



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

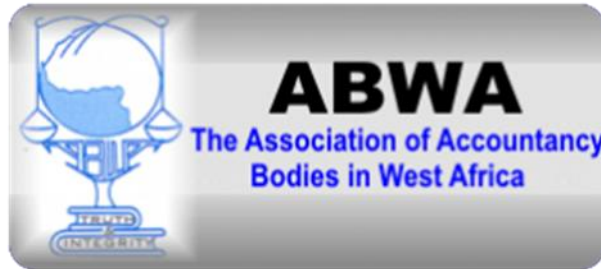
INSIGHT

**SEPTEMBER 2024 ATSWA EXAMINATIONS
PART III**

**Question Papers
Suggested Solutions
and
Examiners' Comments**

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THE ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA**ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
SEPTEMBER 2024 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, SEPTEMBER 24, 2024

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 – SEPTEMBER 2024**

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 clearly defines the International Standards on Auditing (ISAs)?
 - A. These are set of standards for the collection, classification, summarisation and communication of financial data
 - B. These are standards for performing tests in line with Generally Accepted Auditing Standards (GAAS)
 - C. These are professional standards for the auditing of financial information issued by the International Auditing and Assurance Standards Board (IAASB)
 - D. They are set of rules for preventing and detecting fraud in an organisation.
 - E. They are policies designed for determining the basis for accounting measurement and assertions

2. The concept that defines the state of mind with regards to all considerations relevant to the task in hand is
 - A. Independence
 - B. Fairness
 - C. Equity
 - D. Objectivity
 - E. Truthfulness

3. Which of the following is a key terminology in the definition of auditing?
 - A. Independent assurance
 - B. Legal framework
 - C. Assurance engagement
 - D. Independent examination
 - E. Except opinion

4. The term “reasonable assurance engagement” means
 - A. The assurance engagement in which the audit opinion is expressed as a reasonable assurance conclusion, if appropriate in the circumstances of the engagement
 - B. The assurance engagement whereby verifiable evidence which serve as

- support for financial statement and data is obtained
- C. The gathering of audit evidence in deciding the nature, timing, and extent of audit procedures
 - D. The process of providing management with audit report on internal control issues within an organisation
 - E. The process of determining the value of an organisation in the event of purchase of businesses
5. The threat to objectivity that stems from a financial conflict is known as
- A. Objectivity threat
 - B. Advocacy threat
 - C. Self-review threat
 - D. Familiarity threat
 - E. Self-interest threat
6. The gross fees of an auditor of other public interest entities shall not be more than
- A. 10%
 - B. 15%
 - C. 50%
 - D. 5%
 - E. 20%
7. Which of the following is an ethical requirement for the acceptance of an audit engagement?
- A. Issuing an engagement letter to the client
 - B. Communication with the previous auditors
 - C. Communicating the proposed team for the assignment to the client
 - D. Issuing a proposal to the client
 - E. Sending the appointment letter to the previous auditors
8. The form and content of an engagement letter does **NOT** include
- A. The objective of the audit of the financial statements
 - B. The acceptable financial reporting framework adopted by management in preparing the financial statements
 - C. The scope of the audit, including applicable legislations, regulations adhered to by the auditors
 - D. Accessibility of records and other information requested in connection with the audit
 - E. The client's background information, including details of share capital and principal activities of the company
9. Which of the following is an objective of the Audit Planning Memorandum?
- A. To clearly describe the extent of auditors' responsibilities
 - B. To reduce the client's expectation gap
 - C. To form a basis of communicating major decisions and actions to all parties of the engagement
 - D. To communicate the basis for fees to be charged
 - E. To clearly define management's responsibilities

10. Which of the following is the responsibility of auditors with regards to fraud and error?
- A. Risk assessment
 - B. Substantive tests
 - C. Compliance tests
 - D. Reconciliation of bank balances
 - E. Arithmetical check
11. Which of the following is **NOT** a process of verifying assets?
- A. Analytical procedures
 - B. Beneficial ownership
 - C. Appropriate presentation
 - D. Existence
 - E. Valuation
12. The risk that the auditor gives an inappropriate audit opinion when the financial statements are materially misstated is known as
- A. Inherent risk
 - B. Control risk
 - C. Fraud risk
 - D. Audit risk
 - E. Detection risk
13. Which of the following is a risk assessment procedure that the auditor should perform to understand the entity?
- I. Enquiries of management and others within the entity
 - II. Analytical procedures
 - III. Observation and inspection
- A. I and II only
 - B. I only
 - C. I and III only
 - D. I, II and III
 - E. II and III
14. Which of the following is an implied term for liabilities under contract which the law will impute into an audit contract?
- A. The auditors have a duty to exercise reasonable care
 - B. The auditors have the duty to claim for damages
 - C. The legal effect of the auditors' relationship with the client
 - D. The effect of false information circulated to defraud third parties
 - E. The auditors' responsibility for breach of trust in relation to the company
15. The liabilities of an auditor for the breach of the expressed contractual terms is known as
- A. Liabilities to third parties
 - B. Liabilities under tort
 - C. Liabilities under statutes

- D. Professional liabilities
 - E. Liabilities under contract
16. Under the liability to third parties, auditors can **NOT** be liable if
- A. The third parties have suffered an economic loss due to misstated financial statements
 - B. The auditor was negligent by failure to exercise the appropriate level of professional care
 - C. The auditors' actions were intentional
 - D. The third parties suffered loss due to their negligence to provide accurate information to the auditors
 - E. The auditors are aware that the third parties would place reliance on his work
17. The auditor of a company can **NOT** be disqualified if
- A. The auditor is a body corporate
 - B. He is a sole practitioner
 - C. He is an officer or servant of the company
 - D. He is a partner of the company
 - E. He is a financial management consultant to the company
18. The primary objective of an audit of financial statements is to
- A. Detect and prevent errors
 - B. Express an opinion whether the financial statements are prepared in accordance with an identified financial reporting framework
 - C. Help the client to improve upon his accounting and internal control systems
 - D. Identify and mitigate risks
 - E. Ensure that the financial statements are prepared in accordance with the Companies Act of your country.
19. The type of audit that is conducted at the instance of an interested party when there is no legal obligation that an audit be carried out is
- A. Private Audit
 - B. Statutory audit
 - C. Internal audit
 - D. External audit
 - E. Performance audit
20. Which of the following statement is **FALSE**?
- A. The overall audit strategy is synonymous with the audit plan
 - B. Audit planning results in the achievement of effective, efficient and timely audit
 - C. Audit planning ensures identification of special areas with special attention
 - D. Audit engagement occurring for the first time requires communication with predecessor auditor
 - E. The audit plan directs attention to risk assessment

21. The audit assertion which states that “amounts and other data relating to recorded transactions and events have been recorded appropriately” is known as
- A. Cut-off transactions
 - B. Occurrence
 - C. Completeness
 - D. Classification
 - E. Accuracy
22. The most relevant source of audit evidence for tangible assets is
- A. Observation
 - B. Inquiry
 - C. Physical inspection
 - D. Recalculation
 - E. Analytical procedures
23. The responsibility for preparing and presenting the financial statements in accordance with the applicable financial reporting framework is vested in
- A. Management
 - B. Auditors
 - C. The Audit manager
 - D. The finance manager
 - E. The audit committee
24. The audit sampling method that ensures that all items in the population have equal chance of selection is known as
- A. Stratified sampling
 - B. Random sampling
 - C. Judgmental sampling
 - D. Haphazard sampling
 - E. Systematic sampling
25. Which of the following is **NOT** an audit planning procedure?
- A. Discussing audit findings with those charged with governance
 - B. Obtaining knowledge of the client’s business and industry
 - C. Preliminary assessment of the entity’s level of control risk
 - D. Determining initial sample size for materiality
 - E. Identifying significant changes in the accounting procedures of the entity
26. The condition in which what the public expects from the auditing profession is at variance with what the auditing profession actually provides is known as
- A. Public sector perspective of auditing
 - B. Public Sector Accounting
 - C. Audit expectation gap
 - D. Public sector partnership
 - E. Public opinion

27. The type of liabilities to auditors which denotes liabilities under unwritten law for negligence and fraud is known as
 - A. Common law liabilities
 - B. Civic liabilities
 - C. Professional liabilities
 - D. Criminal liabilities
 - E. Liabilities under statutes

28. The process of deciding about the nature, extent and scope, and timing of an audit is known as
 - A. Substantive testing
 - B. Audit plan
 - C. Quality review
 - D. Overall audit strategy
 - E. Audit methodology

29. The information used by the auditor in arriving at the conclusions on which the auditor's opinion is based is known as
 - A. Internal audit report
 - B. Audit evidence
 - C. Audit documentation
 - D. Basis of opinion
 - E. Legal framework

30. Which of the following is a content of the current audit file
 - A. Lists of books and other records and where they are kept
 - B. Client accounting instructions
 - C. The organisational chart
 - D. Evidence gathered in the course of audit
 - E. Organisational policies and manuals

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 report submitted by the Auditors to the management describing findings and/or recommendations with respect to the accounting or management practices or procedures of the company is known as

2. An accounting principle that assumes that a company has the resources to continue making enough profit for the business in order to stay afloat for the foreseeable future is called.....

3. The documentation that helps to ensure that all relevant matters are attended to

before the audit report is signed is known as

4. A set of directions that the auditor needs to follow for the proper execution of the audit is called
5. The type of audit that requires investigative skill and appropriate grounding in the law and presentation of evidence in the court is known as
6. The type of audit opinion that is issued when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements is called a/ an opinion.
7. The audit approach which involves an examination of the detailed processing routines of the computer to determine whether the controls in the system are adequate to ensure complete and correct processing of all data is called
8. The type of embedded audit facilities which involves the creation of dummies (or a fictitious entity) within the framework of the regular application into which both fictitious and regular transactions are posted and are compared with what should have been produced, which is predetermined by other means is known as
9. The audit working papers include the auditor's reasoning on all significant matters which require the exercise of judgement, together with the auditors' conclusion thereon. **True or False**
10. A type of Machine Learning whereby the machine is made to learn on its own without any human assistance is called.....
11. The preparation of a separate program that simulates the processing of the organisation's real system such that the programme is used to re-perform controls such as those used to identify any missing items from a sequence is called.....
12. A letter prepared by the external auditors on behalf of a company, signed by a member of the executive management attesting that all of the information submitted is accurate, and that all material information has been disclosed to the auditors is called
13. The type of Computer Assisted Auditing Techniques that involves embedding audit software modules within an application system to provide continuous monitoring of the system's transaction is called
14. The power to appoint a person to act in the office of the Auditor-General resides in the
15. A system of controls which provide the facilities for data to be passed to and from the central computer via remote terminals is called.....
16. The written record of the basis for the auditor's conclusions that provides the support for the auditor's representations, whether those representations are

contained in the auditor's report or not is known as

17. The maximum period for which a person can occupy the office of the Auditor-General in acting capacity is
18. The application of audit procedures to less than 100% of items within an account balance or class of transactions such that each unit has a chance of selection is known as
19. The process by which an auditor makes critical assessment, with a questioning mind, to anything that may indicate misstatement due to error or fraud is known as
20. The type of error in a population that the auditor is willing to accept is known as

SECTION B: ATTEMPT ANY FOUR QUESTIONS (50 MARKS)

QUESTION 1

- a. Bala Mohammed & Co (Chartered Accountants) has recently been engaged by Safemode International Limited to conduct the audit of its financial statements for the year ended 31 December 2021.
 - i. What are the procedures for accepting the audit engagement? (4 Marks)
 - ii. What is an audit engagement letter? (2½ Marks)
 - iii. State the key components of an audit engagement letter. (4 Marks)
 - b. State **FOUR** advantages of an audit engagement letter (2 Marks)
- (Total 12½ Marks)**

QUESTION 2

- a. Explain the term "External Confirmation" in audit. (2½ Marks)
 - b. Differentiate between positive and negative confirmation (6 Marks)
 - c. What are the significant information that the Bank circularisation letters seeks to address? (4 Marks)
- (Total 12½ Marks)**

QUESTION 3

- a. What is sampling? (2½ Marks)
 - b. Differentiate between sampling and non-sampling risk. (4 Marks)
 - c. State and explain **FOUR** sampling methods. (6 Marks)
- (Total 12½ Marks)**

QUESTION 4

- a. What is an assurance engagement? (2½ Marks)
 - b. State **EIGHT** non-auditing services that can be provided by the auditors (4 Marks)
 - c. Differentiate between reasonable assurance and absolute assurance. (4 Marks)
 - d. What is an agreed upon audit procedure? (2 Marks)
- (Total 12½ Marks)**

QUESTION 5

- a. Define Analytical procedures (2½ Marks)
- b. What are the uses of analytical procedures? (2 Marks)
- c. Describe **TWO** types of analytical procedures (4 Marks)
- d. What is a subsequent event? (2 Marks)
- e. Differentiate between adjusting and non-adjusting event. (2 Marks)

(Total 12½ Marks)

QUESTION 6

- a. State **TWO** forms of audit working papers (2 Marks)
- b. State and explain the types of audit working papers (6 Marks)
- c. Regarding ownership and retention of working paper, who takes ownership of working papers and how many years is required for the retention of audit working papers? (2 Marks)
- d. What is an audit programme? (2½ Marks)

(Total 12½ Marks)

SUGGESTED SOLUTIONS

SECTION A: PART I

MULTIPLE CHOICE QUESTIONS

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

Examiner's comment

This section contains 30 multiple questions. Each question carries 1 mark each.

Candidates' performance was very good as many candidates scored more than 12. The questions cover the whole syllabus. The highest mark is 27 while the lowest is 9.

SECTION A: PART II

SHORT ANSWER QUESTIONS

- 1 Management letter
- 2 Going concern
- 3 Audit completion checklist
- 4 Audit programme
- 5 Forensic Audit
- 6 Adverse
- 7 Auditing through the computer
- 8 Integrated test facility
- 9 True
- 10 Unsupervised learning
- 11 Simulation or Parallel Simulation
- 12 Letter of representation
- 13 Embedded Audit Facility
- 14 President
- 15 Online System
- 16 Audit documentation
- 17 Six months
- 18 Audit sampling
- 19 Professional skepticism
- 20 Tolerable error

Examiner's comment

These are 20 questions that cover the whole syllabus. The performance was good. 60% of candidates scored more than 10.

SECTION B:

SOLUTION 1

(ai) Procedures to be taken by Bala Mohammed & Co (Chartered Accounts) before accepting the audit engagement from Safemode International Limited include the following:

- **Ethical requirements:** Bala Mohammed & Co should consider if there are ethical factors that could prevent the firm from accepting the appointment i.e., The firm is to ensure that it is ethically qualified to act as auditor for Safemode International Limited.
- **Legal requirements:** Similar to ethical requirements, the auditor should consider whether it is permitted under local laws and regulations to accept such engagement.
- **Resources:** The auditor should consider if there are adequate resources (personnel and time) available to perform the audit
- **Professional competence:** In line with the fundamental principles, an engagement should only be accepted if the audit firm has the required level of skills, knowledge and experience to perform a competent work.
- **Professional clearance:** Request from the client, permission to contact the outgoing auditor for reasons (if any) why the audit should not be taken up.
- **Fees:** The audit firm should consider the appropriateness of the fees offered by the prospective client. Their client worthiness should be considered as non-payment of fees could create self-interest threat.
- **Risk assessment:** The auditor should evaluate the risk associated with the prospective client's audit. The audit firm should carry out a preliminary risk assessment and where the risks are considered too high (e.g. inadequate internal controls, unusual transactions); he should consider rejecting the appointments.
- **Management integrity:** Bala Mohammed & Co should assess the integrity of the directors of the Safemode International Limited especially where the directors are not previously known (such as performing background check on the directors). Where there are reasons to believe that they lack integrity, it is better to reject the nomination to avoid the huge risk of fraud and information.

