



The Institute of  
Chartered Accountants  
of Nigeria (ICAN)

FOUNDATION LEVEL EXAMINATION

2019

Mock Exam

(3 hours)

# Business, Management and Finance

1. This paper consists of **TWENTY** compulsory multiple-choice questions and **SIX** long-form questions of which you must answer **FOUR** questions in total.
  - Section A (20 marks) consists of **twenty compulsory** multiple-choice questions
  - Section B (80 marks) consists of six 20-mark questions.  
You must **answer four questions only**.
2. Ensure your candidate details are on the front of your answer booklet.
3. Answer each question in black ballpoint pen only.
4. Answer section A multiple choice questions by marking an X in the appropriate box on the answer grid provided.
5. Answers to each section B question must begin on a new page and must be clearly numbered. Use both sides of the paper in your answer booklet.
6. The examiner will take account of the way in which answers are presented.

## IMPORTANT

Question papers contain confidential information and must NOT be removed from the examination hall.

DO NOT OPEN THE QUESTION PAPER UNTIL INSTRUCTED

Enter your candidate number in this box

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**Section A: 20 marks (compulsory)**

- A1** Which of the following statements is true?
- A** Public sector organisations are funded by the government. They are not-for-profit organisations that do not seek to make a profit
  - B** Public sector organisations are funded by private investors. They are not-for-profit organisations that do not seek to make a profit
  - C** Public sector organisations engage in commercial and industrial activities, with the purpose of making a profit
  - D** Public sector organisations are funded by the government with the purpose of making a profit **(1 mark)**
- A2** A 'flat' organisation is one in which:
- A** the scalar chain is long
  - B** there might be a lack of adequate supervision and control
  - C** there is a large number of levels in the management hierarchy
  - D** there are many opportunities for career development through promotion **(1 mark)**
- A3** Which one of the following is an element in the make-up of an organisation's culture?
- A** Loyalty
  - B** Beliefs and values
  - C** Ownership
  - D** Technology **(1 mark)**
- A4** Which of the following would NOT be relevant when assessing the total supply of labour in the economy?
- A** Population size
  - B** Average hours worked per week
  - C** Geographical immobility
  - D** Proportion of the population willing and able to work **(1 mark)**

- A5** Which of the following are usually set out in a corporate code of ethics?
- 1 general statements about ethical conduct by employees
  - 2 statements about the company's dealings with each stakeholder group
  - 3 detailed rules on the required conduct and behaviour of employees
  - 4 a disciplinary code and grievance procedures
  - 5 values of the company
- A** 1, 2 and 5 only  
**B** 2, 3 and 4 only  
**C** 2, 3 and 5 only  
**D** 1, 3, 4 and 5 only **(1 mark)**
- A6** Which component of a manager's job includes directing the work of others and resolving conflicts among members?
- A** Controlling  
**B** Organising  
**C** Leading  
**D** Planning **(1 mark)**
- A7** An annual (year-end) income of ₦8,100 is required in perpetuity. If there is a fixed interest rate of 9% each year and administrative charges are ignored, the lump sum investment necessary now is closest to:
- A** ₦7,431  
**B** ₦8,829  
**C** ₦19,176  
**D** ₦90,000 **(1 mark)**
- A8** Which one of the following activities is NOT a function of the financial manager in a large company?
- A** Advising on the appropriate capital structure  
**B** Raising finance  
**C** Arranging protection against financial risk  
**D** Identifying operational inefficiencies and over-spending **(1 mark)**

- A9** A company whose shares are traded on a stock market wants to issue a fairly small quantity of shares for cash, and will sell them directly to a small group of institutional shareholders. This type of share issue is:
- A** an offer for sale
  - B** an introduction
  - C** a placing
  - D** an intermediaries offer **(1 mark)**
- A10** Which one of the following statements about the payback method of project evaluation is INCORRECT?
- A** The payback method is suitable for choosing projects when capital for investment is in limited supply.
  - B** The payback method fails to recognise adequately the time value of money.
  - C** The payback method fails to consider the amount of returns after payback has been achieved.
  - D** The payback method fails to recognise the timing of cash flows during the payback period. **(1 mark)**
- A11** William is a qualified accountant whose managing director has asked him to prepare a forecast of production costs for the next three months. As he is preparing the forecast the production director visits him to discuss the forecast. The production director tells him that unless William can reduce his forecast of costs by about 5%, the production director will get into serious trouble with the managing director. William and the production director have been good friends for several years, and William agrees to do what he can to reduce the cost forecast.
- William is in breach of which of the following fundamental ethical principles?
- A** Integrity
  - B** Objectivity
  - C** Professional behaviour
  - D** Technical standards **(1 mark)**
- A12** Which of the following statements best describes management as a practice?
- A** Identify the needs of people and try to satisfy them.
  - B** The art of getting work done through others
  - C** The system of correcting organisational deficiencies
  - D** An orderly way of carrying out jobs and duties **(1 mark)**

- A13** In Vroom's expectancy model of motivation, what term is given to the strength of the wish of an individual for rewards?
- A** Motivation
  - B** Instrumentality
  - C** Expectancy
  - D** Valence
- (1 mark)**

- A14** Which of the following statements about workgroups is true?
- A** Membership of an informal workgroup is reflected in an organisation's formal organisational chart
  - B** Membership of a formal workgroup depends on the formal interactions between members
  - C** The success of formal workgroups is directly related to the strength of the grapevine
  - D** The success of informal workgroups is directly related to the strength of the scalar chain
- (1 mark)**

- A15** The company 'grapevine' includes all of the following characteristics except that:
- A** it is accessible to every person in an organisation
  - B** it is fast
  - C** it tends to carry messages from anonymous sources
  - D** it can penetrate the tightest security
- (1 mark)**

