop and deploy this tool on their websites to enable taxpayers and their consultants to compute the accurate amount of taxes to be paid. This function has been part of the FIRS website ([www.firs.gov.ng](http://www.firs.gov.ng)) in the last few years.
  - (vi) **E-TCC:** Many individual and corporate taxpayers require their tax authorities to issue tax clearance certificates (TCCs) to them on yearly basis. Through the use of appropriate technology, taxpayers can apply for their TCCs electronically and get them sent to their email accounts, if the conditions are met.
  - (vii) **E-reporting:** Each tax authority requires various performance reports to be generated on a periodic basis. These reports can be generated within seconds at the click of a button.

- (viii) **E-tax audit:** Technology has made it possible for the entire process of tax audit to be carried out without the tax auditors visiting the premises of the taxpayer and vice versa. For instance, all the pre and post – audit meetings can be held using video conferencing tools and documents exchanged electronically through emails.

### Examiner's comment

This is a standard question testing the knowledge of the candidates on new technologies in taxation.

About 50 percent of the candidates attempted the question, and the general performance was below average.

The students should study more using their study packs and other relevant materials to improve their performance.

### SOLUTION 4

- a) E-commerce refers to buying and selling online, while e-business encompasses all business conducted online. Therefore, e-commerce can be viewed as a subset of e-business.

Below are the differences between e-commerce and e-business.

| S/N | E-commerce  | E-business   |
|-----|---|--|
| 1   | E-commerce involves commercial transactions done over the internet.   | E-business is conduct of business process on the internet  |
| 2   | E-commerce is use of electronic transmission medium that caters for buying and selling of products and services | In addition, e-business also includes the exchange of information directly related to buying and selling of products           |
| 3   | Thus, those activities when essentially involve monetary transactions are termed "e-commerce"                   | In addition, it includes activities like procurement of raw materials or goods, customer education, looking for suppliers etc. |
| 4   | E-commerce usually requires the use of just a Website   | E-business involves the use of CRM's, ERP's that connect different business processes  |
| 5   | E-commerce involves the mandatory use of internet   | E-business can involve the use of internet, intranet or extranet.  |
| 6   | E-commerce is narrower concept and restricted to buying and selling.  | E-business is a broader concept that involves market surveying, supply chain and logistics management and using data mining    |

**b) Five (5) schools of thought that support e-commerce taxation**

**(i) Benefit theory justification for taxation of e-commerce**

According to this theory, a state's right to tax rests on the totality of benefits and state services provided to taxpayers that interact with a country. While in traditional commerce, services provided by the state like infrastructure, police and defense protection etc. are more visible, but benefits arising from conducive legal infrastructure, consumer base, stable exchange rates and economic stability are equally applicable to e-commerce. So, the state needs to be compensated for the cost of providing public services, by income generating e-commerce activities, too.

**(ii) Principle of neutrality is a fundamental tax policy principle**

Essentially, it requires that economic processes should not be affected by external influences such as taxation. In fact, whether a business is carried out through electronic medium or otherwise should not affect the tax liability. It cannot be a case that traditional bookshop owner pays taxes on his profits while the retailer of books is exempted from paying tax on its profits.

**(iii) Vertical inequity in exempting e-commerce from tax**

There is also vertical inequity in exempting e-commerce from tax. It cuts cost of procurement, cost of processing transactions as also delivery costs for products and services delivered electronically, e.g., software financial services and music. Tax exemption for e-commerce would, therefore, result in those conducting business in traditional manner and earning less profit being taxed whereas those switching over to e-commerce and earning higher profit being exempt from tax.

**(iv) Taxation of e-commerce not a constraint**

Tax exemption could perhaps have been justified if taxation of e-commerce would have proved a constraint in its healthy growth. But e-commerce has achieved un-paralleled growth not only in the developed countries but also in a large number of developing countries including India. Taxation of e-commerce transactions by no means act as a hurdle to its development and growth.

**(v) Tax exemption for e-commerce**

Against the spirit of current reform process. Also 'infant industries' granted preferential tax treatment typically never grows up. Besides, tax exemption for e-commerce would be totally against the spirit of current reform process. Business will modify themselves on the patterns of e-commerce and thus will avoid tax, which will ultimately erode the revenue base.

### Examiner's comment

This is a simple question on 'e-business' and 'e-commerce'. About 51 percent of the candidates attempted the question. The general performance was below average. The candidates are encouraged to increase the scope of their studies and practise many tutorial questions before the examinations.

