



**THE INSTITUTE OF CHARTERED  
ACCOUNTANTS OF NIGERIA**

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# **PATHFINDER**

**NOVEMBER 2022 DIET  
FOUNDATION LEVEL EXAMINATIONS**

**Question Papers**

**Suggested Solutions**

**Examiners' Reports**

**and**

**Marking Guides**

## **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 2022****FINANCIAL ACCOUNTING****EXAMINATION INSTRUCTIONS****PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER**

1. Check your pockets, purse, mathematical set, etc. to ensure that you do not have prohibited items such as telephone handset, electronic storage device, programmable devices, wristwatches or any form of written material on you in the examination hall. You will be stopped from continuing with the examination and liable to further disciplinary actions including cancellation of examination result if caught.
2. Write your **EXAMINATION NUMBER** in the space provided above.
3. Do **NOT** write anything on your question paper **EXCEPT** your examination number.
4. Do **NOT** write anything on your docket.
5. Read all instructions in each section of the question paper carefully before answering the questions.
6. Do **NOT** answer more than the number of questions required in each section, otherwise, you will be penalised.
7. All solutions should be written in **BLUE** or **BLACK INK**. Any solution written in **PENCIL** or **RED INK** will not be marked.

**TUESDAY, NOVEMBER 15, 2022****DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**  
**FOUNDATION LEVEL EXAMINATION – NOVEMBER 2022**  
**FINANCIAL ACCOUNTING**

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

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

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

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

1. Which of the following transactions result in an increase in cash of a business?
  - A. Drawings from the business
  - B. Payment for a new asset
  - C. Proceeds from disposal of non-current asset
  - D. Payment to a supplier
  - E. Goods sold on credit to customers
  
2. Which of the following is a correct accounting principle?
  - A. Revenue should be supported by owners' capital
  - B. There should be a balance in the payables' account in order to measure total assets
  - C. Where payables account is zero, the assets are equal to the owner's equity
  - D. Total liabilities and equity are equal
  - E. Total assets can be less than liabilities and equity
  
3. A cheque of ₦5,000,000 paid to Alhaji Dalami had been correctly entered in the cash book but was omitted in Alhaji Dalami's account. To correct this error, debit Alhaji Dalami's account and credit
  - A. Cash account
  - B. Bank account
  - C. Suspense account
  - D. Purchases account
  - E. Control account
  
4. Success Motors bought three Toyota vehicles on cash at the cost of ₦16,000,000. On debiting the vehicle account, the corresponding credit for the purchase will appear in the

- A. Sales day book
  - B. Purchases day book
  - C. Payables account
  - D. Cash book
  - E. Purchases account
5. An item credited in the bank statement but yet to be recorded in the firm's cash book is
- A. Standing order
  - B. Direct transfer
  - C. Direct debit
  - D. Uncredited lodgements
  - E. Unpresented cheques
6. The control account is used in facilitating
- A. The location of errors in the various accounts
  - B. The update of bank transactions
  - C. The payment of debts and liabilities of the firm
  - D. Location of petty cash book error
  - E. Balancing the trial balance
7. Subscription in arrears is treated in the statement of financial position of a not- for-profit organisation as
- A. Current assets
  - B. Current liabilities
  - C. Non-current assets
  - D. Intangible assets
  - E. Tangible assets
8. Accounting concepts are generally accepted principles used in the preparation and presentation of financial statements. Which of the following is **NOT** an accounting concept?
- A. Going concern
  - B. Impairment
  - C. Matching
  - D. Periodicity
  - E. Prudence
9. According to **IAS 2**-Inventories, which of the following costs should be included in determining the value of inventories of a manufacturing company?
- A. Carriage inwards
  - B. Carriage outwards

- C. General administrative overheads
  - D. Depreciation of land and buildings
  - E. Discount allowed
10. In accordance with **IAS 1**-Presentation of Financial Statements, which of the following is **Not** a component of financial statements?
- A. Statement of financial position
  - B. Statement of profit or loss and other comprehensive income
  - C. Statement of changes in equity
  - D. Statement of affairs
  - E. Statement of cashflows
11. If the total discount allowed in a cash book was ₦52,000 and the total discount received was ₦66,700, which of the following is **TRUE** concerning the two discounts?
- A. They should not appear in the trial balance as they were already either received or paid out
  - B. They must be balanced in the cash book and the difference taken to the receivables
  - C. They must not appear in the general ledger
  - D. They must be balanced in the cash book and the difference taken to the trial balance
  - E. They should not be balanced in the cash book before being taken to the trial balance.
12. A source document for the sales day book is
- A. Invoice
  - B. Cheque stub
  - C. Customer advice
  - D. Credit advice
  - E. Requisition form
13. In a cash book, the opening balance was ₦70,600, closing balance was ₦9,200 and the total cash received during the period was ₦180,000. What was the amount of cash paid out during the period?
- A. ₦79,000
  - B. ₦98,000
  - C. ₦100,200
  - D. ₦118,600
  - E. ₦241,400

14. The fixed amount of money given to a petty cashier at the beginning of a period is called
- A. Float
  - B. Imprest
  - C. Petty cash
  - D. Cash received
  - E. Cash advance
15. Which of the following bank statement items should **NOT** be added or subtracted from the cash book balance to determine the adjusted bank balance?
- A. Bank service charges
  - B. Unpresented cheques
  - C. Direct transfer
  - D. Cash book error
  - E. Value added tax.
16. The basic features of the single entry system of accounting are that
- A. Books of accounts are not maintained and business relies only on bank statement
  - B. The journal records are absent and only the main ledger is kept
  - C. There are incomplete classifications and recording of accounting procedures
  - D. Only credit sales transactions and credit purchases are recorded
  - E. Only debit entries are made
17. A business proprietor failed to maintain proper records, but you managed to ascertain that his opening capital, closing capital and drawings during the year were ₦225,000, ₦260,000 and ₦10,000 respectively. Determine the profit for the period
- A. ₦25,000
  - B. ₦45,000
  - C. ₦55,000
  - D. ₦65,000
  - E. ₦75,000
18. In the process of drawing up financial statements, adjustments are made for prepaid and accrued expenses in order to comply with which fundamental accounting concept?
- A. Matching
  - B. Prudence
  - C. Aggregation
  - D. Entity
  - E. Consistency



19. Which of the following is **NOT** a liability?
- A. Accrued wages
  - B. Trade payables
  - C. Prepayments
  - D. Insurance due but unpaid
  - E. Rent received in advance
20. Goodwill can be valued in partnership when
- A. Partners make profit
  - B. Large losses are made
  - C. Partner retire
  - D. New branch is opened
  - E. Partners receives salary

**SECTION B: OPEN-ENDED QUESTIONS****(80 MARKS)****INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT ANY FOUR OUT OF THE SIX QUESTIONS IN THIS SECTION****QUESTION 1**

On April 6, 2020, Alhaji Mogaji received his bank statements for the month ended March 31, 2020. The bank statement showed a balance of ₦41,740,000 (overdraft) as at March 31, while the cash book showed a balance of ₦52,599,000 (Credit) as at that date. On examination of the cash book and the bank statements, the following were discovered:

- (i) Bank charges of ₦201,000 had not been recorded in the cash book;
- (ii) Alhaji Mogaji exceeded his overdraft limit during the month of March. The bank had therefore charged him a default penalty of ₦250,000. This was not reflected in the cashbook;
- (iii) A sum of ₦1,250,000 had been credited to Alhaji Mogaji's bank account in error;
- (iv) A cheque for ₦1,230,000 had been returned by the bank as dishonoured, in effect, the bank charged Alhaji Mogaji ₦15,000. This was not reflected in the cash book;
- (v) Cash receipts of ₦3,740,000 were posted as cash payments of ₦4,730,000 in the cash book;
- (vi) On March 21, Alhaji Mogaji transferred cash of ₦650,000 to his personal bank account. This was credited to the business bank account in error by the bank;
- (vii) Standing orders and direct debits of ₦1,115,000 had not been posted to the cash book;
- (viii) Customers had transferred ₦2,170,000 directly to the bank account and credit alert received but no record had been made in the cash book;
- (ix) An amount of ₦5,120,000 lodged into the bank account on March 31, 2020 had not been credited by the bank;
- (x.) The following cheques, drawn on the bank account, had not been presented to the bank for payment as at March 31, 2020.

<b>Cheque number</b>	<b>Date cheque was written</b>	<b>₦'000</b>
No: 4528	March 11, 2020	840,000
No: 4535	March 28, 2020	1,740,000
No: 4537	March 31, 2020	3,670,000

**You are required to:**

- a. Prepare the adjusted cash book for the month of March, 2020. (9 Marks)
- b. Prepare a statement on March 31, 2020 reconciling the bank statement balance with the adjusted cash book balance. (7 Marks)
- c. Explain two reasons for preparing bank reconciliation statement on a regular basis. (4 Marks)

**(Total 20 Marks)**

**QUESTION 2**

Bala and Ade had been together in partnership for several years in plastic manufacturing, sharing profits and losses in the ratio of 3:2 after payment of salaries of ₦3,000,000 p.a. to each partner.

On September 1, 2020, Ngozi was admitted into partnership on the following terms:

- (a) That she paid ₦2,800,000 to the partnership as her capital contributions; and
- (b) She would be entitled to salary of ₦2,700,000 per annum and a 20% share of profits after charging all salaries.

Bala and Ade are to continue their old profit sharing ratios and Ngozi's 20% share of profits is guaranteed at a minimum of ₦1,500,000 per annum, by the old partners.

On December 31, 2020 the following balances were extracted from the partnership books of Bala, Ade and Ngozi.

	Debit ₦'000	Credit ₦'000
<b>Capital accounts:</b>		
Bala		28,000
Ade		18,000
<b>Current accounts:</b>		
Bala		4,800
Ade		2,000
Amount paid in by Ngozi		2,800
Sales		272,000
Purchases	190,000	
Wages	20,000	
Salaries	25,000	
General expenses	10,000	
Plant and machinery	25,000	

Motor vehicles	15,000	
Receivables	20,000	
Telephone expenses	3,750	
Payables		24,350
Inventory at January 1, 2020	15,000	
Allowances for bad debts		1,500
Bank balance	17,100	
<b>Drawings:</b>		
Bala	6,600	
Ade	5,000	
Ngozi	1,000	
	<u>353,450</u>	<u>353,450</u>

**You are informed that:**

- (i) Allowances for doubtful debts should be maintained at 5% of receivables.
- (ii) Inventory at December 31, 2020 was valued at ₦12,000,000.
- (iii) Depreciation on plant and machinery is 20% per annum and on motor vehicles is 25% per annum.

**You are required to prepare the following:**

- a. Statement of profit or loss and appropriation for the year ended December 31, 2020; accounting for Ngozi on a pro-rata time basis. (12 Marks)
- b. Partners' current accounts for the above period. (8 Marks)

**(Total 20 Marks)**

### QUESTION 3

The following balances remained in the books of Chukwu Limited as at December 31, 2020.

	<b>₦'000</b>
200,000,000 ordinary shares of ₦1 each	200,000
Cash at bank and in hand	500
Inventory at December 31, 2020	61,200
Receivables	18,005
Payables	15,009
Gross profit for the period ended December 31, 2020	120,942
General reserves	25,000
Salaries/wages	28,430
Prepayments	600
Bad debts written off	500
Accrued expenses	526
Director's account (Credit)	2,500
Interest on loan notes ( $\frac{1}{2}$ year to June 30, 2020)	600
Sundry expenses	4,100
Rates and insurance	1,520
6% loan notes	20,000
Lighting and cooling	1,310
Postage and telephones	8,800
Motor vehicles (cost ₦25,000,000)	15,000
Office fittings and equipment (cost ₦65,500,000)	42,350
Profit or loss at January 1, 2020 (Credit)	22,300
Land and buildings at cost	223,362

The following additional information is relevant:

- (i) Office fittings and equipment are to be depreciated at 15% on cost, and motor vehicles at 20% on cost.
- (ii) Provisions are to be made for:

Directors' fees	₦6,000,000
Audit fees	₦2,500,000
- (iii) The amount for insurance includes a premium of ₦600,000 paid in September 1, 2020 to cover the company against fire loss for the period September 1, 2020 to August 31, 2021.
- (iv) A bill for ₦548,000 in respect of electricity consumed up to December 31, 2020 has not been accounted for.
- (v) The Directors have recommended that:
  - ₦15,000,000 be transferred to general reserves.
  - 5% dividend is paid on ordinary share capital.

**You are required to prepare:**

- a. Trial balance of Chukwu Limited at December 31, 2020 (6 Marks)
- b. Statement of profit or loss for the year ended December 31, 2020 (8 Marks)
- c. Statement of financial position as at December 31, 2020  
Please ignore taxation. (6 Marks)

**(Total 20 Marks)**

**QUESTION 4**

- a. Accounting concepts are the broad principles and general assumptions underlying the preparation of financial statements.

**Required:**

Explain the following accounting basis. (6 Marks)

- i. Cash basis
- ii. Accrual basis
- iii. Break-up basis

- b. State **FOUR** limitations associated with cash basis of accounting. (8 Marks)
- c. Chief Emeka is considering setting up a petty cash book from which to pay small expenses. However, he is not sure of how a petty cashbook operates.

**Required:**

Explain to Chief Emeka the operation of a petty cash book. (6 Marks)

**(Total 20 Marks)**

**QUESTION 5**

- a. Explain the term “inventories” as defined by IAS 2 – Inventories. (3 Marks)
- b. Explain the costs which should be included when measuring the value of inventories. (8 Marks)
- c. Identify any cost(s) which should be excluded from measuring the value of inventories. (4 Marks)
- d. Ebuka and Sons Enterprise is a manufacturing entity which imports some of its raw materials from overseas.

The entity recently took delivery of some materials as detailed below:

- (i) 2000kg of materials at ₦625 per kg subject to a trade discount of 5%.
- (ii) Import duties and other non-recoverable taxes paid amounted to ₦266, 000.
- (iii) 3% early payment discount allowance enjoyed by the enterprise amounted to ₦37, 500.
- (iv) Delivery cost on materials imported from custom's warehouse to production plant was ₦125,000.
- (v) 3,500kg of local materials at ₦250 per kg subject to a trade discount of ₦50,000.
- (vi) Carriage inwards on local materials purchased was ₦205,000.
- (vii) Special toll fare paid to commodity board for local materials purchased was ₦25,000

**Required:**

- i. Calculate the total cost of inventory of raw materials. (3 Marks)
- ii. It is estimated that these materials can produce 5000 units of finished product. Calculate the material cost per unit of finished product. (2 Marks)

**(Total 20 Marks)**

**QUESTION 6**

- a. IAS 16 – Property, Plant and Equipment requires an entity to make certain disclosures in the financial statements for each major class of property, plant and equipment.

**Required:**

State **FIVE** of the disclosures under IAS 16. (10 Marks)

- b. Propati Limited has fleet of cars that are used to distribute goods to the market. As at July 1, 2020, the cost of the cars was ₦750,000,000 and their accumulated depreciation was ₦30,500,000. On January 1, 2021, the company bought a new car for ₦2,800,000. One of the old cars which was acquired 3 years ago at a cost of ₦1,000,000 with accumulated depreciation of ₦600,000 was accepted by the seller in part-exchange at a value of ₦480,000. The reporting date of Propati Limited is December 31. The reporting and the entity charges depreciation using the straight-line method.

**Required:**

- i. Calculate the gain or loss on disposal of the old car. (2 Marks)
- ii. Prepare the following ledger accounts in respect of the transactions:
  - Disposal of motor vehicle account (2 Marks)
  - Motor vehicles account (4 Marks)
  - Accumulated depreciation account (2 Marks)

**(Total 20 Marks)**

## SOLUTIONS

### MCQ

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

### Workings

#### 13. Cash book

	₦		₦
Balance b/d	70,000	Payments	241,400
Receipts	<u>180,000</u>	Balance c/d	<u>9,200</u>
	<u>250,000</u>		<u>250,000</u>

#### 17. Determination of profit.

	₦'000
Closing capital	260
Add drawings	<u>10</u>
	<u>270</u>
Opening capital	<u>(225)</u>
Profit	<u>45</u>



## Examiner's report

The questions test all the areas of the Financial Accounting syllabus and cover concepts, principles and their applications.

