



**THE INSTITUTE OF CHARTERED  
ACCOUNTANTS OF NIGERIA**

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# **PATHFINDER**

**MARCH/JULY 2020 DIET  
FOUNDATION LEVEL EXAMINATIONS**

Question Papers

Suggested Solutions

Marking Guides

and

Examiner's Reports

## **FOREWARD**

This issue of the **PATHFINDER** is published principally, in response to a growing demand for an aid to:

- (i) Candidates preparing to write future examinations of the Institute of Chartered Accountants of Nigeria (ICAN);
- (ii) Unsuccessful candidates in the identification of those areas in which they lost marks and need to improve their knowledge and presentation;
- (iii) Lecturers and students interested in acquisition of knowledge in the relevant subject contained herein; and
- (iv) The professional; in improving pre-examinations and screening processes, and thus the professional performance of candidates.

The answers provided in this publication do not exhaust all possible alternative approaches to solving these questions. Efforts had been made to use the methods, which will save much of the scarce examination time. Also, in order to facilitate teaching, questions may be edited so that some principles or their application may be more clearly demonstrated.

It is hoped that the suggested answers will prove to be of tremendous assistance to students and those who assist them in their preparations for the Institute's Examinations.

### **NOTES**

Although these suggested solutions have been published under the Institute's name, they do not represent the views of the Council of the Institute. The suggested solutions are entirely the responsibility of their authors and the Institute will not enter into any correspondence on them.

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**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**  
**FOUNDATION LEVEL EXAMINATION – MARCH/JULY 2020**  
**FINANCIAL ACCOUNTING**

Time Allowed: 3<sup>1</sup>/<sub>4</sub> hours (including 15 minutes reading time)

**SECTION A:           MULTIPLE-CHOICE QUESTIONS   (20 MARKS)**

**INSTRUCTION:       YOU ARE REQUIRED TO ANSWER ALL QUESTIONS IN THIS SECTION**

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

1. Which of the following is **NOT** the core objective of accounting?
  - A. Evaluate the profitability of an entity
  - B. Provide financial advice to the users of such information
  - C. Maintain records of assets and liabilities
  - D. Determine whether the entity is solvent or insolvent
  - E. Keep records of transactions
  
2. Which of the following users requires financial statements for stewardship reporting?
  - A. Shareholders
  - B. Audit committee
  - C. Board of directors
  - D. Employees
  - E. Investors

3. What is an imprest system?
- Records of the use of an entity's resources
  - It is part of computerised accounting
  - A system where an accountant pays for expenses, maintains and provides records of the expenses at a regular interval.
  - Helps to control petty cash by making available a fixed amount of money at a regular interval.
  - Helps to reconcile the cash book with the bank statement
4. Which of the following payments is an example of capital expenditure?
- Refurbishment as part of upgrading a building
  - Carriage outwards in respect of goods sold
  - Legal fees incurred to recover customer debts
  - Bonuses to production operatives
  - Maintenance cost of building
5. Tomiwa's individual receivables ledger balances total amounting to ₦500,000 does not agree with her receivables control account. The following errors were found:
- Credit note for ₦7,500 was not recorded in the receivables ledger
  - Contra entry of ₦20,000 was entered in the individual payables ledger account but not in the receivables and payables ledger control accounts
- What should be the total of the balance on his receivable ledger control account after correcting the above errors?
- ₦527,500
  - ₦500,000
  - ₦492,500
  - ₦482,500
  - ₦472,500

6. Which of the following errors will cause the trial balance totals to be unequal?
- A. Errors of transposition
  - B. Errors of omission
  - C. Errors of principle
  - D. Compensating error
  - E. Error of commission
7. Which of the following concepts requires the accountant to give special accounting treatment to items of significant value?
- A. Accrual
  - B. Going concern
  - C. Materiality
  - D. Entity
  - E. Dual aspect
8. Which of the following sentences does **NOT** explain the distinction between financial accounts and management accounts?
- A. Financial accounts are primarily for external users and management accounts are primarily for internal users
  - B. Financial accounts are normally prepared annually while management accounts are prepared monthly
  - C. Financial accounts are more accurate than management accounts
  - D. Financial accounts are audited by external auditors whereas management accounts are audited by internal auditors
  - E. Unlike financial accounts, management account is used for rendering returns to tax authorities

9. The following is a summary of the petty cash transactions for a week

Income	₦	Expenditure	₦
Opening balance	50,000	Travelling expenses	150,000
Sales of stamp	10,000	Subsistence expenses	250,000
Sales of paper	50,000		

Petty cash is maintained using the imprest system

What sum should be reclaimed by the cashier at the end of the week?

- A. ₦550,000
  - B. ₦500,000
  - C. ₦400,000
  - D. ₦340,000
  - E. ₦160,000
10. Emeka sold 30 units of handset with a list price of ₦4,000 per unit to Oluti. He gave Oluti 10% quantity discount and 5% early settlement discount.

If Oluti paid within 30 days payment window, what will be the net amount of the invoice payable by Oluti on the transaction?

- A. ₦120,000
- B. ₦108,000
- C. ₦105,600
- D. ₦102,600
- E. ₦102,000

11. Mefor returned defective goods to the supplier, Ahmed. Which of the following source documents will Ahmed issue to Mefor?
- Invoice
  - Debit note
  - Delivery note
  - Statement of account
  - Credit note
- 12 Which of the following statements is/are correct?
- Materiality means that only items having a physical existence may be recognised as assets.
  - The substance over form convention means that the legal form of a transaction must always be shown in financial statement even if this differs from the commercial effect.
  - The money measurement concept means that only an item capable of being measured in monetary terms can be recognised in financial statements.
- I
  - I, II and III
  - I and II
  - II and III
  - III
13. P Limited made an issue of 150,000 ₦1 ordinary shares at a premium of 20%. The shares were fully subscribed and the proceeds were received through the bank.

What is the correct journal to record the above transaction?

	Dr	Cr
	₦'000	₦'000
Bank	180	
A Share capital		150
Share premium		30



B	Share premium	180	
			180
C	Bank	180	
	Share capital		180
D	Share premium	150	
	Share capital		150
E	Bank	150	
	Share capital		120
	Share premium		30

14. Which of the following is **NOT** an objective of International Accounting Standards Board (IASB)?

- A. Review of accounting standards
- B. Promotion of the use of accounting standards
- C. Promoting application of the accounting standards
- D. Convergence of international accounting standards
- E. Preparation of the financial statements in line with the requirement of IASB framework

15. Which of the following are books of prime entry?

- (I) Sales day book
  - (II) Payables ledger
  - (III) Journal
  - (IV) Cash book
- A. I, II & IV
  - B. I, II & III
  - C. I, III & IV
  - D. II, III & IV
  - E. I, II, III & IV

16. Oladiya ventures is in the business of real estate and property management. In the current year, the business constructed several buildings which have been placed for sale.

Which of the following standards will be appropriate for the recognition of the newly constructed buildings?

- A. IAS2-Inventory
  - B. IAS16-Property, Plant and Equipment
  - C. IAS40-Investment Property
  - D. IAS 37-Provision, Contingent Liability and Contingent Asset
  - E. IFRS 15-Revenue From Contract With Customers
17. Which of the following users is **NOT** likely to be interested in the financial statements of a sole trader and a partnership business?
- A. Employees and proprietors of the business
  - B. The stock exchange and shareholders
  - C. Auditors and financial analyst
  - D. Banks and insurance companies
  - E. The government and tax authorities
18. Which of the following is **NOT** recorded on the credit side of the trade receivables control account?
- A. Dishonoured cheque
  - B. Cash received from customers
  - C. Cheque received from customers
  - D. Sales returns
  - E. Discount allowed

19. Which of the following items is a current liability in the financial statements of Institute of Chartered Administrators?
- A. Subscription in arrears
  - B. Prepaid salaries
  - C. Depreciation
  - D. Accounts receivables
  - E. Subscription in advance
20. Iyabo started business on September 01 2019. She made cash sales of ₦64,000 and issued invoices of ₦102,000 for credit sales of which ₦86,000 had been paid. What would be the balance in the sales account in the general ledger at the end of September?
- A. ₦166,000
  - B. ₦102,000
  - C. ₦ 86,000
  - D. ₦ 80,000
  - E. ₦ 64,000



- (viii) Allowances for receivables are to be adjusted to 5% of accounts receivables.
- (ix) Goods taken by the owner for own use and cheque withdrawals amounting to ₦1,600,000 and ₦2,400,000 respectively are yet to be recorded.

**Required:**

Using extended trial balance, prepare:

- a. Statement of profit or loss of Walling Enterprises for the year ended October 31, 2019.
- b. Statement of financial position of Walling Enterprises as at October 31, 2019. **(Total 20 Marks)**

**QUESTION 2**

- a. Explain what is meant by source documents and outline **FOUR** source documents used in commercial transactions. **(4 Marks)**
- b. Define books of prime entry and list **FOUR** books of prime entry that could be maintained by an entity. **(4 Marks)**
- c. List **SIX** uses of the journal. **(6 Marks)**
- d. Many businesses do not keep proper accounting records, and this makes it difficult for the preparation of financial statements. In order to prepare financial statements from a set of single entry and incomplete financial data, an accountant must follow logical steps.

**Required:**

State **SIX** steps necessary for converting from single entry and incomplete records to double entry. **(6 Marks)**  
**(Total 20 Marks)**

### QUESTION 3

Williams is a petty trader in Idumota market in Lagos. His transactions are carried out both on cash and through the bank. Daily cash payments are made from cash sales and any surplus cash thereafter is paid into the bank either on the same day or days after.

The following transactions were extracted from the books of Williams during the period under review:

2019

- January 1 Balance at bank ₦68,300
- January 1 Drew and cashed cheque for ₦50,000
- January 1 Bought 14 model coats for ₦28,200 cash
- January 3 C. Okoli paid ₦10,000 cheque on account.
- January 5 Sold goods for cash to two costumers at ₦3,600 and ₦3,300 respectively
- January 5 Paid in cash, wages ₦7,200 and office expenses ₦1,000.
- January 9 Paid Habiba by cheque ₦2,580 less 5% discount.
- January 10 Cash sales to date ₦17,600
- January 12 H. Morgan paid cheque on account ₦28,500 after deducting 5%discount
- January 14 Paid carriage in cash ₦3,300
- January 18 Paid Musa by cheque ₦8,200 and was given discount of ₦300
- January 18 Issued a cheque to Nnonsoon account ₦10,000
- January 18 Cash sales for the week ₦39,000
- January 20 David Ikenna paid ₦25,000 by cheque  
Paid cash into bank, leaving a balance of ₦15,000
- January 21 Purchased on cash, 7 packets of office pin at ₦700 per packet
- January 22 Paid cash into bank ₦10,000

**Required:**

Prepare three column cash book to record the above transactions.

**(Total 20 Marks)**

#### QUESTION 4

- a. Explain briefly share premium and outline its **FIVE** uses. (6 Marks)
- b. Bravado Limited has an authorised share of 10M of ₦0.50 per share. On November 1, 2019, the company issued the entire shares for public subscription at ₦0.75 per share.

As at November 10, 12M applications were received through Klassic Bank PLC, the company's banker. The shares were allotted on a pro rata basis and the company refunded the excess application money.

**You are required to prepare:**

- i. Share application account
- ii. Bank account
- iii. Share premium account
- iv. Ordinary share capital account
- v. Application money refund account

(14 Marks)

**(Total 20 Marks)**

#### QUESTION 5

The following balances were extracted from the books of Judexco Limited on December 31, 2018:

	₦
Sales ledger, debit balance, 1/1/2018	294,780
Sales ledger, credit balance, 1/2018	7,110
Bought ledger, credit balance, 1/1/2018	216,570
Bought ledger, debit balance, 1/1/2018	12,630
Credit purchases	1,540,860
Credit sales	2,344,620
Accounts settled by contra	18,600
Bills dishonoured	22,500
Bad debt written off	15,780
Bills of exchange drawn on customers	104,190
Returns inward	22,350
Returns outward	26,760
Cheque received from customers	2,067,690
Cheque payment to suppliers	1,485,420
Discount received	57,960
Discount allowed	74,250
Cash refunded to customers	3,810
Sales ledger credit balance, 31/12/2018	6,030
Bought ledger debit balance, 31/12/2018	10,020

**You are required to prepare:**

- a. Receivables ledger control account; (7 Marks)
  - b. Purchases ledger control account (6 Marks)
  - c. List **FOUR** uses of control accounts (4 Marks)
  - d. Outline **SIX** accounting errors that cannot be discovered by means of trial balance (3 Marks)
- (Total 20 Marks)**

**QUESTION 6**

The following were obtained from the books of Chop and Chop Club for the year ended September 30, 2019:

	₦		₦
Cash in hand 1/10/18	4,500	Staff cost	90,000
Balance at bank 1/10/18	48,000	General repairs and maintenance	42,000
Transfer from bank deposit a/c	130,500	Transfer to bank deposit a/c	135,000
Members' subscription	39,600	Purchase of equipment	150,000
Donations	204,000	Office expenses	30,000
Easter picnic takings	102,000	Insurance	6,000
		Easter picnic expenses	54,000
		Balance c/f - cash	6,600
		- bank	<u>15,000</u>
	<u>528,600</u>		<u>528,600</u>

**Additional information:**

- (i) The carrying amount of non-current assets as at October 01, 2018 was as follows:

Leasehold premises                      ₦720,000

Equipment                                      ₦240,000

- (ii) Provide for depreciation on non-current assets as follows:

Leasehold premises                      ₦30,000

Plant and equipment                      ₦18,000

- (iii) Bank deposit balance as at September 30, 2019 was ₦243,600. Interest of ₦9,000 has been credited to the account during the year and this amount was not included in the above receipts.



(iv) A donor of ₦75,000 specifically requested that his donation be used only for the purchase of double-bunk beds for the day-care centre. This purchase is yet to be made.

(v) Other assets and liabilities were as follows:

	30/9/2018	30/9/2019
	₦	₦
Amount payable for repairs	6,000	-
Office expenses payables	4,500	5,400
Outstanding subscription	12,000	13,200
Insurance prepaid	1,500	1,800

**You are required to prepare for Chop and Chop Club:**

- Opening statement of financial position as at 30/9/2018
- Deposit account at 30/09/2019
- Statement of income and expenditure for the year ended 30/09/2019
- Statement of financial position as at 30/09/2019.

**(20 Marks)**

## SOLUTION - MCQ

1 D

2 A

3 D

4 A

5 E

6 A

7 C

8 E

9 C

10 D

11 E

12 E

13 A

14 E

15 C

16 A

17 B

18 A

19 E

20 A

**MCQ WORKINGS**

No. 5

	₦
Balance	500,000
Credit note	(7,500)
Contra entry	<u>(20,000)</u>
	<u>472,500</u>

No. 9

The amount to be reimbursed to the cashier at the end of the week is the total amount spent; which is ₦150,000 + ₦250,000

No. 10

	Unit Price ₦	Amount ₦
30 unit at	4,000	120,000
Qty. Discount @ 10%		<u>(12,000)</u>
		<u>108,000</u>
Early settlement Discounts @ 5%		<u>(5,400)</u>
		<u>102,600</u>

No. 13

	₦
Ordinary Share Capital 150,000 @ ₦1 share	150,000
Premium ₦150,000 @ 20% cash received	<u>30,000</u>
	<u>180,000</u>

No 20

Amount in the sales account would be sum of the cash and credit sales:

Cash Sales	64,000
Credit Sales	<u>102,000</u>
	<u>166,000</u>

**Examiner's report**

The questions cover a wide area of the syllabus to test candidates' knowledge of basic accounting principles and application of such principles to solve mental computation questions.

All candidates attempted the questions and their performance was above average.

Candidates' major pitfall was their inability to apply the relevant accounting principles to solve questions that involved computations.

Candidates are advised to not only learn accounting principles but master how to apply them.

**SECTION B**  
**SOLUTION 1**

**Walling Enterprises**  
**Extended trial balance as at October 31, 2019**

Notes	Original trail balance		Adjustments		Statement of profit or loss		Statement of financial position	
	Dr. ₦'000	Cr. ₦'000	Dr. ₦'000	Cr. ₦'000	Dr. ₦'000	Cr. ₦'000	Dr. ₦'000	Cr. ₦'000
Capital Nov. 1 2018		90,428						90,428
Purchases	776,400				1,600	774,800		
Revenue		1,045,800						
Salaries & wages	66,880		6,024		72,904			
Rent & rates	28,004			3,200	24,804			
Trade receivables	144,600			2,840			141,760	
Bad debts	3,768		2,840		6,608			
Drawings	19,004		1,600				23,004	
Drawings			2,400					
Allowances for receivables		7,404	316					7,088
Bank balance	5,632			2,400			3,232	
Trade payables		68,616						68,616
Cash balance	668						668	
Opening inventories	164,218				164,218			
Motor cycles @ cost	14,400						14,400	
Accumulated Dep. on motor cycle		4,200		2,880				7,080
Bank interest received		1,756		100		1,856		
Inventories (Closing)				198,712	198,712	198,712		
Inventories			198,712	3,200		3,200		
Prepaid rent			3,200					
Depreciation Motor cycle			2,880			2,880		
Accrued salary				6,024				6,024
Prepaid Revenue				800				800
Bank interest receivables			100				100	
Commission received		5,370	800			4,570		
Decreased in allowance for receivables				316		316		
Net Profit					205,040			205,040
	<b>1,223,574</b>	<b>1,223,574</b>	<b>218,872</b>	<b>218,872</b>	<b>1,251,254</b>	<b>1,251,254</b>	<b>385,076</b>	<b>385,076</b>

<b>Workings</b>	<b>₦'000</b>
WK 1 Calculation of Depreciation	<u>14,400</u>
Motor cycle at cost	<u>2,880</u>
Depreciation at 20%	
WK. 2 Determination in decrease in allowance for receivables	
Trade Receivables as per account	144,00
Additional irrecoverable debts to be written off	<u>(2,840)</u>
	<u>141,760</u>
Allowance for receivables at year end at 5%	(7,088)
Allowance for Receivables at beginning	<u>7,404</u>
Reduction in receivables	<u>316</u>

### Examiner's report

The question tests the ability of candidates to use extended trial balance to prepare final accounts.

Only few of the candidates scored above average marks while majority of them performed below average.

Some of their pitfalls include:

- Inability to prepare extended trial balance thereby losing some marks from this oversight. Most of them prepared the original trial balance and the final accounts separately as against incorporating the three accounts in the extended trial balance.
- Lack of understanding of how to make adjustment required for the preparation of final accounts.
- Incorrect recognition of accrued interest receivable as liability and commission prepaid as assets.

The ICAN study text explained extensively the preparation of extended trial balance therefore, candidates should avail themselves with studying the textbook diligently to understand the concept and procedures for preparing the extended trial balance.

### Marking guide

	<b>Marks</b>
Title – Name of the enterprise	0.25
Title – Extended trial balance	0.25
Title for each of the 4 columns	1.00
Dr. or Cr. for each of the 4 columns	1.00
Trial balance entries	3.75
Adjustment entries	5.00
Profit or loss entries	2.75
Financial position entries	4.00
Workings	<u>2.00</u>
<b>Total</b>	<u><b>20</b></u>

## **SOLUTION 2**

### **a. Source documents**

**Definition:** These are the documents that serve as evidence and data for accounting system, together with their content and purpose.

#### **Explanation**

A source document is the original document that contains the details of a business transaction. A source document captures the key information about a transaction, such as the names of the parties involved, amounts paid (if any), the date, and the substance of the transaction. Source documents are frequently identified with a unique number, so that they can be differentiated in the accounting system. The pre-numbering of documents is particularly useful, since it allows a company to investigate whether any documents are missing.

**Examples of source documents are:**

- i. Quotations.
- ii. Purchases order.
- iii. Sales order.
- iv. Goods received note.
- v. Purchases invoice.
- vi. Credit note.
- vii. Debit note.
- viii. Receipt.
- ix. Remittance advice.
- x. Bank statement.

### **b. Books of prime entry**

**Definition:** These are the books in which day-to-day transactions of an entity are recorded before they are posted to the ledger accounts

**Examples of books of prime entries are:**

- i. Sales day books.
- ii. Purchases day book.
- iii. Sales returns/return inwards book.
- iv. Purchases returns/ return outwards book.
- v. Petty cashbook.
- vi. The journal.
- vii. The cash book.

