



- C. The ultimate responsibility for detection and prevention of errors and frauds rests with the assurance parties
  - D. Assurance renders financial statements free from all sorts of errors and frauds
  - E. The responsibility of preparing and presentation rests with the board of directors
5. Which of the following is **NOT** an advantage of an audit?
- A. Settlement of dispute between partners
  - B. To determine basis of changes in ownership of entities
  - C. Present reliable information for lending institutions
  - D. To present avenue for auditors benefits
  - E. To provide assistance to the auditee entity
6. The confidentiality principle can be breached by the auditor for the following reasons, **EXCEPT**
- A. Auditor knows client has committed kidnapping offence
  - B. There is a public duty to disclose
  - C. Information is required by the auditor for another client
  - D. Disclosure needed to protect auditor's own interest
  - E. Auditor knows client has committed treason
7. Which specific technique does the auditor use to assess control risk?
- A. Inquiry and analytical procedures
  - B. Re-performance and observation
  - C. Comparison and confirmation
  - D. Inspection and verification
  - E. Reassessment and re-performance
8. What name is given to a sample selection method where each item of the population has equal chance of being selected?
- A. Stratified sampling
  - B. Multistage sampling
  - C. Simple Random sampling
  - D. Discovery sampling
  - E. Judgemental sampling
9. In planning for the stock taking exercise, the auditor should do the following, **EXCEPT**
- A. Review his working papers for the previous year
  - B. Familiarise himself with the nature and volume of the stocks

- C. He should check replies from third party about the stocks held by or for them
  - D. Examine the way the stock is to be organised and the adequacy of client's stocktaking instruction
  - E. Establish whether expert's help needs to be obtained
10. Which of the following is **NOT** contained in an asset register?
- A. Date of purchase
  - B. Estimated residual value
  - C. Original cost
  - D. Estimated replacement cost entered at annual interval
  - E. Nature of what the asset is used for
11. Under which of the following conditions will a negative external confirmation **NOT** be used by an auditor?
- A. A Substantial number of errors is not expected
  - B. A large number of small balances is involved
  - C. Where the auditor has reason(s) to believe that respondents will disregard these requests
  - D. The assessed risk of material misstatement is lower
  - E. The probable cost of the circularisation outweigh the probable benefit accruable to the auditor in respect of the audit
12. Which of the following is **NOT** contained in current audit file?
- A. A copy of the accounts being audited
  - B. A description of the internal control system
  - C. List of accounting matters of importance e.g. accounting policies
  - D. Cross reference to the internal control record and letter of weakness
  - E. A schedule of important statistics including output sales composition, employment, accounting ratios
13. The auditors make judgements about many matters throughout the course of the audit where knowledge of the business is important. Which of the following is **NOT** part of those matters?
- A. Developing the overall audit plan and the audit programme
  - B. Evaluating accounting estimates and management representations
  - C. Assessing inherent and control risks
  - D. Deciding on the auditability of the client
  - E. Identify related parties and related party transactions

14. Which of the following is **NOT** the reason for setting up internal control by an organisation?
- A. Prompt recording of all transactions at the correct values into appropriate accounts
  - B. Transactions are executed with proper authorisation and approval
  - C. Custody and access to assets is limited to authorised personnel
  - D. That person performing any activities should acknowledge their activities by means of signatures, initials
  - E. All actions by all level of staff can be performed independently
15. How long should a complete internal control questionnaire last during which only updating would be necessary?
- A. Only One year
  - B. Approximately three years
  - C. Approximately five years
  - D. Approximately seven years
  - E. Approximately ten years
16. Identify from the statements below which one is **NOT** an objective of internal auditing
- A. Establishment of adequate internal control
  - B. Effectiveness and efficiency of the entity operations including non-financial controls
  - C. Monitoring of internal control
  - D. Review compliance with statutory laws and regulations
  - E. Ensures compliance with management policies and directives
17. Auditors use third party evidence for various reasons, **EXCEPT**
- A. To seek expert's opinion on certain aspects of the entity business
  - B. To seek complimentary evidence in addition to audit evidence obtained from within the entity
  - C. To confirm information obtained from within the entity
  - D. To clearly state the extent of the auditor's responsibilities
  - E. It tends to be more objective and reliable
18. Which of the following is **NOT** a purpose of an engagement letter?
- A. To clearly define the responsibilities of each party under statute and contract to prevent misunderstandings
  - B. To explain the objective and scope of the audit
  - C. To highlight the area of weaknesses within the entity's system
  - D. To explain the form of audit report to be issued

- E. To explain the basis on which fees will be computed
19. Which of the following letters confirm the acceptance and understanding of the audit assignment?
- A. Letter of Representation
  - B. Letter of Consent
  - C. Comfort Letter
  - D. Engagement Letter
  - E. Management Letter
20. Which of the following can result in the tenure of the Auditor-General of your country to be terminated prematurely?
- A. Age
  - B. Religion
  - C. Educational background
  - D. Financial status
  - E. Mental ill-health
21. Which of the following is the overall objective of the responsibilities of the Auditor-General?
- A. To defend the accounts in the relevant court of law
  - B. Reporting on the excess crude oil account
  - C. To verify the amount of funds allocated to the various tiers of Government
  - D. Forming an opinion on whether the accounts are properly kept
  - E. To report on the need to request for external funds needed to finance Government activities
22. Which of the following describes the type of audit that traces the causes of any inefficiencies or uneconomical practice?
- A. Value- for- money audit
  - B. Compliance audit
  - C. Verification audit
  - D. Economy and efficiency audit
  - E. Financial audit

23. Which of the following is the **RIGHT** order of the phases involved in the value for money audit?
- A. Evaluation → implementation → planning → scooping → proposal
  - B. Proposal → planning → Scooping → Implementation → Evaluation
  - C. Proposal → Evaluation → Planning → Implantation → Scooping
  - D. Proposal → Scooping → planning → Implementation → Evaluation
  - E. Planning → Implementation → Scooping → proposal → Evaluation
24. Which of the following is **NOT** a criterion in assessing the internal audit function?
- A. Scope of function
  - B. Technical competence
  - C. Test of controls
  - D. Organisational status
  - E. Due professional care
25. To assist the engagement partner in financial statement review and audit clearance, what does the assurance team need to prepare?
- A. Audit completion check-list
  - B. Report to Partner
  - C. Letter of Representation
  - D. Issues documentation
  - E. Forensic report
26. A group set up with the intent of standing between the external auditors and the client company's directors is technically referred to as .....
- A. Budget committee
  - B. Finance committee
  - C. Audit committee
  - D. Performance appraisal committee
  - E. Management committee
27. Which of the following is **NOT** applicable in signing the audit report by an auditor?

- A. Engagement auditor's signature
  - B. Audit team leader's signature
  - C. Engagement auditor's registration number
  - D. Institute's stamp and seal
  - E. Date of the report
28. The working papers relating to a current year's audit are stored in a file called?
- A. Current Audit File
  - B. Permanent Audit File
  - C. Correspondence file
  - D. Box file
  - E. Working papers file
29. The final review of the draft financial statements covered many matters. Which of the following is very crucial?
- A. That audit committee is functional
  - B. That no audit queries is outstanding
  - C. All subsequent events are disclosed/captured
  - D. Directors' signatures are appended
  - E. All subsequent events are reviewed
30. Which of the following is **NOT** included as Assurance completion procedure?
- A. Drafting the audit report
  - B. Field work completion
  - C. Engagement partner sign-off
  - D. Filing the audit report
  - E. Debriefing

**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. Auditors are generally appointed by the shareholders (members) of a company in a general meeting by ordinary resolution to hold office from the conclusion of that annual general meeting to .....
2. The responsibility for the prevention and detection of fraud and errors rests with .....through the implementation and continued operation of adequate accounting and internal control systems.

3. A rule that guarantees that an auditor is not involved in financial relationships such as borrowing and giving guarantee of binding to a client except where the ordinary activity of the client is to lend, is instituted to strengthen .....
4. Assurance procedure deemed necessary in the circumstances to achieve the objective of the audit is called .....
5. When issuing an unmodified assurance report, the auditor can refer to the work of an expert relied upon, **(True or False)?**
6. The document which the auditors prepare or obtain in connection with the performance of their audit work is called .....
7. Financial statements are usually prepared under the presumption that the audited entity will continue to exist and carry on business .....
8. **TWO** methods of obtaining audit evidence are ..... and .....
9. The independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation is .....
10. The overall attitude, awareness and actions of management regarding internal control is described .....
11. A method of obtaining audit evidence which involves studying of significant ratios, trends and investigation of unusual variations is known as .....
12. The materials and documents prepared by and for, or obtained and retained by the auditor in connection with the performance of the audit is called.....
13. The document that defines the functions of the Auditor-General is called.....
14. The acronym "SCARF" stands for ..... in Assurance work.
15. The process of creating a fictitious entity within the framework of the regular application in order to keep a constant check on the internal processing functions is known as .....
16. The Act that was established to inspire confidence of suppliers/contractors in the public procurement process which ensures that sanctions are meted out for negligence or deliberate desire to engage in sharp practices is .....



#### QUESTION 4

An Auditor employs various tests in arriving at his opinion on Financial Statements during assurance engagements.

**You are required to:**

- a. List and explain **FOUR** tests employed by auditors. (8 Marks)
  - b. Briefly discuss the procedures involved in **THREE** tests used by auditors. (4½ Marks)
- (Total 12½ Marks)**

#### QUESTION 5

- a. What do you understand by the term “Peer Review”? (2 Marks)
  - b. State the reasons why Peer Review was introduced. (3 Marks)
  - c. State the reasons why Peer Review is not common. (3 Marks)
  - d. What reports are the reviewers expected to provide after the Peer Review? (4½ Marks)
- (Total 12½ Marks)**

#### QUESTION 6

- a. State the advantages and disadvantages of Internal Control Questionnaires (ICQ). (4 Marks)
  - b. Generally, there are **TWO** methods of flowcharting. State and explain the methods. (4 Marks)
  - c. State **THREE** points of interest when internal control questionnaire (ICQ) is to be used. (4½ Marks)
- (Total 12½ Marks)**

#### SOLUTIONS

##### Multiple Choice Questions

1. C
2. C
3. B
4. E

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

### **SHORT ANSWER QUESTIONS**

1. Conclusion of the next Annual General Meeting
2. Management
3. Independence of auditors
4. Test of controls
5. False
6. Audit working papers
7. To an unforeseeable future
  
8. Any two of the following:
  - Physical inspection of tangible assets
  - Observations
  - Inquiry
  - Confirmation
  - Analytical procedure
  - Recalculation

- Inspection of records or documents
- 9. Internal Auditing
- 10. Control environment
- 11. Analytical review
- 12. Audit working papers
- 13. The “green paper”
- 14. System Control and Review File
- 15. Integrated Test Facility
- 16. Public Procurement Act
- 17. Due diligence
- 18. Any two of:
  - (i) Purchases and Creditors
  - (ii) Inventory and Cost of sales
  - (iii) Debtors and sales
  - (iv) Debtors and bad debt expenses
  - (v) Loan and Loan Interest
- 19. Quick or Acid Test Ratio
- 20. Highly geared

### **SOLUTION TO QUESTION 1**

- (a) The appointment of auditor of a public company can be made by the following persons:
  - (i) The directors of the Company: The first auditor of the Company is appointed by the directors of the Company.
  - (ii) In case of casual vacancy, the directors have powers to appoint an auditor to fill the vacancy.
  - (iii) The shareholders appoint auditors at every Annual General Meeting.
- (b) Only the shareholders of the company can remove the auditor of a public company.
- (c) The statutory duties of the auditor are as follows:
  - (i) To make a report to the members of the company on all accounts and financial statements laid before the members in Annual General Meeting.
  - (ii) To state whether the financial statements of the company show a true and fair and have been properly prepared in accordance with the provisions of the law.
  - (iii) To consider if any information in the Directors’ report is inconsistent with the accounts and to report the facts if there are any of such instances.
  - (iv) To form an opinion as to whether proper accounting records have been kept by the Company, proper returns adequate for their audit have been received from branches not visited by the auditor, the company’s Statement of Financial Position and its Statement of Comprehensive Income are in agreement with the accounting records and returns.

