



**THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF NIGERIA**

PATHFINDER

**NOVEMBER 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 – NOVEMBER 2020
FINANCIAL ACCOUNTING

Time Allowed: 3¹/₄ 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 items is **NOT** found on the debit column of a trial balance?
 - A. Capital
 - B. Motor vehicle
 - C. Rent and rates
 - D. Salaries and wages
 - E. Postage and stationary

2. The difference between an income statement and an income and expenditure account is that
 - A. An income and expenditure account is another name for an income statement
 - B. An income statement is prepared for a business while an income and expenditure account is prepared for a not-for-profit organisation
 - C. An income statement is prepared for a business while an income and expenditure account is prepared on a cash flow basis
 - D. Income statement is prepared on accrual basis while income and expenditure account is prepared on a cash basis
 - E. An income statement is prepared for a manufacturing business while an income and expenditure account is prepared for a non-manufacturing business

3. Which of the following is **NOT** a source document?
 - A. Proforma invoice
 - B. Debit note
 - C. Journal
 - D. Statement of account
 - E. Cheque stub

4. Which of the following is/are correct?
- I. A statement of cash flow prepared using the direct method produces different figure for operating cash flow from that produced if the indirect method is used
 - II. Rights issue of shares do not feature in the statement of cash flow
 - III. Revaluation surplus of a non-current asset is not recognised as an item in statement of cash flow
 - IV. A profit on the sale of a non-current asset is recognised as an item under cash flows from investing activities in a cash flow statement
- A. I and IV
 - B. II and III
 - C. II and IV
 - D. III
 - E. I and III
5. The closing inventories of a firm were overvalued by ~~₺~~300,000 due to overcast error in one of the inventory valuation sheets.
How would the correction of this affect the reported profit?
- A. Increase reported profit by ~~₺~~300,000
 - B. Reduce reported profit by ~~₺~~300,000
 - C. No effect on the reported profit
 - D. Increase reported profit by ~~₺~~600,000
 - E. Reduce reported profit by ~~₺~~600,000
6. Which of the following is **NOT** a feature of a control account?
- A. It is maintained by the financial controller
 - B. It is used to check arithmetical accuracy of the ledger to which it relates
 - C. The ledger to which it relates is known as self-financing
 - D. It helps in the detection of fraud and error
 - E. The entries therein appear on the same side as they do in the individual accounts
7. The partnership of A, B, and C made a net profit for the past five years as shown below:

Year	Profit
	₺'000
2014	30,000
2015	18,000
2016	9,000
2017	15,000

2018 21,000

The firm wishes to admit D, for this reason it has decided that the fair value of goodwill is 4 years purchase of the average super profits over the last 5 years. The normal profit is ₦6,000,000 per annum.

What is the value of goodwill?

- ₦'000
- A. 42,400
 - B. 46,400
 - C. 49,200
 - D. 50,400
 - E. 62,200

Use the information below to answer questions 8 and 9:

The capital structure of Baba Oba Limited is shown below:

	₦'000
Ordinary share capital: 200,000 shares of 50k	100
Premium Account -	150

The company made a rights issue of 1 for 5 at ₦1.50 and the rights issue was fully subscribed.

8. What is the amount of the rights issue credited to share capital?
- A. ₦20,000
 - B. ₦40,000
 - C. ₦50,000
 - D. ₦70,000
 - E. ₦100,000
9. What will be the balance on the share premium account after the rights issue?
- ₦'000
- A. 90
 - B. 140
 - C. 150
 - D. 190
 - E. 200
10. Where there are no proper books of account, the equity at the commencement of a period is ascertained by preparing
- A. Statement of profit or loss
 - B. Statement of financial position
 - C. Statement of affairs
 - D. Bank reconciliation statement

- E. Receivables and payables account
11. Which of the following accounting conventions suggests that accountants should use a method of valuation that understates rather than overstates results?
- A. Conservatism
 - B. Historical
 - C. Monetary
 - D. Cost
 - E. Substance over firm
12. In accordance with IAS - 2 Inventories, which of the following costs should be included in the valuation of inventories of a manufacturing company?
- A. Carriage outwards
 - B. Carriage inwards
 - C. General administrative overheads
 - D. Depreciation of land and buildings
 - E. Discount allowed
13. Which of the following is **NOT** a component of financial statements under IAS 1?
- A. Statement of financial position
 - B. Statement of profit or loss and other comprehensive income
 - C. Statement of equity
 - D. Statement of changes in equity
 - E. Statement of cashflows
14. Which of the following should be classified as capital expenditure?
- A. Penalty paid to a supplier for late payment in respect of plant supplied
 - B. Interest payable on loan used exclusively for the production of self constructed PPE
 - C. Staff training cost on the use of equipment
 - D. Legal fees on debt recovery
 - E. Bonuses to production operatives
15. Florence Ajade pays her professional subscription through instruction to her bank to make annual regular payments of a fixed amount from her current account. When the subscription increases, she issues revised instructions to the bank to reflect the new amount.
- Which of the following methods of payment is she using?
- A. Internet banking transfer
 - B. Standing order
 - C. Payable order
 - D. Direct credit

- E. Standing bill of payment
16. Jone Bosco has credit facility with a local trade supplier. A purchase invoice was credited to the supplier's account and debited to sales account
- Which of the following journal entries will correct the error?
- | | Account to be debited | Account to be credited |
|----|------------------------------|-------------------------------|
| A. | Sales | Supplier |
| B. | Sales | Purchases |
| C. | Sales | Payables |
| D. | Purchases | Sales |
| E. | Supplier | Sales |
17. Which of the following would be on the credit side of the receivables ledger control account?
- I. Cash received
 - II. Irrecoverable debts
 - III. Discount allowed
 - IV. Sales
- A. I, II and III
 - B. I, III and IV
 - C. II and IV
 - D. I and IV
 - E. I, II, III and IV
18. Which of the following journal entries correctly records the credit purchase of property, plant and equipment (PPE)?
- | | Account to be debited | Account to be credited |
|----|------------------------------|-------------------------------|
| A. | PPE register | purchases ledger control |
| B. | purchase ledger control | PPE |
| C. | Bank | PPE |
| D. | PPE | Supplier of PPE |
| E. | PPE | PPE disposal |
19. Which of the following errors would be discovered by extracting a trial balance?
- A. A transaction has been completely missed in the accounts
 - B. The double entries have been made the wrong way round
 - C. Different figures have been entered for the debit and credit entries
 - D. An expense item has been posted to a non-current asset account
 - E. A credit sales made to Joke ventures was debited to Joke Enterprises account

20. Bode's cash book showed he had overdraft of ₦20,300. A bank reconciliation however indicated that a standing order payment of ₦3,650 had been entered in the cash book twice, and that a returned customer's cheque for ₦2,750 had been debited in the cash account.

What is Bode's true overdraft position?

- A. ₦12,150
- B. ₦18,450
- C. ₦19,400
- D. ₦21,200
- E. ₦22,150

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

QUESTION 1

Sweetberry Manufacturing Company is a family business which produces and sells pure water in Lagos. In the year ended October 31, 2019, the following balances were extracted from the company's ledger account:

	₦'000
Revenue	900,000
Raw materials purchased	180,000
Raw materials carriage expenses	8,000
Carriage outwards	4,000
Wages:	
- Machine operators	184,800
- factory supervisors	45,000
Salary:	
- Administrative staff	124,000
- Sales and marketing staff	104,000
Distribution cost	4,000
Administration expenses	15,500
Rent and rates	58,000
Utility	6,000
Insurance	9,500
Sales promotion expenses	20,000
Discount received	6,000
Factory plant and machinery	72,000
Office equipment	20,000
Delivery van	36,000
Inventories as at November 01, 2018:	
- Raw materials	34,000

-	Work-in-progress	21,000
-	Finished goods	40,000
Inventories as at October 31, 2019:		
-	Raw materials	29,000
-	Work-in-progress	32,000
-	Finished goods	50,000

The following information is also relevant for the preparation of the financial statements:

(i) Straight line depreciation policy at the following rates:

		%
-	Factory plant and machinery	10
-	Office equipment	10
-	Delivery van	20

(ii) General expenses are to be apportioned as follows:

	Factory	Administration
	%	%
Rent and rates	80	20
Insurance and utility expenses	75	25

(iii) Insurance prepaid amounted to ₦1.5m

(iv) Accrued administration expenses amounted to ₦500,000

Required:

Using the vertical format, prepare manufacturing account and statement of profit or Loss for the year ended October 31, 2019. **(20 Marks)**

QUESTION 2

a. Explain the term 'accounting concepts' (2 Marks)

b. With particular reference to the accounting treatments, explain the following accounting concepts:

- i. Entity (2 Marks)
- ii. Going concern (2 Marks)
- iii. Accrual (2 Marks)
- iv. Materiality and aggregation (2 Marks)
- v. Consistency (2 Marks)

c. In accordance with IAS 1-Presentation of Financial Statements, highlight **SIX** qualitative characteristics of general purpose financial statements.

(4 Marks)

- d. Financial statements provide information to users and each user information requirement is not always the same.

Required:

Using the table below and the example provided, list **FOUR** users of financial statements and their information needs.

S/N	Users	Information needs
Example	Employees	Wage negotiation and determination of job security
1		
2		
3		
4		

(4 Marks)

(Total 20 Marks)

QUESTION 3

The agreement of a trial balance may not mean that it is error free.

Required:

- a. i. Explain what a trial balance is and state **FOUR** errors that a trial balance does not reveal (3 Marks)
- ii. What is a suspense account? (2 Marks)
- b. Your subordinate in POP -Two Ventures who is an inexperienced book-keeper has just informed you that the trial balance you directed her to prepare failed to agree by a difference of ₦170,000, this amount was recorded on the credit side of a suspense account. On investigation, you discovered the following errors:

	₦'000
A cash payment debited to bank cash book	360
Overcasting of sales	700
Overcasting of purchases account	700
Returns inwards omitted in the books	380
Bank charges posted into the cash book without a corresponding	

entry made elsewhere	370
Opening receivables balance of ₦3,570,000 was brought down as	3,750
An item of PPE sold was debited to cash account and credited to sales account	5,000

You are required to:

- i. Effect the necessary corrections by means of journal (11 Marks)
 - ii. Prepare the suspense account (4 Marks)
- (Total 20 Marks)**

QUESTION 4

The following is a summary of the receipts and payments of Surulere Social Club for the period ended October 31, 2019:

Receipts:	₦'000
Membership subscriptions	255,000
Donation	22,500
Income from christmas party	12,750
Bar takings	405,000
Payments:	
Rates	13,500
General expenses	393,000
Bar purchases	277,500
Christmas party expenses	2,500

Other relevant information for the period is as follows:

	Nov 1, 2018	Oct 31, 2019
	₦'000	₦'000
Subscription due	13,500	9,000
Subscription paid in advance	750	1,500
Rates owing	6,750	7,500
Bar inventory	30,000	37,500
Club premises (cost ₦750m)	300,000	270,000
Furniture & fittings (cost ₦150m)	45,000	30,000
Bank balance	24,000	33,000

You are required to prepare:

- a. The club bar's statement of profit or loss for the year ended October 31,

2019. (3 Marks)
- b. The income and expenditure account for the year ended October 31, 2019. (8 Marks)
- c. Statement of financial position as at October 31, 2019 (9 Marks)
- (Show workings) (Total 20 Marks)**

QUESTION 5

Given below are items of revenue and capital expenditure:

- (i) A number of new cars that had recently been cleared by a motor car dealing company.
- (ii) Two new motor boats acquired by a ferry service agency.
- (iii) Vacant houses owned by an estate developing company for which negotiations are ongoing for their sale to prospective landlords.
- (iv) New buildings acquired for the purpose of holding items of plant and machinery belonging to a detergent manufacturing company.
- (v) Cost of acquiring a leasehold property for office use.
- (vi) Granites purchased by an engineering contractor for use at a construction site.
- (vii) Cost of rehabilitating a dilapidated housing unit owned by an estate developer.
- (viii) Pre-production testing cost.

Required:

- a. Using the tabular format below, classify the above transactions into capital or revenue expenditure as the case may be

Classification of expenditure into capital and revenue

S/N	Capital expenditure	Revenue expenditure

(8 Mark)

- b. State whether each of the items above will be recognised in the statement of profit or loss or in the statement of financial position.

Note: Use the presentation format below

Recognition of expenditure into capital and revenue in the financial statements

S/N	Recognition in the statement of profit or loss	Recognition in the statement of financial position

(8 Marks)

- c. In respect of the information in (a) above, Ola is in the process of updating entity's asset register and would like you to outline for her, the details of information of the capital expenditure that she needs to include in the property, plant and equipment (PPE) register. (4 Marks)

(Total 20 Marks)

QUESTION 6

- a. In the absence of any express agreement between partners in a firm, outline six general rules to be applied in resolving issues between the partners.

(5 Marks)

- b. Emeka has been in business as a Japan spare part dealer. The last statement of financial position of his business as at September 30, 2019 is given below:

	₦'000		₦'000
Equity		Non-current assets:	
Capital	1,000	PPE	1,100
Retained earnings	<u>130</u>		
	1,130	Current assets:	
Drawings	<u>(60)</u>	Inventories	190
	1,070	Trade payables	40
		Bank	45
Current liabilities			
Account payables	290		
Bank overdraft	<u>15</u>		
	<u><u>1,375</u></u>		<u><u>1,375</u></u>

On October 1, 2019, he had agreement with Bode to join him and the new business will be trading under the name and style EmBo Ventures.

The terms of the new business are given below:

- (i) Bode is to contribute capital of ₦1,250,000 for equal share of profit.
- (ii) The firm will take over the assets and liabilities of Emeka at their book values except for:

	₦'000
PPE	1,250
Inventories	<u>175</u>
	<u>1,425</u>

- (ii) The partners will maintain equal amount of capital and any shortfall in Emeka's capital should be made good by credit from revaluation or through the introduction of additional money and any balance thereafter will be kept in his current account.

You are required to prepare for EmBo Ventures:

- i. Revaluation account (5Marks)
- ii. Partners' capital accounts (5Marks)
- iii. Statement of financial position as at October 1, 2019 (5 Marks)

(Total 20 Marks)

Solutions – MCQ

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

Examiner's Report

The question tests all the areas of the Financial Accounting Syllabus and covers concepts, principles and calculations.

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

A few candidates, however, displayed inadequate knowledge of some basic concepts and their applications.

Candidates are advised to cover all sections of the syllabus and pay more attention to basic accounting concepts and their applications.

WORKINGS

Q7

	N'000
Five years total profit	93,000
5 years average profit (93,000/5)	18,600
4 years purchase of super profit:	
5 years average profit	18,600
Normal profit	<u>-6,000</u>
	<u>12,600</u>

Number of years profit	4
Goodwill (12,600*4)	<u>50,400</u>

Q8

Rights issue (200,000/5*50k)	<u>20,000</u>
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Q9

Share premium (200,000/5*	N140,000
Add share premium b/f	<u>150,000</u>
	<u>190,000</u>

Q20

Bank overdraft	-20,300
Returned cheque (2,750*2)	5,500
Reversal of a standing order	<u>3,650</u>
	<u>-22,150</u>

SOLUTION 1

SWEETBERRY Manufacturing Company for the year ended October 31, 2019

	₹'000	₹'000
Raw materials		
Opening inventory		34,000
Add - Purchases		180,000
- Carriage of raw materials		<u>8,000</u>
Cost of raw materials available for use		222,000
Closing inventory		<u>-29,000</u>
Cost of raw material consumed		193,000
Add manufacturing wages		<u>184,800</u>
Prime cost of production		377,800
Add factory overhead expenses:		
Depreciation of factory plant & machinery (W1)	7,200	
Factory rent and rates	46,400	
Factory insurance and utility (W2)	10,500	
Wages of factory supervisor	<u>45,000</u>	
		109,100
Change in work-in-progress (WIP)		
Opening inventory of WIP	21,000	
Closing inventory of WIP	<u>(32,000)</u>	
		<u>(11,000)</u>
Production cost of goods completed		<u>475,900</u>
Revenue		
Opening inventory of finished goods	40,000	900,000
Production cost of finished goods	<u>475,900</u>	
Cost of goods available for sale	(515,900)	
Closing inventory of finished goods	<u>(50,000)</u>	
Cost of goods sold		<u>(465,900)</u>
Gross profit		434,100
Discount received		<u>6,000</u>
		440,100
Operating expenses		
Office rent and rates (w2)	11,600	
Office Insurance and utility expenses (W3)	3,500	
Depreciation of office equipment (W4)	2,000	
Administration expenses	16,000	
Administration salaries	<u>124,000</u>	
		(157,100)
Selling and distribution expenses:		
Depreciation of delivery van	7,200	
Carriage outwards	4,000	
Sales and marketing staff salaries	104,000	

Distribution cost	4,000	
Sales promotion expenses	20,000	
		<u>(139,200)</u>
Net profit		<u>143,800</u>

Working notes:

	₹'000
Wk 1: Calculation of depreciation on factory plant and machinery	
Value of factory plant and machinery	<u>72,000</u>
Depreciation @ 10%	<u>7,200</u>
Wk 2: Apportionment of rent and rates expenses	
Rent and rates as per a/c	<u>58,000</u>
Factory rent and rates @ 80%	46,400
Office rent and rates @ 20%	<u>11,600</u>
	<u>58,000</u>
Wk 3: Insurance and utility	
Insurance as per account	9,500
Utility as per account	<u>6,000</u>
	15,500
Prepaid insurance	<u>(1,500)</u>
	<u>14,000</u>
Apportioned as follows:	
Factory insurance and utility @ 75%	10,500
Office insurance and utility @ 25%	<u>3,500</u>
	<u>14,000</u>
Wk 4: Calculation of depreciation on office equipment	
Value of office equipment	<u>20,000</u>
Depreciation @ 20%	<u>2,000</u>
Wk 5: Calculation of depreciation on delivery van	
Value of delivery van	<u>36,000</u>
Depreciation @ 20%	<u>7,200</u>
Wk 6: Determination of administration expenses for the year	
Administration expenses as per a/c	15,500
Accrued administration expenses	<u>500</u>
	<u>16,000</u>

Marking guide	Marks
Prime cost	3
Factory overhead	5
Change in WIP	1
Gross profit	2½
Discount received	½
Administration expenses	4
Selling and distribution expenses	4
Total	<u>20</u>

Examiner's Report

This question tests candidates' knowledge on preparation of final accounts in a manufacturing company.

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

Candidates' commonest pitfalls were their inability to correctly distinguish between manufacturing and operating costs, and failure to use the presentation format prescribed by the examiner.

Candidates are advised to pay more attention to various classification of expenses in the financial statements and adhere strictly to prescribed presentation format.

SOLUTION 2

(a) Accounting concepts

- (i) Accounting concepts are the fundamental assumptions that underpin the preparation of general purpose financial statements.
- (ii) They are the fundamental principles to be followed by preparers of financial statements.
- (iii) Accounting concepts help to enhance the faithful presentation of information.