### SOLUTION 5

- a) **GBILE ENTERPRISES**  
**Computation of capital gains tax for 2019 tax year**  
**2019 – 01/01/19 to 31/12/2019**

#### On building

|  | N | N                   |
|--|---|---------------------|
| Consideration received: (Market value of duplex) |   | 35,000,000          |
| Deduct: Cost of building                         |   | <u>(21,000,000)</u> |
| Capital gains                                    |   | 14,000,000          |
| Capital gains tax @ 10%                          |   | <u>1,400,000</u>    |
| <b>2019 - 01/01/19 to 31/12/2019</b>             |   |                     |

#### On warehouse

|   |  |                     |
|---|--|---------------------|
| Consideration received                            |  | 94,850,000          |
| Deduct: incidental selling expenses:              |  |                     |
| Estate agency fees                                |  | 850,000             |
| Legal fees  |  | 1,200,000           |
| Advertising                                       |  | 400,000             |
| Other professional fees                           |  | <u>500,000</u>      |
|   |  | <u>(2,950,000)</u>  |
| Net proceeds                                      |  | 91,900,000          |
| Deduct:   |  |                     |
| Cost of acquisition                               |  |                     |
| Consideration paid incidental cost of acquisition |  | 85,000,000          |
| Professional fees                                 |  | 4,250,000           |
| Legal fees  |  | 850,000             |
| Valuation fee                                     |  | 300,000             |
| Cost of improvements                              |  | <u>1,500,000</u>    |
|   |  | <u>(91,900,000)</u> |
| Capital gains                                     |  | NIL                 |

There is no capital gains tax (CGT) for the 2019 year of assessment

**b) Roll-over relief (section 32 CGT Act)**

If the consideration received on disposal of an old asset used only for the purposes of a trade is applied in acquiring a new asset in replacement to be used for the purposes of the trade and the old asset and the new asset are within one, and the same one, of the classes of assets listed in the Act, the person carrying on the trade shall, on making a claim as respects the consideration which has been so applied, be treated for CGT purposes as if the:

- (i) Consideration for the disposal of the old asset were (if otherwise of a greater amount or value) of such amount as would secure that on the disposal neither a loss nor a gain accrues to him, and
- (ii) Value of the consideration for the acquisition of the new asset were reduced by the excess of the value of the actual consideration for the disposal of the old asset over the amount of the consideration which he is treated as receiving under paragraph (a) above.

The tax law did not specify the time limit for claiming roll-over relief.

**Examiner's comment**

This question tested the knowledge of the candidates on Capital Gain Tax and roll-over relief.

About 90 percent of the candidates attempted the question. The general performance was satisfactory.

**SOLUTION 6**

- a) "Public Character" means an organisation or institution that is registered in accordance with the relevant law in Nigeria; and does not distribute or share its profit in any manner to its members or promoters.
- b) NGOs are expected to register for tax purposes, obtain tax identification number (TIN) and file the following documents with the FIRS:
  - (i) A copy of registration certificate issued by Corporate Affairs Commission (CAC) in Nigeria or other instruments of incorporation issued to the foreign NGO or any other document evidencing exemption from incorporation in Nigeria;
  - (ii) Certified true copy (CTC) of memorandum and articles of association, constitution or rules and regulations governing the NGO;
  - (iii) List and profiles of the trustees/board members nominated; and
  - (iv) Other relevant documents that may be required at the time of registration.

- c) Filing of tax returns Section 55(1) of CITA (as amended) provides that every NGO shall file tax returns annually and such a return shall contain:
- (i) The audited accounts, together with the tax computations and a written true and correct statement specifying the amounts of its computed surplus from each and every source in accordance with the relevant provisions of CITA;
  - (ii) Such particulars in the required form for the purpose of the Act relating to such profits, allowances, reliefs and deductions;
  - (iii) A signed declaration by a trustee, director, secretary or any authorised person of the organisation stating that the information as contained in the return is true and correct; and
  - (iv) The period for filing returns shall be as stipulated in the relevant tax laws.

**Examiner's comment**

This question tested the knowledge of the candidates on 'Public Character' (in accordance with the Nigerian Law) and tax returns of Non-governmental organisations (NGOs).

About 20 percent of the candidates attempted the question.