(aii) Audit Engagement Letter

Prior to the commencement of any audit work, the auditor should agree in writing, the precise scope and nature of the audit work to be undertaken. The letter of engagement serves this purpose.

An audit engagement letter is therefore a letter sent by the auditors to a client at the beginning of any audit. It sets out the terms of the engagement and forms the basis of the contract.

(a) (iii) The key components of an engagement letter include the following:

- The audit objective
- The nature and scope of the audit including reference to applicable legislations – areas covered by audit
- Management’s responsibility on the financial statements
- Auditors’ responsibility on the financial statements
- The applicable financial reporting framework
- Audit report form and content as prescribed in the auditing standards
- Auditors right of unrestricted access to client’s books and records.
- Audit fees and its basis.

(b) Advantages of an audit engagement letter will include the following:

- (i) It helps to minimize misunderstanding between client and audit firm
- (ii) It helps to describe the extent of auditor’s professional and legal responsibilities
- (iii) It helps to inform and educate the client on the services to be provided and their benefits
- (iv) It helps to clarify the basis of charging audit fees
- (v) It confirms in writing verbal agreement reached between the auditor and the client.

Examiner’s comment

Candidates’ understanding of procedures required before a new audit assignment is undertaken. Specifically candidates are required to understand the usefulness of audit engagement letter. Also, the key points on audit engagement letter should be stated.

The performance of candidates in the question is very good. About 60% of candidates attempted the question.

SOLUTION 2

(a) **External Confirmation** – External confirmation are written responses received from the third parties directly by the auditor to help him obtain sufficient appropriate evidence regarding an item of the financial statements. It is also popularly known as **circularization** which can be performed to confirm receivables, bank and other balances in the financial statements.

(b) **Positive Confirmation** – This is where the respondent is required to confirm the accuracy of the amount attributed to him as stated in the letter or state clearly of his disagreement in his written response. In other words, the customer is required to respond to the request whether he agrees or not with the stated debt amount. This method is normally used where the client’s internal control system is poor and the amount of receivable figures is quite large.

Negative confirmation This is where the customer is required to respond only if the amount stated in the confirmation letter is disputed by him. In other words, the auditor does not need any response if the customer agrees with the debt amount stated in the letter. This method is normally used where the client internal control system is good and there are numerous small accounts to be confirmed.

- (c) The significant information that bank circularization letter seeks to address are to ascertain the following:
- (i) Balances on all current, deposit and term accounts, stating whether these are free, blocked, or subject to any other withdrawal or restriction.
 - (ii) The name and date of closure of any accounts, which have been closed during the year, ending on the above date.
 - (iii) Balances on all advances, loans or overdraft accounts stating the terms, interests, etc. and collateral security or guarantees that the client holds in connection there with the bank.
 - (iv) Its liability in connection with notes receivable or bills of exchange which it has discounted with the bank or deposited with it for collection.
 - (v) Any guarantees given in its behalf or that it has given on behalf of third parties.
 - (vi) A list of all share certificates and securities deposited for its accounts, indicating whether these were free for withdrawal or were subject to any lien, pledge or other restriction.
 - (vii) Amounts of interest and charges to be paid by it, and of interest due to it, not yet included in the balances as of the stated date.
 - (viii) Details of any other operations and of any matters in the course of execution, which have not been included in the above paragraphs; and
 - (ix) A list of officers entitled to sign cheques on all of the accounts, indicating the way in which they must be combined

Examiner's comment

Some candidates could not differentiate external confirmation from external audit. Candidates are expected to know what confirmation is all about before positive and negative confirmation can be explained. Many candidates who attempted this question scored good marks.

Candidates are required to mention significant information that a bank circularization letter seeks to address. Many candidates attempted this question flawlessly. The highest mark is 11.

SOLUTION 3

- (a) **Audit Sampling** is the application of audit procedures to less than 100% of the population to enable the auditor to gather and evaluate audit evidences within a class of transactions for the purpose of forming a conclusion concerning the population.
- (b) **Sampling risk** is the risk that the auditor's conclusion may be different from the conclusion that would be reached if the entire population were subjected to the same audit procedures rather than the selected samples. While Non-Sampling risk refers to the risk of inappropriate conclusion by the auditor as a result of factors other than his use of sampling.

Such factors include:

- (i) Poor planning of audit work
 - (ii) Use of unskilled audit staff
 - (iii) Poor supervision and
 - (iv) Lack of professional scepticism
- (c) Sampling methods include the following:
- (i) Random statistical sampling method
 - (ii) Stratified Sampling method
 - (iii) Systematic statistical sampling method
 - (iv) Haphazard sampling method
 - (v) Cluster Sampling method
 - (vi) Monetary unit sampling method
 - (vii) Block Selection
- (i) **Random statistical sampling method:** This refers to the use of a random number application to ensure that all combinations of sampling units in the population have an equal chance of being selected. Here items are chosen without deciding in advance or without a regular pattern usually with the help of a random number generator or table with inbuilt complex algorithm. This method is bet at minimizing bias.
- (ii) **Stratified Sampling method:** This involves the division of the population into layers or strata, each stratum being subjected to a separate test which could be conducted by random or interval sampling methods. This technique is appropriate where the population consists of a wide range of values among the items under examination. Under such circumstances, the entire population would be split into a number of layers, each covering a specific range of values or prices, and each layer would then be subjected to a separate test. The relative materiality of each stratum would determine the confidence level and precision range required.
- (iii) **Systematic statistical sampling method:** This involves selecting units using a fixed interval (n^{th} item) between selections with the first interval having a random start.

- (iv) **Haphazard sampling:** The auditor selects the sample without following a structured technique. Selecting items in no particular order or pattern. This method brings speed and convenience for auditors.
- (v) **Cluster Sampling method:** This is suitable when data to be examined are stored in such a manner that the selection of group, or cluster, would be appropriate test. In these circumstances, each cluster could be allocated a number, the particular cluster to be tested being selected by the use of random table. The contents of the cluster selected could in turn be tested completely, or by random number, or by interval sampling.

The most precise results with this method will be obtained when each cluster contains a varied mixture as possible and any one cluster is as nearly like any other cluster as possible.

Cluster sampling is helpful when the population is so dispersed as to make other forms of selection either burdensome or excessively time consuming.

- (vi) **Monetary unit sampling:** Selection of items based on monetary amounts (value) of items. Sometimes the amounts are weighted before selection.
- (vii) **Block Selection:** This method of sampling involves selecting a block (or blocks) of contiguous items within a population. Block selection is rarely used in modern auditing merely because valid references cannot be made beyond the period or block examined. In situations when the auditor uses block selection as a sampling technique, many blocks should be selected to help minimize sampling risk.

Examiner's comments

Simple definition of sampling is required. However, the differences between sampling and non-sampling risk were not adequately answered by the candidates.

Sampling methods: Many candidates scored good marks in this section as there are several methods from which they are required to just state and explain any four of them.

The average mark is 7.

SOLUTION 4

- (a) An assurance engagement is one in which an accounting practitioner is engaged to provide assurance/opinion on a set of information produced by one party for the use of another. This assurance is given by the practitioner after evaluating the subject matter against suitable criteria with the objective of adding to its credibility. Assurance here means the satisfaction of the practitioner on the reliability of assertions made by the preparer of the information.

- (b) The following are non-audit services that can be provided by the auditor:
- (i) Accountancy Services
 - (ii) Reporting on profit forecast
 - (iii) Management consultancy
 - (iv) Tax advisory
 - (v) Debt recovery
 - (vi) Liquidation and receivership
 - (vii) Secretarial services
 - (viii) Training and recruitment of staff
 - (ix) Feasibility studies
 - (x) Litigation support services
 - (xi) Internal audit review
 - (xii) Advising companies seeking quotations on the Nigerian Exchange Group
- (c) **A reasonable assurance** is also known as high level of assurance provided by practitioners which is expressed in a positive form because of the use of the sampling techniques that was not involved in 100% testing of transactions and account balances when performing the audit work, e.g. *“in our opinion the financial statements give a true and fair view”*. Reasonable assurance is normally expressed in a statutory audit engagement.
- Absolute assurance** This is rarely given by accounting practitioner because it involves giving 100% guarantee or 100% assurance opinion on the outcome of evaluation of a particular subject matter.
- (d) An agreed upon audit procedure is where an accounting practitioner performs an engagement strictly based on the procedure agreed with the client and any other interested party. In an agreed upon procedures engagement, the client that engages the practitioner also decides the procedures that will be followed.

Examiner’s comment

- a. The meaning of assurance engagement which requires three parties is the key element to the solution.
- b. Eight non-auditing services that can be provided by the auditors are the requirements of part (b) of this question. Candidates’ performance was good as the services provided by auditors are numerous
- c. Differences between reasonable assurance and absolute assurance. Many candidates could not differentiate between these two types of assurance.
- d. Many candidates who attempted this question failed to understand agreed upon audit procedure.

Performance was not good.

SOLUTION 5

- a. Analytical procedures is the evaluation of financial information made by a study of plausible relationships among both financial and non-financial data. Analytical procedures also encompass the investigation of identified fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts.
- b. Uses of analytical procedures
 - i. It is used as a risk assessment procedures to obtain an understanding of the entity and its environment.
 - ii. As substantive procedures when it can be more effective or efficient than tests of details in reducing the risk of material misstatement at the assertion level to an acceptably low level.
 - iii. To corroborate conclusions formed during the audit.
 - iv. To identify areas which require further audit.
 - v. As an overall review of the financial statements at the end of the audit
- c. Types of analytical procedures:
 - i. **Trend analysis** – The analysis of changes in an account over time.
 - ii. **Ratio analysis** – The comparison, across time or to a benchmark, of relationships between financial statement accounts and between an account and non-financial data.
 - iii. **Reasonableness testing** – The analysis of accounts, or changes in accounts between accounting periods that involves the development of a model to form an expectation based on financial data, non - financial data, or both.
- d. A subsequent event is an event (favourable or unfavourable) which occurs between the financial position date and the date on which the financial statements are approved by the board of directors. Events occurring after the financial position date may be classified into two categories: adjusting events and non-adjusting events.
- e. Difference between adjusting and non-adjusting event

Adjusting events are events occurring after the reporting date that provide evidence of conditions that existed at the end of the reporting period.

Non-adjusting events are events occurring after the reporting date that do **NOT** provide evidence of conditions that existed at the end of the reporting period.

Examiner's comment

- a. Analytical procedures: Candidates' understanding of this term is very poor.
- b. Uses of analytical procedures. Poor performance.
- c. Types of analytical procedures. Poor performance.

- d. Adjusting and non-adjusting event: Many candidates could not explain each of these terms and so could not differentiate between the two.

The performance was poor.

SOLUTION 6

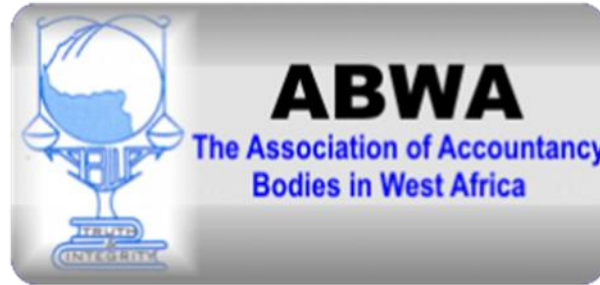
- a. Forms of audit working papers:
- i. Paper form of working paper.
 - ii. Automated working paper.
- b. Types of audit working paper files:
- i. Permanent audit file
The permanent audit file usually contains documents and matters of continuing importance which will be required for more than one audit. They contain all matters that are of continuous relevance to the audit work of the client. Information contained therein is usually historical in nature. It contains information relating to:
 - i. Legal and organizational structure of the client
 - ii. Memorandum and article of Association
 - iii. Copy of certificate incorporation
 - iv. Extracts of legal documents, agreements and minutes
 - v. Significant accounting policies
 - vi. Record of internal control systems of the company
 - ii. Current audit file
Current audit file contains all documents affecting the current year audit engagement of the client. It includes information such as:
 - i. Correspondence relating to acceptance of the audit engagement
 - ii. Audit programme
 - iii. Current year's management account
 - iv. Current year's draft financial statements
 - v. Details of audit tests carried out during the year
 - vi. Details of queries raised during the year
 - vii. Copies of current minute of board of directors' meetings
- c. (i) The auditors (ii) 6 years
- d. An audit programme are those schedules prepared by auditors setting out those procedures to be executed during the audit in order to obtain audit evidence from which the auditors draw conclusions on the financial statements.

Examiner's comment

- a. Forms of audit working papers. Many candidates mentioned types of working papers instead of forms of working paper.

- b. Types of audit working papers. Many candidates mentioned permanent and current audit working papers.
- c. Many candidates who attempted this question got the answer right in respect of ownership of audit working papers and number of years for the retention of these documents

Explanation of audit programme is required. Many candidates gave correct explanation.

THE ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA**ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
SEPTEMBER 2024 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.

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 - SEPTEMBER 2024**

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. A cost unit is
 - A. The cost per hour of operating a machine
 - B. The cost per unit of electricity consumed
 - C. A unit of product or service in relation to which costs are ascertained
 - D. All cost that can be determined in units
 - E. A responsibility that can accommodate all other cost unit

2. Which of the following is **NOT** a method of cost separation?
 - A. Account Analysis Method
 - B. Regression Method
 - C. Scattered Diagram Method
 - D. High-Low Method
 - E. Standard Cost Analysis Method

3. A major distinction between financial accounting and cost accounting based on the statutory and professional requirement of one over the other is known as
 - A. Professional Needs
 - B. Time Focus
 - C. Objectives
 - D. Audit Requirement
 - E. Legal Requirement

4. Adejoh is a production worker at Mensah Factory Limited and he is paid a salary of GH¢65,000 per month, plus an extra GH¢35 for each unit produced during the month. This type of cost can best be described as
 - A. Fixed Cost
 - B. Variable Cost
 - C. Mixed Cost
 - D. Step Cost
 - E. Direct Cost

5. A written request to initiate purchases of item of material(s) used for production in a firm is called
- Purchase Order
 - Purchase Requisition Note
 - Material Requisition Form
 - Invoice
 - Material Transfer Note
6. Which of the following methods of inventory control aims at concentrating on selected items of materials?
- Perpetual inventory control
 - Material turnover
 - Re-order level setting
 - ABC Analysis
 - Continuous inventory control
7. The stock level at which a purchase requisition is made out is known as
- Maximum stock level
 - Re-order level
 - Buffer stock level
 - Average stock level
 - Raw material stock
8. Which of the following is **NOT** a function of a store department in an organisation?
- To receive the materials from the goods receiving department and ensure that materials are as per goods received note
 - To keep the materials in good condition to avoid pilferage, wastages and deterioration
 - To provide adequate and proper storage for every item
 - To issue materials against proper store requisition
 - To ensure that production is properly planned and adequate controls are in place to ensure that quality goods are produced as and when due
9. Which of the following methods of wage payment is most suitable where quality and accuracy of work is of primary importance?
- Piece Rate System
 - Time Rate System
 - Differential Rate System
 - Halsey Premium Rate System
 - Weir Bonus Rate System

Use the information below to answer Questions 10 to 12

The following particulars apply to a factory where Walex, Xalex, Yalex and Zalex work.