All the candidates attempted the questions and performance was above average. Few candidates displayed inadequate knowledge of some accounting concepts, principles and their applications, thereby selecting the wrong options.

Candidates are advised to cover all sections of the syllabus and pay more attention to accounting concepts, principles and their applications when preparing for future examinations.

## SECTION B

### SOLUTION 1

**Alhaji Mogaji**

a. **Adjusted cash book for the month ended March 31, 2020**

	₦'000		₦'000
Direct credit	2,170	Balance b/d	52,599
Suspense-Cash receipts	8,470	Bank charges	201
		Default penalty on bank overdraft	250
		Dishonoured cheque	1,230
		Charge on dishonoured cheque	15
Balance c/d	<u>44,770</u>	Standing order	<u>1,115</u>
	<u>55,410</u>		<u>55,410</u>
		Balance b/d	44,770

b. **Bank reconciliation statement**

	₦'000	₦'000
Balance as per bank statement		(41,740)
Add uncredited lodgement		<u>5,120</u>
		(36,620)
Less unpresented cheques:		
Cheque numbers	4528	(840)
	4535	(1,740)
	4537	<u>(3,670)</u>
		<u>(6,250)</u>
		(42,870)
Amount credited in error by bank		(1,250)
Amount credited to business account instead of personal account		<u>(650)</u>
Balance as per cash book		<u>(44,770)</u>

### Alternative solution

#### Bank reconciliation statement

	₦'000	₦'000
Balance as per cash book		(44,770)
Add unpresented cheques:		
Cheque numbers 4528	840	
4535	1,740	
4537	<u>3,670</u>	
		<u>6,250</u>
		(38,520)
Less uncredited lodgements		<u>(5,120)</u>
		(43,640)
Credited in error by bank	1,250	
Credited to business account instead of personal account	<u>650</u>	<u>1,900</u>
Balance as per bank statement		<u>(41,740)</u>

- c. The reasons for preparing bank reconciliation statement on a regular basis are to:
- Detect errors on either in the cash book or bank statement;
  - Determine the final closing balance on the cash book, which will be used to prepare the final accounts;
  - Detect fraud that may have been perpetrated on either the cash book or bank statement; and
  - Ensure complete update of accounts in the ledger.

### Examiner's report

The question tests the candidates' knowledge on the preparation of the adjusted cashbook and reconciliation statement. Candidates were also required to explain reasons for preparing bank reconciliation statement.

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

Most of the candidates exhibited lack of knowledge of how to account for unpresented and uncredited cheques when bank balance is overdraft and in stating the reasons for preparing bank reconciliation statement.

Candidates are advised to cover all areas of the syllabus and make use of the Institute's Pathfinder and Study Text.

## Marking guide

	Marks	Marks
a. i. <b>Adjusted cash book:</b>		
i. Credit balance b/d	1	
ii. Bank charges	1	
iii. Default penalty	1	
iv. Dishonoured-cheque	1	
v. Charge on dishonoured cheque	1	
vi. Standing order	1	
vii. Direct credit	1	
viii. Suspense-cash receipts credited in error	1	
ix. Balance c/d	<u>1</u>	9
ii. <b>Bank reconciliation statement:</b>		
x. Balance as per bank statement	1	
xi. Adding uncredited cheques	1	
xii. Deducting unpresented cheques	3	
xiii. Adjust for bank errors	<u>2</u>	7
b. The reasons for preparing bank reconciliation statement		<u>4</u>
<b>Total</b>		<b><u>20</u></b>

## SOLUTION 2

**Bade, Ade and Ngozi firm of partnership**  
**Statement of profit or loss and appropriation for the year ended December 31,**  
**2020**

	N'000	N'000
Revenue		272,000
<b>Cost of sales:</b>		
Opening inventory	15,000	
Purchases	190,000	
Closing inventory	<u>(12,000)</u>	
	193,000	
Wages	<u>20,000</u>	
Cost of sales		<u>213,000</u>
<b>Gross profit</b>		59,000
Reduction in bad debt written back		<u>500</u>
		59,500
<b>Operating expenses:</b>		
Salaries	25,000	
Telephone	3,750	
General expenses	10,000	

<b>Depreciation :</b>		
Plant and machinery (20% x ₦25m)	5,000	
Motor vehicle (25% x 15m)	3,750	
		<u>(47,500)</u>
<b>Profit for the period</b>		12,000
Salaries – Bala	(3000)	
Ade	(3000)	
Ngozi ( $\frac{4}{12}$ x ₦2.7m)	<u>(900)</u>	<u>(6,900)</u>
Profits available for sharing		5,100
Ngozi profit (20% x $\frac{4}{12}$ x ₦5.1m)	<u>340</u>	
Allocate minimum guaranteed to Ngozi ₦1.5m x $\frac{4}{12}$		<u>(500)</u>
		4,600
Bala's share ( $\frac{3}{5}$ x ₦4.6m)	2,760	
Ade's share of profit ( $\frac{2}{5}$ x ₦4.6m)	<u>1,840</u>	
		<u>(4,600)</u>

**Bade, Ade and Ngozi Firm of Partnership**  
**Current accounts for the year ended 31 December, 2020**

	₦'000	₦'000	₦'000		₦'000	₦'000	₦'000
Drawings	6,600	5,000	1000	Balance b/d	4,800	2,000	
				Salaries	3,000	3,000	900
Balance c/d	<u>3,960</u>	<u>1,840</u>	<u>400</u>	Share of profits	<u>2,760</u>	<u>1,840</u>	<u>500</u>
	<u>10,560</u>	<u>6,840</u>	<u>1,400</u>		<u>10,560</u>	<u>6,840</u>	<u>1,400</u>
				Bal b/d	3,960	1,840	400

**Examiner's report**

The question tests candidates' knowledge on the preparation and presentation of the statement of profit or loss and appropriation account in a partnership and the preparation of partners' current accounts.

Most candidates attempted the question with good performance on the preparation of statement of profit or loss but poor performances on appropriation and partners' current accounts.

The following deficiencies were noted:

- i. Candidates inability to determine apportionment of the periods before and after the admission of the new partner correctly; and
- ii. Wrong application of the guaranteed minimum share of profits to the new partner.

Candidates are advised to cover all areas of the syllabus and make use of the Institute's Study Text for better performance in future examinations.

## Marking guide

	Marks	Marks
<b>a. Profit or loss and appropriation:</b>		
• Revenue	½	
• Cost of goods sold	3	
• Gross profit	½	
• Other operating income	½	
• Operating expenses	3	
• Profit for the period	½	
• Appropriation of profit	<u>4</u>	12
<b>b. Partners' current accounts:</b>		
• Correct title	1	
• Bal b/d	1	
• Partners' salaries	1½	
• Share of profit	1½	
• Drawings	1½	
• Balance c/d	<u>1½</u>	<u>8</u>
<b>Total</b>		<b><u>20</u></b>

## SOLUTION 3

### Chukwu Limited Trial balance as at December 31, 2020

	Debit ₦'000	Credit ₦'000
200,000,000 ordinary shares of ₦1 each		200,000
Cash at bank and in hand	500	
Inventory at December 31, 2020	61,200	
Receivables	18,005	
Payables		15,009
Gross profit for the period ending December 31,2020		120,942
General reserves		25,000
Salaries and wages	28,430	
Prepayments	600	
Bad debt written off	500	
Accrued expenses		526
Director's account (credit)		2,500
Interest on loan notes (½ year to June 30, 2020)	600	
Sundry expenses	4,100	
Rates and insurance	1,520	
6% loan notes		20,000
Lighting and heating	1,310	
Postage and telephones	8,800	
Motor vehicles	25,000	

Accumulated depreciation on motor vehicles 1/1/2020		10,000
Office fittings and equipment	65,500	
Accumulated depreciation on office fittings and equipment 1/1/2020		23,150
Profit or loss at January 1,2020		<u>22,300</u>
Land and buildings	<u>223,362</u>	
	<u>439,427</u>	<u>439,427</u>

**Chukwu Limited**

**b. Statement of profit or loss for the year ended December 31, 2020**

	N'000	N'000
Gross profit		120,942
Administration expenses:		
Salaries and wages	28,430	
Bad debt written off	500	
Sundry expenses	4,100	
Rates and insurance (1,520,000 -600,000 x $\frac{8}{12}$ )	1,120	
Lighting and heating (1,310 + 548)	1,858	
Postage and telephone	8,800	
Directors' fees	6,000	
Audit fees	2,500	
Depreciation – Office equipment (15% x N65.5m)	9,825	
Motor vehicle (20% x N25m)	<u>5,000</u>	
		<u>(68,133)</u>
Profit from operating activities		52,809
Interest on loan (600,000 +600,000)		<u>(1,200)</u>
Profit for the year		<u>51,609</u>

**c. Chukwu Limited**  
**Statement of financial position as at December 31, 2020**

	Notes	N'000
<b>Non-current assets:</b>		
Property, plant and equipment	1	<u>265,887</u>
<b>Current assets:</b>		
Inventory		61,200
Receivables		18,005
Prepayments	2	1,000
Cash at bank and in hand		<u>500</u>
		<u>80,705</u>
<b>Total assets</b>		<u>346,592</u>
<b>Equity and liabilities</b>		
<b>Equity:</b>		
Ordinary share capital of N1 each		200,000
General reserves	3	40,000

Retained earnings December 31, 2020	3	<u>58,909</u>
		<u>298,909</u>
<b>Non-current liabilities:</b>		
6% loan notes		<u>20,000</u>
<b>Current liabilities:</b>		
Trade payables		15,009
Accrued expenses	4	12,074
Accrued interest on loan		<u>600</u>
		<u>27,683</u>
Total equity and liabilities		<u>346,592</u>

**Working:**

**Notes on non-current assets**

	Land & building N'000	Fittings & equipment N'000	Motor vehicle N'000	Total N'000
<b>Cost:</b>				
Balance as at January 1,2020	223,362	65,500	25,000	263,858
<b>Depreciation:</b>				
Balance as at January 1, 2020		(23,150)	(10,000)	(33,150)
Charge for the year		<u>(9,825)</u>	<u>(5,000)</u>	<u>(14,825)</u>
Balance as at December 31,2020	<u>nil</u>	<u>(32,975)</u>	<u>(15,000)</u>	<u>(47,975)</u>
Carrying amount as at December 31, 2020	<u>223,362</u>	<u>32,525</u>	<u>10,000</u>	<u>215,887</u>
Carrying amount as at December 31, 2019	<u>223,362</u>	<u>42,350</u>	<u>15,000</u>	<u>230,712</u>

**2. Prepayments**

	N'000
Prepaid insurance N600,000 x <sup>8</sup> / <sub>12</sub>	400
Other prepayments	<u>600</u>
	<u>1,000</u>

**1. Statement of changes in equity**

	Ordinary shares N'000	General reserves N'000	Retained earnings N'000	Total N'000
Balance January 1, 2020	200,000	25,000	22,300	247,300
Profit for the year			51,609	51,609
Transfer to reserves		<u>15,000</u>	<u>(15,000)</u>	
	<u>200,000</u>	<u>40,000</u>	<u>58,909</u>	<u>298,909</u>

2. Accrued expenses

	N'000
Balance as per trial balance	526
Provision for director's fees (6,000 + 2,500)	8,500
Provision for audit fees	2,500
Electricity bill	<u>548</u>
	<u>12,074</u>

### Examiner's report

The question tests candidates' ability to prepare a trial balance and financial statements.

Most candidates attempted the question, and their performance was average. Majority of the candidates were able to prepare the trial balance correctly but performed poorly in other parts of the question.

Candidates' poor performance could be attributed to the following deficiencies:

- i. Inability to adjust for accruals and prepayments in the financial statements;
- ii. Inability to prepare statement of changes in equity;
- iii. Mixing up assets and liabilities in the statement of financial position; and
- iv. Recognising proposed dividends as a liability in the financial statements.

Candidates should endeavour to study the various adjustments required to be made in the preparation of various components of financial statements at this level, for better performance in future examinations of the Institute.

### Marking guide

	Marks	Marks
a. <b>Trial balance:</b>		
• Debit side	3½	
• Credit side	<u>2½</u>	6
b. <b>Statement of profit or loss:</b>		
• Gross profit	½	
• Administrative expenses	7	
• Interest on loan	<u>½</u>	8
<b>Statement of financial position:</b>		
• Property, plant and equipment	1	
• Current assets	2	



• Equity	1	
• Non-current liabilities	$\frac{1}{2}$	
• Current liabilities	<u><math>1\frac{1}{2}</math></u>	<u>6</u>
<b>Total</b>		<u><b>20</b></u>

#### **SOLUTION 4**

a. i. **The cash basis of accounting:** Cash basis of accounting recognises transactions in the periods in which cash receipts and payments occur. In effect, revenue from sales and other income would be reported in the period that cash is received, rather than when the income arose while expenses are charged in the period in which they are paid, rather than in the period when they occur. It is the basis for preparation of statement of cashflows.

ii. **The accrual basis of accounting:** Accrual basis of accounting means that the effect of transactions and other events are recognised as they occur and not as cash or its equivalent is received or paid. In effect, revenue must be matched with cost of sales that generated them and reported in the same period, in the statement of profit or loss and other comprehensive income. Expenses that are due and revenue that are received in advance are reported in the statement of financial position. It is the basis for preparation of financial statements, other than the statement of cashflows.

iii. **Break-up basis of accounting:** This is the basis in which the asset value of a business is computed when the going concern basis of the entity is in doubt.

The assets are priced individually at their forced sales value rather than at their fair value or cost.

b. **Limitations associated with cash basis of accounting include the following:**

- i. It does not match cost with revenue hence profits may be distorted;
- ii. Unearned income and liability accounts are not reported; hence statement of financial position may not reflect all monies due or owing;
- iii. It does not show income that has not been invoiced or received;
- iv. It does not allow for tracking actual sales and purchases;
- v. It does not report the effect of non-current assets utilisation made by organisations as it ignores depreciation effect on such assets; and
- vi. The cash basis of accounting leads to poor budget implementation, as revenue and expenses recorded in a particular year may actually relates to other years.

- c. Chief Emeka should note the following details with regard to the operation of petty cash book:
- i. The petty cash book is normally used to record the small cash expenses of an entity, hence, it is important for Chief Emeka to specify the maximum amount that can be paid through the petty cash;
  - ii. The petty cash book will be kept by an officer distinct from the main cashier;
  - iii. It is advisable for the petty cash book to be maintained on an imprest system.  
The imprest system is a system in which the petty cashier is given a fixed amount of money, for the purpose of making payments relating to minor cash expenses of an entity with rules on reimbursement. Reimbursement is a refund of the cash spent by the petty cashier during a particular period;
  - iv. All cash payments made by the petty cashier must be supported with an approved petty cash voucher (PCV). The petty cash voucher is a document which evidences payment made by the petty cashier;
  - v. All payments made by the petty cashier are recorded on the credit side of the petty cash book, based on the approved petty cash voucher, with each expense extended to its related expenses head column, while the imprest and re-imbursements given to the petty cashier are recorded on the debit side of the same petty cash book; and
  - vi. There must be effective supervision of the recordings made by the petty cashier in the petty cash book, in relation to the approved petty cash vouchers and the cash received by the petty cashier during a particular period, by a superior officer. Ordinarily, re-imbursements can only be made after confirming that the petty cash book balance is in agreement with the physical cash balance.

### **Examiner's report**

The question tests candidates' knowledge of accounting concept such as cash, accrual and break – up bases, limitations associated with cash basis of accounting and the operation of petty cash book.

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

Candidates' common pitfall was their inability to explain how to operate the petty cash system.

Candidates are advised to practice the Institute's past examination questions when preparing for future examinations.