The major pitfall was lack of adequate knowledge of the topic 'Public Character' and the new guidelines on the tax treatment of NGOs.

The candidates should study more using the study packs and other relevant materials in order to gain proper understanding of the new developments in the Nigerian tax system.

**THE ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA****ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA  
MARCH 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, 28 MARCH, 2023**

**DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA  
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA  
PART III EXAMINATIONS – MARCH 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 a common method of classification of establishments into various economic sectors?
  - A. International Standard Organisation of Business
  - B. Institute of International Business Classification
  - C. Industrial Standard of Business Organisation
  - D. International Standard of Industrial Classification
  - E. Government Institute of Business Classification
  
2. Which of the following is **NOT** a feature of Sole Proprietorship?
  - A. Individual initiative dominates
  - B. Management and control
  - C. Time Consciousness
  - D. Minimum government regulations
  - E. Risk bearing
  
3. A partnership can be dissolved for any of the following reasons, **EXCEPT**
  - A. Court order
  - B. Technical insolvency
  - C. Mutual agreement
  - D. Completion of the assignment or task for which the partnership was established
  - E. Death of a partner's spouse
  
4. Which of the following is the specific segment of the external environment with which an organisation interfaces in the course of conducting its business?
  - A. General Environment
  - B. Business Environment
  - C. Micro Environment
  - D. Task Environment
  - E. Macro Environment

5. Which of the following is one of the most common ways through which Managers interact with their environment?
- A. Boundary Spanning
  - B. Giveaways
  - C. Outreaches
  - D. Association with people
  - E. Honesty
6. Which of the following best describes the responsibility to reduce tension between a business enterprise and its host community and creates a favourable environment?
- A. Legal Responsibility
  - B. Ethical Responsibility
  - C. Economic Responsibility
  - D. Philanthropic Responsibility
  - E. Welfare Responsibility
7. Dedicated employees, who are usually honest, sometimes behave unethically because of the following rationalisations, **EXCEPT**
- A. That no one will ever find out
  - B. That the behaviour is not really illegal
  - C. That it is in the best interest of the organisation
  - D. That the employee is untouchable
  - E. That the organisation will protect them.
8. Which of the following represents the view that Management is seen as a process consisting of four distinct but interrelated activities?
- A. Planning, organising, directing and controlling
  - B. Planning, controlling, projecting and organising
  - C. Forecasting, controlling directing, projecting and planning
  - D. Planning, organising, directing and forecasting
  - E. Projecting, directing, forecasting and organising
9. A manager must possess all of the following skills, **EXCEPT**
- A. Technical skills
  - B. Human skill or interpersonal skill
  - C. Controlling Skill
  - D. Conceptual skill
  - E. Diagnostic and analytical skill

10. The application of quantitative methods and human resources to improve all the processes within an organisation and exceed customer needs now and in the future is referred to as
- A. Organisational Management Structure
  - B. Chain Reaction
  - C. Total Quality Management
  - D. Operational Quality Management
  - E. Organisational Research
11. Which of the theorist pioneered the operations research and industrial engineering techniques?
- A. Henry Vamun Poor
  - B. Charles Babbage
  - C. Robert Owen
  - D. Captain Henry Metcalfe
  - E. Fredrick Winslow Taylor
12. Which of the following is the function or field of expertise that is primarily responsible for the production and delivery of an organisation's products and services?
- A. Operations Management
  - B. Management Information System
  - C. Operation Research
  - D. Product Development
  - E. Management Research
13. The firms that qualified as excellent companies share the following characteristics, **EXCEPT**
- A. Successful firm makes things happen
  - B. Successful firms make it a point to know their customers and their needs
  - C. Autonomy and Entrepreneurship is valued in each employee
  - D. Productivity through people is based on force
  - E. Hands on, value driven management is mandatory
14. Which of the following best describes the allocation of tasks, objective-driven action and collection of feedback data?
- A. Tactical Planning
  - B. Strategy
  - C. Implementation
  - D. Objectivity
  - E. Directing