**c. Uses of the journal**

- i. Correction of errors
- ii. Recording of opening entries
- iii. Recording of closing entries
- iv. Making end of period adjustments
- v. Recording of purchases
- vi. Recording of sales of non-current assets on credit
- vii. Making transfers from one ledger to another

**d. Steps involved in converting from single entries to double entries**

The steps necessary for converting the single entry and incomplete records to double entry are:-

- i. Preparation of an opening statement of financial position.
- ii. Preparation of the organisation's cash book.
- iii. Preparation of trade receivables control account, where the goods are being sold on credit.
- iv. Preparation of trade payables control account, where the goods are being purchased on credit.
- v. Preparation of expenses control accounts.
- vi. Preparation of the statement of comprehensive income.
- vii. Preparation of the statement of financial position.

**Examiner's report**

The question tests candidates' knowledge of basic principles on source documents, books of prime entry, journal and steps required for converting from single entry & incomplete records to double entry.

Most of the candidates' attempted the question and their performance was above average.

Few candidates' performed below average in section "d" of the question as they were unable to state the steps required to convert single entry to double entries.

Candidates are advised to pay attention to basic accounting concepts and principles for better performance in future examinations.

## Marking guide

(a)	Source document	Marks	Marks
	Definition	1	
	Three examples	<u>3</u>	4
(b)	Book of prime entries		
	Definition	1	
	Three examples	<u>3</u>	4
(c)	Uses of the Journal		6
(d)	Steps involved in converting from simple entries to double entries steps		<u>6</u>
	<b>Total</b>		<b><u>20</u></b>

## Solution 3

### Williams Petty Trader

#### Three columns cash book

Date	Particulars	Discount ₦	Cash ₦	Bank ₦	Date	Particulars	Discount ₦	Cash ₦	Bank ₦
Jan 1	Balance b/fwd			68,300					
Jan 1	Bank (c)		50,000		Jan 1	Cash (c)			50,000
Jan 3	C. Okoli			10,000	Jan 1	14 model coats		28,200	
Jan 5	Sales		6,900		Jan 5	Wages		7,200	
Jan 10	Sales		17,600		Jan 5	Office Expenses		1,000	
Jan 12	H. Morgan	1,500		28,500	Jan 9	Habiba	129		2,451
Jan 18	Sales		39,000		Jan 14	Carriage		3,300	
Jan 20	David Ikenna			25,000	Jan 12	H. Morgan			
Jan 20	Cash (c)			58,800	Jan 18	Musa	300		8,200
Jan 22	Cash (c)			10,000	Jan 18	Nonso			10,000
					Jan 20	Bank ( c )		58,800	
					Jan 21	Office pin		4,900	
					Jan 22	Bank ( c )		10,000	
						Balance c/d		100	129,949
		<u>1,500</u>	<u>113,500</u>	<u>200,600</u>			<u>429</u>	<u>113,500</u>	<u>200,600</u>
Feb 1	Balance b/d		100	129,949					



## Examiner's report

The question tests candidates' knowledge of three column cash book.

Most candidates attempted the question and their performance was above average.

The commonest pitfalls of the candidates were their inability to determine contra entry and distinguish between discount received and discount allowed. Some candidates also prepared three columns cash book as if it is a journal.

Candidates are advised to master their double entry principle and understand the different types of cash book.

## Marking guide

	Marks
Balance b/d Feb 1	1.0
Contra	3.0
Discount debit side	0.5
Bank debit side	3.0
Cash debit side	2.0
Discounts credit side	1.0
Bank credit side	2.5
Cash credit side	4.0
workings	<u>3.0</u>
<b>Total</b>	<b><u>20</u></b>

## Solution 4

- a. Share premium is a situation where the shares of a company are issued at a price, higher than the nominal price. Simply, share premium is the excess of the issued price of a share over the nominal price. The total excess amount arising on the Share issued is credited to a share premium account.

The balance of share premium account can be used as follows:-

- i. To issue bonus shares as fully paid to existing shareholders.
- ii. Writing off preliminary expenses of a newly incorporated company.
- iii. Writing off the expenses of, or the commission paid on any issue of shares of the company.

- iv. Providing for the premium payable on redemption of any redeemable share of the company.
- v. In addition to the above, where it is allowed by a country 's provision of the relevant law, a company can use the balance on its share premium account to purchase its own shares and other type of securities
- vi. To provide for premium payable on redemption of redeemable preferences share/debentures.

b.

i. **Bravado LTD**  
Share application and allotments account

Date	Particulars	Amount ₦	Date	Particulars	Amount ₦
Nov 1	Ordinary share Capital (WK. 1)	5,000,000	Nov 10	(WK. 1)	9,000,000
Nov 1	Share Premium (WK. 1)	2,500,000			
Nov 10	Application money refund (WK.3)	1,500,000			
		<u>9,000,000</u>			<u>9,000,000</u>

ii. **Bank account**

Date	Particulars	Amount ₦	Date	Particulars	Amount ₦
Nov 1	Share application (WK.2)	9,000,000	Nov 10	Refund	1,500,000
			Nov 30	Bal. c/d	7,500,000
		<u>9,000,000</u>			<u>9,000,000</u>
Dec 1	Bal. b/d	7,500,000			

lii **Share premium account**

Date	Particulars	Amount ₦	Date	Particulars	Amount ₦
Nov 30	Bal. c/d	<u>2,500,000</u>	Nov 10	Allotment	<u>2,500,000</u>
				Bal. b/d	2,500,000

**Ordinary share capital account**

Date	Particulars	Amount ₦	Date	Particulars	Amount ₦
Nov 30	Bal. c/d	<u>5,000,000</u>	Nov 10	Share application	<u>5,000,000</u>
			Dec 1	Bal. b/d	5,000,000

V **Application and allotment account**

Date	Particulars	Amount ₦	Date	Particulars	Amount ₦
Nov 10	Bank	<u>1,500,000</u>	Nov 10	Share application	<u>1,500,000</u>

**Workings**

1 Calculation of cash refunded

Cash received:	₦
12 million shares at ₦0.75	9,000,000
Allotment:	
10m shares at ₦0.75	7,500,000
<b>Amount refunded</b>	<u>1,500,000</u>

2. Calculation of ordinary share capital

and share premium.	
Ordinary share capital	N
₦10m at ₦0.50	5,000,000
Share premium	
₦10m at ₦0.75	7,500,000
Share premium	<u>2,500,000</u>

### Examiner's report

The question tests candidates' ability to prepare account for issue of shares and to explain the uses of share premium.

Few candidates attempted this question and their performance was below average.

Most of the candidates that attempted the question could not distinguish between when shares are issued at par and at a premium. Many of them could not state the uses of share premium account.

Candidates are advised to cover all aspect of the syllabus for better performance in future examinations of the Institute.

### Marking guide

	Marks	Total marks
a Share premium definition	1	
Uses of share premium	<u>5</u>	6
bi Application & Allotment	2	
ii Bank	2	
iii Share premium	1.5	
iv Ordinary share capital	1.5	
v Application money refunded	1	
Working of cash refunded	3	
Working – calculation of share premium	<u>3</u>	<u>14</u>
		<u>20</u>

## SOLUTION 5

a. **Judexco Limited**  
**Receivables ledger control account as at December 31, 2018**

Dr. Particulars	Amount ₹	Particulars	Cr. Amount ₹
Bal. b/f	294,780	Bal. b/f	7,100
Credit Sales	2,344,620	Contra	18,600
Bills discounted	22,500	Bad debts written off	15,780
Cash refunded to customers	3,810	Bills receivables drawn	104,190
Balance c/d	6,030	Returns inward	22,350
		Bills received from customers	2,067,690
		Discount allowed	74,250
		Bal. c/d	361,770
	<u>2,671,740</u>		<u>2,671,740</u>
Bal. b/d	361,770	Bal. b/d	6,030

b. **Judexco Limited**  
**Purchases ledger control account as at December 31, 2018**

Dr. Particulars	Amount ₹	Cr. Particulars	Amount ₹
Bal. b/f	12,630	Bal. b/f	216,570
Contra	18,600	Credit purchases	1,540,860
Returns outward	26,760		10,020
Cheque payments to suppliers	1,485,420		
Discount received	57,960		
Bal. c/d	166,080		
	<u>1,767,450</u>		<u>1,767,450</u>
Bal. b/d	10,020	Bal. b/d	<u>166,080</u>

- c. The uses of control accounts include:-
- i. To verify the arithmetical accuracy of the accounts in the ledger
  - ii. To make location of errors easy in personal accounts
  - iii. The balance on the control accounts can be taken as a final figure and used in the preparation of final accounts
  - iv. It is useful in checking and monitoring account officers, who may be engaging in fraudulent acts
  - v. It is useful towards reducing the size of the general ledger, as it allows homogenous account to be grouped together
  - vi. It makes available receivables and payables to management quickly

- d. Accounting errors that cannot be discovered by means of a trial balance includes:
- i. Error of omission
  - ii. Error of commission
  - iii. Error of principle
  - iv. Error of original entry
  - v. Compensating error
  - vi. Error of complete reversal

### **Examiner's report**

The question tests candidates' ability to prepare control accounts with its uses and the knowledge of trial balance errors.

Most candidates attempted the question and their performance was above average.

Few candidates had difficulties treating payables and receivables ledger contra entries and closing balances.

Candidates are advised to study pay attention to every aspects of the topic with the intent to master them.

### **Marking guide**

	<b>Total marks</b>
a Sales ledger control account	7
b Purchases ledger and heading	6
c Uses of control account	4
d Errors that do not affect trial balance	<u>3</u>
	<b><u>20</u></b>

## SOLUTION 6

a. **Chop and Chop Club**  
**Statement of financial position as at September 30, 2018**

	₪	₪
<b>Non-current assets:</b>		
Leasehold premises		720,000
Plant and equipment		<u>240,000</u>
		<u>960,000</u>
<b>Current assets:</b>		
Subscription in arrears	12,000	
Prepaid insurance	1,500	
Bank deposit	230,000	
Bank balance	48,000	
Cash in hand	4,500	
		296,100
<b>Total assets</b>		<u>1,256,100</u>
<b>Accumulated fund 1/10/2018</b>		<u>1,245,600</u>
<b>Current liabilities:</b>		
Accrual – Repairs	6,000	
Accrual – Office expenses	<u>4,500</u>	
		<u>10,500</u>
<b>Total accumulated fund and liabilities</b>		<u>1,256,100</u>

b. **Bank deposit account**

	₪		₪
Bal. b/f differences	230,100	Receipt & payments	130,500
Receipt & payments	135,000	Bal. c/d	243,600
Interest received	9,000		
	<u>374,100</u>		<u>374,100</u>
Bal. b/d	243,600		

c. **Chop and chop club**  
**Income and expenditure account for the**  
**Year ended September 30, 2018**

	N	N
<b>Income</b>		
Subscription (WK. 1)		40,800
Interest received		9,000
Donation received		128,000
Easter Picnic takings (N102,000 – 54,000)		48,000
		<u>225,800</u>
<b>Expenditure</b>		
Depreciation – Leasehold premises	30,000	
Depreciation – Plant and machinery	18,000	
General repairs and maintenance (WK.2)	36,000	
Office expenses (WK.2)	30,000	
Insurance (WK.4)	5,700	
Staff Cost	<u>90,000</u>	
		<u>209,700</u>
<b>Surplus of income over expenditure</b>		<u>16,100</u>

d. **Chop and Chop Club**  
**Statement of financial position as at September 30, 2018**

	N	N	N
	Carrying amt.	Depr.	Carrying amount
<b>Non-current assets:</b>			
Leasehold premises	720,000	30,000	690,000
Plant and Equipment	390,000	18,000	372,000
	<u>1,110,000</u>	<u>48,000</u>	<u>1,062,000</u>
<b>Current assets:</b>			
Subscriptions in arrears			13,200
Prepaid insurance			1,800
Bank deposit			243,600
Cash in hand			15,000
			<u>280,200</u>
<b>Total assets</b>			<u>1,342,200</u>
<b>Accumulated funds &amp; liabilities:</b>			
Accumulated fund			1,245,600
Surplus for the year			<u>16,200</u>
			<u>1,261,800</u>
<b>Current liabilities:</b>			
Fund for purchase of double bunk – bed			75,000
Accrual – Office Expenses			5,400
			<u>80,400</u>
<b>Total accumulated fund &amp; liabilities</b>			<u>1,342,200</u>

## Examiner's report

The question tests the candidates' in-depth knowledge of single entry and incomplete records.

Few candidates attempted the question and their performance was below average.

Their poor performance was due to their lack of understanding of the double entry principle and inability to distinguish between assets and liability, and income and expenditure items of a not-for-profit entities.

Candidates are advised to pay more attention to the double entry principle and elements of financial statements of profit and not-for-profit oriented entities.

## Marking guide

	Marks	Total marks
Opening statement financial position	4	
Deposit account	2	
Statement of income and expenditure	4	
Statement of financial position	<u>7</u>	17
Determination of subscriptions	0.5	
Determination of repairs	0.25	
Determination of office expenses	0.5	
Determination of insurance	0.5	
Determination of donations	0.25	
Determination of Easter picnic profit	0.25	
Determination of carrying amount of property & equipment	0.25	
Determination of carrying amount of leasehold premises	<u>0.5</u>	<u>3.0</u>
		<u>20</u>



**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**  
**FOUNDATION LEVEL EXAMINATION – MARCH/JULY 2020**

**MANAGEMENT INFORMATION**

Time Allowed: 3¼ hours (including 15 minutes reading time)

**SECTION A:        MULTIPLE-CHOICE QUESTIONS        (20 MARKS)**

**INSTRUCTION:        YOU ARE REQUIRED TO ANSWER ALL QUESTIONS IN THIS SECTION**

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

1. Which of the following is **NOT** a typical cause of material variances?
  - A. Paying higher or lower prices than planned
  - B. Losing or gaining quantity discounts
  - C. Buying complementary materials due to availability of planned material
  - D. Buying lower or higher quality than planned
  - E. Greater or lower yield from materials than planned
  
2. In a manufacturing set-up, the service department provides services to other service departments as well as the production department. Which of the following is **NOT** a method of allocating the service department cost?
  - A. Specified order of closing
  - B. Repeated distribution method
  - C. Indirect allocation method
  - D. Simultaneous equation method
  - E. Matrix method
  
3. XYZ Company produces a single product XEE selling for ₦20 and has a variable cost of ₦12 per unit. If fixed cost of ₦2.4million accrues evenly over the year and the company wants to achieve a monthly target profit after tax of ₦526,400 considering a company tax rate of 30%.

Calculate the level of monthly sales required to achieve the target profit in units.

  - A. ₦365,800
  - B. ₦300,000
  - C. ₦119,000
  - D. ₦90,800
  - E. ₦71,060

4. Labour turnover is the ratio of number of employees leaving a company to the total number on the payroll in that period. Which of the following costs does not arise as a result of labour turnover?
- Redundancy Cost
  - Separation Cost
  - Replacement Cost
  - Training Cost
  - Learning Cost
5. Which of the following is **NOT** an effect of increasing automation from costing viewpoint?
- Reduction in direct labour costs per unit
  - Reduction in overhead cost
  - Change in cost structures
  - Makes labour hours increasingly unsuitable as an overhead absorption base
  - Fewer production workers and more support staff
6. Which of the following is **NOT** an attribute of a good coding system?
- Uniqueness
  - Brevity
  - Clear symbolisation
  - Ambiguity
  - Exhaustivity
7. MNO is a retailer of various domestic goods, selling all purchases in the same month, therefore not keeping any stock. The Company's policy is to sell at a margin of 9.091% and collection of sales proceed is 50% in the month of sales, 30% the month after and the balance in the 3<sup>rd</sup> month. Purchases for the past four months are as follows:

Month	₦
1	65,000,000
2	72,000,000
3	60,000,000
4	80,000,000

What is the sales collection in Month 4?

- ₦64,000,000
- ₦70,400,000
- ₦72,000,000
- ₦78,793,459
- ₦79,200,000

8. Which of the following is **NOT** a problem associated with site and contract works?
- A. Pilferage of materials, tools, etc
  - B. Unauthorised use of equipment and vehicles
  - C. Simple quantity budget for materials usage
  - D. Incorrect labour bookings
  - E. General difficulties of recording and paperwork
9. Which of the following is **NOT** an argument for the use of marginal costing in routine costing?
- A. Simple to operate
  - B. Apportionment of fixed costs is avoided
  - C. Under or over absorption of overheads is almost entirely avoided
  - D. Inventory valuation at full production costs is in line with accounting standards
  - E. Fixed costs are incurred on a time basis and do not relate to activity
10. Costs that are charged against revenue irrespective of volume of production achieved are known as
- A. Semi- variable costs
  - B. Period costs
  - C. Direct costs
  - D. Marginal costs
  - E. Conversion costs
11. The document filled by a worker to record the starting and finishing time of his own operation is known as
- A. Job cost sheet
  - B. Completion of job sheet
  - C. Job time sheet
  - D. Job materials requisition sheet
  - E. Clock card
12. The standard set on the assumption of conditions that recognise an element of imperfection is known as
- A. Ideal standard
  - B. Basic standard
  - C. Current standard
  - D. Attainable standard
  - E. Favourable standard

13. Convert the decimal number 29 to a binary number
- A. 1101
  - B. 11101
  - C. 11001
  - D. 10011
  - E. 11011
14. The following methods are normally employed during system changeover, **EXCEPT**
- A. Direct method
  - B. Parallel method
  - C. Combined methods
  - D. Phased method
  - E. Pilot method
15. Information assets **CANNOT** be safeguarded through which of the following strategies
- A. Prevention/detection of fraud
  - B. IT warehouse
  - C. Law
  - D. Confidentiality
  - E. Privacy
16. Security threats related to computer crime or abuse include the following, **EXCEPT**
- A. Impersonation
  - B. Trojan horse method
  - C. Logic bomb
  - D. Computer viruses
  - E. Authentication
17. Multiprocessing capability can be achieved by
- A. Operating system
  - B. Application package
  - C. User software
  - D. Computer memory
  - E. Language processor

18. The following are the most common methods of online payment, **EXCEPT**
- A. Mobile Payments
  - B. Bank Transfers
  - C. e-wallets
  - D. Internet Banking
  - E. Direct Deposit
19. In system development, an IT staff who designs the logical file structures for any database for a new system is called
- A. System Developer
  - B. System Analyst
  - C. Data Analyst
  - D. Business Analyst
  - E. Programmer
20. Which of the following is **NOT** a feature of Batch Processing System?
- A. It is used for data processing that needs no frequent processing
  - B. It uses the process of queuing method
  - C. It requires many users at remote locations
  - D. Processing time is predetermined
  - E. Every transaction is processed together at once

**SECTION B: YOU ARE REQUIRED TO ANSWER ANY FOUR OUT OF SIX QUESTIONS IN THIS SECTION (80 MARKS)**

**QUESTION 1**

Piano Construction Company Limited has been in operation for many years. The following relates to Contract A050 on the Akure-Owo site as at 31st Dec., 2017.

	<b>₦'000</b>
Wages	42,156
Materials delivered directly to site	54,203
Materials from main stores	657
Materials transferred to Akure –Ibadan Site	1,590
Plant purchased at cost	12,500
Plant transferred to Akure – Owo Site	5,250
Sub-contractor’s charges	19,580
Site expenses	5,086
Materials on site at 31st Dec.	18,300
Plant on site at 31 <sup>st</sup> Dec.	14,750
Accrued wages at 31st Dec.	921
Prepayments at 31st Dec.	507
Value of work certified	117,500
Cost of work certified	102,300
Progress payments received from client	115,000

Head office charges are 10% of wages

The contract value is ~~₦~~550,000,000 and it is anticipated that, there will be further costs of ~~₦~~375,000,000 (including rectification claims). As this is the 1<sup>st</sup> year of the contract, no profit has been taken previously.

**You are required to:**

- a. Prepare the Contract Account for project A050 for the year ended 31st December, 2017 (15 Marks)
  - b. Prepare the Statement of financial position extracts as at 31<sup>st</sup>December, 2017. (3 Marks)
  - c. What is the expected profit on the contract on completion? (2 Marks)
- (Total 20 Marks)**

## QUESTION 2

a. The aim of just-in-time system is to produce the required items with high quality and at the exact time required.