## Marking guide

	Marks	Marks
ai. Bases of accounting:		
• Cash basis	2	
• Accrual basis	2	
• Break-up basis	<u>2</u>	6
Four limitation of cash basis of accounting		8
Procedures for operating petty cash book		<u>6</u>
<b>Total</b>		<b><u>20</u></b>

## SOLUTION 5

- a. IAS 2 defines inventory as an asset:
- Held for sale in the ordinary course of business;
  - In the process of production for sale; and
  - In the form of materials or supplies to be used in the production process.
- b. Initially, inventories are measured at costs, which comprises all the costs of purchase, cost of conversion, and other costs incurred in bringing the inventories to their present location and condition.
- The costs of purchase include the following:
    - The purchase price, Trade discounts, rebates and other similar items are deducted in determining the purchase price.
    - Import duties and other taxes that are not recoverable; and
    - Transport, handling and other costs directly attributable to the purchase.
  - The costs of conversion include the following:
    - Costs directly related to units of production
    - Fixed production overheads, such as depreciation and factory light and heating, which must be allocated to costs of items produced and closing inventories based on normal production capacity; and
    - Variable production overheads, such as indirect materials and indirect labour, which is allocated to units of production on actual production hours or units of facilities used.
  - Other costs incurred in bringing the inventories to their present location and condition, such as the costs of designing a product for specific customers.

- c. The following costs should be excluded from initial measurement of inventory:
- i. Costs of abnormal wastage;
  - ii. Storage costs;
  - iii. Administrative overheads; and
  - iv. Distribution overhead

d i **Total costs of inventory**

	<b>₦</b>
Purchased price (₦625 x 2,000kg)	1,250,000
Trade discount (₦1,250,000 x 5%)	<u>(62,500)</u>
	1,187,500
Import duties and irrecoverable taxes	266,000
Delivery cost on imported materials	125,000
Cost of local raw materials purchased (₦250 x 3,500 kg- ₦50,000)	825,000
Carriage inwards on local raw materials	205,000
Special toll fare paid to Commodity Board	<u>25,000</u>
<b>Total cost</b>	<b><u>2,633,500</u></b>

- ii. If it cost ₦2,633,500 to produce 5,000 units, then the cost per unit is  
 $\text{₦}2,633,500/5000 = \text{₦}526.70$

**Examiner's report**

The question tests candidates' knowledge of the requirements of IAS 2 on "Inventory and their application in the computation of cost of materials.

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

However, few candidates were not able to apply the principles correctly to calculate the cost of inventory from the information given.

Candidates are advised to pay attention to both the theory and application of the relevant accounting standards.

## Marking guide

	Marks	Marks
a. Definition of inventory		3
b. Measurement of inventory		
• Identification of measurement basis	1	
• Explaining purchased price	3	
• Explaining conversion costs	3	
• Explaining other attributable costs	<u>1</u>	8
c. Stating costs that are excluded from inventory		4
di. Calculation of cost of inventory:		
• Purchase price less trade discount	1 <sup>1</sup> / <sub>4</sub>	
• Local materials purchased	<sup>3</sup> / <sub>4</sub>	
• Delivery cost, import duties and toll fare	<sup>3</sup> / <sub>4</sub>	
• Total cost	<u><sup>1</sup>/<sub>4</sub></u>	3
ii. Cost per unit of goods produced		<u>2</u>
<b>Total</b>		<b><u>20</u></b>

## SOLUTION 6

- a. Disclosures under IAS 16 are as follows:
- i. The measurement bases used;
  - ii. The depreciation methods used;
  - iii. The useful lives or depreciation rates used;
  - iv. Gross carrying amounts and the accumulated depreciation at the beginning and at the end of the period; and
  - v. A reconciliation between the opening and closing values for gross carrying amounts and accumulated depreciation, showing:
    - Additions during the year;
    - Disposals during the year; and
    - Depreciation charge for the year.

### b. Propati Limited

- i. Determination of gain or loss on disposal

	₦'000	₦'000
Trade in value of old vehicle		480
Cost of vehicle traded in	1,000	
Accumulated depreciation	<u>(600)</u>	
Carrying amount		<u>400</u>
Gain		<u>80</u>

ii. Preparation of ledger accounts

• Disposal of motor vehicle (MV) account

	N'000	N'000	
1/7/2020 Motor vehicles	1,000	1/7/2020 Accumulated depreciation	600
Profit or loss - gain	<u>80</u>	Trade in value of old vehicle	<u>480</u>
	<u>1,080</u>		<u>1,080</u>

• Motor vehicles account-(MV)

	N'000		N'000
1/7/2020 balance b/d	750,000	1/7/2020 Disposal account	1,000
Disposal-Trade-in value	480		
Cash(2,800 - 480)	<u>2,320</u>	Balance c/d	<u>751,800</u>
	<u>752,800</u>		<u>752,800</u>

Accumulated depreciation account

	N'000		N'000
1/7/2020 Disposal of motor vehicle	600	1/7/2020 Balance b/d	30,500
Balance c/d	<u>179,708</u>	Charge for the year	<u>150,008</u>
	<u>180,000</u>		<u>180,000</u>

**Workings**

1. Calculation of depreciation rate

Accumulated depreciation on trade-in asset	N600,000
Useful life at disposal date	3 years
Charge per annum N600,000/3years	N200,000
Number of years required to charge the cost N1,000,000/200,000	5 years or 20%

2. Calculation of depreciation for the year

	N'000
Cost of old vehicles	750,000
Cost of vehicles disposed	1,000
Depreciable value of old vehicles	<u>749,000</u>
Depreciation charged (N749,000 x20%)	149,800
Depreciation on new vehicle (20% x N2,800,000 x $\frac{6}{12}$ )	<u>280</u>
Total depreciation charged	<u>150,080</u>

### **Examiner's report**

The question tests candidates' knowledge of the disclosures required under IAS 16 - Property, Plant and Equipment (PPE) their ability to calculate gain or loss on disposal of PPE and prepare related accounts on PPE.

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

Candidates' commonest pitfall was their inability to correctly determine the double entry for the trade-in-value of the old motor vehicle in exchange for the new motor vehicle.

Candidates are advised to ensure they cover this aspect of PPE as outlined in the Institute's syllabus and practice past examination questions when preparing for future examinations.

### **Marking guide**

	<b>Marks</b>	<b>Marks</b>
a. Five disclosures under IAS 16		<b>10</b>
bi. Determination of gain or loss on disposal	2	
ii. Disposal of motor vehicle account	2	
iii. Motor vehicle account	4	
iv. Accumulated depreciation account		<u><b>10</b></u>
<b>Total</b>		<u><b>20</b></u>

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA****FOUNDATION LEVEL EXAMINATION – NOVEMBER 2022****MANAGEMENT INFORMATION****EXAMINATION INSTRUCTIONS****PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER**

1. Check your pockets, purse, mathematical set, etc. to ensure that you do not have prohibited items such as telephone handset, electronic storage device, programmable devices, wristwatches or any form of written material on you in the examination hall. You will be stopped from continuing with the examination and liable to further disciplinary actions including cancellation of examination result if caught.
2. Write your **EXAMINATION NUMBER** in the space provided above.
3. Do **NOT** write anything on your question paper **EXCEPT** your examination number.
4. Do **NOT** write anything on your docket.
5. Read all instructions in each section of the question paper carefully before answering the questions.
6. Do **NOT** answer more than the number of questions required in each section, otherwise, you will be penalised.
7. All solutions should be written in **BLUE** or **BLACK INK**. Any solution written in **PENCIL** or **RED INK** will not be marked.

**TUESDAY, NOVEMBER 15, 2022****DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**



**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**

**FOUNDATION LEVEL EXAMINATION – NOVEMBER 2022**

**MANAGEMENT INFORMATION**

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

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

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

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

1. Apportionment on the basis of Floor Area can be used for the following costs **EXCEPT**:
  - A. Rates
  - B. Lighting
  - C. Rent
  - D. Administration
  - E. Cleaning
  
2. Direct material is an example of
  - A. Fixed cost
  - B. Variable cost
  - C. Semi variable cost
  - D. Semi fixed cost
  - E. Overheads
  
3. Calculate the re-order level where consumption per week is 500-600 units, delivery 14-28 days
  - A. 12,000
  - B. 12,500
  - C. 14,500
  - D. 15,000
  - E. 16,800

4. What is the approximate Economic Order Quantity (EOQ) using the following?  
 Annual consumption 30,000  
 Ordering cost ₦1000  
 Purchase price ₦20 per unit  
 Carrying cost 5%
- A. 7746  
 B. 7784  
 C. 7858  
 D. 7900  
 E. 7943
5. If sales increase from ₦80,000 to ₦100,000 and contribution increases by ₦4,000, what is the PV ratio?
- A. 10%  
 B. 12%  
 C. 15%  
 D. 20%  
 E. 25%
6. Which of the following is **NOT** a method of overhead cost absorption?
- A. Percentage of direct material cost  
 B. Machine hour rate  
 C. Labour hour rate  
 D. Percentage of direct labour cost  
 E. Repeated distribution method
7. Fixed cost is a cost:
- A. Which changes in total in proportion to changes in output  
 B. Which is partly fixed and partly variable in relation to output  
 C. Which increases per unit as output increases  
 D. Which remains the same for each unit of output  
 E. Which remains constant in total as output changes within the relevant range

8. The cost per unit of a product manufactured in a factory amounts to ₦160 (75% variable) where production is 10,000 units. When production increases by 25%, the unit cost of production will be:

- A. ₦145
- B. ₦150
- C. ₦152
- D. ₦140
- E. ₦120

9. The following information is available for the W Hotel for the latest thirty-day period:

Number of rooms available per night	40
Percentage occupancy achieved	65%
Room servicing cost incurred	₦3,900

The room servicing cost per occupied room-night last period, to the newest Naira was:

- A. ₦3.25
- B. ₦5.00
- C. ₦6.50
- D. ₦97.50
- E. ₦150.00

10. Calculate the most appropriate unit cost for a distribution division of a multinational company using the following information:

Kilometres travelled	636,500
Tonnes carried	2,479
Number of drivers	20
Hours worked by drivers	35,520
Tonnes kilometres carried	375,200
Cost incurred	₦562,800

- A. ₦88
- B. ₦15.84
- C. ₦1.50
- D. ₦28,140
- E. ₦227

11. Which of the following is **NOT** a type of cloud computing
- A. Private Cloud
  - B. Public cloud
  - C. Relational cloud
  - D. Community cloud
  - E. Hybrid cloud
12. In cloud computing, the various computer servers and data storage systems that create the computing services are called
- A. Users hardware
  - B. Users software
  - C. Backend
  - D. Frontend
  - E. Cloud system
13. Which of the following is **NOT** a provider of Software-as-a-Service (SaaS)?
- A. Microsoft office 365
  - B. Azure
  - C. Dropbox
  - D. Uber
  - E. Facebook
14. The following services are frequently delivered by cloud computing, **EXCEPT**
- A. Storage
  - B. Databases
  - C. Servers
  - D. Networking
  - E. Microphoning
15. Which of the following is **NOT** a metric for measuring the successes of an information system?
- A. System efficiency
  - B. System effectiveness
  - C. System performance
  - D. System Upgrade
  - E. Usability

16. In cloud computing, the various computer applications for creating computing services to customers and businesses are called
- A. Frontend
  - B. Backend
  - C. User interface
  - D. Cloud system
  - E. User software
17. Which of the following internet activities is **NOT** a discussion group?
- A. Mailing list
  - B. Newsgroup
  - C. Web surfing
  - D. Chat group
  - E. Internet messaging
18. Which of the following describes the act of sharing tasks over multiple computers
- A. Encapsulation
  - B. Isolation
  - C. Service-oriented software
  - D. Partitioning
  - E. Grid computing
19. Which of the following is **NOT** a key element in the presentation of digital evidence that is legally acceptable?
- A. Identification
  - B. Presentation
  - C. Analysis
  - D. Investigation
  - E. Preservation
20. Which of the following is an example of information system assessment software tools?
- A. Information security tool
  - B. Microsoft security assessment tool
  - C. Information system security tool
  - D. Microsoft information security tool
  - E. Information assessment tool

**SECTION B: OPEN-ENDED QUESTIONS (80 MARKS)**

**INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT ANY FOUR OUT OF THE SIX QUESTIONS IN THIS SECTION**

**QUESTION 1**

- a. Service costing is used in service industries or service departments of a company.  
List in a tabular form **FIVE** examples of service industries and the 'unit of cost' that can be used in each industry. (5 Marks)

- b. A business operates a guest house with 80 single room suites and 40 double room suites.

During the year in review:

- The rent of the double room suite is twice that of the single room.
- The occupancy of the single room suites is 100% while that of double room suites is 75%.

Assume that the year has 365 days.

**Required:**

Calculate the total number of room suites occupied during the year.

(5 Marks)

- c. Igodah Transport company has 15 passenger buses. The buses ply between towns 'A' and 'B' which are 60 kilometres apart in distance. The buses' seating capacity is 50 passengers.

**Extracts from the company's books for last month is as follows:**

	<b>₦</b>
Salaries of drivers and bus attendants	120,000
Diesel and other oil used	160,000
Vehicles Repairs and maintenance	50,000
Insurance	60,000
Depreciation	113,000
Interest	90,000
Security	60,000
Car wash expense	<u>50,000</u>
<b>Total</b>	<b><u>703,000</u></b>

Other details include:

- The supervisor's salary is ₦50,000.
- The actual seating capacity carried for the month was 80%
- The buses worked for all the 30 days of the month making two trips per day.

**Required:**

Calculate Cost per passenger kilometre.

(10 Marks)

**(Total 20 Marks)****QUESTION 2**

Monsur Limited manufactures shirts for sale. The cost of production per unit is as stated below:

	₦
Selling price	1,000
Materials	300
Labour	150
Variable Overhead	150

The fixed overhead cost is ₦1,000,000. Production is currently at 80% capacity which is 4,000 units.

The company just received an order for the production of 1,000 units of the shirts for ₦800 per unit.

**Required:**

- a. Can Monsur produce the additional 1,000 units ordered considering its current capacity? Show your computation. (3 Marks)
- b. Compare the profit statements of the company
  - i. Based on current position (6 Marks)
  - ii. Based on acceptance of the order (9 Marks)
  - iii. Should the order be accepted? State your reason (s) (2 Marks)

**(Total 20 Marks)****QUESTION 3**

The details below relate to a product (BETA) and are to be used in the revision of its standard cost

Item	Standard Price/rate
<b>Material:</b>	
30kg of B35	₦200/kg
50 units of K010	₦50/unit
20 units of K035	₦100/unit
<b>Direct Labour:</b>	
- Machine Operations	
50 hours	₦120/hour

30 hours	₦105/hour
27 hours	₦80/hour
- Packaging:	
12 hours	₦96/hour

**Production overhead:**

Labour hour rate	₦9/hour
Machine hour rate	₦7/hour

Departments X, Y and Z are for operations while department P is for packaging. The batch quantity is 200, revision date is April 30, 2020, and it was revised.

**Required:**

Prepare a STANDARD COST CARD for the product (Beta). **(20 Marks)**

**QUESTION 4**

- a. Enumerate **FIVE** challenges of Management Information System. (5 Marks)
  - b. List and explain briefly **FIVE** ways of using Information in an organisation. (5 Marks)
  - c.
    - i. What is an integrated Information Technology System?. (2 Marks)
    - ii. Enumerate **TWO** benefits and **TWO** demerits of Integrated Information Technology System. (4 Marks)
  - d. State any **FOUR** ethical issues raised by Information Technology Systems. (4 Marks)
- (Total 20 Marks)**

**QUESTION 5**

- a. For an organisation dealing with confidential and commercial information, security and control over its systems is very critical.

**You are required to:**

- i. Enumerate **SIX** examples of such security risks. (6 Marks)
    - ii. State **FOUR** likely business impacts of security violations. (4 Marks)
    - iii. List **FIVE** ways/methods through which security risks can be managed. (5 Marks)
  - b. Enumerate **FIVE** physical security measures in an Information System environment. (5 Marks)
- (Total 20 Marks)**



## QUESTION 6

- a. Information processing and computing services have moved from computer bureaux services to cloud computing.