Normal rate per hour ₦50

Standard output per hour 5

In order to produce 200 units, time taken was as follows (in hours) Walex 10, Xalex 20, Yalex 30 and Zalex 40.

10. Using Halsey-Weir Bonus scheme, Yalex's bonus earnings is
- A. ₦ 95
 - B. ₦ 130
 - C. ₦ 167
 - D. ₦ 200
 - E. ₦ 215
11. Using Halsey Premium Bonus scheme Walex's total earnings is
- A. ₦ 1,100
 - B. ₦ 1,130
 - C. ₦ 1,175
 - D. ₦ 1,250
 - E. ₦ 1,275
12. The standard hours allowed to individual worker is
- A. 35 hours
 - B. 38½ hours
 - C. 42 hours
 - D. 40 hours
 - E. 52 hours
13. Which of the following is **NOT** an advantage of using machine hour as the basis for production overhead absorption rate?
- A. It requires detailed records of machine for each job or operations
 - B. It takes account of time factor
 - C. It is suitable when a major portion of production is performed by machine
 - D. It facilitates the ascertainment of accurate and reliable costs
 - E. The under-absorption of overhead would indicate the idle capacity of machines
14. A situation where cost is shared over several cost centres based on some relevant yardstick is termed
- A. Overhead Allocation
 - B. Overhead Apportionment
 - C. Overhead Absorption
 - D. Overhead Analysis
 - E. Overhead Classification

15. The use of same costing principles and practices by several undertakings in the same industry is known as
- A. Uniform costing
 - B. Process Costing
 - C. Absorption Costing
 - D. Marginal Costing
 - E. Standard Costing
16. Which of the following is **NOT** an acceptable treatment of overhead in job costing?
- A. Overheads are collected and classified under suitable standing order numbers
 - B. Usually pre-determined overheads rates are worked out for each cost centre
 - C. It is credited with the cost of completed jobs
 - D. Overhead absorption analysis sheet is prepared to ascertain the amount of overheads recoverable from each job
 - E. The amount of overheads chargeable to each job is debited to individual job cost card in the work-in-progress and is credited to overheads control account
17. A system in which the cost accounts are distinct from financial accounts, the two sets of accounts being kept continuously in agreement using control accounts or made readily reconcilable by other means is known as
- A. Interlocking system
 - B. Interwoven system
 - C. Impersonal system
 - D. Integrated system
 - E. Financial/Costing system
18. Overhead will always be under-absorbed when
- A. Actual cost exceeds planned cost
 - B. Planned cost exceeds actual cost
 - C. Actual cost is the same as planned cost
 - D. Actual cost is more than the variance achieved
 - E. Budgeted cost is less than the standard cost
19. Which of the following is **NOT** among the practical difficulties when introducing uniform costing?
- A. Difference in size of the firm and the organisation structure
 - B. Difference in range of products
 - C. Difference in the level of productivity and efficiency
 - D. Difference in plant layout within the factory
 - E. Difference in costing methods and principles

20. Example of industry where job costing is applicable is
- Ship building industry
 - Furniture making industry
 - Ready-to-wear garment making industry
 - Oil refining industry
 - Paper milling industry
21. Cost-plus contract is usually entered into in those cases where
- Cost can be easily estimated
 - It is not possible to compute the cost in advance with a reasonable degree of accuracy
 - Contractor wants to earn a higher amount of profit
 - The amount of profit is transferred to statement of profit or loss
 - The treatment of the loss in account is automatic

Use the following information to answer Questions 22 and 23.

KKM Limited has the following stock records:

Date	Particular	Number	Unit Cost
1/4/2022	Opening Stock	1,000 units	₹4.00
5/4/2022	Receipt	600 units	₹4.50
10/4/2022	Receipt	1,800 units	₹4.20
15/4/2022	Issue	2,500 units	

Using Last-In-First-Out Pricing Method

22. What is the value of inventory as at 10/4/2022?
- ₹11,505
 - ₹12,552
 - ₹14,260
 - ₹16,500
 - ₹17,050
23. What is the valuation of 2,500 units issued to production?
- ₹10,660
 - ₹11,505
 - ₹12,552
 - ₹14,260
 - ₹17,050
24. Production budget figures are triggered by
- Sales budget
 - Flexible budget
 - Material budget
 - Labour cost budget
 - Functional budget

25. Which of the following should **NOT** be a reason for incurring capital expenditure?
- A. To replace an aging non-current asset
 - B. To meet up some legal requirement in some industry
 - C. To resort to some cost saving strategy
 - D. To embark of some business expansion strategy
 - E. To fulfil some emotional aspiration of the business owner
26. The type of budget that projects the liquidity position of an enterprise over a time period is known as
- A. Production Budget
 - B. Sales Budget
 - C. Purchase Budget
 - D. Cash Budget
 - E. Balance Sheet Budget
27. Koko Limited has labour as its principal budget factor, what does this mean?
- A. The labour hours budget is too high
 - B. Labour will determine cash available
 - C. Labour and sales are competing
 - D. Labour is the largest item in the budget
 - E. Labour is in short supply
28. Standard costing involves
- A. Fixation of estimated cost
 - B. Pre-determination of unit production cost
 - C. Setting of budgeted cost
 - D. Differential cost
 - E. Predetermination of angle of incidence
29. Ogaju Nigeria Limited purchased 6,850 kgs of material at a total cost of L\$219,200. The material price variance was L\$13,700 favourable. The Standard Price per kg is
- A. L\$30.00
 - B. L\$32.00
 - C. L\$32.50
 - D. L\$34.00
 - E. L\$34.50
30. A set of concepts and tools for getting all employees focused on continuous improvement in the eyes of the customer is called
- A. Automated Production Technology
 - B. Teaming and Bonding
 - C. Just-in-Time Technology
 - D. Planned Based Budgeting System
 - E. Total Quality Management

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. For a certain work order, the standard time is 20 hours and wages is Le50 per hour. A worker completed the work in 13 hours. The total wages of the worker under Rowan Bonus System is
2. The allotment of whole items of cost to cost centre is called.....
3. Administration overheads are generally absorbed as a percentage of.....
4. A system of costing used in the business where a standard product is turned out and it is desired to find out the cost of a basic unit of production is known as
5. When a contract is more than 50% completed, the formula of profit to be transferred to statement of profit or loss is.....

Use the following information to answer Questions 6 and 7.

The total cost and production levels for two periods are given as follows:

	2022	2023
Total Cost	Le60,000	Le90,000
Production Units	8,000	18,000

6. Using high and low method of cost separation, the cost function for the period is
7. The total costs of producing 20,000 units in period 2023 is
8. A tangible property held for sale in the ordinary course of business or in the process of production or for consumption is generally called.....
9. The costs which one part remains fixed up to a given range and the other part varies with the change in the volume of production are referred to as.....
10. The cost which involves cash outlay and that can be avoided or saved and is usually considered for decision relating to fixation of selling price during depression, make or buy is known as.....
11. All material, labour and expenses which cannot be readily identified with a particular product, job or process are termed
12. The measurement in monetary terms of the resources used for the purpose of production of goods or rendering services is known as.....

13. The cost which has been incurred but is neither reversible nor relevant for decision making purposes is referred to as.....
14. A unit of product, service or time in terms of which costs are ascertained or expressed is known as.....
15. The cost of sequence of operations which begins with supplying materials, labour and services and ends with the primary packaging of the product is called.....
16. Costs which are not charged to production or services but are written off as expenses against the revenue of the period in which these costs are incurred is known as
17. Costs which are fixed to certain level of production and after such level of activity has been exceeded the amount increases by a fixed lump sum and remain fixed to another level where it will increase again is called
18. The type of cost which remain fixed per unit and varies in direct proportion to the volume of production is called.....
19. The pre-determined cost based on technical estimates for materials, labour and overheads for a selected period for a prescribed set of working conditions is referred to a.....
20. An important tool of modern management applicable in the area of cost reduction in which the process of systematic analysis and evaluation of various techniques and functions with a view of improving organisation's performance is known as.....

SECTION B: ATTEMPT ANY FOUR QUESTIONS
QUESTION 1

(50 MARKS)

A budget can be defined as the statement that shows the estimated income and estimated expenditure of an enterprise (individuals, family household, corporate and non-corporate organisation and government) over a period of time for the purpose of a given objective which awaits approval.

Required:

- a. Define Budgetary Control (2½ Marks)
 - b. Discuss **FIVE** areas of importance of Budgetary Control (5 Marks)
 - c. Outline budgetary procedure in an organisation (5 Marks)
- (Total 12½ Marks)**

QUESTION 2

Seselewa Nigeria Limited operates a chemical rolling industry which produces four products namely – PANOX, QANOX, RANOX and SANOX from a basic raw material. The company’s budget for a month is as stated below:

Details	₦
Raw Materials Consumption	175,200
Initial Processing Wages	162,400
Initial Processing Overheads	162,400

Output, selling prices and additional processing costs are as follows:

Products	Production (Kgs)	Sales (₦)	Additional Processing Cost after Split-Off (₦)
PANOX	16,000	1,088,000	288,000
QANOX	200	56,000	-
RANOX	2,000	300,000	160,000
SANOX	360	216,000	66,000

The company presently intends to sell Product QANOX at the point of split-off without further processing. The remaining three products are to be further processed and sold. However, the management has been advised that it would be possible to sell all the four products at the split-off point without further processing and if this course was adopted, the selling price would be as follows:

Products	Selling Price per Kg
PANOX	₦40.00
QANOX	₦280.00
RANOX	₦80.00
SANOX	₦400.00

The joint costs are to be apportioned using the sales value realisation at the point of split-off.

You are required to:

- a. Prepare a statement showing the apportionment of joint costs. (5 Marks)
- b. Prepare a statement showing total budgeted profit/loss for each product based on the proposal to sell product QANOX at the split-off point and products PANOX, RANOX and SANOX after further processing. (7½ Marks)

(Total 12½ Marks)

QUESTION 3

The Production Department of KASMAN Limited budgeted level of activity is 5,000 hours at full capacity. During a period, a technical study assumes overheads behaviour below:

Particulars	Amount
Indirect Wages (Variable)	GH¢40 per hour
Consumables (Variable)	GH¢24 per unit
Power (Variable)	
- Up to 3,600 hours	GH¢25 per hour
- Beyond 3,600 hours additional cost	GH¢20 per hour
	GH¢
Rent and Taxes (Fixed)	320,000
Repairs:	
- Up to 2,000 hours	100,000
- Additional-each extra 500 hours up to 4,000 hours	35,000
- Additional-from 4,001 to 5,000 hours	60,000
- Additional-above 5,000 hours	70,000
Supervision:	
- Up to 2,500 Hours	400,000
- Additional each extra 600 hours up to 4,900 hours	100,000
- Additional above 5,000 hours	150,000
Depreciation:	
- Up to 5,000 Hours	650,000
- Above 5,000 hours	820,000
Clearing:	
- Up to 4,000 Hours	60,000
- Above 4,000 Hours	80,000
Lighting:	
- 2,100 to 3,500 Hours	120,000
- 3,501 to 5,000 Hours	150,000
- Above 5,000 Hours	175,000

Required:

- a. Prepare a flexible budget at 70% and 100% of budgeted levels of activity
(11 Marks)
- b. Calculate the department hourly rate of overhead absorption based on 70% and 100% Levels of activity
(1½ Marks)
- (Total 12½ Marks)**

QUESTION 4

Truomahye Global Motors Limited has an annual production of 9,000 units for a motor component. The component's cost structure is given below:

	Unit Cost (Le)
Materials	2,700
Labour (25% Fixed)	1,800
Expenses: Variable	900
Fixed	<u>1,350</u>
	<u>6,750</u>

Required:

- a. The purchase manager has an offer from a supplier who is willing to supply the component at Le5,400. Should the component be purchased, and its production stopped?
(7 Marks)
- b. Assume the resources now used for this components manufacturing are to be used to produce another new product for which the selling price is Le4,850. In this case, material price will be Le2,000. 9,000 units of this product can be produced, at the same cost basis as above for labour and expenses.

Discuss whether it would be advisable to divert the resources to manufacture that new product, on the assumption that the component presently being produced would, instead of being produced, be purchased from the market.

(5½ Marks)

(Total 12½ Marks)

QUESTION 5

Mio-Nio Limited makes and sells a single product. The company's trading results for the period ended 2022 are as follows:

	L\$000	L\$000
Sales		54,000
Direct Materials	16,200	
Direct Labour	10,800	
Overheads	16,200	<u>(43,200)</u>
Profits		<u>10,800</u>

For the year 2023, the following are expected:

- (i) Reduction in the selling price by 10%
- (ii) Increase in the quantity sold by 50%
- (iii) Reduction of fixed overheads by 25%
- (iv) Increase in variable overhead by 50%

It is also known that:

- (a) Variable overhead is $33\frac{1}{3}\%$ of total overhead expenditure.
- (b) Production and sales volumes have been 25% higher in 2022 than 2021.

You are required to:

- a. Prepare a statement showing the expected operating profit for 2023. (7½ Marks)
 - b. Calculate the breakeven point for 2022 and 2023. (5 Marks)
- (Total 12½ Marks)**

QUESTION 6

Kasolayo Limited trades in sporting jersey for Sokopa FC. The following information relate to the inventory movement for the month ended 31st July 2022.

Date	Detail	Unit Price (Le)	Quantity (units)
July 1	Opening balance	200	3,000
July 2	Purchased	220	2,000
July 4	Issued	250	1,500
July 6	Purchased	230	2,000
July 11	Issued	260	1,500
July 19	Issued	260	2,000
July 22	Purchased	240	2,000
July 27	Issued	270	1,500

You are required to:

- a. Determine the value of the closing inventory as at the end of July 2022 using First-In-First-Out method. (8 Marks)
 - b. Determine the gross profit based on the closing inventory valuation method used above. (4½ Marks)
- (Total 12½ Marks)**

SUGGESTED SOLUTIONS

SECTION A: PART I

MULTIPLE- CHOICE SOLUTIONS

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

Examiner's comment

This comprises 30 questions drawn from different topics across the syllabus and attempted by all candidates.

Performance was slightly above average. Those that performed poorly obviously did not cover the whole syllabus during their preparations for the examinations.

Candidates are advised to study every part of the syllabus in their future preparations.