- i. List **FIVE** characteristics of the just-in-time environment (5 Marks)
- ii. List **FIVE** benefits from just-in-time system (5 Marks)

b. XYZ operates a backflush accounting system with the following standard costs:

Raw materials (5Kg per unit)	₦230 per Kg
Personnel cost	₦300 per unit
Overheads	₦750 per unit

During a period, the following was achieved:

Raw materials purchased	24,500Kg
Production	4,800 units
Sales	4,600 units

There was no opening stock and the triggers used for initiating accounting entries are:

- Purchase of raw materials;
- Sale of finished goods.

### **Required:**

Prepare the following ledger accounts:

- i. Combined raw materials and work-in-progress (WIP)
- ii. Conversion cost
- iii. Cost of goods sold
- iv. Period expenses

**Show all workings**

(10 Marks)  
**(Total 20 Marks)**

### QUESTION 3

ZUBEY LIMITED manufactures 4 homogenous products A, B, C and D with the following projections for the coming year:

<u>Products</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
Sales units (full capacity)	80,000	60,000	75,000	100,000
	<u>₦</u>	<u>₦</u>	<u>₦</u>	<u>₦</u>
Unit selling price (Naira)	<u>50</u>	<u>55</u>	<u>60</u>	<u>75</u>
<u>Cost per unit</u>				
Direct material	12	13	15	25
Direct labour	15	14	18	22
Variable overhead	10	12	16	20
Fixed overhead	<u>4</u>	<u>3</u>	<u>4</u>	<u>5</u>
Full cost	<u>41</u>	<u>42</u>	<u>53</u>	<u>72</u>
Profit per unit	<u>9</u>	<u>13</u>	<u>7</u>	<u>3</u>
Total Profit	<u>720,000</u>	<u>780,000</u>	<u>525,000</u>	<u>300,000</u>

Fixed overhead per unit was arrived at based on the projected total fixed costs for the year. The products, though of varying qualities, can be substituted for each other by the consumers.

Unfortunately, the market can only absorb a maximum of 250,000 units of whatever mix in a year.

Assume no opening or closing stocks.

#### Required

- Compute the optimal production plan (9 Marks)
  - Prepare the income statement arising from (a) above (11 Marks)
- (Show all workings) **(Total 20 Marks)**



#### QUESTION 4

The following information relates to Wareroom Trading Limited:

	NOV 2019	DEC 2019	JAN 2020	FEB 2020	MAR 2020
	₦	₦	₦	₦	₦
Sales	850,000	950,000	720,000	750,000	780,000
Purchases	360,000	360,000	300,000	400,000	350,000

- (i) All sales are on credit, collectable 50% in 30 days, 25% in 60 days, 20% in 90 days and balance regarded as bad debts.
- (ii) All purchases are also on credit, payable 40% in 30 days and 30% each in 60 and 90 days respectively.
- (iii) A new generator costing ₦455,000 will be acquired in February under a 30-day credit agreement.
- (iv) An old car will be sold for ₦50,000 cash in February.
- (v) Monthly salaries are ₦80,000 payable as and when due.
- (vi) Commission on sales is 5% payable to sales agents 2 months in arrears.
- (vii) Company income tax of ₦235,000 is due and payable in January.
- (viii) An investment is expected to bring in ₦60,000 gross in February, subject to 10% withholding tax.
- (ix) The staff christmas party in December is expected to cost the company a total of ₦90,000, though 60% of the expenses will be pushed for settlement the month following.
- (x) Assume an overdraft of ₦283,000 on 31 December 2019.

**Show all workings.**

#### Required:

Prepare a monthly cash budget for Wareroom Trading Limited for the first three months of 2020 using a columnar format.

**(Total 20 marks)**

### QUESTION 5

Application packages are meant for specific process and every process that runs on the computer has at least an associated application.

#### Required:

- i. State **FIVE** factors to be considered in selecting an application package
  - ii. State **FIVE** types of application packages available  
(10 Marks)
- b. “Computer systems are often at risk of fraud or theft”.
- i. List and explain briefly the **TWO** main approaches to managing the risk.  
(5 Marks)
  - ii. State **FOUR** measures that can provide protection against fraud and theft.  
(5 Marks)
- (Total 20 Marks)**

### QUESTION 6

- a. A system is a group of related elements or activities that are organised for a specific purpose or to achieve a common objective.

#### Required:

Define the terms:

- i. Open System
  - ii. Closed System
  - iii. Feedback Control
  - iv. Feed-Forward Control  
(8 Marks)
- b. State **TWO** features of each of the following systems.
- i. Deterministic
  - ii. Probabilistic
  - iii. Cybernetic  
(6 Marks)
- c. An integrated IT system describes the scenario where all modules of the system are linked and function together as a system in a coordinated fashion.’

List **SIX** modules that can be linked to form an integrated finance system.  
(6 Marks)

**(Total 20 Marks)**

## **MULTIPLE – CHOICE QUESTIONS**

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

**Workings:**

**Question 3**

Monthly target profit after tax	526,400	70%
tax	<u>225,600</u>	30%
Monthly target profit	752,000	100%

Monthly target profit	
Fixed cost <u>2,400,000</u>	<u>200,000</u>
12	<u>952,000</u>

Contribution per unit  $20 - 12 = 8$   
Units required =  $\frac{952,000}{8} = 119,000$  units

**Workings:**

**Question 7**

MONTH	PURCHASES	MARGIN	SALES
	0.90909	9.09%	100%
	₦	₦	₦
1	65,000,000	6,500,072	71,500,072
2	72,000,000	6,545,520	79,200,000
3	60,000,000	6,000,066	66,000,066
4	80,000,000	8,000,088	88,000,088

Collection in Month 4

	₦
50% in month 4	44,000,044
30% in month 3	19,800,020
20% in month 2	<u>15,840,016</u>
TOTAL	<u>79,640,080</u>

**Examiner's report**

This set of twenty questions cover a large portion of the syllabus and virtually all candidates attempted them.

## SOLUTION 1

### PIANO CONSTRUCTION COMPANY LTD

(a) CONTRACT ACCOUNT – AB 50 for the Year Ended 31st Dec. 2017

	₦'000	₦'000		
₦'000				
Wages	42,156		Materials transferred out	
1,590			Prepayments c/d	
507				
Accruals	<u>921</u>	43,077	as at 31 December	
Materials	54,203		Materials c/d	18,300
Materials from store	657	54,860	Plant c/d	
14,750	<u>          </u>		Work-in- progress	
7,214				
Plant at cost	12,500		Cost of work certified c/d	
102,300				
Plant transferred	<u>5,250</u>	17,750		
Sub-contractor's charges		19,580		
Site expenses		5,086		
Head office charges		<u>4,308</u>		
		<u>144,661</u>		<u>144,661</u>
Cost of work certified b/d	102,300		Value of work certified	117,500
Profit for the year	<u>15,200</u>			
	<u>117,500</u>			<u>117,500</u>

### Workings

(1) Costs incurred to date:	₦'000	₦'000
Total expenses		144,661
Less: prepayments:	507	
Materials c/d	18,300	
Plant	14,750	
Materials transferred out	<u>1,590</u>	<u>35,147</u>
Costs incurred to date		<u>109,514</u>

	<b>₦'000</b>		
(2)	Work-in-progress:		
	Costs incurred to date	109,514	
	Less cost of work certified	<u>102,300</u>	
	Work-in-progress	<u>7,214</u>	
(3)	Calculation of profit	<b>₦'000</b>	
	Value of work certified	117,500	
	Less Cost of work certified	<u>102,300</u>	
	Interim profit	<u>15,200</u>	
(b)	Statement of financial position extract as at 31st Dec. 2017.		
	Non-current asset:	<b>₦'000</b>	
	Plant	14,750	
	Current asset		
	Materials	18,300	
	Work- in-progress	7,214	
	Prepayments	507	
	Liability (accrued wages)	921	
	NB: Material + work in progress = inventory =	<b>₦25,514,000</b>	
(c)	Calculation of expected profit on completion of contract.		
		<b>₦'000</b>	<b>₦'000</b>
	Contract price		550,000
	Less costs incurred to date	109,514	
	Less expected costs to completion	<u>375,000</u>	
			<u>484,514</u>
	Expected profit		<u>65,486</u>

### **Examiner's report**

This question tests candidates' knowledge of contract costing, including the determination of expected profit and preparation extracts of Statement of Financial Position on ongoing contracts at financial year end.

Some candidates had problem determining the interim profit and work-in-progress as the principles they employed were not correct.

Candidates are enjoined to carry out more detailed study of the ICAN Study Texts, particularly on the principles.

## Marking guide

Piano Construction Company Ltd.

	<u>Marks</u>
Heading	1/2
Wages	1/2
Accrual	1/2
Sub-total	1/2
Materials	1/2
Materials from store	1/2
Sub-total	1/2
Plant	1/2
Plant transferred	1/2
Sub-total	1/2
Sub-contractor charges	1/2
Site expenses	1/2
Head office charges	1/2
Sub-total	1/2
Cost of work certified c/d	1/2
Interim profit	1/2
Final total	1/2
Materials transferred out	1/2
Prepayments c/d	1/2
Materials c/d	1/2
Plant c/d	1/2
Work-in-progress	1/2
Cost of work certified c/d	1/2
Sub-total	1/2
Value of work certified	1/2
Final total	1/2
	<hr/>
	<b>13</b>

### Workings:

Costs incurred to date	1/2
Work in progress	1/2
Interim profit	<u>1</u>

### Statement of financial position extracts:

Heading	
Plant	
Materials	
Work-in- progress	
Prepayments	
Accrued wages	
Calculations of expected profit on the contract.	3
Contract price/value of contract	
Cost of contract	
Expected profit	

2  
**20**

## SOLUTION 2

ai). The following are the characteristics of just-in-time environment:

- A move towards zero inventory.
- Elimination of non-value-adding activities.
- An emphasis on perfect quality i.e. zero defects.
- Short set-ups.
- A move towards a batch size of one.
- 100% on time deliveries.
- A constant drive for improvement.
- Demand-pull manufacture.

aii). The following are the benefits of just-in-time systems:

- Lower investment required in all forms of inventory.
- Space savings from the reduction in inventory and improved layouts.
- Greater customer satisfaction resulting from higher quality, better deliveries and greater product variety.
- Elimination of problems created by the traditional inventories has helped to improve performance dramatically.
- The flexibility of JIT and the ability to supply small batches enables companies to respond more quickly to market changes.

b).

<b>Raw materials and work-in-progress account</b>			
		₦	₦
Payables	(1)	5,635,000	Cost of goods sold (2)
		<u>5,635,000</u>	Balance c/d (3)
			5,290,000
			<u>345,000</u>
			<u>5,635,000</u>

  

<b>Conversion Cost</b>			
		₦	₦
Payables		5,040,000	Personnel cost (4)
		<u>5,040,000</u>	Overhead (5)
			1,380,000
			3,450,000
			<u>210,000</u>
			<u>5,040,000</u>

  

<b>Cost of goods sold</b>			
		₦	₦
Raw materials		5,290,000	P & L
Personnel cost		1,380,000	
Overhead		<u>3,450,000</u>	
		<u>10,120,000</u>	
			<u>10,120,000</u>



	Period expenses		
	₦		₦
Conversion cost	210,000	P & L	210,000
	210,000		210,000

### Workings

1. Payables - 24,500kg x ₦230 = ₦5,635,000.00
2. Cost of goods sold - 4600 units x (5 x ₦230) = ₦5,290,000
3. Balance - Raw material (500kg x ₦230) + Raw material in Finished Product -  
(200 units x 5kg ₦230)
4. Personnel cost – 4,600 units x ₦300 = ₦1,380,000
5. Overhead - 4,600 units x ₦750 = ₦3,450,000
6. Period expense – 200 units x ₦1050 = ₦210,000

### Examiner's report

The question tests candidates' knowledge of cost determination methods of Just-In-Time and Backflush accounting.

Majority of those who attempted it displayed good knowledge of Just-In-Time, but poor knowledge of Backflush accounting.

Candidates should understand that cost determination is an integral part of the syllabus and no portion should be ignored in their preparations.

## Marking guide

	<u>Marks</u>	<u>Marks</u>
ai). Characteristics of Just-In-Time		5
aii). Benefits of Just-In-Time		5
b). RIP Account		
Creditors 5,635,000	½	
Cost of goods sold 5,290,000	½	
Balance c/d 345,000	½	
Balance b/d 345,000	½	
Conversion Cost Account		
Creditors 5,040,000	½	
Personnel cost 1,380,000	½	
Overhead 3,450,000	½	
Period expense 210,000	½	
Cost of goods sold		
Raw materials 5,290,000	½	
Personnel cost 1,380,000	½	
Overhead 3,450,000	½	
P & L 10,120,000	½	
Period expense 210,000	½	
P & L 210,000	½	
		7
Working		<u>3</u>
		<u>10</u>
		<u>20</u>

## SOLUTION 3

### a. ZUBEY LIMITED

<u>PRODUCTS</u>	<u>Computation of Optimal Production Plan</u>			
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
	<u>₹</u>	<u>₹</u>	<u>₹</u>	<u>₹</u>
Unit selling price	<u>50</u>	<u>55</u>	<u>60</u>	<u>75</u>
Direct material	12	13	15	25
Direct labour	15	14	18	22
Variable overhead	<u>10</u>	<u>12</u>	<u>16</u>	<u>20</u>
Total variable cost	<u>37</u>	<u>39</u>	<u>49</u>	<u>67</u>
Contribution	<u>13</u>	<u>16</u>	<u>11</u>	<u>8</u>
Ranking	<u>2<sup>nd</sup></u>	<u>1<sup>st</sup></u>	<u>3<sup>rd</sup></u>	<u>4<sup>th</sup></u>

### Optimal Production Quantities

	<u>QTY</u>	<u>QTY</u>
Total market capacity		250,000
1 <sup>st</sup> – Product B	60,000	
2 <sup>nd</sup> – Product A	80,000	
3 <sup>rd</sup> – Product C	75,000	
4 <sup>th</sup> – Product D	<u>35,000</u>	<u>250,000</u>

### Income Statement

<u>Products</u>	A	B	C	D	
<b>TOTAL</b>					<b>₦</b>
Sales	4,000,000	3,300,000	4,500,000	2,625,000	4,425,000
Less: Total					
Variable cost	<u>2,960,000</u>	<u>2,340,000</u>	<u>3,675,000</u>	<u>2,345,000</u>	<u>11,320,000</u>
Contribution	1,040,000	960,000	825,000	280,000	3,105,000
Fixed overhead					<u>1,300,000</u>
Net profit					<u>1,805,000</u>

### Workings

Sales	A	B	C	D
Quantity(x)	80,000	60,000	75,000	35,000
Unit price(₦) (y)	<u>50</u>	<u>55</u>	<u>60</u>	<u>75</u>
Total sales(₦) (xy)	<u>4,000,000</u>	<u>3,300,000</u>	<u>4,500,000</u>	<u>2,625,000</u>

### Fixed overhead

Projected quantity	80,000	60,000	75,000	100,000	
Unit fixed overhead(₦)	<u>4</u>	<u>3</u>	<u>4</u>	<u>5</u>	
<b>Total (₦)</b>	<b><u>320,000</u></b>	<b><u>180,000</u></b>	<b><u>300,000</u></b>	<b><u>500,000</u></b>	<b><u>1,300,000</u></b>

### **Marking guide**

a. Optimal production plan

Heading	½
Total variable cost per product	2
Contribution per product	2
Ranking per product	2
Optimal production per product	2
<b>Total</b>	<u>½</u>

b.	<u>Income statement</u>		
	Sales per product plus total	2½	
	Total variable cost per product plus total	2½	
	Contribution per product plus total	2½	
	Fixed overhead	½	
	Net profit	½	
	<u>Working</u>		
	Fixed overhead per product plus total	<u>2½</u>	<u>11</u>
			<u>20</u>

### **Examiner's report**

This question tests candidates' understanding of the determination of optimum production plan where a limiting factor exists.

A few candidates did not realise that contribution theory is critical to the ranking of competing items, where there are limiting factors. Also that fixed costs are not relevant in such situations.

Candidates are advised to conduct deeper studies on marginal costing in preparing for future examinations.

## SOLUTION 4

### Wareroom Trading Limited Cash Budget for January to March 2020

	January ₤	February ₤	March ₤
<b><u>Inflows</u></b>			
Collection from sales	687,500	767,500	745,000
Sale of car	-	50,000	-
	-	<u>54,000</u>	-
Total inflows	<u>687,500</u>	<u>871,500</u>	<u>745,000</u>
<b><u>Outflows</u></b>			
Payment for purchases	252,000	336,000	358,000
Generator purchase	-	-	455,000
Salaries	80,000	80,000	80,000
Commission on sales	42,500	47,500	36,000
Income tax	235,000	-	-
Staff christmas party	<u>54,000</u>	-	-
Total outflows	<u>663,500</u>	<u>463,500</u>	929,000
Opening balance	(283,000)	(259,000)	149,000
Net inflow	24,000	408,000	(184,000)
Closing balance	<u>(259,000)</u>	<u>149,000</u>	<u>(35,000)</u>

### **Workings**

#### **Collection from sales**

	Dec ₤	Jan ₤	Feb ₤	Mar ₤
November sales	425,000	212,500	170,000	-
December sales	-	475,000	237,500	190,000
January sales	-	-	360,000	180,000
February sales				<u>375,000</u>
		<u>687,500</u>	<u>767,500</u>	<u>745,000</u>

#### **Payment for purchases**

	₤	₤	₤	₤
November Purchases	144,000	108,000	108,000	
December purchases	-	144,000	108,000	108,000
January purchases	-	-	120,000	90,000
February purchases	-			<u>160,000</u>
	-	<u>252,000</u>	<u>336,000</u>	<u>358,000</u>

#### **Sales commissions**

Comm. on Nov. sales ₤850,000		<u>42,500</u>		
Comm. on Dec. sale ₤950,000			<u>47,500</u>	
Comm. on Jan. sales ₤720,000				<u>36,000</u>

### **Investment income**

Gross	₦60,000	
Less WHT	<u>₦6,000</u>	<u>54,000</u>

**Christmas party expenses** 54,000

### **Examiner's report**

This question tests candidates' knowledge of cash budgeting.

Performance was good. However, one major pitfall was the determination of collections and payments where credit terms and installment payments, were involved.

Candidates should in future mind the implications of some technical words particularly where cash is not paid immediately for transactions.

### **Marking guide**

	<b><u>Marks</u></b>
<b><u>Cash budget</u></b>	
Heading	1
Collection from sales	1½
Investment income	1
Total inflows	1½
Payment for purchases	1½
Generator purchase	½
Commission on sales	3
Staff christmas party	1
Total outflows	1½
Opening Balances	1½
Net inflows	1½
Closing balances	1½

### **Workings**

Total collections January	½
February	½
March	½
Total payment for purchases January	½
February	½
March	½
	<b><u>20</u></b>

## **SOLUTION 5**

a (i) Factors to be considered in selecting an application package include:

1. Whether the package fits the user's requirement in terms of report production, anticipated volume of data, data validation, etc.
2. Cost effectiveness of the package.
3. Support and maintenance services to be provided by the software supplier
4. Compatibility of the package with existing hardware.
5. Provision for updating, amending or modifying the package.
6. Survey of other users of the package and how long it has been in the market
7. Type of hardware and operating system designed for the environment such as single user or multi-user.
8. Can the package be integrated with other standard packages, that is, will the new package accept download of data from these packages?
9. Availability of full and clear documentation of the package
10. Ease of use and user friendliness of the package - availability of menus, on-screen prompts and help facilities
11. Whether the package comes with useful 'add-on' facilities such as report generation facilities.
12. Whether the processing time and response time are fast enough.
13. Adequacy of controls included in the package (such as passwords, data validation checks, accounting controls and reconciliation)
14. Ability of the supplier/dealer to demonstrate the package to the users.