(b) Explanation of accounting concepts

(i) Entity concept

This indicates that every business entity is quite different from the owner(s), irrespective of the legal form.

The application of the entity concept simply means that separate accounts should be kept for both the business and the owner.

Additionally, business resources should only be used in carrying out the affairs of the entity and not of those of the owner(s).

(ii) **Going concern**

This accounting concept indicates that a business entity will be in operational existence over a foreseeable time and that it has no intention to scale down its operations significantly.

With the application of going concern, non-current assets are measured and recognised at cost, fair value or revalued amount, less accumulated depreciation. This means that the carrying values of the assets will be recovered through usage in the ordinary course of business. Where the going concern is no longer applicable, the assets are measured and recognised at their break-up or realisable amount.

(iii) **Accrual concept**

This concept implies that income is recognised when earned and expenses are recognised when incurred, and not necessarily when cash is received or paid.

It gives rise to receivables and payables. It is the application of this concept that gives rise to prepayments and accruals.

(iv) **Materiality and aggregation**

Materiality is the process of classifying financial transactions in accordance with their relative importance or significance to the reporting entity and the users of financial statements.

An item is considered to be material if its inclusion, exclusion or misstatement in the financial statements will affect the economic decision of the user(s).

The rule in accounting is that items or transactions that are considered to be material should be given separate accounting treatment, while those that are immaterial should be summarised and given a single accounting treatment.

(v) **Consistency**

This concept indicates that once an entity has adopted an accounting policy or a method of reporting an element of financial statements, the method must be followed over a reasonable period of time.

While changes are permissible, a change should not be too frequent so that the comparability of financial information will not be misleading to the users of financial statements.

(c) Six qualitative characteristics of financial statements

- Relevance
- Faithfull representation
- Comparability
- Verifiability
- Timeliness
- Understandability

(d) Financial statement users information needs

S/N	USERS	INFORMATION NEED/REQUIRED
Example	Employees	Wage negotiation and determination of job security
1	Management of the entity	To evaluate their performance against benchmarks and determine future prospects.
2	Auditors	To express independent opinion on the financial statements.
3	Tax authorities	Determination of the tax payable.
4	Lenders	Determination of the entity's liquidity position and ability to repay loan.
5	Investors	Evaluation of the company's performance in terms of profitability and capital appreciation as well as security of their investments.
6	Government	To enable government to appraise the impact of policies on businesses and the environmental impact of those policies.
7	Suppliers	For credit rating of the entity
8	Customers	To determine the company's continuity in supply of products.
9	General public	Determination of the financial and non-financial contribution of the entity in the development of the society.
10	Financial analyst	To appraise business performance for the purpose of advising their clients on investment decisions.
11	Competitors	For benchmarking and measure of competitiveness

Marking guide	Marks	Marks
a. Definition of accounting concepts		2
b. Definition of each of the five concepts	5	
Implication on accounting measurement	<u>5</u>	10
c. Four qualitative characteristics of financial statements		4
d. Four users of financial statements	2	
Information needs of the users	<u>2</u>	<u>4</u>
Total		<u>20</u>

Examiner's Report

The question tests candidates' knowledge of accounting concepts and explanatory notes on some selected concepts under IFRS.

Majority of the candidates attempted the question and their performance was fair.

Candidates' commonest pitfalls include poor understanding of definitions and significance of basic accounting concepts.

Candidates are advised to learn and understand the Conceptual Framework for Financial Reporting.

SOLUTION 3

a. (i) Trial balance

This is a list of balances extracted from the ledger accounts to test the arithmetic accuracy of the various ledger accounts. That is, it helps to check if the additions and subtraction made in ledger are correct or not.

Errors not revealed by trial balance

- Error of complete omission
- Error of principle
- Error of commission
- Error of original entry
- Compensating error
- Complete reversal of entry error

(ii) Suspense account

A suspense account is a temporary account raised to record transactions whose final destination cannot be determined as at the time of recording.

The transactions are held or suspended, in the suspense account, pending when the errors are discovered and corrected by means of journal entries and thereafter the suspense account is closed.

b.

POP-TWO VENTURES

Journal entries

S/N	Particulars	Debit ₦'000	Credit ₦'000
(i)	Suspense account	360	
	Cash account		360
	Suspense account	360	
	Cash account		360

Being the reversal and correct treatment of cash payment debited to cash account

(ii)	Sales account	700	
	Suspense account		700
	Suspense account	700	
	Purchases account		700

Being the reversal and correct treatment of the overcast of both sale and purchases by ₦700,000.

(iii)	Returns inwards account	380	
	Account receivables		380

Being returns inwards omitted, now posted

(iv)	Bank charges account	370	
	Suspense account		370

Being bank charges omitted in the ledger, now posted

(v)	Trade receivables account	180	
	Suspense account		180

Being the understatement of receivables opening balance error, now corrected

(vi)	Sales account	5,000	
	Property, plant, equipment account		5,000

Being the reversal and correct treatment of sales of PPE credited to sales account

(iii)

Suspense account

	₦'000		₦'000
Cash account	360	Balance b/f	170
Cash account	360	Sales account	700
Purchases account	700	Bank charges	370
		Trade receivables	<u>180</u>
	<u>1,420</u>		<u>1,420</u>

	Marking guide	Marks	Marks
(a)i	Definition of a trial balance	1	
	Errors that do not affect the balancing of a trial balance	2	
ii.	Explanation of suspense account	<u>2</u>	5
(b)i.	Journal entries with narration	11	
ii.	Preparation of suspense account	4	<u>15</u>
	Total		<u><u>20</u></u>

Examiner's Report

The question tests candidates' knowledge on trial balance, correction of errors, preparation of journals and suspense account.

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

Candidates' commonest pitfalls was their inability to apply the double entry principle to post entries to the journal, which caused wrong postings to suspense account.

Candidates are advised to pay more attention to the application of the double entry principle.

SOLUTION 4

Surulere Social Club

(a) **Bar statement of profit or loss
for the year ended October 31, 2019**

	₦'000	₦'000
Sales		405,000
Less: Cost of sales		
Opening inventory	30,000	
Purchases	<u>277,500</u>	
	307,500	
Closing inventory	<u>(37,500)</u>	
		<u>(270,000)</u>
Gross profit		<u>135,000</u>

(b) **Income and expenditure for the year
ended October 31, 2019**

	₦'000	₦'000
Income		
Subscriptions (W 2)		249,750
Donations		22,500
Income from christmas party		12,750
Profit on bar trading		<u>135,000</u>
		420,000
Expenditure		
Rates (W3)	14,250	
General expenses	393,000	
Depreciation (W4) - Premises	30,000	
(W5) – Furniture and fittings	15,000	
Christmas party expenses	<u>2,250</u>	
		<u>(454,500)</u>
Net deficit		<u>(34,500)</u>

(c) **Statement of financial position
as at October 31, 2019**

	Cost	Accumulated depreciation Value	Carrying
	N'000	N'000	N'000
Non-current assets			
Property, Plant and equipment:			
- Club premises	750,000	480,000	270,000
- Furniture and fittings	<u>150,000</u>	<u>120,000</u>	<u>30,000</u>
	<u>900,000</u>	<u>600,000</u>	300,000
Current assets			
Bar Inventories		37,500	
Subscription in arrear		9,000	
Cash and bank		<u>33,000</u>	
			<u>79,500</u>
Total assets			<u>379,500</u>
Accumulated fund and liabilities			
Accumulated fund			405,000
Deficit for the year			<u>(34,500)</u>
			<u>370,500</u>
Current liabilities			
Accrued rates		7,500	
Subscription prepaid		<u>1,500</u>	
			<u>9,000</u>
Total accumulated fund and liabilities			<u>379,500</u>

Working notes

1.	Subscription account			
	N'000			N'000
Balance b/f	13,500	Sub. in advance b/f		750
Income and expenditure	249,750	Receipt & payment		255,000
Balance c/d	<u>1,500</u>	Balance c/f		<u>9,000</u>
	<u>264,750</u>			<u>264,750</u>
Balance b/d	9,000	Balance b/d		1,500

2. Rates

	₦'000
Balance b/f	6,750
Receipt and payment (amount paid)	(13,500)
Amount charged to income and expenditure (Balancing figure)	<u>14,250</u>
Balance c/f	<u>7,500</u>

W3

**Statement of affairs
as at November 1, 2018**

	₦'000	₦'000
Assets:		
Club premises (750-450)		300,000
Furniture and fittings		45,000
Bar inventory	30,000	
Subscription in arrears	13,500	
Bank balance	<u>24,000</u>	
		<u>67,500</u>
Total assets		<u>412,500</u>
Accumulated fund and liabilities		
Accumulated fund (missing figure)		405,000
Subscription paid in advance	750	
Rates owing	<u>6,750</u>	
		<u>7,500</u>
Total accumulated fund and liabilities		<u>412,500</u>

	Marks	Marks
Marking guide		
(a) Bar statement of profit or loss		3
(b) Income and expenditure account	5	
Subscription account	2	
Rates expenses account	<u>1</u>	<u>8</u>
(c) Statements of financial position 31/10/2019	5	
Determination of accumulated fund at 1/11/2018	<u>4</u>	<u>9</u>
Total		<u>20</u>

Examiner's Report

The question tests the preparation of final accounts of a not-for-profit organisation.

The question requires candidates to prepare Bar's statement of profit or loss, income and expenditure account and statement of financial position.

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

Candidates' commonest pitfalls were their inability to:

- Distinguish between the bar account items and the income and expenditure account items;
- Adjust for subscriptions; and
- Calculate the opening accumulated funds.

Candidates are advised to devote quality time to basic accounting principles and practice past examination question papers.

SOLUTION 5

(a) **Classification of expenditure as capital and revenue expenditure recognition of the items in the financial statement**

S/N	Capital expenditure	Revenue expenditure
i.		A number of new cars that had recently been cleared by a motor car dealing company
ii.	Two new motor boats acquired by a ferry service agency	
iii.		Vacant houses owned by an estate developing company in respect of which negotiations are ongoing for assistance for their sale to prospective landlords.
iv.	New buildings acquired for the purpose of holding the items of plant and machinery belonging to a detergent manufacturing company	

- v. Cost of acquiring a leasehold property for office use
- vi. Granites purchased by an engineering contractor for use at a construction site.
- vii. Cost of rehabilitating a dilapidated housing unit owned by an estate developer
- viii. Pre-production testing cost

Recognition of the items in the financial statements

S/N	Recognition in the statement of profit or loss	Recognition in the statement of financial position
i.	Total cost of acquisition will be treated as purchase cost and used in determining cost of sales	Any unsold portion will be recognised as inventory and shown as part of current assets
ii.	The portion consumed will be treated as part of the operating expenses as depreciation	It is recognised as part of the PPE at its carrying amount or cost less accumulated depreciation.
iii.	It will be treated as part of inventories and used in the determination of cost of sales	It is treated as part of inventories and shown as part of current assets
iv.	The portion consumed will be treated as part of operating expenses as depreciation	It is recognised as part of the PPE at its carrying amount or cost less accumulated depreciation.
v.	The portion consumed will be treated as part of operating expenses as amortisation	It is recognised as part of the PPE at its carrying amount or cost less accumulated amortisation.
vi.	It will be treated as part of inventories and used in the determination of cost of sales	The portion unused of the granites on the contract at the end of the period will be treated as part of unused materials and shown on the statement of financial position as part current assets
vii	It will be treated as part of inventories and used in the determination of cost of sales	It is treated as part of inventories and shown as part of current assets
viii	The portion consumed will be treated as part of operating expenses as amortisation	It is recognised as part of the PPE at its carrying amount or cost less accumulated amortisation.

(c) **Information to be provided in PPE register**

- Name of and class of the PPE
- Cost or re-valued amount of the asset
- Acquisition date
- Economic life
- Residual or scrap value
- Depreciation rate
- Method of depreciation or depreciation policy
- Method of measurement ie, whether at cost or revaluation
- Maintenance cycle
- Depreciable amount
- Details of major repairs incurred on the PPE
- Subsequent capital expenditure on the asset
- Sales proceeds in the event of disposal of the asset
- Disposal date
- The asset reference number

	Marking guide	Marks	Marks
a.	Correct classification as revenue and capital expenditure		8
b.	Recognition in statement of profit or Loss	4	
	Recognition in statement of financial position	<u>4</u>	8
c.	Information to be provided in PPE register		<u>4</u>
	Total		<u>20</u>

Examiner's Report

The question tests candidates' knowledge of the classification of revenue and capital expenditure and their recognition in financial statements, and to state information to be provided in property, plant and equipment's register.

A few candidates attempted the question and their performance was poor.

Candidates' pitfalls include their inability to distinguish between capital and revenue items and poor understanding of their recognition in the financial statements.

Candidates are advised to pay more attention to this section of the syllabus for better performance in future examinations.

SOLUTION 6

(a) General rule under articles of partnership

- i. Profits or loss is to be shared equally.
- ii. Partners are to contribute capital equally.
- iii. Partners shall receive 5% interest on loans and advances to the firm.
- iv. Partners are not entitled to remuneration for acting in the firm.
- v. The firm must indemnify every partner for payments made and personal liabilities incurred by him in the proper conduct of the business.
- vi. Partner cannot introduce another partner without the consent of the other partners.
- vii. Interest should not be paid on capital.
- viii. Interest should not be charged on drawings.

(b) Any of the following methods is acceptable

Net basis

Revaluation account

	₦'000		₦'000
Decrease in value:		Increase in value:	
Inventory (190-175)	15	PPE (1,250-1100)	150
Emeka's capital account	<u>135</u>		<u>150</u>
	<u>150</u>		<u>150</u>

OR

Gross basis

Revaluation account

	₦'000		₦'000
Carrying amount of assets revalued:		EmBo Ventures:	
PPE	1,100	PPE	1,250
Inventory	190	Inventory	<u>175</u>
Emeka's capital account	<u>135</u>		<u>1,425</u>
	<u>1,425</u>		

(c) **Partners' capital accounts**

	Emeka	Bode		Emeka	Bode
	₦'000	₦'000		₦'000	₦'000
Drawing	60	-	Bal. b/f	1,000	-
			Retained profits	130	-
Balance c/f	1,250	<u>1,250</u>	Rev. surplus	135	-
			Bank account	45	<u>1,250</u>
	<u>1,310</u>	<u>1,250</u>	Balance b/f	<u>1,250</u>	<u>1,250</u>

(d) **Statement of financial position**

	₦'000	₦'000
Non-current assets		
PPE		1,250
Current assets		
Inventory	175	
Trade receivables	40	
Bank (45+45+1,250)	<u>1,340</u>	
Total assets		<u>1,555</u> <u>2,805</u>
Partners' equity and liabilities		
Capital:		
Emeka		1,250
Bode		<u>1,250</u>
		2,500
Current liabilities		
Accounts payables	290	
Bank overdraft	<u>15</u>	<u>305</u>
		2,805

W1 **Alternative solution to bank account balance**

	₦'000		₦'000
		Balance c/f	1,340
Balance b/f	45		
Partner' capital account:			
- Emeka	45		
- Bode	<u>1250</u>		
	<u>1.340</u>		<u>1.340</u>

	Marking guide	Marks	Marks
a	General rules under articles of partnership		5
b(i)	Revaluation account	5	
ii)	Partners' capital accounts	5	
ii)	Statement of financial position	<u>5</u>	<u>15</u>
	Total		<u><u>20</u></u>

Examiner's Report

The question tests candidates' knowledge on the basic rules of managing partnership, and the preparation of accounts pertaining to admission of a new partner.

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

Candidates' commonest pitfalls were their:

- Lack of the knowledge of general rules under partnership deed; and
- Inability to prepare revaluation account.

Candidates are advised to practice more related questions in this area and use ICAN study text for better performance in future examinations.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

FOUNDATION LEVEL EXAMINATION – NOVEMBER 2020

MANAGEMENT INFORMATION

Time Allowed: 3¹/₄ 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. A company uses 40,000 units of an item per annum. It is recorded that the holding costs are ₦4 per annum and ordering cost is ₦50 per order. The Economic order Quantity is
 - A. 2,500
 - B. 1,500
 - C. 1,000
 - D. 800
 - E. 500

2. Given breakeven point of 6,000 units, unit selling price of ₦90 and unit variable cost of ₦40, the total fixed cost is
 - A. ₦240,000
 - B. ₦300,000
 - C. ₦360,000
 - D. ₦540,000
 - E. ₦600,000

3. Which of the following is **NOT** a characteristic of Just-in-Time Purchasing?
 - A. Goods delivered immediately before demand or use
 - B. Increase in number of deliveries, each containing a smaller number of units
 - C. Goods/material delivery in “factory ready” containers thereby reducing materials handling
 - D. Short-term agreement with many suppliers specifying prices, delivery and acceptable quality levels
 - E. Minimal checking by purchaser of quality and quantity of deliveries

4. A company calculates the prices of jobs by adding overheads to prime cost and adding 30% to total costs as profit margin. A job was sold for ₦1,690,000 and incurred overheads of ₦694,000. The prime cost of the job is
- ₦489,000
 - ₦606,000
 - ₦996,000
 - ₦1,300,000
 - ₦1,400,000
5. When marginal costing is used in process costing, which of the following is **NOT** correct?
- Process accounts will contain variable costs only
 - Equivalent units are valued at variable cost
 - Transfer from one process to another will be at total costs of the process
 - Losses, abnormal and normal will be valued at variable cost only
 - All fixed costs will be written off, each period, to costing profit or loss
6. The data below are from the records of a company:
- | | |
|-------------------------|-------|
| Budgeted labour hours | 4,500 |
| Actual labour hours | 4,200 |
| Standard hours produced | 4,400 |
- The capacity ratio is
- 107%
 - 102%
 - 98%
 - 95%
 - 93%
7. A chemical process has a normal wastage of 10% of input in a period. A quantity of 2,500kg of material was introduced and there was an abnormal loss of 75kgs.
- What quantity of goods production was achieved?
- 2,175 kgs
 - 2,250 kgs
 - 2,325 kgs
 - 2,425 kgs
 - 2,625 kgs
8. IJKL is a construction company with a contract which is 48% complete and the policy is to recognise three quarter of notional profit. Value of work certified is ₦4,500,000, cash received from progress payment is ₦3,500,000 and the cost of work certified is ₦4,140,000. The contract sum of the project is ₦10,000,000.

What will be the profit taken?