WORKINGS
MCQ 11 – 12

Calculation of for individual workers standard hours and time saved

	Walex	Xalex	Yalex	Zalex
Units produced (a)	200	200	200	200
Standard outputs per hour (units) (b)	5	5	5	5
11. Time Allowed (c = a ÷ b) (hours)	40	40	40	40
Time Taken (d) (hours)	10	20	30	40
Time Saved (e = c – d) (hours)	30	20	10	0

Time Allowed (c = a ÷ b) (hours) = 40 HOURS

10. Bonus Earnings of Yalex using Halsey-Weir = $\frac{1}{3} \times TS \times HR$
 $= \frac{1}{3} \times 10 \text{ hours} \times \text{₹}50$
 $= \text{₹} 167$

11. Bonus Earnings of Walex using Halsey = $\frac{1}{2} \times TS \times HR + (TT \times HR)$
 $= \frac{1}{2} \times 30 \text{ hours} \times \text{₹}50 + (10 \times 50)$
 $= \text{₹} 1,250$

12. Standard Hour = Total number of units ÷ Standard output per hour
 $= \frac{200}{5}$
 $= 40$

MCQ 22 – 23

INVENTORY VALUATION USING LAST-IN-FIRST-OUT METHOD

DATE	RECEIPTS		ISSUES			BALANCE	
	₹	₹	₹	₹	₹	₹	
1/4/22					1,000	4:00	4,000
5/4/22	600	4:50	2,700		1,600		6,700
10/4/22	1,800	4:20	7,560		<u>3,400</u>		<u>14,260</u>
15/4/22			1,800	4:20	7,560		
			600	4:50	2,700		
			100	4:00	400		
			<u>2,500</u>		<u>10,660</u>	900	3,600

22. What is the value of inventory as at 10/4/2022 = 14,260

23. What is the valuation of 2,500 units issued to production = 10,660

29. Material Price Variance = Actual Quantity (Standard Price – Actual Price)

MPV = AQ (SP – AP)

13,700 = 6,850 (SP – {219,200 ÷ 6,850})

13,700 = 6,850 (SP – 32)

13,700 = 6,850SP – 219,200

SP = 232,900 ÷ 6,850

SP = ₹34.00

SECTION A: PART II

SHORT – ANSWER SOLUTIONS

1. ₦877.50
2. Allocation
3. Prime Costs
4. Unit/Single/Output Costing
5. $\frac{2}{3} \times \text{Notional Profit} \times (\text{Cash Received} \div \text{Value of Work Certified})$
6. Production Cost function = ₦36,000 + ₦3:00x
7. ₦96,000
8. Inventory
9. Mixed Costs/Semi Fixed Costs/Semi Variable Costs
10. Irrelevant Cost
11. Overheads/Indirect Cost
12. Cost
13. Sunk cost
14. Cost unit
15. Production/Manufacturing Cost
16. Period Cost/Fixed Cost
17. Step Cost
18. Variable cost per unit
19. Standard Cost
20. Value Analysis

WORKINGS

1. CALCULATION OF TOTAL WAGES

Time Allowed – 20 hours

Time Taken - 13 hours

Time Saved - 7 hours

Hourly Rate – ₦50

Rowan Premium Plan = $\frac{\pi}{TA} \times \text{Time Saved} \times \text{Hourly Rate}$

Basic Wage = 15 hours \times ₦50 = ₦650.00

Bonus Wage = $\frac{\pi}{TA} \times 7 \times$ ₦50 = ₦227.50

Total Wages = ₦877.50

6. Separation of Production Costs

Units	Cost
High 18,000	90,000
Low (8,000).	<u>(60,000)</u>
<u>10,000</u>	<u>30,000</u>
Variable cost/unit =	<u>₦30,000</u>
	10,000

Variable cost/unit = N3:00 per unit

$$Y = a + bx$$

@ high point

$$90,000 = a + 3(18,000)$$

$$a = 90,000 - 54,000$$

$$24,000$$

$$a = \underline{N36,000}$$

@ low point

$$60,000 = a + 3(8,000)$$

$$a = 60,000 -$$

$$a = \underline{N36,000}$$

$$\underline{\text{Production Cost function} = N36,000 + N3:00x}$$

7. Production Cost function = $N36,000 + N3:00x$
= $N36,000 + N3:00 (20,000)$
= $N36,000 + N60,000$
= N96,000

Examiners' comment

This subsection picked 20 questions from various sections of the syllabus and was attempted by all candidates.

Performance was below average due to the fact that answer options are not given. Just as with the multiple-choice questions, many candidates did not cover the whole syllabus during their preparations.

Candidates should recognise that questions can be picked from every part of the syllabus and prepare accordingly.

SECTION B

SOLUTION 1

a. Definition of Budgetary Control

This is the use of budget to exercise control. Budgetary control is the establishment of budgets relating to the responsibility of the executive to the requirement of a policy and the continuous comparison of actual with budgeted results either to secure by individual action the objective of that policy or to provide a basis for its revision.

OR

Budgetary control is the systematic process adopted by organizations to manage monitor and regulate financial activities to achieve their planned objectives.

b. Importance of Budgetary Control

- i. To plan and control income and expenditure in order to achieve maximum profitability.
- ii. To ensure that sufficient working capital is available for the efficient operation of the company.
- iii. To direct capital expenditure in the most profitable direction.
- iv. To centralize control over operation
- v. To decentralize responsibility (delegation)
- vi. To provide a yardstick against which actual result may be compared.
- vii. To show management when action is needed to remedy a situation
- viii. To aid management in decision making when unforeseen conditions affect the budget
- ix. To co-ordinate all the activities of a business
- x. To combine the ideas of all level of management during budget preparation.
- xi. To ensure efficient and effective allocation of resources.
- xii. To ensure the achievement of planned financial goals and objectives.
- xiii. To minimize wastages of resources
- xiv. To promote accountability and transparency
- xv. To optimize wastages of resources

c. Budgetary Procedure in an Organisation

The main steps in preparing a budget are:

- i. Determine the enterprise policy or prepare a statement of the basic assumptions on which the budget is to be formulated e.g. company's objectives for profit, growth and financial position for the budget period.
- ii. Prepare a forecast of the general economic conditions and for the industry and for the firm (the basic assumptions) and the forecast should flow from the company's long and medium-term plans of course with necessary adjustments.

- iii. Prepare the sales budget (or whatever is the key budget factor).
- iv. Prepare other functional budgets in a logical order following the key budget factor.
- v. Prepare the master budget from the functional budgets
- vi. Obtain board approval.
- vii. Budget communication to stakeholders

Examiners' comment

This question which was on the theoretical aspect of budgetary control was attempted by about 70% of the candidates.

Performance was just average as about 50% of those who attempted it scored 50% and above of the marks allocated to the question.

The major pitfall was the inability of candidates to give detailed explanations where required.

Candidates should understand the difference between LIST, STATE, DISCUSS; AND EXPLAIN.

SOLUTION 2

Calculation of Total Joint Costs

Details	₦
Raw Materials Consumption	175,200
Initial Processing Wages	162,400
Initial Processing Overheads	<u>162,400</u>
Total Joint Costs	<u>500,000</u>

a. Statement showing the apportionment of joint costs

Products	Production (Kgs.)	Selling Price per Kg.	Sales Value (₦)	Workings	Apportioned Joint Cost (₦)
PANOX	16,000	₦ 40	640,000	[640 ÷ 1,000] x 500,000	320,000
QANOX	200	₦ 280	56,000	[56 ÷ 1,000] x 500,000	28,000
RANOX	2,000	₦ 80	160,000	[160 ÷ 1,000] x 500,000	80,000
SANOX	360	₦ 400	<u>144,000</u>	[144 ÷ 1,000] x 500,000	<u>72,000</u>
			<u>1,000,000</u>		<u>500,000</u>

b. Statement Showing Total Budgeted Profit/Loss For Each Product

Products	Apportioned Joint Cost (₦)	Additional Processing Cost after Split-Off (₦)	Total Cost (₦)	Sales Value (₦)	Budgeted Profit (₦)
PANOX	320,000	288,000	608,000	1,088,000	480,000
QANOX	28,000	-	28,000	56,000	28,000
RANOX	80,000	160,000	240,000	300,000	60,000
SANOX	<u>72,000</u>	<u>66,000</u>	<u>138,000</u>	<u>216,000</u>	<u>78,000</u>
	<u>500,000</u>	<u>514,000</u>	<u>1,014,000</u>	<u>1,000,000</u>	<u>646,000</u>

Examiners' comment

This question tests candidates' understanding of process costing with particular emphasis on joint costs. Only about 55% of candidates attempted the question and performance was equally below average.

Most candidates obviously prepared for the core bookkeeping aspects of process costing but did not expect the less popular part of joint costing.

Candidates are advised to study all parts of every topic in detail when preparing for future examinations.

SOLUTION 3

KASMAN Limited

a. Preparation of Flexible Budget

Level of Activity	70%	100%
Budgeted Hours	3,500	5,000
	₦	₦
Indirect Wages @ ₦40/Hour	140,000	200,000
Consumables Supplies @ ₦24/Unit	84,000	120,000
Power	87,500	118,000
Rent and Taxes	320,000	320,000
Repairs	205,000	300,000
Supervision	600,000	950,000
Depreciation	650,000	650,000
Clearing	60,000	80,000
Lighting	<u>120,000</u>	<u>150,000</u>
Total Cost	<u>2,266,500</u>	<u>2,888,000</u>

Workings

1. Budgeted hours @ 70% = 5,000 hours X 70% = 3,500 Hours

Capacity	<u>70%</u>	<u>100%</u>
Budgeted Hours	<u>3,500</u>	<u>5,000</u>
2. Power	3,500 hrs @ ₦25 = 87,500	1 st 3,600 hrs @ ₦25 = 90,000 Next 1,400 hrs @ ₦20 = <u>28,000</u> <u>118,000</u>
3. Repairs:		
- First 2,000 @ ₦100,000	100,000	100,000
- Next 500 hours @ ₦35,000 each	35,000 x 3 times = <u>105,000</u> <u>205,000</u>	35,000 x 4 times = 140,000 Additional 1,000 hrs = <u>60,000</u> <u>300,000</u>
4. Supervision:		
- First 2,500 @ ₦400,000	400,000	400,000
- Next 600 hours @ ₦100,000 each	100,000 x 2 times = <u>200,000</u> <u>600,000</u>	100,000 x 4 times = 400,000 Additional 100 hrs = <u>150,000</u> <u>950,000</u>

b. Computation of Hourly Rate of Overhead Absorption

	<u>70%</u>	<u>100%</u>
Total Cost	GHc2,266,000	GHc2,888,000
Budgeted Hours	3,500	5,000
Overhead Absorption	GHc647:57	GHc576:00

Examiners' comment

This question tests candidates' understanding of flexible budgeting. It was attempted by more than 80% of candidates and performance was above average generally.

Several candidates failed to give the correct interpretation to the details of the question. English grammar was the major challenge for a lot of candidates.

Candidates are advised to touch up their communication skills as it has an impact on their performance in numerate subjects.

SOLUTION 4

Truomahye Global Motors Limited

a. Calculation of Relevant Cost for Make or Buy Decision

	Unit Cost		9,000 units
	₦		₦
Direct Materials	2,700.00		24,300,000.00
Direct Labour - Variable (75% x 1,800)	1,350.00		12,150,000.00
Variable Expenses	<u>900.00</u>		<u>8,100,000.00</u>
	4,950.00	OR	44,550,000.00
Supplier's Quotation/Price	<u>(5,400.00)</u>		<u>48,600,000.00</u>
Contribution	<u>450.00</u>		<u>4,050,000.00</u>

Decision – the company should not buy the component

OR - The Company should continue to produce the component

b. Statement of Cost on Production of Another Product

	Unit Cost ₦		9,000 units ₦
Selling Price of Product	4,850.00		43,650,000.00
Direct Materials	(2,000.00)		(18,000,000.00)
Direct Labour - Variable (75% x 1,800)	(1,350.00)		(12,150,000.00)
Variable Expenses	<u>(900.00)</u>	OR	<u>(8,100,000.00)</u>
Contribution	600.00		5,400,000.00
Opportunity Cost	(450.00)		(4,050,000.00)
New Savings	<u>150.00</u>		<u>1,350,000.00</u>

Decision – if another product is produced, there will be a saving of ₦150 per unit. It is advisable that the company should manufacture the new product and the old product may be purchased from the market.

Examiners' comment

This question tests candidates' understanding of marginal costing techniques with emphasis on decision making, this time choosing between manufacturing of components or outsourcing their production.

The question was attempted by about 90% of candidates and performance was good as more than 65% of candidates scored 50% and above of the marks allocated.

A few candidates used fixed costs which are not relevant for decisions of this nature, thereby losing valuable marks.

Candidates should try and understand which costs are relevant or irrelevant for short term decision making.

SOLUTION 5

a. Statement showing the expected operating profit for 2023

Particulars	2022 ₦'000	2023 ₦'000
Sales	54,000	72,900
Less Variable Overheads:		
Direct Materials	(16,200)	(24,300)
Direct Labour	(10,800)	(16,200)
Variable Overheads	<u>(5,400)</u>	<u>(8,100)</u>
Contribution	21,600	24,300
Less Fixed Overheads	<u>(10,800)</u>	<u>8,100</u>
Net Profit	<u>10,800</u>	<u>16,200</u>

Workings

1. 2023, Sales Value = ₦54,000 units x 0.90 x 150% = ₦72,900,000
2. Direct Materials = ₦16,200,000 x 150% = ₦24,300,000
3. Direct Labour = ₦10,800,000 x 150% = ₦16,200,000
4. Overheads = Variable = $33\frac{1}{3}\% \times ₦16,200,000 = ₦5,400,000$
Fixed = ₦16,200,000 – ₦5,400,000 = ₦10,800,000
5. 2023, Variable Overheads = ₦5,400,000 x 150% = ₦8,100,000
6. 2023, Fixed Overheads = ₦10,800,000 x 75% = ₦8,100,000

b. Calculation of breakeven point for 2022 and 2023

Contribution Margin Ratio (CMR) = (Contribution ÷ Sales) x 100

$$\begin{aligned} 2022 &= (21,600,000, \div 54,000,000) \times 100 \\ &= \underline{0.4 \text{ or } 40\%} \end{aligned}$$

$$\begin{aligned} 2023 &= (24,300,000, \div 72,900,000) \times 100 \\ &= \underline{0.33 \text{ or } 33\%} \end{aligned}$$

Breakeven Point Sales = (Fixed Cost ÷ CMR)

$$\begin{aligned} 2022 &= (₦10,800,000 \div 0.4) \\ &= \underline{₦27,000,000} \end{aligned}$$

$$\begin{aligned} 2023 &= (₦8,100,000 \div 0.33) \\ &= \underline{₦24,300,000} \end{aligned}$$

Examiner's comment

This question tests candidates' understanding of profit determination using projections from the operations and marketing functions.

The question was attempted by over 90% of the candidates and performance was good as about 70% of them scored 50% and above of the marks allocated.

However, grammatical interpretation of the question details remained a challenge to some candidates.

Candidates should in the future devote time and efforts to understand details of the questions before starting to answer them.