(ii) Types of application package include:

1. Electronic spreadsheet, examples include: Excel, Access
2. Word processing packages: examples include: Microsoft word, word perfect for windows, display write, professional write.
3. File Manager and Database management systems,
4. Graphic generator.
5. Desktop publishing.
6. Statistical package, example: SPSS (Statistical package for social sciences)
7. Mathematical packages: examples include: Mathematical and matlab
  - Non-linear and linear programming packages.
  - Financial modelling packages.
  - Sensitivity and risk analysis packages.

b. (i) Two main approaches to managing risks from fraud or theft are

1. Risk prevention
2. Risk detection

**Risk Prevention:** This means designing controls for the system that reduce the likelihood of the risk occurring. Preventive techniques include: Introduction of policies, procedures and controls and activities such as training and fraud awareness to stop fraud from occurring.

A **Risk Detection:** This means identifying fraud or theft, if and when it occurs. fraud detection approach should involve the use of analytical and other procedures to highlight anomalies, and the introduction of reporting mechanisms that provide for communication of suspected fraudulent acts. The key elements of a comprehensive fraud detection system will include : exception reporting, data mining, trend mining, trend analysis and ongoing risk assessment.

b. (ii) Measures that can provide protection against frauds and theft include:

1. Internal controls like segregation of duties, formal authorisation to amend Files and control over physical access to computer system.
2. Internal audit involving investigation by internal auditors to look for fraud and error.
3. Control checks on system design to avoid risk of dishonest systems analysts including fraudulent elements in the system design.
4. Care must be taken in the recruitment, selection and training of staff who use or operate the computer systems.
5. Digital certificates/signatures to ensure the identity of the correct person entering a system over the internet.
6. Use of passwords by users of systems for authorised access.
7. Encryption involving the coding of data into a form not understandable to the casual reader.



## Examiner's report

This question tests candidates' knowledge of (a) application packages, and (b) fraud and theft prevention and detection.

Performance was fair.

Several candidates could not differentiate between prevention and detection, therefore they used them interchangeably.

Candidates are advised to pay more attention to words which may appear similar in their future preparations.

Marking guide	Marks
a. 5 factors for selecting application package	5
5 types of application packages	5
b. i. Listing of 2 main approaches to manage risk	2
Explanation of 2 main approaches to manage risk	3
ii. Stating 4 measures that can provide protection	5
	<u>20</u>

## SOLUTION 6

- a.
- i. **Open Systems:** Open systems are systems that relate with their environment. It therefore means that the environment will affect the system and the system will likewise affect the environment. Examples are business, social and information systems.
  - ii. **Closed Systems:** Closed systems are systems that do not interact with the environment and as such the environment has no effect on them. A good example is a scientific experiment.
  - iii. **Feedback Control:** It involves a sensor taking a measurement and an adjustment is then made to the system in response to the result of the measurement.
  - iv. **Feed-Forward Control:** Feed-Forward Control makes control adjustments based on attempting to achieve a particular outcome. It is based on events that are yet to happen.
- b. **Deterministic by stems**
- Use Predetermined rules
  - Giving predictable outputs
  - Operations can be predicted

- Follow a standard
  - Machines and computers are examples
- ii. **Probabilistic Systems**
- Assign a probability to future events
  - Their behaviour is less easy to predict
  - Business tries to change before the event has occurred.
  - It predicts sales in sales forecast based on past evidence
  - Businesses are examples
- iii. **Cybernetic Systems**
- Most complex type of system
  - Continually changing
  - Adapt to their environments
  - Rely heavily on interaction with people
- c. i. **Modules of an Integrated Finance System**
- Accounts payable control
  - Accounts receivable control
  - Accruals
  - Prepayments
  - Bank and cash
  - Inventory
  - Purchases
  - Sales
  - Salary

### **Examiner's report**

This question tests candidates' understanding of systems (a) open and closed systems (b) deterministic, probabilistic and cybernetic systems, and (c) integrated finance systems.

Candidates performed well in (a) and (c), but (b) was not very popular among them.

A comprehensive study of systems would benefit candidates in preparation for future examinations. The ICAN Study Text gives a good treatment to this topic.

## Marking guide

			Marks	Marks
a.	i	Definition of open system	2	
	ii	Definition of closed system	2	
	iii	Definition of feedback control	2	
	iv	Definition of feed-forward control	<u>2</u>	8
b.	i	2 features	2	
	ii	2 features	2	
	iii	2 features	<u>2</u>	6
c.		6 modules for integrated finance system		<u>6</u>
				<u>20</u>



4. The Chairman and other members of the Federal Inland Revenue Service Board other than ex-officio members shall hold office for a term of ..... year(s) renewable once only
- A. 5
  - B. 4
  - C. 3
  - D. 2
  - E. 1
5. In the context of the Nigeria tax policy, tax authorities at all levels shall administer their mandates in accordance with the following, **EXCEPT**
- A. Registration of taxable persons
  - B. Preparation of accounts for tax purposes
  - C. Tax compliance
  - D. Efficiency of administration
  - E. Dispute resolution
6. According to paragraph 112.1 of International Ethics Standards Board for Accountants (IESBA), the principle of objectivity imposes an obligation on all professional accountants **NOT** to
- A. Compromise their integrity when dealing with clients
  - B. Compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others
  - C. Act unprofessionally when dealing with clients and others
  - D. Argue with client in the course of carrying out their professional duties
  - E. Act recklessly when carrying out their professional duties
7. Any company registering with the Federal Inland Revenue Service (FIRS) for tax purposes is required to submit a registration letter for income tax which shall disclose the following, **EXCEPT**
- A. Name of company
  - B. Registered address
  - C. Nature of business
  - D. Name and address of bankers
  - E. Details of property, plant and equipment
8. The salary, allowances and conditions of service of Tax Appeal Commissioners shall be determined by
- A. The President
  - B. The Minister of Finance
  - C. The Revenue Mobilisation Allocation and Fiscal Commission
  - D. The Chairman, Federal Inland Revenue Service
  - E. The Chairman, Joint Tax Board

9. The withholding tax rate for an individual in respect of consultancy fees is
- A. 2½%
  - B. 5%
  - C. 10%
  - D. 15%
  - E. 20%
10. Which of the following is **NOT** a service exempted from VAT?
- A. Financial consultancy service
  - B. Medical service
  - C. All exported service
  - D. Service rendered by unit micro-finance banks and mortgage institutions
  - E. Training and education organised by not-for-profit or public educational institutions
11. The basic tax point for a supply of services is when the services are
- A. Paid
  - B. Performed
  - C. Invoiced
  - D. Cancelled
  - E. Approved
12. Which of the following is **NOT** an example of an instrument that are assessed by fixed duties?
- A. Payment receipts
  - B. Proxy forms
  - C. Cheque leaves
  - D. Guarantor forms
  - E. Promissory notes
13. What is the *ad-valorem* stamp duty payable on a share capital of ₦50,000,000 if the specific rate is 0.75%?
- A. ₦500,000
  - B. ₦400,000
  - C. ₦375,000
  - D. ₦300,000
  - E. ₦250,000

14. The Nigerian Customs Service (NCS) shall, subject to approval by the Customs Service Commission have the powers to carry out the following **EXCEPT**:
- A. Acquire, hold, purchase, mortgage and deal with any property, whether movable or immovable, real or personal
  - B. Enter into contracts or incur obligations
  - C. Advise or develop regulations on the management and administration of customs and excise management
  - D. Issue operational guidelines for the efficient administration of the Service
  - E. Collect withholding tax
15. The applicable rate of luxury tax on a residential property valued at ₦300 million and above in FCT, Abuja, is
- A. 1%
  - B. 5%
  - C. 10%
  - D. 15%
  - E. 20%
16. One of the following properties is **NOT** exempted from the payment of land use charge
- A. Property owned and occupied by a religious body and used exclusively for public workshop or religious education
  - B. Cemeteries and burial grounds
  - C. Property used as a warehouse for farm products
  - D. Property used as public library
  - E. All palaces of recognised 'obas' and chiefs in the state
17. What is the personal income tax liability of an employee whose earned income is ₦300,000 per annum?
- A. ₦25,000
  - B. ₦22,500
  - C. ₦15,000
  - D. ₦3,000
  - E. ₦1,500
18. If rental income is received in advance to cover a period of ten years, for tax purposes, the amount received will be spread for
- A. 10 years
  - B. 8 years
  - C. 7 years
  - D. 5 years
  - E. 4 years

19. Which of the following represents the relevant accounts when a provision for deferred tax on timing differences is to be posted?
- A. Tax account and timing account
  - B. Tax account and withholding tax account
  - C. Deferred tax account and withholding tax account
  - D. Statement of profit or loss and deferred tax account
  - E. Statement of profit or loss and bank account
20. Which of the following dividend is **NOT** exempted from taxation? Dividend received
- A. From ordinary course of business
  - B. From a trust scheme
  - C. From a pioneer company
  - D. From a small company engaged in manufacturing during its first five years of operations
  - E. By a company from another company



**SECTION B: YOU ARE REQUIRED TO ANSWER ANY FOUR OUT OF SIX QUESTIONS IN THIS SECTION (80 MARKS)**

**QUESTION 1**

Chief Emeka Eze was employed as the Personnel Manager by Apex Ultimate Limited in 2010. Due to the harsh business environment, the company ceased business on June 1, 2017.

Chief Emeka Eze was employed by ABC Trading Company Limited as the Administrative Manager on January 2, 2018. The details of his salary per annum are as follows:

	<b>₦</b>
Basic salary	48,000,000
Housing allowance	5,000,000
Transport allowance	4,800,000
Utility allowance	1,200,000
Meal allowance	600,000
Clothing allowance	420,000
Leave allowance	1,000,000

**Additional information:**

(i) In 2016, he obtained a loan to build a property for commercial purposes on which he receives a rent of ₦9,600,000 per annum.

(ii) Expenses on the property are as given below:

	<b>2017</b>	<b>2018</b>
	<b>₦</b>	<b>₦</b>
General rate	67,500	70,000
Water rate	96,000	97,000
Insurance premium paid	200,000	200,000
Repairs	189,000	197,500
Agent's commission	480,000	480,000

(iii) Capital allowance on the building was agreed with the Federal Inland Revenue Services (FIRS) at ₦840,000.

(iv) Based on the terms of the loan agreement, Chief Emeka Eze pays ₦600,000 monthly, out of which ₦500,000 is for repayment of principal and ₦100,000 as interest on loan.

(v) He received dividends (gross) as follows on:

1/6/2017	₦600,000
30/11/2017	₦650,000
31/5/2018	₦720,000
31/10/2018	₦780,000

- (vi) He has a life assurance policy for ₦7,800,000, on which he pays ₦710,000 annually as premium.
- (vii) In 2018, his employer remitted on his behalf the following mandatory deductions:
- |  |            |
|--|------------|
| Contribution to national housing fund          | ₦1,200,000 |
| Contribution to national health insurance fund | ₦7,200,000 |
| Contribution to pension scheme                 | ₦4,801,600 |
- (viii) Chief Emeka Eze is happily married with six children, all of school age.
- (ix) His widowed mother lives with him and he spends ₦1,200,000 per annum to maintain her.

**Required:**

Compute the income tax payable by Chief Emeka Eze for the relevant assessment year. **(20 Marks)**

**QUESTION 2**

Opium Nigeria Limited commenced business on January 7, 2011, making up accounts to June 30, every year. Based on the suggestion of its foreign partners, the management decided to change its accounting date to December 31, every year, as this will facilitate the comparison of its financial results with those of its foreign partners.

**You are given the following information:**

- (i) Adjusted profits/(loss)

	₦
Year to June 30, 2014	391,750
Year to June 30, 2015	1,167,800
Period to December 31, 2016 (18 months)	3,496,200
Year to December 31, 2017	2,820,400 (loss)
Year to December 31, 2018	3,370,500

- (ii) Capital allowances as agreed with the Revenue:

Year of Assessment	Capital allowances
	₦
2015	182,000
2016	421,000
2017	830,100
2018	621,300
2019	400,200

**Required:**

Compute the total profits or loss for the relevant assessment years in accordance with Companies Income Tax (CIT) Act Cap C21 LFN 2004. **(20 Marks)**

**QUESTION 3**

- a. The Managing Director of ABC Limited just returned from a trip to the United Kingdom. Whilst there, he met some Nigerians working in the Nigerian Embassy in London and wanted to know how their salaries and allowances would be treated for tax purposes.

You are aware that paragraph 1 of the first schedule of Personal Income Tax Act Cap P8 LFN 2004 (as amended) specifies the two types of employment in Nigeria.

**Required:**

Define and explain the following terminologies as specified in PITA 2004 (as amended).

- i. "Nigerian employment" (4 Marks)  
ii. "Foreign employment" (4 Marks)

- b. For the purpose of ascertaining the income or loss of an individual for a given period from any source chargeable to tax, there shall be deducted all outgoings and expenses, or any part thereof wholly, exclusively, necessarily and reasonably incurred during that period and ultimately borne by that individual in the production of the income.

**Required:**

For the purpose of ascertaining the income of an individual for tax purposes

- i State **SIX** allowable expenses (6 Marks)  
ii State **SIX** non-allowable deductions (6 Marks)

**(Total 20 Marks)**

**QUESTION 4**

- a. Companies Income Tax Act Cap C21 LFN 2004 (as amended) provides that companies income tax shall be levied and payable for each year of assessment at the rate of thirty kobo for every Naira in respect of a company's total profit.

There are many bases of determining the income tax payable by a company. One of the bases is revenue/ turnover basis.

**Required:**

Explain the circumstances under which the Federal Inland Revenue Service can assess a company based on its revenue/ turnover. (6 Marks)

- b. The National Information Technology Development Agency Act (NITDA) 2007 (as amended) established the National Information Technology Development Agency to plan, develop and promote the use of information technology in Nigeria.

In order to boost the tax revenue of government, the income of telecommunication companies are often subjected to tax audits to ensure full compliance with relevant tax laws.

The Act contains certain sections as follows:

- (i) The third schedule – Specified companies;
- (ii) Section 12 (2) – Specified rate of levy, minimum turnover (revenue) for specified companies and treatment of levy paid;
- (iii) Section 16(1) – Relevant tax authority;
- (iv) Section 16(3) – When the levy imposed is due; and
- (v) Section 16(4) – Penalty for failure by organisations to pay a demand note.

**Required:**

Explain the relevant provisions of the Act as it relates to items (i – v) above.

(14 Marks)

**(Total 20 Marks)**

**QUESTION 5**

- a. Odus Nigeria Limited was incorporated many years ago and it commenced business in February 2015. The company is engaged in the importation and sale of chemical products.

The Chief Accountant of the company resigned in May 2018, and in an unplanned meeting with the Managing Director, he intimated you that the management of the company would want to ascertain the VAT remittable to the relevant tax authority based on the following financial transactions which took place in June 2018:

	<b>N</b>
(i) The total value of taxable supplies (goods and services) including exempted / zero – rated supplies and VAT	18,600,000
(ii) Value of exempted / zero – rated supplies included in (a) above	4,800,000
(iii) VAT on domestic supplies/purchases for which invoicing requirements have been met	110,300
(iv) VAT on import	285,600
(v) VAT on purchases not wholly used in making vatable supplies	62,000
(vi) VAT paid on equipment	97,500
(vii) VAT on professional fees paid	48,000
(viii) Bank charges (VAT inclusive)	93,000

All the goods were received and sold during the month.

**Required:**

Compute the VAT remittable to the relevant tax authority in July 2018.

(15 Marks)

- b.** Value added tax (VAT) as a consumption tax is a multi-stage levy collected at every stage of production, sale of goods and rendition of services.

Some of the objectives of VAT are to increase government revenue, simplify tax collection procedures and check income tax evasion arising from concealment of actual income by taxpayers.

Despite the above-stated assertions, the government in its wisdom, exempted certain goods and services from VAT.

**Required:**

List **FIVE** goods exempted from VAT.

(5 Marks)

**(Total 20 Marks)**

**QUESTION 6**

- a. Where a company has filed a self - assessment return comprising its audited accounts and tax computations thereon, the Federal Inland Revenue Service (FIRS) may accept the returns as made, if found satisfactory.

At the expiration of the time limit specified by section 55(3), CITA 2004 (as amended), for the submission of tax returns, audited accounts and tax computations, the FIRS shall proceed to assess any company that fails to file its tax returns.

**Required:**

Explain **FIVE** classes of assessment available to companies, considering the assessment procedures in the administration of taxation in Nigeria.

(10 Marks)

- b. Ethical standards are developed and promoted by the International Ethics Standards Board for Accountants (IESBA), for the guidance of professional accountants the world over. Additionally, the IESBA also supports debate on issues that relate to accounting ethics.

In 2018, the IESBA issued a handbook of the international code of ethics for professional accountants including international independence standards for the guidance of professional accountants which has made the code easier to navigate, use and enforce.

**Required:**

List and explain **TWO** fundamental principles of ethics as specified by the International Ethics Standards Board for Accountants (IESBA). (10 Marks)

**(Total 20 Marks)**

### Nigerian tax rates

1. Capital allowances	Initial %	Annual %
Building expenditure	15	10
Industrial building expenditure	15	10
Mining expenditure	95	Nil
Plant expenditure (excluding furniture and fittings)	50	25
Manufacturing industrial plant expenditure	50	Nil
Construction plant expenditure (excluding furniture and fittings)	50	Nil
Public transportation motor vehicle	95	Nil
Ranching and plantation expenditure	30	50
Plantation equipment expenditure	95	Nil
Research and development expenditure	95	Nil
Housing estate expenditure	50	25
Motor vehicle expenditure	50	25
Agricultural plant expenditure	95	Nil
Furniture and fittings expenditure	25	20
2. Investment allowance	10%	

3. Rates of personal income tax

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

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

After the consolidated relief allowance and tax exemptions 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%                        |

## **Section A                      Multiple – Choice Questions**

### **Solutions**

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

### **Marking guide**

1 mark for each correct option -

20 marks

### **Examiner's report**

The questions cover all the components of the syllabus.

Most of the candidates attempted the questions and the performance was above average. The common pitfalls were the inability of the candidates to provide correct solutions to questions 11, 12, 14 and 16.

Candidates are advised to cover all the topics in the syllabus before they sit for the Institute's examinations.



## Section B

### Solution 1

Chief Emeka Eze

#### Computation of income tax liability for 2018 assessment year

	₦	₦
<b>Earned income:</b>		
Employment income:		
Basic salary	48,000,000	
Housing allowance	5,000,000	
Transport allowance	4,800,000	
Utility allowance	1,200,000	
Meal allowance	600,000	
Clothing allowance	420,000	
Leave allowance	<u>1,000,000</u>	61,020,000
<b>Unearned income:</b>		
Rental income	9,600,000	
Expenses:		
General rate	(67,500)	
Water rate	(96,000)	
Insurance premium paid	(200,000)	
Repairs	(189,000)	
Agent's commission	(480,000)	
Mortgage interest	<u>(1,200,000)</u>	
	7,367,500	
Capital allowances	<u>(840,000)</u>	
	6,527,500	
Dividend (gross)		
- Received on 1/6/2017	600,000	
- Received on 30/11/2017	<u>650,000</u>	<u>7,777,500</u>
Gross income		68,797,500
Dividend (gross)		<u>(1,250,000)</u>
		67,547,500
Consolidated relief allowance:		
Higher of 1% of N68,797,500 or N200,000, plus 20% of N68,797,500		<u>(14,447,475)</u>
		53,100,025
Tax exempt items:		
Life assurance premium	710,000	
Contribution to national housing fund	1,200,000	
Contribution to national health insurance fund	7,200,000	
Contribution to pension scheme	<u>4,801,600</u>	<u>(13,911,600)</u>
Chargeable income		<u><u>39,188,425</u></u>

## Personal income tax payable

	N
1 <sup>st</sup> ₦300,000 @ 7%	21,000
Next ₦300,000 @ 11%	33,000
Next ₦500,000 @ 15%	75,000
Next ₦500,000 @ 19%	95,000
Next ₦1,600,000 @ 21%	336,000
Next <u>₦35,988,425 @ 24%</u>	8,637,222
<u>₦39,188,425</u>	
Income tax payable	<u>9,197,222</u>

### Tutorial notes:

- (i) In the heat of the controversy generated by the promulgation of Personal Income Tax (Amendment) Act, 2011, the Joint Tax Board (JTB) came up with a template on how to compute the income tax liability of an individual. The suggested solution is in line with the tax template of the JTB.