- A. ₦583,333
 - B. ₦385,000
 - C. ₦373,333
 - D. ₦210,000
 - E. ₦186,667
9. In which of the following will the profit of the marginal costing equal absorption costing? where there
- A. is only closing stock
 - B. is only opening stock
 - C. is both opening and closing stock
 - D. is no change in stock levels
 - E. are lower fixed costs
10. Group incentive schemes are common and frequently successful. Which of the following is **NOT** an advantage of a group incentive scheme?
- A. May engender closer cooperation in the group and a team spirit
 - B. Increase total production output with the same number of employee
 - C. Support workers not directly associated with production can be included
 - D. May encourage more flexible working arrangement within the group
 - E. Less hardworking members of a group receive the same bonus
11. Which of the following attributes support overhead to products using the activities which give rise to the cost?
- A. Activity based costing
 - B. Absorption costing
 - C. Marginal costing
 - D. Standard costing
 - E. Activity based budgeting
12. The objective of periodic stocktaking is to find out the physical quantities of all types of stocks at a given date. Which of the following is **NOT** a factor to be considered during stocktaking?
- A. Adequate numbers of staff with clear and precise instructions
 - B. Period of stock take should not interfere with production
 - C. Adequate technical assistance should be available to identify materials
 - D. Great care should be taken to ensure that invalid stock items are not included
 - E. Quantities of each type of stocks should not be checked against stock records

13. Firewall in computer system is used for
- A. Security
 - B. Transmission
 - C. Encryption
 - D. Fire drills
 - E. Reporting
14. Which of the following is **NOT** an operating system?
- A. DOS
 - B. MAC
 - C. C
 - D. Linux
 - E. Windows
15. 1024 bit is equal to
- A. 1 Byte
 - B. 128 Byte
 - C. 32 Byte
 - D. 64 Byte
 - E. 256 Byte
16. Which of the following is the way of measuring printer quality?
- A. Alphabet per strike
 - B. Words per inch
 - C. Strike per inch
 - D. Dots per inch
 - E. Alphabet per inch
17. What is the full form of HTML?
- A. Hyper Text Markup Language
 - B. Higher Transfer Markup Language
 - C. Hyper Transfer Markup Language
 - D. Higher Text Markup Language
 - E. Hyper Text Mark Language
18. The practice of keeping an old system operational after a new system has been launched is known as
- A. Direct Changeover
 - B. Parallel Changeover
 - C. Phased Changeover
 - D. Pilot Changeover
 - E. Concurrent Changeover

19. Which of the following devices uses light beams to digitally convert images, codes, text or objects as two-dimensional (2D) digital files for transfer to the computer for processing?
- A. Magnetic Character Reader
 - B. Optical Character Reader
 - C. Optical Mark Reader
 - D. Digital Camera
 - E. Magnetic Ink Character Reader
20. The following are the different types of wireless communication technologies, **EXCEPT**
- A. Bluetooth
 - B. WiFi
 - C. Cellular
 - D. Satellite
 - E. Coaxial

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

QUESTION 1

WXYZ is preparing for the first half of the next year. The following information was available:

- a. Sales - 15% of monthly sales are in cash while the balance is sold on credit. Collections from receivables are 50% in the first month after sales, 30% in the second month and the balance in the third month after sales
- b. Purchases are usually 55% of sales and paid in the month of purchase
- c. Insurance company is expected to pay the sum of ₦525,000 in the month of February based on the company's accidented vehicles
- d. Salary deductions are paid on preceding month basis
- e. Company income tax of ₦475,550 will be paid in the month of March
- f. Cash and Cash equivalent balance as at December is ₦502,760.00
- g. Bank Charges is 1% of total payment for the month
- h. Additional Information is as follows:

	October N	November N	December N	January N	February N	March N
Sales	750,000	600,000	850,000	520,000	670,000	800,000
Net Salaries	230,000	200,000	250,000	210,000	240,000	270,000
Other Expenses	200,700	187,500	197,500	177,200	187,500	192,700
Salaries Deductions	29,400	28,400	39,400	28,700	32,750	27,650

Required:

Prepare the cash budget for the first three months of the year. **(Total 20 Marks)**

QUESTION 2

Recoverable Limited is into construction and the following information relates to one of its contracts, code named "Recoverable 777" as at end of the first year. It is the company's policy to take the difference between the value of work certified and cost of work certified as profit for the year.

	N
Materials purchased directly to site	3,450,000
Materials purchased directly to site but not yet paid	1,300,000
Materials transferred to site	5,650,000
Materials transferred out of site	720,000
Materials purchased to main store	6,000,000
Plants purchased for contract	15,000,000
Plant transferred to site	5,000,000
Payment of sub-contractor	4,500,000
Insurance (effective 2 months after commencement of contract)	600,000
Salary	7,500,000
Salary due but not paid	2,000,000
Other site expenses	1,905,000
Head office charges	500,000
Value of work certified	36,500,000
Contract value	50,000,000
Payment received	33,800,000
Value of material on site as at end of the year	850,000
Value of plant 1 c/d	12,000,000
Value of plant 2 c/d	4,000,000

Required:

Record the contract account for "Recoverable 777".

(Total 20 Marks)

QUESTION 3

Standard Limited produces three products, “Sta”, “And” and “Ard” which pass through the same process and can all be sold as good products. Total joint costs incurred amount to ₦3,710,000. Output and selling prices of the products are as follow:

Sta 6,000units @ ₦ 250
And 3,500units @ ₦ 400
Ard 4,500units @ ₦ 350

Required:

Apportion the joint costs and calculate the profit percentage using:

- a. The physical unit basis (10 Marks)
 - b. The sales value basis (10 Marks)
- (Total 20 Marks)**

QUESTION 4

- a. Standard costing systems are widely used because they provide cost information for many different purposes.

Required:

- i. Identify **FIVE** of such purposes. (5 Marks)
- ii. State **THREE** types of standard. (3 Marks)

- b. ABC maintains the following standard cost card for product AB.

Budgeted production per period	12,000 units
	₦
Direct material A 3kg at ₦8 per Kg	24
Direct material B 5kg at ₦6 per Kg	30
Direct labour (2hrs at ₦24 per hour)	48
Variable overhead (2hrs at ₦9 per direct labour hour)	<u>18</u>
	<u>120</u>
Actual result for the period was as follows:	
Actual production	11,800 units
	₦
Direct material A (35,800 at ₦7.5 per Kg)	268,500
Direct material B (62,000 at ₦7 per Kg)	434,000
Direct labour (24,500 hours at ₦25 per hr)	612,500
Variable overhead (24,500 hours at ₦9 per direct labour hour)	<u>220,500</u>
	<u>1,535,500</u>

Required:

- i. Calculate the following variances
 Material price
 Material usage
 Total material
 Labour rate (9 Marks)
- ii. List **TWO** possible causes of each of the variances in (i) above (3 Marks)
(Total 20 Marks)

QUESTION 5

- a. Define Decision Support System (DSS) (2 Marks)
- b. List **FIVE** DSS packages that can be used to explore alternatives (5 Marks)
- c. Enumerate **THREE** advantages and **TWO** disadvantages of DSS (5 Marks)
- d. State **FOUR** benefits and **FOUR** lapses of information technology to individual, organisation and the government (8 Marks)
(Total 20 Marks)

QUESTION 6

- a. When a new software is implemented, various costs are incurred. Identify **FIVE** of such costs (5 Marks)
- b. Identify **FOUR** types of firewall (4 Marks)
- c. State **FIVE** common network issues an organisation may encounter (5 Marks)
- d. If email is used inappropriately, it can hinder productivity. Identify **SIX** ways e-mail in-box can be better managed. (6 Marks)
(Total 20 Marks)

SOLUTIONS

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

Workings

$$\begin{aligned} 1. \quad \text{EOQ} &= \sqrt{\frac{2CoD}{Cc}} \\ &= \sqrt{\frac{2 \times 50 \times 40,000}{4}} \\ &= \sqrt{1,000,000} \\ &= \mathbf{1,000} \end{aligned}$$

2.

$$\begin{aligned}\text{Breakeven point (units)} &= \frac{\text{fixed-cost}}{\text{contribution/unit}} \\ \text{Contribution} &= \text{N}90 - 40 = \text{N}50/\text{unit} \\ \text{B/E} &= \frac{x}{\text{N}50} = 6000 \text{ units} \\ X &= 6000 \times \text{N}50 \\ &= \text{N}300,000\end{aligned}$$

$$\begin{aligned}4. \quad \text{N}694,000 + Y + (694,000 + Y) 0.3 &= \text{N}1,690,000 \\ \text{N}694,000 + 208,200 + Y + 0.3Y &= \text{N}1,690,000 \\ \text{N}902,200 + 1.3Y &= \text{N}1,690,000.00 \\ 1.3Y &= \text{N}1,690,000.00 - 902,200 \\ 1.3Y &= \text{N}787,800 \\ Y &= \frac{787,800}{1.3} = \text{N}606,000\end{aligned}$$

$$\begin{aligned}6. \quad &\frac{\text{Actual Labourhours}}{\text{Budgeted Labourhours}} \times 100 \\ &\frac{4200 \times 100}{4500} \\ &= 93\%\end{aligned}$$

$$\begin{aligned}7. \quad \text{Input} &= \frac{\text{kg}}{2500} \\ \text{Normal loss} &= (250) \\ &2250 \\ \text{Abnormal loss} &= \frac{(75)}{2175} \text{ kg}\end{aligned}$$

$$\begin{aligned}8. \quad \text{Notional profit} &= \text{N}4,500,000 - \text{N}4,140,000 \\ &= \text{N}360,000 \\ \text{Profit taken} &= \frac{3/4 \times 360,000 \times 3,500,000}{4,500,000} \\ &= \text{N}210,000\end{aligned}$$

Examiner's Report

Multiple Choice Questions (MCQ) test the candidates' general knowledge on the principles and application of rules involved in Management Information as they relate to Accounting profession.

The Section is made compulsory and every candidate attempted it. The general performance of the candidate is good as the average score in the Section is about 9 marks out of 20 marks allocated to it.

SOLUTION 1

WXYZ CASHFLOW FOR FIRST THREE MONTHS

	January	February	March
	₦	₦	₦
Sale Collection	719,750	640,250	681,850
Insurance claim	-	525,000	-
Total Inflow (A)	719,750	1,165,250	681,850
Purchases	286,000	368,500	440,000
Salaries	210,000	240,000	270,000
Other Expenses	177,200	187,500	192,700
Salaries Deductions	39,400	28,700	32,750
Company Tax			475,550
Bank Charges	7,126	8,247	14,110
Total outflow (B)	719,726	832,947	1,425,110
Opening balance	502,760	502,784	835,087
A-B	24	332,303	(743,260)
Closing balance	502,784	835,087	91,827

Workings

Sales collections

	Oct	Nov	Dec	Jan	Feb	Mar
15%	112,500	90,000	127,500	78,000	100,500	120,000
50%	-	318,750	255,000	361,250	221,000	284,750
30%	-		191,250	153,000	216,750	132,600
20%				<u>127,500</u>	<u>102,000</u>	<u>144,500</u>
				<u>719,750</u>	<u>640,250</u>	<u>681,850</u>

Purchases

Sales	520,000	670,000	800,000
55%	286,000	368,500	440,000

Marking Guide

1	Sales collection	3 Marks
	Insurance claim	½ Mark
	Total inflows (recovery only)	½ Mark
	Purchases	3 Marks
	Salaries	1½ Marks
	Salaries deductions	1½ Marks
	Other expenses	1½ Marks
	Company tax	½ Mark
	Bank charges	3 Marks

Total one flows	1½ Marks
Inflows minus outflows	1½ Marks
Opening balance	½ Mark
Closing balances	<u>1½ Marks</u>
Total	<u>20 Marks</u>

Examiner's Report

The question tests the knowledge and ability to prepare monthly cash budget. About 90% of the candidates attempted the question.

General performance was average as about 50% of the candidates scored 50% and above of the marks allocated to it.

Many candidates lack knowledge of computing sales, purchase and bank charges using the percentage figure given in the question.

Candidates should understand how to arrive at figures using percentages in the future.

SOLUTION 2

RECOVERABLE LIMITED

RECOVERABLE 777 CONTRACTS ACCOUNT

	₦		₦
Materials Purchased	3,450,000	Material Transferred out	720,000
Credit purchases	1,300,000	Material c/d	850,000
Material transfer	5,650,000	Plant 1 c/d	12,000,000
Plant purchase 1	15,000,000	Plant 2 c/d	4,000,000
Plant transfer 2	5,000,000	Insurance c/d	100,000
Sub-Contractor	4,500,000	Cost of work certified	29,735,000
Insurance	600,000		
Salary	7,500,000		
Accrued salary	2,000,000		
Other Expenses	1,905,000		
H/o charges	500,000		
	<u>47,405,000</u>		<u>47,405,000</u>
Cost of work certified	29,735,000	Value of work certified	<u>36,500,000</u>
Profit	6,765,000		
	<u>36,500,000</u>		<u>36,500,000</u>
Material b/d	850,000	Salary b/d	2,000,000
Plant 1 b/d	12,000,000	Material b/d	1,300,000
Plant 2 b/d	4,000,000		
Insurance b/d	100,000		

Marking Guide

One mark for each correct posting in the first part of the contract account (17 items)	17 Marks
One mark for profit and value of work certified in the second part of the account	2 Marks
Items carried down	<u>1 Mark</u>
Total	<u>20 Marks</u>

Examiner's Report

The question tests candidates' knowledge of contract account.

About 60% of the candidates attempted the question and demonstrated very poor understanding of how to carry out the task. About 30% of the candidates scored 50% and above of the marks allocated to the question.

Their greatest pitfall seems to be lack of in-depth knowledge of the topic. It is suggested that the candidates should be advised to read wider as the question is not confusing at all in the manner it is stated.

SOLUTION 3

STANDARD LIMITED

Physical unit basis

a (i) Cost statement

Product	Output	Basis	Cost ₦	
Sta	6,000	(6000/14000 x 3710000)	1,590,000	
Ard	3,500	(3,500/14000 x 3710000)	927,500	
And	4,500	(4,500/14000 x 3710000)	1,192,500	
	14,000		3,710,000	a (ii) Profit

statement

	Sta ₦	Ard ₦	And ₦	Total ₦
Sales	1,500,000	1,400,000	1,575,000	4,475,000
Less: Cost	1,590,000	927,500	1,192,500	3,710,000
Profit/(Loss)	(90,000)	472,500	382,500	765,000
Profit Percentage	(6%)	34%	24%	17%

OR

a (ii) Computation of profit percentage

Product	Sale values	Process cost	Profit/loss	Percentage
₦	₦'000	₦	₦'000	%
Sta	1,500	1,590	(90)	(12)
And	1,400	927.50	472.50	62
Ard	<u>1,575</u>	1,192.50	<u>382.00</u>	<u>50</u>
	<u>4,475</u>		<u>765</u>	<u>100</u>

Sales Value

b(i) Cost statement

Product	Sales Value	Basis	Cost
	₦		₦
Sta	1,500,000	$(1,500,000/4,475,000 \times 3,710,000)$	1,243,575
Ard	1,400,000	$(1,400,000/4,475,000 \times 3,710,000)$	1,160,671
And	<u>1,575,000</u>	$(1,575,000/4,475,000 \times 3,710,000)$	<u>1,305,754</u>
	<u>4,475,000</u>		<u>3,710,000</u>

b (ii) Profit statement

	Sta	Ard	And	Total
	₦	₦	₦	₦
Sales	1,500,000	1,400,000	1,575,000	4,475,000
Less: Cost	1,243,575	1,160,671	1,305,754	3,710,000
Profit/(Loss)	256,425	239,329	269,246	765,000
Profit percentage	17%	17%	17%	17%

OR

Computation of profit percentage

Product	Sales value	Process cost	Profit	Percentage
	₦'000	₦	₦	%
Sta	1,500	1,243,575	256,425	33.52
And	1,400	1,160,670	239,330	31.28
Ard	<u>1,575</u>	1,305,755	<u>269,245</u>	<u>35.20</u>
	<u>4,475</u>		<u>765,000</u>	<u>100%</u>

Marking Guide

3ai.	Output total	½ Mark
	Basis 3 sticks @ ½ mark each	1½ Marks
	Cost 4 ticks @ ½ mark each	2 Marks
3aii.	Sales 4 ticks @ ½ mark each	2 Marks
	(profit/loss) 4 ticks @ ½ mark each	2 Marks
	% 4 ticks @ ½ mark each	2 Marks
3bi	Sales total	½ Mark
	Basis 3 ticks @ ½ mark each	1½ Marks
	Cost 4 ticks @ ½ mark each	2 Marks
3bii.	Sales 4 ticks @ ½ mark each	2 Marks
	(profit/loss) 4 ticks @ ½ mark each	2 Marks
	% 4 ticks @ ½ mark each	2 Marks
	Total	<u>20 Marks</u>

Examiner's Report

The question tests candidates' knowledge of apportionment of joint cost using physical basis and sales value basis.

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

Common pitfall was candidates' lack of knowledge of apportionment using physical and sales value unit. Those who attempted the question demonstrated good understanding of the question although, few of them were confused on how to compute the profit percentages.

Candidates should read wider on the topic in the future.

SOLUTION 4

- ai)
- i. Providing a prediction of future costs that can be used for decision making purposes.
 - ii. Providing a challenging, target which individuals are motivate to a achieve.
 - iii. Assisting in setting budgets and evaluating managerial performance.
 - iv. Acting as a control device by highlighting those activities which do not confirm to plan.

- v Simplifying the task of tracing costs to products for profit measurement and making inventory valuation purposes.
 - vi The process of setting, revising and monitoring standards encourages reappraisals of methods, materials and techniques thereby leading to cost reductions.
 - vii Standard costing is an example of 'management by exception' By studying variance, management's attention is directed towards those items which are not proceeding according to plan.
- aii)
- i. Basic standards
 - ii. Ideal standards
 - iii. Attainable standards
 - iv. Current standards

bi) Material price variance = (SP – AP) QP

$$A(8 - 7.5) 35,800 = \text{N}17,900 \text{ Favourable}$$

$$B - (6 - 7) 62,000 = (\text{N}62,000) \text{ Adverse}$$

Material usage variance = (SQ – AQ) SP

$$A - (35,400 - 35,800) 8 = (\text{N}3,200) \text{ Adverse}$$

$$B - (59,000 - 62,000) 6 = (\text{N}18,000) \text{ Adverse}$$

Total material variance

(SC – AC)

$$((3 \times 11,800 \times 8) + (5 \times 11,800 \times 6)) - (268,500 + 434,000)$$

$$= (\text{N}65,300) \text{ Adverse}$$

OR

Total material Variance

	<u>Material A</u>	<u>Material B</u>
	₦	₦
Actual material total cost	268,500	434,000
Less; standard material total cost	<u>283,200</u>	<u>354,000</u>
	<u>14,700 F</u>	<u>80,000 A</u>

Direct labour rate variance

$$(SR - AR) AH = (24 - 25) 24,500$$
$$= (\text{₦}24,500) \text{ Adverse}$$

bii). Material price variance

- Changes in market conditions that cause a general price increase for the material.
- Failure of the purchasing department to seek most advantageous source of supply
- Purchase of inferior quality materials bought at lower price
- Shortage of material necessitating buying at higher prices.