SOLUTION 6

KASOLAYO LIMITED

CALCULATION OF CLOSING INVENTORY

a. USING FIRST-IN FIRST-OUT (FIFO) METHOD

Date	Details	RECEIPT			ISSUES			BALANCE		
		Qty	Le UP	Le Amount	Qty	Le UP	Le Amount	Qty	Le UP	Le Amount
1/7/22	Bal b/f							3,000	200	600,000
2/7/22	Purchases	2,000	220	440,000				5,000		1,040,000
4/7/22	Issued				1,500	200	300,000	3,500		740,000
6/7/22	Purchases	2,000	230	460,000				5,500		1,200,000
11/7/22	Issued				1,500	200	300,000	4,000		900,000
19/7/22	Issued				2,000	220	440,000	2,000		460,000
22/7/22	Purchases	2,000	240	480,000				4,000		940,000
27/7/22	Issued				1,500	230	345,000	2,500		595,000

CALCULATION OF GROSS PROFIT

Sales	NOTE (1)	Le	Le
			1,690,000
Less: Cost of Goods Sold:			
Opening Inventory (3,000 units @ Le200)		600,000	
Add Purchases	(2)	<u>1,380,000</u>	
		1,980,000	
Less Closing Inventory		<u>(595,000)</u>	
Cost of goods sold		<u>(1,385,000)</u>	
GROSS PROFIT			<u>305,000</u>

WORKINGS

1. Total Sales	Le
4/7/17 Issues	1,500 units @ Le250 = 375,000
11/7/17 Issues	1,500 units @ Le260 = 390,000
19/7/17 Issues	2,000 units @ Le260 = 520,000
27/7/17 Issues	1,500 units @ Le270 = <u>405,000</u>
	<u>1,690,000</u>

2. Total Purchases	Le
2/7/17 Purchases	2,000 units @ Le22 = 440,000
6/7/17 Purchases	2,000 units @ Le23 = 460,000
22/7/17 Purchases	2,000 units @ Le24 = <u>480,000</u>
	<u>1,380,000</u>

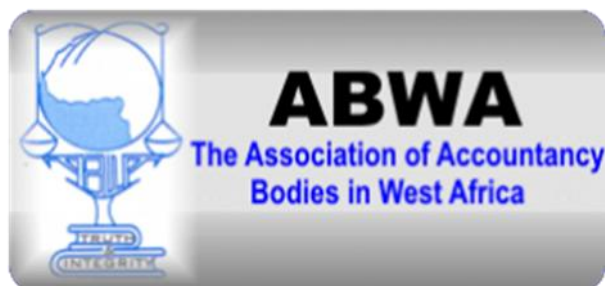
Examiners' comment

This question tests candidates' understanding of inventory control with emphasis on valuation of stores issues and closing inventory.

About 80% of candidates attempted this question and performance was good as about 70% of them scored 50% and above of marks allocated to the question.

A few candidates used average price or last in first out methods instead of First In First Out, thereby losing valuable marks.

Candidates should in the future stick to the exact requirements of question to avoid loss of marks.

THE ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA**ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
SEPTEMBER 2024 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, SEPTEMBER 25, 2024**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 - SEPTEMBER 2024

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. The principle of a good tax system that is capable of adjusting to changing circumstances is called
 - A. Equity
 - B. Convenience
 - C. Flexibility
 - D. Efficiency
 - E. Neutrality

2. Which of the following is **NOT** a source of tax laws in Nigeria?
 - A. Customary laws
 - B. Constitution
 - C. Circular issued and practices of the Revenue
 - D. Opinion of scholars
 - E. Court judgements until overruled

3. The effect of a tax on the production or consumption of the product being taxed is called
 - A. Tax effect
 - B. Tax impact
 - C. Tax incidence
 - D. Tax burden
 - E. Tax liability

4. Which of the following is **NOT** a possible solution to multiplicity of taxes in Nigeria?
 - A. Reviewing and harmonising all the existing taxes in Nigeria
 - B. Reviewing the Constitution to address overlap
 - C. Limiting the number of revenue agencies
 - D. Outsourcing revenue collection to professionals
 - E. Implementing technology for tax collection

5. Which of the following is **NOT** an objective of the National Tax Policy?
 - A. Guide the operation and review of the tax system
 - B. Provide the basis for future tax legislation
 - C. Provide a guideline for self-assessment
 - D. Provide clarity on the roles and responsibilities of stakeholders in the tax system
 - E. Provide benchmark on which stakeholders shall be held accountable

6. The Chairman of the Local Government Revenue Committee is
 - A. The Chairman of the local government
 - B. The Chairman of the local council of Obas
 - C. A person experienced in tax laws and administration
 - D. The Supervisor for Finance
 - E. As elected by the committee

7. The due date for filing of tax returns in the case of an existing company is
 - A. Six months after the end of the company's accounting year
 - B. Three months after December 31
 - C. Upon service of the notice to pay
 - D. Within eighteen months from the date of incorporation
 - E. As decided by the relevant tax authority

8. The Federal Inland Revenue Service will resort to assessment on turnover where
 - A. Turnover will result into higher tax revenue for the government
 - B. The true amount of the assessable profit cannot be ascertained
 - C. Liquidation of the company is imminent
 - D. The taxpayer wants to escape to another country
 - E. The assessable profit is small

9. Small and medium-sized companies engaged in primary agricultural production shall be granted pioneer status for a maximum of years
 - A. Four
 - B. Six
 - C. Five
 - D. Two
 - E. Three

10. Based on the provisions of the Finance Act 2019, compensation for loss of office less thanis exempted from capital gains tax.
 - A. ₦10,000,000
 - B. ₦20,000,000
 - C. ₦80,000,000
 - D. ₦100,000,000
 - E. ₦200,000,000

11. Any defaulting taxpayer who fails to take advantage of the voluntary offshore assets regularisation scheme (VOARS), will be liable to the following, **EXCEPT**
- A. The tax due
 - B. Maximum of three years jail term
 - C. The interest
 - D. Investigation charges
 - E. Enforcement procedures in respect of offshore assets
12. Which of the following services rendered by financial institutions is **NOT** liable to value added tax?
- A. Commissions charged on forex trading or remittance
 - B. Debt conversion fees
 - C. Interest on loans and advances
 - D. Fees chargeable on stock- brokerage and trust services
 - E. Commission on asset trading
13. According to Section 2A of VAT Act, 2004 (as amended), in the case of supply of goods which are to be removed, where the supplier and recipient are connected persons and invoices are not raised, a taxable supply shall be deemed to take place
- A. At the time of removal of goods
 - B. At the time of delivery of goods
 - C. Upon notice of sale thereon
 - D. As decided by the tax authority
 - E. At the supplier's discretion
14. Which of the following is **NOT** exempted from value added tax?
- A. Baby products
 - B. Training and education organised by private educational institutions
 - C. Tuition relating to nursery, primary, secondary and tertiary education
 - D. Commercial and residential rent
 - E. Vegetable oil
15. Under the Value Added Tax Act in Nigeria, which of the following is **NOT** true?
- A. Services mean anything, other than goods and services provided under a contract of employment
 - B. A service will be regarded as exported service when the service is provided by a Nigerian resident to a non-resident
 - C. Goods mean all forms of tangible properties, movable or immovable, including land and building, money and securities
 - D. Value added tax shall be administered by the Federal Inland Revenue Service Board
 - E. A non-resident person that makes a taxable supply to Nigeria may appoint a representative for the purpose of compliance with tax obligations

16. Which of the following is **NOT** true with respect to the Stamp Duties Act Cap S8, LFN 2004 (as amended)?
- A. Both the Federal Inland Revenue Service (FIRS) and the relevant tax authority in a state administer stamp duties
 - B. POS and ATM receipts are liable to stamp duties
 - C. Transactions relating to savings account holders, salary accounts or students savings accounts are exempted from stamp duties
 - D. Agreements between the Federal government and foreign government are exempted from stamp duties
 - E. Instruments of apprenticeship are exempted from stamp duties
17. Which of the following is **NOT** a merit of withholding tax scheme?
- A. It is a source of revenue to the government
 - B. It helps in widening the tax net
 - C. It helps in determining a person's turnover and thus ascertaining the correct income for tax purposes
 - D. It is fixed in nature
 - E. It reduces incidence of tax evasion
18. The withholding tax rate for rents is
- A. 5% or 10%
 - B. 10%
 - C. 2.5% or 5%
 - D. 5%
 - E. As determined by the relevant tax authority
19. The Nigerian Customs Service Board comprises the following, **EXCEPT**
- A. The Minister of Finance who shall be the Chairman
 - B. The Governor of Central Bank of Nigeria or his representative
 - C. All the Deputy Comptrollers-General
 - D. One person to be appointed from the Federal Ministry of Transport
 - E. The Chairman of the Federal Inland Revenue Service
20. New Age Nigeria Limited was incorporated in December 2018 and commenced business on October 1, 2020. The first set of financial statements prepared by the company covered a period of 3months, that is, October 1, 2020 to December 31, 2020. Its first year of assessment is
- A. 2022
 - B. 2021
 - C. 2019
 - D. 2018
 - E. 2020

21. Which of the following is **NOT** an unearned income?
- A. Rental income
 - B. Interest
 - C. Royalties
 - D. Gratuity
 - E. Dividend
22. In the absence of a partnership agreement or deed, interest or loan advanced by the partner to the firm is allowed at the rate of
- A. 2%
 - B. 5%
 - C. 7%
 - D. 6%
 - E. 10%
23. An employer shall record, either on the tax deduction card or in such other form as may be authorised by the relevant tax authority, the following particulars regarding emoluments of his employees, **EXCEPT**
- A. The month of payment
 - B. The cumulative contribution by the employee to National housing fund
 - C. The cumulative net emoluments in relation to the said date
 - D. The corresponding cumulative tax
 - E. The amount of emoluments
24. The consolidated relief allowance is granted at
- A. Higher of ₦100,000 or 1% of gross income plus 20% of gross income
 - B. Higher of ₦200,000 or 1% of gross income
 - C. Higher of ₦200,000 or 1% of gross income plus 20% of gross income
 - D. Higher of ₦200,000 or 10% of gross income
 - E. 20% of gross income
25. Which of the following is **NOT** an allowable rental expense?
- A. Tenement rates
 - B. Land use charge
 - C. Bad debt incurred
 - D. Cost of advertising for tenants
 - E. Depreciation of the building
26. Franked investment income means an income that has suffered
- A. Value added tax
 - B. Stamp duties
 - C. Withholding tax
 - D. Excise duty
 - E. Import duty

27. Income taxable in the hands of a partner does **NOT** include
- A. Cost of passage to and from Nigeria during leave or vacation
 - B. Partner's salary
 - C. Interest received on loan
 - D. Partner's share of profit
 - E. Gratuity paid to partners
28. The relevant tax authority in relation to partnership for a year of assessment is the
- A. Tax authority of the place of residence of the partners as at the first date of that year
 - B. Federal Inland Revenue Service
 - C. State Internal Revenue Service
 - D. Tax authority as decided by the joint tax board on the first date of that year
 - E. Tax authority of the territory in which the principal office of the partnership in Nigeria is situated on the first date of that year
29. Which of the following is **NOT** basis for computing companies income tax payable?
- A. Minimum tax basis
 - B. Turnover basis
 - C. Total profit basis
 - D. Dividend basis
 - E. Preceding year basis
30. Which of the following is **NOT** true?
- A. Small companies do not pay education tax
 - B. Where franked investment income did not form part of the gross turnover, it should be deducted from same in computing minimum tax liability
 - C. A company with a gross turnover of less than twenty-five million Naira cannot enjoy capital allowances
 - D. The interest on foreign domiciliary account in Nigeria accruing on or after January 1, 1990, is exempted from tax
 - E. The profits of a company established within an export processing zone and free trade zone is exempted from tax

SECTION A: PART II**SHORT ANSWER QUESTIONS****(20 MARKS)**

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

1. The form of tax that is graduated as it applies higher rates of tax as income increases is
2. Three tax bases used in Nigeria include
3. A scheme in Nigeria, aimed at providing tax defaulters an opportunity to defray all unsettled tax liabilities is called
4. Members of the Federal Inland Revenue Service except the ex officio members shall hold office for a term of renewable once only.
5. The Secretary of the Joint State Revenue Committee (JSRC) is a staff of the
6. A document issued by the Federal Inland Revenue Service stating that the company's tax affairs are in order is called
7. An assessment raised on a company where the amount of total profit has been determined on appeal is said to be
8. For notice of objection to be valid, it must be raised within..... of the date of service of the notice of assessment.
9. Section 46 of the Value Added Tax Act (as amended) states that "any transaction for sale of goods or the performance of a service for a consideration in money or money's worth" is regarded as
10. Section 16 of VAT Act in Nigeria provides that a taxable person shall render to the Federal Inland Revenue Service on or before day of the month following that in which the purchase or supply was made, a return of all taxable goods and services purchased or supplied by him during the preceding month.
11. The Finance Act 2019, provides that only taxable persons with taxable supplies of and above are required to charge, collect, remit the tax and file monthly returns to the Federal Inland Revenue Service.
12. Stamp duties that vary with the amount of consideration are classified as
13. In the case of savings interest, the relevant tax authority for withholding tax is the tax authority where the bank..... is located

- 14. When payment is made to a bank or the Revenue in respect of withholding tax deducted at source, the Federal Inland Revenue Service will issue in favour of the taxpayer
- 15. According to section 37 of PITA 2004, as amended by the Finance Act, 2020, the minimum tax will not apply to a person that earns
- 16. A corporate employer who fails to file the required return with the relevant tax authority of all emoluments paid to employees in its employment in the preceding year will be liable to a fine of.....
- 17. When a partner resigns from a partnership to join a new one whose business is different from the former,..... will be applied.
- 18. In Nigeria, a partner is assessed to tax on
- 19. A person who receives real property under a Will is called.....
- 20. The difference between the total income and allowable expenses of a settlement, trust or estate is called.....

SECTION B:

ATTEMPT ANY FOUR QUESTIONS

(50 MARKS)

QUESTION 1

A company aggrieved by an assessment or demand notice made upon it by the Federal Inland Revenue Service or aggrieved by any action or decision of the FIRS, may appeal against such decisions, assesment or demand notice.

Required:

- a. List the contents of a notice of objection. (3½ Marks)
- b. Where an appeal is not discontinued, itemise **FIVE** steps of the procedure for hearing the appeal before the Tax Appeal Tribunal. (5 Marks)
- c. State the conditions that must be satisfied for an appeal before the Federal High Court is said to be valid. (4 Marks)

(Total 12½ Marks)

QUESTION 2

Certain goods and services are classified as zero-rated. These goods and services are within the ambit of VAT Act, but the applicable rate is 0%.