- (v) To outline in his report, details of directors' remunerations, loans to officers, transactions involving directors and other connected persons (if not disclosed in the financial statements themselves).
  - (vi) To make other special reports in various circumstances; and
  - (vii) To make a "Statement of circumstances" when he ceases to hold the office for any reason.
- (d) The statutory rights of auditors under the Companies and Allied Matters Act Cap C20 LFN 2004 are as follows:
- (i) Right of access at all times to books of accounts and vouchers of the company.
  - (ii) Right to acquire from the officers, including the directors of the company, such information and explanations as are deemed necessary for the performance of the auditors' duties.
  - (iii) The right to attend any general meeting of the company and to receive notices of, and other communications relating to any general meeting on any part of the business of the meeting which concerns them as auditors.
  - (iv) The right before accepting appointment as auditor of a company to communicate with the retiring auditor, if any.
  - (v) The right to be notified in writing in the event of an intended resolution to remove them or appoint some other persons in their stead, to submit a written statement which must be circulated to members and be read, if so required, at the general meeting.
  - (vi) The right to apply to the court for directions in relation to any matter arising in connection with the performance of their functions under the code, and have the costs of any application met by the company, unless directed by the court.

## **SOLUTION TO QUESTION 2**

- (a) Vouching: It is an audit procedure which involves proving the authenticity of recorded transactions. It relates to the examination of documentary evidences supporting transactions in order to obtain audit evidence as to their completeness, accuracy and validity.
- (b) Information that an auditor will be looking for checking payment vouchers:
- (i) Approval of the transaction through appropriate signatory confirmation.
  - (ii) Testing whether the internal control system is working appropriately.
  - (iii) Confirming the amount/cost of the transaction
  - (iv) Checking for the date of the transaction.
  - (v) Acknowledgement of the payment.
  - (vi) Supporting documents.
  - (viii) Serial number of the voucher.
- (c) Reasons why an auditor will be considering two of the 2 (b) above:

- (i) To confirm the existence of internal control.
- (ii) To confirm compliance with the control in existence.
- (iii) To confirm the occurrence and validity of a transaction.
- (iv) To confirm that the payment was made for the goods or services the company engages in.
- (v) To confirm that the payment voucher was approved by the authorised personnel.
- (vi) To confirm that the payment was made to the right person.

### **SOLUTION TO QUESTION 3**

- (a) Internal Control Reporting is the process of communicating weaknesses identified in the accounting and internal control system of an entity by the auditor to the management of that entity through a letter called management letter or letter of weakness. It also makes recommendations on how to rectify the weaknesses.
- (b) Purposes of Internal Control Reporting:
  - (i) To inform management of any significant weakness in accounting and internal control system.
  - (ii) To let the management be aware of the implications of those weaknesses on the financial statements and the business as an entity.
  - (iii) To recommend improvements to the system which the auditor considers necessary.
  - (iv) To serve as evidence in case of litigation.
- (c) Basic elements of the external auditor's report.
  - (i) Title
  - (ii) Addressee
  - (iii) Auditor's opinion
  - (iv) Basis of opinion
  - (v) Key audit matters
  - (vi) Other information
  - (vii) Responsibilities of management
  - (viii) Auditor's responsibilities
  - (ix) Other reporting responsibilities
  - (x) Name of the engagement partner
  - (xi) Signature
  - (xii) Auditor's address
  - (xiii) Date

### **SOLUTION TO QUESTION 4**

- (a) Test employed by auditors:
  - (i) Compliance Test/Test of Controls

- (ii) Analytical procedure
- (iii) Walk-through or system verification test
- (iv) Test of details / Substantive Test

### **Explanation**

- (i) Compliance tests are the tests that seek to provide audit evidence that internal controls are being applied as prescribed.
  - (ii) Analytical procedure deals with the evaluations of financial information made by a study of plausible relations among both financial and non-financial data. It also involves the computation of ratios, studying of trends and making use of other statistical calculations and comparison with appropriate basis in order to identify and investigate unusual fluctuations of items,
  - (iii) Walk through tests are the tests that trace transactions from where they originate in the system through the various stages in the system and to where they are concluded and recorded. The main reason for carrying out walk through test is to ascertain and confirm the correctness of both the accounting and internal control system. It also helps to confirm whether the transactions are complete, accurate and valid. Walk through test can be described as cradle to grave test.
  - (iv) Test of details involves subject of identified transactions to specific tests to confirm that they are properly treated in the financial statements and they are appropriately part of the balances of accounts to which they relate.
- (b) Procedures involved in tests used by auditors
- (i) Test of Controls / Compliance Test deals with evaluating the operating effectiveness of controls established by management. Auditors rely on the effectiveness of internal controls in order to determine the amount of audit work that would be done and the reliability of records leading to the financial statements being examined.

Where the auditor assesses control and found it to be high, he would reduce the amount of audit work to be done at the substantive audit level especially details and vice versa.

Where the auditor intends to rely on the controls available within the entity, those controls must be tested for reliability.

Through systems description, the auditor obtains knowledge of the controls implemented by client and he carries out an assessment of those controls to ascertain whether they are working effectively by:

- Taking a sample of controls he obtained during system description.

- Checking whether the controls are sufficiently strong by observing the way they are applied.
  - Drawing conclusions as regard their reliability.
- (ii) **Walk through Tests:** The auditor obtains knowledge of the procedures and how they are applied through the system. He takes samples of the records of the transactions and forms, traces them through the system from initiation to completion. The auditor carries out this process so that he will determine whether those procedures are being followed as described.

Based on the result of this test, the auditor will determine whether he will modify his understanding of the procedures.

- (iii) **Analytical procedures** can be carried out at the early stage of the audit and during the conclusion of the audit. At the commencement of the audit, the auditor obtains an understanding of the various components of the financial statements presented to him, carries out the various ratios and trend analysis on the financial statements. This enables him to obtain a peak view into the financial situation of the company thereby forming his expectations regarding the company's financial affairs.

At the end of the audit, the auditor will review the ratios, trends and plausible relationship of the balances and components of the financial statements to ascertain how realistic the financial statements are and whether they agree with his expectations as established at the commencement of the audit.

## **SOLUTION TO QUESTION 5**

- (a) **Peer review** is the process in which two firms of comparable size review the audit work of each other.

It involves a review of an audit firm's system, procedures and strategies by another firm of comparable size, reputation and standard.

It is the process through which firms have agreed to set up mechanisms for the review of the processes adopted by each other with a view to identifying practice weaknesses which could be addressed to improve the quality standards in the respective practices.

- (b) **Reasons why Peer review was introduced:**
- (i) To check whether the audit work was carried out to proper professional standard.
  - (ii) To ensure uniformity in the application of auditing standards.
  - (iii) To mitigate the incidence of litigation giving rise to losses.

- (iv) To improve the image/reputation of professional practices.
- (c) Reasons why Peer review is not common:
  - (i) Cost may be prohibitive
  - (ii) Legality and confidentiality of allowing others to go through a client's file is not protected.
  - (iii) Exposure of one's procedure and standard to competing audit firm is inevitable.
- (d) Reports Reviewers are expected to provide after Peer review:
  - (i) Acceptance and retention of client.
  - (ii) Means of engaging, training, allocating and motivating staff.
  - (iii) Independence, integrity and competence.
  - (iv) The conduct of individual audit and other engagements.

### **SOLUTION TO QUESTION 6**

- (a)
  - (i) Advantages of Internal Control Questionnaire (ICQ):
    - If drafted thoroughly, it can ensure that all controls are considered.
    - It is quick to prepare.
    - It is easy to use and control. A Manager or Partner reviewing the work can easily see what has been done.
    - It provides a comprehensive documentation of the client's system.
    - It is easy to complete and review as no special skills are required.
    - It highlights the existence or otherwise of controls within the client's system.
  - (ii) Disadvantages of Internal Control Questionnaire (ICQ):
    - The client may overstate controls.
    - Internal control questionnaire may contain a large number of irrelevant controls.
    - Internal control questionnaires can give the impression that all controls are of equal weight.
    - It may inhibit the initiative of the audit staff.
    - It is often difficult to design a standard internal control questionnaire.
    - Where extensive narration is required, Internal Control Questionnaire is usually inadequate and must be supported by narrative notes.
    - It may not include unusual controls which are nevertheless effective in particular circumstances.
- (b) The two methods of flowcharting are:
  - (i) Document flowcharting and
  - (ii) Information flowcharting

- (i) Document flowcharts are more commonly used because they are relatively easy to prepare. They show that:
    - All documents are followed through from beginning to the end.
    - All operations and controls are shown.
  - (ii) Information flowcharts are prepared in the reverse direction from the flow.
    - They start with the entry into the accounting records and work back to the actual transaction.
    - They concentrate on significant information flow and ignore any unimportant copies of document.
    - They are easy to understand, but require skill and experience to compile.
- (c) Three points of interest when Internal Control Questionnaire is to be used are:
- (i) Existence of control in a particular area of operation.
  - (ii) Compliance of the controls.
  - (iii) Strength and weakness of the control.



4. Which of the following is **NOT** a collectable tax by the Federal Inland Revenue Service?
- A. Value Added Tax
  - B. Capital Gains Tax for corporate bodies
  - C. Pools Betting and Casino Taxes
  - D. Education Tax
  - E. Stamp Duties on documents of non-residents
5. All companies operating in the Capital Market are expected to file monthly returns to the Relevant Tax Authority not later than seven (7) days after the end of each calendar month. Which of the following information is **NOT** in the returns filed by companies in the Secondary Market?
- A. Services rendered
  - B. Number and value of transactions
  - C. Commission received
  - D. Amount of tax deducted at source
  - E. Amount of Value Added Tax payable
6. Which of the following is **NOT** correct about payment of Minimum Tax in Nigeria?
- A. Minimum tax applies when the ascertainment of total assessable profit from all sources results in a loss
  - B. Minimum tax applies where the ascertained tax on profit is less than the minimum tax computed based on CITA
  - C. For minimum tax to apply, the company must have carried on business for not less than four calendar years
  - D. Minimum tax for both individuals and companies is 1% of total income
  - E. When a company has no profits as a result of the capital allowances and losses incurred

7. Which of the following is **NOT** a source of income of an individual that are liable to tax?
- A. Gains or profits from trade, business, profession or vocation
  - B. Emoluments from employment, benefits-in-kind and bonus
  - C. Dividend, Interest or rent
  - D. Compensation for loss of office
  - E. Any Charge or Annuity
8. Which of the following is **NOT** an allowable deduction for Personal Income Tax computation?
- A. A sum payable by way of interest
  - B. Expenses on research
  - C. Depreciation of asset
  - D. Bad debts
  - E. Rent for the period
9. Which of the following is part of a tax system?
- A. Tax shifting
  - B. Tax yield
  - C. Tax laws
  - D. Tax incidence
  - E. Tax effect
10. Unearned income means
- A. Income from employment only
  - B. Income from business only
  - C. Income received by way of gift
  - D. Income from trade, business, profession and employment of a person
  - E. Income from sources such as rent, dividend and interests from investments

11. Which of the following is **NOT** covered under Personal Income Tax in Nigeria?
- A. Taxation of employees
  - B. Taxation of pioneer companies
  - C. Taxation of sole traders
  - D. Partnership assessment
  - E. Taxation of estates, trusts and settlements
12. Which of the following is **NOT** a member of the Technical Committee of the State Board of Internal Revenue?
- A. Chairman of the State Board of Internal Revenue
  - B. Directors within the State Service
  - C. Legal Adviser to the State Service
  - D. Secretary of the State Service
  - E. Honourable Commissioner for Finance
13. For expenditure to qualify for capital allowances, which of the following conditions need **NOT** be satisfied?
- A. Capital expenditure must be incurred on the asset
  - B. The asset may not be owned by the person claiming the allowance
  - C. The ownership of the asset must not be in doubt
  - D. The asset must be in use at the end of the basis period
  - E. A claim must be in writing by the taxpayer for the allowances to be granted
14. A small business is one whose turnover does **NOT** exceed
- A. ₦250,000
  - B. ₦500,000
  - C. ₦750,000
  - D. ₦1,000,000
  - E. ₦10,000,000
15. Under the Companies Income Tax Act, 2004 (as amended), which of the following donations is **NOT** allowable for tax purposes?
- A. Donations made out of loss
  - B. Donations to National Youth Council of Nigeria