Material usage variance

- Careless handling of materials
- Purchase of inferior quality materials
- Pilferage
- Changes in quality control requirements
- Changes in method of production

Direct labour rate variance

- Negotiated increase in rates not yet reflected in standard
- Unexpected overtime
- Use of a wrong standard rate for operations performed by workers paid with different rates
- Assignment of skilled labour to work normally performed by unskilled labour.

Marking Guide

i.	One mark each for any five correct answers	5 Marks
ii.	One mark each for three correct answers	3 Marks
b i.	½ mark for 18 ticks	9 Marks
ii.	½ mark for six correct answers	<u>3 Marks</u>
	Total	<u>20 Marks</u>

Examiner's Report

The question tests candidates' knowledge of standard costing and standard cost variance.

It was attempted by about 50% of the candidates attempted the question but performance was generally poor as only about 15% of those who attempted the scored 50% and above of the marks allotted.

One major pitfall observed was the inability of some candidates to state types of cost standards while the other was candidates' lack of knowledge of standard cost variance computations.

Candidates should in future acquire more knowledge of Standard Cost, in particular the variance computation.

SOLUTION 5

- a. Decision Support System (DSS) is an interactive, flexible and adaptable computer-based information system developed for supporting the solution of non-structured management problem for improved decision making

OR

DSS is a computer-based information system that utilizes data, provides easy to use interface to assist managers in the retrieval of pertinent information form a body of database to facilitate decision making

- b. Decision Support System packages include:
- i. Modeling and simulation packages
 - ii. Spreadsheet packages e.g. Lotus 1-2-3, Ms-Excel
 - iii. Statistical and analytical packages e.g. SPSS
 - iv. Forecasting packages
 - v. Non-linear and linear programming packages
 - vi. Regression analysis packages
 - vii. Financial modeling packages
 - viii. Sensitivity and risk analysis packages
 - ix. Accounting packaging's eg. Sage
- c. Advantages of DSS include:
- i. It provides information and analysis for making decisions
 - ii. It makes for better use of organization's data resources
 - iii. It is used to examine multiple alternative solutions
 - iv. It improves control and communication
 - v. It provides better understanding of the business

Disadvantages of DSS include:

- i. The computer skills required to obtain results may not be adequate
- ii. It requires preparation and analysis time to get desired information
- iii. It is difficult to quantify the benefits of DSS to justify cost
- iv. It is difficult to maintain data integrity
- v. It is details oriented as it involves detailed analysis of situation under investigation for decision making

d. **Benefits of Information Technology include:**

- i. Faster communication speed for sending messages via e-mail to everyone efficiently
- ii. IT lowers communication cost by use of internet, telephone, mailing, etc.
- iii. With the use of internet as reliable mode of communication, information is accessed and retrieved from anywhere and at any time.
- iv. Using information technology, people can share and exchange information through discussion groups, mailing lists and forums on the internet.
- v. Information technology created paperless environment via sharing and retrieving of information through digital medium like e-mail, online chat and instant messaging.
- vi. It is a borderless source for services and information retrieval, interactivity, accessibility and versatility.
- vii. IT facilitates strategic thinking and knowledge transfer
- viii. IT collects, distributes, analyses and interprets data for better decision making
- ix. It facilitates widespread use of internet on laptops, smartphone and other devices to access various entertainment platforms.
- x. IT facilitates importing knowledge (education) using modern gadgets to access the internet for educational and research materials.
- xi. IT facilitates accurate and speedy processing of information.
- xii. IT creates innovation in order to meet the ever-changing situations.

Lapses

- i. Fraudsters now explore IT media like e-mails, social media, etc to defraud their victim
- ii. There is identity theft where criminals impersonate individuals for financial gain. e.g. ATM withdrawal alert after ATM card and password have been stolen
- iii. There is hacking of codes and passwords to gain unauthorized entry into computer terrorist or network.
- iv. IT permits the society to be easily accessible to unwholesome visual materials like display of terrorist activities
- v. There is high cost of installation and maintenance.
- vi. There is loss of information confidentiality

- vii. IT involves too much down time thereby rendering the system unavailable.
- viii. Frequent IT upgrades may lead to failure of system.
- ix. There are capacity limitations such as data storage of bandwidth.
- x. There is insufficient privacy control that represents compliance, liability and reputation risks.
- xi. At peak volumes, service performance may be slow.
- xii. Lack of logs and information to aid audits and investigations (audit trail)
- xiii. Lack of backup data and restore procedures.

Marking Guide

- | | | |
|----|--|------------------------|
| a. | Two marks for correct definition | 2 Marks |
| b. | One mark each for 5 correct answers | 5 Marks |
| c. | One mark each for 3 advantages and 2 disadvantages | 5 Marks |
| d. | One mark each for four benefits and four lapses | <u>8 Marks</u> |
| | Total | <u>20 Marks</u> |

Examiner's Report

The question tests candidates' knowledge of Decision Support System (DSS) and Information Technology.

About 80% of the candidates attempted the question but general performance was poor as the average marks obtained was 50%.

Several candidates lack knowledge of DSS, its advantages and disadvantages.

It is suggested that, to improve performance in the future, candidates should study more on D.

SOLUTION 6

- a) Costs associated with implementing new software
 - 1. Interface build and modifications
 - 2. Vendor implementation costs
 - 3. Training costs.
 - 4. Software maintenance
 - 5. Software acquisition costs
 - 6. Hosting costs
 - 7. Hardware costs
 - 8. Wiring and network installation costs
 - 9. Costs of other new equipment
 - 10. Data transmission cost/transmission charges
 - 11. Cost of maintaining backup systems
 - 12. Rental/lease cost.

- b) Types of firewall are:
1. Packet filtering firewall
 2. Circuit-level gateways
 3. Stateful inspection firewall
 4. Application-level gateway (aka proxy firewalls)
 5. Next-generation firewall (NGFW)
 6. Software firewalls
 7. Hardware firewalls
 8. Cloud firewalls.
- c) Network Issues
1. Wireless Network Shows Signal but won't connect
 2. Network Outages and Inaccessible Files
 3. IP Conflicts/Duplicate IP address
 4. Slow Application Response
 5. Poor VOIP Quality
 6. DNS Problems
 7. Unable to connect to local file or printer share
 8. Local Network is unable to connect to the internet
 9. Slow Internet Performance
 10. Attack by viruses on computer network from services like email attachment, medicines software, social media etc
 11. IP address exhaustion due to no more IP address available.
- d) Ways e-mail in-box can be better managed
1. Set aside time to read and respond to email
 2. Take action immediately
 3. Organize an inbox with labels, folders and categories
 4. Unsubscribe from unwanted promotional emails
 5. Use more than one email address
 6. Create templates or canned responses
 7. Set up a signature on your email
 8. Set up an out-of-office message when you will be out of office and unreachable via email for some time.
 9. Disallow junk mail languishing your inbox
 10. Keep only email requiring immediate action in your inbox
 11. Turn off email notifications
 12. Setting of inbox rules and filters.

Marking Guide

6 a.	One mark each for five correct points	5 Marks
b.	One mark each for four correct points	4 Marks
c.	One mark each for five correct points	5 Marks
d.	One mark each for six correct points	<u>6 Marks</u>
	Total	<u>20 Marks</u>

Examiner's Report

The question tests candidates' knowledge of cost incurred on acquisition of new software, types of firewall, network issues and management of email.

About 90% of the candidates attempted the question and performance was generally fair as most candidates scored above 50% of the marks allotted. Candidates who did not do well lacked general knowledge of cost incurred in acquisition of new software, types of firewall, network issues and management of email.

Candidates should in future study more and understand cost incurred in acquisition of new software, types of firewall, network issues and management of email.

4. Which of the following is **NOT** eligible to participate in the voluntary assets and income declaration scheme (VAIDS)?
- A. Those that earned income or owned assets but were yet to register with the relevant tax authorities
 - B. Registered taxpayers who had additional disclosures to make or needed to amend prior disclosures; and/or were registered but were not filing returns
 - C. Taxpayers that were not fully declaring their taxable income and assets
 - D. Taxpayers that were underpaying or under remitting their taxes
 - E. Taxpayers that were engaged in tax disputes with the relevant tax authorities but were not prepared to settle the tax disputes out of court
5. The management board of the Federal Inland Revenue Service is known as
- A. Federal Inland Revenue Service Board
 - B. Federal Internal Revenue Service Board
 - C. Board of Federal Inland Revenue Service
 - D. Board of Federal Revenue Service
 - E. Federal Board of Inland Revenue Service
6. Under the national tax policy (NTP), 2017, which of the following is **NOT** a specific responsibility of all levels and arms of government?
- A. Implement and regularly review tax policies and laws
 - B. Provide information on all revenues collected on a quarterly basis
 - C. Ensure adequate funding, administrative and operational autonomy of tax authorities
 - D. Ensure that aspiring political office holders clearly understand the tax policy and the Nigerian tax system and are able to articulate their plans for the tax system for which they will be held accountable
 - E. Ensure a reasonable transition period of between three and six months before implementation of a new tax
7. Which of the following is **NOT** a circumstance when a tax consultant may disclose information on a taxpayer?
- A. Disclosure is permitted by law
 - B. Disclosure is authorised by the client, that is the taxpayer
 - C. Disclosure is required by law, for example, the production of documents or other provisions of evidence in the course of legal proceedings
 - D. There is a professional duty or right to disclose, when not prohibited by law
 - E. Disclosure is at the discretion of the tax practitioner

8. In line with the provision of section 69 of Companies Income Tax Act Cap C21 LFN 2004 (as amended), which of the following is **NOT** a condition for a notice of objection to be valid?
- A. It must be in writing and addressed to the Chairman, Federal Inland Revenue Service
 - B. It must state the grounds of objection, for example, amount of assessable and total profits of the company for the relevant assessment year
 - C. It must state the tax which the taxpayer claims is payable for the year of assessment
 - D. It must be raised within thirty days of the date of service of the notice of assessment
 - E. It must be raised within sixty days of the date of service of the notice of assessment
9. Which of the following is **NOT** subject to withholding tax in Nigeria?
- A. Salary
 - B. Commissions
 - C. Rent
 - D. Dividend
 - E. Professional fees
10. A person who is obliged to deduct withholding tax fails to deduct or having deducted fails to remit on due date, shall be guilty of an offence and liable to a penalty of _____ per annum of the tax withheld or not remitted, as the case may be
- A. 25%
 - B. 21%
 - C. 15%
 - D. 10%
 - E. 5%
11. A tax invoice issued for goods sold or services rendered must contain the following information, **EXCEPT**
- A. Type / nature of goods
 - B. Customer's name and address
 - C. Rate of VAT applied
 - D. Bio data of taxpayer
 - E. Taxpayer's identification number

12. In 2018, a vatable product was sold to a final consumer for ₦210,000 (VAT inclusive). The output VAT was
- A. ₦10,500
 - B. ₦10,000
 - C. ₦7,500
 - D. ₦5,000
 - E. ₦2,500
13. Under the Stamp Duties Act Cap S8 LFN 2004, which of the following instruments is **NOT** required by law to be stamped?
- A. Leases
 - B. Contract notes
 - C. Bills of lading
 - D. Mortgages
 - E. Instruments relating to reconstruction and amalgamation
14. Which of the following is **NOT** an instrument being assessed by fixed duties?
- A. Payment receipts
 - B. Cheque leaves
 - C. Guarantor forms
 - D. Proxy forms
 - E. Bills of exchange
15. Under the Land Use Charge Law of Lagos State, 2018, “market value” means
- A. Total sum of land value and building development
 - B. Building development
 - C. The total developed floor area of building on the plot of land in square metres
 - D. The average construction value of medium quality buildings and improvement in the neighbourhood
 - E. The average market value of a land parcel in the neighbourhood
16. Under the Land Use Charge Law of Lagos State, 2018, relief rate may reflect the following factors, **EXCEPT**
- A. Status of the owner (the age and retirement)
 - B. State of origin
 - C. Depreciation rate of the property

- D. Whether or not the owner is physically challenged
 - E. The length of time for which an owner has been resident in the property in question
17. Which of the following does **NOT** relate to the provision of the Personal Income Tax Act Cap P8 LFN 2004 (as amended)?
- A. Taxation of employees
 - B. Taxation of estates, trusts and settlements
 - C. Taxation of partners
 - D. Taxation of sole traders
 - E. Taxation of limited liability companies
18. The person who receives a real property under a Will is a
- A. Devisee
 - B. Legatee
 - C. Remainder man
 - D. Personal representative
 - E. Annuitant
19. An asset with a tax written down value of ₦850,000 was sold for ₦1,230,000; what is the balancing charge?
- A. ~~₦2,080,000~~
 - B. ~~₦1,230,000~~
 - C. ~~₦850,000~~
 - D. ~~₦380,000~~
 - E. ~~₦425,000~~
20. Which of the following is the minimum tax rate applicable to foreign companies operating in air, sea and telecommunication businesses as in Nigeria?
- A. 20%
 - B. 10%
 - C. 7½%
 - D. 5%
 - E. 2%

QUESTION 2

- a. Alhaji Jimoh Abdulahi retired from public service in 2010 and went into business. His friend advised him to incorporate some companies.

The following information in respect of the companies is provided:

Name of company	Apex Manufacturing Co. Limited	Zenith Foods Limited	Base Nigeria Limited
Date of commencement of business	January 2, 2010	January 2, 2017	January 2, 2017
Nature of business	Manufacturing	Agriculture	Trading
Date of accounts	Year ended December 31, 2018	Year ended December 31, 2018	Year ended December 31, 2018
Revenue	₦ 990,400	₦ 896,400	₦ 900,500
Total profit	384,000	421,000	396,000

Required:

Compute the income tax liability of each of the companies for the relevant assessment year. Give reasons for your computations. (11 Marks)

- b. In 2004, Chief Kris Uzodime applied to the Securities and Exchange Commission (SEC) for an approval to float XYZ Unit Trust Scheme. In 2005, XYZ Unit Trust Scheme secured an approval to deal in the business of a unit trust scheme.

Its statement of profit or loss for the year ended December 31, 2018, revealed the following:

	₦	₦
Investment income:		
Rental income (gross)		12,650,000
Interest on bank deposit (gross)		5,140,000
Dividend received (gross)		<u>16,300,000</u>
		34,090,000

Less:		
Staff salaries and wages	9,300,000	
Manager's remuneration (20%) of gross income	6,818,000	
Other expenses	1,020,000	
Bank charges and commission	170,500	
Depreciation	<u>321,600</u>	<u>17,630,100</u>
Net profit		<u>16,459,900</u>

Additional information:

(i) Other expenses include:

	K
• Loss on disposal of property, plant and equipment	121,000
• Preliminary expenses	210,000
• Office furniture acquired	300,500

(ii) All the incomes were subjected to deductions of withholding tax.

Required:

Compute the assessable profit for the relevant assessment year (9 Marks)

(Total 20 Marks)

QUESTION 3

A settlement is a means by which enjoyment of an estate or part of it is transferred to another person, either through a disposition, trust or covenant, agreement, arrangement or transition of assets by reference to a trust for the benefits of persons specified.

The term trust relates to equitable obligation, binding a person, called the trustee, to deal with a property over which he/she has custody (which is called the trust property), for the benefit of persons (beneficiaries) of which he/she may be one.

Required:

- State the relevant tax authorities of a trust or settlement and the beneficiaries. (8 Marks)
- State the special provisions in respect of settlement on unmarried children. (12 Marks)

(Total 20 Marks)

QUESTION 4

Oxygen Nigeria Limited was incorporated on October 2, 2015, but it did not commence business until July 1, 2016. At the meeting of directors held on June 17, 2016, it was decided that the nature of the business of the company should be influenced by the main object clause of the Memorandum of Association of the company, which is, "to carry on business of importers, exporters, distributors, agents and general contractors".

Extracts of the company's statements of profit or loss for the relevant period are as stated below:

	Year ended Dec.31,2018	Year ended Dec.31, 2017	6 months ended Dec.31,2016
	₦	₦	₦
Revenue	19,500,000	17,200,000	8,210,000
Direct cost	<u>(2,900,000)</u>	<u>(2,800,000)</u>	<u>(1,200,000)</u>
Gross profit	16,600,000	14,400,000	7,010,000
Other income	36,000	18,000	9,000
Distribution cost	(3,710,300)	(3,200,000)	(1,700,000)
Administrative expenses	(7,700,000)	(7,400,000)	(2,900,500)
Other expenses	(1,300,300)	(1,201,000)	(48,000)
Finance cost	<u>(970,000)</u>	<u>(890,000)</u>	<u>(420,000)</u>
Operating profit	<u>2,955,400</u>	<u>1,727,000</u>	<u>1,950,500</u>

Additional information:

(i) Administrative expenses include:

	₦	₦	₦
Penalties and fines	700,000	0	0
Allowance for doubtful debts	197,000	400,000	130,000
Depreciation	210,000	250,000	290,000
Prelim. and formation expenses	0	0	200,000
Staff salaries	2,600,000	2,150,000	1,960,000
Office rent	970,000	750,000	750,000
Donation (Boys Brigade)	30,000	0	9,000

- (ii) Capital allowances as agreed with the Federal Inland Revenue are as follows:

Year of Assessment	Amount
	₦
2016	600,000
2017	490,000
2018	420,000
2019	385,000

Required:

Compute the tax liabilities of the company for the relevant years of assessment, taking into consideration the options available to the company.

(20 Marks)

QUESTION 5

- a. Luxury tax can simply be defined as tax imposed on goods and services that are considered by the government to be luxury goods and services. Luxury goods and services are those that are not considered to be essential by the government and which are consumed by the rich or wealthy class of the society.

Goods and services that are classified as luxury are usually assessed to tax as a percentage of the sales price but likely at a higher percentage than the regular sales tax or value added tax on essential commodities.

Required:

State **FOUR** benefits of taxation of luxury goods and services. (8 Marks)

- b. In 2018, the Lagos State Government promulgated the Land Use Charge Law to provide for the consolidation of property and land based charges and make provisions for the levying and collection of land use charge in the state and for connected purposes.

Section 12 (1) of the Land Use Charge Law, 2018, of Lagos State, provides for the exemption of specified categories of properties from the payment of land use charge.

Required:

State **SIX** categories of properties exempted from land use charge.

(12Marks)

(Total 20 Marks)

QUESTION 6

All limited liability companies in Nigeria shall at least once in a year without notice or demand from the Federal Inland Revenue Service (FIRS), file a return with the FIRS in a prescribed form which contains the relevant information and documents.

In Nigeria, a tax clearance certificate (TCC) is issued only upon the application by the taxpayer. Therefore, in issuing the certificate, the relevant tax authority would have satisfied itself that the tax assessed on the income of the applicant for the three years immediately preceding the current year of assessment, has been fully paid or that no tax is due on such income or that the applicant is not liable to tax for any of the three years.