Required:

- a. Explain **THREE** examples of zero rated supplies and services under the Value Added Tax Act (as amended). (3 Marks)

- b. Blizz Homes Nigeria Limited is a company engaged in hotel services. The company's VAT account for the month of April 2021, has the following details:

VAT ACCOUNT			N'Million
	N'Million		N'Million
VAT paid on materials for kitchen	13	VAT charged on food and drinks	10
VAT paid on staff life insurance policies	3	VAT charged on accommodation	25
VAT paid on drinks for resale	5	VAT charged on other services	30
VAT paid on furniture and equipment for rooms	6		
VAT paid on legal and professional services	18		
VAT paid on medical and pharmaceutical products for first aid	2		
VAT paid on books and education materials	7		
Amount remitted to FIRS	10		
Balance as at April 30c/f	<u>1</u>		
Totals	<u>65</u>		<u>65</u>

Required:

Compute the total amount of VAT due to FIRS for the month of April and ascertain the balance remittable for the month. (9½ Marks)
(Total 12½ Marks)

QUESTION 3

- a. Ngozi Chinyere Limited does wholesale trading business; it also has two properties in Onitsha. The following is the extract of the company's statement of profit or loss for the year ended December 31 2021:

	₦	₦	₦
Gross profit for the year		110,250	
Rent received		180,800	
Dividend received		<u>20,000</u>	311,050
Administrative expenses:			
Salaries and travelling	80,750		
Repairs	9,830		
Debentures redeemed	120,000		
Insurance	5,000		
Rent expenses and rates	45,000		
Improvement cost of assets	10,000		
Audit expenses	21,470		

Legal expenses	20,000	
Depreciation	10,000	
Interest and bank charges	6,000	
Samples and design	<u>16,000</u>	<u>344,050</u>
Loss for the year		<u>33,000</u>

You are also given the following information:

- (i) Turnover for the year was ~~₦~~45,456,183.
- (ii) 40% of the rent received was on a property located in the United Kingdom and brought into the country through the Central Bank of Nigeria.
- (iii) The dividend received was from Age Well Unit Trust limited.
- (iv) Rent expenses and rates are on the company's property received from home and abroad.
- (v) The legal expenses are in respect of increase in share capital.
- (vi) The company's capital allowances agreed with the Revenue is ~~₦~~50,000.

Required:

Compute the income tax payable by the company for the relevant assessment year. (10 Marks)

- b. Explain the provisions of the Companies Income Tax Act (as amended) that discourage a company from attempting to benefit from the tax exemption of profits of small companies. (2½ Marks)

(Total 12½ Marks)

QUESTION 4

- a. Josey Nigeria Limited is into manufacturing of paints and has been in business for many years. An extract of the profit or loss account of the company for the year ended December 31, 2021, revealed the following:

	₦	₦
Revenue/ turnover from main business activities		35,000,000
Revenue from suspended operations	5,500,000	
Expenses on suspended operation	<u>(3,000,000)</u>	
Profits from suspended operations	2,500,000	2,500,000
Rent received gross		850,000
Dividend received from supermarkets limited		2,400,000
Revenue from other operating business	<u>11,500,000</u>	
Expenses on other operating business	<u>(9,000,000)</u>	
Profits from other operating business	<u>2,500,000</u>	2,500,000

Required:

Compute the minimum tax payable. (10 Marks)

- b. A company decided to transfer or sell a trade or business carried on by it to a Nigerian company for better management.

Required:

State the conditions precedent which must be met by the company to enjoy the concessions. (2½ Marks)

(Total 12½ Marks)**QUESTION 5**

- a. LOGO Unit Trust Scheme Limited is authorised by the Securities and Exchange Commission to deal in the business of unit trust scheme. Its financial statements for the year ended October 31, 2020, revealed the following:

	₦'000	₦'000
Investment income:		
Dividend (gross)		150,000
Bank deposit interest (gross)		130,000
Rental income (gross)		180,000
Deduct:		
Staff salaries	15,000	
Manager's remuneration	58,000	
Other expenses	68,000	
Depreciation	<u>18,000</u>	
		<u>(159,000)</u>
Net profit		<u>301,000</u>

Notes:

- (i) All investment incomes have been subjected to a withholding tax at 10%.
- (ii) Other expenses include an amount of ₦650,000, being loss on disposal of property, plant and equipment, and penalties amounting to ₦120,000.
- (iii) Capital allowance of ₦750,000 has been agreed with the tax authority.

Required:

- a. Compute the assessable profit of the company for the relevant year of assessment. (7½ Marks)
- b. List the additional information to be filed by insurance businesses operating in Nigeria according to Section 16(13) of CITA (as amended). (5 Marks)

(Total 12½ Marks)

QUESTION 6

Discreet Nigeria Limited is a Nigerian company engaged in the sale of baby wares. For the year ended December 31, 2021 the company's accounts disclosed a net profit of ₦15,000,000, after charging the following:

	₦'000
Staff salaries	3,000
Rent paid on MD's residential accommodation	2,500
Depreciation	600
Penalties and fines	250

You are given the following additional information

- (i) The annual basic salary of the company's managing director is ₦1,000,000, while other allowances amounted to ₦3,000,000.
- (ii) Capital allowances granted to the company for the accounting year was ₦2,000,000.
- (iii) The company made a loss of ₦500,000 after adjustments in the accounting year ended December 31, 2020.
- (iv) The gross turnover of the company was ₦128,000,000.

Required:

- a. Compute the income tax payable by the company for the relevant assessment year. (10 Marks)
- b. Explain the offences and penalties applicable to a company, including its officers, if it fails to pay the tertiary education tax as computed within 30 days of the service of a demand note. (2½ 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 30%

5. TERTIARY EDUCATION TAX (2% of Assessable Profit)

6. CAPITAL GAINS TAX 10%

7. VALUE ADDED TAX 7.5%

SECTION A: PART I

MULTIPLE-CHOICE SOLUTIONS

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

Examiner's comment

The multiple-choice questions covered the entire syllabus. All the candidates attempted the questions. The general performance was below average.

SECTION A: PART II

SHORT-ANSWER SOLUTIONS

1. Progressive tax
2. Capital, income and consumption
3. Voluntary assets and income declaration scheme (VAIDS) & Voluntary offshore assets regularization scheme (VOARS)
4. Four years
5. State Internal Revenue Service
6. Tax clearance certificate
7. Final and conclusive
8. Thirty days
9. Taxable supplies
10. 21st
11. ₦25million
12. Ad valorem
13. Branch
14. Credit note
15. The national minimum wage or less
16. ₦500,000
17. Cessation and commencement rules
18. Preceding year basis (PYB)
19. Devisee
20. Computed income

Examiner's comment

The questions were drawn from almost all parts of the syllabus. All the candidates attempted the questions. The general performance was below average.

SECTION B:

SOLUTION 1

a. Contents of a notice of objection

In line with the provisions of section 69 of Companies Income Tax Act Cap C21 LFN 2004 (as amended), for a notice of objection to be valid, it must:

- (i) Be in writing, delivered in persons, by courier service or via electronic mail and addressed to the Chairman, Federal Inland Revenue Service;
- (ii) State the grounds of objection. namely:
 - Amount of assessable and total profits of the company for the relevant assessment year; and
 - Amount of tax which the taxpayer claims is payable for the year of assessment
- (iii) Be raised within thirty days of the date of service of the service of the notice of assessment

b. Hearing before the Tax Appeal Tribunal

Where an appeal is not discontinued, the procedures for hearing the appeal before the Tax Appeal Tribunal are as follows:

- i. The Tax Appeal Tribunal given seven day's notice to the appellant and FIRS of the date and place fixed for hearing of appeal;
- ii. An appeal should be heard by not less than three members of the tax tribunal in attendance with the Chairman or any other member, (in the absence of the Chairman), presiding;
- iii. A member with vested interest in any matter before the Tax appeal tribunal must disclose such interest and abstain from attending any sitting, at which the matter is to be heard;
- iv. The Tribunal may conduct its hearing remotely via virtual means using such technology or application as may be necessary to ensure fair hearing – paragraph 20 of the Fifth Schedule of CITA was amended by section 57 of the Finance Act, 2020;
- v. All appeals before the Tax Appeal Tribunal are heard in public;
- vi. Appellant may be represented by a professional adviser or may give its evidence by written notice;
- vii. Appellant leads the case, by proving that the assessment is excessive, that is onus of proff is put on the appellant;
- viii. If representative of the FIRS can prove to the Tax Appeal Tribunal that:
 - Appellant failed to file returns, audited accounts etc. as required by CITA; or
 - The appeal is frivolous, vexatious or an abuse of appeal process; or
 - It is expedient to require appellant to pay a security deposit;
 - The Tax Appeal Tribunal may make an order that the appellant pay deposit to the tax authority on account of tax being disputed, before the matter could be heard.
 - The deposit payable, is the lower of: (1) tax paid in the immediately preceding year; or (2) half of the tax charged (which is on appeal), plus 10% of the deposit;
- ix. The Tax Appeal Tribunal can confirm, reduce, increase, or annul the

- assessment, as deemed necessary;
- x. The Tax Appeal Tribunal's decisions are recorded in writing, by the Chairman, and a certified true copy is supplied to the appellant or the FIRS on request, within 3 months of the decision;
 - xi. Particulars of the extent to which the Tax Appeal Tribunal is dissatisfied with the appellant's accounts, books, etc, non-compliance with precepts delivered by the Tax Appeal Tribunal by the appellant or his representative and refusal to answer questions put, should all be noted in the decision of the Tax Appeal Tribunal; and
 - xii. Notice of the amount of tax chargeable, as determined by the Tax Appeal Tribunal, shall be served on the company by FIRS. The tax payable as determined by the Tax Appeal Tribunal is payable within one month of the date of notice of assessment, notwithstanding that an appeal may be pending on same, before the Federal High Court.
- c. **Appeals before the Federal High Court (FHC)**
For such appeals to be valid, the following conditions must be satisfied, namely:
- a) Amount involved must not be less than ₦400;
 - 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; and
 - d) The grounds of law on which the decision of the Tax Appeal Tribunal is being challenged should be stated.

Examiner's comment

This is a standard question on Tax Appeal procedures. The question tested candidates' knowledge of procedures on appealing tax decisions, assessment and demand notice from the Federal Inland Revenue Service. About 45 percent of the candidates attempted the question. The general performance was below average. The major pitfall was inability of the candidates to understand the basic procedures of tax appeal. The candidates are advised to always make good use of the study pack and other relevant materials.

SOLUTION 2

- a. Zero-rated goods and services are goods and services that are within the ambit of VAT Act, but the applicable rate VAT rate is 0%.
These include:
 - i. Non-oil exports;
 - ii. Goods and services purchased by diplomats; and
 - iii. '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.

BLIZZ Homes Nigeria Limited

b. Computation of VAT Payable to FIRS in April 2021

	N'000,000	N'000,000
Output tax		
VAT charged on food and drinks	10	
VAT charged on accommodation	25	
VAT charged on other services	<u>30</u>	
	<u>65</u>	65
Less input tax:		
VAT on material for kitchen	13	
VAT paid on drinks	<u>5</u>	<u>(18)</u>
VAT due		47
VAT remitted to FIRS		<u>(10)</u>
Balance remittable		37
Balance c/f		<u>1</u>
VAT Payable		<u>38</u>

Examiner's comment

This is a good question on Value Added Tax (VAT). About 76 per cent of the candidates attempted the question. The general performance was fair.

The major pitfall was inability of some of the candidates to get the correct computation of the VAT Payable. Candidates are enjoined to practise as many questions as possible on VAT computation in future examinations.

SOLUTION 3

Ngozi Chinyere limited

a) Computation of income tax payable for 2022 assessment year

	N	N
Loss per accounts		(33,000)
Deduct : disallowed items:		
Depreciation	10,000	
Debentures redeemed	120,000	
Improvement cost of assets	10,000	
Rent expense disallowed(W1)	18,000	
Legal expenses	20,000	<u>178,000</u>
		145,000
Less non taxable incomes:		
Rent exempt (0.4 x 180,800)	72,320	
Dividend	<u>20,000</u>	<u>(92,320)</u>
Assessable profit		52,680
Less capital allowances	50,000	
Restricted to 66 ² / ₃ % of assessable profit	<u>41,787</u>	<u>(41,786)</u>
Unutilised capital allowance c/f	<u>8,213</u>	
Total profit		<u>10,894</u>
Companies income tax payable @ 20% of total profit		<u>2,178.80</u>

Tertiary education tax payable @ 2.5% of assessable profit	<u>1,317.00</u>
W1: rent disallowed	
Total rent and rates	45,000
₦180,800 - ₦72,320 X 45,000 = (27,000)	
108,480 + 72,320	
Rent disallowed	<u>18,000</u>

- b) (i) Any attempt by a company to split the transactions that were carried out prior to the commencement of the Finance Act, amongst two or more companies in order to benefit from the exemption of profits of small companies, the Service in accordance with the provisions of section 22 of CITA, shall discountenance such splitting, and aggregate all such transactions to the company originally doing the business.
- (ii) After the commencement of the Finance Act, 2019, any attempt by a taxable person to incorporate new companies or uses two or more companies to transact a business which in the opinion of the Service is aimed at benefitting from the tax exemption of profits of small companies, the value of such contracts shall be aggregated and taxed in the hand of one of the companies.
- (iii) In line with section 42 of the FIRS Act, any company that conceals its turnover with a view to obtaining tax benefit available to small companies shall be prosecuted with its directors and relevant principal officers. Any tax liabilities arising from the foregoing, shall be recovered with penalties and interest.

Examiner's comment

This is a straight-forward question on Companies Income Tax. About 80 per cent of the candidates attempted the question. The general performance was above average.

SOLUTION 4

a.

Josey Nigeria Limited
Computation of minimum tax liability
For 2022 assessment year

	₦	₦
Revenue/turnover from main business		35,000,000
Revenue from suspended operations		5,500,000
Rent received gross		850,000
Dividend received from NENE Limited		2,400,000
Revenue from other operating business		<u>11,500,000</u>
		55,250,000
Franked investment income from NENE Limited		<u>(2,400,000)</u>
Gross revenue for the computation of minimum tax		<u>52,850,000</u>
Minimum tax payable at 0.25%		132,125

- b. Section 32 of Capital Gains Tax Act (CGT), states that “where a trade or business carried on by a company is sold or transferred to a Nigerian company for the purposes of better organization of that trade or business or the transfer of its management to Nigeria, and any asset employed in such trade or business is sold or transfer, no tax shall apply under this Act to the sale or transfer of the assets.

The conditions precedent to the enjoyment of such concessions are:

- i. One company has control over the other;
- ii. Both companies involved in the transaction are controlled by some other persons;
- iii. Both company are members of a recognized group of companies;
- iv. Allowed relationship under this subsection has been existing for a period of at least 365 days prior to the date of the reorganization; and
- v. Acquiring company must not sell assets acquired within the succeeding 365 days after the date of the transaction, else, concessions enjoyed shall be rescinded.

Examiner’s comment

This is a good question on Minimum tax. About 50 percent of the candidates attempted the question. The general performance was above average in part ‘a’, which is on computation of minimum tax payable. But the performance on the part ‘b’ was below average.

Candidates are advised to familiarise themselves with the basic tax procedures and concepts in the syllabus.

SOLUTION 5

a.

Logo Unit Trust Scheme		
Computation of assessable profits for the 2021 year of assessment		
	N’000	N’000
Net profit		301,000
Add back disallowed items:		
Depreciation	18,000	
Penalties	120	
Loss on disposal of assets	650	<u>18,770</u>
		319,770
Less		
Franked investment income	150,000	<u>150,000</u>
Assessable profit		<u>169,770</u>

Other points to note

- (i) Withholding tax deducted from any income (other than franked investment income) is set-off against any tax assessable on the Unit Trust Scheme for any year of assessment.