- C. Donations not of a capital in nature
  - D. Donations to the National Library
  - E. Donations below ten percent of the company's Total Profits before the deduction of the donation
16. A claim for the revision of Assessable Profit of a foreign air or sea transport company from a "fair percentage" basis to "Adjusted Profit/Depreciation Ratio" basis is valid only if made within ..... years after the end of the relevant assessment year.
- A. 3
  - B. 4
  - C. 5
  - D. 6
  - E. 10
17. Under Companies Income Tax Act, 2004 (as amended), any company which fails to file returns within the stipulated period allowed by the law is liable to pay
- A. ₱10,000 in the first month and ₱10,000 for each subsequent month in which the failure continues
  - B. ₱20,000 in the first month and ₱5,000 for each subsequent month in which the failure continues
  - C. ₱20,000 in the first month and ₱10,000 for each subsequent month in which the failure continues
  - D. ₱25,000 in the first month and ₱5,000 for each subsequent month in which the failure continues
  - E. ₱25,000 in the first month and ₱10,000 for each subsequent month in which the failure continues
18. Under the Companies Income Tax Act, 2004 (as amended), all companies are allowed to carry forward their losses indefinitely, **EXCEPT** companies in ..... industry.
- A. Construction
  - B. Telecommunication
  - C. Food and beverage
  - D. Banking
  - E. Insurance

19. Which of the following is **NOT** exempt chargeable gain?
- A. Gains accruing to any Local Government Council
  - B. Gains accruing in connection with the disposal of an interest in or the right under any policy of assurance of contract for a deferred annuity on the life of any person
  - C. Gains on stocks and shares of every description
  - D. Capital gains accruing to a diplomatic body
  - E. Gains on options, debts and incorporated property generally
20. Capital Gains Tax on individuals is payable to
- A. State Board of Internal Revenue
  - B. Federal Inland Revenue Service
  - C. Joint Tax Board
  - D. Body of Appeal Commissioners
  - E. Committee of Ministers
21. Tax system includes the following
- A. Tax law
  - B. Tax administration
  - C. Tax policy
  - D. Tax law, tax policy and tax administration
  - E. Tax policy and tax law
22. Which of the following tax laws is **NOT** included in Nigerian legislations?
- A. Capital Gains Tax Act Cap C1 LFN 2004
  - B. Tax Law Cap Act C.22, LFN 2004 (as amended)
  - C. Personal Income Tax Act Cap C21, LFN 2004 (as amended)
  - D. Value Added Tax Act VI, LFN 2004 (as amended)
  - E. Petroleum Profits Tax Act Cap P13, LFN 2004 (as amended)
23. Which of the following is **NOT** a principle of Taxation?
- A. Economy of collection
  - B. Convenience

- C. Certainty
  - D. Efficiency
  - E. Direct Tax
24. Which of the following is **NOT** a merit of Indirect Taxation?
- A. The cost of collection may be higher
  - B. It is more difficult to evade
  - C. It is a good source of revenue to government
  - D. It can be adjusted easily
  - E. It can be used to protect infant industries
25. For individuals, the time limit for remittance of Withholding Tax to the relevant tax authority is ..... days.
- A. 7
  - B. 14
  - C. 21
  - D. 30
  - E. 60
26. Under Withholding Tax for individual, Directors' fees is charged at
- A. 5%
  - B. 10%
  - C. 15%
  - D. 20%
  - E. 30%
27. Which of the following is **NOT** a benefit of Withholding Tax System?
- A. It helps to broaden the tax base
  - B. It helps to bring obscure transactions to the notice of the tax authorities
  - C. It makes tax payment less cumbersome
  - D. It provides opportunity for a taxpayer to make more money
  - E. It reduces the incidence of tax evasion
28. Which of the following is **NOT** exempted from VAT?
- A. Medical and Pharmaceutical products

- B. Basic food items
- C. Baby products
- D. Private vehicle
- E. All exports

29. Which of the following is **NOT** a VAT exempt service?

- A. Services of commercial banks
- B. Services related to education
- C. Medical services
- D. All exported services
- E. Plays conducted by educational institutions

30. Which of the following is **NOT** an instrument assessed by Fixed Stamp Duties?

- A. Proxy forms
- B. Payment receipts
- C. Property valuation
- D. Bank notes or bills payable at sight
- E. Guarantor form

**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 Tax Authority at the Local Government level is referred to as .....
2. What constitutes a quorum of the Joint Tax Board (JTB) .....
3. The minimum penalty for failure to pay Company Income tax is ..... % of the unpaid tax.
4. The Relevant Tax Authority for members of the Nigeria Police Force is .....
5. Every employer is required to file returns with the Relevant Tax Authority of all emoluments paid to its employees, not later than ..... of every year in respect of all employees in its employment in the preceding year.

6. State Board of Internal Revenue shall constitute a quorum when there are ..... members in attendance.
7. The tax law that regulates the assessment and collection of taxes in the downstream sector of the oil industry is .....
8. Under Personal Income Tax (Amendment) Act 2011, an employee living in official quarters would be liable to ..... of the rateable value of such quarter.
9. When the total capital allowances for the year have been computed, the amount thereof to be deducted from Assessable Profits of a trading organisation under the Companies Income Tax Act, 2004 (as amended) is restricted to .....
10. The relevant years of assessment under the commencement rule for companies are the .....
11. Grace Nigeria Limited's financial statements for the year ended 31 December 2019 disclosed a net profit of ₦15,200,000 after charging the following:
 

	₦
Salaries and Personnel Cost	4,100,000
Rent paid on Managing Director's residential accommodation	2,000,000
Depreciation	1,400,000
Penalties and fines	200,000

The Adjusted Profit is .....
12. The formula for the determination of Adjusted Profit Ratio for air and sea transport companies is .....
13. Capital gains on the disposal of a landed property through ..... acquisition by the government is exempted from Capital Gains tax.
14. Capital Gains Tax will apply only when the asset is .....
15. **TWO** examples of indirect tax are ..... and .....
16. The principle of tax system that accepts the structure and rates of tax, which could be altered without much difficulty, is known as.....
17. In Nigeria, an individual who is a taxpayer is required to file the Withholding Tax returns latest by the .....
18. Failure to deduct Withholding Tax attracts a fine of .....

19. Payment of Value Added Tax (VAT) should be effected not later than ..... following the month of transaction.
20. Value Added Tax (VAT) came as a replacement of .....

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

**QUESTION 1**

- a. Section 23 of the Companies Income Tax Act, 2004 (as amended) contains the list of profits or gains of companies that are exempted from companies' taxation.

**You are required to:**

Explain **THREE** of such profits. (6 Marks)

- b. Briefly discuss the provisions of the Companies Income Tax Act, 2004 (as amended) in respect of taxation of companies in Export Processing Zone (EPZ) or Free Trade Zone (FTZ) and Local plants and fabrication of spare parts.

(6½ Marks)

**(Total 12½ Marks)**

**QUESTION 2**

- a. Write short notes on **TWO** taxes that relate to real property transactions in Nigeria. (5 Marks)

- b. Describe agricultural business and its tax implication as defined in the Companies Income Tax Act 2004 (as amended). (2½ Marks)

- c. Itemise the allowable rental expenses in computing the gain or profit from rental income for tax purposes. (5 Marks)

**(Total 12½ Marks)**

**QUESTION 3**

International Telecommunication Limited is based in Toronto, Canada but has a representative office in Nigeria. It provides telecommunication services between Toronto, Nigeria and other parts of the world.

The Company's financial results for the year ended 31 December 2019 are as follows:

(i)

	<b>₦'000</b>
Income from voice, text messages and data services:	
From Canada to other parts of the world	720,850
From Canada to Nigeria	65,070
From Nigeria to Canada	83,680
From Nigeria to other parts of the world	<u>320,400</u>
	<u><b>1,190,000</b></u>

(ii) The global expenses incurred include:

	<b>₦'000</b>
Salaries and wages	80,000
Depreciation	61,880
Administrative expenses	95,200
Rent	25,000
Non-allowable expenses	<u>10,000</u>
	<u><b>272,080</b></u>

**You are required to:**

Determine the tax liability of the company for the relevant year of assessment.

**(Total 12½ Marks)**

#### **QUESTION 4**

STEPHANO GRID NIGERIA LIMITED has for many years prepared accounts to 31 December, but in 2017, the company decided to prepare a sixteen-month accounts to 30 April. The Adjusted Profits are as follows:

	<b>₦</b>
12 months to December 31, 2015	270,000
12 months to December 31, 2016	360,000
16 months to April 30, 2018	504,000
12 months to April 30, 2019	216,000

**Required:**

Compute the Assessable Profits for the relevant years of assessment.

**(Total 12½ Marks)**

## QUESTION 5

Apex Limited has been in business for many years. It is engaged in the importation and distribution of shoes. Owing to declining sales, the company decided to cease trading. However, the Chairman of the company could not make up his mind whether or not to cease trading on December 31, 2018 or February 28, 2019.

Recent accounts adjusted for tax purposes revealed the following Adjusted Profits:

	₦
Year ended 30 September 2014	80,000
Year ended 30 September 2015	75,000
Year ended 30 September 2016	40,000
Year ended 30 September 2017	56,000
Year ended 30 September 2018	42,000
3 months ended 31 December 2018	15,000

### Required:

Determine Assessable Profits for the relevant years of assessment and indicate what difference it would make if business ceased on 28<sup>th</sup> February 2019, assuming profit of ₦35,000 for 5 months to February 2019.

**(Total 12½ Marks)**

## QUESTION 6

Mr. Ehis Marvel completed his degree programme at one of the private universities in Ogun State in 2018. After waiting for a while to get his result released, he applied for employment as a temporary laboratory attendant in the same institution on a salary grade level 01 Step 4. He accepted the offer and assumed duty on January 1, 2019.

Details of his employment contract for the year 2019 are as follows:

- (i) Salaries per annum ₦230,000
- (ii) Contribution to Pension scheme 8% of consolidated salaries
- (iii) Contribution to National Housing Fund 2½% of consolidated salaries

Mr. Ehis has an aged mother on whom he spends only ₦2,000 per month on her upkeeps.

Mr. Ehis is married and has a child, aged 5 years.

### Required:

- a. Compute the annual tax payable by Mr. Ehis for the assessable year.  
(8½ Marks)
  - b. List the benefits of applying computer models in tax administration.  
(4 Marks)
- (Total 12½ Marks)**

# NIGERIAN TAX RATES

## 1. CAPITAL ALLOWANCES

	Initial %	Annual %
Office Equipment	50	25
Motor Vehicles	50	25
Office Buildings	15	10
Furniture and Fittings	25	20
Industrial Buildings	15	10
Non-Industrial Buildings	15	10
- Agricultural		
Plant and Machinery		
Production	95	Nil
- Others	50	25

## 2. INVESTMENT ALLOWANCE

10%

## 3. RATES OF PERSONAL INCOME TAX

Graduates 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

5%

## **SOLUTION - MCQs**

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

## **EXAMINERS' REPORT (MCQs)**

The Multiple Choice Questions (MCQs) cover the entire syllabus. All the candidates attempted the questions.

## **SOLUTION - SAQs**

1. Local Government Revenue Committee
2. Any seven member of the Board or their representatives
3. 10%
4. Federal Inland Revenue Service
5. 31<sup>st</sup> January
6. 5
7. Companies Income Tax Act
8. 5%
9. 66 <sup>2</sup>/<sub>3</sub> %
10. First 3 years
11. ₦ 16,800,000
12. Adjusted Profit Ratio =  $\frac{\text{Adjusted Profit}}{\text{Worldwide Income}} \times 100$
13. Forced or Compulsory
14. Disposed off
15. Import duty, Export duty, VAT
16. Flexibility
17. End of the following month
18. 10% of tax not filed in case of companies and higher of ₦ 5,000 or 10% of tax not deducted or remitted in case of individuals or unincorporated entities
19. 21 days
20. Sales Tax

## **EXAMINERS' REPORT (SAQs)**

These Short Answer Questions which cut across the syllabus were attempted by all the candidates.

### **SOLUTION TO QUESTION 1**

(a) Profits exempted from tax

- (i) The profits of any company being a statutory or registered friendly society
- (ii) The profits of registered cooperative society
- (iii) The profits of any company engaged in ecclesiastical, charitable or educational activities of a public character
- (iv) The profits of any company formed for the purpose of promoting sporting activities where the profits are wholly expendable for such purpose
- (v) The profits of any company being a trade union registered under any Trade Union Act
- (vi) Dividend distributed by Unit Trust
- (vii) Dividend derived by a company from another company incorporated in Nigeria
- (viii) The profits of any company engaged in petroleum operations whose profits are taxable under Petroleum Profits Tax Act
- (ix) The profits of any company established by or under any Local Government Law or Edict in force in any state of Nigeria
- (x) The profits of anybody corporate being a purchasing authority established by an enactment and empowered to acquire any commodity for export from Nigeria from the purchase and sale of that commodity
- (xi) The profits from non-Nigerian companies which, but for this paragraph would be chargeable to tax by reason solely of their being brought unto or received in Nigeria
- (xii) Dividend, interest, rent or royalty derived by a Company from a country outside Nigeria and brought into Nigeria through Government approved channels
- (xiii) The interest on deposit accounts of a foreign non-resident company provided the deposits into the account and transfers wholly of foreign currencies to Nigeria on or after 1<sup>st</sup> January 2004 through Government approved channels
- (xiv) Dividend received from small companies in the manufacturing sector in the first five years of their operation

- (xv) Dividend received from investments in wholly export-oriented business
- (xvi) The profits of any Nigeria Company in respect of goods exported from Nigeria provided that the proceeds from such export are repatriated to Nigeria and are used exclusively for the purchase of raw materials, plants, equipment and spare parts
- (xvii) The profits of a company whose supplies are exclusively inputs to the manufacturing of products for export provided that the exporter shall give a certificate of purchase of the inputs of the exportable goods to the seller of the supplies.