**You are required to:**

- i. Define cloud computing. (2 Marks)
  - ii. Enumerate **FIVE** advantages and **THREE** disadvantages of cloud computing. (8 Marks)
- b. State **ONE** distinction between each of the following pairs of cloud computing terminologies:
- i. Software- as-a-service (SaaS) and Platform-as-a-service (PaaS). (2 Marks)
  - ii. Private cloud and public cloud. (2 Marks)
  - iii. Community cloud and Hybrid cloud. (2 Marks)
- c. Enumerate any **FOUR** expected requirements for infrastructure as a Service. (4 Marks)

**(Total 20 Marks)**

## **SOLUTIONS**

### **MCQ**

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

### **WORKINGS**

#### Q3

$$\begin{aligned}\text{Reorder level} &= \text{maximum consumption} \times \text{maximum re-order period} \\ &= 600 \times 28 = \underline{16,800}\end{aligned}$$

#### Q4

$$\text{Economic Order Quantity (EOQ)} = \sqrt{(2 \times C_o \times D) / C_c}$$

Where -  $C_o$  = Cost per order

$D$  = Annual demand in units

$C_c$  = Carrying cost per unit per annum

$$= \sqrt{(2 \times 1,000 \times 30,000) / 1}$$

$$= \sqrt{60,000,000}$$

$$= \underline{7,746}$$

Q5

Increase in sales = ₦100,000 - ₦80,000 = ₦20,000

Increase in contribution = ₦4,000

PV ratio = ₦4,000/ ₦20,000 = 20%

Q6

Breakeven Point = ₦3,000,000 X (1-0.4)

= ₦1,800,000

Q8

Variable cost per unit

= 0.75 X ₦160 = ₦120

(This must remain constant, by definition)

Total fixed cost = 10,000 X (₦160 - 120)

= ₦400,000 (This must remain constant in total, by definition)

New output = 10,000 X 1.25 = 12,500 units

Tc/unit = ₦400,000/12500 + ₦120

= ₦152

Q9

Occupied room night in the period = 30 X 40 X 0.65 = 780

Cost per occupied room night

= ₦3,900/780 = ₦5

Q10

Appropriate cost per unit

= ₦562,800/375,200 = ₦1.50

### **Examiner's report**

Twenty questions drawn from across the syllabus were tested under this section. The questions were attempted by all the candidates and performance was generally above average as about 60% of the candidates scored 50% and above of the marks allotted.

Some topics were not well prepared for and it reflected in the performance of candidates.

Candidates are advised to ensure full coverage of the syllabus in their preparations for future examinations.

### **Marking guide**

1 mark each for each correct option: Total 20 Marks

## SOLUTION 1

a.

SERVICE INDUSTRY	UNIT OF COST
Transport Service	Passenger / KM, Ton / KM
Hospital	Patient per day, room per day, or period per operation
Hotels	Guest days or room days
Banks or Financial Institutions	Per transaction, per services (e.g. per letter of credit, per application, etc.
Insurance	Cost per policy, per claim, etc.
IT	Cost per project, per module.
Electricity Supply Service	Kilowatt hours
Canteen	Cost per item, per meal
Cinema	Cost per ticket
Educational Institutes	Cost per course, per student, per batch, per lecture, etc.

b.

SUITE	OCCUPANCY (ROOM DAY)	EQUIVALENT/SINGLE ROOM SUITE
Single room	(80 rooms x 365 days x 100%) = (80 x 365 x 100%)	29,200
Double room	(40 rooms x 365 x 75%) = (40 x 365 x 75%)	10,950
<b>TOTAL</b>		<b>40,150</b>

### i. Statement of Cost per Passenger kilometre

Passenger buses	15
Capacity	50
Total passage @ full capacity	750
No of trips per day	2
Working days in a month	30
Total passenger	750X2X30=45,000
Actual passenger	45,000X80%=36,000
Passenger/kilometre	36,000X60=2,160,000
	₦
Salaries of drivers and bus attendants	120,000
Diesel and other oil used	160,000
Vehicles Repairs and maintenance	50,000
Insurance	60,000
Depreciation	113,000
Interest	90,000
Security	60,000
Supervisors salary	50,000
<b>TOTAL</b>	<b><u>703,000</u></b>
Cost / passenger km	= <u>703,000</u>
	= 2,160,000
	= <u>0.325</u>

### Workings

Total passenger / km = No of buses x distance x seating capacity x used capacity  
x No of days in the period x No of trips  
= 15 buses x 60km x 50 seats x 80% x 30 days x 2  
=  $15 \times 60 \times 50 \times 80\% \times 30 \times 2 = 2,160,000$  passenger km

### Examiner's report

This question tests candidates' understanding of service costing.

About 50% of candidates attempted this question but the performance was below average as about 40% of them scored 50% and above of the marks allotted.

The major pitfall that accounted for the poor performance was a lack of understanding due to inadequate preparation.

Candidates are advised to prepare adequately for future examinations, by making use of the Institutes Study Text and Pathfinder.

### Marking guide

	Marks	Marks
a. $\frac{1}{2}$ mark for each service industry (subject to a maximum of 5)	$2\frac{1}{2}$	
$\frac{1}{2}$ mark for each unit of cost (subject to a maximum of 5)	<u><math>2\frac{1}{2}</math></u>	5
b. Occupancy (Room Day)		
Single Room	1	
Double Room	1	
Equivalent Single Room Suite		
Single Room	1	
Double Room	1	
Total	<u>1</u>	5
c. Statement of cost per passenger kilometre		
Total passenger @ fill capacity	1	
Total passenger	1	
Actual passenger	1	
Passenger/Kilometre	1	
Expenses (8 X $\frac{1}{2}$ )	4	
Total	$\frac{1}{2}$	
Cost/passenger kilometre (formular)	1	
Cost/passenger kilometre	<u><math>\frac{1}{2}</math></u>	<u>10</u>
		<u>20</u>

## SOLUTION 2

- a. Current capacity utilisation = 80% = 4,000 units  
Full capacity utilisation =  $4000/80\% = 5,000$  units  
Difference (5,000 – 4,000) units = 1,000 units

XYZ can produce the additional order.

- b i. Profit statement based on current position

Sales (units)		4,000
	₦	₦
Sales (4000 x ₦1,000)		4,000,000
Variable costs		
Materials (4,000 x ₦300)	1,200,000	
Labour (4,000 x ₦150)	600,000	
Variable overhead (4,000 x ₦150)	<u>600,000</u>	<u>2,400,000</u>
Contribution		1,600,000
Fixed overhead		<u>1,000,000</u>
Net profit		<u>600,000</u>

- i. Profit statement based on acceptance of the order:

Sales (units) 4,000 + 1,000 = 5000

	₦	₦
Sales		4,800,000
Materials (5,000 x ₦300)	1,500,000	
Labour (5,000 x ₦150)	750,000	
Variable overhead (5,000 x ₦150)	<u>750,000</u>	<u>3,000,000</u>
Contribution		1,800,000
Fixed overhead		<u>1,000,000</u>
Net profit		<u>800,000</u>

### Workings

Sales by XYZ (4,000 units x ₦1,000)	=	₦4,000,000
Special order (1,000 units x ₦800)	=	₦800,000
Total	=	₦4,800,000
Units of production	=	5,000

- ii. The order should be accepted as it will result in ₦200,000 increase in profit.

a. Profit statement based on current position

Sales (units) 4,000

	₦	₦
Sales (4000 x ₦1,000)		4,000,000
Variable costs		
Materials (4,000 x ₦300)		1,200,000
Labour (4,000 x ₦150)		600,000
Variable overhead (4,000 x ₦150)	<u>600,000</u>	<u>2,400,000</u>
Contribution		1,600,000
Fixed overhead		<u>1,000,000</u>
Net profit		<u>600,000</u>

b. Profit statement based on acceptance of the order:

Sales (units) 4,000 + 1,000 = 5000

	₦	₦
Sales		4,800,000
Variable costs		
Materials (5,000 x ₦300)	1,500,000	
Labour (5,000 x ₦150)	750,000	
Variable overhead (5,000 x ₦150)	<u>750,000</u>	3,000,000
Contribution		1,800,000

### Examiner's report

This question tests candidates' understanding of short-term decision making, with emphasis on acceptance or rejection of special orders.

About 65% of candidates attempted this question but performance was below average as about 40% of them scored 50% and above of the marks allocated to the question.

Most candidates who did not perform well suffered from lack of concentration and general poor understanding.

Candidates are advised to engage in a deep study of this important topic in the future.

### Marking guide

	Marks	Marks
a. Current capacity utilisation	½	
Full capacity utilisation	1	
Difference	½	
Recommendation	<u>1</u>	3
b. i. Sales	1	
Variable cost: (materials, labour, overhead)	3	
Total variable costs	½	
Contribution	½	
Fixed overhead	½	
Net profit	<u>½</u>	6
ii. Sales	1½	
Variable costs (Materials, Labour, Overhead)	4½	
Total variable cost	½	
Contribution	1	
Fixed Overhead	½	
Net Profit	<u>1</u>	9
iii. Decision		<u>2</u>
		<u><u>20</u></u>

### SOLUTION 3

#### STANDARD COST CARD FOR PRODUCT BETA

Item	Description	Total	Description	Unit Cost
		₦		₦
<b>Material</b>				
B35	30kg@₦200/kg	6000.00	0.15kg@₦200/kg	30.00
K010	50units@₦50/unit	2,500.00	0.25units@₦50/unit	12.50
K035	20units@₦100/unit	2,000.00	0.1unit@₦100/unit	10.00
<b>Direct Labour</b>				
Machine X	50hours@₦120/hr	6000.00	0.25hour@₦120/hr	30.00
Y	30hours@₦105/hr	3150.00	0.15hour@₦105/hr	15.75
Z	27hours@₦80/hr	2160.00	0.135hour@₦80/hr	10.80
Packaging P	12hours@₦96/hr	1152.00	0.06hour@₦96/hr	5.76
<b>Production O/H</b>				
Labour hr	12hrs@₦9/hr	108.00	0.06hr@₦9/hr	0.54
Machine hr	107hrs@₦7/hr	749.00	0.535hr@₦7/hr	3.745
		<u>23,819.00</u>		<u>119.095</u>



## Examiner's report

This question tests candidates' knowledge of the preparation of standard cost cards.

The question was attempted by more than 60% but performance was generally poor as only about 30% of the candidates scored 50% and above of the marks allotted.

Two factors were responsible for the poor performance of candidates: Poor formatting, and lack of understanding that the solution should be presented in units. Obviously this topic is not a popular one and it caught the candidates unawares.

Candidates should understand that total coverage of the entire syllabus is essential to preventing surprises in examinations.

## Marking guide

	Mark	Mark
Standard Cost Card		
Material B35 (Description, Total, Description, Unit Cost)	2	
Material K010 (Description, Total, Description, Unit Cost)	2	
Material K035 (Description, Total, Description, Unit Cost)	<u>2</u>	6
Direct Labour (Description, Total, Description, Unit Cost)		
Machine X	2	
Machine Y	2	
Machine Z	<u>2</u>	6
Packaging P (Description, Total, Description, Unit Cost)		2
Production Overhead (Description, Total, Description, Unit Cost)		
Labour hour	2	
Machine hour	<u>2</u>	4
Totals (Total cost + unit cost)		<u>2</u>
		<u>20</u>

## SOLUTION 4

### a. Major challenges of Management Information System include:

- i. Affordability of computer based systems which are at present relatively expensive to acquire, install and maintain.
- ii. Constant mandatory computer education to appreciate the importance of Information Technology.
- iii. Skill and Capacity development in computer and IT.
- iv. Government attention not given to the development of computer and infrastructure.
- v. Irregular power supply to enhance ICT application.

- vi. Extensive scientific research required by IT.
- vii. The effect of the incidence of computer fraud and other cyber crimes which has divided the whole world.
- viii. Increased unemployment and lack of economic empowerment of people likely to be displaced by adopting computer-based technology.
- ix. Loss of data due to any corruption or accidental deletion of data/information.
- x. Wrong entry of data in the management information system which could lead to wrong decision making.
- xi. Fraud due to unauthorised persons getting access to information, thereby carrying out fraudulent acts.
- xii. Adoption of inappropriate in a management information system.
- xiii. Inability to meet organisational needs.

**b. Ways of using information in an organisation**

S/N	USE	DESCRIPTION
1.	Planning	For establishing appropriate resources, time scale and forecast alternative outcome.
2.	Controlling	To ensure processes are implemented as planned.
3.	Recording Transactions	To record transactions in a business e.g sales, purchases, returns, complaints, deposits, cash movement, etc.
4.	Performance Measurement	Compare actual with planned (budgeted) activity to identify variances from planned activity and take corrective action, if necessary.
5.	Decision Making	Used to help managers make decisions such as volume (e.g. purchases and production), price, when to replace assets, and how to organise affairs to minimize tax charges.
6.	Business Operation Management	Information systems are used to gain cost advantage over competitors or to differentiate oneself by offering better customer service.
7.	Business Communication Systems	Email is quick and effective, but managers can use information systems more efficiently by storing the documents in folders that they share with the employees who use the information.

- c. i. An integrated IT system describes the situation or scenario where all modules of the system are linked and function together as a single system in a coordinated manner/fashion.

OR

An integrated Information Technology system is a group of software that combines databases from various sources with data integration tools, virtualisation, and models into a coordinated single system.

**ii. Below are benefits of an Integrated System include:**

1. It enables better-informed decisions.
2. It should ultimately lead to a more efficient operation.
3. This Would lead to greater customer satisfaction and hence profitability.
4. Offers a more complete view of the operations of the organization.
5. Better administration and examination.
6. Improved customer loyalty.
7. Increased transparency.
8. Ensure access to data and collated information quickly.
9. Cost-effectiveness/lower cost.
10. Facilitates collaboration of operations.
11. Improved data accuracy.

**Demerits of Integrated System include:**

1. There is a greater risk that failure in one nodule may lead to the failure of the system.
2. More complex and therefore prone to error.
3. More expensive than standalone systems.
4. May require a greater level of support as the system is likely to be bespoke.
5. Security issues/problems.
6. More complex and expensive to upgrade.

**d. Ethical issues raised by Information Technology**

- (i) Personal privacy
- (ii) Access Right
- (iii) Harmful actions
- (iv) Patents
- (v) Copyrights
- (vi) Trade secret

- (vii) Piracy
- (viii) Misinformation/fake information
- (ix) Lack of oversight and acceptance of responsibility
- (x) Use of Artificial Intelligence
- (xi) Moral use of data and resources
- (xii) Responsible Adoption of Disruptive technology
- (xiii) Misuse of personal information

### **Examiner's report**

This question tests candidates' knowledge of management information systems incorporating information technology system.

It was attempted by at least 70% of the candidates and performance was average as about 50% of them scored 50% and above of the marks allocated.

Lack of understanding due to poor preparation accounted mainly for the discouraging performance.

Candidates are advised to prepare harder towards future examinations.

### **Marking guide**

	<b>Marks</b>
a. Five challenges of MIS (one mark each)	5
b. Five ways of using information (one mark each)	5
c. i. What is all integrated Information Technology System	2
ii. Benefits and demerits (4 @ 1 mark each)	4
d. Ethical issues (4 @ 1 mark each)	4
<b>Total</b>	<b><u>20</u></b>

## **SOLUTION 5**

### a. i. Examples of security risks:

- Human errors/mistakes through entering incorrect data into the system.
- Technical errors in computer hardware, software, or communication links can result in the loss or corruption of data.
- Natural disaster: Computer systems may be exposed to damage from hurricanes, floods, or earthquakes.
- Sabotage/Criminal damage via exposure of computer system to risks from criminal/malicious damage or theft.
- Deliberate Corruption – exposure to risk from viruses and deliberate alteration or deletion of software/data by hackers.
- Loss of key personnel especially with specialist knowledge about the system.
- Exposure of data to unauthorised users e.g. hackers and industrial espionage.
- Recorded keystrokes and system passwords.
- Spam and phishing emails
- Accessing restricted, personal or confidential information.
- Illegally distributing music, movies or software.
- Hiding programs that launch attacks on other computers.
- Generating large volumes of data transfer, thereby slowing down the entire system.