- (ii) Dividend received after deduction of tax as regarded as franked investment income and not subject to any further tax in the hand of the recipient.
- b. Based on section 16 (13) of CITA (as amended), insurance companies are to file the following additional information:
- (i) An insurance company that engages the services of an insurance agent, a loss adjuster and an insurance broker, shall include in its annual tax returns,
 - A schedule showing the names and addresses of insurance agent, a loss adjuster and an insurance broker,
 - The dates their services were employed and terminated (as applicable); and
 - Payments made to each such agent, loss adjuster and insurance broker for the period covered by the tax returns;
 - (ii) An insurance company is expected to maintain the details and schedule of policies and risks accepted in a given year and the computation of unexpired risks associated with them. The schedule should comprise the name of the policy holder, type of policy, period of policy, amount of the premium and expired risk computed therefrom;
 - (iii) A schedule detailing the specific items making up the estimated amount of outstanding claims and outgoings shall be prepared, by insurance companies; and
 - (iv) Insurance companies shall maintain a schedule of estimated claims and outgoings that constitute the amount deducted every year.

Examiner's comment

This is a straight forward question on computation of assessable profit and additional information that is usually filed by insurance business in Nigeria. About 60 per cent of the candidates attempted the question. The general performance was fair.

SOLUTION 6

Discreet Nigeria Limited			
Computation of total tax payable for 2022 year of assessment			
	N'000	N'000	
Net profit per accounts		15,000	
Add disallowed expenses:			
Rent on MD's residential accommodation (₦ 2,500,000 -100% of ₦1,000,000)	1,500		
Depreciation	600		
Penalties and fines	<u>250</u>	2,350	
			17,350
Loss relief brought forward			<u>(500)</u>
Assessable profit			16,850
Capital allowances			<u>(2000)</u>
Total profit			<u>14,850</u>

Companies income tax payable at 30% of total profit	<u>₦4,455,000</u>
Tertiary education tax payable at 2.5% of assessable profits	<u>₦433,750</u>
Total tax payable	<u>₦4,888,750</u>

- b. If tertiary education tax is not paid within 30 days, the Federal Inland Revenue Service will serve on the company, a demand note for the unpaid and a tax sum which is equal to 5 per cent of the tax. In addition to such penalty, the tax payable shall carry interest at bank lending rate from the date when the tax becomes payable until it is paid.

If the tax and penalty are not paid within a further period of two months of the demand, the company is guilty of an offence. The FIRS shall with the approval of the Board of Trustees of TET fund remit in whole or in part a sum added to the unpaid tax.

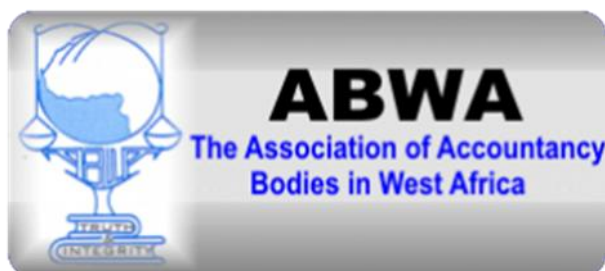
Notice that other officers of such company are severally guilty of that offence of default and liable to be prosecuted against and punished for the offence in like manners as if they themselves committed the offence, unless they prove that the act or omission constituting the offence took place without their knowledge, consent or connivance. The person guilty of the offence shall, on conviction, be liable:

- (i) For the first offence, to a fine of up to ₦1,000,000 or imprisonment for a term of six months or both; and
- (ii) For a second and subsequent offence, to a fine of up to ₦ 2,000,000 or imprisonment for a term of twelve months, or both such fine and imprisonment.

The institution of proceedings or imposition of a liability under the Act shall not relieve a company from liability to pay to the FIRS, a tax which is or may become due under the Act.

Examiner's comment

This is a standard computation question on tax payable for relevant year of assessment and tertiary education tax. 98 per cent of the candidates attempted the question. The general performance was above average.

THE ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA**ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
SEPTEMBER 2024 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, SEPTEMBER 24, 2024

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 – SEPTEMBER 2024**

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. The Use-Based classification emphasises
 - A. Size of the capital investment
 - B. Sales Turnover
 - C. Number of people employed
 - D. The rate of material usage
 - E. The nature of output and its use

2. Which of the following is **NOT** a reason for business failure?
 - A. Poor Planning
 - B. Lack of Capital
 - C. Age of the Business
 - D. Cash flow Crisis Management
 - E. Inadequate Control

3. Which of the following has unlimited liability for all actions of the business?
 - A. Limited Partner
 - B. Sole Proprietor
 - C. General Partner
 - D. Corporation
 - E. Cooperative Society

4. Memorandum of Association contains the following information, **EXCEPT**
 - A. The name of the company with letters PLC which means Public Limited Company attached
 - B. The address and/or location of the business
 - C. The type of business
 - D. Rights and responsibilities of shareholders
 - E. A statement indicating that the liability of its corporate members is limited

5. Which of the following can be viewed as the state of the application of scientific principles and mechanical arts to various tasks in the society?
- A. International Environment
 - B. Socio-cultural Environment
 - C. Technological Environment
 - D. Political Environment
 - E. Economic Environment
6. The process of world-wide economic integration and growing inter-dependence, interconnectedness through the flow of goods, services, capital, people and information among nations in the modern world is known as
- A. International Management
 - B. Globalisation
 - C. Modernisation
 - D. Foreign Direct Investment
 - E. Investment Planning
7. Which of the following is **NOT** an argument for Social Responsibility?
- A. Business involvement in social responsibility discourages additional government regulation and intervention. The result is greater freedom and more flexibility in decision making for business.
 - B. As members of the society, businesses should do their fair share to help others.
 - C. Business has the resources such as talented managers, specialists, but do not have adequate capital resources, to solve some of the society's problems.
 - D. Business should be more responsible because they have a great deal of power, financial and technical resources to help solve social problems.
 - E. Social involvement creates a favourable public image. Thus, a firm may attract customers, employees and investors because of its social activities.
8. Non-compliance with laid down internal controls and operational procedures is one of the weaknesses of
- A. Business Ethics
 - B. Corporate Governance
 - C. Social Responsibility
 - D. Ethical Responsibility
 - E. Business Environment
9. The essence of managership for achieving harmony among individual efforts toward the accomplishment of group goals is known as
- A. Controlling
 - B. Forecasting
 - C. Coordinating
 - D. Planning
 - E. Directing

10. The process of minimising waste and maximising compliance is known as environmental
- A. Improvement
 - B. Control
 - C. Degradation
 - D. Management
 - E. Supervision
11. Which of the following emphasises management functions and attempts to generate broad administrative principles that would serve as guidelines for the rationalisation of activities?
- A. Scientific Management Theory
 - B. Principles of Efficiency
 - C. Administrative Management Theory
 - D. Human Relations Theory
 - E. Theory of Bureaucracy
12. A comprehensive term describing the way an organisation does its work by using electronic linkages with key constituencies in order to efficiently and effectively achieve its goals is known as
- A. E-Business
 - B. E-Electronic
 - C. E-Bay
 - D. E-linkages
 - E. E- Amazon
13. To be effective, a strategic plan should meet which of the following criteria?
- A. Proactivity, Congruency and Synergy
 - B. Honesty, Integrity and Synergy
 - C. Coordination, Availability and Simplicity
 - D. Productivity, Congruency and Feasibility
 - E. Measurable, Achievable and Traceable
14. Which of the following best describes a situation where the decision-maker does not know the exact probabilities attached to the alternatives available to him?
- A. Decision Making Under Certainty
 - B. Decision Making Under Risk
 - C. Decision Making Under Uncertainty
 - D. Programmed Decision Making
 - E. Non-programmed Decision Making

15. Which of the following types of Organisational Structure superimposes a horizontal set of divisional reporting relationship onto a hierarchical functional structure?
- A. Matrix Structure
 - B. Hybrid Structure
 - C. Process Structure
 - D. Informal Structure
 - E. Formal Structure
16. Which of the following is **NOT** a technique of coordination?
- A. Coordination by simplified organisation
 - B. Plans, Programmes and Policies
 - C. Stratification and Procedures
 - D. Coordination through Liaison Roles
 - E. Coordination by Meetings
17. Which of the following strategies consists of the kinds of initiatives that organisations use to establish business positions?
- A. Business Strategy
 - B. Functional Strategy
 - C. Operating Strategy
 - D. Divisional Strategy
 - E. Corporate Strategy
18. The formal conversation between an employer and prospective employee to enable the employer assess the latter's suitability for a job is
- A. Formal Interview
 - B. Selection Interview
 - C. Job Placement
 - D. Job Analysis
 - E. Employment
19. Which of the following is **NOT** an example of on-the-job training methods?
- A. Job Rotation
 - B. Project or Committee Assignments
 - C. Understudy
 - D. Apprenticeship
 - E. Temporary Promotion
20. Which of the following is **NOT** a promotional activity used by an organisation to promote its product?
- A. Marketing
 - B. Advertising
 - C. Public relations
 - D. Sales Promotion
 - E. Personal selling

21. Maslow Hierarchy of Needs Theory, Aldelfer's ERG Theory, McGregor's Theory X and Y and Herzberg's two factor theory are examples of
- A. Process Theory of Motivation
 - B. Content Theory of Motivation
 - C. Context Theory of Motivation
 - D. Organisational Theory of Motivation
 - E. Reinforcement Theory of Motivation
22. Which of the following best describes the clash of domains caused by dividing expertise, authority and roles?
- A. Inter-Organisational Conflict
 - B. Vertical Hierarchical Conflict
 - C. Group/Team Conflict
 - D. Horizontal Conflict
 - E. Line and Staff Conflict
23. Which of the following is **NOT** a function of a typical office?
- A. Provides a convenient place where managers carry out their functions
 - B. Collects information from within the organisation
 - C. Setting limits for information from others
 - D. Collects information from outside the organisation
 - E. Records information
24. Which of the following is a basic importance of organisation and method in an office setting?
- A. It helps to unearth lapses in job performance, which could be removed through improved training of employees
 - B. It helps to increase sales of products
 - C. It assists in recruitment and selection of prospective employees
 - D. It assists the organisation in the resolution of conflicts
 - E. It projects the organisation in a positive light to intending investors
25. Which of the following is **NOT** associated with Human Resource Planning Process?
- A. Development of vision and mission
 - B. Identify organisation objectives
 - C. Estimate human resource needs
 - D. Analyse existing human resources
 - E. Calculate net human resource needs for the period
26. Which of the following is **NOT** an internal stakeholder of a company?
- A. Shareholders
 - B. Directors and Top Management
 - C. Senior Management Staff
 - D. Suppliers
 - E. Other Managers and Staff

27. Which of the following theorists is popularly referred to as the father of scientific management?
- Henri Fayol
 - Elton Mayo
 - Frederick W. Taylor
 - Herbert Simon
 - Peter Drucker
28. The principle that emphasises the need for the efforts of everyone in the organisation to maintain coordination and focus on organisational goal is known as
- Unity of direction
 - Span of Management
 - Unity of command
 - Unity of integration
 - Unity of conglomeration
29. Which of the following is **NOT** a workplace accident preventive measure?
- Design of safety devices
 - Wearing of protective clothing
 - Compliance with National Road Safety codes
 - Health and safety training
 - Accident risk assessment
30. Which of the following is **NOT** clearly related to the organising function?
- Dividing the tasks into jobs
 - Arranging task activities into logical and comfortable groups
 - Assigning and delegating authority
 - Heirarchical compensation template
 - Setting up the system for integration of task activities

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

- The human effort which is either physical or mental that is exerted in the production of goods and services is referred to as -----
- Any individual or group of individuals who have a strong interest in the organisation and what it does or trying to achieve is a -----
- Organisational culture is otherwise called ----- because the concept is regularly used to describe the internal environment of major organisations.

4. ----- refer to the organisation's managerial and technological abilities that are applied to convert inputs into outputs.
5. A ----- is one that has developed the capacity to continuously adapt and change.
6. A ----- is a comprehensive plan that coordinates a complex set of activities related to a major non-recurring goal.
7. ----- are those decisions made in routine, repetitive and well-structured situations through the use of pre-determined decision rules.
8. An organisation whose authority is legitimised by confidence in the personal qualities of the leader is called -----
9. The linking together of superiors and subordinates of units and sub-units at different levels of the organisation is known as -----
10. The totality of management decisions and actions that affect the relationship between the organisation and employees is referred to as -----
11. ----- refers to rewards offered to employees at periodic intervals for high performance
12. The distance between the factory floor and the ceiling is called -----
13. ----- is the systematic gathering, analysis and interpretation of data to aid decision-making in areas such as the type of products to make, the price to charge, how to distribute and promote the product.
14. The products which consumers usually compare prices, quality and features of alternative brands before purchasing are referred to as -----
15. ----- is the process of launching a new product on a limited but at a carefully selected scale to determine its commercial viability.
16. ----- are costs which are directly linked with the volume of production and will exist if production is made but could be discontinued when production stops.
17. ----- are groups of employees who perform highly related interdependent jobs plus supervisory jobs.
18. ----- is the relative strength of an employee's identification with an involvement in an organisation.
19. The ability to understand, use, and manage your feelings in positive ways to relieve stress, communicate effectively, empathise with others, overcome challenges and defuse conflict is -----
20. The ----- assesses effectiveness by observing the beginning of the process and evaluating whether the organisation effectively obtains resources necessary for high performance.

SECTION B:**ATTEMPT ANY FOUR QUESTIONS****(50 MARKS)****QUESTION 1**

- a. With the aid of a well-labelled diagram, identify and explain the **THREE** levels of Management. (6½ Marks)
- b. State **THREE** functions of each of the levels. (6 Marks)
- (Total Marks 12½)**

QUESTION 2

- a. Define Decision Making. (2½ Marks)
- b. State **FOUR** of the steps involved in Rational Decision Making Process. (4 Marks)
- c. State and explain the **THREE** possible situations under which managers make decision. (6 Marks)
- (Total 12½ Marks)**

QUESTION 3

- a. Define Controlling. (2½ Marks)
- b. State **TWO** similarities and **TWO** differences between planning and control. (4 Marks)
- c. Highlight **SIX** characteristics of effective control systems. (6 Marks)
- (Total 12½ Marks)**

QUESTION 4

- a. What is discipline? (2 Marks)
- b. List **SIX** features of effective Discipline (6 Marks)
- c. Identify and explain **THREE** causes of indiscipline in organisations. (4½ Marks)
- (Total 12½ Marks)**

QUESTION 5

- a. List and explain the **FIVE** common Money Market instruments. (7½ Marks)
- b. List **FIVE** functions of Merchant Banking. (5 Marks)
- (Total 12½ Marks)**

QUESTION 6

- a. Define Organisational Effectiveness. (2½ Marks)
- b. State and explain the approaches to Organisational Effectiveness. (10 Marks)
- (Total 12½ Marks)**

SUGGESTED SOLUTIONS

SECTION A: PART I

MULTIPLE-CHOICE SOLUTIONS

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

Examiner's comment

The questions covered all the areas of the syllabus. All the candidates attempted the questions and the performance was averagely good. About 62% 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 guide against these pitfalls.