- A16** Which of the below is the best description of a feasibility report?
- A** Provides data of actual sales of various products classified by their quantities, territories, sales teams and distributors for a specific period
  - B** Summarises the operational activity for a particular time period
  - C** A report that examines the viability of the proposed undertaking from its technical, commercial and economic standpoints
  - D** Outlines the progress of the tasks in a project, including work completed, work remaining, costs incurred, remaining cost to complete the project and schedule of original and anticipated time for completion of the project
- (1 mark)**

- A17** Which of the following statements about the accounting rate of return method of project appraisal are correct?
- 1 Accounting profits are an unreliable measure of investment return.
  - 2 The target ARR for a project is a subjective target with no economic significance.
  - 3 The ARR method ignores the timing of project returns.
- A** 1 and 2 only are correct  
**B** 1 and 3 only are correct  
**C** 2 and 3 only are correct  
**D** All three statements are correct **(1 mark)**
- A18** Which one of the following money markets is most likely to be used by large companies for short-term borrowing?
- A** Interbank market  
**B** Bankers acceptances  
**C** Repo market  
**D** Treasury bills market **(1 mark)**
- A19** An employee believes that a recent task that she accomplished has been of considerable help to the customers of her employer. In terms of Maslow's needs, she will be highly motivated because her work has satisfied her need for:
- A** Status/ego needs  
**B** Social needs  
**C** Safety needs  
**D** Self-actualisation needs **(1 mark)**
- A20** Economic recession occurs when there is:
- A** stagnation  
**B** slowdown in the rate of economic growth  
**C** stagflation  
**D** a fall in economic output **(1 mark)**

**Section B: 80 marks – answer four out of six questions****Question B1**

Organisations can be categorised into the following types:

- (1) business organisations
- (2) public sector organisations
- (3) non-government not-for-profit organisations.

**Required**

- (a) To which category or categories of organisation do the following entities belong, and why?

- A charity receiving 60% of its annual funding from central government.
- A school
- A state-owned electricity company.

**(6 marks)**

- (b) Describe the six elements in the cultural web, as identified by Johnson and Scholes.

**(6 marks)**

- (c) “The major objective of financial management is to maximise the value of the firm.”

Analyse how the achievement of the above objective might be compromised by the conflicts which may arise between the management and the other stakeholders in an organisation.

**(8 marks)****(Total: 20 marks)****Question B2****Required**

- (a) Fresh Limited is considering investing in two mutually exclusive farming projects. The following cashflows are considered relevant to the investment proposals.

Year		Project 1 (₦)	Project 2 (₦)
0	Initial outlay	(4,000,000)	(4,100,000)
1	Net cashflows	2,450,000	2,225,000
2	Net cashflows	2,600,000	2,950,000

Assuming the company’s cost of capital is 15%, you are required to advise management on the best choice of farming project to invest in, using the NPV.

**(9 marks)**

- (b) Explain what is meant by ‘integrity’ and why integrity is a fundamental ethical principle, both in corporate governance and for a professional accountant.

**(6 marks)**

- (c) According to Belbin, what was the ideal size of team? What might happen if the team is missing some of the critical characters or characteristics identified by Belbin?  
(5 marks)  
**(Total: 20 marks)**

### Question B3

#### Required

- (a) Compare the views about leadership of Blake and Mouton with those of McGregor.  
(7 marks)
- (b) What would be the likely effects, according to Belbin and Tuckman, of increasing the size of a project team after 18 months from three to nine people?  
(7 marks)
- (c) As an informal communication network, Grapevine exists in all big organizations and transmits information through unofficial channels.  
Briefly explain six characteristics which are commonly observed in Grapevine networks.  
(6 marks)  
**(Total: 20 marks)**

### Question B4

#### Required

- (a) Explain what is meant by 'the public interest' and indicate ways in which professional accountants should be expected to show a concern for the public interest.  
(12 marks)
- (b) Within the same business organisation, some decision-making might be centralized, with decisions made by senior management. Other decisions might be decentralised, and taken by managers or employees involved in operations.

A company owns and operates five private hospitals. It has a head office, a management team and staff in each hospital (including medical staff such as doctors and nurses).

Decisions now need to be made on the following:

- (i) Decisions about the medical treatment or surgical treatment for individual patients.
- (ii) Establishing policy on hygiene standards in the hospitals.
- (iii) Scheduling operations in the operating theatres of each hospital.
- (iv) Discharging patients from hospital.
- (v) Deciding the visiting times for patients in each hospital.
- (vi) Prescribing drugs for the treatment of patients.
- (vii) Hiring new staff, such as hospital porters and nurses.
- (viii) Dealing with payments from insurance companies for the treatment of insured patients.

For each of the decisions above identify from the list below whom you would expect to make the decision and briefly explain why.

- Head office management
- The management of each hospital

- Staff in each hospital

**(8 marks)**  
**(Total: 20 marks)**

### Question B5

#### Required

- (a) Explain what is meant by the term 'capital markets'? **(5 marks)**
  - (b) Briefly explain the functions of a stock market. **(5 marks)**
  - (c) Describe how an organisation might source short-term funding from trade payables. What are the risks associated with such a strategy? **(4 marks)**
  - (d) Explain how a rights-issue works. **(6 marks)**
- (Total: 20 marks)**

### Question B6

#### Required

- (a) What are the four leadership styles described by Hersey and Blanchard? **(4 marks)**
  - (b) Explain the potential relevance of their views to the practice of management. **(5 marks)**
  - (c) Explain how the views of Hersey and Blanchard differ from those of Fiedler. **(5 marks)**
  - (d) Briefly explain motivational needs theory. **(6 marks)**
- (Total: 20 marks)**

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