15. Which of the following is a systematic procedure sometimes used for developing a consensus of opinion among a group of experts?
- A. Brainstorming
  - B. Nominal Group Technique
  - C. Delphi Technique
  - D. Cost Benefit
  - E. Marginal Analysis
16. Which of the following is **NOT** an advantage of functioning structures of organisation?
- A. Promotes skill specialisation and in-depth development of expertise
  - B. Reduces duplication of resources and thereby enhancing efficient utilisation of resources
  - C. Enhances coordination within the functional areas
  - D. Decentralises decision making
  - E. Enhances career development and training within the department
17. Which of the following is **NOT** a reason why subordinates may be reluctant to accept delegated authority?
- A. The fear of criticism for mistakes discourages subordinates interest in delegated authority
  - B. Fear of work overload on the part of the subordinates because the subordinates may already have more work than they can do
  - C. Lack of self-confidence on the part of the subordinates
  - D. 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
  - E. Some subordinates feel that they have too much knowledge, hence they cannot accept any delegated assignment
18. Which of the following best describes the type of control that is concerned with the acquisition, storage, recording and use of materials for operations in an organisation?
- A. Behavioural control
  - B. Quality control
  - C. Materials control
  - D. Financial control
  - E. Structural Control
19. Which of the following is the process of forecasting future human resource needs of an organisation so that steps can be taken to ensure that these needs are met?
- A. Workforce Planning
  - B. Succession Planning
  - C. Human Resources Planning
  - D. Performance Management
  - E. Job Analysis

20. The main objective of wage and salary administration is to
- A. Improve the welfare of the staff in the organisation
  - B. Achieve the goals and objectives of an organisation
  - C. Attract more qualified personnel to the organisation
  - D. Establish and maintain an equitable wage and salary system
  - E. Reward employees for their labour in the organisation
21. Which of these is **NOT** a type of plant layout?
- A. Product or Line Layout
  - B. Process or Functional Layout
  - C. Fixed Position Layout
  - D. Analytical Plant Layout
  - E. Combination type of Layout
22. The process of taking the total, heterogeneous market for a product and dividing it into several sub markets each of which tends to be homogenous in all significant aspects is
- A. Market Segmentation
  - B. Marketing Management
  - C. Market Determination
  - D. Marketing Mix
  - E. Market Production
23. Which of the following is **NOT** a common money market instrument?
- A. Share Certificates
  - B. Treasury bills
  - C. Commercial bill
  - D. Certificate of deposit
  - E. Call money
24. Which of the following is **NOT** a function of Permanent Formal Group?
- A. Means of working on complex, interdependent tasks too difficult for an individual to handle
  - B. Generation of new ideas or creative solutions when information is dispersed among several people
  - C. Comparing the activities of two departments whose work is somewhat interdependent
  - D. Facilitation of the implementation of complex decisions
  - E. Formal groups provide a vehicle for socialisation and training

25. The two job attitudes that have the greatest potentials to influence how we behave at work are
- A. Job satisfaction and Organisational commitment
  - B. Performance Appraisal and Promotion
  - C. Training and Development
  - D. Job Specification and Job Description
  - E. Employee Management and Development
26. Which of the following is the process of recreating a core business process with the goal of improving output quality or reducing cost through the introduction of information technology?
- A. Communication and Information Technology
  - B. Technological Advancement
  - C. Innovation Management
  - D. Business Process Re-engineering
  - E. Total Quality Management
27. Which of the following frameworks for organisational design is the foundation on which an organisation bases its design choices?
- A. 7-S Model
  - B. Star Model
  - C. Five Factor Model
  - D. Task Model
  - E. Content Model
28. Office machines include the following, **EXCEPT**
- A. Photocopiers
  - B. Generators
  - C. Paper Shredders
  - D. Calculating Machine
  - E. Staplers
29. Which of the following is **NOT** an advantage of 'Forms' in an organisation?
- A. Reduces the need for writing because the printing is done in some automatic way
  - B. It encourages errors in the process of filling
  - C. Uniformity, for convenience in processing
  - D. Simpler tasks such as collecting or distributing data can be separated in the workflow from more complex processes
  - E. Information collected now in the form can be analysed later
30. Which of the following is **NOT** an advantage of sole proprietorship?
- A. Lack of continuity
  - B. Easy formation
  - C. Benefit of small scale operations
  - D. Unlimited liability
  - E. Better control