SECTION A - PART II

SHORT-ANSWER SOLUTIONS

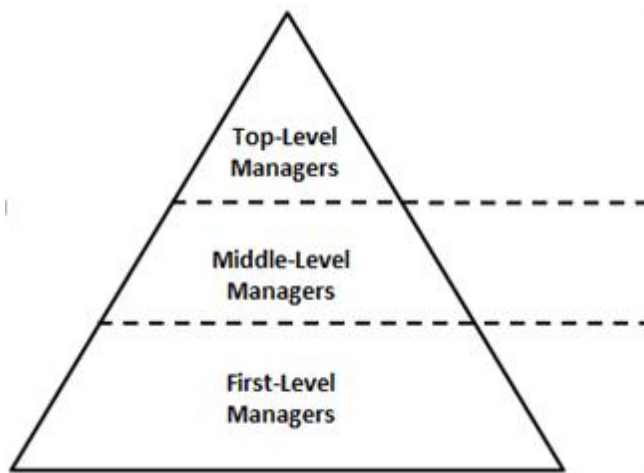
- 1 Labour
- 2 Stakeholder
- 3 Corporate Culture
- 4 Transformation Processes
- 5 Learning Organisation
- 6 Programme
- 7 Programmed decision
- 8 Charismatic Organisation
- 9 Vertical Coordination
- 10 Human Resources Management
- 11 Bonuses
- 12 Headroom
- 13 Marketing Research
- 14 Shopping Goods
- 15 Test Marketing
- 16 Variable Costs
- 17 Self-managed work team
- 18 Organisation Commitment
- 19 Emotional Intelligence
- 20 System Resources Approach.

Examiner's comment

The questions covered all parts of the syllabus. All the candidates attempted the questions and the performance was fairly good. About 42% of the candidates scored above average and this was largely due to inadequate usage of the study pack. The candidates are advised to make use of the study pack adequately for improved performance in the future examinations.

SECTION B

SOLUTION 1



2 marks for the diagram

(a) The following are the three levels of management:

- i **Top level management.** The term top level management means the corporate officers are mainly concerned with major direction of the enterprise; they are chief policy making officers of the organization. They are concerned with the organization as a whole and interaction with the environment. Top manager establish organizational goals, decide on how department should interact and monitor the performance of middle level managers. The officers elected by the board of directors. They job title like chairman of the board, president, general manager, managing director, etc.
- ii. **Middle level management.** These are the managers above the supervisor and below the top level managers. They head various departments such as finance, marketing department, purchasing, production, human resources department. They have specialization roles in their various management: this level of management consists of supervisor, foremen, chief clerk, etc. They coordinate departments. Their principal task is to manage managers to act as buffer between the top managers and supervisor. The middle level managers spent most of their time analyzing data, preparing information for decision making and translating top level overall policies and strategy into operational policies, procedures and methods at work. They spent most of their time in committees, mostly with peers and in their departments.
- iii. **Lower level management or first-line the work of their subordinate.** This group of managers must possess technological skill so that they can assist and guide their subordinates when necessary. They do the planning of the day-today operations, assigning personnel to specific jobs, overseeing their activities, evaluating their performance and becoming a link between employees and the middle level management.

(b) **The functions of top level management are as follows:**

- i. Determining company's objectives
- ii. Working out long-range planning
- iii. Establishing board policies,
- iv. Coordinating enterprise activities.
- v. Adapting effective means of control;
- vi. Authorising new facilities and launching research and development projects.

Functions of Middle Level Management

- i. Integrating the activities of the different work groups
- ii. Preparing plans and programmes for departments or divisions.
- iii. Taking appropriate actions to execute plans
- iv. Assisting top-level managers in executing their functions.
- v. Communicating management policies
- vi. Transferring information and materials between different work groups.
- vii. Managing and controlling activities of low level managers
- viii. Coordinating enterprises activities
- ix. Providing information that will assist top level managers in decision-making.

The following are the functions of lower level management:

- i. Planning work for their section;
- ii. Directing the rank and file workers to accomplish their departmental goals;
- iii. Ensuring better productivity.
- iv. Maintaining discipline and order

Examiner's comment

The question was structured to test the knowledge of the candidates on levels and functions of management. About 92% of the candidates attempted the question and about 66% passed. The major pitfalls of the candidates who performed poorly were inadequate preparation and usage of the study pack. Candidates are advised to interact adequately with the study pack for future examinations.

SOLUTION 2

- (a) Decision-making is a continuous process that pervades all organisational activities. Managers in every type of organisation, business, hospital, government, education make decisions every day. A decision is defined as a conscious choice among alternative courses of action followed by activities to implement the choice. A decision-making process is a series or chain of related steps that lead to an action or an outcome and assessment.
- (b) Steps involved in Rational Decision Making Process
 - i. Diagnose and define problem or opportunities
 - ii. Establish Specific Goals and Objectives

- iii. Generate Alternatives
- iv. Gather and Analyse the Relevant Facts
- v. Evaluate the Alternatives
- vi. Select an Alternative
- vii. Analyse the Possible Consequences of the Decision
- viii. Implement the Decision
- ix. Follow Up

(c) The following are three situations under which managers make decision:

- i. Decision making under certainty: certainty means that the relevant parameters such as costs, capacity, and demand have known values. It is a situation or condition in which all the information needed by the decision maker to make decisions is available. It is situation in which action taken will lead to only one outcome. The decision maker is reasonable sure of what will happen when he/she is making the decision. Decision making under certainty is also known as deterministic situation or deterministic optimisation problem.
- ii. Decision making under risk: risk means that certain parameters have probabilistic outcome. Risk is the condition which decision maker can define a problem, specify the probability of certain event, identify alternative solution and state the probability of each solution leading to the desired results. In a situation involving risk, the decision maker knows the likelihood that each of the various state of nature will occur; from business-making point of view, risk means a situation in which a business decision is expected to yield more than one outcome and the probability of each outcome is known to the decision maker or can be reliably estimated.
- iii. Uncertainty simply means that it is impossible to assess the likelihood of various possible, future events, hence decision taken under uncertainty are necessarily subjective in nature. The unpredictability of the outcome may be due to lack of reliable market information, inadequate past experience, high volatility of the market condition. When managers make decision under uncertainty, they must acquire as much as relevant information as possible as then use logic, intuition, judgment, and experience to determine the best of action to follow.

Examiner's comment

The question tested the candidates' understanding of decision making, steps involved in decision making and decision making situations. About 90% of the candidates attempted the question and about 52% passed. Candidates are advised to prepare more for the examination in the future by religiously reading their study pack for improved performance.

SOLUTION 3

(a) Controlling is the process of regulating organization activities so that the actual performance conforms to the expected organisational standards and goals. It is a fundamental management function, closely linked to planning and organising processes. OR controlling is the process of monitoring, comparing and correcting performance in order to make sure that organisation objectives and plans devised to attain them are being accomplished.

(bi) Similarities between planning and controlling:

- i. Both are concerned with identifying and quantifying standards of performance. The measure for planning is similar to those used for control.
- ii. Planning and control utilise quantitative techniques such as linear programming, statistical control and network analysis.

(bii) Differences between Planning and Control

- i. Planning entails decision making while control is a monitoring process that depends on the existence of planning.
- ii. Planning is concerned with ends and means and control focuses on results and feedbacks.

(c) The characteristics of effective control system are as follows:

- i. Accurate
- ii. Objective and Comprehensible
- iii. Timely
- iv. Focused on Strategic Control Points
- v. Economically Realistic
- vi. Co-ordinated with the Organisation's Work Flow
- vii. Flexible
- viii. Operational
- ix. Acceptable to Organization Members
- x. Future oriented:
- xi. Cost Effective and Economically Realistic
- xii. Objective and comprehensible

The question is structured to test the candidates' understanding of controlling, similarities and differences between planning and control, as well as characteristics of effective control system. About 88% of the candidates attempted the question and about 46% passed. Candidates are enjoined to prepare more adequately for the examination by making use of the study pack for improved performance.

Examiner's comment

The question is structured to test the candidates' understanding of controlling, similarities and differences between planning and control, as well as characteristics of effective control system. About 88% of the candidates attempted the question and about 46% passed. Candidates are enjoined to prepare more adequately for the examination by making use of the study pack for improved performance.

SOLUTION 4

(a) Discipline is defined as the situation where people obey rules or standards of behaviour established by the organisation. Disciplinary procedures refer to the procedures or logical steps to be taken before disciplinary action is taken against an employee who infringes the rules or standards of behaviour. The process of effectively punishing errant, unacceptable and deviant behaviours and actions among employee is known as disciplinary action.

(b) Features of Effective Discipline

- i. The offence
- ii. Timely discipline
- iii. Nature of hearing
- iv. Representative
- v. The right to state his case or to defend himself
- vi. The right to call witnesses
- vii. The right to call an interpreter
- viii. The right to a finding
- ix. Previous service record
- x. The punishment
- xi. Appeal

(c) Causes of Indiscipline in an organisation

- i. **Attendance problems:** These include unexcused absence, chronic absenteeism and unexcused/excessive tardiness.
- ii. **Dishonesty and related problems:** These include financial fraud, theft, falsifying employment application, willfully damaging organizational property and falsifying work records.
- iii. **Work performance problems:** These refer to failure to complete work assignments, producing substandard products or services and failure to meet established production requirements.
- iv. **On- the- job behaviour problems:** These cover issues like intoxication at work, insubordination, horseplay, smoking in unauthorized places, fighting and gambling. Others are failure to use safety devices, failure to report injuries, carelessness, sleeping on the job, using abusive or threatening language

with supervisors, possession of narcotics or alcohol, possibility of firearms or other weapons and sexual harassment.

The question was structured to test the candidates' understanding of discipline, features of effective discipline and causes of indiscipline in an organisation. About 36% of the candidates attempted the question and about 92% passed. Candidates are enjoined to prepare adequately for the examination in future by making use of their study pack.

The question was structured to test the candidates' understanding of discipline, features of effective discipline and causes of indiscipline in an organisation. About 36% of the candidates attempted the question and about 92% passed. Candidates are enjoined to prepare adequately for the examination in future by making use of their study pack.

Examiner's comment

The question was structured to test the candidates' understanding of discipline, features of effective discipline and causes of indiscipline in an organisation. About 36% of the candidates attempted the question and about 92% passed. Candidates are enjoined to prepare adequately for the examination in future by making use of their study pack.

SOLUTION 5

(a) The following are the money market:

- i. Treasury bills. These are short term debt obligation of a national government that is issued to mature I three to twelve months. In other words treasure bills are money market security issued by the federal government. They are sold at a discount (rather than paying coupon interest) and mature within 91 days of the day of issue and are default-free.
- ii. Treasure certificate. These are similar to treasure bills. Treasure certificate to replace commercial bills and has a mature time of between one to two years. The amount paid on the purchase of the certificate is usually less than the discount on the bill but the actual amount is repaid by the central bank at maturity.
- iii. Commercial bills: this was used by commodity and it is rediscount able by the central bank. It was however abolished in 1968 when the banks refused to continue their participation in the world cocoa market.
- iv. Certificate of deposit: it is a time deposit, commonly offers to consumers by banks, thrift institutions, and credit unions. It was introduces in Nigeria in 1985 to channel commercial banks surplus funds into merchant banks issued in multiple of 50,000 Naira and rediscount able by CBN in case the issuing banks cannot redeemed them at maturity. The maturity date ranges between 3 and 36 months.

- v. Call money: the instrument guarantees the payment of money on demand to the issuing bank. This also allows commercial banks and non-banking financial institutions to keep their temporary surplus cash with the central banks who in turn invest the fund.

(b) The five functions of merchant bank are follows:

- i. Raising finance for clients
- ii. Broker in stock exchange
- iii. Project management
- iv. Advice on expansion and modernisation
- v. Managing public issue of companies
- vi. Handling government consent for industrial projects
- vii. Corporate restructuring
- viii. Money market operation

Examiner's comment

The question tested the candidates' understanding of common money market instruments and functions of merchant banking. About 52% of the candidates attempted the questions and about 32% passed. Candidates are advised to prepare adequately for the future examinations by reading their study pack.

SOLUTION 6

(a) The term of organisational effectiveness describes the degree to which an organisation realises its goals. It can be noted that this goal can only be realised effectively by a) information sharing, b) quick and timely decision making, and c) shared awareness of tasks and responsibilities within the organisation. Effectiveness is the ability of the organisation to exploit the environment in the acquisition of critical resources.

(b) Approaches to Organisational Effectiveness

i. **System Resource Approach**

The system resource approach assesses effectiveness by observing the beginning of the process and evaluating whether the organization effectively obtains resources necessary for high performance. The system resource approach is valuable when other indicators of performance are difficult to obtain. In many not-for-profit and social welfare organizations, for example, it is hard to measure output goals or internal efficiency. System approach emphasizes Organization's ability to (i) acquire resources, (ii) maintain itself internally, and (iii) interact successfully with the external environment.

Although the system resource approach is valuable when other measures of effectiveness are not available, it does have shortcomings. Often the ability to acquire resources seems less important than the utilization of those resources. (Daft, 1998).

ii. **Internal Process Approach**

The internal process approach looks at internal activities and assesses effectiveness by indicators of internal health and efficiency. The internal process approach is important because the efficient use of resources and harmonious internal functioning are ways to measure effectiveness. A significant recent trend in management is the empowerment of human resources as a source of competitive advantage. Most managers believe participative management approaches and positive corporate culture are important components of effectiveness.

The internal process approach does have shortcomings. Total output and the organisation's relationship with the external environment are not evaluated. Also, evaluations of internal health and functioning are often subjective, because many aspects of inputs and internal processes are not quantifiable. Managers should be aware that efficiency alone represents a limited view of organisational effectiveness.

iii. **Goal Approach**

The goal approach to organisational effectiveness is concerned with the output side and whether the organisation achieves its goals in terms of desired levels of output. The goal approach is mostly used in business organisations because output goals can be readily measured. Business firms typically evaluate performance in terms of profitability, growth, market share, and return on investment. However, identifying operative goals and measuring performance of an organisation are not always easy. Two problems that must be resolved are the issues of multiple goals and subjective indicators of goal attainment.

iv. **Strategic Constituencies Approach**

The strategic constituency approach of OE proposes that an effective organisation is one that satisfies the demands of those constituencies in its environment from whom it requires support for its continued existence. Under this approach, the organisation is assumed to be an association of political arenas, where vested interests compete for control over resources. It is assumed that the organisation has a number of constituencies, with different degrees of power, each trying to satisfy its demands. The approach seeks to satisfy only those in the environment who can threaten the organisation's survival. Therefore, effectiveness is defined in terms of the degree to which the needs and expectations of the strategic constituencies are met by the organisation.

v. **Competing Values Approach**

The competing values approach assumes that there is "no best" criteria that is valued and used in assessing OE. In essence, a contingency perspective is undertaken for evaluating OE. Accordingly organisation's can be evaluated in different ways. This approach assumes that people within the organisation have diverging goals and therefore cannot arrive at a consensus on which goals take precedence over others. Typically, this is because goals may be based on personal values, preferences, and interests. The competing values

approach assumes that these diverse preferences can be consolidated and organised into a holistic OE approach.

Examiner's comment

The question was structured to test the candidates' understanding of organisational effectiveness and approaches to organisational effectiveness. About 86% attempted the question while about 52% passed. Candidates are advised to interact adequately with the study pack for improved performance in subsequent examinations.