### ii. **Business impacts of security risk violations**

1. Risk to security and integrity of personal or confidential information e.g identity theft, data corruption or destruction.
2. Loss of valuable business information.
3. Loss of employee and public trust, embarrassment, adverse publicity, media coverage and news reports.
4. Costly report requirements in case of a compromise of certain types of personal, financial or health information.
5. Internal disciplinary action(s) including termination of employment as well as possible penalties, prosecution and the potential for sanctions/lawsuits.

### iii. **Ways/methods through which risks can be managed**

1. Risk avoidance by avoiding any chance that the risk might occur e.g risk of illegal hacking into the system from the internet can be avoided if the system is not connected to the internet.
2. Risk transfer by transferring the risk to someone else who bears the risk of any loss that may occur.

3. Risks reduction can be done by taking suitable control measures e.g backing up the files for a computer system every day and storing the backups off-site or in fire-proof safe.
4. Risk acceptance by doing nothing to avoid or reduce the risk, this is recommended for insignificant risks.
5. Implement controls and monitor their effectiveness by reviewing the controls regularly to confirm their adequacy.
6. Creating data backup and encrypting sensitive information.
7. Updating all security systems and software.
8. Conducting regular employee cybersecurity training.
9. Enforcing the use of strong and complex passwords.
10. Installing firewalls.
11. Assessing and monitoring vendors.
12. Paying close attention to physical security.
13. Creating a secure cybersecurity risk assessment.
14. Implementing double authentication of data and end to end encryption.
15. By adopting cloud-based/ management.

**b. Physical security measures in information system environment**

- i. Locating hardware in places that are not at risk from flooding.
- ii. Physical protection of Cables against fire and floods.
- iii. Using shatter-proof glass for windows where computers are located.
- iv. Installing smoke detectors, fire alarms and fire doors.
- v. Obtaining insurance cover against losses in the event of fire or flooding.
- vi. Dust cover should be provided to protect hardware from dust.
- vii. Provision of temperature and humidity control to regulate and monitor the computer room.
- viii. Provision of combination locks to prevent unauthorised persons from entering the computer room.
- ix. Uninterrupted power supply (UPS) should be provided to regulate power supply to the computers.
- x. Setting up monitoring and surveillance around the computer environment.
- xi. Making sure that most vulnerable devices are locked in the room.
- xii. Back-up the backups.
- xiii. Disable the drives of the computers.
- xiv. Protect all the printers.
- xv. Keep network devices in a secured and locked room.
- xvi. Keep a check on the workplace security.

### Examiner's report

This question tests candidates' knowledge of security risks in information systems and how to manage them.

The question was attempted by more than 70% of the candidates but performance was just average as only about 45% of them scored 50% and above of the marks allocated.

Due to poor preparation, candidates had poor knowledge and general lack of understanding.

Candidates are advised that for future examinations, they need to prepare harder and acquire more understanding.

### Marking guide

	Marks	Marks
a. i. Examples of security risks (6 @ 1 mark each)	6	
ii. Business impacts (4 @ 1 mark each)	4	
iii. Ways of managing risks (5 @ 1 mark each)	<u>5</u>	15
b. Physical security measures (5 @ 1 mark each)		<u>5</u>
		<u>20</u>

### SOLUTION 6

- a. (i) Cloud computing is Internet-based computing whereby shared resources, software, and information are provided to computers and other devices on-demand like a public utility.

OR

This is a model for enabling convenient, on-demand network access to a shared pool of configurable computing resources (e.g network, servers, storage, applications, and services) that can be provisioned and released with minimal effort/service.

(ii) **Advantages of cloud computing**

1. Economies of scale is achieved in that there is an increase in volume of output and productivity is increased with fewer systems thereby reducing cost/unit of a project.
2. Reduced spending on technology infrastructure.
3. Globalisation of workforce in that people worldwide can access the cloud with internet connection.
4. It is possible to get more work done in less time with less resource by using cloud computing.
5. Software are easily upgraded and get security and performance enhancement with new features are readily a valuable.
6. Cloud computing users can avoid capital expenditure on hardware, software and services when they pay a provider only for what they use.
7. It enables users to access systems using a Web browser regardless of their locations or what devices they are using.
8. Security can be strictly enforced as providers are able to devote resources to solving security issues that many users cannot afford.
9. Cloud computing is simple and has a huge impact on any business.
10. Data and information can be accessed anytime, anywhere using any smart computing device thereby making life much easier.

**Disadvantages of cloud computing**

1. Loss of internet connection means loss of link to cloud and thereby to data and information.
2. There is problem of security in that the entire working with data and applications depend on cloud vendor/provider computing power
3. Though it supports scalability, it does not permit control of the resources for they are not owned by the users.
4. Users may face restrictions on the availability of applications, operating system and infrastructure.
5. Problem of interoperability of applications.
6. All development platforms may not be available in the cloud for the vendor may not be aware of such solutions



- b(i) Software-as-a-Service (SaaS) is a software distribution model of cloud computing where applications (software) are hosted by a cloud vendor/provider and made available over a network (internet).

WHILE

Platform-as-a-Service (PaaS) is a model for delivering operating systems and associated services such as computer-aided software engineering tools, and integrated developments (for developing a software solution, without downloads or installation).

- ii. Private cloud is cloud infrastructure/ computing services provisioned for exclusive use by a single organisation comprising multiple customers (or business units), owned, managed, and operated by the organisation.

WHILE

Public cloud is computing services provisioned for open use by the general public which may be owned, managed and operated by a business, academic, government or some combination of these.

- iii. Community cloud is cloud infrastructure that is shared by several organisations and supports a specific community that has shared concerns (mission, security requirement, policy) which may be managed by the organisation of third party.

WHILE

Hybrid cloud is cloud infrastructure comprising of two or more distinct cloud infrastructure (private, public or community) that remains as unique entities but are bound together by a standard technology that enables data and application portability.

c. **Requirements for Infrastructure service (IaaS)**

- i. Computer hardware (processing, memory, disk network interface etc)
- ii. Computing software (operating system and pre-installed software)
- iii. Storage, including storage capacity
- iv. Network requirements (bandwidth and traffic volumes)
- v. Availability requirement (protection / backup plan for computing storage and network resources)

## Examiner's report

This question tests candidates' knowledge of cloud computing.

The question was attempted by about 65% of the candidates and performance was just fair as only about 40% of them scored 50% and above of the marks allocated.

The major pitfall for the candidates was lack of understanding of the topic.

In future examinations, candidates are enjoined to prepare harder.

## Marking guide

	Marks	Marks
a.     iii. Definition of cloud computing	2	
iv. Advantages & disadvantages (8 @ 1 mark each)	<u>8</u>	10
b. Distinctions		
i. Saas and Paas	2	
ii. Private cloud and public cloud	2	
iii. Community cloud and hybrid cloud	<u>2</u>	6
c. Requirements for IaaS (4 @ 1 mark)		4
		<u>20</u>

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA****FOUNDATION LEVEL EXAMINATION – NOVEMBER 2022****BUSINESS, MANAGEMENT & FINANCE****EXAMINATION INSTRUCTIONS****PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER**

1. Check your pockets, purse, mathematical set, etc. to ensure that you do not have prohibited items such as telephone handset, electronic storage device, programmable devices, wristwatches or any form of written material on you in the examination hall. You will be stopped from continuing with the examination and liable to further disciplinary actions including cancellation of examination result if caught.
2. Write your **EXAMINATION NUMBER** in the space provided above.
3. Do **NOT** write anything on your question paper **EXCEPT** your examination number.
4. Do **NOT** write anything on your docket.
5. Read all instructions in each section of the question paper carefully before answering the questions.
6. Do **NOT** answer more than the number of questions required in each section, otherwise, you will be penalised.
7. All solutions should be written in **BLUE** or **BLACK INK**. Any solution written in **PENCIL** or **RED INK** will not be marked.

**WEDNESDAY, NOVEMBER 16, 2022****DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

## FOUNDATION LEVEL EXAMINATION – NOVEMBER 2022

### BUSINESS, MANAGEMENT & FINANCE

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

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

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

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

1. Which of the following is **NOT** a feature of a professional?
  - A. A profession can be described as an occupation for which the individual has to acquire a special knowledge and skill
  - B. Professionals are usually paid a prescribed fee to render their services
  - C. Most professionals are regulated by professional body
  - D. Professionals are not to opt for a paid job
  - E. Professionals typically acquire specialised knowledge from higher institutions and specialised institutes
  
2. A manufacturer of soft drinks that has separate divisions for America, Europe, Far East, Africa, Middle East and the rest of the world is an example of
  - A. Strategic business units (SBUs)
  - B. Geographical divisional structure
  - C. Divisional structure
  - D. Product divisional structure
  - E. Matrix structure
  
3. Which type of culture is best-suited for a large organisation in a fairly stable business environment?
  - A. Task culture
  - B. Power culture
  - C. Boss culture
  - D. Personal culture
  - E. Role culture

4. A law designed to protect individual against others collecting, holding and using information about them without their permission is called
- A. Data protection law
  - B. Employment law
  - C. Competition law
  - D. Health and safety law
  - E. Legalised law
5. Which of the following is **NOT** an example of economies of scale?
- A. Generate better efficiency through larger quantities of output
  - B. Able to employ specialist managers to increase efficiencies
  - C. Able to buy and sell in retail at more optimal prices
  - D. Able to demand better interest rates with more assets as collateral
  - E. Firms clustering together to develop specialised labour force
6. The use of mathematical techniques to solve financial problems is called
- A. Financial mathematics
  - B. Financial engineering
  - C. Financial accounting
  - D. Management accounting
  - E. Financial management
7. A method of issuing new shares to a relatively small number of selected investors is called
- A. Rights issue
  - B. Public offer
  - C. Placing
  - D. Initial offer
  - E. General offer
8. A constant annual cash-flow to infinity is called
- A. Perpetuity
  - B. Sinking funds
  - C. Compound interest
  - D. Loan
  - E. Annuity

9. A series of regular periodic payments of equal amount is called
- A. Interest payments
  - B. Sinking funds
  - C. Compound interest
  - D. Simple interest
  - E. Annuity
10. The acronym 'IESBA' denotes
- A. International Ethical Standards Board for Accountants
  - B. International Ethics Standards Boards for Accountants
  - C. International Ethics Standard Board for Accountants
  - D. International Ethics Standards Board for Accountants
  - E. International Ethic Standard Board for Accountants
11. The front line management in a typical organisation is also called
- A. Administrative management
  - B. Staff management
  - C. General management
  - D. Supervision
  - E. Middle level management
12. The leadership model which states that effective leaders need full command of three aspects of leadership which include task, team and individual was propounded by
- A. John Adair
  - B. Warren Bennis
  - C. John Kotter
  - D. Max Weber
  - E. Elton Mayo
13. The expectancy theory of motivation was developed by Victor Vroom in the year
- A. 1954
  - B. 1964
  - C. 1974
  - D. 1984
  - E. 1994

14. Which of the following is **NOT** a team role as suggested by Belbin?
- A. Team implementer
  - B. Specialist
  - C. Plant
  - D. Despot
  - E. Team organiser
15. A written communication of factual information on a specific subject presented in an orderly and formal manner is called
- A. Official report
  - B. Formal communication
  - C. Business report
  - D. Business proposal
  - E. Horizontal communication
16. A communication between people at a similar level in the organisation's management hierarchy is called
- A. Vertical communication
  - B. Oral communication
  - C. Written communication
  - D. Formal communication
  - E. Lateral communication
17. Which of the following is **NOT** a key issue to be addressed when preparing a business report?
- A. Relevance
  - B. Impact
  - C. Cost effectiveness
  - D. Clarity
  - E. Draft
18. A fixed sum of money set aside by an organisation at regular intervals to achieve a specific sum at some future point in time is called
- A. Savings
  - B. Sinking fund
  - C. Investment
  - D. Strategic management
  - E. Loan notes

19. Shareholders' wealth could be increased by dividend payments and
- A. Profitability
  - B. High share price
  - C. Interest
  - D. Surplus
  - E. Productivity
20. Which of the following is **NOT** an organic function of a large company?
- A. Operations
  - B. Finance
  - C. Strategic management
  - D. Administration
  - E. Procurement

**SECTION B: OPEN-ENDED QUESTIONS (80 MARKS)**

**INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT ANY FOUR OUT OF THE SIX QUESTIONS IN THIS SECTION**

**QUESTION 1**

The dynamic nature of the business environment calls for managers of the twenty-first century to critically analyse their business environment for them to formulate and execute a highly competitive strategy that will aid the survival, growth and profitability of their organisations.

**Required:**

- a. List and explain briefly **FIVE** external stakeholders. (10 Marks)
- b. Explain briefly the following concepts:
  - i. Strategic alliance.
  - ii. Matrix organisation.
  - iii. Span of control.
  - iv. Supranational bodies.
  - v. Share awards.

(10 Marks)

**(Total 20 Marks)**



## QUESTION 2

Organisations formulate financial plans and policies to guide financial managers on how to make effective financial decisions.

### Required:

- a. Define the term "Corporate objective" and explain the **THREE** commonly - used financial objectives in most companies. (10 Marks)
  - b. State **THREE** expectations of a bank on how a company should use its overdraft facility. (6 Marks)
  - c. State **TWO** disadvantages of Net Present Value (NPV) method. (4 Marks)
- (Total 20 Marks)**

## QUESTION 3

The following information was extracted from the books of Homom Nigeria Limited.

Months	Sales N'000	Materials N'000	Wages N'000	Overheads N'000
February	40,000	20,400	7,600	3,800
March	42,000	20,000	7,600	4,200
April	46,000	19,600	8,000	4,600
May	50,000	20,000	8,400	4,800
June	60,000	21,600	9,000	5,000

- i. Sales collection were to be made as follows:  
10% sales on cash basis. 50% of the credit sales are collected within one month of the sales and the balance in the following month.
- ii. Payments are planned to be made for:  
Materials, 2 months after purchase.  
Wages, 80% in the month incurred and 20% in the following month.  
Overheads, 50% in the month incurred and 50% in the following month.
- iii. A machine will be installed in February at a cost of ₦100 million on which the monthly installments of ₦5 million is payable from April.
- iv. 10% dividend on preference share capital of ₦500 million will be paid in June.
- v. ₦40 million cash advance in respect of the sale of an automobile will be expensed in June.
- vi. Company income tax of ₦10 million is to be paid in June.
- vii. Balance at bank on April 1, 2022 is expected to be ₦16 million.

### Required:

Prepare a monthly cash budget for the three months ending June, 2022.

Show your workings.

**(20 Marks)**

#### **QUESTION 4**

Employees differ in their basic motivational drive, therefore, it is the sole responsibility of the manager to find the best way to motivate his or her employees to get work done.

##### **Required:**

- a. Explain briefly the **THREE** primary mechanisms of reinforcement theory of motivation and state **FOUR** factors that shape the culture of an organisation. (10 Marks)
- b. State **FIVE** categories of management responsibility as suggested by Peter Drucker. (10 Marks)

**(Total 20 Marks)**

#### **QUESTION 5**

An efficient manager maintains a culture of open and regular communication to resolve differences and create mutual understanding among members of the organisation.

##### **Required:**

- a. State **FIVE** characteristics of individual behaviour at workplace. (5 Marks)
- b. Explain briefly the terms “electronic communication”, ‘visual communication’ and ‘non-verbal communication’. (15 Marks)

**(Total 20 Marks)**

#### **QUESTION 6**

A manager that wants to be successful in his or her business environment should be able to make use of the various business analyses and models to know which products and markets to retain or grow.