**b) Taxation of Export Free Zone Enterprises**

All companies including foreign ones and individuals operating in any Export Processing Zone or Free Trade Zone in Nigeria are exempted from tax on their profits provided that the undertaking is 100% export oriented.

The manufacturing companies shall include assembling, processing of goods for export provided the value of exported goods is not less than 75% of the total turnover during the assessment year.

This is a tax incentive to encourage the manufacturing of exporting goods so as to diversify the economy and improve the revenue base of the government. This would also provide job opportunities for unemployed people in the country.

**Local Plants and Fabrication of Spare Parts**

The profits of any company in respect of goods exported from Nigeria of which the proceeds of the goods are repatriated to Nigeria and used exclusively for the purchase of plant and equipment and spare parts are exempted from tax.

This applies to those companies which manufacture or fabricate spare parts which can be used as input for exportable goods.

## **EXAMINERS' REPORT (QUESTION 1)**

This is a two-part theory question. Part 'a' is on profits of companies that are exempted from tax. Part 'b' is on taxation of companies in Export Processing Zone and Local Plants and Fabrication of Spare Parts.

## **SOLUTION TO QUESTION 2**

(a) The taxes that relate to real property transactions in Nigeria include:

- i. Land use charge**  
Property owners in Lagos State pay this charge annually. Some other charges that are similar to land use charge are tenement rate and ground rent.
- ii. Stamp duties**  
It is mandatory that all written documents relating to property or interest in property which are transferred or leased to any person should be stamped.
- iii. Personal Income Tax and Companies Income Tax**  
Rent or any premium arising from a right granted to any other persons for the use or occupation of any property is subject to tax.
- iv. Withholding Tax**  
Withholding tax is a tax deducted at source from payments made to a taxable person for the supply of goods and services.
- v. Value Added Tax**  
All tax payers are required to register with the relevant tax authority within six months of commencement of business.
- vi. Tertiary Education tax**  
Companies which are into real estate are expected to pay Tertiary Education tax in addition to Companies Income Tax at a rate of 2% of Assessable Profit.

**b) Agricultural business and its implication:**

Agricultural trade or business is defined in the Act, as any trade or business connected with; the establishment or management of plantations for the production of rubber, oil palm, coffee, tea and similar crops; the cultivation or production of cereal crops, tubers, fruits of all kinds, cotton, beans, groundnut, sheanuts, benised, vegetables, pineapples, bananas and plantains, animal husbandry, that is to say, poultry, piggery, cattle rearing, fish farming, and deep sea fish trawling.

**Tax implication of Agricultural business:**

The following is the tax implication of doing agricultural business in Nigeria:

- (i) Interests on loans to Agricultural business are exempted from tax provided the moratorium periods exceeds 18 months and the interest rate does not exceed the basic lending rate.
- (ii) Agricultural business are charged income tax at small business rate if the business is within its first five years and its turnover is N 1, 000,000 and below and after the five years, agricultural business are liable to tax at 30%.
- (iii) There is no restriction on the amount of capital allowance claimable in any year of assessment.
- (iv) Products of agricultural business are exempted from Value Added tax
- (v) Agricultural company's income tax are computed on a normal basis. It may also be computed using dividend or turnover basis where applicable. Agricultural business are however, exempted from minimum tax provision

**c) Allowable Rental Expenses**

In computing the gain or profit from rental income for tax purposes, the following expenses are allowable deductions.

- (i) Tenement rates or land use charge
- (ii) Cost of collecting rent
- (iii) Cost of advertising for tenants
- (iv) Any expenses incurred for repairs and maintenance of the building;
- (v) Bad debts incurred

- (vi) Interest on money borrowed and employed in acquiring or renovating the property;
- (vii) Commission paid to agent or caretaker;
- (viii) Insurance premium paid on the property; and
- (ix) Water rate

### EXAMINERS' REPORT (QUESTION 2)

This is a three-part theory question. Part 'a' tested candidates' knowledge on taxes that relate to real property transactions. Part 'b' is on agricultural business and its tax implications. Part 'c' is on rental income.

### SOLUTION TO QUESTION 3

(i) Global Income ₦ 1,190,000,000

(ii) Nigerian Income (₦ 83,680,000 + 320,400,000) = ₦ 404,080,000

(iii) Global Adjusted Profit:

Global Income			1,190,000,000
Less: Expenses			
Salaries	80,000,000		
Admin. Exp.	95,200,000		
Rent	<u>25,000,000</u>		<u>200,200,000</u>
			<u>989,800,000</u>

(iv) Adjusted Profit Ratio =  $\frac{\text{Global Adjusted Profit}}{\text{Global Income}} \times 100$   
 $= \frac{989,800,000}{1,190,000,000} \times 100 = \underline{\underline{83.18\%}}$

(v) Depreciation Ratio =  $\frac{\text{Depreciation}}{\text{Global Income}} \times 100$   
 $= \frac{61,880,000}{1,190,000,000} \times 100 = \underline{\underline{5.2\%}}$

$$\begin{aligned} \text{(vi) Nigerian Adjusted Profit} &= \text{Nigerian Income} \times \text{Adjusted Profit Ratio} \\ &= \text{₦ } 404,080,000 \times 83.18\% = \underline{\text{₦ } 336,113,744} \end{aligned}$$

$$\begin{aligned} \text{(vii) Capital Allowance} &= \text{Nigerian Income} \times \text{Depreciation Ratio} \\ &= \text{₦ } 404,080,000 \times 5.2\% = \underline{\text{₦ } 21,012,160} \end{aligned}$$

Determination of Tax Liability for 2016 Tax Year

	₦
Nigerian Adjusted Profit	336,113,744
Less: Capital Allowances	<u>21,012,160</u>
Total Profit	<u>315,101,584</u>
Companies Income Tax @ 30%	94,530,475
Tertiary Education Tax @ 2% of Adjusted Profit	<u>6,722,275</u>
Total tax Liability	<u>101,252,750</u>

**EXAMINERS' REPORT (QUESTION 3)**

This is a standard question on computation of tax liability of a Telecommunication Services Company.

**SOLUTION TO QUESTION 4**

(a) Stephano Grid Nigeria Limited

**Computation of Assessable Profits for the Relevant Years of Assessment**

Year of Assessments	Basic Periods	WORKINGS	Assessable Profits (N)
2016	01/01/2015 - 31/12/2015	Given	270,000
2017	01/05/2015 - 30/04/2016	(Wk 2)	300,000
2018	01/05/2016 - 30/04/2017	(Wk 2)	366,000

2019	01/05/2017 - 30/04/2018	(Wk 2)	378,000
2020	01/05/2018 - 30/04/2019	Given	216,000

### WORKINGS

(Wk 1) Assessable profits for 2017, 2018 and 2019 Tax (Using Old Date – 31 December)  
Years

Tax Years	Basis Periods	WORKINGS	Assessable Profits (₦)
2017	01/01/2016 - 31/12/2016	Given	360,000
2018	01/01/2017 - 31/12/2017	(12/16 × ₦504,000)	378,000
2019	01/01/2018 - 01/12/2018:		
	01/01/2018 - 30/04/2018	(4/16 × ₦504,000)	126,000
	01/05/2018 - 31/12/2018	(8/12 × ₦216,000)	144,000
			<u>270,000</u>
		<b>Total Assessable Profits</b>	<b><u>1,008,000</u></b>

(Wk 2) Assessable profits for 2017, 2018 and 2019 Tax (Using New Date – 30 April)

Tax Years	Basis Periods	WORKINGS	Profits (₦)
2017	01/05/2015 – 30/04/2016:		
	01/05/2015 - 31/12/2015	(8/12 × ₦270,000)	180,000
	01/01/2016 - 30/04/2016	(4/12 × ₦360,000)	120,000
			<u>300,000</u>
2018	01/05/2016 - 30/04/2017:		
	01/05/2016 – 31/12/2016	(8/12 × ₦360,000)	240,000
	01/01/2017 - 30/04/2017	(4/16 × 504,000)	126,000
			<u>366,000</u>
2019	01/05/2017 - 30/04/2018	(12/16 × ₦504,00)	<u>378,000</u>
		<b>Total Assessable Profits</b>	<b><u>1,044,000</u></b>

**Decision:** The Tax Authority will assess 2017, 2018 and 2019 Tax Years on Preceding Year Basis using New dates (30<sup>th</sup> April each Year) because it gives a higher Total Assessable Profits of ₦ 1,044,000 compared to the total assessable profit using the old dates in Wk 1.

### EXAMINERS' REPORT (QUESTION 4)

This is a good question on change of accounting date. The question tested the candidates' knowledge on assessment profits for the relevant years of assessment.

### SOLUTION TO QUESTION 5

(a) Apex Limited

Assessable Profits for the relevant years of assessment if ceased on 31/12/2018:

YOA	Basis Periods	WORKINGS	Assessable Profits (₦)
2015	01/10/2013 - 30/09/2014:	Given	80,000
2016	01/10/2014 - 30/9/2015:	Given	75,000
2017	the higher of:		
	<u>PYB 1/10/2015 - 30/9/2016</u>	<u>Given</u>	<u>40,000</u>
			<b>52,500</b>
	AYB 1/1/2017 - 31/12/2017	$(\frac{9}{12} \times 56,000) + (\frac{3}{12} \times 42,000)$	52,500
2018	AYB 1/1/2018 - 31/12/2018	$(\frac{9}{12} \times 42,000) + 15,000$	<u>46,500</u>
	<b>Total assessable profit up to date of cessation - 31/12/2018</b>		<b><u>254,000</u></b>

(b) Apex Limited

Assessable Profits for the relevant years of assessment if ceased on 28/2/2019:

YOA	Basis Periods	WORKINGS	Assessable Profits (₦)
2015	01/10/2013 – 30/09/2014	Given	80,000
2016	01/10/2014 - 30/9/2015	Given	75,000

2017	1/10/2015 – 30/9/2016	Given		40,000
2018	<b>the higher of:</b>			
	<u>PYB 1/10/2016 - 30/9/2017</u>	<u>Given</u>	<u>56,000</u>	
				<b>56,000</b>
	AYB 1/1/2018 - 31/12/2018	$(\frac{9}{12} \times 42,000) + (\frac{3}{5} \times 35,000)$	52,500	
2019	AYB 1/1/2019 - 28/2/2019	$(\frac{2}{5} \times 35,000)$		<u>14,000</u>
	<b>Total assessable profit up to date of cessation - 28/2/20189</b>			<u><b>265,000</b></u>

**(c) Apex Limited**

**Computation of profit escaping tax on the dates of cessation:**

	31/12/2018	28/2/2019
Total Adjusted profit up to date of cessation (Wk 1)	308,000	328,000
Total Assessable Profit up to the date of cessation	<u>(254,000)</u>	<u>(265,000)</u>
Profit that will escape tax	<u>54,000</u>	<u>63,000</u>

**Decision:** Apex Limited should cease on 28<sup>th</sup> February, 2019 because a higher profit of **₦63,000** will escape tax compared to **₦54,000** that would escape tax if the company ceased on 31 December 2018

**WORKINGS**

(Wk1) Total Adjusted profits up to the dates of cessation:

	31/12/2018	28/2/2019
Year ended 30 September 2014	80,000	80,000
Year ended 30 September 2015	75,000	75,000
Year ended 30 September 2016	40,000	40,000
Year ended 30 September 2017	56,000	56,000



- iii. Reliability of data used, since the bulk of the information items listed in tax computations are generated using computers
- iv. Consistency in the information generated and provided for public consumption.
- v. Improved productivity as less time is spent.