When a tribunal or any superior court of law decides that the tax template of the JTB is no longer tenable, subsequent suggested solutions will accommodate such a decision.

It is pertinent to mention that the practices of most of the state tax authorities are in tandem with the tax template of the JTB. Additionally, it is not out of place to state that in accordance with the provisions of section 86 (9) (d) and (e) of Personal Income Tax Act Cap P8 LFN 2004 (as amended), the JTB shall “use its best endeavours to promote uniformity both in the application of this Act and in the incidence of tax on individuals throughout Nigeria and impose its decisions on matters of procedure and interpretation of this Act on any state for purposes of conforming with agreed procedure or interpretation”.

- (ii) It should be noted that the consolidated relief allowance (CRA) was computed based on the gross income of N68,797,500. Given the fact that withholding tax deducted at source on dividend is regarded as the final tax in the hands of the recipients, another school of thought is of the opinion that consolidated relief allowance should be computed based on gross income less dividend. This method is favourable to the Revenue but this is not in line with the provision of section 33(1) of Personal Income Tax (Amendment) Act, 2011, which requires that CRA should be computed based on gross income.

## Examiner's report

The question tests candidates' knowledge on computation of income tax liability of an individual, in line with the provisions of Personal Income Tax Act Cap P8 LFN 2004 (as amended).

About 85% of the candidates attempted the question and they demonstrated a good understanding of the question. Performance was above average.

The common pitfalls of the candidates were their inability to recognize the correct basis period for the taxation of investment income as they used actual year basis instead of preceding year basis for expenses on the property and dividend. Additionally, some of the candidates did not know that the consolidated relief allowance (CRA) should be computed using the gross income.

Candidates are advised to pay attention to theoretical requirements of the Personal Income Tax Act.

## Marking guide

	Marks
Heading - Name of taxpayer	¼
- Assessment year	¼
Employment income	3½
Rental income	1
Allowable expenses	3
Capital allowances	1
Treatment of dividend	1
Deduction of dividend from gross income	1
Consolidated relief allowance:	
Higher of 1% of N68,797,500 or N200,000	1
20% of N68,797,500	1
Tax exempt items:	4
Computation of income tax payable using the graduated rates	<u>3</u>
	<u>20</u>

## Solution 2

Opium Nigeria Limited

Computation of assessable profits for the relevant assessment years

### Old accounting date

Yea of assessment	Basis period	Amount
		₦
2016	1/7/2014 – 30/6/2015	1,167,800
2017	1/7/2015 – 30/6/2016	
	$(\frac{12}{18} \times \text{N}3,496,200)$	2,330,800
2018	1/7/2016 – 30/6/2017	
	$(\frac{6}{18} \times \text{N}3,496,200) + (\frac{6}{12} \times \text{N}2,820,400 \text{ (loss)})$ $= \text{N}1,165,400 + \text{N}1,410,200 \text{ (loss)}$	<u>(244,800)</u>
		<u>3,253,800</u>

### New accounting date

Year of assessment	Basis period	Amount
		₦
2016	1/1/2015 – 31/12/2015	
	$(\frac{6}{12} \times \text{N}1,167,800) + (\frac{6}{18} \times \text{N}3,496,200)$	1,749,300
2017	1/1/2016 – 31/12/2016	
	$(\frac{12}{18} \times \text{N}3,496,200)$	2,330,800
2018	1/1/2017 – 31/12/2017	<u>(2,820,400)</u>
		<u>1,259,700</u>

Given the fact that the total of the assessable profits using the old accounting date (~~N~~3,253,800) is higher than that of the new accounting date (N1,259,700), the Revenue will assess the company using the old accounting date for 2016, 2017 and 2018 assessment years.

## Solution 2

### Opium Nigeria Limited

#### Computation of total profits for the relevant assessment years

Assessment year		N	N
2015	Assessable profit		391,750
	Capital allowances		<u>(182,000)</u>
	Total profit		<u>209,750</u>
2016	Assessable profit		1,167,800
	Capital allowances		<u>(421,000)</u>
	Total profit		<u>746,800</u>
2017	Assessable profit		2,330,800
	Capital allowances		<u>(830,100)</u>
	Total profit		<u>1,500,700</u>
2018	Assessable profit		244,800
			(Loss)
	Capital allowances c/f	621,300	
2019	Assessable profit		3,370,500
	Loss brought forward		<u>(244,800)</u>
			3,125,700
	Capital allowances:		
	B/f from A.Y. 2018	621,300	
	For the year	<u>400,200</u>	<u>(1,021,500)</u>
	Total profit		<u>2,104,200</u>

### Examiner's report

The question tests candidates' knowledge on the tax principles of change of accounting date and computation of total profit.

About 80% of the candidates attempted the question. Candidates demonstrated a good understanding of the question and its requirements, hence performance was above average.

The common pitfalls were their inability to identify the year of change and the relevant assessment years in the determination of whether or not the Revenue should use the new or old accounting date.

Candidates are advised to familiarize themselves with the principles guiding basis period and determination of assessable profit (or income) as provided in the Act.

## Marking guide

	Marks
Heading - Name of taxpayer	¼
- Assessment year	¼
<b><u>Old accounting date</u></b>	
Year of assessment	1½
Basis period	1½
Assessable profit	1½
<b><u>New accounting date</u></b>	
Year of assessment	1½
Basis period	1½
Assessable profit	1½
Stating the decision of the Revenue	1
Heading – Name of taxpayer	½
- Assessment year	½
Assessment year 2015:	½
Assessable profit	½
Capital allowances	½
Assessment year 2016:	½
Assessable profits	½
Capital allowances	½
Assessment year 2017:	½
Assessable profits	½
Capital allowances	½
Assessment year 2018:	½
Assessable loss	½
Capital allowances c/f	½
Assessment year 2019	½
Assessable profit	½
Loss brought forward	½
Capital allowances b/f	½
Capital allowances for the year	½
	<b><u>20</u></b>

### **Solution 3**

(a) Paragraph 1 of the first schedule to PITA 2004 (as amended) specifies two types of employment as follows:

(i) **Nigerian employment**

It means any employment, not being a foreign employment, the duties of which are wholly or partly performed in Nigeria.

An individual who holds a Nigerian employment on the first day of January in a year of assessment, or who first becomes liable to income tax in Nigeria for that year by reason of his entering that employment during that year, shall be deemed to be resident for that year in the territory in which he has a place or principal place of residence on that day or, as the case may be, on the day on which he enters upon the full duties of that employment in Nigeria.

Provided that if the individual is on leave from a Nigerian employment on the first day of January in a year of assessment, he shall be deemed to be resident for that year by reference to his place or principal place of residence immediately before his leave began.

(ii) **Foreign employment**

It means an employment the duties of which are wholly performed outside Nigeria save during any temporary visit of the employee to Nigeria.

An individual who holds a foreign employment on the first day of January in a year of assessment, or who first becomes liable to income tax in Nigeria for that year by reason of his entering that employment during that year, shall be deemed to be resident for that year in the territory in which the principal office of his employer is situated on that day or on the day his foreign employment commences, as the case may be.

(b) (i) Section 20 of PITA 2004 (as amended) specifies the following deductions as allowable in the determination of the income of an individual for tax purposes:

- A sum payable by way of interest on money borrowed and employed as capital in acquiring the income;

- Interest on loans for developing an owner-occupied residential house;
- Rent for that period and premiums the liability of which was incurred during that period, payable in respect of land and buildings occupied for the purpose of acquiring the income;
- Any expenses incurred for repair of premises, plant, machinery or fixtures employed in acquiring the income, or for the renewal, repair or alteration of any implement, utensil or article so employed, provided that if the premises, plant, machinery, fixtures, implement, utensil or article are used in part for domestic or private purposes, so much of the expenses as relates to such use shall be deducted;
- Any allowance for bad and doubtful debts of a specific nature;
- Any bad debt written off;
- Contribution to a pension, provident or other retirement benefit funds or scheme approved by the Joint Tax Board;
- Legal expenses that are limited to:
  - General legal advisory services;
  - Retainership fees;
  - Renewal of a short lease (tenure of less than 50 years); and
  - Any cost of protecting and defending the properties of the business; and
- Any other expenses proved to the Revenue to have been incurred wholly, reasonably, exclusively and necessarily incurred for the purpose of the business.

(ii) Section 21 of PITA 2004 (as amended) specifically disallows the following deductions in ascertaining the income of an individual for tax purposes:

- Domestic or private expense;
- Capital withdrawn from trade, business, profession or vocation and any expenditure of a capital nature;
- Any loss or expense recoverable under an insurance or contract of indemnity;
- Rent or cost of repairs to any premises or part of premises not incurred for the purpose of producing the income;
- Taxes on income or profits levied in Nigeria or elsewhere except as provided in section 13 of this Act (the income from a dividend paid by a company other than Nigerian company);
- Any payment to a pension, provident, savings or widows' and orphans' society fund or scheme, except as permitted by the Joint Tax Board;
- The depreciation of any asset;



- Any sum reserved out of profits, except as permitted by the Revenue based on section 20 (1e);
- Any expense of any description incurred within or outside Nigeria for the purpose of earning management fees unless prior approval of an agreement giving rise to such management fees has been obtained from the Minister; and
- Any expense whatsoever incurred within or outside Nigeria as management fees under any agreement entered into except to the extent as the Minister may allow.

### Examiner's report

The question tests candidates' knowledge on different types of employment and the identification of allowable and non-allowable expenses in ascertaining the income of an individual for tax purposes.

More than 60% of the candidates attempted the question. Candidates demonstrated a fair understanding of the question, hence performance was average.

The common pitfalls were the inability of candidates to emphasize the place of performance of duty which is the key issue in the definitions of types of employment and identify the various classes of allowable and non-allowable expenses as contained in the Personal Income Tax Act Cap P8 LFN 2004 (as amended).

Candidates are advised to familiarise themselves with this aspect of the syllabus by reading relevant study materials.

### Marking guide

		Marks	Marks
(a)	(i) Definition of "Nigerian employment"	2	
	Explanation of "Nigerian employment"	<u>2</u>	4
	(ii) Definition of "foreign employment"	2	
	Explanation of "foreign employment"	<u>2</u>	4
(b)	(i) Stating six allowable expenses	6	
	(ii) Stating six non – allowable deductions	<u>6</u>	<u>12</u>
			<u>20</u>

## **Solution 4**

- (a) The Federal Inland Revenue Service (FIRS) is given the discretionary power by virtue of the provision of section 30 of CITA 2004 (as amended), to assess and charge a company to tax on a fair and reasonable percentage of the revenue (turnover) of the trade or business.

The FIRS is entitled to exercise this power in any of the following circumstances where it appears to it that for any year of assessment, the company's trade or business has either:

- (i) No assessable profits; or
- (ii) Assessable profits which in the opinion of the FIRS, are less than might be expected to arise from that trade or business; or
- (iii) The true amount of the assessable profit cannot be readily ascertained.

The implication of the above provision is that whatever is obtained by applying a fair and reasonable percentage, as may be determined by the FIRS, to the company's revenue, is deemed to be its assessable profit for the assessment year concerned.

- (b) **The National information Technology Development Agency Act 2007 (as amended) specified the following companies as liable to pay the levy:**
- Cyber companies and internet providers;
  - GSM service providers and all telecommunication companies;
  - Pension managers and pension related companies;
  - Banks and other financial institutions; and
  - Insurance companies.

### **Rate of levy**

The levy is 1% of the profit before tax of companies and enterprises enumerated in the third schedule to the Act with an annual revenue of ₦100,000,000 and above.

**Minimum turnover/revenue**

Section 12 (2a) of the National Information Technology Development Agency Act 2007 (as amended) provides for companies and enterprises with an annual revenue of N100,000,000 and above to pay the levy.

**Treatment of tax deductible for income tax purposes**

The levy when paid is tax deductible for companies' income tax purposes.

**Relevant tax authority**

The relevant tax authority is Federal Inland Revenue Service (FIRS).

**Due date of payment and penalty**

The levy is payable within 60 days of service of a notice of assessment.

**The penalty for non-compliance**

This is 2% of the levy payable. Furthermore, any company, agency or organization that fails within two months after a demand note, to pay the levy commits an offence and is liable on conviction to a fine of not less than ₦1,000,000 and the Chief Executive Officer of the company, agency or organization shall be liable to be prosecuted and punished for the offence in like manner as if he had himself committed the offence, unless he proves that the act or omission constituting the offence took place without his knowledge, consent or connivance.

**Examiner's report**

The question is divided into two parts. Part (a) tests candidates' knowledge on circumstances under which the Federal Inland Revenue Service (FIRS) can assess a company based on its revenue/turnover whilst part (b) tests their knowledge on provisions of the National Information Technology Development Agency Act 2007(as amended).

About 40% of the candidates attempted the question and performance was poor.

The common pitfall was the inability of the candidates to understand the provisions of NITDA Act 2007 in respect to relevant tax authority and the penalty for failure by organisations to pay a demand note.

Candidates are advised to read ICAN Study Text, relevant textbooks and the Act for future examinations.

## Marking guide

	Marks	Marks
(a) Circumstances when the Revenue can assess a company based on its revenue		6
(b) Specified companies as per NITDA 2007 (as amended)	7½	
Rate of levy	½	
The minimum revenue of such a company	2	
The relevant tax authority	1	
Due date of payment of levy penalty for non – compliance	1	
Penalty for non-compliance	1	
Treatment of levy paid for income tax purposes	<u>1</u>	<u>14</u>
		<u>20</u>

## Solution 5

### (a) Odus Nigeria Limited

#### VAT remittable to FIRS in July 2018

	₦	₦
Value of taxable supplies including exempted/ zero-rated supplies and VAT	18,600,000	
Value of exempted / zero-rated supplies included in the above	<u>(4,800,000)</u>	
Total supplies subject to VAT	<u>13,800,000</u>	
VAT received on supplies ( $\frac{5}{105} \times \text{N}13,800,000$ )		657,143
VAT on domestic supplies/purchases for which invoicing requirements have been met	110,300	
VAT on import	<u>285,600</u>	
	395,900	
VAT on purchases not wholly used in making vatable supplies	<u>(62,000)</u>	<u>(333,900)</u>
VAT remittable		<u>323,243</u>

## **Tutorial notes**

- (i) The Value Added Tax Cap VI LFN 2004 (as amended), allows input tax as a deduction from output tax to be limited to the tax on goods purchased or imported directly for resale and goods which form the inventory in trade used for direct production of any product on which the output tax is charged.
  - (ii) Value added tax (VAT) paid on any overhead, service and general administration of business outfit which otherwise can be expensed through the statement of profit or loss shall not be allowed as input tax
  - (iii) VAT paid on any capital item and asset shall be capitalized along with the cost of acquisition and shall not be allowed as input tax.
- (b) The following goods are exempted from VAT:**
- (i) All medical and pharmaceutical products;
  - (ii) Basic food items;
  - (iii) Books and educational materials;
  - (iv) Baby products;
  - (v) Plant, machinery and goods imported for use in the export processing zone or free trade zone; provided that 100% production of such company is for export otherwise tax shall accrue proportionately on the profits of the company;
  - (vi) Plant, machinery and equipment purchased for the utilization of gas in downstream operations;
  - (vii) Tractors, ploughs and agricultural equipment and implements purchased for agricultural purposes;
  - (viii) Oil exports erroneously written as “All exports”;
  - (ix) Fertilizers locally produced, agricultural and veterinary medicine;
  - (x) Vegetable oil;
  - (xi) Motorcycle (CKD) / Bicycle (SKDs) and their spare parts;
  - (xii) Corporate bonds and securities (10 years from 2012);
  - (xiii) Rent / lease on residential property; and
  - (xiv) Life insurance.

**Note**

On June 6, 2018, the Federal Executive Council (FEC) approved two executive orders and five amendment bills which amended certain controversial tax provisions and those relating to VAT were accommodated in the examples given above.

**Examiner's report**

The question tests the candidates' knowledge on the computation of value added tax (VAT) remittable to the FIRS and goods exempted from VAT.

Over 80% of the candidates attempted the question and they demonstrated a fair understanding of the question, hence performance was average.

The common pitfall was the candidates' poor understanding of the treatment of VAT on purchases not wholly used in making vatable supplies, equipment, professional fees and other administrative expenses. In addition, some of the candidates could not list the specific goods exempted from VAT in the Act.

Candidates are advised to read relevant study materials and FIRS VAT Form 002 in order to perform well in future examination.

**Marking guide**

	<b>Marks</b>	<b>Marks</b>
(a) Heading – Name of taxpayer	½	
- Assessment year	½	
Value of taxable supplies	2	
Value of exempted / zero – rated supplies	2	
Total supplies subject to VAT	2	
VAT received on supplies – Computation	1	
- Amount	2	
VAT on domestic supplies / purchases	1	
VAT on import	1	
VAT on purchases not wholly, used in making vatable supplies	1	
VAT remittable	<u>2</u>	15
(b) Goods exempted from VAT		<u>5</u>
		<u><u>20</u></u>

## **Solution 6**

### **(a) (i) Self – assessment**

The self-assessment is a system of tax administration in which the taxpayer is granted the right, by law, to compute his own tax liability, pay the tax due and file his tax returns with evidence of payment of the tax paid on or before the due date.

The relevant tax authority (FIRS) shall accept all tax returns submitted by the taxpayer and carryout necessary checks to ensure that all required information have been appropriately entered into the tax return forms.

A company that files a self-assessment return is required to pay the tax due in one lump sum on the due date of filing the return or in such number of monthly instalments, not exceeding six, as the FIRS may approve.

An application to FIRS for installmental payment of tax shall be accompanied by proof of payment of the first installment to a designated bank.

### **(ii) Amended / revised assessment**

When the basis of assessment on the audited accounts submitted is faulted, the original assessment is revised or amended taking into consideration the new information as disclosed.

### **(iii) Additional assessment**

Where the FIRS discovers or is of the opinion that a company liable to pay tax:

- Has not been assessed; or
- Has been assessed for an amount which is less than the amount actually chargeable, it (the Service) may, within the year of assessment or within six (6) years following that year, and as often as it may be necessary, raise on the company an assessment for the tax or additional tax that is chargeable. The implication of this provision is that if within the six years allowed for the FIRS to go back for the purpose of raising an assessment or additional assessment, it further discovers that tax has also not been paid or is under paid, for any of those six years, it may

again go back for six years to raise an assessment or additional assessment on the company.

(iv) **Best of judgement (BOJ) / administrative assessment**

The Federal Inland Revenue Service will assess a company to tax based on its “Best of Judgement” under the following situations:

- Where a company files its returns, audited accounts and tax computations, the tax authority may refuse to accept same if found unsatisfactory and therefore, proceed to determine, based on its “Best of Judgement”, the company’s total profit and raise an assessment thereon accordingly; and
- Where a company has failed to submit a self – assessment return, audited accounts, etc., and the FIRS is of the opinion that it is liable to tax, it may proceed, based on its “Best of Judgement”, to determine the total profit of such a company and raise an assessment thereon accordingly.

(v) **Back duty assessment**

Where a taxpayer or its representative has committed fraud, willful default or neglect in connection with the tax assessed on it, the FIRS is empowered to assess such company to additional tax in order to make good any loss attributable to the fraud, willful default or neglect.

The additional tax referred to above can be raised by the Revenue at any time or as often as it may consider necessary without a time limit.

(vi) **Final and conclusive assessment**

An assessment raised on a company is said to be final and conclusive where:

- No valid objection or appeal has been lodged against the amount of total profit assessed on a company within the time statutorily allowed for that purpose; or
- The amount of total profit has been agreed by the taxpayer after his objection has been determined by FIRS; or
- The amount of total profit has been determined on appeal.



(vii) **Jeopardy/protective assessment**

This assessment is raised on the ground of expediency. The relevant tax authority may raise such an assessment where:

- A case referred to the Board for ruling is yet to be determined;
- There is imminent liquidation of a company or there is an intention to dispose of the valuable assets, the result of which may cripple the business;
- There is imminent sale or transfer of a trade or business to another;
- There is an intention to transfer funds/remittances to a foreign partner;
- A payment is being made to a taxpayer who had hitherto evaded tax;
- There is an imminent escape by a taxpayer to a foreign country; and
- There are other potential cases of emergency.