##### **Required:**

- a. Explain briefly the concept of macroeconomics and state the **THREE** approaches that can be used to measure total economic activity during a given period of time. (10 Marks)
- b. List and explain briefly **FIVE** operations research techniques. (10 Marks)

**(Total 20 Marks)**

## **SOLUTIONS**

### **MCQ**

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

**1 mark each for each correct option**

### **Examiner's report**

Section A of the paper contains twenty compulsory multiple choice questions, and candidates attempted almost of the questions in this section.

The questions test candidates' understanding of the various parts of the syllabus. Majority of the candidates attempted the question and performance was above average, Candidates are advised to fully cover the syllabus and make use of ICAN Study Text and Pathfinder for better performance in future examination.

## **SECTION B**

### **SOLUTION 1**

- (a) External stakeholders include:
- i. Lenders;
  - ii. Suppliers;
  - iii. Government;
  - iv. Customers;
  - v. Local communities; and
  - vi. General public

#### **Lenders**

Lenders are interested in the successful operation of the business since it guarantees that their loans will be paid fully and timely, earning them a profit in return.

#### **Suppliers**

Suppliers are interested in the excellent performance of the business since it assures them of regular orders and prompt payments, which keep them in business.

#### **Government**

The government's stake in companies exists in the taxes and economic productivity. It encourages firms to invest and create jobs and, in some instances, even introduce tax reliefs for companies in selected sectors.

#### **Customers**

Customers have a stake in a business organisation because they expect to obtain value from the goods or services that they buy.

#### **Local communities**

Businesses are generally located around communities. These communities are usually impacted by ongoing business activities as they affect employment, incomes, and the overall spending in the area.

#### **General public**

Actions of companies affect society as a whole. Public concerns might be expressed by action groups or pressure groups. Some of the areas of public concern include; public health, protection of the environment, corruption in business practices, exploitation of consumers, and monopolisation of a market.

- (b) i. **Strategic alliance:** A strategic alliance is an arrangement in which a number of separate companies share their resources and activities to pursue a joint strategy. By collaborating, all the companies in the alliance are able to offer better products or services to their customers.
- ii. **Matrix organisation:** A matrix organisation has been defined as any organisation that employs a multiple command system that includes not only a multiple command structure but also related support mechanisms and an associated organisational culture and behavior pattern.
- iii. **Span of control:** The span of control refers to the number of subordinates for whom a manager is directly responsible and over whom the manager has authority. For example, if a manager has six subordinates who report directly to him, the span of control for that manager is six.
- iv. **Supranational bodies:** Supranational bodies are bodies that have responsibility or oversight of more than one country. A supranational body in some cases has the power to impose decisions on a national government. To have the ability to impose its rules, a supranational body needs the formal support of national governments. Examples include the European Union (EU), the African Union, Economic Community of West African States (ECOWAS) etc.
- v. **Share awards:** Share-award schemes involve awarding shares to the company executive directors and other senior managers for free or for less than their market value, usually on the condition that certain long-term financial targets are achieved.

### **Examiner's report**

This question is in two parts and it examines topics under business organisations and its stakeholders, external environment and financial management.

Part (a) of the question specifically examines candidates' understanding of stakeholders of business organisation. Part (b) tests candidates' knowledge of specific concepts under the following (i) collaboration alliances (ii) types of business organisational structure (iii) organisation and management structure (iv) political and legal factors affecting businesses and (v) management reward schemes.

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

Candidates need to know that BMF is a composite paper made up of many subjects, hence no aspect of the syllabus should be overlooked. Also, they

are advised to have a mastery of all the contents of the syllabus and make use of ICAN Study Texts and suggested solutions to past examinations as provided in Pathfinders as a guide for future examinations.

**Marking guide**

a.	Listing five external stakeholders	5	
	Explaining five external stakeholders	5	10
b.	Explaining briefly the following concepts:		
	i. Strategic alliance	2	
	ii. Matrix organisation	2	
	iii. Span of control	2	
	iv. Supranational bodies	2	
	v. Share awards	<u>2</u>	<u>10</u>
	<b>Total</b>		<b><u>20</u></b>

**SOLUTION 2**

- (a) A corporate objective is a purpose or aim that a company is trying to achieve. Corporate objectives are usually set by the top management of the business and they provide the focus for setting more detailed objectives for the main functional activities of the business.

Although there are differing views about what corporate objectives should be, it is generally accepted that the main purpose of a company should be to provide benefits for its owners, shareholders, in form of a financial returns on their investment. The main corporate objective might therefore be expressed as a financial objective, such as maximising shareholders wealth or maximising profits.

**The three commonly-used financial objectives in most companies are:**

- (i) **Maximising shareholders wealth:** the overall objective of a company might be stated as maximising the wealth of its owners, the shareholders. Shareholders wealth is increased by dividend payments and a higher share price. Cash is needed to pay expenses, and to settle debts. Corporate strategies are therefore desirable if they result in higher dividends, a higher share price, or both. The objective of maximising shareholder wealth is generally accepted as a sound basis for financial planning, but is not practical in terms of actually setting financial performance targets and measuring actual performance against the targets.

- (ii) **Maximising profits:** A company might express its main financial objectives in terms of profit maximisation, and targets can be set for growth in profits over a strategic planning period. If the underlying objective is to maximise shareholders wealth, targets should be set for growth in profits after tax because these are the profits that are distributable to the company's owners.
  - (iii) **Growth in earnings per share:** The most common measure of profit per share is earnings per share or EPS. A financial objective might be to increase the earnings per share each year and possibly to grow EPS by a target amount each year for the next few years. If there is growth in EPS, there will be more profits to pay out in form of dividend per share, or there will be more retained profits to reinvest with the intention of increasing earnings per share in the future. Growth in EPS should therefore result in growth in shareholders wealth over the long-term.
- (b) **Expectations of the bank on how a company should use its overdraft facility:**
- (i) The overdraft should be used to finance short-term cash deficits from operational activities. An overdraft should not be seen as a long-term source of funding.
  - (ii) An overdraft facility is for operational requirements and paying for running costs. An overdraft should not be used to finance the purchase of long-term (non-current) assets.
  - (iii) The bank normally has the right to call in an overdraft at any time, and might do so if it believes the company is not managing its finances and cash flows well.

**Disadvantages of the NPV method include:**

- (i) The time value of money and present value are concepts that are not easily understood.
- (ii) There might be some uncertainty about what the appropriate cost of capital or discount rate should be when evaluating a project.

**Examiner's report**

The question tests candidates' knowledge of financial objectives, sources of short term finances and investment appraisal techniques. Part (a) examined corporate financial objectives while part (b) tests bank overdraft as a source of short term finance and Part (c) is on net present value technique of investment appraisal.

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

The commonest pitfall was candidates' inability to correctly state the disadvantages of Net Present Value (NPV).

<b>Marking guide</b>		<b>Marks</b>	<b>Marks</b>
a.	Explain the term "Corporate objective"	2 ½	
	Explain the three commonly used financial objective	<u>7 ½</u>	10
b.	State three expectations		6
c.	State two disadvantages of NPV		4
	<b>Total</b>		<u><b>20</b></u>

### **SOLUTION 3**

#### **HOMOM NIGERIA LIMITED** **CASH BUDGET FOR THREE MONTHS ENDING JUNE, 2022**

	<b>Feb.</b>	<b>Mar.</b>	<b>April</b>	<b>May</b>	<b>June</b>
	<b>₦'000</b>	<b>₦'000</b>	<b>₦'000</b>	<b>₦'000</b>	<b>₦'000</b>
<b>Cash receipts</b>					
Cash sales (10%)	4,000	4,200	4,600	5,000	6,000
Cash collection from credit sales:					
Collection within one month (50%)	-	20,000	21,000	23,000	25,000
Collection the following month (40%)	-	-	16,000	16,800	18,400
Cash from sale of automobile	-	-	-	-	40,000
<b>Total cash receipts (A)</b>			<b>41,600</b>	<b>44,800</b>	<b>89,400</b>
<b>Cash payments</b>					
Payment for materials	-	-	20,400	20,000	19,600
Payment for wages in current month (80%)	6,080	6,080	6,400	6,720	7,200
Payment for wages in the following month (20%)	-	1,520	1,520	1,600	1,680
Payment for overheads in current month (50%)	1,900	2,100	2,300	2,400	2,500
Payment for overheads in the following month (50%)	0	1,900	2,100	2,300	2,400
Monthly installment for installed machine		5,000	5,000	5,000	5,000
10% dividend payment on preference share capital			-	-	50,000
Payment for company income tax			-	-	10,000
<b>Total cash payments (B)</b>			<b><u>37,720</u></b>	<b><u>38,020</u></b>	<b><u>98,380</u></b>
Net cash balance (A - B)	(3,980)	12,600	3,880	6,780	(8,980)
Cash balance at the beginning of the month			16,000	19,880	26,660
Cash balance at the end of the month			19,880	26,660	17,680



### Examiner's report

This question tests candidates' proficiency in the preparation of cash budget.

Most candidates are familiar with the question and their performance was above average.

Some candidates could not correctly apply the credit period in generating cash collected from credit sales and led to loss of marks.

Candidates are advised not to overlook any aspect of the BMF syllabus, should make use of ICAN Study Text and suggested solution to past questions for better performance in future examinations.

### Marking guide

	Marks	Marks
Title	$\frac{1}{2}$	
Total receipts	5	
Total payments	10	
Summary	$4\frac{1}{2}$	<u>20</u>
<b>Total</b>		<u><b>20</b></u>

### SOLUTION 4

(a)

- i. **Selective exposure:** A change or shift in attitude can be interpreted as an admission that the original belief was inaccurate or inadequate. However, people generally do not like to be wrong. Therefore, people tend to avoid information that may discredit their views in order not to have their opinions challenged. When faced with inconsistent information the person may justify rejecting the information by attacking the source's credibility. Selective exposure also manifests with people exposing themselves only to stimuli that are pleasurable and therefore avoid stimuli that may induce a negative reaction.
- ii. **Selective perception:** When exposed to dissonant messages, people will skew their perceptions to coincide with what they desire. Using a political example, a voter may not agree with one of the policies of a politician that he/she otherwise supports. Subsequently, one of three things may happen: The voter learns about the candidate's policy, then either changes his/her opinion of the candidate or alters he/she own stance on the policy. The voter can accept disagreement but instead lessen the issue's personal importance. The voter engages in selective perception and misperceives the candidate's position in order to better align with his/her own stance.

- iii. **Selective retention:** This describes people only remembering items which are consistent with their own predispositions. Furthermore, the ease with which a person can recall information impacts the level and intensity of judgment related to the topic. Specifically, people who can easily recall an example related to the message are more likely to make an intense judgment about it.

**Factors that shape organisation culture are**

- **Formal structure and size:** To some extent, the culture of an organisation is affected by its size and its formal organisation structure;
- **Leadership:** The leaders of an organisation can influence culture. For example, by stating the values of the organisation, and its goals and strategies, leaders can set the tone for the organisation;
- **Environment:** Culture develops as a way of responding and reacting to the environment in which the organisation operates; and
- **Events:** Culture develops as a result of many events, and how a group or organisation has responded to those events.

(b) **Management responsibility as suggested by Peter Drucker:**

- i. **Setting objectives:** Managers set objectives for the organisation, and decide on targets for the achievement of those objectives, which they then communicate to other people in the organisation.
- ii. **Organising work:** Managers organise the work that is done, by dividing it into activities and jobs. They integrate the jobs into a formal organisation structure and select and appoint people to do the jobs.
- iii. **Motivating and communicating:** Managers need to motivate their employees. They must also communicate with their employees so that they can do their work.
- iv. **Measuring performance**  
Managers measure performance, perhaps by comparing it against a target or yardstick (benchmark). They analyse and assess performance, and communicate their findings, both to their superiors and their subordinates.
- v. **Developing people:** Managers need to develop their employees and also themselves. Drucker wrote that a manager brings out what is in their employees or he stifles them. He strengthens their integrity or he corrupts them.

## Examiner's report

This question which is in two parts, tests candidates' knowledge of theories of motivation, organisational culture in business, management and leadership.

Part (a) of the question tests candidates' knowledge of reinforcement theory of motivation and underlining factors that determine the culture of an organisation. Part (b) tests Peter Drucker's theory of management.

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

However, some candidates could not correctly state the categories of management responsibility as suggested by Peter Drucker.

Candidates should ensure that they cover all aspects of the syllabus and make use of ICAN Study Texts and suggested solutions to past examination questions as provided in the Pathfinder, for better performance in future examinations.

	<b>Marking guide</b>	<b>Marks</b>	<b>Marks</b>
a.	Three primary mechanism of reinforcement theory of motivation	6	
	Four factors that shape culture of an organisation	<u>4</u>	10
b.	Stating five categories of management responsibility		<u>10</u>
	<b>Total</b>		<b><u>20</u></b>

## SOLUTION 5

### (a) Characteristics of individual behavior at workplace

- i. Individuals might think that when they are at work, the employer regards them as someone who is paid to do a job. They might therefore decide that they need to get on with the job they have been given, and perform the job adequately, so that they do not get into trouble with their boss.
- ii. Some individuals have pride in their work, and try to do their job to the best of their ability.
- iii. Some individuals need to be told what to do by their boss, others are much happier using their initiatives and getting on with their work without having to be told what to do.
- iv. Individuals do not work in isolation, on their own. They work with colleagues, and individuals differ in the way they interact. Some enjoy

communicating with other people, and like this aspect of their work. Other individuals do not communicate well with other people, and so might concentrate on their work and even refuse to join in conversations in the workplace.

- v. The behavior of individuals can also be affected by the prospects of promotion, career advancement or higher pay.

**(b) Explanation of types of Communication**

**i. Electronic communication**

E-mails, voice-mails and video-conferencing are electronic forms of written, spoken and visual communication respectively that bring flexibility and speed at low cost to business communications. The most common channel over which these media are communicated is the internet which extends the scope of these media worldwide.

**ii. Visual communication**

Whilst words both spoken and written require a reasonable amount of effort to hear, read, interpret and absorb, visual communication can achieve a much greater impact in a significantly shorter period. Visuals can be more memorable and clearer than a wall of words and blocks of text and figures.

**iii. Non-verbal communication**

This is the transmission of information through a non-verbal platform which includes facial expressions, the tone and pitch of the voice, gestures displayed through body language (kinesics) etc.

It may be completely independent of any verbal message (e.g. the slamming of a door, shaking of a head or simply remaining silent) or linked to words (e.g. a particular tone of voice).

**Examiner's report**

This question tests candidates' knowledge of individual and group behaviours in business organisation, and few key terms in business communication. Part (a) tests candidates' knowledge with respect to individual behaviour in the work place. Part (b) examines candidates' knowledge of three key terms under communication in business.

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

Some of the candidates that attempted the question could not correctly explain the terms, electronic communication, visual communication and non-verbal communication.

Candidates are advised to get acquainted with topics like teams, individual and group behaviour which are key terms and concepts in communication in business.

### Marking guide

	Marks	Marks
a. Five characteristics of individual behaviour at workplace		5
b. Explain briefly the following term:		
Electronic communication	5	
Visual communication	5	
Non-verbal communication	<u>5</u>	15
<b>Total</b>		<b><u>20</u></b>

### SOLUTION 6

- (a) Macroeconomics is the study of whole economies rather than individual buyers, sellers and firms. It is the study of the total economy or aggregate economy. It is concerned with issues such as employment and the level of unemployment, the amount of economic wealth that is created and economic growth, and the rate of inflation. It is more usual to study macroeconomics at national or regional level, but macroeconomics can also be studied at a global level.

#### Approaches that can be used to measure total economic activities

The following approaches can be used to measure the total economic activities of a country in a given period of time:

**Expenditure approach:** One way of measuring economic activities is to calculate the total amount of spending that has been in the economy. This includes spending on consumption by individuals and firms, spending on capital investments and government spending.