Required:

- a. State **FOUR** contents of a tax return. (8 Marks)
- b. State **THREE** conditions precedent for the issuance of a TCC. (6 Marks)
- c. State **SIX** transactions for which a TCC is required. (6 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 & Fittings)	50	25
Manufacturing Industrial Plant Expenditure	50	Nil
Construction Plant expenditure (excluding Furniture and Fittings)	50	Nil
Public Transportation Motor Vehicle	95	Nil
Ranching and Plantation Expenditure	30	50
Plantation Equipment Expenditure	95	Nil
Research and Development Expenditure	95	Nil
Housing Estate Expenditure	50	25
Motor Vehicle Expenditure	50	25
Agricultural Plant Expenditure	95	Nil
Furniture and Fittings Expenditure	25	20

2. INVESTMENT ALLOWANCE 10%

3. RATES OF PERSONAL INCOME TAX

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

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

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

4.	COMPANIES INCOME TAX RATE	30%
5.	TERTIARY EDUCATION TAX	(2% of Assessable Profit)
6.	CAPITAL GAINS TAX	10%
7.	VALUE ADDED TAX	5%

SECTION A - MULTIPLE – CHOICE QUESTIONS

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

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 4, 6,7,15 and 18.

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

SECTION B

SOLUTION 1

- (a) **Kayode Oluwa Enterprises**
Computation of assessable profits/(loss)
For assessment years 2016 to 2019

Assessment year	Basis period	₦	Assessable profit ₦
2016	1/1/2015 – 31/12/2015		
	Current year loss relief	1,360,000	
	Unrelieved loss c/f	<u>(1,900,000)</u>	
	Assessable loss	<u>(540,000)</u>	NIL
2017	1/1/2016 – 31/12/2016	1,900,000	loss
	Assessable loss		NIL
2018	1/1/2017 – 31/12/2017	2,300,000	
	Unrelieved loss b/f	<u>(540,000)</u>	1,760,000
2019	1/1/2018 – 31/12/2018		<u>2,700,000</u>
	Total		<u>4,460,000</u>

Notes

- (i) For the business to enjoy this relief, the taxpayer must submit a written claim to the relevant tax authority within twelve months after the end of the year of assessment in which the loss was incurred.
- (ii) Current year loss relief is applicable to only individuals.

Alternative solution
Kayode Oluwa Enterprises
Computation of assessable profits/ (loss)
For assessment years 2016 to 2019

Assessment year	Basis period	₦	Assessable profit ₦
2016	1/1/2015 – 31/12/2015		1,360,000
2017	1/1/2016 – 31/12/2016	1,900,000	Loss NIL
2018	1/1/2017 – 31/12/2017 loss brought forward	2,300,000 <u>(1,900,000)</u>	400,000
2019	1/1/2018 – 31/12/2018		2,700,000
	Total		<u>4,460,000</u>

(b) Current year loss relief

The following rules apply:

- (i) It is applicable to only individuals;
- (ii) It is not available to property letting business;
- (iii) Losses incurred from a particular source of income can be relieved against other sources (including balancing charge);
- (iv) A written claim must be made within twelve months after the end of the year of assessment in which the loss arises;
- (v) When the loss is incurred, any unrelieved loss can only be set off against profit from the source from which the loss was incurred; and
- (vi) Losses are relieved on actual year basis, for example, loss incurred in the year ended 30/9/18, will be relieved in 2018 year of assessment.

Carry forward loss relief

The following rules apply:

- (i) It is available only against profit from the same source of income where the loss originally occurred;
- (ii) It does not require approval before the relief can be granted;
- (iii) It applies to both individuals and corporate bodies;
- (iv) Carry forward loss relief can now be carried forward indefinitely by all companies except insurance companies which can carry forward losses for a maximum of four years of assessment; and
- (v) Losses to be relieved from assessable profit shall not be more than the actual losses incurred in the previous years.

Marking Guide

	Marks	Marks
(a) Computation of assessable profits/(loss)		
Heading	1	
Assessment year (1 mark for each correct assessment year)	4	
Basis period ($\frac{1}{2}$ mark for each correct basis period)	2	
2016 assessment year ($\frac{1}{2}$ mark each for amounts in the computation and assessable profit)	2	
2017 Assessment year ($\frac{1}{2}$ mark each for computed loss and assessable profit)	1	
2018 Assessment year ($\frac{1}{2}$ mark each for amounts in the computation and assessable profit)	1 $\frac{1}{2}$	
2019 Assessment year - assessable profit	<u>$\frac{1}{2}$</u>	12
ALTERNATIVE SOLUTION		
Heading	1	
Assessment year (1 mark for each correct assessment year)	4	
Basis period ($\frac{1}{2}$ mark for each correct basis period)	2	
2016 assessment year (2 marks for assessable profit)	2	
2017 Assessment year ($\frac{1}{2}$ mark each for computed loss and assessable profit)	1	
2018 Assessment year ($\frac{1}{2}$ mark each for amounts in the computation and assessable profit)	1 $\frac{1}{2}$	
2019 Assessment year - assessable profit	<u>$\frac{1}{2}$</u>	12

(b) Current year loss relief (1 mark for each point subject to a maximum of 4 points)	4	
Carry forward loss relief (1 mark for each point subject to a maximum of 4 points)	<u>4</u>	<u>8</u>
		<u>20</u>

Examiner's Report

The question tests candidates' knowledge on the ascertainment of assessable profit/ (loss) of an individual, current year loss relief and carry forward loss relief.

About 85% of the candidates attempted the question and as performance was average.

The commonest pitfalls of the candidates were that they could not ascertain the correct basis periods and the relevant assessment years in part (a) of the question, whilst in part (b), they displayed poor understanding of the concepts of current year loss relief and carry forward loss relief.

Candidates are advised to pay attention to the treatment of losses and the ascertainment of assessable profit/ (loss) of an individual in their preparations for future examinations.

SOLUTION 2

(a) **Computations of companies income tax liabilities**
For 2019 assessment year

	Apex manufacturing Co. Limited ₦	Zenith Foods Limited ₦	Base Nigeria Limited ₦
Revenue / (turnover)	<u>990,400</u>	<u>896,400</u>	<u>900,500</u>
Total profit	384,000	421,000	396,000
Companies income tax	115,200	84,200	118,800
Tertiary education tax	7,680	8,420	7,920

Notes:

- (i) Small company relief only applies to a company with revenue/(turnover) of ₦1,000,000 or less per annum. The applicable rate of tax is 20% of the total profit as against 30% of total profit for a company with revenue over ₦1,000,000.

The lower rate of tax will be applicable to companies engaged in the business of either manufacturing, agriculture, mining of solid minerals or wholly export trade.

It is instructive to note that the small business tax rate is applicable for the **first five assessment years** of the business.

- (ii) Apex Manufacturing Company Ltd is over five assessment years in business, hence does not qualify for the small company relief, though it is into manufacturing.
- (iii) Zenith Foods Limited is a company that is into agriculture, therefore, qualifies for small company relief because it is not up to five assessment years in business.
- (iii) Base Nigeria Limited does not qualify for small company relief as it is a trading company, though it is not up to five assessment years in business.

(b) **Chief Kris Uzodime**

Computation of assessable profit for 2019 assessment year

	₦	₦
Net profit per accounts		16,459,900
Add:		
Loss on disposal of property, plant and equipment	121,000	
Preliminary expenses	210,000	
Office furniture acquired	300,500	
Depreciation	<u>321,600</u>	
		<u>953,100</u>
		17,413,000
Deduct:		
Dividend received (gross)		<u>16,300,000</u>
Assessable profit		<u><u>1,113,000</u></u>

Tutorial notes:

- (i) Withholding tax deducted from any income (other than franked investment income) is set-off against any tax assessable on the unit trust scheme for any year of assessment.
- (ii) Dividend received after deduction of tax is regarded as franked investment income and not subject to any further tax in the hands of the recipients.

Marking Guide

		Marks	Marks
(a) Heading		1	
Revenue / (turnover)	($\frac{1}{2}$ mark for each correct revenue)	1 $\frac{1}{2}$	
Total profit	($\frac{1}{2}$ mark for each correct total profit)	1 $\frac{1}{2}$	
Companies income tax	(1 mark for each correct tax liability)	3	
Tertiary education tax	(1mark for each correct tax liability)	3	
Notes	($\frac{1}{4}$ mark for each note)	<u>1</u>	11
(b) Heading		1	
Net profit per accounts		1	
Disallowable expenses	(1 mark for each correct disallowable expense)	4	
Dividend		1	
Assessable profit		<u>2</u>	<u>9</u>
			<u>20</u>

Examiner's Report

The question tests candidates' knowledge on the criteria that must be met by taxpayers to be eligible for small company relief. Additionally, candidates are expected to compute the assessable profit of a unit trust scheme.

About 75% of the candidates attempted the question and the performance was poor.

Some of the candidates did not know the criteria that must be met by taxpayers to be eligible for small company relief, hence their inability to compute the tax liabilities payable by the companies in part (a) of the question. In part (b), they displayed poor knowledge of the fact that income of the unit trust scheme was taxable in the hands of Chief Chris Uzodime and not XYZ Unit Trust Scheme. In addition, they did not know the treatment of franked investment income in the determination of the assessable profit.

Candidates are advised to read the Institute's study texts and Pathfinder before sitting for future examinations.

SOLUTION 3

(a) **Relevant tax authority**
Trust or settlement

The relevant tax authority in relation to a trust or settlement shall be:

- (i) Where all the income of the trust or settlement for the year of assessment arises in one territory, the tax authority of the state.
- (ii) Where the income of the trust or settlement arises in more than one territory, or in any other case, the Federal Inland Revenue Service, is the relevant tax authority.

Beneficiary

The income arising from a settlement, trust or estate is assessable in the hands of the individual beneficiary. The **relevant tax authority** is the tax authority of the state where the beneficiary is resident on 1st of January of that year.

Note that where the instrument does not provide for apportionment of net income or there is a balance of adjusted income not apportioned, such income is taxable in the hands of the trustee or executor as agent of the estate. The trustee, therefore, pays tax out of the funds of the estate.

(b) **Special provisions as to settlement on unmarried children**

Where, by virtue or in consequence of a settlement and during the life of the settlor, an income is paid to or for the benefit of a child of the settlor in a year of assessment, the income shall, if at the time of payment, the child was an infant and unmarried, be treated for the purposes of this Act, as the income of the settlor for that year and not as the income of any other person.

Income paid to or for the benefit of a child of a settlor shall not be treated as provided above for any year of assessment in which the aggregate amount of the income paid to or for the benefit of that child, which but for this provision, would be so treated by virtue of the above provision, does not exceed five hundred Naira (₦500).

The above shall not apply in relation to an income arising under a settlement in a year preceding a year of assessment if the settlor is not in Nigeria at any time during that year of assessment, or is not in Nigeria for a period or periods amounting to one hundred and eighty-three days or more in any twelve months period commencing in the calendar year and ending either in the same year or the following year.

For these purposes:

- (i) Income which, by virtue or in consequence of a settlement may become payable or applicable to or for the benefit of a child of the settlor in the future (where on the fulfillment of a condition or on the happening of a contingency, or as a result of the exercise of power or discretion conferred on any person, or otherwise) shall be deemed to be paid to or for the benefit of that child; and
- (ii) An income dealt with as aforesaid which is not required by the settlement to be allocated, at the time when it is so dealt with, to any particular child or children of the settlor shall be deemed to be paid in equal shares to or for the benefit of each of the children to or for the benefit of whom or any of whom the income or assets representing the income will or may become payable or applicable.

Marking Guide

	Marks	Marks
(a) Relevant tax authority		
Trust or settlement - (2 marks for each point)	4	
Beneficiary	<u>4</u>	8
 (b) Special provisions as to settlement on unmarried children		
Income paid to the child of the settlor when he is alive	2	
Where the income paid to the child does not exceed ₦500	4	
Where the settlor is not in Nigeria in the preceding year of assessment	2	
Purposes	<u>4</u>	<u>12</u>
Total		<u>20</u>

Examiner's Report

The question tests candidates' knowledge on the relevant tax authorities of a trust or settlement and beneficiaries. Candidates are also expected to state the special provisions relating to settlement on unmarried children.

Less than 30% of the candidates attempted the question. Candidates demonstrated a lack of understanding of the question, hence performance was poor.

The commonest pitfalls of the candidates were their display of poor knowledge of the relevant tax laws guiding trusts, settlements and estates, and the inability to identify the relevant tax authorities. In addition, they were not conversant with the special provisions as to settlement on unmarried children.

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

SOLUTION 4

(a) Oxygen Nigeria Limited Computation of adjusted profits

	Year ended December 31, 2018 ₦	Year ended December31, 2017 ₦	Year ended December 31, 2016 (6 months) ₦
Operating profit	2,955,400	1,727,000	1,950,500
Add: Disallowable expenses:			
Penalties and fines	700,000	0	0
Allowance for doubtful debts	197,000	400,000	130,000
Depreciation	210,000	250,000	290,000
Preliminary and formation expenses	0	0	200,000
Adjusted profits	<u>4,062,400</u>	<u>2,377,000</u>	<u>2,570,500</u>

(b) Computation of assessable profits

Assessment year	Basis period	Normal basis ₦	Assessable profit ₦	Basis period	Assessable profit ₦
2016	1/7/16-31/12/16		<u>2,570,500</u>	1/7/16-31/12/16	<u>2,570,500</u>
2017	1/7/16-30/6/17 (12 months)	2,570,500		1/1/17-31/12/17	2,377,000
	1/7/16-31/12/16	<u>1,188,500</u>			
	1/1/17-30/6/17		3,759,000		<u>4,062,400</u>
2018	1/1/17-31/12/17 (Preceding Year)		<u>2,377,000</u>	1/1/18-31/12/18	<u>6,439,400</u>
			<u>6,136,000</u>		
2019	1/1/18 – 31/12/18		<u>4,062,400</u>		

From the above, the total of assessable profits for the 2nd and 3rd years of assessment under the normal basis is less than that of the actual basis, hence the company should not exercise the right of election, that is to have the assessments for 2nd and 3rd years be based on actual.

(c) Computation of tax liabilities (without election)

Y.O.A		₦
2016	Assessable profit	2,570,500
	Capital allowances	<u>(600,000)</u>
	Total profit	<u>1,970,500</u>
	Companies income tax payable (30% of total profit)	= <u>₦591,150</u>
	Tertiary education tax payable (2% of assessable profit)	= <u>₦51,410</u>
2017	Assessable profit	3,759,000
	Capital allowances	<u>(490,000)</u>
	Total profit	<u>3,269,000</u>
	Companies income tax payable (30% of total profit)	= <u>₦980,700</u>
	Tertiary education tax payable (2% of assessable profit)	= <u>₦75,180</u>
2018	Assessable profit	2,377,000
	Capital allowances	<u>(420,000)</u>
	Total profit	<u>1,957,000</u>
	Companies income tax payable (30% of total profit)	= <u>₦587,100</u>
	Tertiary education tax payable (2% of assessable profit)	= <u>₦47,540</u>
2019	Assessable profit	4,062,400
	Capital allowances	<u>(385,000)</u>
	Total profit	<u>3,677,400</u>
	Companies income tax payable (30% of total profit)	= <u>₦1,103,220</u>
	Tertiary education tax payable (2% of assessable profit)	= <u>₦81,248</u>

Note:

Minimum tax computation does not apply as the company is not up to 48 calendar months in business.

Marking Guide

	Marks	Marks
Heading	1	
Accounting year-ends ($\frac{1}{4}$ mark for each accounting year-end)	$\frac{3}{4}$	
Operating profit ($\frac{1}{4}$ mark for each year)	$\frac{3}{4}$	
Penalties and fines ($\frac{1}{4}$ mark for each year)	$\frac{3}{4}$	
Allowance for doubtful debts ($\frac{1}{4}$ mark for each year)	$\frac{3}{4}$	
Depreciation ($\frac{1}{4}$ mark for each year)	$\frac{3}{4}$	
Preliminary and formation expenses ($\frac{1}{4}$ mark for each year)	<u>$\frac{3}{4}$</u>	5 $\frac{1}{2}$
Computation of assessable profits:		
Normal basis:		
Assessment year ($\frac{1}{4}$ mark for each correct year)	1	
Basis period ($\frac{1}{4}$ mark for each correct basis)	1	
Assessable profit ($\frac{1}{4}$ mark for each correct profit)	1	
Actual basis:		
Basis period ($\frac{1}{4}$ mark for each correct basis)	$\frac{3}{4}$	
Assessable profit ($\frac{1}{4}$ mark for each correct profit)	$\frac{3}{4}$	
Conclusion	<u>1</u>	5 $\frac{1}{2}$
Computation of tax liabilities (without election)		
Capital allowances for each year at $\frac{1}{2}$ mark each	2	
Total profit for each year at $\frac{1}{2}$ mark each	2	
Companies income tax payable for each year at $\frac{1}{2}$ mark each	2	
Tertiary education tax payable for each year at $\frac{1}{2}$ mark each	2	
Note on minimum tax computation	<u>1</u>	<u>9</u>
		<u><u>20</u></u>

Examiner's Report

The question tests the candidates' knowledge on the basis of assessment on commencement of business, taking into consideration the options available to the taxpayer.

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

The commonest pitfalls of the candidates were their inability to identify allowable and disallowable expenses in the determination of assessable profits. Additionally, they were not able to compute assessable profits based on normal basis and actual basis with a view to assisting the taxpayer to decide whether or not to exercise his right of option in the second and third years of assessment. Given the foregoing, the tax liabilities as computed by some of the candidates for the relevant assessment years were wrong.

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

SOLUTION 5

(a) Benefits of taxation of luxury goods

These include to:

- (i) **Raise government revenue:** With over 100 billionaires, more than 100,000 multi-millionaires and the highest number of world's private jet owners in the country coupled with wealthy people's penchant to purchase expensive items from other countries, the annual revenue expected to be generated from this source will be awesome;
- (ii) **Broaden the tax base:** The non-oil sector tax base is expected to be broadened with the introduction of the luxury tax. The revenue generated from the oil sector has declined since 2013 and this makes it imperative for the government to look for other sources. The luxury tax nevertheless is one of such other non-oil sources;
- (iii) **Redistribute wealth from the rich to the poor:** The tax generated from this source is expected to be used to provide social amenities to the populace and will benefit the poor people the most. The social imbalance in the system is also to be dealt with; and
- (iv) **Mitigate the consumption of non-essential goods and services:** The full implementation of this tax may likely curb the penchant for consumption of extremely non-essential items in the long-run. The habit of the consumer of the item as well as the elasticity demand for the product may also determine the quantity to be purchased.