**EXAMINERS' REPORT (QUESTION 6)**

This is a simple question on computation of personal income tax. The question also tested candidates' knowledge of benefits of applying computer models on tax administration.

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

**PART III EXAMINATIONS – MARCH 2020**

**COST ACCOUNTING**

**Time Allowed: 3 hours**

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

**ATTEMPT ALL QUESTIONS**

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

1. Which of the following is **NOT** an objective of Cost Accounting?
  - A. Provision of information to aid planning
  - B. Provision of information to aid fraud investigation
  - C. Provision of information for decision making
  - D. Provision of information to ascertain cost
  - E. Provision of information to fix prices
  
2. Cost Accounting is an integral part of
  - A. Treasury Accounting
  - B. Public Sector Accounting
  - C. Forensic Accounting
  - D. Management Accounting
  - E. Financial Accounting
  
3. Which of the following is **NOT** a feature of Financial Accounting?
  - A. Stewardship function
  - B. Compliance with standards
  - C. Data relates to the past only
  - D. No budget plan
  - E. Facilitates production control
  
4. Which of the following is **NOT** an indirect material cost?
  - A. Cost of lubricating oil in a manufacturing firm
  - B. Cost of stationery
  - C. Cost of consumable materials
  - D. Cost of spare parts for machinery
  - E. Insurance cost of a plant

5. Which of the following is **NOT** a method of costing?
- A. Batch Costing
  - B. Output Costing
  - C. Standard Costing
  - D. Service Costing
  - E. Unit Costing
6. The Accounting Technician is the person who drives the nitty-gritty of information presentations. Which of the following is **NOT** part of the roles of an Accounting Technician?
- A. Following established formats for data compilation
  - B. Monitoring the regularity of data entry
  - C. Checking the accuracy of figures supplied
  - D. Formulating Labour remuneration policy
  - E. Providing explanatory notes on trends observed in the reports
7. Which of the following is **NOT** part of material costs?
- A. Cleaning materials
  - B. Raw materials
  - C. Fixed assets
  - D. Work in progress
  - E. Packing materials

**Use the following information to answer questions 8 and 9**

Patty Limited provides the following data on the pattern of labour employment in the organisation

Period	No. of Worker
1 <sup>st</sup> July 2015	2,000
30 <sup>th</sup> June 2016	2,100

During the period 50 labour force were terminated, 35 left for various unavoidable reasons and 180 were employed including 105 that were recruited to replace those who left

8. Using separation method, what is the labour turnover rate?
- A. 2.15%
  - B. 3.15%
  - C. 4.15%
  - D. 5.15%
  - E. 6.15%

9. What will be the labour turnover rate if flux method is adopted?
- 8.93%
  - 9.93%
  - 10.93%
  - 11.93%
  - 12.93%
10. A firm operates an interlocking system of accounting. Which of the following will be the accounting entries for materials returned to suppliers?
- |    |                                   |                                     |
|----|-----------------------------------|-------------------------------------|
| A. | Dr. Stores ledger control A/C     | Cr. Cost ledger control A/C         |
| B. | Dr. General ledger adjustment A/C | Cr. Raw material control A/C        |
| C. | Dr. Raw material control A/C      | Cr. Production overhead control A/c |
| D. | Dr. Cost ledger control A/C       | Cr. Raw materials control A/c       |
| E. | Dr. Cost of sales A/C             | Cr. Stores control A/C              |
11. An accounting system where the same systems is maintained for cost accounts and financial accounts in order to arrive at a single profit which eliminates reconciliation problems is called
- Control Accounting System
  - Cost Control Accounting System
  - Marginal Costing System
  - Integrated Accounting System
  - Interlocking Accounting System
12. Decision support systems offer a variety of tools to facilitate effective performance of tasks. Which of the following **CANNOT** be classified as a decision support system?
- Spread sheet
  - Financial modeling
  - Non Linear programming
  - Linear programming
  - Word processing

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

A firm makes special products to customers' order and uses job costing.

The data for a period are as stated below:

	<b>SOLR</b>	<b>JOB RANI</b>	<b>TERY</b>
	<b>GH¢</b>	<b>GH¢</b>	<b>GH¢</b>
Opening WIP	53,600	85,580	-
Material Added	34,550	-	37,000
Labour for the period	29,000	7,000	49,200

The budgeted overheads for the period were GH¢252,000

13. What is the apportioned overhead for the JOB SOLR?
- A. GH¢10,352
  - B. GH¢42,887
  - C. GH¢72,761
  - D. GH¢85,775
  - E. GH¢145,522
14. If JOB TERY was completed and delivered during the period and the firm wishes to earn  $33\frac{1}{3}\%$  profit on sale, what is the selling price of JOB TERY?
- A. GH¢337,582
  - B. GH¢337,852
  - C. GH¢347,582
  - D. GH¢347,852
  - E. GH¢347,952
15. In process costing, a scrap is
- A. Cleaning materials
  - B. Packaging materials
  - C. Metal residue of a production process
  - D. Failed production items
  - E. Residues of little or no value obtained during production

16. Which of the following would be included in a cash budget?
- A. Depreciation
  - B. Company formation expense
  - C. Wages and salaries
  - D. Provision for doubtful debts
  - E. Provision for loss
17. A standard which can be attained under most favourable conditions with no provision for normal losses, wastage and machine breakdown is called
- A. Conditional standard
  - B. Attainable standard
  - C. Basic standard
  - D. Regular standard
  - E. Ideal standard
18. The cost of providing service is known as
- A. Service orientation
  - B. Transport cost
  - C. Overhead cost
  - D. Operating cost
  - E. Service cost

**Use the following information to answer Questions 19 – 21.**

A company manufactures a single product which it sells for ₦30 per unit. The product has a contribution to sales ratio of 40%. The company's weekly breakeven point sales is ₦36,000

19. What is the breakeven point in units?
- A. 1,000 units
  - B. 1,200 units
  - C. 1,400 units
  - D. 1,600 units
  - E. 1,800 units

20. What is the contribution per unit sold?
- A. ₦8
  - B. ₦10
  - C. ₦12
  - D. ₦14
  - E. ₦16
21. What would be the profit in a week when 3,000 units are sold?
- A. ₦17,600
  - B. ₦18,600
  - C. ₦19,600
  - D. ₦20,600
  - E. ₦21,600
22. Which of the following is **NOT** a goal of Just-In-Time (JIT) system?
- A. No production wastage
  - B. Multiple batch sizes
  - C. 100% on time deliveries
  - D. Demand –pull manufacture
  - E. Elimination of non-value adding activities
23. Which of the following is a feature of Kanban Inventory Control?
- A. Kanban system differs from Just-in-Time system
  - B. JIT is a step ahead of Kanban system
  - C. No storage in the production area
  - D. Visibility of stock movement is unavailable to management
  - E. Makes supply time lengthy
24. Which of the following is **NOT** a technique under Advanced Manufacturing Technique (AMT)?
- A. Computer Aided Design
  - B. Computer Aided Manufacturing
  - C. Total Quality Management
  - D. Inflexible Manufacturing System
  - E. Material Resources Planning

25. Which of the following is a form of cost audit?
- A. Balance Sheet Audit
  - B. Final Audit
  - C. Interim Audit
  - D. Propriety Audit
  - E. Statutory Audit
26. Which of the following best explains the difference between Cost Audit and Financial Audit?
- A. Cost Audit is statutory while financial audit is always initiated by management
  - B. Cost audit is based on all past records while financial audit is based on specific past records
  - C. Financial audit verifies cost records while cost audit aims at discovering defalcations
  - D. Financial audit is carried out by external auditors while cost audit could be carried out by internal or external persons
  - E. Financial audit may be statutory but cost Audit is statutory
27. Organisation and method (O&M) is defined as:
- A. A system of increasing or maximising the productivity of an operating unit
  - B. A continuous process of evaluating current operation
  - C. Systematic examination of activities in order to improve the effective use of human and non-human resources
  - D. Investigating management plans with respect to financing
  - E. An independent analysis of structures and policies of an organisation to ensure harmonisation
28. Which of the following is **NOT** a schedule of work for a store keeper?
- A. Recording stock items
  - B. Selling stock items
  - C. Receiving stock items
  - D. Issuing stock items
  - E. Keeping stock items

29. Whose responsibility is it to issue purchase orders in a tertiary institution?
- Quality Control Manager
  - Procurement Director
  - Maintenance Director
  - Internal Revenue Generation Manager
  - Bursar
30. Selling and distribution overhead is a type of overhead incurred outside the factory. Which of the following is not a component of selling cost?
- Warehouse Rent
  - Cost of printing posters and handbills
  - Cost of free samples
  - Hotel bills of sales officers
  - Cost of implementing sales order

**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 sum of all indirect costs is called .....
- Salaries of factory supervisors is best classified as .....
- The three popular methods of codifying classified items are mnemonic, ..... and .....
- Cost centres are broadly classified into ..... and .....
- Mathematically derived optimum quantity of stock that should be ordered from suppliers at a time is known as .....
- Stock valuation method that assumes stocks are issued in reverse order of receipts is called .....
- An alternative accounting system where cost and financial accounts are kept separately is known as .....
- Special charges made in the cost accounts only to reflect the use of the company's assets are called .....

9. The costing method applicable in a machine tool manufacturing company is called .....
10. The formular used in calculating profit to be taken in a fairly advanced stage of a contract's life is called .....
11. There are three popular methods of sharing joint cost to the joint (main) products. The **TWO** of the **THREE** methods are ..... and .....
12. The costing method applicable in hotels, airlines, transportation and school businesses is called .....
13. The difference between a standard level of performance that ought to have been achieved and the actual activity achieved is called .....
14. The official document showing the breakeven of the standard cost of a product is known as .....
15. The graph that establishes the relationship between the sales value of a product and the profit or cost thereof is called .....
16. The point at which total revenue equals total costs is known as .....
17. From the point of view of recent developments in cost accounting, the type of costing which captures all costs incurred on a product from cradle to grave is called .....
18. A product cost estimate derived by deducting an anticipated profit margin from a competitive market price is called .....
19. A cost accounting recording system designed to reduce or eliminate detailed accounting entries is called .....
20. An organised approach to providing necessary functions in a company at the least cost is called .....

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

Chandy Plc. is a leading manufacturer of household items in West Africa. The relevant data for four major products of the company for the second quarter of 2017 are as stated below:

Particulars	Products			
	Ab N'm	Bc N'm	Cd N'm	De N'm
Sales	4,000	5,400	1,600	3,000
<b>Direct Costs:</b>				
Materials	1,700	1,600	1,200	1,300
Labour	400	300	300	600
Direct Expenses	300	200	200	300
<b>Overheads:</b>				
Production	600	320	200	880
Administrative & Selling	300	180	200	120

a. **You are required**

Prepare operational results and state the profit margin (in percentage) for the company using

- i. Cost Accounting System
- ii. Financial Accounting System

(12½ Marks)  
**(Total 12½ Marks)**

**QUESTION 2**

a. Briefly describe the following terms

- i. Merit Rating
- ii. Job Evaluation
- iii. Method Study
- iv. Work Measurements
- v. Bonus Schemes

(5 Marks)

b. Kwenu Limited fixes 40 hours as standard time for completing 100 units of its product "Hot Meal". Any worker that completes the assignment before the

standard time receives a bonus that is equal to the wage paid for the proportion that the time saved bears to the standard time allowed.

If 20 units of materials at the rate of GH¢120 per unit were used to complete the job while production overhead absorbed per hour per worker is GH¢240.

The hourly rate for performing this type of job is fixed at GH¢60 per hour. Jerry used the remaining 10 hours to complete additional 40 units at the wage rate of GH¢70 per hour, what will be the production cost per unit when

- i. The task was completed at exactly 40 hours by Tom
- ii. The task was completed by Jerry in 30 hours

(7½ Marks)  
**(Total 12½ Marks)**

### **QUESTION 3**

Hschoice Limited is a production company that maintains both financial and cost accounts.

The following information were extracted from the books of the company.

#### **Financial Accounts**

	<b>Le'000</b>
Opening stock of raw materials	42,600
Closing stock of raw materials	25,600
Finished goods opening stock	75,000
Finished goods closing stock	66,000

#### **Cost Accounts**

	<b>Le'000</b>
Opening stock of raw materials	39,000
Closing stock of raw materials	31,200
Finished goods opening stock	78,000
Finished goods closing stock	67,200

The following information were also made available

	<b>Le'000</b>
Interest received	8,000
Dividend received	4,000
Profit on the sale of a photocopy machine	6,000

Since interest received, dividends received and profit on the sale of a photocopying machine were purely financial transactions, they were not recorded in the cost

account. The profit per the cost account was Le120,600,000 while that of the financial account was Le131,200,000.