**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. The industry which is concerned with combining several raw materials and processing them into a single unit (output) is known as .....
2. An organisation's ----- represents those who are potentially employable by the organisation.
3. At the -----, conceptual and analytical abilities along with human skills are especially valuable.
4. Another important approach which has arisen because of the inadequacy of the Quantitative, Behavioural and System Approach to address situational issues in management is -----.
5. ----- are plans that are generally developed by top management in consultation with the board of directors and with middle management.
6. A general guide that specifies the broad parameters within which organisation members are expected to operate in pursuit of organisational goals is known as a -----
7. ----- are organisations that bind themselves together to pursue goals that are difficult to achieve individually and benefiting to members.
8. ----- is a traditional technique for ensuring coordination between two or more interdependent work units.
9. ----- is the deployment of resources for the attainment of objectives and the pattern of significant decision made to fulfil organisation's purposes.
10. The procedure that requires the supervisor to write his impressions about the subordinate's performance in a narrative form is known as -----
11. Negotiations about working conditions and terms of employment between an employer, a group of employers and one more employer organisation on the one hand and one or more representatives of workers organisations on the other with a view to reaching agreements is -----
12. ----- is an attempt to resolve disputes in an informal discussion to help parties in the dispute reach an agreement.



### QUESTION 3

- a. Highlight **FIVE** principles of Organisation according to Mullins (1996). (5 Marks)
- b. List and explain the **FIVE** consequences of a badly designed Organisation Structure. (7½ Marks)
- (Total 12½ Marks)**

### QUESTION 4

- a. Highlight and explain **FIVE** steps involved in Training and Development Process. (7½ Marks)
- b. List **FIVE** benefits of Training and Development. (5 Marks)
- (Total 12½ Marks)**

### QUESTION 5

- a. Define New Product Development. (2 Marks)
- b. State the first **THREE** stages in New Product Development. (3 Marks)
- c. State and explain **FIVE** Pricing methods. (7½ Marks)
- (Total 12½ Marks)**

### QUESTION 6

- a. With the aid of a diagram, identify the **FIVE** levels of Abraham Maslow's Hierarchy of Needs Theory (7½ Marks)
- b. List **FIVE** implications of Douglas McGregor's Theory X and Theory Y. (5 Marks)
- (Total 12½ Marks)**

### SECTION A: PART I

#### MULTIPLE-CHOICE SOLUTIONS

1. D
2. C
3. E
4. D
5. A
6. D
7. D
8. A
9. C

10. C
11. B
12. A
13. D
14. C
15. C
16. D
17. E
18. C
19. C
20. D
21. D
22. A
23. A
24. C
25. A
26. D
27. B
28. B
29. B
30. A

### **Examiner's comment**

The questions cover all the areas of the syllabus. All the candidates attempted the questions and the performance was averagely good. About 56% of the candidates that attempted these questions scored above average. The major pitfalls of the candidates were poor preparation and inadequate usage of the study pack. The candidates are advised to guard against these pitfalls in subsequent examinations by using the study pack religiously.

## **SECTION A: PART II**

### **SHORT-ANSWER SOLUTIONS**

1. Synthetic Industry
2. Labour Supply
3. Top Management Level
4. Contingency Approach
5. Strategic Plans
6. Policy
7. Mutual Benefit Organisations
8. Managerial Hierarchy
9. Strategy
10. Descriptive Essay
11. Collective Bargaining
12. Conciliation
13. Repetitive Manufacturing/Batch Production

14. Societal Marketing Concept
15. Leader Pricing
16. Financial Markets
17. Laissez-faire
18. Approach-Avoidance Conflict/Approach - Avoidance
19. Semantics
20. Information technology

### Examiner's comment

The questions cover all part of the syllabus. All the candidates attempted the question, and the performance was fairly good. The average performance recorded was largely due to poor preparation and inadequate usage of the study pack. The candidates are advised to make use of the study pack adequately for improved performance in subsequent examinations.

## SECTION B

### SOLUTION 1

a. The following are the main characteristics of cooperatives:

- i. Voluntary association
- ii. Equal voting rights by members
- iii. Separate legal entity
- iv. Based on service motive of its members
- v. Distribution of surplus

b. **Types of Cooperatives**

- i. **The agricultural marketing cooperatives:** These are usually found in the purchasing and marketing areas. The purchasing cooperative usually purchases products and then resells them to its members and non-members alike. Here, they are involved in products such as seeds, farm machineries and fertilizers. On the other hand, in the area of marketing, a group of growers or producers come together to do business. The types of product they are usually involved in, is single products or a group of closely related products.
- ii. **The credit and banking cooperatives:** In this setup, the members organise credit and banking cooperatives to issue loans to members and the general public at affordable interest rates. Examples are cooperative banks springing up in most parts of the country.
- iii. **Consumer cooperatives:** This is usually established by a group of consumers. Products are bought at wholesale prices so as to eliminate excessive profits made by middlemen. By so doing, products are sold more cheaply to its members and the general public.