(b) Exempted properties

Section 12(1) of the Land Use Charge Law of Lagos State, 2018, provides for the exemption of the following categories of properties from payment of land use charge:

- (i) Property owned and occupied by a religious body and used exclusively for public workshop or religious education;
- (ii) Public cemeteries and burial grounds;
- (iii) Properties used as registered educational institute certified by the Commissioner to be not-for-profit making;
- (iv) Property used as public library or as private library certified by the Commissioner to be not-for-profit making;
- (v) Any property specifically exempted by the Executive Governor by notice published in the state official gazette; and
- (vi) All palaces of recognized obas and chiefs in the state provided that if any of the exempted property leased out to private entities for revenue, it shall forfeit its exemption status as contemplated under the provisions of the law.

Also, Section 12 (2) provides that the Commissioner may, by notice published in the state official gazette, grant partial relief for a property:

- That is occupied by a not-for-profit making organization;
- Used solely for community games, sports, athletics or recreation for the benefit of the general public; and
- Used for a charitable or benevolent purpose for the benefit of the general public and owned by not-for-profit making organization.

Marking Guide

	Marks
(a) Benefits of taxation of luxury goods and services (2 marks for each point subject to a maximum of 4 points)	8
(b) Categories of properties exempted (2 marks for each category subject to a maximum of 6 points)	<u>12</u>
	<u>20</u>

Examiner's Report

The question tests the candidates' knowledge on the benefits of taxation of luxury goods and services, and properties exempted from land use charge in Lagos State.

About 80% of the candidates attempted the question and they demonstrated a fair understanding of part (a) of the question, whilst in part (b), performance was poor.

The commonest pitfall of the candidates was the poor understanding of the provision of section 12(1) of the Land Use Charge Law of Lagos State, 2018 (the LUC Law), which relates to exempted properties.

Candidates are advised to read relevant study materials and the LUC Law relating to land use charge in order to perform well in future examinations.

SOLUTION 6

(a) Contents of a tax return

Section 55 of CITA Cap C21 LFN 2004 (as amended) provided that all companies (including companies granted exemption from incorporation) to at least once a year without notice or demand from the Federal Inland Revenue Service (FIRS), file a return with the FIRS in a prescribed form which contains prescribed information together with the following documents:

- (i) Self-assessment return in the prescribed form;
- (ii) Audited financial statements;
- (iii) Income tax and capital allowance computation schedules;
- (iv) Completed copy of companies income tax (Form IR3C-4 Coy);
- (v) Completed copy of tertiary education tax (Form 4D EDT);
- (vi) Evidence of payment of companies income tax liability; and
- (vii) Evidence of payment of tertiary education tax liability.

(b) The conditions precedent to the issuance of a tax clearance certificate (TCC)

The following are the conditions for granting TCC:

- (i) Taxes have been paid up to date;
- (ii) Penalties and interest raised have been paid;
- (iii) Returns have been filed up to date; and
- (iv) There are no outstanding tax queries, audit or investigation.

(c) **Transactions for which a TCC is required**

Section 101 (4) of CITA provides that tax clearance certificate will be required in respect of the following transactions:

- (i) Application for government loan for industry or business;
- (ii) Registration of motor vehicle;
- (iii) Application for firearms licence;
- (iv) Application for foreign exchange or exchange control permission to remit funds outside Nigeria;
- (v) Application for certificate of occupancy;
- (vi) Application for award of contracts by government, its agencies and registered companies;
- (vii) Application for approval of building plans;
- (viii) Application for trade licence;
- (ix) Application for transfer of real property;
- (x) Application for import or export licence;
- (xi) Application for agent licence;
- (xii) Application for pools or gaming licence;
- (xiii) Application for registration as a contractor;
- (xiv) Application for distributorship;
- (xv) Confirmation of appointment by government, as chairman or member of public board, institution, commission, company or to any other similar position made by the government;
- (xvi) Stamping of guarantor's form for Nigerian passport;
- (xvii) Application for registration of a limited liability or of a business name;
- (xviii) Application for allocation of market stalls;
- (xix) Appointment or election into public office;
- (xx) Change of ownership of vehicle by vendor; and
- (xxi) Application for plot of land.

Tax clearance certificate is also required to be tendered by an applicant, for foreign exchange control permission, to remit funds to a non-resident recipient, in respect of income accruing from rent, dividend, interest, royalty, fees or any other similar income, to the effect that tax has been paid on the fund in respect of which the application is sought or that no tax is payable, whichever is the case.

Marking Guide

	Marks
(a) Contents of a tax return (2 marks for each point subject to a maximum of 4 points)	8
(b) Conditions precedent to the issuance of a TCC (2 marks for each point subject to a maximum of 3 points)	6
(c) Transactions for which a TCC is required (1 mark for each category subject to a maximum of 6 transactions)	<u>6</u>
	<u>20</u>

Examiner's Report

The question tests the candidates' knowledge on filing of tax returns, conditions precedent to the issuance of a tax clearance certificate (TCC) and the transactions for which a TCC is required.

About 80% of the candidates attempted the question and they demonstrated a good understanding of the requirement of part (c) of the question, whilst the performance in parts (b) and (c) was poor.

The commonest pitfall of the candidates in part (a) was that they misconstrued the requirement of the question to be the information that is required in a self assessment form instead of stating the contents of a tax return. Some of the candidates displayed poor knowledge of the conditions precedent to the issuance of a tax clearance certificate in part (b).

Candidates are advised to pay attention to the filing of returns, assessments and collection procedures in their preparations for future examinations.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
FOUNDATION LEVEL EXAMINATION – NOVEMBER 2020
BUSINESS MANAGEMENT & FINANCE

Time Allowed: 3¹/₄ 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. Shareholders in large companies are usually investors seeking to earn a return on their investment in the form of dividends and a higher share price. Which of the following is **NOT** a matter that would be of interests to shareholders in an organisation?
 - A. A proposal to invest in a major project where the return is high
 - B. A proposed takeover bid for another company that offers better returns
 - C. Bonuses and shares
 - D. High dividend payments
 - E. Increasing profits and share price

2. Which of the following is **NOT** one of the six inter-related elements of culture within an organisation?
 - A. Control systems
 - B. Size of the organisation
 - C. Stories and myths
 - D. Symbols
 - E. Routines and rituals

3. Each country has employment laws. Which of the following is **NOT** addressed by the employment law in Nigeria?
 - A. Discrimination on the grounds of physical disability, gender and religion
 - B. Legislative protection for non-regulated data
 - C. Minimum acceptable working conditions
 - D. Minimum monthly rate of pay that may be due to any employee
 - E. Certain rights against unfair dismissal by an employer

4. Strategic decision making by the Board of Directors include the following, **EXCEPT**
- Decision to fix appropriate price for the company's product
 - Setting strategic objectives for the business
 - Decision to withdraw from a market
 - Deciding the major business strategies
 - Setting total borrowing limits for the company
5. Which of the following is **NOT** a role associated with junior managers and supervisors?
- Employee discipline and morale
 - Decide strategy
 - Technical direction of work activities
 - Efficiency control
 - Short term planning
6. In Lippitt and White's leadership style, which of the following is **NOT** true of groups with democratic leaders?
- Members are rebellious and display aggressive behaviour
 - Relationship between the group members and leader is friendly
 - The group members are capable of working independently when the leader is not around
 - The group morale is high
 - Reasonable amount of originality in the work done by the group members
7. Ronny wants to borrow ₦160,000 from his friend. He is willing to pay back ₦174,400 in 3 months, what simple interest rate will be applicable?
- 34%
 - 35.5%
 - 36%
 - 36.5%
 - 37%
8. What is the amount of interest earned by a deposit of ₦414,000 for 11 years at 6.50% compounded quarterly?
- ₦427,455
 - ₦427,467
 - ₦437,455
 - ₦437,467
 - ₦447,467

9. Lokoson must pay a lump sum of ₦960,000 in 5 years. What amount deposited today at 5.8% compounded annually will make up the sum of money?
- A. ₦724,200.36
 - B. ₦724,300.37
 - C. ₦725,200.36
 - D. ₦725,300.37
 - E. ₦725,300.37
10. How much should Mr. Eaglet set aside at the end of each year to replace his motor car in 5 years' time if the cost of a new car remains at ₦5 million and rate of interest stay at 7 % per annum?
- A. ₦669,349.23
 - B. ₦779,349.23
 - C. ₦869,349.23
 - D. ₦979,349.23
 - E. ₦989,349.23
11. Reporting suspicions of illegal or improper behaviour to a person in authority is termed
- A. Business ethics
 - B. Whistle blowing
 - C. Professional Behaviour
 - D. Professional Competence
 - E. Professional Ethics
12. Strategies adopted by companies to maximise profits using innovative methods to compute the fair value of financial instruments is best described as
- A. Financial accounting
 - B. Financial engineering
 - C. Strategic financial management
 - D. Strategic management accounting
 - E. Strategic financial accounting
13. The most significant conflict of interest between stakeholders in a public company is generally considered to be the conflict of interests between
- A. Shareholders and Government
 - B. Shareholders and Audit Committee
 - C. Shareholders and Executive Directors
 - D. Senior Executive Managers and Lenders
 - E. Government and Executive Directors

14. Agency costs are the costs that the shareholders incur when professional managers run their company. Which of the following is **NOT** part of agency costs?
- A. Costs of auditing accounts of the company
 - B. Remuneration paid to managers of the company
 - C. Cash bonuses paid to managers for meeting specified targets
 - D. Costs incurred paying too much for the acquisition of a subsidiary
 - E. Award of free shares to management of the company
15. Banks are important financial intermediaries because they
- A. Create new debit
 - B. Are the only source of debt finance
 - C. Are the only source of long term finance
 - D. Operate between investors and borrowers
 - E. Take deposits from all their customers
16. Assuming a 5% time preference rate, what is the present value of ₦12,000 received one year from now?
- A. ₦11,428.80
 - B. ₦11,539.90
 - C. ₦12,428.80
 - D. ₦12,539.90
 - E. ₦13,528.80
17. Early communication models were developed in the
- A. 1910s
 - B. 1920s
 - C. 1930s
 - D. 1940s
 - E. 1950s
18. One of the characteristics of a global company is that
- A. Management makes strategic decision for each foreign market
 - B. Products are adapted to the requirements of the local market
 - C. Marketing is adapted in each country to suit the local culture
 - D. The value chain in each country of operation is optimised
 - E. The senior managers are likely to come from different countries

QUESTION 3

Describe the term 'supervision'. (2 Marks)

Henry Mintzberg suggested that managers perform three main roles, which can be further analysed into **TEN** different roles. Classify and explain these management roles. (18 Marks)

(Total 20 Marks)

QUESTION 4

a. Distinguish between ethical dilemma and conflict of interest. (4 Marks)

b. Globally, professional bodies are backed by law, consequently, a measure of authority are conferred upon them which they regularly exercise whenever the situation or circumstance demands.

State **THREE** powers of a professional body. (6 Marks)

c. State **FIVE** possible ways of resolving ethical dilemma in a business environment. (10 Marks)

(Total 20 Marks)

QUESTION 5

Uhuru Nigeria Limited wants to buy a new item of equipment which will be used to improve service delivery to its customers. Using the internal rate of return (IRR) method of investment appraisal, you are required to evaluate the project and advise the management of the company. Estimated cash flows from the project are as provided below:

Year		₦ Investment
0		(400,000)
1	Receipt	140,000
2	Receipt	150,000
3	Receipt	170,000
4	Receipt	190,000

The expected minimum required rate of return of the company is fixed at 25%

(20 Marks)

QUESTION 6

- a. For many loan agreements, the borrower is required to provide undertakings or guarantees of some kind.

Distinguish between covenants and guarantees. (5 Marks)

- b. State **THREE** reasons why a company will repurchase its shares and **THREE** benefits that will accrue to the company for doing so. (6 Marks)

- c. Companies can acquire assets with finance lease instead of buying assets with equity or debt capital.

State **SIX** main features of a finance lease arrangement. (9 Marks)

(Total 20 Marks)

SECTION A- MULTIPLE CHOICE QUESTIONS

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

WORKINGS:

Question 7

$$A = P (1 + rt)$$

$$174,400 = 160,000 (1 + .25r)$$

$$174,400 = 160,000 + 40,000r$$

$$14,400 = 40,000r$$

$$r = 14,400/40,000$$

$$r = 0.36 = 36\%$$

Question 8

$$A = P (1 + r/m)^{nm}$$

$$\text{N} 414,000 (1 + 6.50/4)^{11 \times 4}$$

$$\text{N} 414,000(1.01625)^{44}$$

$$\text{₦ } 414,000(2.0325)$$

$$\text{₦ } 841,455$$

Interest earned is

$$I = A - P$$

$$I = \text{₦ } 841,455 - \text{₦ } 414,000$$

$$I = \text{₦ } 427,455$$

Question 9

$$A = P(1+i)^n$$

$$\text{₦ } 960,000 = P(1 + 0.058)^5$$

$$P = \text{₦ } 960,000 / (1.058)^5$$

$$P = \text{₦ } 960,000 / 1.3256$$

$$P = \text{₦ } 724,200.36$$

Question 10

$$\begin{aligned} S_n &= \frac{X(1+i)^n - 1}{i} \\ 5,000,000 &= \frac{X(1.07)^5 - 1}{0.07} \\ 5,000,000 &= \frac{X(1.4026 - 1)}{0.07} \\ 5,000,000 &= \frac{X(0.4026)}{0.07} \\ X &= \frac{5,000,000 \times 0.07}{0.4026} \\ X &= \text{₦ } 869,349.23 \end{aligned}$$

Question 16

$$P = F(1+i)^{-n}$$

$$P = 12,000(1 + .05)^{-1}$$

$$P = 12,000(0.9524)$$

$$P = 12,000(0.9524)$$

$$P = \text{₦ } 11,428.80$$

Marking Guide

20 ticks at one mark each

Marks
20

Examiner's Report

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

The performance was above average.

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.

SECTION B

SOLUTION 1

- (a) FIVE dimensions of national culture as suggested by Hofstede
- i. **Power-distance dimension**
This refers to the way in which power is dispersed within the organisation. When the power-distance dimension is low, inequalities in the distribution of power within the organisation are minimized and when the power-distance dimension is high, inequalities in power are regarded as acceptable. Those without power look to those with the power to make the decisions for the organisation.
 - ii. **Individualism**
Individualism explains a situation where the interests of the individual come before the collective interests of the group while collectivism explains a situation where concern for the group comes before concern for the individual.
 - iii. **Uncertainty avoidance**
This is the extent to which a group feels threatened and endangered by unexpected and unfamiliar happenings. When a culture of uncertainty avoidance is high, work behaviour such as precision and punctuality are highly esteemed.
 - iv. **Masculinity**
Masculinity describes aggressive 'masculine' qualities of aggressiveness and competitiveness while femininity describes a situation where there is a much stronger cultural acceptance of 'feminine' qualities such as modesty, intuition and good quality of life.

- v. **Long-term orientation versus short-term orientation**
 In some countries, there is a greater focus on short-term goals and short-term results, whereas in other countries there is a greater willingness to consider the longer term.

(b) **i. Functions of Administration Department**

- i. Maintains employment records for each employee.
- ii. Arranges for the training of existing and new employees.
- iii. Deals with matters such as recruitment, selection and placement of new employees.
- iv. Deals with redundancies and disciplinary matters.
- v. Deals with claims of unfair dismissal by employees who have been unfairly dismissed.
- vi. Ensures compliance with regulations.
- vii. Facilities management.
- viii. Arranges for insurance and other legal requirements.
- ix. Arranging for the security of the buildings, purchase and maintenance of the motor vehicles of the business.
- x. Ensuring the smooth running of the business.

ii. Functions of Finance Department

- i. Manages the company's finances.
- ii. Ensures that the business has the money it needs to pay employees lenders and suppliers on time.
- iii. Finances new investments.
- iv. Manages the cash of the business.
- v. Obtains new funds from the financial markets.
- vi. Negotiates for new bank loans when needed.
- vii. Invests surplus cash.
- viii. Arranges transactions for the purchase of foreign currency.

Total 20 Marks

Marking Guide

	Marks
a i. Identification of five dimensions of national culture (5 ticks @ 1 mark)	5
ii. Explanation provided for the identified points (5 points @ 1 mark)	5
b. Functions of Administration Department (5 ticks @ 1 mark)	5
c. Functions of Finance Department (5 points @ 1 mark)	5
Total	20

Examiner's Report

The first part of the question tests candidates' knowledge on the subject of national culture generally with specific reference to dimensions of national culture as suggested by Hofstede.

The second part of the question tests candidates' knowledge of functions of Administration and Finance departments.

The performance of candidates of candidates was just average. The major pitfall was candidates' poor understanding of the concept of national culture.

Candidates are encouraged to read the Institute's study text when preparing for future examinations of the Institute.

SOLUTION 2

- (a) Reinforcement theory states that people seek out and remember information that provides cognitive support for their pre-existing attitudes and beliefs.

The main assumption that guides reinforcement theory is that people generally do not like to be wrong. They feel uncomfortable when their beliefs are challenged and therefore seek out and remember information to help 'prove their point'.

Reinforcement theory can be employed in the business environment by adopting the following tactics:

- i. Set clear and reasonable expectations – limiting rewards to impossible or extremely difficult tasks can lead to anger and a sense of helplessness resulting in worse performance. Therefore, expectations should be clear and achievable.
 - ii. Identify strong motivators – the best way to do this is adopt a participative approach and mutually agree with the employees what an appropriate reward would be. For example, a parachute jump experience would not be a suitable reward for someone scared of heights.
 - iii. Encourage desirable behaviours – behaviour such as strong teamwork, quality production and punctuality should be reinforced in order to turn them into strong work habits over time. An effective technique is to target rewarding one behaviour at a time in order to eradicate negative behaviours in that sphere before moving onto the next negative behaviour to manage.
- (b) Self-efficacy is the measure of the belief in one's own ability to succeed in situations – to complete tasks and reach goals.

Explain the ways by which levels of self-efficacy impact human functions

i. Motivation –

People with high self-efficacy are more likely to make the effort to complete a task and persist with those efforts than people with low self-efficacy. However, this can also manifest as high self-efficacy people being over-confident, less thorough and less well-prepared compared to someone with low self-efficacy.

ii. Behaviour choice –

High self-efficacy generally leads to tasks being undertaken whereas low self-efficacy generally leads to tasks being avoided. High self-efficacy beyond one's ability level to complete a task can lead to poor execution of the task, whereas self-efficacy significantly below ability levels can lead to under-achievement and stifle growth. The optimal level of self-efficacy is considered to be slightly above ability.

iii. Thought patterns and responses

High self-efficacy people will attribute failure to external factors, whereas low self-efficacy people will blame themselves.

Barriers and obstacles will stimulate high self-efficacy employee whereas they will tend to discourage low self-efficacy employees.

Employees with high self-efficacy tend to take a broader overview of a task and embrace 'big-picture' thinking whereas low self-efficacy employees will limit their thinking and focus on achieving rather than exceeding.

Low self-efficacy employees tend to think that tasks are harder than they actually are. This then can result in poor planning and increased stress levels.

iv. Academic productivity – It has been argued that students with high self efficacy demonstrate better academic performance than those with low self- efficacy. This is because they are more likely to proactively take control of their learning experience, participate in class and enjoy hands-on learning experiences.