You are required to reconcile the profits as shown by the Financial Account and the Cost Account. **(Total 12½ Marks)**

#### **QUESTION 4**

Rampat operates a department that produces a component which passes through three processes.

During the month of May, materials of 80,000 units were put into the process. There was no opening stock but 60,000 units were fully turned out and passed to the next process. Those not passed forward were calculated to be 50% completed as regards wages and overheads. The costs incurred were as follows:

	L\$
Direct materials	77,000
Direct Labour	88,750
Factory Overhead	53,250

Normal loss was calculated as 5% of input, while the recorded actual loss came to be 10,000 units. Assuming the units scrapped realised L\$0.25 per units, you are required to find out

- Equivalent production units
- Cost per unit and
- Prepare process 1 account

**\*Note (Show all workings)**

**(Total 12½ Marks)**

#### **QUESTION 5**

- Remkit is a leading noodles manufacturer in West Africa. The standard quantity for manufacturing 20,000 units of Remkit Noodles is set at 100,000kg of material for a total price of GMD1,000,000.

The actual operational results show that 30,000 units of the noodles were produced from 144,000 kg of material input at actual price of GMD1,562,400.

Assuming the budgeted output is 36,000 units, you are required to compute

- Material Price Variances

- ii. Material Usage Variance
- iii. Material Cost Variances (7½ Marks)
- iv. Comment on the performance of the undertaking (3 Marks)

b. Standard costing is a cost control technique, yet it suffers some limitations.

State **FOUR** limitations of standard costing. (2 Marks)  
**(Note: Show all workings)** (Total 12½ Marks)

**QUESTION 6**

Nnaoma produces two products named MA and FM.

The costs and revenue information are shown below:

Products	Sales	Variables	Selling
	Units	Cost Per Units	Price Per Units
		GH¢	GH¢
MA	40,000	60	80
FM	60,000	80	120

Assuming total fixed cost for the firm is GH¢400,000, what is the

- i. Overall P/V ratio
  - ii. Overall Break-even Point in GH¢ (8 Marks)
- b. CVP analysis is such that guides decisions making. Briefly state and explain **THREE** ways in which CVP analysis might be useful. (4½ Marks)  
**(Total 12½ Marks)**

## **SOLUTIONS (MULTIPLE-CHOICE QUESTIONS)**

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

## EXAMINERS REPORT (PART A (MCQs):

The MCQs cover the entire syllabus. Virtually all candidates attempted the questions. Candidates' performance depicts adequate understanding of the questions as more than 80% of them scored above the average marks allotted to the questions. Candidates performed very well in this part of the paper. About 80% of the candidates scored above average marks allotted to this section of the examination.

### Workings

#### Questions 8 & 9

$$\text{Average Labour force during the year} = \frac{2000 + 2100}{2} = 2050$$

$$\begin{aligned} \text{Labour Turnover rate under the separation method} \\ = \frac{\text{Number of leavers during the period}}{\text{Average number employed during the period}} \end{aligned}$$

$$= \frac{50 + 35}{2050} \times 100 \%$$

$$= 4.15\%$$

#### Question 9 Flux method

$$\text{Labour Turnover Rate (LTR)} = \frac{\text{Number joining} + \text{Number of leavers during the period}}{\text{Average number employed during the period}}$$

$$= \frac{180 + (50 + 35)}{2050} \times 100\%$$

$$= 12.93\%$$

#### Question 13

Total Cost of labour for the three periods

$$= \text{¢} (29000 + 7000 + 49200)$$

$$= \text{¢} 85200$$

Total Overheads = ¢ 252,000

Overhead appropriate to SOLR

$$\begin{aligned} \text{Total Overheads} &= \text{¢} \left( \frac{252,000}{85200} \times 29000 \right) \\ &= \text{¢} 85775 \end{aligned}$$

### Question 14 : Total Cost for Tery

	¢
Materials	37,000
Labour	49,200
Overheads	<u>145,251</u>
Total Cost	<u>231,721</u>

$$\text{Overheads} = \text{¢} \frac{(252000 \times 49200)}{85200}$$

$$= \text{¢} 145,251$$

Sales – profit = Contribution

$$1 - \frac{1}{3} = \frac{2}{3}$$

Contribution is ¢ 145,251

$$\text{Profit is } \text{¢} \frac{145,251}{2}$$

$$= \text{¢} 115,861$$

$$\begin{aligned} \text{Selling Price} &= 4 ( 231,721 + 115,861 ) \\ &= 347,582 \end{aligned}$$

### Questions 19 – 21

$$\begin{aligned} 19) \text{ BEP Units} &= \frac{\text{BEP } (\text{N})}{\text{SP/Unit}} \\ &= \frac{\text{N } 36000}{\text{N } 30} \\ &= 1200 \text{ Units} \end{aligned}$$

20) Contribution per unit sold

$$\begin{aligned} \text{Selling Price / Unit} &\times \text{CSR} \\ &= \text{N } 30 \times 0.40 \\ &= \text{N } 12 \end{aligned}$$

21) Profit in a week when 3000 units are sold

( Units sold – BEP Units ) x contribution/unit

$$\begin{aligned} &( 3000 - 1200 ) \times 12 \\ &= \text{N} 21600 \end{aligned}$$

## SOLUTION TO SHORT ANSWER QUESTIONS

1. Overhead
2. Indirect Labour Cost/ Factory Overhead
3. Decimal and Numeric
4. Production and Service Cost
5. Economic Order Quantity
6. Last in First Out (LIFO)
7. Non Integrated/Interlocking Accounting System
8. Notional Charges/Imputed Cost
9. Specific order costing/Job/Contract
10.  $\frac{2}{3}$  Notional profit  $\times$  Cash Received  
Value of work Certified
11. Physical Unit/ Sales Value (at the point of separation) /Net realizable value
12. Service Costing
13. Variance
14. Standard Cost Card / Cost Sheet
15. Profit Volume Ratio Graph/Contribution Sales Graph
16. Break-Even Point
17. Life Cycle Costing
18. Target Costing
19. Back Flush Costing
20. Value Engineering

### EXAMINERS' REPORT (SAQs):

The SAQ's cover the entire syllabus. 80% of the candidates that attempted the questions scored above the average marks allotted to the questions.

About 75% of the candidates scored above the average marks allotted to this part of the examination.

**SECTION B**

**QUESTION 1**

**COST ACCOUNTING SYSTEM**

Particulars	Ab	Bc	Cd	De	Total
	₦ m	₦ m	₦ m	₦ m	₦ m
Materials	1,700	1,600	1,200	1,300	5,800
Labour	400	300	300	600	1,600
Direct Expenses	300	200	200	300	1,000
Prime Cost	2,400	2,100	1,700	2,200	8,400
Production O'head	600	320	200	880	2,000
Production Cost	3,000	2,420	1,900	3,080	10,400
Adm & Sales O'head	300	180	200	120	800
Total Cost	3,300	2,600	2,100	3,200	11,200
Profit(Sales- Total Cost)	700	2,800	(500)	(200)	2,800
Sales	4,000	5,400	1,600	3,000	14,000
Profit Margin Profit/Sales × 100%	17.5	51.85	- 31.25	-6.67	20

**Financial Accounting System**

	₦ m	₦ m
Sales		14,000
Less Production Cost		
Materials	5,800	
Labour	1,600	
Direct Expenses	1,000	
Production O'head	2,000	
Production Cost		<u>(10,400)</u>
Gross Profit		3,600
Less Adm & Sales O'head		<u>800</u>
Net Profit		<u>2,800</u>
Profit Margin = $\frac{2,800}{14,000} \times 100 = 20$		

## **EXAMINERS' REPORT (PART B QUESTION 1)**

The question tests candidates' understanding of preparation of operating statement using cost accounting and financial accounting approaches. 60 % of the entire candidates attempted the question which 50 % of those that attempted the question scored about half of the marks allotted to the question. Candidates are advised to adequately prepare for the subject in future examination.

## **QUESTION 2**

a

- (i) Merit Rating measures the job holders performance so as to determine whether the employee should be promoted, demoted or given a special award. Yardsticks like accuracy, initiative, level of responsiveness, willingness etc are used for the purpose.
- (ii) Job Evaluation is a technique which seeks to show the relative worth of each job so as to rank it against other jobs and ultimately establish the appropriate weight of remuneration to attach to the job.
- (iii) Method Study is the recording and critical examination of existing methods of doing work and comparing same with proposed methods with a view to coming up with easier methods which would be more effective and cheaper on the long run.
- (iv) Work Measurement seeks to measure the time required for a qualified worker to complete a specific assignment at a specified level of performance
- (v) Bonus Schemes are intended to reward employees for their efficiency in saving cost for the organization through the saving of time.

	TOM		JERRY	
	100 units	Per unit	100 units	Per unit
	GH¢	GH¢	GH¢	GH¢
<b>Materials:</b>				
Tom	2400	24		
20units × GH¢ 120				
Jerry			2400	24
20units × GH¢ 120				
<b>Labour:</b>				
Tom				
40hrs × GH¢ 60	2400	24		
Jerry				
30 × GH¢ 60	_____		<u>1800</u>	18
Prime Cost	4800		4200	
Production overhead	9600	96	9600	96
<b>Production Cost</b>	<u>14,400</u>	<u>144</u>	<u>13,800</u>	<u>138</u>

### EXAMINERS' REPORT (QUESTION 2):

PART A of the question requires explanations of some basic terms under labour costing while PART B tests candidates knowledge of the preparation of cost statements. Candidates displayed little understanding of PART B of the question. 60% of the candidates that attempted the question scored below average marks allotted to the question. Candidates are advised to make use of ATSWA study texts while preparing for future examinations.

**QUESTION 3****HS CHOICE LTD RECONCILIATION STATEMENT**

	Le' 000	Le' 000
Profit as disclosed in the financial accounting books:		131,200
Add:		
Undervaluing the opening stock of raw material in the cost books (wkg 1)		3,600
Overvaluing the closing stock of raw materials in the cost books (wkg 3)		1,200
Overvaluing the closing stock of raw materials in the cost books (wkg 2)		<u>5,600</u>
Less		141,600
Overvaluing of opening stock of finished goods in the costing books (wkg 4)		
Interest not recorded in costing books	3,000	
Dividends received not recorded in costing books	8,000	
Profit on sale of photocopying machine not recorded in costing books	4,000	
Profit as per costing books	6,000	<u>(21,000)</u>
		<u>120,600</u>

## RECONCILIATION STATEMENT

### HS CHOICE LIMITED RECONCILIATION STATEMENT

	Le' 000	Le' 000
Profit disclosed in the costing books:		120,600
Add:		
Undervaluation of opening finished goods in the financial accounting books (wkg 4)		3,000
Interest credited to financial accounting books only		8,000
Dividend entered in the financial accounting books only		4,000
Profit on sale of photocopying machine entered in financial books only		<u>6,000</u>
		141,600
Less		
Overvaluation of opening stock of raw materials in the financial accounting books (wkg 1)	3,600	
Undervaluation of closing stock of raw material in the financial accounting books (wkg 2)	1,200	
Undervaluation of closing stock of raw material in the financial accounting books (wkg 3)	5,600	(10,400)
Profit as disclosed in financial accounting books		<u>131,200</u>

wkg 1 (Le 42,600,000 – Le 39,000,000) = Le 3,600,000

wkg 3 (Le 67,200,000 – Le 66,000,000) = Le 1,200,000

wkg 2 (Le 31,200,000 – Le 25,600,000) = Le 5,600,000

wkg 4 (Le 78,000,000 – Le 75,000,000) = Le 3,000,000

### EXAMINERS' REPORT (QUESTION 3)

The questions tests candidates' knowledge of Reconciliation of financial and cost accounting profits. The question was well attended, 70% of those who attempted the questions score below the average marks allotted to the question.

Candidates are advised to use ATSWA study pack while preparing for future examinations.