(b) **The five fundamental principles of ethics as specified by the International Ethics Standards Board for Accountants (IESBA) are as follows:**

(i) **Integrity**

A professional accountant shall comply with the principle of integrity, which requires an accountant to be straightforward and honest in all professional and business relationships (Paragraph 111.1)

Integrity implies fair dealing and truthfulness. (Paragraph 111. 1 A1).

A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information (paragraph 111.2):

- Contains a materially false or misleading statement;
- Contains statements or information provided recklessly; or
- Omits or obscures required information where such an omission or obscurity would be misleading.

If a professional accountant provides a modified report in respect of such a report, return, communication or other information, the accountant is not in breach of paragraph R111.2. (Paragraph 111.2A1)

When a professional accountant becomes aware of having been associated with information described in paragraph R111.2, the accountant shall take steps to be disassociated from that information. (Paragraph 111.3).

(ii) **Objectivity**

A professional accountant shall comply with the principle of objectivity, which requires an accountant not to compromise professional or business judgement because of bias, conflict of interest or undue influence of others. (Paragraph 112.1)

A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgement regarding that activity. (Paragraph 112.2)

(iii) **Professional competence and due care**

A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to:

- Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
- Act diligently and in accordance with applicable technical and professional standards. (Paragraph 113.1);

Serving clients and employing organisations with professional competence requires the exercise of sound judgement in applying professional knowledge and skill when undertaking professional activities. (Paragraph 113.1 A1);

Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment. (Paragraph 113.1 A2);

Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis. (Paragraph 113.1 A3);

In complying with the principle of professional competence and due care, a professional accountant shall take reasonable steps to ensure that those working in a professional capacity under the accountant's authority have appropriate training and supervision. (Paragraph 113.2);

Where appropriate, a professional accountant shall make clients, the employing organization, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities. (Paragraph 113.3)

(iv) **Confidentiality**

A professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and business relationships. An accountant shall:

- Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;
- Maintain confidentiality of information with the firm or employing organization;
- Maintain confidentiality of information disclosed by a prospective client or employing organization;
- Not disclose confidential information acquired as a result of professional and business relationships outside the firm or employing organization without proper and specific authority, unless there is a legal or professional duty or right to disclose;
- Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the accountant or for the advantage of a third party;
- Not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after that relationship has ended; and
- Take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and

assistance are obtained, respect the accountant's duty of confidentiality. (Paragraph 114.1)

Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate:

- Disclosure is required by law, for example:
  - Production of documents or other provision of evidence in the course of legal proceedings; or
  - Disclosure to the appropriate public authorities of infringements of the law that come to light;
- Disclosure is permitted by law and is authorized by the client or the employing organization; and
- There is a professional duty or right to disclose, when not prohibited by law:
  - To comply with the quality review of a professional body;
  - To respond to an inquiry or investigation by a professional or regulatory body;
  - To protect the professional interests of a professional accountant in legal proceedings; or
  - To comply with technical and professional standards, including ethics requirements. (Paragraph 114.1. A1)

In deciding whether to disclose confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of the parties, including third parties whose interests might be affected, could be harmed if the client or employing organization consents to the disclosure of information by the professional accountant;
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
  - Unsubstantiated facts
  - Incomplete information

- Unsubstantiated conclusions
- The proposed type of communication, and to whom it is addressed; and
- Whether the parties to whom the communication is addressed are appropriate recipients. (Paragraph 114.1 A2)

A professional accountant shall continue to comply with the principle of confidentiality even after the end of the relationship between the accountant and a client or employing organization. When changing employment or acquiring a new client, the accountant is entitled to use prior experience but shall not use or disclose any confidential information acquired or received as a result of a professional or business relationship. (Paragraph 114.2)

(v) **Professional behaviour**

A professional accountant shall comply with the principle of professional behaviour, which requires an accountant to comply with relevant laws and regulations and avoid any conduct that the accountant knows or should know might discredit the profession. A professional accountant shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles. (Paragraph 115.1)

A conduct that might discredit the profession includes conducts that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession. (Paragraph 115.1 A1)

When undertaking marketing or promotional activities, a professional accountant shall not bring the profession into disrepute. A professional accountant shall be honest and truthful and shall not make:

- Exaggerated claims for the services offered by, or the qualifications or experience of, the accountant; or
- Disparaging references or unsubstantiated comparisons to the work of others. (Paragraph 115.2)

If a professional accountant is in doubt about whether a form of advertising or marketing is appropriate, the accountant is encouraged to consult with the relevant professional body. (Paragraph 115.2 A1).

### **Examiner's report**

The question tests the candidates' knowledge on classes of assessment available to companies, considering the assessment procedures in the administration of taxation in Nigeria. They were also expected to list and explain two fundamental principles of ethics as specified by the International Ethics Standards Board for Accountants (IESBA).

About 60% of the candidates attempted the question and they demonstrated a good understanding of the question and performance was good.

The common pitfall of the candidates was their lack of knowledge of the abolition of provisional assessment as a form of assessment in Nigeria. Candidates are advised to pay attention to this particular aspect of the syllabus.

### **Marking guide**

		<b>Marks</b>	<b>Marks</b>
(a)	<b>Types of assessment</b>		
	Assessment stated	5	
	Explanation of each type of assessment	<u>5</u>	10
(b)	<b>Fundamental principles of ethics as specified by IESBA</b>	4	
	Explanation of principles	<u>6</u>	<u>10</u>
			<u>20</u>

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**

**FOUNDATION LEVEL EXAMINATION – MARCH/JULY 2020**

**BUSINESS, MANAGEMENT & FINANCE**

Time Allowed: 3¼ hours (including 15 minutes reading time)

**SECTION A: MULTIPLE-CHOICE QUESTIONS (20 MARKS)**

**INSTRUCTION: YOU ARE REQUIRED TO ANSWER ALL QUESTIONS IN THIS SECTION**

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

1. All business entities prepare financial statements at the end of each accounting period, usually every year. Which of the following statements in respect of the financial reports prepared by business entities is correct?
  - A. Limited liability companies are compelled by law to disclose their financial statements to the public
  - B. Publicly quoted companies are compelled by law to disclose their financial statements to the public
  - C. The financial statements of a sole trader are private and should be disclosed
  - D. The financial statements of a business partnership are private and should be disclosed
  - E. The financial statements of a business partnership are private and should be filed with a government agency
  
2. Borderless organisation approach was pioneered by
  - A. Bruce Tuckman
  - B. David McClelland
  - C. Jack Welch
  - D. Victor Vroom
  - E. Ronald Heifetz
  
3. An example of virtual organisation in Nigeria is
  - A. Life Builder Initiative (LBI)
  - B. *Nigeria* NGO Consultative Forum (NINCOF)
  - C. Red Cross Society of Nigeria
  - D. Uber Car Ride Company
  - E. Ernst & Young (EY)

4. Which of the following is **NOT** a benefit of management by objectives (MBO)?
- Ensures team members are clear about their work
  - Helps managers control teams
  - Provides a sense of purpose for individuals
  - Provides for easy implementation without employee resistance
  - Enables employees and managers to discern tasks that contribute to the organisation's objectives
5. The following are advantages of divisional organisational structure, **EXCEPT** that
- Decision-making is usually quicker
  - Managers and employees with specialist knowledge and skills are developed
  - It avoids the risk of duplicating functions
  - Senior management are able to control a diverse and complex organisation
  - Organisation is capable of responding to new opportunities and new threats in the environment
6. Which of the following is **NOT** an approach to management science and operations research?
- Network analysis
  - Game theory
  - Queuing theory
  - Econometrics
  - Simulation
7. What is the maturity value for ₦120,000 loan at 6.3% simple interest for 150 days?
- ₦ 123,150
  - ₦ 123,160
  - ₦ 125,150
  - ₦ 125,160
  - ₦ 126,180
8. What is the amount of interest earned on a deposit of ₦245,000 for 8.5 years at 5.50% compounded semi-annually?
- ₦123,570
  - ₦ 133,680
  - ₦ 143,570
  - ₦ 153,680
  - ₦ 155,680



9. What will be the effective rate for an account that pays 8% compounded quarterly?
- A. 5.21%
  - B. 6.24%
  - C. 7.21%
  - D. 8.24%
  - E. 9.21%
10. Fattie Limited wishes to make some savings to replace an existing machine with a better model at a cost of ₦10,000,000 in 7 years' time. Assuming that the current rate of interest is 9 % per annum, what fixed annual amount must the company set aside at the end of each year to achieve its target?
- A. ₦ 1,053,926.50
  - B. ₦ 1,064,956.50
  - C. ₦ 1,075,926.52
  - D. ₦ 1,086,956.52
  - E. ₦ 1,093,926.50
11. A savings scheme involves investing ₦300,000 per annum on the last day of the year. If the interest rate is 6.5%, what is the sum to be received at the end of 9 years?
- A. ₦3,419,591.31
  - B. ₦3,519,692.31
  - C. ₦3,619,793.31
  - D. ₦3,659,894.31
  - E. ₦3,719,894.31
12. Which of the following financial decisions can impede the achievement of organisational objectives?
- A. Investing short term cash surpluses
  - B. Rewarding equity holders appropriately
  - C. Protecting the organisation against financial risks
  - D. Financing long-term expenditure with short-term sources of funds
  - E. Maintaining a balance between long-term and short-term finance

13. Financial engineering draws tools and knowledge to develop new and innovative financial products from the following fields, **EXCEPT**
- A. Statistics
  - B. Management
  - C. Computer science
  - D. Economics
  - E. Applied mathematics
14. Agency Theory was developed in 1976 by
- A. Fayol and Mayo
  - B. Kanter and Urwick
  - C. Jensen and Meckling
  - D. Mintzberg and Ouchi
  - E. Frank and Lillian Gilbreth
15. Different stakeholders have different interests in a company, and these might be irreconcilable and in conflict with each other. What should a company do when stakeholders have conflicting interests?
- A. Apply confrontational procedures
  - B. Ignore the interests of all the stakeholder groups
  - C. Fully satisfy the interests of each stakeholder group
  - D. Act in the interests of the most powerful stakeholder group
  - E. Act in the interests of the least powerful stakeholder group
16. Which of the following is **NOT** a source of new finance for public limited liability companies?
- A. Placing
  - B. Rights issue
  - C. Initial public offer
  - D. Stock exchange introduction
  - E. Offer for sale by tender
17. Shannon and Weaver's communication model was developed in
- A. 1929
  - B. 1937
  - C. 1949
  - D. 1957
  - E. 1969

18. Reinforcing already communicated information signifies
- A. Seriousness
  - B. Fidgeting
  - C. Disapproval
  - D. Recognition
  - E. Timidity
19. Which of the following is **NOT** a key component of a business report?
- A. Reader
  - B. Conveyance
  - C. Objective
  - D. Subject
  - E. Structure
20. One of the advantages of video conferencing is
- A. Anxiety
  - B. Signal quality
  - C. Appearance consciousness
  - D. Eye contact
  - E. Telecommuting

**SECTION B: YOU ARE REQUIRED TO ANSWER ANY FOUR OUT OF SIX QUESTIONS IN THIS SECTION 80 MARKS**

**QUESTION 1**

- a. The 21<sup>st</sup> century is evolving new organisational structures that are different from the traditional structures.

**Required:**

- (i) Describe the term 'organisational structure'. (1 mark)  
(ii) State **TWO** features each of boundaryless, virtual, modular, hollow and network organisations.

(10 marks)

- b. Dominion Properties Limited conducted a company-wide workshop on strategic management. Employees were told that decision-making was at three levels of management according to Robert Anthony.

**Required:**

- (i) State the **THREE** levels (3 marks)  
(ii) State **TWO** decisions that can be taken at each level. (6 marks)

(Total 20 marks)

**QUESTION 2**

- a. The hierarchy of needs theory as propounded by Abraham Maslow is a simple and logical idea about human motivation but it has significant weaknesses and limitations.

**Required:**

- State the limitations of the theory of hierarchy of needs. (14 marks)

- b. State the implications of Vroom's expectancy theory for management (6 marks)

(Total 20 marks)

**QUESTION 3**

- a. The purpose of report writing is to write a credible report that is sincere and achieves its objectives, but the task of writing a report can be daunting leaving the author with a helpless feeling of where to start.

**Required:**

- State **EIGHT** features of a bad report (4 marks)

- b. There are **TWO** broad sources of researching a report.

**Required:**

State and describe briefly these **TWO** sources giving **FOUR** examples in each case. (6 marks)

- c. Business reports are usually longer than memos or letters but they still need to be kept simple and understandable.

**Required:**

List and explain **FIVE** key issues to address in a business report. (10 marks)  
**(Total 20 marks)**

#### QUESTION 4

- a. A broad range of relationships and circumstances could compromise a professional accountant's ability to comply with the fundamental principles of ethical behaviour.

**Required:**

List and explain **FIVE** threats that can impair the conduct of a professional accountant in a business environment. (15 marks)

- b. The International Ethics Standards Board for Accountants (IESBA) recommends some measures on Non-Compliance with Laws and Regulations (NOCLAR) to professional accountancy bodies for adoption.

**Required:**

Provide a brief description of NOCLAR and state the position of ICAN on this regulation. (5 marks)

**(Total 20 marks)**

#### QUESTION 5

- a. Favour Limited is considering a project which will cost ₦2,000,000 now and generate the following cash flows

Years	Cash flow
	₦
1-4	500,000
5-8	300,000
9-15	200,000

**Show your workings.**

The company's cost of capital is 20%.

**Required:**

What is the NPV of the project?

(11 marks)

b. What is the present value of constant annual cash flows of ₦120,000 at 15% if the cash flow starts:

i. In year 1?

ii. In year 6?

iii. Immediately?

(9 marks)

**(Total 20 marks)**

### QUESTION 6

Perfumes Nigeria Limited is considering the purchase of a new machine and has two alternatives. The company uses discounted payback period as a criterion for project selection and has a policy of not investing in any project unless the discounted payback period is less than 4 years. The expected cash flow profiles of the two projects are as shown below:

Year	Machine Perf. ₦	Machine Fumes ₦
2020	(2,000,000)	(2,000,000)
2021	200,000	1,000,000
2022	400,000	1,000,000
2023	1,200,000	200,000
2024	1,400,000	100,000
2025	1,600,000	100,000

The company's cost of capital is 10%

**Required:**

Evaluate the two projects and offer your advice to support the investment decision of the management of the company. Assume 360 days make a year and express discounted payback period in years plus days.

**Show all workings.**

**(20 marks)**

## SECTION A - MULTIPLE CHOICE QUESTIONS

### SOLUTIONS

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

### **Examiner's report**

The questions test candidates' comprehension of various aspects of the syllabus.

About 40% of the candidates' who attempted these questions scored below 50%.

For better performance in future examinations, prospective candidates should cover the entire syllabus in the course of their preparations for this subject. ICAN Study Text and Pathfinder will provide the required guidance.

## Marking guide

1 mark for each correct option.

20 marks

### SECTION B

#### Solution 1

a. i. Organisational structure is the framework by which the activities of people within the organisation are co-ordinated and managed.

ii. Organisational structure

Feature

Boundaryless

- i. Extensive use of teams who are given the authority to make decisions.
- ii. Electronic rather than face-to-face communication. This allows teams to be built without geographical barriers.
- iii. Removal of boundaries associated with such departmentalisation, and organisational hierarchy

Virtual

- i. Has no identifiable physical existence.
- ii. It might not have employees
- iii. It may be operated by means of IT systems and communication networks – normally telephone and e-mail
- iv. It may be operated by means of business contacts for outsourcing all operations.
- v. One person, or a small number of individuals, can operate a virtual organisation
- vi. One person, or a small number of individuals, can indirectly control the actions of many 'external' entities and individuals in this type of organisation

Modular

- i. Peculiar to manufacturing concerns
- ii. Commissions suppliers to produce parts of a final product
- iii. Assembles parts into the final product

Hollow

- i. Brings other corporations together
- ii. It simply exists to link other organisations that perform organisational functions
- iii. It does not manufacture, distribute or advertise goods or services



Network	<ol style="list-style-type: none"> <li>i. Legally independent entities</li> <li>ii. May be wholly owned subsidiaries</li> <li>iii. They are groupings of numerous individual partnerships, all sharing the same branding, codes of ethics and working practices</li> <li>iv. Can be a very effective way of getting separate organisations or individuals to collaborate towards a common goal</li> <li>v. There may be problems with coordination.</li> <li>vi. Less hierarchical</li> <li>vii. More decentralized</li> <li>viii. More flexible than other structures</li> </ol>
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(b) (i) Robert Anthony identified three levels of management activity as follows:

- Strategic level;
- Tactical level; and
- Operational level

(ii) Sections to be taken at each level

#### **Strategic level**

Management is concerned with:

- Setting objectives;
- Policy-making;
- Long term plans; and
- Implementation of chosen business strategies.

#### **Tactical level**

Management is responsible for the:

- formulation of plans and policies;
- establishing standards;
- detailed plans of how to achieve set targets;
- achieving the tactical planning targets; and
- regular performance reporting.

#### **Operational level**

Managers are involved with:

- Detailed planning and control of operational activities;
- Supervision of employees; and
- Inspection of finished work.

## Examiner's report

The first part of the question tests candidates' knowledge on the subject of organisations generally with specific reference to types and structures up to boundaryless, virtual and network organisations. The second part of the question tests the three levels of managerial decision making.

The question was attempted by almost 90 % of the candidates. The performance was adjudged poor for the reason that about 75% of the candidates who attempted the question scored below 40%.

The responses revealed that many of the candidates knew what organisational structure is, but, they could not properly discuss two features each of boundaryless, virtual, modular, hollow and network organisations. Many of the candidates could not state the decisions that are taken at the tactical level, while some of them confused the three levels of decision-making with the three levels of management.

Candidates should study all aspects of the syllabus carefully, using ICAN Study Text and Pathfinder.

## Marking guide

	Marks	Marks
a (i) Description of organisational structure	1	
(ii) Stating 2 features each of (i) boundaryless, (ii) virtual, (iii) modular, (iv) hollow and (v) network organisations	<u>10</u>	11
b (i) Stating the 3 levels of decisions making (viz: strategic, tactical and operational)		
(ii) Stating 2 decisions that can be taken at each of the three levels (viz: strategic, tactical and operational as stated above)	3	
	<u>6</u>	<u>9</u>
		<u>20</u>

## **Solution 2**

### **a Limitations of the theory of hierarchy of needs**

#### **These include:**

- i. The main problem is its assumption that needs are the same for all people and can be satisfied for everyone in the same way;
- ii. Individuals have different needs, and they are not necessarily in the hierarchical order as suggested by Maslow;
- iii. Many individuals may seek to satisfy several different needs at the same time;
- iv. The same need may cause different reactions and responses from different individuals;
- v. There is an underlying assumption that the objectives of the organisation will be achieved if individuals receive rewards of higher status (promotion) or self-fulfilment. Maslow does not show any link between self-fulfilment and improved organisational performance;
- vi. Maslow's model is vague about the nature of self-actualisation or self-fulfilment needs. More modern theories of motivation go into much more detail about the nature of high-level needs and their satisfaction;
- vii. It is a 'content theory' of motivation. It does not explain the strength of motivation, nor the effect of motivation on people's perceptions;
- viii. The theory also fails to recognise that self-actualisation is not always possible. The environment in which the organisation operates may not be suitable for self-fulfilment – for example; the nature of the product or service of the organisation, its technology or environment might mean that organisations should not (and cannot) offer their employees the satisfaction of self-actualisation needs. An example is working on the factory floor; and
- ix. It is difficult to achieve self-actualisation working in a low-level job in a factory environment.

### **(b) Vroom's Expectancy theory has several implications for management, which include:**

- i. Motivation depends partly on valence, which is the strength of an individual's desire for particular rewards. Managers should therefore try to find out what their employees want;
- ii. Motivation also depends on expectancy. Some individuals do not believe that they are able to achieve better performance by trying harder. They may lack self-confidence or training. Alternatively, they may not be in a position to affect performance, in which case motivation will be very low, and possibly nil. Management must consider ways of trying to increase the expectancy of their employees, for example by providing training and development, giving them the resources they need to do the job, or by providing supervision and guidance; and

- iii. Instrumentality may also affect motivation. Managers must keep the promises that they have given of rewards for performance by trying to make sure that employees believe that the managers will keep their promises.