Total 20 Marks

Marking Guide

	Marks
a i) Description of Reinforcement Theory	2
ii) Main assumption stated (4 ticks @ 2 marks)	8
bi) Definition of self efficacy	2
ii) Ways by which it can be employed in the business environment (4 points @ 2 marks)	8
Total	20

Examiner's Report

The first part of the question tests candidates' knowledge of reinforcement theory, its main assumption and how it can be employed in the business environment. The second part of the question tests candidates' knowledge of self efficacy.

The performance of students was above average.

The major pitfall was candidates' lack of understanding of Reinforcement Theory. Candidates are advised to read the ICAN study text when preparing for future examination of the Institute.

SOLUTION 3

'Supervision' means 'looking over' someone else. It is management by overseeing the performance or activities of an individual or group of individuals, and making sure that the work of the group or individuals is performed properly. Supervision is also called 'front line management' and 'supervisory

These management functions can be classified as follows:

- a) Interpersonal role
- b) Information role
- c) Decision-making role

Interpersonal role

Managers spend much of their time performing interpersonal roles:

i. **As a figurehead**

Managers often perform a ceremonial role, representing the organisation at events and as a 'public face' of the organisation. Managers also represent their organisation in its dealings with other organisations. Other people might refuse to deal with anyone except the manager, because of the manager's formal position and status.

ii. **As a leader**

Managers also deal with relations between individuals inside the organisation, providing leadership (hiring, firing, training, motivating and so on).

iii. **Liaison**

Managers of groups within an organisation act as a link or bridge with other groups. For example, different departments often communicate with each other through their managers. Managers therefore fulfil a role of obtaining information from other sources and other groups.

Information role

Managers also have an information role.

iv. **Monitor**

Managers build and use 'intelligence-gathering' systems and monitor the information they receive. They gather information from formal and informal sources, and develop an extensive knowledge of the organisation as a result.

v. **Disseminator**

Managers disseminate information, acting as a channel of information within the group and with others.

vi. **Spokesman**

Managers act as a spokesperson for the group, in a 'public relations' capacity.

Decision-making role

Managers make decisions.

vii. **Initiator of change or improvements/ Entrepreneur**

They have an entrepreneurial role, and take initiatives.

viii. **Disturbance handler**

They have a role in resolving conflicts and disputes, and dealing with other similar unexpected problems.

ix. **Resource allocator**

They decide how resources should be used, for example what the available money should be spent on and how employees should use their time (what work they should do).

x. **Negotiator**

They negotiate with others, and reach decisions through joint agreement.

Total 20 Marks

Marking Guide

	Marks
a) Description of Supervision	2
b) Classification of management roles (3 ticks @ 1 mark)	3
c i) Listing of each role (10 ticks @ ½ mark)	5
ii) Explanation of each role (10 ticks @ 1 mark)	10
Total	20

Examiner's Report

The first part of the question tests candidates' knowledge of the term 'Supervision' while the second part tests candidates' knowledge of the managerial roles as suggested by Henry Mintzberg.

About 90% of the candidates attempted the question and the performance was above average. The major pitfall was candidates' lack of understanding of the difference between management functions and management roles.

Candidates are advised to read the ICAN study text when preparing for future examination of the Institute.

SOLUTION 4

- (a) Ethical dilemmas arise when the accountant has to consider two or more seemingly incompatible ethical obligations. Such a situation arises when an accountant faces a conflict of interest.

A conflict of interest on the other hand arises when an accountant has a duty to two or more parties.

- (b) A professional body has the power to:
- i. admit new members to the profession
 - ii. award qualifications to individuals who achieve a required standard of skill or competence
 - iii. expel members from the profession, for unprofessional conduct.

- (c) According to the framework contained in ICAN Code, when faced with ethical conflicts, the decision-taker should consider:
- i. The facts of the situation
 - ii. The ethical principles involved
 - iii. Related fundamental principles
 - iv. Relevant internal procedures
 - v. The alternative courses of action
 - vi. Consequences of each alternative course of action.

Total 20 Marks

Marking Guide

	Marks
a i) Explanation of ethical dilemma	2
ii) Explanation of conflict of interest	2
b) Three powers of a Professional body (3 ticks @ 2 marks)	6
c) Ways of resolving ethical dilemma (5 ticks @ 2 marks)	10
Total	20

Examiner's Report

The question tests candidates' understanding of the concept of ethical dilemma.

The performance was above average.

The major pitfall was candidates' lack of understanding of the concept of ethical dilemma especially the possible ways of resolving ethical dilemma in a business environment.

Candidates are advised to read the ICAN study text when preparing for future examination of the Institute.

SOLUTION 5

Yr	Cash-flow ₦	Df @ 21%	P V ₦	Df @ 25%	Present Value ₦
0	(400,000)	1	(400,000)	1.0000	(400,000)
1	140,000	0.8264	115,696	0.8000	112,000
2	150,000	0.6830	102,450	0.6400	96,000
3	170,000	0.5645	95,965	0.5120	87,040
4	190,000	0.4665	<u>88,635</u>	0.4096	<u>77,824</u>
		NPV	2,746	NPV	(27,136)

$$\begin{aligned}\text{By Interpolation: IRR} &= 21\% + \left[\frac{2,746}{2,746 - 27,136} \right] \times 25 - 21\% \\ &= 21\% + \left[\frac{2,746}{29,882} \times 4 \right] \% \\ &= 21\% + 0.3675 \\ &= 21.37\% \\ &= 21.4\%\end{aligned}$$

The Internal Rate of Return of the project (21.4%) is less than the minimum required rate of return of 25% therefore, the project should be rejected.

Total 20 Marks

Marking Guide

	Marks
- Discount factor @ 21% or any rate chosen by the candidate that can provide a positive NPV (4 ticks @ 1 mark)	4
- Present Value (4 ticks @ ½ mark)	2
- Df @ 25% (4 ticks @ 1 mark)	4
- Present Value (4 ticks @ ½ mark)	2
- Total PV (1 tick @ 1 mark)	1
- Total PV (1 tick @ 1 mark)	1
- Calculation Step 1	3
- Final answer	1
- Conclusion	2
Total	20

Examiner's Report

The question tests candidates' understanding of the internal Rate of Refusion.

The performance was above average.

The major pitfall was candidates' poor understanding of IRR method of investment appraisal.

Candidates are encouraged to read the Institute's study text when preparing for future examinations of the Institute.

SOLUTION 6

Security for borrowing

(a) Covenants and Guarantees

- i. Covenants are promises or undertakings in a written agreement such as a loan agreement. For example, a borrower will undertake to make interest payments and capital repayments to the lender.
- ii. A borrower who fails in these undertakings is in breach of the covenants
- iii. The breach of the loan agreement gives the lender the right to take legal action for the recovery of the loan.

Guarantees

- i. A guarantee is a legally-binding promise, given in writing.
- ii. The person giving the guarantee is making a legally-binding promise. For example, when a bank lends money to a borrower, a third party (a guarantor) may give a guarantee to the lender that in the event of default by the borrower, the guarantor will pay the money that the lender is owed.

(b) **Possible reasons and benefits of share repurchase**

- i. the company is overcapitalised implying it has more cash than it needs and
- ii. the surplus cash is earning a low return.
- iii. There is no foreseeable requirement for the surplus cash.
- iv. Debt capital is readily-available and is cheaper than equity.

Benefit of share repurchase to the company

- i. The total capital down of the company will be brought to a more suitable level.
- ii. earnings per share for the remaining shares will increase
- iii. this might result in a higher share price for the remaining shares
- iv. possible replacement of the cancelled equity with debt capital by issuing new corporate bonds or by borrowing from a bank but this may result to capital structure with higher financial gearing.

(c) **Main features of a finance lease arrangement**

The main features of a finance lease arrangement

- i. A company acquires a new non-current asset, such as a machine, an item of equipment, a motor vehicle, or even an aeroplane or ship.
- ii. The purchase cost of the leased asset is paid by a lease finance company.
- iii. The lease finance company (the lessor) and the company (the lessee) enter into a lease agreement, which covers all or most of the economic life of the asset.
- iv. Under the terms of the lease agreement, the lessee agrees to make a number of regular fixed payments to the lessor over the term of the lease. These payments are allowable expense for tax purposes.
- v. The lessee is responsible for insurance and running and maintenance costs for the asset.
- vi. The lessor is the legal owner of the asset, and can claim the tax depreciation allowances (capital allowances). For tax purposes, the lessee can claim the full amount of each lease payment as an allowable expense.
- vii. In law, the lessor is the owner of the asset but for practical purposes, the lessee treats the asset as if it is the owner.
- viii. For financial reporting purposes, the principle of 'substance over form' applies. The leased asset is reported in the statement of financial position (balance sheet) of the lessee as a non-current asset. This is matched (initially) by a long-term debt obligation to the lessor, which is gradually paid off over the term of the lease.

- ix. This means that for financial reporting purposes, lease finance is actually reported in the statement of financial position (balance sheet) as a debt obligation, and the regular lease payments are reported as a mixture of finance costs (interest) and repayment of the obligation to the lessor.

Marking Guide

	Marks
a) Covenants (3 ticks @ 1 mark)	3
- Guarantees (2 ticks @ 1 mark)	2
b) Reasons of share purchase (3 ticks @ 1 mark)	3
- Benefits (3 ticks @ 1 mark)	3
c) Features of a finance lease arrangement (6 ticks @ ½ mark)	9
Total	20

Examiner's Report

The first part of the question tests candidates' understanding of covenants and guarantees. The second and third part of the question test share repurchasing and finance lease arrangement.

The attempt on this question by candidates was moderate.

The performance of candidates is above average.

The major pitfall was candidates' poor understanding of the question especially in the area of finance lease arrangement.

Candidates are advised to make adequate use of the Institute's study text when preparing the Institute's examination in future.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

FOUNDATION LEVEL EXAMINATION – NOVEMBER 2020

BUSINESS LAW

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. The organ of the government that is responsible for making laws in Nigeria is
 - A. Judiciary
 - B. Executive
 - C. Legislature
 - D. Courts
 - E. House of Chiefs

2. A rule of customary law that is against the principles of natural justice, equity and good conscience is said to have failed the
 - A. Incompatibility test
 - B. Public policy test
 - C. Repugnancy test
 - D. Equity test
 - E. Good conscience test

3. A partnership in which all members are involved in the management of the firm's business is
 - A. General partnership
 - B. Government partnership
 - C. Limited partnership
 - D. Active partnership
 - E. Supreme partnership

4. A situation in which the court would disregard the distinction between the personalities of a company and its members is
 - A. Subrogation
 - B. Alienation
 - C. Lifting the veil of incorporation
 - D. Disregarding the law
 - E. The rule in Foss vs. Habbottle

5. A company whose liabilities exceed its assets is said to be
 - A. Buoyant
 - B. Broke
 - C. Rich
 - D. Insolvent
 - E. Pauperised

6. A moral persuasion against wrongdoing or unacceptable conduct is
 - A. Ethics
 - B. Laws
 - C. Rules
 - D. Regulations
 - E. Morals

7. A person who fraudulently takes anything for his own use is guilty of
 - A. Trespass
 - B. Stealing
 - C. Conversion
 - D. Hijacking
 - E. Trickery

8. An electronic means that indicates either that a person adopts the contents of an electronic message, or that a person who claims to have written a message is the one that wrote it is called
 - A. Predictive text
 - B. Text message
 - C. Facebook
 - D. File manager
 - E. E – signature

9. A voluntary agreement between two or more persons, which confers legally enforceable rights, duties, and liabilities on the parties is called a/an
- A. Contract
 - B. Offer
 - C. Guarantee
 - D. Warranty
 - E. Condition
10. The right of an agent to be reimbursed for expenses incurred in performing his authorised duties is called
- A. Remuneration
 - B. Compensation
 - C. Indemnity
 - D. Salary
 - E. Commission
11. A tort that affects personal safety is called
- A. Contacting
 - B. Conversion
 - C. Passing off
 - D. Assault
 - E. Malice
12. A contract of sale of goods in which property in the goods is transferred immediately and unconditionally is an/a
- A. Outright sale
 - B. Conditional sale
 - C. Credit sale
 - D. Hire purchase
 - E. Consumer sale

13. The consideration for a hire purchase is
- A. Payment of shares
 - B. Price of goods
 - C. Installmental payment
 - D. Bill of exchange
 - E. Cost of goods
14. The document issued by the insurer to obtain material information that will form the basis of a contract of insurance is
- A. Insurance policy
 - B. Proposal form
 - C. Insurance paper
 - D. Information document
 - E. Agreement paper
15. A payee that is in possession of a bill he obtained after giving consideration to the drawer is known in law as
- A. Holder for value
 - B. Holder in due course
 - C. Drawee
 - D. Holder of bill
 - E. Holder for the meantime
16. A contract of employment is also known as a contract of
- A. Service
 - B. Parties
 - C. Skills
 - D. Vocation
 - E. Training
17. A will is said to be an ambulatory document because it
- A. Is signed by two witnesses
 - B. Must have two executors
 - C. Takes effect after the death of the maker
 - D. Is written
 - E. Is prepared by a lawyer

b. A partnership may be formed with or without formality.

Required:

i. What is a partnership deed? (2 Marks)

ii. State **FOUR** items which a partnership deed must contain. (4 Marks)

c. Ade and Tola entered into a partnership for the sole purpose of importing cars with engine capacity of 6-horsepower. The government has just passed a law banning the importation of cars of more than 4-horsepower.

Recently, one of the partners in the firm died after the registration of the partnership. The surviving partner intends to introduce a rich man who is interested only in investing his money in the business of the firm but not in its management.

Required:

Examine the effects of the following on the partnership:

i. The law passed by the government (2 Marks)

ii. The death of one of the partners immediately after the registration of the firm (2 Marks)

iii. The status of the new partner who is interested only in investing his money in the business of the firm and not in the management.

(2 Marks)

d. Accountants, like most professionals, are guided by the code of ethics of their profession when dealing with clients.

Required:

Explain:

i. Ethical codes (2 Marks)

ii. The purpose of ethical codes for a professional accountant. (2 Marks)

(Total 20 Marks)

QUESTION 2

a. Ronkey, Peace and Victoria intend to register a limited liability company. They have consulted you as an expert for advice on the appointment and duties of the officers of the company as well as other issues pertaining to registration of companies.

Required:

i. Advise the three on **FOUR** categories of persons that are eligible for

- appointment as a company secretary. (4 Marks)
- ii. State **FOUR** categories of persons who will be entitled to receive the notice of the Annual General Meeting when the company is eventually registered. (4 Marks)
- iii. State **FOUR** grounds for which the Corporate Affairs Commission may refuse to register the documents of incorporation to be submitted for registration. (4 Marks)
- b. The Money Laundering (Prohibition) Act empowers the agency to place surveillance on certain bank account transactions so as to curb money laundering.
- Required:**
State **FOUR** transactions which require special surveillance under the Act. (4 Marks)
- c. Insolvency occurs when a company is unable to pay its debts.
- Required:**
- i. Distinguish insolvency from bankruptcy. (2 Marks)
- ii. Explain briefly the consequences of insolvency on a company. (2 Marks)
- (Total 20 Marks)**

QUESTION 3

- A i. A contract may be enforced if the parties have an intention to enter into a legally enforceable agreement.
- Required:**
Explain **ONE** way by which the courts determine whether or not the parties to an agreement have an intention to create legal relations. (2 Marks)
- ii. 'A' and 'B' entered into an agreement to meet at a gym for their daily physical fitness exercises. 'B' forgot about the agreement and kept 'A' waiting endlessly. 'A' is furious and intends to sue 'B' for breach of agreement. (4 Marks)
- Required:**
Advise 'A' stating the legal issue involved:
- iii. 'A' is a dealer in textile materials. He sold ten bales of textile materials to 'B' his childhood friend. 'B' has refused to pay for the ten bales of materials, arguing that he is a friend of 'A'.
- Required:**
Advise 'A' who intends to sue 'B' stating the legal issue involved. (2 Marks)

- iv. 'A' promised to attend a luncheon organized by 'B'. 'B' spent a lot of money to prepare for the luncheon. 'A' did not turn up as agreed. 'B' is aggrieved and intends to sue 'A' for the cost of the special dish.

Required:

Advise 'B', stating the legal issues involved. (2 Marks)

- b. i. Capacity to contract is an important element of a legally enforceable contract

Required:

Explain the capacity of the following persons to enter into a contract:

- Drunken person
- Insane person (3 Marks)

- ii. Explain valid and binding contract on infants. (2 Marks)

- iii. Explain void contracts by infants. (2 Marks)

- c. A hire purchase agreement is a transaction with strict rules and regulations

Required:

What is hire purchase? (2 Marks)

- i. Ronke entered into a hire Purchase agreement to buy a Nissan Micra car belonging to Fred. Ronke paid the sum of ₦900,000 out of the agreed price of ₦1,000,000. After unsuccessful demands by Fred for the balance of ₦100,000 on the car, Fred seized the car in the front of Ronke's house.

Required:

Advise Ronke on her rights, if any. (2 Marks)

(Total 20 Marks)

QUESTION 4

- a. There are different participants with different roles in trusteeship.

Required:

- i. What is a trust? (2 mark)
- ii Identify the different participants using trusteeship terminologies in the situation below:
Ade instructed Segun to keep his Toyota car for the use of Tunde pending the return of Ade who has just won a scholarship to study accountancy in a United Kingdom university. (3 marks)

b. A contract of insurance is a contract of utmost good faith.

Required:

i. Explain briefly the term “material fact” in a contract of insurance.

(2 Marks)

ii State **THREE** exceptions to the duty of disclosure of material facts

(3 Marks)

c. In sale of goods law, a buyer could acquire ownership of goods if only the seller had title to such goods.

Required:

State **FIVE** instances where a seller who has no title could pass a good title to the buyer in a sale of goods transaction.

(5 Marks)

d. As a general rule, all persons of full age may sue and be sued in tort.

Required:

State **FIVE** exceptions to this general rule.

(5 Marks)

(Total 20 Marks)

QUESTION 5

a. Arbitration is a type of alternative dispute resolution mechanism.

Required:

Explain arbitration and arbitral award.

(5 Marks)

b. Contracts of employment may be created and brought to an end in different ways.

Required:

i. Explain contract of employment.

(2 Marks)

ii. State **THREE** reasons for which an employer could dismiss an employee

(3 Marks)

c. Parties under a contract of agency have certain rights and duties.

Required:

State **FIVE** duties of an agent under a contract of agency.

(5 Marks)

d. Crossing of cheques has legal implications in banking transactions; and a cheque is a type of negotiable instruments.