### QUESTION 4

#### STATEMENT OF EQUIVALENT PRODUCTION

INPUT	OUTPUT		EQUIVALENT PRODUCTION						
DETAILS	UNITS	DETAILS	UNITS	MATERIALS		LABOUR		O'HEADS	
				Units	%	Units	%	Units	%
Units Introduced	80,000	N.Loss	4,000						
		Abnormal Loss	6,000	6,000	100	6,000	100	6,000	100
		Output	60,000	60,000	100	60,000	100	60,000	100
		ClosingWIP	10,000	10,000	100	5,000	50	5,000	50
	80,000		80,000	76,000		71,000		71,000	

#### STATEMENT OF COST

ELEMENT OF COST	COST	EQUIVALENT PRODUCTION	COST PER UNIT
	L\$	Units	L\$
Materials:			
Cost of materials introduced	77,000		
Less:			
Scrap value on Normal loss: $4000 \times 0.25$	<u>1,000</u>		
	76,000	76,000	1.00
Labour	88,750	71,000	1.25
Overheads	53,250	71,000	0.75
	<u>218,000</u>		<u>3.00</u>

**STATEMENT OF EVALUATION**

PRODUCTION	ELEMENT OF COST	EQUIV. OF PROD UNITS	COST PER UNIT	COST	TOTAL COST
Abnormal Loss	Material	6,000	L\$ 1.00	L\$ 6,000	18,000
	Labour	6,000	1.25	7,500	
	Overhead	6,000	0.75	<u>4,500</u>	
Units Completed	Material	60,000	1.00	60,000	180,000
	Labour	60,000	1.25	75,000	
	Overhead	60,000	0.75	<u>45,000</u>	
Closing WIP	Material	10,000	1.00	10,000	20,000
	Labour	5,000	1.25	6,250	
	Overhead	5,000	0.75	<u>3,750</u>	
					<b>218,000</b>

**Process 1 Account**

	Units	L\$		Units	L\$
Material	80,000	77,000	Normal Loss	4,000	1,000
Labour		88,750	Abnormal Loss	6,000	18,000
Overhead		53,250	Process II A/c	60,000	180,000
			Bal c/d	10,000	20,000
	<u>80,000</u>	<u>219,000</u>		<u>80,000</u>	<u>219,000</u>

## Workings

### 1. Normal loss

Normal loss is 5% of 8000 Units = 4,000 units

### Abnormal loss

	Units
Actual loss recorded	10,000
Less Normal loss (1)	<u>4,000</u>
Abnormal loss	<u>6,000</u>

### 2. Closing WIP

	Units
Units of materials introduced	80,000
Less: Units completed	<u>(60,000)</u>
	20,000
Actual Loss	<u>(10,000)</u>
Closing WIP	<u>10,000</u>

## EXAMINERS' REPORT (QUESTION 4):

The question requires candidates' to prepare process account showing statements of equivalent units and cost. The question was well attempted. However candidates' performance is rated poor. About 70 % of those who attempted the question scored below the average marks allotted to the question. Students are advised to use the ATSWA pack while receiving lectures in ICAN accredited tuition houses.

## QUESTION 5

Computation of necessary variances

### (i) Material Price Variance

$$\begin{aligned} \text{MPV} &= \text{AQ} (\text{SP} - \text{AP}) \\ &= 144,000(10 - 10.85) \\ &= 1,440,000 - 1,562,400 \\ &= \text{N} 122,400 \text{ A} \end{aligned}$$

### ii) Material Usage Variance

$$\begin{aligned}
\text{MUV} &= \text{SP} (\text{SQ} (\text{AO}) - \text{AQ}) \\
&= 10 (5 (30,000) - 144,000) \\
&= 10(150,000 - 144,000) \\
&= 1,500,000 - 1,440,000) \\
&= \text{GMD } 60,000 \text{ F}
\end{aligned}$$

iii) Material Cost Variance

$$\begin{aligned}
&= (\text{SQ} (\text{AO}) \times \text{SP}) - (\text{AQ} \times \text{AP}) \\
&= (5 (30000) \times 10) - (144000 \times 10.85) \\
&= 1,500,000 - 1,562,400 \\
&= \text{GMD } 62,400 \text{ A}
\end{aligned}$$

### Comments

Material cost gave us an adverse variance of GMD 62,400

The breakdown of this variance reveals that Material Usage gave us a positive variance of GMD 60,000 which has been eroded by the adverse variance of GMD122,400 from price of material.

Therefore the material cost variance is as a result of the price of the material.

There is the need to investigate this to know the cause of the material price variance.

### (b) Limitations of Standard Costing

- Standards are estimates
- Environmental changes can have a great impact on the standards set
- Standards set may be under or over stated, hence the results obtained may be misleading
- Often difficult to obtain information either from the competitive market or even through the use of inter-firm comparison
- Inability to revise standard often leads to misinformation

### EXAMINERS' REPORT (QUESTION 5)

The question tests candidates knowledge of standard costing techniques. The question was well attempted. About 40% of those who attempted the questions scored above the average marks allotted to the question.

Candidates are advised to prepare adequately for future examinations.

**QUESTION 6**

a) (i)

	PRODUCT MA 40,000 units		FM 60,000 units		TOTAL
	Rate	GH¢ '000	Rate	GH¢ '000	GH¢ '000
Sales	80	3,200	120	7,200	10,400
Less Variable Cost	60	2,400	80	4,800	7,200
Contribution	20	800		2,400	3,200
Less Fixed Cost					400
Total Operations Profit					<u>2,800</u>

$$\begin{aligned}
 \text{Overall/ Combined P/V ratio} &= \frac{\text{Weighted Contribution}}{\text{Weighted Sales Revenue}} \\
 &= \frac{3,200,000}{10,400,000} \\
 &= 30.77\%
 \end{aligned}$$

$$\begin{aligned}
 \text{a) (ii) Overall /Combined Weighted BEP (GH¢)} &= \frac{\text{Total Fixed Cost}}{\text{Weighted PV}} \\
 &= \frac{400,000}{3,200,000 / 10,400,000} \\
 &= \frac{400,000 \times 10,400,000}{3,200,000} \\
 &= \text{GH } \text{¢ } 1,300,000
 \end{aligned}$$

b) The technique might be helpful in:

1. Budget Process

It refers to the process by which organizations create and approve a budget. It involves planning for future profitability because earning a reasonable return on resources used is a primary objective of firm.

## 2. Pricing Decisions

Pricing decisions are the choices businesses make when fixing selling prices for their products or services. Pricing decisions can be simple or complex. It is considered simple when it involves charging what competitors charge for similar goods and services. It is complex when the process is based on the originality of a product/service and what customers are willing to pay for it.

## 3. Sales Volume Decisions

This has to do with decisions relating to the number of units budgeted to be sold or actually sold within a reporting period. Sales volume figures are monitored by stakeholders to determine if the business is expanding or contracting. Sales volume decisions can be based on level of the product, product line, customer, subsidiary, sales region etc.

## 4) Sales MIX Decisions

Sales mix decisions has to do with issues bothering on determination of the proportion of each product a business sells relative to total sales. Planning a sales mix is a strategic decision that management must make.

## 5) Decisions affecting the cost structure

Cost structure refers to the various types of expenses a business incurs and it is usually composed of fixed and variable costs. It is a deliberate decision aimed at aligning the firms cost structure with its optimization strategy.

## 6) Decisions affecting production capacity of the company

It is a strategic decision that affects the production lead time, customer responsiveness, operating cost and company ability to complete.

## **EXAMINERS' REPORT (QUESTION 6)**

The question tests candidates' knowledge of Cost Volume Profit Analysis. The question was attempted by virtually all the candidates but performance is very poor. 30% of those who attempted the question scored above the average marks allotted to the question. Students are advised to prepare well for future examinations and use the insights as a guide.

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA  
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA  
PART III EXAMINATIONS – MARCH 2020**

**MANAGEMENT**

**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.**

16. Three key indicators of the size of business enterprises are
- F. Value of assets, number of employees and sales turnover
  - G. Internal growth, organic growth and simple growth
  - H. Minimum wage, legislation and government interference
  - I. Asset, capital adequacy and equity
  - J. Management, employees and employer
17. Which of the following is **NOT** part of the secondary objectives of a business?
- F. Productivity
  - G. Innovativeness
  - H. Growth
  - I. Shareholder satisfaction
  - J. Profit making
18. The use-based classification of business includes the following, **EXCEPT**
- F. Capital goods industries
  - G. Intermediate goods industries
  - H. Consumer goods industries
  - I. Synthetic goods industries
  - J. Basic industries
19. The process used by a manager to monitor events occurring in the external environment of the organisation is called
- F. Sensitivity analysis
  - G. Environmental monitoring
  - H. Environmental scanning
  - I. Contractual agreement
  - J. Managerial analysis

20. The role of managers that entails the transmission of relevant information to superiors, peers or subordinates who need the information for their work is called
- A. Spokesperson
  - B. Monitor
  - C. Resource Allocator
  - D. Negotiator
  - E. Disseminator
21. The social and cultural conditions in which organisations operate can be understood by studying the
- F. Ethical environment
  - G. Socio-cultural environment
  - H. Socio-economic environment
  - I. Physical environment
  - J. Legal environment
22. The business responsibility to the society that goes beyond obeying the law and complying with all regulations coupled with moral responsibility to do what is right and avoid what is wrong is .....responsibility
- F. Ethical
  - G. Economic
  - H. Legal
  - I. Philanthropic
  - J. Discretionary
23. An advantage of the centralised filing system is that **RECORDS** are
- F. Duplicated
  - G. Available to the public
  - H. Kept secret
  - I. Expensive to maintain
  - J. Central
24. Basic steps in organisation and methods include the following, **EXCEPT**
- F. Recording of the existing methods
  - G. Installation of the new method
  - H. Ordination of the new method
  - I. Maintenance of new methods
  - J. Examination of the existing methods

25. The decision making that is organised, exacting and involves the use of data-driven process for choosing among alternatives is called
- F. Reactive decision making
  - G. Decision making under certainty
  - H. Proactive decision making
  - I. Intuitive decision making
  - J. Systematic decision making
26. Which of the following is an advantage of individual decision making?
- F. Individual decisions often do not benefit from institutional knowledge
  - G. The decision maker can only rely on limited amount of information
  - H. It is the best decision making in a complex situation
  - I. The manager's experience is brought to bear on the decision
  - J. Generation of more ideas
27. The process where two or more people freely interact to take decision on a common problem by sharing a common identity and purpose is known as
- F. Joint decision
  - G. Committee decision making
  - H. Irrational decision making
  - I. Group decision making
  - J. Rational decision making
28. Which of the following method is **NOT** used to collect job analysis data?
- A. Performance appraisal
  - B. Diaries
  - C. Observation
  - D. Questionnaire
  - E. Interview
29. Job specification covers the following, **EXCEPT**
- A. Education
  - B. Experience
  - C. Mental abilities
  - D. Physical fitness
  - E. Job purpose

30. Which of the following is an activity to be performed when selecting employees?
- A. Calculate number of employees required
  - B. Recruitment
  - C. Employee referrals
  - D. Background investigations
  - E. Manpower planning
31. The marketing philosophy or orientation that guides the marketing activities of companies will include the following, **EXCEPT**
- F. Production orientation/concept
  - G. Promotion orientation/concept
  - H. Selling (sales) orientation/concept
  - I. Marketing orientation/concept
  - J. Societal marketing orientation/concept
32. The organisation structure of the marketing department that groups jobs according to marketing functions is called
- F. Job marketing organisation
  - G. Functional marketing
  - H. Production marketing
  - I. Functional organisation
  - J. Structured organisation
33. A form of mass production where production, process continues and remains unbroken for weeks or even months is referred to as
- A. Batch production
  - B. Job production
  - C. Unique production
  - D. Continuous/flow production
  - E. Repetitive manufacturing
34. The means by which a manufacturing plant is determined, information is used for its execution and data collected and recorded which enable the plant to be controlled through its stages is known as
- A. Production planning
  - B. Production controlling
  - C. Productivity

- D. Production execution
  - E. Production monitoring
35. The group of managers that are responsible for managing the entire organisation is called
- A. Personnel management
  - B. Production manager
  - C. Top management
  - D. Middle management
  - E. Paramount rulers
36. The managerial role which requires an executive to develop and maintain contact with people and groups outside the organisation for the purpose of coordinating efforts to achieve a common goal is called
- A. Figure head
  - B. Leader
  - C. Liaison
  - D. Monitor
  - E. Administrative
37. Which of the following is **NOT** a barrier to delegation?
- A. Fear of loss of power
  - B. Fear of criticism
  - C. Fear of loss of intelligence
  - D. Lack of self confidence
  - E. Inability to plan work in advance
38. The number of employees a manager can effectively and efficiently supervise is referred to as
- A. Unity of direction
  - B. Scalar chain
  - C. Span of control
  - D. Supervision
  - E. Unity of command
39. The process of integrating the activities and objectives of the separate units of an organisation is
- F. Controlling
  - G. Planning