### **Examiner's report**

The question tests candidates' knowledge on selected theories of motivation. While the first part of the question specifically tests hierarchy of needs theory as propounded by Abraham Maslow, the second part examines candidates' knowledge on Vroom's expectancy theory.

60% of the candidates who sat for paper attempted this question. The performance was extremely poor. About 80 % of the candidates who attempted the question scored below 50%.

Most of the candidates knew what the Maslow Hierarchy of Needs is; however, they could not properly explain seven of its limitations. Some of them confused the limitations with description of the hierarchical levels. Almost all of those who attempted the question had little or no knowledge about Vroom's Expectancy Theory of Management, hence, they could not state any of the implications of the theory.

Candidates should cover the entire syllabus in the course of their preparations for this subject in future. ICAN Study Text and Pathfinders will provide the required guidance.

### **Marking guide**

	<b>Marks</b>
a Limitations	14
b Implications	<u>6</u>
	<u>20</u>

### **Solution 3**

- (a) The features of a bad report include:
  - i. Does not serve its purpose;
  - ii. Leaves the reader's questions unanswered;
  - iii. Tedious, boring and irritating to read;
  - iv. Still needs basic editing;
  - v. Verbose;
  - vi. Leaves the reader unconvinced or in disagreement;
  - vii. Over-uses the passive voice;
  - viii. Is muddled and illogical;
  - ix. Is story-like rather than business-like; and
  - x. Indecisive.

(b) **Two broad sources of researching report**

These are:

i. **Primary sources**

These sources entail generating original information, which include:

- Colleagues - particularly those with relevant experience;
- Brainstorm meetings;
- An audit, review or investigation;
- Observation; and
- Unstructured interviews.

ii. **Secondary sources**

These sources entail researching existing information, which include:

- The Internet - with increasingly easy access and free search engines such as Google and Bing - a great place to start your research is often online;
- Other reports, handbooks or reference books – for example an IFRS manual, or a company's most recent published annual report. Note that many of these can also be found easily online;
- Experts and specialists;
- Government or trade reports;
- Technical journals;
- Market research agencies;
- Data from another department;
- Customer database; and
- Accounting data.

(c) **Five key issues to address in a business report include:**

- i. **Relevance:** Include only the information that is important to the readers i.e. 'need to have' rather than 'nice to have';
- ii. **Impact:** The report should have an impact on the reader. It should be written constructively and clearly, whether the objective is to provide information, record something or provide advice;
- iii. **Cost effectiveness:** Reports are not judged by length but rather by effectiveness. The reader should feel that their time spent reading the report was an effective use of their time. Therefore, the focus should always be on quality, not quantity;
- iv. **Clarity:** Follow the usual rules of effective clear business writing, including:
  - Use short words, sentences and paragraphs omitting unnecessary words;
  - Write concisely;
  - Be definite and give facts;
  - Avoid jargons and clichés;

- Use active rather than passive sentences;
  - Use the right tone; and
- v. **Timeliness:** The report must be available to the reader when they need it. The most perfectly written report is of little value if not available when required by the reader.

### **Examiner's report**

The question tests candidates' knowledge on business reports. In the first part of the question, candidates are expected to state prominent features of effective reports, while, the second and third parts test the level of understanding of candidates of the broad sources of researching reports and language considered apt for business reports, respectively.

This question appears the most unpopular of all, since about 40% of the candidates attempted it. A very poor performance was recorded as 90% of the candidates who attempted it scored below 50%.

Many of the candidates that attempted the question could not clearly state features of a bad report neither were they able to clearly state and describe the two broad sources of researching a report, let alone providing a few examples of each. Instead, they confused sources of researching a report. Furthermore, it appeared they had little knowledge about key issues to address in a business report. It was noted that most of them confused this with contents/elements of business reports.

Candidates should concentrate on all aspects of the syllabus. Candidates should make use of ICAN Study Text and Pathfinders for future examinations.

### **Marking guide**

	<b>Marks</b>	<b>Marks</b>
a Features of a bad report		4
b Stating two broad sources of researching report		
i. Primary sources	$\frac{1}{2}$	
ii. Secondary sources	$\frac{1}{2}$	
Describing two broad sources of researching report		
i. Primary sources	$\frac{1}{2}$	
ii. Secondary sources	$\frac{1}{2}$	
Examples of primary sources provided	2	
Examples of secondary sources provided	<u>2</u>	6

C	Listing 5 key issues to address in a business report	2½	
	Explaining 5 key issues to address in a business report	<u>7½</u>	<u>10</u>
			<u>20</u>

## Solution 4

- (a) Threats that can impair the conduct of a professional accountant in a business environment include:

Threat	Explanation
(i) Self-interest threat	The threat that a financial or other interest will inappropriately influence the professional accountant's judgment or behaviour;
(ii) Self-review threat	The threat that a professional accountant will not appropriately evaluate the results of a previous judgment made or service performed by himself/herself, or by another individual within the professional accountant's firm or employing organisation, on which the accountant will rely when forming a judgment as part of providing a current service;
(iii) Advocacy threat	The threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised;
(iv) Familiarity threat	The threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too receptive of their work; and
(v) Intimidation threat	The threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, for example, attempts to exercise undue influence over the professional accountant.

- (b) An act of Non-compliance with laws and regulations, called NOCLAR for short, by a client or an employer (or by a manager or other employee of an employer) is an act that is contrary to extant laws and regulations.

The laws and regulations to which NOCLAR rule applies are those that directly affect the client's or employer's financial statements, or its business in a material or fundamental way.

Acts of NOCLAR can include bribery, fraud or false accounting. NOCLAR is a recommendation by the International Ethics Board for Accountants (IESBA) on Non-Compliance with Laws and Regulations.

ICAN adopted and added it to its Code of Ethics in 2017.

### **Examiner's report**

The question tests candidates' knowledge of ethical threats and dilemmas. While the first part of the question deals with the main threats to ethical behavior, the second part tests candidates' knowledge of acts that constitute non compliance with laws and regulations and the position of the Institute to the regulation.

About 83% of the candidates attempted the question. The performance was very poor. It was noted that about 85% of the candidates who attempted the question scored below 50%.

Most of the candidates could list the five threats that can impair the conduct of a professional accountant in a business environment, however, they were unable to correctly explain them. They displayed knowledge of NOCLAR, but could not rightly capture the position of the Institute.

Candidates should painstakingly study all aspects of the syllabus, using ICAN Study Text and Pathfinder.

### **Marking guide**

		Marks	Marks
a	Threats to ethical behavior	5	
	Explaining the threats to ethical behavior	<u>10</u>	15
b	Explanation of NOCLAR	4	
	The position of ICAN to NOCLAR	<u>1</u>	<u>5</u>
			<u>20</u>



## Solution 5

In anticipation of candidates using either (3 significant figures) or (4 significant figures) the marking scheme provides for the two solutions.

### (a) Calculating the Annuity Factors (3 Significant Figures)

Cumulative discount factor at 20%, for years 1-15	4.675
Cumulative discount factor at 20% for years 1-8	<u>3.837</u>
Therefore discount factor at 20% for years 9-15	<u>0.838</u>

Cumulative discount factor at 20%, for years 1-8	3.837
Cumulative discount factor at 20%, for years 1-4	<u>2.589</u>
Therefore discount factor at 20%, for years 5-8	<u>1.248</u>

### Calculation of NPV of the Project

Year	Cash flow ₹	D/F @ 20%	PV ₹
0	(2,000,000)	1.0	(2,000,000)
1-4	500,000	2.589	1,294,500
5-8	300,000	1.248	374,400
9-15	200,000	0.838	<u>167,600</u>
		NPV	<u>(163,500)</u>

**OR**

### (b) Calculating the annuity factors (4 Significant Figures)

Cumulative discount factor at 20%, for years 1-15	4.675
Cumulative discount factor at 20% for years 1-8	<u>3.837</u>
Therefore discount factor at 20% for years 9-15	<u>0.838</u>

Cumulative discount factor at 20%, for years 1-8	3.837
Cumulative discount factor at 20%, for years 1-4	<u>2.589</u>
Therefore discount factor at 20%, for years 5-8	<u>1.248</u>

### Calculation of NPV of the project

Year	Cash flow ₦	D/F @ 20%	PV ₦
0	(2,000,000)	1.0	2,000,000)
1-4	500,000	2.5887	1,294,350
5-8	300,000	1.2485	374,550
9-15	200,000	0.8383	<u>167,660</u>
		NPV	<u>(163,440)</u>

(b)

- i. The PV of constant annual cash flows of ₦120,000 at 15%, if the cash flows start in year 1

$$\begin{aligned}
 \text{PV of cash flow in perpetuity} &= \frac{1}{r} \times \text{Annual cash flow} \\
 &= \frac{1}{0.15} \times 120,000 \\
 &= \text{₦}800,000
 \end{aligned}$$

- ii. The PV of constant annual cash flows of ₦120,000 at 15% if the cash flows start in year 6

$$\begin{aligned}
 \text{PV of ₦120,000 p.a year 1 in perpetuity less:} &= \text{₦} 800,000 \\
 \text{PV of ₦120,000 p.a for years 1-5} & \\
 (\text{₦120,000} \times \text{factor } 3.352) &= \underline{\text{₦}402,240} \\
 \text{PV of ₦120,000 p.a year 6 in perpetuity} &= \underline{\text{₦}397,760}
 \end{aligned}$$

- iii. The PV of constant annual cash flows of ₦120,000 at 15%, if the cash flows start in year 0 (immediately)

$$\begin{aligned}
 \text{PV of cash flow in perpetuity} &= A + \frac{1}{r} \times \text{Annual cash flow} \\
 &= A + \frac{1}{0.15} \times 120,000 \\
 &= \text{₦}120,000 + \text{₦}800,000 \\
 &= \text{₦}920,000
 \end{aligned}$$

## Examiner's report

The question tests candidates' knowledge on investment decisions. The first part examines candidates' understanding of the use of elements of financial mathematics in conjunction with discounted cash flow analysis. The second part tests candidates' knowledge of discounting annuities and perpetuities.

Almost 75% of the candidates attempted the question. The performance was poor as about 80% of the candidates who attempted the question scored below 50%.

This question is quantitative in nature and a successful attempt depended on the usage of correct formula and procedures. Many of the candidates could not correctly compute annuity factors.

Candidates should concentrate on all aspects of the syllabus and use ICAN Study Text and Pathfinders for future examinations.

## Marking guide

	Marks	Marks
a.		
Correct calculation of:		
Cumulative discount factor for years 1-15	1	
Cumulative discount factor for years 1-8	1	
Discount factor for year 9-15	1	
Cumulative discount factor for years 1-8	1	
Cumulative discount factor for years 1-4	1	
Therefore discount factor for years 5-8	1	
Correct calculation of PV		
1-4	1	
5-8	1	
9-15	1	
Correct calculation of NPV	<u>2</u>	11
b.		
i.		
Formula	1	
Substitution of the figures in the formula (Calculation)	1	
Final answer	1	
ii.		
PV of the sum to $\infty$	1	
PV of the sum for years 1-5	1	
Final answer	1	
iii.		
Formula	1	
Substitution of the figures in the formula (Calculation)	1	
Final answer	<u>1</u>	<u>9</u>
		<u>20</u>

## Solution 6

In anticipation of candidates using either (3 significant figures) or (4 significant figures) the marking scheme provides for the two solutions.

### Machine Perf

#### Discount factor at 4 significant figures

Year	Cashflow	DF @10%	PV	CDF
2020	-2,000,000	1.0000	-2,000,000	-2,000,000
2021	200,000	0.9091	181,820	-1,818,180
2022	400,000	0.8264	330,560	-1,487,620
2023	1,200,000	0.7153	901,560	-586,060
2024	1,400,000	0.6830	956,200	370,140
2025	1,600,000	0.6209	<u>993,440</u>	
		NPV	1,363,580	

$$\text{Discounted PBP} = 3 \text{ yrs} + \frac{586,060 \times 360}{956,200}$$

$$= 3 \text{ yrs} + 220 \text{ days}$$

**OR**

#### Discount factor at 3 significant figures

Year	Cashflow	DF @10%	PV	CDF
2020	-2,000,000	1.0000	-2,000,000	-2,000,000
2021	200,000	0.909	181800	-1,818,200
2022	400,000	0.826	330,400	-1,487,800
2023	1,200,000	0.715	877,200	-610,600
2024	1,400,000	0.683	956,200	345,600
2025	1,600,000	0.621		
			<u>993,600</u>	
		NPV	1,339,200	

#### Discounted Pay-back period (PBP)

$$= 3 \text{ yrs} + \frac{610,600 \times 360}{956,200}$$

$$= 3 \text{ yrs} + 229 \text{ days}$$

In anticipation of candidates using either (3 significant figures) or (4 significant figures) the marking scheme provides for the two solutions.

**Machine fumes**  
**Discount factor at 4 significant figures**

Year	Cashflow	DF@10%	PV	CDF
2020	-2,000,000	1.0000	-2,000,000	-2,000,000
2021	1,000,000	0.9091	909,100	-1,090,900
2022	1,000,000	0.8264	826,400	-264,500
2023	200,000	0.7153	150,260	-114,240
2024	100,000	0.6830	68,300	-45,940
2025	100,000	0.6209	<u>62,090</u>	16,150
		NPV	16,150	

$$\text{Discounted PBP} = 4 \text{ yrs} + \frac{45,940}{62,090} \times 360$$

$$= 4 \text{ yrs} + 266 \text{ days}$$

**OR**

**Discount Factor at 3 Significant Figures**

Year	Cashflow	F@10%	PV	CDF
2020	-2,000,000	1.0000	-2,000,000	-2,000,000
2021	1,000,000	0.909	909,100	-1,090,900 (1 mark)
2022	1,000,000	0.826	826,000	-264,900 (1 mark)
2023	200,000	0.715	150,200	-114,700 (1 mark)
2024	100,000	0.683	68,300	-46,400 (1 mark)
2025	100,000	0.621	62,100	15,600 (1 mark)
		NPV	<u>15,700</u>	

$$\text{Discounted PBP} = 4 \text{ yrs} + \frac{46,400}{62,100} \times 360$$

$$= 4 \text{ yrs} + 269 \text{ days}$$

The company should purchase machine perf for the following reasons:

- i. It pays back in 3 years plus 139 days which is lower than that of machine fumes that pays back after 4 years; and 2 Marks
- ii. The payback of machine perf within the company's required payback period of less than 4 years 2 Marks

<b>Marking guide</b>			<b>Marks</b>
Machine Per	2021	Correct PV and CDF	1
	2022	Correct PV and CDF	1
	2023	Correct PV and CDF	1
	2024	Correct PV and CDF	1
	2025	Correct PV and CDF	1
		Correct calculation of PBP	1
	Correct answer	2	
Machine Fumes	2021	Correct PV and CDF	1
	2022	Correct PV and CDF	1
	2023	Correct PV and CDF	1
	2024	Correct PV and CDF	1
	2025	Correct PV and CDF	1
		Correct calculation of PBP	1
	Correct answer	2	
Reasons in the determination of the choice of machine			<u>4</u>
			<u><b>20</b></u>

### **Examiner's report**

The question tests candidates' knowledge on discounted payback method of capital investment appraisal techniques.

About 50% of the candidates attempted the question. The performance was poor and almost 85% of the candidates who attempted the question scored below 50%.

This question is quantitative in nature and a successful attempt depended on the usage of correct formula and procedures. Most of the candidates could not properly evaluate the projects as required by the question yet curiously, most of them were still able to offer advice to support the investment decision of management.

Candidates are advised to avail themselves of the Study Text before attempting to write examinations in future.

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**

**FOUNDATION LEVEL EXAMINATION – MARCH/JULY 2020**

**BUSINESS LAW**

Time Allowed: 3<sup>1</sup>/<sub>4</sub> hours (including 15 minutes reading time)

**SECTION A: MULTIPLE-CHOICE QUESTIONS (20 MARKS)**

**INSTRUCTION: YOU ARE REQUIRED TO ANSWER ALL QUESTIONS IN THIS SECTION**

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

1. Under the Received English Law, which of the following is classified as a source of Nigerian law?
  - A. Law of general application
  - B. Statutes of limited application
  - C. International treaty
  - D. Common law
  - E. Basic law
  
2. Which of the following is a characteristic of the Nigerian Constitution?
  - A. Federalism
  - B. Divisionism
  - C. Territorialism
  - D. Regionalism
  - E. Zoning
  
3. When the liability of partners in a partnership is described as several, it means an aggrieved party could sue the partners
  - A. Jointly
  - B. Collectively
  - C. With families
  - D. With firm only
  - E. Individually

4. Under the Companies and Allied Matters Act 2004, the name of a private company limited by shares shall end with the word
- A. Registered
  - B. Limited
  - C. Incorporated
  - D. Corporation
  - E. Cooperative
5. A person appointed by the secured creditors to manage the assets of an insolvent company is
- A. Bailiff
  - B. Auctioneer
  - C. Debt Collector
  - D. Accounts Officer
  - E. Receiver/Manager
6. Commonly acceptable mode of conduct or behaviour of a given society is known as
- A. Order
  - B. Principle
  - C. Ethics
  - D. Instruction
  - E. Rule
7. The maximum prison term for a public officer found guilty of bribery is ..... year(s)
- A. 1
  - B. 3
  - C. 5
  - D. 7
  - E. 10



8. Under the Money Laundering (Prohibition) Act, what is the limit of foreign exchange in a single transfer that must be reported to the Central Bank of Nigeria?
- A. \$5,000
  - B. \$10,000
  - C. \$15,000
  - D. \$20,000
  - E. \$50,000
9. Which of the following acts constitutes fraudulent accounting?
- A. Electronic accounting data
  - B. General accounting principles
  - C. Spurious accounting documents
  - D. Manual accounting instructions
  - E. International financial accounting standards
10. The rule which states that a person who is not a party to a contract cannot benefit there from or suffer under it is referred to as
- A. Certainty of contract
  - B. Privilege of contract
  - C. Discharge of contract
  - D. Privity of contract
  - E. Legality of contract
11. Under law of contract, fundamental terms which are very essential to the contract are referred to as
- A. Warranties
  - B. Guarantees
  - C. Conditions
  - D. Exceptions
  - E. Exclusions

12. An agent who can do all acts in the course of business on behalf of the principal is referred to as
- A. Subordinate principal
  - B. Authorised agent
  - C. Superior agent
  - D. Acting principal
  - E. General agent
13. The negligence of a person who is also an accomplice and accountable for the injury suffered by him is classified as
- A. Consolatory negligence
  - B. Contributory negligence
  - C. Concealatory negligence
  - D. Conjugatory negligence
  - E. Collective negligence
14. In sale of goods, *caveat emptor* means
- A. Buyer beware
  - B. No bargaining
  - C. Direct buyer only
  - D. Cash on delivery
  - E. Not negotiable
15. Which of the following is a right of the owner against a third party who has no good title to the goods under hire purchase contract?
- A. Arrest the third party
  - B. Assault the third party
  - C. Direct the third party to the hirer
  - D. Recover the goods from the third party
  - E. Challenge the hirer
16. Under insurance contract, which principle states that a person must stand to gain from the preservation of the subject matter or suffer loss from its destruction?
- A. Insurable interest
  - B. Insurance credit rule
  - C. Cover note policy

- D. Indemnity principle
  - E. Insurance payment policy
17. Which of the following is a type of negotiable instrument?
- A. Bill of lading
  - B. Treasury bill
  - C. Postage stamp
  - D. Credit note
  - E. Debit advice
18. Under employment contract, which of the following is a duty of the employer?
- A. Transport the employee to the place of work
  - B. Feed the employee daily
  - C. Provide safe working environment
  - D. Hold the employees' properties for safekeeping
  - E. Grant scholarship to the employees' children
19. Which of the following is a right of beneficiaries of a trust?
- A. Termination of the trustee without giving reasons
  - B. Employ other trustees for the trust property
  - C. Ensure trustee acts in accordance with the terms of the trust
  - D. Change the terms of the trust
  - E. Manage the trust property personally
20. The main objective of Alternative Dispute Resolution (ADR) principle is
- A. Prescription of punishment for civil disputes
  - B. Advising appeal for legal redress
  - C. Amicable settlement of disputes
  - D. Referral of disputes to court
  - E. Rejection of court judgement

**SECTION B: YOU ARE REQUIRED TO ANSWER ANY FOUR OUT OF SIX QUESTIONS IN THIS SECTION 80 MARKS**

**QUESTION 1**

- a. Received English Law is **ONE** of the sources of Nigerian Law.