**c. Advantages of Cooperative Type of Business:**

- i. Tax Advantage
- ii. Democracy is practiced
- iii. Training
- iv. Pooling of Resources
- v. Limited Liability
- vi. Economic Operations

**Disadvantages of Cooperative Type of Business:**

- i. Lack of Freedom
- ii. Reduced Finance
- iii. Dishonesty
- iv. Low salaries
- v. Rigid Rules and Regulations

**Examiner's comment**

The question was structured to test the knowledge of the candidates on the characteristics, types, advantages and disadvantages of cooperative organisation. About 72% of the candidates attempted the question and about 49% passed. The major pitfalls of the candidates were poor preparation and inadequate usage of the study pack.

**SOLUTION 2**

a. Planning is a process of preparing a set of decisions for future actions directed at achieving goals by optimal means, hence, planning is the main function of management. According to Drucker (1968), planning deals with what has to be done today to be ready for tomorrow. As noted by Banga and Sharma (2008), planning is a mental process requiring the use of intellectual faculties, imagination, foresight, sound judgment, etc. to decide in advance as to what is to be done, how and where is to be done, who will do it and how the results are to be evaluated. In other words, planning is the process of thinking before doing. Planning means to assess the future and make provisions for it.

**b. Nature and characteristics of planning**

- i. Planning is an intellectual process:
- ii. Planning is goal-orientation
- iii. Planning is the primary function of management
- iv. Planning is pervasiveness
- v. There is uniformity in planning
- vi. Continuity in planning
- vii. Flexibility in planning

- viii. Simplicity in planning
- ix. Precision in planning
- x. Feasibility of plans
- xi. Planning is making a choice among alternative courses
- xii. Efficiency of plans
- xiii. Inter-dependence in planning
- xiv. Planning is forecasting

**c. Basic Principles of Planning:**

- i. Principle of Commitment:
- ii. Principle of the Limiting Factor
- iii. Principle of Reflective Thinking
- iv. Principle of Contribution to Enterprise Objectives
- v. Principle of Efficiency
- vi. Principle of Selection of Alternatives
- vii. Principle of Planning Premises
- viii. Principle of Timing and Sequence of Operations
- ix. Principle of Securing Participation
- x. Principle of Pervasiveness
- xi. Principle of Strategic Planning:
- xii. Principle of Innovation:
- xiii. Principle of Follow-up

**Examiner's comment**

The question was structured to test the candidates' knowledge on the nature, characteristics and principles of planning. About 80% of the candidates attempted the question and about 56% passed. Candidates are advised to prepare more seriously for the examination by using the study pack to improve their performance.

**SOLUTION 3**

**a. Principles of Organisation**

Mullins (1996) listed and explained the following principles of organisation:

- i. Principle of the objective
- ii. Principle of specialisation
- iii. Principle of co-ordination
- iv. Principle of authority
- v. Principle of responsibility
- vi. Principle of definition
- vii. Principle of correspondence
- viii. Principle of span of control
- ix. The principle of balance
- x. Principle of continuity

- b. The following are the consequences of badly designed Organisation Structure:
- i. **Low motivation and morale:** this may result from apparently inconsistent and arbitrary decisions; insufficient delegation of decision-making; lack of clarity in job definition and assessment of performance; competing pressures from different parts of the organisation; and managers and supervisors overloaded through inadequate support systems.
  - ii. **Late and inappropriate decisions:** this may result from lack of relevant, timely information to the right people; poor co-ordination of decision-makers in different units; overloading of decision makers due to insufficient delegation; and inadequate procedures for revaluation of past decisions.
  - iii. **Conflict and lack of co-ordination:** may result from conflicting goals and people working at cross-purposes because of lack of clarity on objectives and priorities; failure to bring people together into teams or through lack of liaison; and breakdown between planning and actual operational work.
  - iv. **Poor response to new opportunities and external change:** this may result from failure to establish specialist jobs concerned with forecasting environmental change; failure to give adequate attention to innovation and planning of change as a main management activity; inadequate co-ordination between identification of mark etc, changes and research into possible technological solutions.
  - v. **Rising costs:** may result from a long hierarchy of authority with a high proportion of senior positions; an excess of administrative work at the expense of productive work; and the presence of some, or all, of the other organisation problems.