- H. Coordination
  - I. Maintenance
  - J. Division of work
40. Which of the following is **NOT** a primary function of an accounting department
- A. Conducting internal audit exercises
  - B. Designing accounting systems
  - C. Keeping record of the organisation's financial transaction
  - D. Preparation of financial statements
  - E. Preparation of organisational forecasts and budgets
41. The process by which the receiver extracts some meaning out of the message received is called
- A. Decoding
  - B. Feedback
  - C. Feed-forward
  - D. Encoding
  - E. Recording
42. An individual who likes situations where he personally must find solutions to problems, according to McClelland theory, is high in
- A. Existence
  - B. Relatedness
  - C. Achievement
  - D. Growth
  - E. Self-esteem
43. The use of technical jargons, unfamiliar words and poor sentence structure during communication is known as
- A. Perception
  - B. Preconception
  - C. Predisposition
  - D. Halo effect
  - E. Semantics
44. The systematic attempt to increase productivity of an organisation by improving procedures, methods, systems and organisational structure is called
- F. Organisation and design
  - G. Organisational structure
  - H. Organisation and methods

- I. Organic arrangement
  - J. Principles and procedures
30. Managers that have balanced concern for getting the best results from employees with focus on satisfying their needs are club
- A. 1:1 impoverished
  - B. 1:9 country club
  - C. 5:5 middle road
  - D. 9:1 task
  - E. 9:9 impoverished

**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 type of industry that joins various components and parts to produce a single product is called.....
2. The environment that can be viewed as the state of the application of scientific principles and mechanical arts to various tasks in the society is called .....
3. Social responsibility can be examined in terms of economic, legal, ethical and .....responsibilities
4. The method of filing where files are allocated numbers and filed in cabinets corresponding to the numbers is called.....
5. The way an office is arranged to facilitate the flow of work in an organisation is called.....
6. The graphical method of displaying various parts of the decision-making process including courses of action, risks involved and likely outcomes is known as .....
7. The process of regulating organisational activities so that actual performance conforms to expected organisational standards and goals is.....
8. An association of wages and salary earners for the purpose of maintaining and improving the working conditions is called .....

9. The formal complaint of an employee that his rights under the collective agreement have been violated is called.....
10. The process of setting different prices for the same product depending on type of customer, packaging, place and time of purchase is known as .....
11. The process by which an organisation's resources are devoted to the transformation of inputs into output is referred to as .....
12. The mechanism by which an organisation prevents facility deterioration is known as .....
13. The part of the planning process that involves selecting a course of action from a set of alternatives is called .....
14. A situation that arises where authority rests on the appeal of leaders and is also contingent upon a belief in personal attributes of the person giving the order is known as.....
15. The scope of authority delegated downward in an organisation is referred to as.....
16. The ability of individuals or groups to persuade, induce or coerce others into following certain courses of action is called.....
17. Assets that include stocks, debtors, short-term investments and cash in the bank is known as.....
18. Under IFRS, the profit or loss account is called.....
19. Another name for 360-degree feedback is .....
20. A situation of lack of consensus or misunderstanding in an organisation is referred to as.....

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

**QUESTION 1**

List and explain **FIVE** elements of the general external environment of business.  
**(Total 12½ Marks)**

**QUESTION 2**

List and explain **FOUR** contributions and **SIX** limitations of Scientific Management.  
**(Total 12½ Marks)**

**QUESTION 3**

- a. Define the term “Delegation” (2 ½ marks)
  - b. Describe briefly the process of delegation. (6 marks)
  - c. Identify **FOUR** advantages of delegation (4 marks)
- (Total 12 ½ Marks)**

**QUESTION 4**

- a. List **FIVE** functions performed by a typical marketing department. (5 marks)
  - b. Explain **THREE** benefits of market segmentation. (7 ½ marks)
- (Total 12½ Marks)**

**QUESTION 5**

Identify and explain **FIVE** barriers to effective communication.  
**(Total 12½ Marks)**

**QUESTION 6**

- a. Explain **THREE** functions of a typical office. (4 ½ marks)
  - b. State **FIVE** advantages and **THREE** disadvantages of an open office layout. (8 marks)
- (Total 12½ Marks)**

## MULTIPLE CHOICE ANSWERS

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

- 25. A
- 26. A
- 27. C
- 28. E
- 29. C
- 30. B

### **EXAMINER'S REPORT**

The questions were well distributed across the subject syllabus. This section was attempted by all candidates being compulsory questions and about 90% of the candidates passed.

### **SHORT ANSWER SOLUTIONS**

- 1. Assembly industry
- 2. Technological environment
- 3. Philanthropic
- 4. Numeric filing system
- 5. Office layout
- 6. Decision tree
- 7. Controlling
- 8. Trade Union
- 9. Grievance
- 10. Price discrimination
- 11. Production management/production
- 12. Facility maintenance
- 13. Decision making
- 14. Charismatic authority

15. Decentralisation
16. Power
17. Current assets
18. Statement of comprehensive income
19. Multi-source feedback
20. Conflict

### **EXAMINER'S REPORT**

All the questions in this section were within the scope of the syllabus. This section is compulsory and attempted by all candidates.

The pass rate was about 55%. It will be helpful if candidates can make a better use of the study pack to sharpen their understanding of many of the basic concepts in their preparation for future examination.

### **SOLUTION 1**

The general elements of external environment of business include:

- (i) **Economic environment:** This is defined as factors including GDP, government fiscal and monetary policy, unemployment, exchange rate, inflation rate and capacity utilisation.
- (ii) **Socio-cultural environment:** This is the socio-cultural conditions in which the organisation operate and can be understood by studying the demographline characteristics of the population, nature and life style of people, the groups they form and the nature of interaction they have created for themselves.
- (iii) **Political environment:** These are structures put in place for the maintenance of law and order, provision of basic infrastructure and security of life and properties to create an atmosphere where meaningful business activities can thrive.
- (iv) **Technological environment:** This includes the methods, technologies and approaches adopted for production of goods and services and its distribution.

- (v) **Legal environment:** This consists of laws, regulations, procedures of the country which business enterprise are expected to comply with in the course of their operations.

### **EXAMINER'S REPORT**

The question was direct and drawn from the study pack. About 95% of the candidates attempted the question and about 94% passed with considerably high grades.

### **SOLUTION 2**

The contributions of Scientific Management are:

- (i) Development of managerial skill of job design through division of labour and specialisation.
- (ii) The concept of productivity and wage rate.
- (iii) Scientific selection and training of employees.
- (iv) Introduction of the use of rational and cost reduction techniques to increase efficiency and performance.
- (v) Formalisation of work standards.

The limitations of Scientific Management are:

- (i) It is applicable only to stable and predictable environment, but not suitable for complex and unpredictable environment.
- (ii) It did not attach importance to human behaviour.
- (iii) Too much emphasis on productivity and profitability could lead some managers to exploit workers and consumers.
- (iv) The assumption that earnings and profit maximisation would be complimentary and that managers and the managed would compete was unrealistic. This is because both parties sometimes hold opposing views about employees relationship.
- (v) Scientific management method makes wage bargaining difficult because workers merely accept that management considers appropriate for a day's job pay.
- (vi) It over emphasises the economic and rational nature of man and overstates man's desire for money.
- (vii) It excludes employees from participating in management.

### **EXAMINER'S REPORT**

The question was drawn from the study pack. About 10% of the candidates attempted the question and over 45% passed.

### **SOLUTION 3**

- a. Delegation is the assignment of formal authority and responsibility for the execution of specific activities to a subordinate.
- b. Process of delegation is as follows:
  - i. Determining the results expected of a position. Every position has got a set of task expected to be performed.
  - ii. Assigning tasks to the subordinate.
  - iii. Delegating authority for accomplishing these tasks; and
  - iv. Holding the person in that position responsible for the accomplishment of the tasks.
- c. Advantages of delegation include:
  - i. It relieves the manager of his heavy routine work load, this makes it possible for him/her to accept additional responsibilities from higher level management.
  - ii. When properly utilised, effective delegation speeds up decision-making.
  - iii. It assists in training the subordinates for higher responsibilities and it also increases their morale.
  - iv. Effective delegation motivates subordinates to contribute constructively towards achievement of organisational goals.
  - v. Delegation helps to create a sense of belonging across organisation employees.

### **EXAMINER'S REPORT**

About 75% of the candidates attempted this question which was drawn from the study pack. The pass rate was about 80%

## **SOLUTION 4**

- a. The functions performed by typical marketing departments include:
- (i) **Marketing research:** A marketing department conduct marketing research by systematically gathering, analysing and interpreting data to assist management in decision-making.
  - (ii) **Planning:** The department plans and guide development of new products and at the same time modifies existing ones.
  - (iii) Pricing the product.
  - (iv) Distributing the product.
  - (vi) Promoting the product and the company.
  - (vi) Rendering after-sales services to customers
  - (vii) Training and motivating salesmen.
  - (viii) Planning and controlling the marketing efforts of the company.
- b. Benefits of market segmentation include:
- (i) Market segmentation allows marketers to divide the market for a product into sub-markets to enable them analyse the characteristics of each segment, company opportunities existing therein. It also enables them design marketing programmes that suit each identified segment.
  - (ii) It allows marketers concentrate activities that best satisfy a particular income group (segment) in terms of pricing, promotion and distribution of products.
  - (iii) It benefits the consumers. This is because marketing activities are directed towards meeting their needs and wants.
  - (iv) Marketing segmentation enables organisations to design products that satisfy peculiar needs of each market segment. It also allows the organisation to focus on a few segments and serve them better.

## **EXAMINER'S REPORT**

The question was attempted by about 70% of the candidates and over 62% of candidates who attempted the question passed. It will be helpful if candidates can make a better use of the study pack in their preparation for future examination.

## SOLUTION 5

Barriers to effective communication include:

- (i) **The use of semantics:** Breakdown in communication often occurs due to the use of technical jargons, unfamiliar words, poor sentence structure etc because people attach different meanings to them. Thus a person's interpretation may be different from what was intended originally.
- (ii) **Poor listening skills:** Some people's inability to develop their listening skills may prompt them to mis-understand a message as passed. Communication easily breakdown when audience fails to understand simple messages.
- (iii) **Difference in background:** Breakdown in communication occurs as a result of differences in age, social status etc may lead to mis-understanding.
- (iv) **Conflicts:** Usually, communication is impeded when conflicts exists between groups or individuals in an organisation.
- (v) **Emotional problem:** Communication becomes impeded when there is frustration, poor perception, hostility, anger, fear and mistrust among individuals in an organisation.
- (vi) **Communication overload:** When managers are bombarded with loads of information from different sources that is too much for them to process.
- (vii) **Poor organisational structure:** The presence of long chains of command, highly centralised authority structure and unsuitable span of control do impede communication.
- (viii) **Physical layout of the organisation:** Communication becomes ineffective where employees are physically isolated as a result of distance between officers.
- (ix) **Poor planning:** Failure of managers to plan well do impede communication.
- (x) **Inappropriate channels of communication:** The use of inappropriate media or the absence of the right media through which information are disseminated could lead to communication breakdown.

## EXAMINER'S REPORT

The question was attempted by about 98% of the candidates and over 90% of the candidates who attempted the question passed. Candidates should continue to be close to their Study Text.

## SOLUTION 6

- a. The function of a typical office include:
- (i) It provides a convenient place where managers carry out their functions.
  - (ii) It collects information from within the organisation through letters, memoranda and documents generated from other departments.
  - (iii) **Collection of information:** It serves as point of collection of information from outside the organisation. These include letters, telephone calls, parcels, documents, invoices etc.
  - (iv) **Record information:** The office classifies and records information received from other departments and outside the organisation into files, computers and other media.
  - (v) **Provision of information for others:** It provides information for others who require specific information on the activities of the organisation.

b. Advantages of open office layout

- (i) Supervision becomes easy since everybody is in view.
- (ii) It economises space.
- (iii) Exchange of information that facilitates smooth flow of work among staff becomes easy.
- (iv) It enables certain facilities to be shared.
- (v) It reduces energy cost consumed.
- (vi) It reduces communication barriers.
- (vii) It could easily be rearranged.

Disadvantages of open office layout include:

- (i) It demoralises senior staff that shares office space with subordinates.

- (ii) There is no privacy for staff to discuss personal or confidential matters.
- (iii) There is high rate of disturbance through individual movements and use of office equipments.

### **EXAMINER'S REPORT**

The question was well attempted by over 98% of the candidates and about 92% of these candidates passed. The study pack addressed the area robustly and adequately. The candidates displayed good understanding of the issues tested.