**Required:**

Explain briefly the following terms:

- i. Statute of General Application (2 Marks)  
ii. English laws extending to Nigeria (2 Marks)

- b. Under partnership law, there are rules for determining the existence of a partnership.

**Required:**

Explain briefly **THREE** relationships that are similar to partnership but are not partnership. (6 Marks)

- c. The Corporate Affairs Commission (CAC) is the government agency that registers business names in Nigeria.

**Required:**

Explain briefly **FIVE** types of name prohibited by the Companies and Allied Matters Act, (CAMA) 2004. (10 Marks)

**(Total 20 Marks)**

**QUESTION 2**

- a. Musa, Ahmed and Tukur formed a partnership as equal partners to engage in haulage business and adopted the partnership law as their partnership agreement. Due to his vast experience in haulage business, the partners appointed Tukur as the firm's Managing Director with full powers to execute all business transactions of the firm, while Musa and Ahmed were entrusted with office administration.

Due to unfavourable economic conditions, the firm suffered huge losses for a couple of years, which caused huge indebtedness. The partnership was subsequently dissolved, but Musa and Ahmed repudiated liability for the firm's debts, claiming that Tukur was in full control of the firm's operations and should bear the firm's liability alone. Tukur seeks your advice.

**Required:**

Advise Tukur stating the legal issues involved. (10 Marks)

- b. There are consequences of incorporation of a company.

**Required:**

State **FIVE** consequences of incorporation of a limited liability company.

(5 Marks)

- c. Chief Ochoma was a very successful electronics dealer as a sole proprietor. Two years ago, he incorporated a limited liability company with the name "Ochoma and Sons Limited" to take over the business. Ochoma and his three sons are the subscribers of the 1,000,000 equity shares of the company at ₦1.00 per share. Chief Ochoma subscribed 970,000 shares and each of the three sons subscribed 10,000 shares.

The company's warehouse was razed by fire last year and all the stock of electronics was burnt, resulting in the company's huge indebtedness to unsecured trade creditors. In the process of winding up of Ochoma and Sons Limited, the unsecured creditors insisted that Chief Ochoma must pay off the debts the company owes them because he is the *de facto* owner of the company.

**Required:**

Advise Chief Ochoma, stating the legal issues involved.

(5 Marks)

**(Total 20 Marks)**

### QUESTION 3

- a. Bature Company Limited is a big manufacturer of a special brand of industrial split unit air conditioners in the country. The company has a standard undertaking with all its distributors not to sell the air conditioners above ₦200,000 per unit so as to make its products attractive in the market, and each distributor also obtained the same undertaking from their customers.

Ratita Ventures, one of the company's major distributors, sold 20 units at the specified price of ₦200,000 to Chinedu Enterprises, who resold each at ₦250,000, even though it also signed the undertaking. Bature Company Limited got to know and intends to take legal action against Chinedu Enterprises.

**Required:**

Advise Bature Company Limited, explaining the legal issues involved.

(10 marks)

- b. Contracts made by an agent with third parties have legal consequences.

**Required:**

Explain briefly the consequences of the following in an agency transaction:

- i. Named Principal (3 Marks)  
ii. Unnamed Principal (3 Marks)

- c. There are different types of liability in tort.

**Required:**

Explain briefly *strict liability*, stating **TWO** of its elements. (4 Marks)

**(Total 20 Marks)**

#### QUESTION 4

- a. As a general rule, only parties to a contract are bound by it.

**Required:**

Explain briefly **THREE** exceptions to the rule of privity of contract. (6 marks)

- b. In sale of goods, only the owner of goods could pass a valid title.

**Required:**

State **FOUR** exceptions to the rule. (6 Marks)

- c. Arbitration is a form of Alternative Dispute Resolution.

**Required:**

State **FOUR** elements of Arbitration. (8 Marks)

**(Total 20 Marks)**

#### QUESTION 5

- a. The parties to a contract of employment are the employer and employee.

**Required:**

Explain briefly **THREE** grounds on which an employer may dismiss an employee. (9 Marks)

- b. Trust is created for the benefit of named beneficiaries or objects.

**Required:**

Explain briefly **THREE** rights of a beneficiary of a trust. (6 Marks)

- c. Ethical codes are developed usually to regulate the conduct of professionals.

**Required:**

Explain why the Institute of Chartered Accountants of Nigeria (ICAN) has ethical code. (5 Marks)

**(Total 20 Marks)**

#### **QUESTION 6**

- a. Insurance contract is a contract of indemnity.

**Required:**

State and explain briefly **THREE** essential elements of an insurance contract. (6 Marks)

- b. A cheque is an instrument for financial transactions.

**Required:**

Explain briefly the following types of cheque:

- i. Bearer cheque (4 Marks)
- ii. Order cheque (4 Marks)

- c. Electronic evidence is required usually to prove electronic fraud.

**Required:**

State **TWO** essential conditions for admissibility of electronic evidence.

(6 Marks)

**(Total 20 Marks)**

## SECTION A - MUTIPLE CHOICE QUESTIONS

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



## **Examiner's report**

The questions cover the entire syllabus.

Almost all the candidates attempted the question and the performance was good.

## **Marking guide**

1 Mark for each correct solution

**20 Marks**

## **Solution 1**

### 1(a) i. **Statute of General Application**

These are the laws of general application that were in force in England on or before 1 January, 1900. The laws became part of the laws in Nigeria by various adaptation laws and remained laws until repealed by specific Nigerian statutes.

### ii. **English Laws Extending to Nigeria**

These are laws made specifically for Nigeria by the English Parliament between 1900 and 1960.

(b) The circumstances under which the law will not recognize existence of partnership are as follows:

- i. Receipt by a person, of a debt owed, or other liquidated amount by instalments or otherwise out of the accruing profits of a business will not be recognized as proof of existence of partnership between the parties;
- ii. Payment of remuneration or emoluments to an employee out of the profits of the business of a partnership will not stand as proof of existence of partnership between the parties;
- iii. Payment of annuity to the widow or child or dependant of a deceased partner from a portion of the profit made in a business in which the deceased was a partner will not be accepted as proof of existence of partnership;
- iv. Payment of annuity or otherwise from a portion of the profit of a business in consideration of the sale of the goodwill of a particular

business by a person, will not be taken as proof of existence of partnership;

- v. Joint or shared tenancy of a property or part-ownership of property or common of property, whether or not the tenants or owners share in the profits made by the use of the property, does not qualify as proof of existence of partnership; and
  - vi. Sharing of gross returns whether the persons sharing such returns have not or have a joint or common right or interest in any property from which the returns are derived.
- (c) Under the Companies and Allied Matters Act (CAMA), a company is prohibited or restricted from being registered with the following names:
- i. Name which is identical to an already existing registered company, or so nearly resembles that already registered name as to be capable of deceiving the unsuspecting general public;
  - ii. Name that contains words such as “Chamber of Commerce”, unless it is a company limited by guarantee, identified as such and whose object clause is clearly stated in its Memorandum of Association;
  - iii. Name that is misleading as to the nature or extent or size of the business activities.  
  
A company’s name must not be at variance with the type of business it is to be engaged in both in nature and capacity of activities;
  - iv. Name that is considered offensive or contrary to public policy which may indicate or promote illegality and indecency;
  - v. Name that violates existing registered trade mark or patent right, except with the express consent of the trade mark or patent right owners;
  - vi. Name that includes “Federal”, “National”, “Regional”, “State”, “Local Government”, “Government Ministry”, “Government Department”, “Government Authority”, “Government Parastatal” or “Government Agency”. These names suggest that the company has relationship with or enjoys patronage of the government;

- vii. Name that contains words such as “Municipal”, “Chartered”, “Cooperative Society” “Building Society”, except it is created and regulated by the law.
- viii. Name which includes “Group” or “Holding”, except it has subsidiary(ies) (A group of companies or holding company consists of more than one company under the control of a parent company).

**Examiner’s report**

The questions, which are in three parts, test candidates’ knowledge of statutes of general application as a source of Nigerian Law, circumstances determining existence of partnership, and the business names prohibited by the CAMA.

About 60% of candidates attempted the question and the performance was good.

**Marking guide**

	Marks	Total
(a)i. Statute of General Application - English Law pre-Jan 1, 1900	2	
ii. English Law extended to Nigeria -post 1900/pre Oct 1, 1960	<u>2</u>	4
(b) Rules of partnership existence		6
(c) Companies names prohibited		<u>10</u>
		<u>20</u>

**Solution 2**

2(a) The legal issues involved are the relationship and rights of partners in partnership.

Under partnership law, every partner is an agent of all other partners, so every act and representation by him in the ordinary course of the firm’s business binds the other partners.

Also, all partners are entitled to share equally in the capital and profits of the business and must contribute equally towards the losses of capital or otherwise of the firm.

Consequently, and arising from above provisions of the law, Musa, Ahmed and Tukur, as equal partners, are liable equally for the firm’s debts. Tukur is therefore advised to sue Musa and Ahmed for joint liability for all the firm’s debts.

- (b). The incorporation of a limited liability company has the following consequences:
- i. Assumes corporate personality/becomes a legal entity;
  - ii. Enjoys perpetual succession;
  - iii. Limits the liability of members;
  - iv. Can own properties in its name;
  - v. Capable of entering into legal contracts and its consequences;
  - vi. Can borrow and pledge its assets as security; and
  - vii. Management is divorced from the owners;
- (c). The legal issue involved relates to the corporate legal entity of a limited liability company on incorporation as established in the classical similar decided case of Salomon V Salomon & Sons Ltd.

In the present case, Ochoma and Sons Ltd is a separate legal entity, quite distinct from Chief Ochoma, who is only a member of the company.

Chief Ochoma is therefore not liable for the debts and other obligations of the company.

### **Examiner's report**

The questions test candidates' knowledge of the application of partner's rights under partnership law, consequences of company incorporation and application of corporate legal personality principle.

About 50% of the candidates attempted the questions and their general performance was good.

### **Marking guide**

	<b>Marks</b>	<b>Marks</b>
(a) Legal issue – partners relationship and rights	4	
Partners to share profits and losses equally	2	
All 3 partners liable equally for firm's debts	2	
Advice: Tukur should sue Musa and Ahmed	<u>2</u>	10
(b) Consequences of company incorporation		5
(c) Legal issue – Corporate legal entity of companies	2	
Ochoma is separate from the company	2	
Ochoma is not liable for the company's debts	<u>1</u>	<u>5</u>
		<u>20</u>

### **Solution 3**

- (a) The legal issue involved is the rule of privity of contract, which states that unless expressly stated, a person who is not a party to a contract cannot enjoy the benefits or suffer the burden of that contract, and neither can he take action on it.

In this case, Bature Co. Ltd had contract with Ratita Trading Stores, with whom it signed an undertaking on the agreed unit selling price and which Ratita Ventures had not breached. Bature Co. Ltd indeed had no contract with Chinedu Enterprises, thus the rule of privity of contract will apply and legal action by Bature Co. Ltd against Chinedu Enterprises will fail.

However, Ratita Ventures may sue Chinedu Enterprises and succeed in the suit since both parties are in contract and signed an undertaking on the selling price, which Chinedu Enterprises breached.

(b).i. **Named principal**

Where an agent enters into a contract with a third party and discloses the name of his principal, the principal alone acquires the rights and liabilities under the contract. The agent has neither rights nor liabilities in the contract.

ii. **Unnamed but disclosed principal**

Where an agent does not name his principal but discloses that he is acting on behalf of a principal, and acts within his scope of authority, the principal alone acquires the rights and liabilities under the contract.

- (c) Under law of tort, strict liability is a rule which states that, where a person's belonging or thing is left in a place, whether the person acted with or without intention to cause harm, and causes mischief or harm to another person, the injured person may claim damages from the owner of the thing.

To succeed in holding a person liable under the strict liability rule, the injured person must establish that:

- i. The damage or harm was caused by the thing belonging to the defendant;
- ii. The use or placement of the thing was unnatural; and
- iii. The thing caused damage or harm to the claimant.

## Examiner's report

The questions test candidates' understanding and application of privity of contract, named and unnamed principal under agency, and strict liability in torts.

About 50% of the candidates attempted the questions and their performance was above average.

## Marking guide

	Marks	Marks
(a) Legal issue – privity of contract explained.	3	
Bature not in contract with Chinedu, but with Ratita	3	
Bature cannot sue Chinedu, as they are not in contract	2	
Ratita can instead sue Chinedu	<u>2</u>	10
(b) i. Named principal liable to contract by agent	3	
ii. Unnamed but disclosed principal liable to contract by agent	3	6
(c) Strict liability explained	2	
Proofs to succeed in suit	<u>2</u>	<u>4</u>
		<u>20</u>

## Solution 4

4(a) Exceptions to the rule of privity of contract are as follows:

**i. Insurance contract**

Under vehicle insurance, a third party can sue in respect of a third part insurance contract. Similarly, under life insurance, a named beneficiary can sue in respect of the insured.

**ii. Trust and estates administration**

Under the law of trusts, a trustee holds property in trust for another and can sue in respect of the trust properties. Similarly, under administration of estates, executors and administrators of a deceased's estate can sue in respect of the deceased's properties.

**iii. Agency**

Under the law of agency, an appointed agent acts on behalf of his principal. The rights and benefits of the contract would normally accrue to the principal, but the agent can sue and be sued under the power of attorney.

**iv. Restrictive covenants**

This covenant, often used in land matters, is usually made between original owner of land and first purchaser, with restriction placed on use of land for specific purposes. Subsequent purchasers of the land would be bound by the said covenant.

**v. Negotiable instruments**

Where a person stands as guarantor or surety to another in a negotiable instrument, in case of default by the other, such guarantor or surety becomes privy to the contract and liable as a party by substitution.

**(b) The exceptions to the rule of owner and title to goods are as follows:**

- i. Sale in market overt (open market);
- ii. Sale under a voidable title;
- iii. Sale under estoppel;
- iv. Sale by seller in possession;
- v. Sale by buyer in possession;
- vi. Sale by mercantile agent;
- vii. Court power; and
- viii Sale under special government power

**4(c) The essential elements of arbitration are:**

- (i) The parties must agree to arbitrate;
- (ii) The issues in dispute must be justifiable;
- (iii) The seat or place of arbitration must be agreed to by the parties;
- (iv) The language of the arbitration must be acceptable to the parties;
- (v) The parties must agree to the choice of applicable law to be adopted;
- (vi) The dispute must be capable of compromise by way of accord; and
- (vii) The parties must agree to abide by the decisions of arbitration

## Examiner's report

The questions test candidates' knowledge of the exceptions to privity of contract, passing of good title in sales of goods, and elements of arbitration in Alternative Dispute Resolution.

Only few of the candidates (about 30%) attempted the question and less than 40% scored 50% of the marks.

The major pitfall of the candidates was their shallow knowledge of the principles.

Candidates are advised to read the ICAN Study Text when preparing for subsequent examinations.

## Marking guide

	Marks
(a) Exceptions to privity rule explained	6
(b) Exceptions to good title in sale of goods.	6
(c) Essential elements of arbitration.	8
	<u>20</u>

## Solution 5

5(a) The following are grounds on which an employee could be dismissed from employment by the employer:

i. **Disobedience to lawful official instructions**

Where an employee willfully disobeys lawful instructions or orders of the employer, it is regarded as a repudiation of the contract by the employee, which is a ground for the employer to dismiss the employee.

ii. **Incompetence**

Where the employee displays incompetence for the skills which he professes to possess, the employer has the right to dismiss the employee from employment.

iii. **Commission of crime**

An employer may dismiss an employee for commission of crime in the course of his duty after such employee has been convicted by a court of competent jurisdiction.



- iv. **Gross misconduct**  
Acts of gross misconduct by the employee, such as drunkenness, violence insubordination and immorality as well as conducts likely to bring the employer into disrepute or tarnish the image of the employer, are grounds for dismissal of the employee.
  - v. **Unauthorised long absence from duty**  
Long absence from duty without official leave of absence is regarded as abandonment or abdication of duty, which is considered as repudiation of contract by the employee, and is a ground for dismissal by the employer.
- (b) A beneficiary of a trust has the following rights under the law of trusts:
- i. A beneficiary of a trust has the basic right to have the trust property duly administered in accordance with the terms and provisions of creation of the trust;
  - ii. A beneficiary has the right to ensure that trustees do not dissipate or waste trust funds or commit fraud upon the trust. This could be achieved through legal process;
  - iii. A beneficiary is entitled to an order of injunction in appropriate situations to restrain trustees from endangering the trust property, such as when there is sufficient evidence that the trustee is about to be declared bankrupt or somehow incapacitated under the law;
  - iv. Where trust property has been transferred fraudulently from the trust, the beneficiary has a right to institute legal action against the trustee for recovery of the property; and
  - v. A beneficiary of trust also has the right against a third party who takes possession of trust property with defective title, if he is not a purchaser in good faith for value.
- (c) The Institute of Chartered Accountants of Nigeria (ICAN) has ethical code to regulate the conduct of accountants who are its members. The aim is to ensure high standard of conduct towards the clients who may be vulnerable to their breach of trust.

## Examiner's report

The questions test candidates' knowledge of grounds for employee dismissal from employment by the employer under employment law, rights of trust beneficiary under trusteeship, and professional ethical codes.

About 40% of candidates attempted the questions and general performance was below average. Candidates' major pitfall was the lack of knowledge of the topics.

The candidates are advised to read ICAN Study Text when preparing for subsequent examinations.

## Marking guide

	<b>Marks</b>
(a) Reasons for employee dismissal	9
(b) Rights trust beneficiary explained	6
(c) Contents of ethical code document	<u>5</u>
	<u>20</u>

## Solution 6

6(a) Under law of insurance, essential elements which must be present in contract of insurance are as follows:

i. **Utmost good faith**

Contract of insurance is a contract which depends heavily on trust and truthfulness of both parties. It therefore must be contracted with utmost good faith;

ii. **Disclosure of all material facts**

The parties, especially the insured, who possess knowledge of material facts, must disclose all the facts relevant to the contract. Such facts may influence the decision of the insurer, in determining the premium payable, or to either accept or reject the insurance proposal;

iii. **Insurable interest**

The principle of insurable interest requires that an insured person must have a legal relationship with the subject matter, which must be in existence at the time of making the contract;

- iv. **Payment of premium**  
Insurance is contract of indemnity whereby the insurer agrees to indemnify the insured against particular stated loss or on the occurrence of a stated event and on payment of premium by the insured. Premium is the consideration received by the insurer for the indemnity, which gives rise to the slogan of “no premium, no cover”.
  
- (b) i. **Bearer cheque**  
This is a cheque drawn payable or endorsed in blank and not addressed to any named person. A bearer cheque is transferable by mere delivery without any endorsement. An example is a cheque drawn payable to ‘cash’ which is payable to an unnamed person.
  
- ii. **Order cheque**  
This is a cheque drawn payable to a named person, or his nominee or endorsed payable to a named person or endorsed to his nominee. An order cheque must be endorsed by the payee at the back of the cheque before it is transferred or payment can be effected.
  
- (c) Proofs for admissibility of electronic evidence in electronic fraud include the following:
  - i. Evidence that the electronic device is capable of electronic transmission;
  - ii. Proof that the electronic device is in good working condition;
  - iii. Evidence that the operator of the electronic device is competent;
  - iv. Proof that the transactions are authentic and correct;
  - v. Proof that changes and alterations have not been made to the records; and
  - vi. Evidence that the electronic data have been preserved.

### **Examiner’s report**

The questions test candidates’ knowledge of the essential elements of insurance contract, bearer and order cheques, and essential conditions for admissibility of electronic evidence in electronic fraud.

About 50% of candidates attempted the question and the performance was good.

## Marking guide

	Marks	Marks
(a) Essential elements of insurance contract explained.		6
(b) i Bearer cheque explained and its characteristics	4	
ii. Order cheque explained and its characteristics	<u>4</u>	8
(c) Proofs of electronic fraud		<u>6</u>
		<u>20</u>