**Income approach:** Another way of measuring economic activities is to calculate the total income that has been earned by everyone in the economy during the period, such as income earned by individuals and profits earned by companies.

**Output approach:** A third approach to measuring economic activities is to measure the value of output by all industries and other economic activities. This includes service industries as well as agricultural, mining, construction and manufacturing industries.

b. **Operations research (OR) techniques include:**

- i. Game theory;
- ii. Mathematical logic;
- iii. Mathematical modelling;
- iv. Mathematical optimisation;
- v. Network analysis;
- vi. Queuing theory;
- vii. Simulation;
- viii. Decision tree;
- ix. Linear programming;
- x. Transportation model; and
- xi. Markov chain analysis.

**Game theory**

This is an OR technique used to solve problems involving conflict. It involves studying mathematical models of conflict and cooperation to help make strategic decisions. Rules are specified which represent the various choices of action available and help determine what the potential and likely outcomes of various courses of action will be.

**Mathematical logic**

This is integral to most of the OR techniques. Mathematical logic is used to reflect the relationships between the various components, variables and parameters within something that is being modelled. The logic is constructed to include an “objective function” with which different solutions can be evaluated and constraints that restrict feasible values tested.

**Mathematical modelling**

A model is a simplified representation of a real-life system. Mathematical modelling is a way of describing a system using mathematical concepts and language. The use of mathematical modelling allows the researcher to better understand the contents, the effects of different components and make predictions about behaviour.

**Mathematical optimisation**

This is a technique used to select the optimal solution from a set of available alternatives. The solution is derived by either maximising (e.g. profit) or minimising (e.g. cost) a real function by systematically selecting input values from within a feasible range.

**Network analysis**

This is a project management technique. It involves identifying the different components of a project, how long each component will take to be completed, the earliest and latest start and finish times for each component and the order in which components can be completed. One of the main objectives of network analysis is to

identify the critical path, that is, the series of components which sequentially represent the shortest potential duration of the project.

### **Queuing theory**

This is a technique that involves using mathematical methods for analysing as well as predicting the delays and congestion of waiting and queuing. The objective of queuing theory is to identify ways to improve the process to make it quicker.

### **Simulation**

This is one of the most widely used operational research techniques, which first became popular in the 1940's when "Monte Carlo" simulation was used to simulate atomic bomb raids. It is an imitation technique that involves building a model that represents a real system, then conducting experiments on the model. This allows the researcher to understand the behaviour and evaluate different strategies for operating the system.

### **Decision tree**

A decision tree is a graphical method of displaying the various parts of the decision – making process including the courses of action, risks involved and likely outcomes. A decision tree can also be defined as diagrammatical representation of the various alternatives involved in problems requiring sequential decisions so that all the possible alternatives could be properly evaluated.

### **Linear programming**

Linear programming is a business decision technique which seeks to maximise an objective or goal, for example, maximisation of profit, or minimise an objective or goal, for example, cost. It is an aspect of mathematical programming. It is called "linear" because all the decision variables involved are raised to power one. It is called programming because it involves scheduling (mapping out) the activities.

### **Transportation model**

This model is used in making decisions that involve the shipment of certain resources or outputs from one location to another.

### **Markov chain analysis**

This is a technique that deals with the probabilities of future occurrences by analysing presently known probabilities. It assumes that the systems we are looking at starts with an initial state or condition. According to Trueman R G. (1981), Markov process is a stochastic process which has the property that the probability of a transition from a given state to any future state depends only on the present state and not on the manner in which it was reached.

### **Examiner's report**

The question tests some aspects of macroeconomic policy and management science approaches. Part (a) examined candidates' knowledge of the concept of macroeconomics and the approaches to measuring economic activities in the national economy and part (b) tested operational research techniques.

Most candidates attempted the question and performance was above average.

The commonest pitfall was the inability of candidates to list and explain operations research techniques.

Candidates are advised to avail themselves of ICAN syllabus, Study Text and the Pathfinder before attempting future examinations.

### **Marking guide**

a	Explaining the concept of macroeconomics	2 ½
	Stating three approaches used to measure total economic activity	7½
b	Listing five operations research techniques	5
	Explaining five operations research techniques	<u>5</u>
	<b>Total</b>	<b><u>20</u></b>



**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA****FOUNDATION LEVEL EXAMINATION – NOVEMBER 2022****BUSINESS LAW****EXAMINATION INSTRUCTIONS****PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER**

1. Check your pockets, purse, mathematical set, etc. to ensure that you do not have prohibited items such as telephone handset, electronic storage device, programmable devices, wristwatches or any form of written material on you in the examination hall. You will be stopped from continuing with the examination and liable to further disciplinary actions including cancellation of examination result if caught.
2. Write your **EXAMINATION NUMBER** in the space provided above.
3. Do **NOT** write anything on your question paper **EXCEPT** your examination number.
4. Do **NOT** write anything on your docket.
5. Read all instructions in each section of the question paper carefully before answering the questions.
6. Do **NOT** answer more than the number of questions required in each section, otherwise, you will be penalised.
7. All solutions should be written in **BLUE** or **BLACK INK**. Any solution written in **PENCIL** or **RED INK** will not be marked.

**THURSDAY, NOVEMBER 17, 2022****DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

# **THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**

## **FOUNDATION LEVEL EXAMINATION – NOVEMBER 2022**

### **BUSINESS LAW**

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

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

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

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

1. Who of the following fills a casual vacancy on the board of a company?
  - A. Majority shareholders
  - B. The Managing Director
  - C. The Board of Directors
  - D. The Company Secretary
  - E. The Federal High Court
  
2. Which of the following courts is of co-ordinate jurisdiction with the Federal High Court?
  - A. High Court
  - B. Sharia Court
  - C. Area Court
  - D. Court of Appeal
  - E. Supreme Court
  
3. A partner who participates in the management of the firm is called a  
  - A. Matching partner
  - B. Limited partner
  - C. Coordinating partner
  - D. General partner
  - E. Contributing partner
  
4. What is the period within which a public limited company must hold its statutory meeting from the date of incorporation?
  - A. 3 months
  - B. 6 months
  - C. 9 months

- D. 12 months
  - E. 15 months
5. An equitable charge on all of the assets or property of a company as security for indebtedness of the company is called
- A. Assets charge
  - B. Property charge
  - C. Fixed charge
  - D. Multiple charge
  - E. Floating charge
6. A person may be appointed as an administrator of a company by
- A. Probate Registrar
  - B. The Company Secretary
  - C. Outspokenness
  - D. Floating charge holders
  - E. A court order
7. Which of the following is classified as an act of **THEFT** under the Criminal Code?
- A. Acquisition of property
  - B. Conversion of property
  - C. Assumption of property
  - D. Presumption of property
  - E. Disposal of property
8. The maximum number of multiple directorship allowed a person is
- A. 5
  - B. 6
  - C. 7
  - D. 8
  - E. 9
9. Which of the following is an admissible evidence in electronic fraud case?
- A. The electronic device used was imported
  - B. The electronic device used was not calibrated
  - C. The electronic device used was installed
  - D. The electronic device used was functional
  - E. The electronic device used was automated

10. A situation in which a party to a contract willfully fails to perform his/her obligations under the contract, is referred to as
- A. Breach
  - B. Defiance
  - C. Refusal
  - D. Disobedience
  - E. Illegality
11. How many members of the audit committee of a company must be non-executive directors?
- A. 6
  - B. 5
  - C. 4
  - D. 3
  - E. 2
12. The authority which is inferred or observed from the acts of both the principal and agent is referred to as
- A. Undefined authority
  - B. Ostensible authority
  - B. Inclusive authority
  - C. Exclusive authority
  - D. Unqualified authority
13. Which of the following is a key element in professional negligence?
- A. Relationship
  - B. Omission
  - C. Duty of concern
  - D. Duty not to deceive
  - E. Duty of care
14. The right of unpaid seller to retain possession of property until he is paid, under sale of goods act, is referred to as
- A. Lien
  - B. Confiscation
  - C. Revocation
  - D. Repudiation
  - E. Rescission

15. Under hire purchase contract, the relationship between the parties is that of
- A. Mortgagor and mortgagee
  - B. Assignor and assignee
  - C. Bailor and bailee
  - D. Consignor and consignee
  - E. Vendor and vendee
16. Which of the following means “Utmost good faith”?
- A. Caveat emptor
  - B. Uberrimae fidei
  - C. Ultra vires
  - D. Per in curiam
  - E. Non est factum
17. A bill duly presented to the drawee by the payee but not accepted within specified time is said to be
- A. Disallowed
  - B. Disregarded
  - C. Dismissed
  - D. Discountenanced
  - E. Dishonoured
18. Which of the following constitutes termination of employment by operation of law?
- A. Death of employer, in case of personal service
  - B. Breach by either of the parties
  - C. Compulsory winding-up of employer’s company
  - D. Illness of the employee
  - E. Agreement by both parties
19. Under the Trustee Investment Act, in which of the following could a trustee invest trust funds?
- A. General merchandise
  - B. Government treasury bills
  - C. Import and export
  - D. Haulage and transport business
  - E. Wholesale and retail trade

20. Which of the following is an essential element of arbitration?
- A. The dispute must be criminal
  - B. The parties may reject the award
  - C. The parties must not use services of lawyers
  - D. The dispute must be justiciable
  - E. The award is unenforceable

**SECTION B: OPEN-ENDED QUESTIONS (80 MARKS)**  
**INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT ANY FOUR OUT OF THE SIX QUESTIONS IN THIS SECTION**

**QUESTION 1**

- a. There are different types of precedent under case law.

**Required:**

Explain the following terms:

- i. Original precedent (2 Marks)
- ii. Persuasive precedent (2 Marks)

- b. The Companies and Allied Matters Act (CAMA) recognises different forms of business organisations.

**Required:**

Explain briefly **THREE** main features of sole proprietorship as a business organisation. (6 Marks)

- c. The directors of a public company are required to submit statutory report within specified period to every member before the date of the statutory meeting.

**Required:**

State **SIX** items contained in the statutory report. (6 Marks)

- d. A bill of exchange may be discharged under several circumstances.

**Required:**

State **FOUR** circumstances under which a bill of exchange may be discharged (4 Marks)  
**(Total 20 Marks)**

## QUESTION 2

- a. The Money Laundering (Prohibition) Act stipulates guidelines to regulate funds transfers by individuals and corporate bodies.

**Required:**

Explain the following:

- i. Limitation of cash transactions by corporate bodies (2 Marks)
  - ii. Limitation for international transfer of foreign currencies (2 Marks)
- b. Dodo was employed as a fuel-pump attendant in a petrol station. During a period of heavy patronage, the petrol station premises was blocked by vehicles and Dodo decided to re-park a customer's car that was obstructing traffic in the premises. In the process of reparking the car, Dodo rammed into another customer's car, causing severe damage to both cars.

The owners of both cars intend to sue the petrol station owner for repair of their damaged cars, and have asked for your advice.

**Required:**

Advise them, stating the legal issues involved. (6 Marks)

- c. Under trusteeship law, anybody of full capacity could be appointed trustee.

**Required:**

Explain the following:

- i. Unit trust (5 Marks)
- ii. Original trustee (5 Marks)

**(Total 20 Marks)**

## QUESTION 3

- a. The Companies and Allied Matters Act (CAMA) provides that a public company shall have a Company Secretary.

**Required:**

- i. State **FOUR** duties of a Company Secretary (4 Marks)
  - ii. State **FOUR** conditions for the removal of a Company Secretary from office. (4 Marks)
- b. Law may be classified according to several parameters.

**Required:**

State **FOUR** characteristics of criminal law. (4 Marks)

- c. Misrepresentation in a contract affects the validity of the contract.

**Required:**

- i. Explain “fundamental breach” and its effect on a contract. (4 Marks)
- ii. State **FOUR** elements of misrepresentation. (4 Marks)

**(Total 20 Marks)**

**QUESTION 4**

- a. Debenture stock is secured by charge on the company’s assets.

**Required:**

Explain **TWO** advantages of floating charge to the company. (4 Marks)

- b. Theft is an offence punishable under the Criminal Code.

**Required:**

State the punishment for the following offences:

- i. Theft of testamentary instrument (2 Marks)
- ii. Theft of postal matters (2 Marks)

- c. Jaga contracted Tobi, a transporter, to deliver a trailer-load of bagged salt from Lagos to a customer in Abuja. Midway on the journey and in a remote village, it started raining and the salt was melting as the consignment was exposed. In order to prevent total loss of the consignment, Tobi quickly stopped at the nearest market and sold the wet salt to a buyer at half price.

Jaga is annoyed with Tobi and intends to sue the buyer to recover the salt, claiming that Tobi had no authority to act on his behalf.

**Required:**

Advise Jaga on his intended action against the buyer. (6 Marks)

- d. There are different types of risks that may be insured under insurance contract.

**Required:**

Explain the following briefly:

- i. Indemnity insurance (3 Marks)
- ii. Contingency insurance (3 Marks)

**(Total 20 Marks)**



### QUESTION 5

- a. The Nigerian court system recognises various courts in different parts of the country.

**Required:**

State **FIVE** features of a District Court. (5 Marks)

- b. Registered partnership may be categorised into two.

**Required:**

State **SIX** characteristics of a limited partner (6 Marks)

- c. Vitiating elements in contracts are recognised under common law.

**Required:**

Explain **THREE** types of mistake under law of contracts. (9 Marks)  
**(Total 20 Marks)**

### QUESTION 6

- a. Bayo was granted 12 months overseas study leave by his employer. After completing the course of study on schedule, he overstayed and returned 30 months later to resume duty, but was handed a letter of dismissal dated 10 months ago for abandonment of duty.

Bayo is aggrieved and intends to sue his former employer for wrongful dismissal from office.

**Required:**

Advise Bayo, stating the legal issue involved. (6 Marks)

- b. A hire purchase contract may be terminated in different ways.

**Required:**

State **FOUR** ways by which hire purchase contract may be terminated. (4 Marks)

- c. The general rule under the Sale of Goods Act is that ownership in the goods passes when the parties intend.

**Required:**

Explain **THREE** circumstances for transfer of ownership of specific goods where no intention of the parties appear in the contract. (6 Marks)

- d. Electronic fraud is an offence under the Criminal Code.

**Required:**

Identify **FOUR** ways by which electronic fraud could be committed in a business environment. (4 Marks)

**(Total 20 Marks)**

## **SOLUTIONS**

### **MCQ**

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

### **Examiner's report**

The questions achieved a good spread over the syllabus.

All the candidates attempted the questions, but the performance was average.

Candidates' major pitfall was their lack of understanding of some key principles of company law and Nigeria legal system.

Candidates are advised to cover the syllabus in their future preparations.

## **SOLUTION 1**

a. i. **Original precedent**

This refers to when the point of law in a case has never been decided before, hence whatever the judge decides will form a new precedent to follow in future cases which are similar.

ii. **Persuasive precedent**

This is a precedent which is not binding on the other court of coordinate jurisdiction, but a judge in a similar case may consider and decide to uphold the same principle if he is persuaded to follow it.

b. **The main features of sole proprietorship as a business organisation include the following:**

- i. A sole proprietorship is known as a one-man business. The business is the same as the owner and can transact all his operations alone;
- ii. The owner is fully in charge of management of the business, and he provides all funds and resources for the business;
- iii. The owner is personally responsible for the debts and obligations of the business. He is thus personally liable for all charges against the business.;
- iv. A sole proprietorship may not be registered with the Corporate Affairs Commission if the business is carried out in the true surname of the owner; and
- v. A sole proprietorship must be registered with the Corporate Affairs Commission if the business is carried on under an assumed corporate name;

c. **The contents of the statutory report include the following:**

- i. The total number of shares allotted, as fully or partly paid up, and if partly paid, the extent to which it is paid up;
- ii. Total amount of cash received for the allotted shares;
- iii. Names, addresses and other details of the directors, secretaries and auditors of the company;
- iv. Particulars of any pre-incorporation contract together with expected modifications;
- v. Any underwriting contract yet to be executed and reasons therefor;
- vi. The arrears, if any, due on calls from every director;

- vii. Particulars of any commission or brokerage paid or to be paid in connection of the issue or sale of shares; and
  - viii. Abstract of the receipts and payments of the company within the period.
- d. **A bill of exchange may be discharged under the following circumstances by:**
- i. Payment of the bill in due course;
  - ii. An acceptor of the bill becoming the holder in his own right;
  - iii. Waiver or renunciation of the holder of the bill;
  - iv. Intentional cancellation of the drawer's signature on the bill;
  - v. Material alteration or mutilation of the bill;
  - vi. Acceptance of a bill previously dishonoured; and
  - vii. Replacing a lost bill with another.