#### **Examiner's comment**

The question was structured to test the candidates' understanding on principles of organisation and consequences of badly designed organisation. About 74% attempted the question and about 53% passed. Majority that passed demonstrated good knowledge of the study pack.

#### **SOLUTION 4**

- a. **Training and development process is made up of five steps:**
- i. **Training Needs Analysis:** Training needs are differences between employee's current or potential performance and expected performance which can be remedied by appropriate training. Training Needs Analysis is made up of two components: Assessment of Organisation Needs and Identification of Individual Needs. Stages of

training need analysis include data collection, interpretation, recommendation and action plan. Data collection involves gathering of data on current and desired knowledge and skills level. This could be done through design and distribution of questionnaires, extraction of relevant information from performance appraisal reports, job analysis, job description, job specification etc. From these data, knowledge and skills gap are identified and recommendations made on how they can be filled.

- ii. **Setting the Training Objectives:** The objective(s) that the training is set out to achieve should be specific, measurable, and unambiguous for the trainer and the trainees to follow. There should be a clear understanding of what the company intends to achieve in organizing the training.
- iii. **Drawing up of Training Programme:** Appropriate training curriculum and methods are designed to fill the knowledge and skills gap identified in (i) above.
- iv. **Implementation of Training Programme:** At this point, the decision reached in (ii) is implemented.
- v. **Evaluation of Training Programme:** This is aimed at assessing the impact of training programmes on trainees and the organization.

**Award 1 mark each for five (5) correct answers stated and ½ mark each for explanation. (2½) up to a maximum of 7½ marks.**

**b. Benefits of Training and Development**

- i. Improved Performance on the Present Job
- ii. Improved Morale
- iii. Reduction of Operational Problems
- iv. Increased Productivity
- v. Provision of Human Resource Needs
- vi. Reduced Supervision
- vii. Improved Services to Customers

**Examiner's comment**

The question was structured to test the candidates' knowledge on the benefits and the steps involved in training and development. About 76% of the candidates attempted the question and about 48% passed. Candidates are advised to make adequate use of the study pack for subsequent examinations for improved performance.

## SOLUTION 5

- a. New product development is the development of original products, product improvements, product modifications, and new brands through the firm's own R&D efforts. New products are introduced by organisations to exploit opportunities arising from changes in consumer demand, taste, styles and fashions. Products may also be introduced as a result of technological inventions and innovations or to replace old products which have declined in sales and profits.
- b. **Stages in New Product Development**
- i. Define Objectives
  - ii. Idea generation and screening
  - iii. Business Analysis
- c. **Pricing methods**
- i. **Mark-up pricing:** In this method the seller simply adds a profit margin to the purchase price of the product e.g. if the product was bought at ₦1000 and the expected profit margin (mark-up) of the seller is ₦500, the sale price will be ₦1, 500.
  - ii. **Target Return Pricing:** Here the organisation fixes a price that will enable it achieve a specified level of profit. To illustrate, assume an organisation could produce and market 100,000 units of a product at a total cost of ₦200,000 and wishes to achieve a profit of say 40% the selling price will be:  $\text{₦}200,000 \times 40\% + (200,000) / 100,000 = \text{₦}2.8$ .
  - iii. **Demand Differential Pricing (Price discrimination):** This has to do with charging different prices for the same products depending on type of customer, packaging, brand, place and time of purchase.
  - iv. **FOB Point of Purchase Pricing:** The producer quotes the selling price at the point of production and the buyer is expected to incur the cost of shipping the product to his/her place of business.
  - v. **Market Penetration:** This has to do with the setting of low prices for products (especially at the introductory stages) with the aim of stimulating demand and sales. This pricing strategy will be effective where the market is highly sensitive to low prices and unit production cost falls in proportion to increases in sales volume.
  - vi. **Market Skimming:** This refers to the setting of a high price for a product with the aim of making a lot of profits within a very short time. Price (market) skimming will be effective where the product is scarce and an innovation different from existing brands.