Required:

- i. A cheque instruction to 'pay Ronke the sum of ₦50,000.00" without crossing the face of the cheque with two parallel lines;
- ii "Pay Andrew ₦100,000" with two parallel lines traversing the face of the cheque.
- iii "Pay Mary ₦150,000" with two parallel lines with Congo bank written in between the two parallel lines on the face of the cheque;
- iv "Pay Ngozi ₦200,000" and by cheque with two parallel lines and the words "account payee only" written in between the two parallel lines; and
- v Define Negotiable instruments. (5 Marks)

(Total 20 Marks)

QUESTION 6

- a. Taking or conversion with intent to defraud is an element of stealing.

Required:

State **FIVE** tests of determining whether or not an accused has an intention to steal at the time of taking or converting a thing. (5 Marks)

- b. Contractual agreements usually contain terms that are different in nature and importance.

Required:

Define the following terms:

- i. Express terms
- ii. Implied terms
- iii. Conditions
- iv. Warranties (4 Marks)

- c. Comment on the legality of the following relationships operating as partnerships:

- i. A partnership of 16 persons established for charitable purposes
- ii. Adex cooperative society consisting of 500 members
- iii. Black and Blue law Firm consisting of 31 lawyers
- iv. Stone Partnership firm comprising Segun aged 28, Tunde aged 17;
- v. A partnership of volunteers for the purpose of helping persons displaced by flood. (5 Marks)

d. One of the two organs of a company is the general meeting of members.

Required:

State **FOUR** powers of the Annual General Meeting.

(6 Marks)

(Total 20 Marks)

SECTION A

Solution

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

SECTION B

SOLUTION 1

- a) i Original jurisdiction means the power of the court to hear and determine a case coming before the court for the first time.
Appellate jurisdiction means the power of the court to hear and determine cases.
- iii Limited jurisdiction means the inability or limitation of a court to hear and determine certain categories of cases.
- iv Concurrent jurisdiction means a equal right which a courts enjoys with other court in the same category on the hierarchy of courts to determine matter coming before it.
- b) i. A partnership deed is a document that contains the terms of the partnership agreement. It is an evidence of a formal partnership agreement.
- ii. A partnership deed must contain:
- The name of the partnership;
 - The names of the partners;
 - The rights and duties of the partners;
 - Admission of new partners;
 - Partnership business(es)
 - The dissolution of partnership;
 - Partners' contribution; and
 - Duration of the partnership.
- c) i. The law passed by the government banning cars with engine capacity of more than four horse power has rendered the business of the partnership illegal. The effect of this illegality is that the partnership will be dissolved.
- ii. The death of one of the partners would render the partnership illegal because the firm cannot meet the statutory minimum of two members to continue to exist. The effect of this is that the firm will be dissolved. In addition, the death of a partner is also one of the grounds for the dissolution of a partnership except there is a contrary agreement to that effect.
- ii The status of the rich man who is interested only in investing his money in
- i. the firm and not in the management is that of a limited partner or dormant partner.
- d) Ethical code means an officially adopted statement of the principles of acceptable conduct relevant to the activities of an occupational group.

The purpose of ethical code for professional accountants is to ensure high standard of conduct in their relationships with their clients who may be vulnerable because they, professional accountants are in a position of authority and of trust.

Marking Guide

		Marks	Total
a	(i) Explain original jurisdiction	1	
	(ii) Explain appellate jurisdiction	1	
	(iii) Explain limited jurisdiction	1	
	(iv) Explain concurrent jurisdiction	<u>1</u>	<u>4</u>
b	(i) Explain partnership deed	2	
	(ii) State 4 contents of Partnership deed (1 mark each)	<u>4</u>	6
c	(i) Effect of government law passed:		
	- Partnership becomes illegal	1	
	- Solution of the partnership	<u>1</u>	2
	(ii) - Death of partner renders the partnership illegal	1	
	- Effect is dissolution of the partnership	1	
(iii) Rich man is a dormant partner	<u>2</u>	4	
d	(i) Explain ethical codes	2	
	(ii) Explain professional accountant's ethical codes	<u>2</u>	4
Total			<u><u>20</u></u>

Examiner's Report

The question tests candidates' understanding of courts' jurisdiction, partnership deed and contents as well as professional ethics.

About 80% of the candidates attempted the question and their performance was very good.

SOLUTION 2

- a. (i) The following persons will be qualified for appointment as a company secretary when the company is eventually registered:
- A chartered accountant;
 - A legal practitioner;

- A chartered secretary and administrator;
 - A body corporate or firm consisting of the professionals mentioned above; and
 - A person who has been a company secretary for at least three out of the five years immediately preceding his appointment in a public company.
- (ii) The following persons will be entitled to receive the notice of Annual General Meeting when the company is registered:
- Every shareholder or contributory of the company;
 - Every person upon whom the ownership of a share devolves by reason of his being a legal representative, receiver or a trustee in bankruptcy of a member;
 - Every director of the company;
 - The company secretary; and
 - The auditor.
- (iii) The Corporate Affairs Commission may refuse to register the documents of incorporation submitted by the proposed company if:
- They do not comply with provisions of the CAMA;
 - Any of the business that the company is to carry on or the objects for which it is formed is illegal;
 - Any of the subscribers to the memorandum is incompetent or disqualified from being a member of a company under section 20 of the CAMA;
 - There is non-compliance with the requirements of any other law as to the registration and incorporation of the company; or
 - The proposed name of the company conflicts or is likely to conflict with an existing trade mark or business name registered in Nigeria.
- b. The transactions that require special surveillance under the Money Laundering Act are transactions that involve:
- i. A sum greater than five million naira or its equivalent, in the case of an individual
 - ii. A sum greater than ten million naira or its equivalent, in the case of a body corporate is surrounded by conditions of unusual or unjustified complexity
 - iii. Appears to have no economic justification or lawful objective.
- c.
- i. Insolvency relates to a company while bankruptcy relates to a natural person.
 - ii. The consequence of insolvency on the company is that it may lead to winding of the company through the process of liquidation where its assets are distributed to meet claims of his creditors.

Marking Guide

		Marks	Total
A	(i) State 4 categories of eligible persons to be appointed as company secretary (1 mark each)	4	
	(ii) State 4 categories of persons entitled to receive notice of Annual General Meeting (1 mark each)	4	
	(iii) State 4 grounds for CAC refusal to accept registration documents (1 mark each)	<u>4</u>	12
b	State 4 transactions that requires special surveillance under the Money Laundering (Prohibition) Act (1 mark each)		4
c	(i) - Explain Insolvency	1	
	- Explain Bankruptcy	1	
	(ii) Explain consequence Insolvency on a company	<u>2</u>	<u>4</u>
	Total		<u><u>20</u></u>

Examiner's Report

The question tests candidates' understanding of the qualifications of company secretary, persons entitled to notice of general meeting, grounds upon which the CAC may refuse to register the documents of a proposed company, limit transactions that are subject to special surveillance under the Money Laundering (Prohibition) Act (as amended), and the distinction between insolvency and bankruptcy.

About 90% of the candidates attempted the question and performance was good.

Candidates' major pitfall was their incomplete understanding of the applicable principles.

Candidates are advised to read ICAN Study Text and Pathfinder in their preparation for future examinations.

SOLUTION 3

- a. (i) Intention to create legal relations means that the parties to a contract must have the intention that their agreement must be enforceable in law.

The rules applied by the court to determine whether parties to a contract have an intention to create legal relations or not are as follows:

- Where the parties expressly stated that the agreement shall be legally enforceable, the court would give effect to such an intention; or
 - The court would decide that there is no intention to create legal relations from the nature of the agreement. Consequently, courts usually presume that there is no intention to create legal relations by the parties in domestic and social contracts
- (ii) The agreement by 'A' and 'B' to meet at the gym for their exercises is an example of a social contract.
- Therefore, whether the parties stated so or otherwise, 'A' and 'B' would be presumed under the law not to have had an intention to create legal relations. B is advised not to sue for breach of contract.
- (iii) The agreement between 'A' and 'B' is a commercial agreement and the court would presume that 'A' and 'B' had an intention to enter into enforceable contract in law. Therefore, 'A' could sue 'B' to recover his money.
- (iv) This is an example of a social contract. The court would decide that there was no intention to create legal relations. 'B' is advised not to sue 'A'.
- b. (i) The following have limited capacities to contract as follows:
- A drunken person lacks the capacity to enter into contract in his drunken state provided the other party is aware of his condition.
 - An insane person lacks the capacity to enter into contract but he is liable for any contract entered into during the lucid interval.
- (ii) The following contracts are valid and binding on infants:
- Contracts for supply of necessities; and
 - Beneficial contracts of service.
- (iii) The following contracts are void against an infant:
- Contracts to repay loans given or to be given to an infant;
 - Agreements to pay for goods which are non-necessaries
 - Agreements involving an "accounts stated" e.g. an I.O.U and accepting that the infant is indebted to another.

- c. (i) Hire purchase is a contract in which the owner of goods transfers possession of the goods to the hirer in consideration of payment of a certain amount periodically and which gives the hirer an option to purchase the goods at the end of the period or after payment of the agreed installments.
- (ii) The position of the law is that if the hirer has paid substantial part or relevant portion of the hire purchase price the hirer cannot repossess goods. In the case of motor vehicles, the law states that if the hirer has paid 3/5th of the hire purchase price the vehicle cannot be repossessed except by legal action.

Since Ronke has paid more than 3/5th of the hire purchase price, it is wrong For Fred to seize the car. Ronke can sue Fred to recover the entire installments she had paid.

Marking Guide

	Marks	Total
a (i) Explain 1 way to determine intention to create legal relation		2
(ii) Legal issue involved is social contract	1	
Relate to case legal relations not intended	2	
Advise B not to sue	<u>1</u>	4
(iii) Legal issue involved is a commercial agreement and enforceable	1	
Advise A to Sue B to recover his money	1	
(iv) Legal issue involved in social contract	1	
Advice B not to sue A	<u>1</u>	4
b (i) Explain capacity of drunken and insane person	3	
(ii) Explain persons and valid contract on infants	2	
(iii) Explain void contracts by infants	<u>2</u>	7
c (i) Explain hire purchase		2
(ii) Illegal issue involved is action for repossession of hire purchase goods	1	
- Relate to case – airport paid has exceeded 3/5 minimum required	1	
- Advise Ronke to sue Fred to recover the ₦900,000	1	3
Total	<u> </u>	<u>20</u>

Examiner's Report

The question tests candidates' understanding of intention to create legal relations, capacity to enter into contract by infants and drunken persons as well as repossession of goods under hire purchase.

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

Candidates' major pitfall was their inability to apply the applicable principles correctly.

Candidates are advised to read widely as this will assist them in passing future examinations.

SOLUTION 4

- a.
 - i. A trust is the relationship which arises wherever a person called the trustee is compelled in equity to hold property for the benefit of some persons (of whom he may be one) or for some object permitted by law in such a way that the real benefit of the property accrues, not to the trustee, but to the beneficiaries or other object of the trust.
 - ii. Under the law of trust, Ade, who is the actual owner, is referred to as the **SETTLOR** or **LEGAL OWNER**. Segun to whom the instruction to keep the car is directed is the **TRUSTEE**.

The Toyota vehicle is the **TRUST PROPERTY**

Tunde is the **BENEFICIARY** who enjoys the actual benefit of the Toyota vehicle and he is also the equitable owner of the vehicle.

- b.
 - i. Material facts are relevant information that are important and that the insurer requires to decide whether or not to accept the offer of insurance extended by the insured.
 - ii. The exceptions to the duty of disclosure of material facts by the insured are as follows:
 - Facts known to or presumed known to the insured in the ordinary course of dealings;
 - Facts which would diminish the risk to be insured against; and
 - Facts which the insured did not know.

- c. The instances in which a seller who has no title could pass a good title to the buyer are as follows:
- i. Sale in a market overt;
 - ii. Sale under a voidable title;
 - iii. Sale by estoppels;
 - iv. Sale by seller in possession;
 - v. Sale by a buyer in possession;
 - vi. Sale by a mercantile agent; and
 - vii. Sale under common law or statutory powers
- d. The exceptions to the general rule that all persons of full age may sue and be sued in tort are:
- i. The Head of State or President;
 - ii. Judges acting in their judicial capacities;
 - iii. Diplomats;
 - iv. Insane persons;
 - v. Governors;
 - vi. Senate President; and
 - vii. Speakers of Legislative Houses

Marking Guide

	Mark	Total
a. (i) Explain Trust		2
(ii) - Ade is settlor or legal owner	1	
- The vehicle is trust property	1	
- Tunde is trust beneficiary	<u>1</u>	3
b. (i) Explain material fact in insurance	2	
(ii) State 3 exceptions to disclosure of materials facts (1 mark each)	<u>3</u>	5
c. State 5 instance where buyer could acquire ownership from seller who has no title (1 mark each)		5
d. State 5 exceptions to rule for person of full age to sue and be sued in court (1 mark each)		<u>5</u>
Total		<u>20</u>

Examiner's Report

The question tests candidates' understanding of trust and its ingredients, disclosure of material facts in insurance contract, circumstances in which a person may sell good without having title, and persons that are exempt from tort liability.

About 70% of the candidates attempted the question and performance was above average.

SOLUTION 5

- a. Arbitration is a process of dispute resolution in which a neutral third person called the arbitrator renders a decision after a hearing at which both parties have made representations.

Arbitral award is the decision of the arbitral tribunal. This award shall state the reasons, the date and the place it was made. It must be signed by the majority of the arbitrators.

- b. (i) A contract of employment is a voluntary agreement between a master (employer) and a servant (employee) where the employee, for a money consideration or remuneration promises to render to the master, services.
- (ii) A master can dismiss an employee for the following reasons:
- Act or conduct likely to bring the employer into disrepute;
 - Where the servant's practices or conducts expose the master to loss of public confidence;
 - Gross immorality;
 - Absenteeism without leave or permission amounting to an abandonment of duties; and
 - Gross misconduct, which may include insubordination, habitual drunkenness, gross negligence, willful disobedience of lawful orders.
- c. i. To follow the principal's instruction;
- ii. Not to delegate his authority unless expressly instructed by his Principal;
- iii. To act in good faith;
- iv. To exercise due care and skill;
- v. Not to make secret profit;
- vi. Not to disclose confidential information; and
- vii. To render account as and when due.

- d. (i) The effect of the cheque without any crossing or parallel lines is that the money can be paid across the counter to Ronke;
- (ii) The effect on the cheque with parallel lines on its face is that the money can only be paid into Andrew's account;
- (iii) The cheque issued to Mercy with two parallel lines and congo bank written between the two parallel lines means that the cheque could only be paid through congo bank;
- (iv) The cheque issued to Ngozi with the words account payee only written between the two parallel lines on the face of the cheque means that the money can only be paid into the account of Ngozi; and
- (v) Negotiable instruments are certain choses in action whose legal title can be transferred (according to custom or statute) by mere delivery, with the result that any bonafide transferee for value receives good legal title to the instrument free from all equities.

Marking Guide

	Marks	Total
a	- Explain arbitration	$2\frac{1}{2}$
	- Explain arbitral award	<u>$2\frac{1}{2}$</u>
		5
b	(i) Explain contract of employment	2
	(ii) State 3 reasons for employer to dismiss employee (1 mark each)	<u>3</u>
		5
c	State 5 duties of agent (1 mark each)	5
d	(i) Cheque issued to Ronke is open and is cashable across the counter	1
	(ii) Cheque issued to Andrew is crossed and can only be paid into Andrew's Account	1
	(iii) Cheque issued to mercy has special crossing and can only be paid through Congo bank	1
	(iv) Cheque issued to Ngozi is crossed and can only be paid into Ngozi's account	1
	(v) Explain – Negotiable Instruments	<u>1</u>
		5
	Total	<u>20</u>

Examiner's Report

The question tests candidates' knowledge on arbitration and arbitral awards, grounds upon which an employer may dismiss an employee, duties of agents, and types of crossing of cheques.

About 80% of the candidates attempted the question and performance was good.

SOLUTION 6

- a. The tests that is applicable to determine whether an act of taking or conversion will support a charge of stealing are where there is an intent to:
 - i. Permanently deprive the owner of the thing;
 - ii. Permanently deprive any person who has any special property in a thing of such property;
 - iii. Use the thing as a pledge or security;
 - iv. Part with on a condition has to return which the person taking or converting it may be unable to perform;
 - v. Deal with the thing in such a manner that it cannot be returned in the condition in which it was at the time of taking or conversion; and
 - vi. In the case of money, an intent to use it at the will of the person who takes or converts it, although he may intend afterwards to repay the amount to the owner.

- b.
 - (i) Express terms mean terms which the parties have actually stated verbally or in writing.
 - (ii) Implied terms are those terms which are not stated to be part of a contract but are nevertheless made part of it by law.
 - (iii) Conditions are important part of the contract which go to the root of the contract and a breach of which entitles an aggrieved party to sue for damages and avoid the contract.
 - (iv) A warranty is a term of the contract a breach of which an aggrieved party can only sue for damages.

- c. (i) A partnership of 16 persons established for charitable purposes is an illegal partnership because the profit motive which is an essential requirement for determination of a legal partnership is missing.
- (ii) Adex cooperative consisting of 500 persons is legal. Cooperative society is one of the partnership firms which membership could exceed the statutory limit of 20 partners.
- (iii) Black and Blue Firm consisting 31 lawyers is also legal. A firm of lawyers could exceed 20 partners
- (iv) Stone partnership firm comprising Segun aged 28 and Tunde aged 17 is also illegal Tunde is a minor and the contract is not binding on him.
- (v) This is an illegal partnership. There is no profit motive and no business enterprise.
- d. The powers of a general meeting of the members of a company are:
- i. To make policies for the company;
 - ii. To act in any matter if the directors are disqualified or are unable to act because of deadlock or otherwise;
 - iii. To institute legal proceedings in the name of the company if the directors failed or neglected to do so
 - iv. To make recommendations to the board of directors regarding an action to be taken by the board;
 - v. To remove any director of whose action they do not approve
 - vi. To declare dividends;
 - vii. To appoint directors; and
 - viii. To appoint auditors

Marking Guide

	Marks	Total
a. State 5 tests to determine stealing and converting a thing (1 mark each)		5
b. (i) Explain express terms	1	
(ii) Explain implied terms	1	
(iii) Explain conditions	1	
(iv) Explain warranties	<u>1</u>	4
c. (i) Partnership for charitable proposes has no profit motive and is thus illegal	1	
(ii) Adex cooperative society is legal		
(iii) Blank and Blue firm of 31 lawyers is legal	1	
(iv) Stone partnership with Tunde, a minor is	1	

	illegal	1	
(v)	Partnership to assist displaced persons is illegal-no profit motive	1	<u>5</u>
d.	State 4 powers of Annual General Meeting of a company (1½ marks each)		<u>6</u>
	Total		<u>20</u>

Examiner's Report

The question tests candidates' understanding of the elements of stealing and conversion, conditions and warranties in the law of contract, mandatory contents of partnership deed, and the powers of the Annual General Meeting.

About 70% of the candidates attempted the question and performance was good.