### **Examiner's report**

The question tests candidates' understanding of judicial precedents, features of sole proprietorship, contents of statutory report, and discharge of bill of exchange.

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

Candidates' major pitfall was their inadequate understanding of statutory report contents and judicial precedents.

Candidates are advised to study the deficiency areas more in the ICAN Study Text.

### **Marking guide**

	Marks	Marks
a. <b>Explanation of original and persuasive precedents</b>		
i. Explanation of original precedent	2	
ii. Explanation of persuasive precedent	<u>2</u>	4
b. <b>Explanation of features of proprietorship</b> Explanation of features of proprietorship (2 marks each for any 3 points)		6
c. <b>Contents of the Statutory Report</b> (1 mark each for any 6 points)		6
d. <b>Stating circumstances for discharge of bill of exchange</b> (1 mark for each circumstance for discharge of bill of exchange, subject to a maximum of 4 points)		<u>4</u>
<b>Total</b>		<b><u>20</u></b>

## **SOLUTION 2**

- (a) i. **Limitation of cash transactions by corporate bodies**  
The Money Laundering (Prohibition) Act stipulates that, except transactions through a financial institution, no corporate body shall make or accept cash payment greater than Ten Million Naira (₦10 million).
- ii **Limitation for international transfer of foreign currencies**  
in the case of international transfer of funds, the Act provides that a transfer to or from a foreign country of funds or securities of a sum greater than Ten Thousand US Dollars (US\$10,000) or its equivalent, shall report same to the Central Bank of Nigeria.
- (b) The legal issue involved is the principle of vicarious liability under law of torts, which states that a master is liable for the torts of his servant committed and within the scope of the servant's duty.

However, one of the exceptions to this rule is that, where a servant employed to do a particular job does something completely outside his scope of duty, the master is not liable for any tort arising from such act.

Dodo was employed as a fuel-pump attendant and acted outside his scope of duty by driving a customer's car and is personally liable for the damage to the cars. The owners of the damaged cars are advised to sue Dodo for the repair of their cars.

- (c) i. **Unit trust**  
Unit trust is an investment managed by an appointed manager, who makes investment arrangements of providing facilities for the participation of the public as beneficiaries under the trust investment.
- ii. **Original trustee**  
A person appointed as trustee at the inception or creation of the trust is referred to as original trustee. Additional trustees may be appointed to join the original trustee, and new trustees may be appointed where an original trustee retires or is removed from office.

### **Examiner's report**

The question tests candidates' understanding of cash transaction limit under the Anti-Money Laundering Act, the tort of vicarious liability, as well as unit trust and original trustee.

About 60% of the candidates attempted the question but performance was below average.

The major pitfall of the candidates was their lack of understanding of the limit of cash transaction under the Money Laundering Prohibition Act and vicarious liability tort.

Candidates are advised to be conversant with the provisions of Anti-money Laundering Act so as to enhance better performance in future.

**Marking guide**

	Marks	Marks
a. <b>Explanation of cash transaction limit for corporate bodies</b>		
i. Explanation of cash transaction limit for corporate bodies as ₦2million	2	
ii. Explanation of international foreign funds transfer limit as US\$10,000	<u>2</u>	4
b. <b>Explanation of legal issues involved</b>		
i. Legal issues involved are vicarious liability and exceptions	2	
ii. Apply to the case as an exception to vicarious liability	2	
iii. Advice to owners of damaged cars– sue Dodo, not the Petrol station owner.	<u>2</u>	6
c. <b>Explanation of unit trust</b>		
i. Explanation of unit trust		5
ii. Explanation of original trustee	<u>5</u>	<u>10</u>
<b>Total</b>		<b><u>20</u></b>

**SOLUTION 3**

(a) i. The duties of a Company Secretary include the following:

- Convene all the company’s corporate, general and directors meetings;
- Attend all the company’s corporate, general and directors meetings;
- Provide secretarial support at all meetings of the company;
- Advise the company on regulatory compliance;
- File corporate returns of the company’s operations with regulatory agencies;
- Maintain the register of members and directors;
- With authority of the board, exercise any powers vested in the directors.

**ii. The conditions for the removal of a Company Secretary from office by the Board of Directors are as follows:**

- The board of directors must give the secretary 7 days written notice of intention to remove the secretary from office;
- The notice shall state the board's intention to remove the secretary;
- The notice shall state the grounds on which the secretary is to be removed;
- The secretary shall have at least 7 working days to make his defence; and
- The secretary has an option to resign from office within 7 working days.

**(b) The following are the characteristics of criminal law:**

- i. Criminal law is classified under public law;
- ii. Criminal law is between the State and persons who commit offences;
- iii. The aim of criminal law is to punish offenders;
- iv. Under criminal law, the parties are referred to as prosecution and suspect;
- v. Offences under criminal law are not subject to statute-bar principle; and
- vi. Offence by the wrong-doer is committed against the public, State or Nation.

**(c) i. Fundamental breach**

This is a breach of contract that goes to the root of the contract. An example is a breach of a condition of the contract.

The effect of a fundamental breach is to render the contract void or terminate it.

**ii. The elements of misrepresentation include the following:**

- There must be actual statement of fact, and usually not law;
- The statement must be false and known only to the maker;
- The statement must relate to the present or past, not to a future event;
- It must not be a statement of intention;
- The statement must be capable of vital proof; and
- The misrepresentation must have induced action of another.

### **Examiner's report**

The question tests candidates knowledge of the duties and conditions for removal of a Company Secretary characteristics of criminal law, and fundamental breach, as well as misrepresentation in contract law.

About 70% of the candidates attempted the question but the performance was below average.

Candidates' major pitfall was their lack of understanding of the conditions for removing a Company Secretary.

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

### Marking guide

	Marks	Marks
<b>a. Duties and conditions for the removal of a Company Secretary from office</b>		
i. Stating 4 duties of the Company Secretary (1 mark each for any 4 points)	4	
ii. Stating 4 conditions for removal of Company Secretary  (1 mark each for any 4 points)	4	8
b. Stating characteristics of criminal law (1 mark each for any 4 points)		4
c. <b>Explanation of fundamental breach and elements of misrepresentation</b>		
d. i. Explanation of fundamental breach	4	
ii. 4 elements of misrepresentation (1 mark each for any 4 points)	4	8
<b>Total</b>		<b><u>20</u></b>

### SOLUTION 4

(a). The advantages of floating charge to the company include the following:

- i. The assets under charge remain free to deal with by the company in its normal course of business without encumbrance;
- ii. The floating charge is not attached to any particular asset until crystallisation; Thus, while the charge floats, the charge holder cannot exercise proprietary or possessory right on any of the company's assets;
- iii. The company can sell any of the assets and pass a good title to willing buyers. The buyers of such assets take the property free from charge; and



iv. The charge company may grant a fixed charge over assets comprised in the floating charge in the ordinary course of business and the fixed charge will have priority over the floating charge.

**(b) The punishment for the following offences are as follows:**

**i. Theft of testamentary instrument**

A person convicted for the theft of testamentary instruments shall on conviction, be liable to life imprisonment.

**ii. Theft of postal matters**

A person convicted for the theft of postal matters shall on conviction be liable to life imprisonment.

**(c)** The legal principle involved is agency of necessity, which arises where a persons acts on behalf of and for the benefit of another person in an emergency situation and when there is no opportunity to seek approval of the principal or notify him.

Tobi's action of selling the wet bagged salt was done under emergency. The emergency that compelled Tobi to sell the salt arose out of the following conditions:

i. This was a commercial necessity;

ii. It was impossible to communicate with the owner of the salt for instructions; and

iii. Tobi the agent acted in good faith and in the interest of the principal.

Jaja is advised not to sue for recovery of the salt from the buyer, as Tobi is covered under the principle of agency of necessity.

**(d) i. Indemnity insurance**

Generally, insurance is a contract of indemnity, except life insurance and personal accident insurance. Under a contract of indemnity, the underlying principle is that the insured shall be returned to the same position he was immediately before the happening of the event insured against.

**ii. Contingency insurance**

This concerns life and personal accident insurance in which the insurer's liability is dependent on human life, and amount of the indemnity becomes payable on the happening of the contingent event insured against. The sum payable is not the loss suffered but the amount stated in the policy.

### Examiner's report

The question tests candidates' understanding of advantages of floating charge, theft of testamentary instrument and postal matters, agency of necessity, and types of insurance.

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

Candidates' major pitfall was the lack of understanding of floating charge, agency of necessity, and types of insurance.

Candidates are advised to study the deficiency areas more diligently in ICAN Study Text and Pathfinders.

### Marking guide

	Marks	Marks
a. <b>Explanation of 2 advantages of floating charge</b> 2 marks for each explanation of the floating charge, subject to a maximum of 2 points		4
b. <b>Explanation of punishment for theft of testamentary instrument and postal matters</b>		
i. Explanation of punishment for theft of testamentary instrument	2	
ii. Explanation of punishment for theft of postal matters	<u>2</u>	4
c. <b>Legal issue involved is the agency of necessity</b> Legal issue involved is the agency of necessity Conditions for agency of necessity Advice to Jaja – Not to sue the buyer to reclaim salt.	2 3 <u>1</u>	6
d. <b>Explanation of indemnity and contingency insurance</b>		
i. Explanation of indemnity insurance	3	
ii. Explanation of contingency insurance	<u>3</u>	<u>6</u>
<b>Total</b>		<b><u>20</u></b>

## **SOLUTION 5**

(a) **The main features of a District Court include the following:**

- i. It is an inferior court;
- ii. It is not a court of records;
- iii. It is a court of civil jurisdiction;
- iv. It is an equivalent of a Magistrates court;
- v. It operates only in the northern part of Nigeria;
- vi. It is constituted by one judge; and
- vii. Its decision is not a precedent.

(b) **A limited partner has the following characteristics:**

- i. A limited partner's liability is limited to the extent of his agreed contribution to the partnership;
- ii. He cannot bind the partnership in contracts entered into by him;
- iii. He does not participate in the management of the firm;
- iv. His subsequent incapacity, legal or otherwise will not dissolve the partnership;
- v. He cannot dissolve the partnership by notice;
- vi. His death will not dissolve the partnership; and
- vii. His share of partnership profit is agreed by all partners.

(c) **The following are types of mistakes under the law of contracts:**

- i. **Common mistake**  
This mistake arises when both parties are mistaken about the same thing, and with the same intention. An example is where the subject matter of the contract is non-existent at the time of making the contract.
- ii. **Mutual mistake**  
This mistake occurs when the parties are mistaken about different things and misunderstood each other's intentions regarding certain fundamental terms of the contract, such as specifications of the subject matter.
- iii. **Unilateral mistake**  
In this instance, only one party is under the mistaken assumption and the another party is aware that the other contracting party is under a mistake.

Most unilateral mistakes involve mistaken identity and error in price.

iv. ***Non est factum***

This mistake arises when a person was induced by a false statement of the other party to sign a document fundamentally different from what he thought he was signing.

**Examiner's report**

The question tests candidates' understanding of the features of a District Court, characteristics of limited partnership, and types of mistake in contract.

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

The major pitfall of the candidates was their inadequate understanding of the features of a District Court, and types of mistakes.

Candidates should study the areas of deficiency more diligently in ICAN Study Text and Pathfinders.

**Marking guide**

	<b>Marks</b>
a. <b>Features of District Courts</b> Stating 5 features of District Courts (1 mark each for any 5 points)	5
b. <b>Characteristics Of limited partners</b> Stating 6 characteristics of limited partners (1 mark each for any 6 points)	6
c. <b>Types of mistake</b> Stating and explaining 3 types of mistakes (3 marks each for any 3 points)	<u>9</u>
<b>Total</b>	<b><u>20</u></b>

**SOLUTION 6**

- a. The legal issue involved is the right of an employer to dismiss his employee from employment. Under employment law, dismissal is one of the ways by which an employer may terminate the employment of an employee.

Bayo grossly prolonged his authorized study leave period. This translate to the abandonment of duty, which was the ground for his dismissal from office.

Bayo is advised not to sue his employer, as the suit will fail due to his abandonment of duty.

- b. Hire purchase contract may be terminated by:**
- i. Mutual agreement by both parties;
  - ii. The parties performing the obligations of the contract;
  - iii. Fresh or subsequent contract which terminates the old contract;
  - iv. Notice given to the hirer by the owner before final instalment is due;
  - v. Hirer's breach through default in payment of instalment due;
  - vi. Owner's breach, which entitles the hirer to claim damages;
  - vii. Frustration, if not due to the fault of either party; and
  - viii. Court order or judgment for conversion or detinue.
- c. For specific goods, where no intention of the parties appear in the contract, circumstances for transfer of ownership are as follows:**
- i. Where there is an unconditional contract for the sale of the goods in a deliverable state, ownership passes when the contract is made, irrespective of when payment is made;
  - ii. Where the seller is bound to do something to the goods to put them in a deliverable state, e.g packaging, ownership in the goods will only pass after the owner has done that thing;
  - iii. Where the goods are already in a deliverable state, but the seller still needs to do some acts, like weighing, measuring and quality control, ownership does not pass until the act is done and the buyer is aware of it;
  - iv. Where the goods are on sale or return term, ownership passes when the buyer communicates approval to the seller or does something to signify acceptance.;
  - v. Where the goods are on sale or return term, if the buyer retains the goods beyond the fixed period without giving notice of rejection, ownership passes at the expiration of the fixed period.
- d. Electronic fraud can be perpetrated in a business environment in the following ways:**
- i. Fraudulent use of business data and information illegally obtained from electronic devices;
  - ii. Falsification and manipulation of data and information obtained from the data base of electronic devices;
  - iii. Fraudulent and illegal transfers of funds between business accounts;
  - iv. Hacking or breaking into codes of business accounts for fraudulent purposes;
  - v. Illegal insertion of codes into electronic devices to make induce malfunction;
  - vi. Impersonation by fraudulently presenting oneself as a legitimate user of the electronic device;

- vii. Identify theft;
- viii. Cyber Squatting; and
- ix. Cyber Stalking.

**Examiner’s report**

The question tests candidates’ understanding of the rule on dismissal of an employee, termination of a hire purchase contract, transfer of ownership in sale of goods, and the ways of committing electronic fraud.

About 65% of the candidates attempted the question, but their performance was below average.

Candidates’ major pitfall was their lack of understanding of the rule on dismissal of an employee and transfer of ownership of goods.

Candidates are advised to study their areas of inadequacy more diligently in ICAN Study Test and other relevant texts.

**Marking guide**

	Marks	Marks
<b>a. Dismissal of employee for abandonment of duty</b>		
i. Legal issue involved is employee dismissal for abandonment of duty	2	
ii. Apply to case - Abandonment of duty by Bayo is a ground for dismissal from office	2	
iii. Advice to Bayo - Not to sue former employer as suit will fail	<u>2</u>	6
<b>b. Ways to terminate hire purchase contract</b>		
Stating 4 ways to terminate hire purchase contract stated (1 mark each for any 4 ways)		4
<b>c. Circumstances for transfer of ownership of specific goods</b>		
Explanation of 3 circumstances for transfer of ownership for specific goods (2 marks each for any 3 circumstances)		6
<b>d. Identification of ways of committing electronic fraud</b>		
Identification of 4 ways of committing electronic fraud (1 mark each for any 4 points)		<u>4</u>
<b>Total</b>		<u><u>20</u></u>