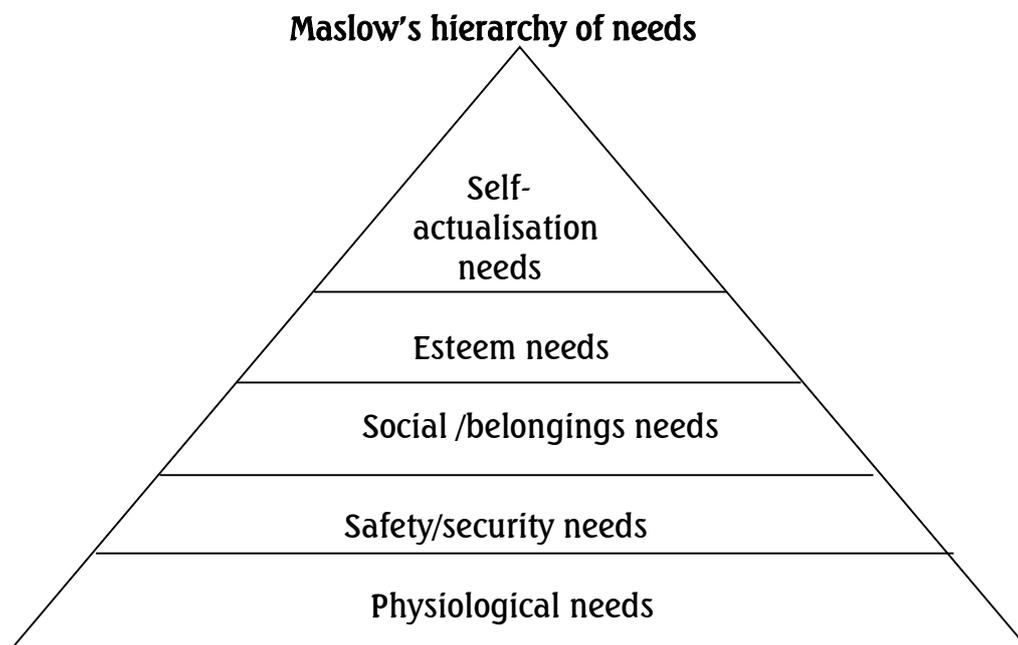
- vii. **Marketing Oriented Pricing:** It is suitable for pricing decision on new product marketed through several distribution channels. This can be illustrated through a typical process of marketing a new product such as defining the target market, identifying competitors, deciding product position, designing alternative channels of distribution etc.
- viii. **Prestige Pricing:** This type of method could be an attempt to convey an image of quality, maintaining market share and shielding competitors. It's a ways of taken advantages of the perception of consumer about a product e.g. Gold jewelries, banking product which are targeted at high net worth individual because of their operating deposits substantial.
- ix. **Leader Pricing:** This is a technique of using a product as a bait to attract customers to some other products. These products are usually low price in order to attract customer in the end is persuaded buy a more expensive product.
- x. **Psychological Pricing:** This is design to encourage purchases that are based on emotional reaction rather than rational responses. It is a way of appealing to the psychology of the buyer in order to motivate him to make purchase. For example placing a price of ₦9,999.99 does not make the customer to think of paying ₦10,000.00 but in effect will be paying ₦10,000.

**Examiner's comment**

The question was structured to test the candidates' knowledge on the concept of new product development and pricing methods. About 68% attempted the question and about 52% passed. Candidates are advised to make adequate use of the study pack for improved performance in subsequent examinations.

**SOLUTION 6**

a.



**b. Implications of Douglas McGregor's Theory X and Theory Y**

- i. Under conditions of modern industrial life, the intellectual potential of the average human being is only partially utilised.
- ii. Many people come to the workplace highly motivated to work for the good of the organisation and want the feeling of satisfaction for a job well done. This is especially true in human services where people select their careers not because of the financial or material gains they expect to make, but because they hope to find fulfillment in helping others.
- iii. When management creates an oppressive environment or fails to organise the elements of productive enterprise in a way that will allow for creative and effective use of energies, employee enthusiasm becomes stifled, and a potentially productive worker can be turned into a clock watcher.
- iv. McGregor also recognized that not all employees approach work with a sense of excitement and interest.
- v. However, he believed that it was much more common to find that management has crushed employee enthusiasm than it was to find that employees did not measure up to management challenges.

**Examiner's comment**

The question was structured to test the candidates' knowledge on Abraham Maslow hierarchy of needs theory and Douglas McGregor's theory X and theory Y. About 78% of the candidates attempted the question and about 64% passed. The major pitfalls of the candidates were basically poor interpretation of the question. Candidates are therefore advised to demonstrate more seriousness towards preparation for subsequent examinations.