EXAMINERS GENERAL COMMENTS

BREACH OF EXAMINATION INSTRUCTIONS

IN SPITE OF THE EXAMINERS' GENERAL COMMENT IN PREVIOUS EDITIONS OF THE "INSIGHT", IT WAS OBSERVED THAT A NUMBER OF CANDIDATES HAVE CONTINUED TO BREACH EXAMINATION INSTRUCTIONS AS STATED BELOW:

A) BY ATTEMPTING MORE QUESTIONS THAN ALLOWED IN EACH PAPER; AND

B) BY ATTEMPTING MORE QUESTIONS THAN ALLOWED IN EACH SECTION.

INADEQUATE COVERAGE OF THE SYLLABUS

IT HAS BECOME MANIFEST THAT MANY CANDIDATES DO NOT COVER THE SYLLABUS IN DEPTH BEFORE PRESENTING THEMSELVES FOR THE EXAMINATION. CANDIDATES ARE THEREFORE ADVISED TO BE ADEQUATELY CONVERSANT WITH ALL ASPECTS OF THE SYLLABUS.

FOREWORD

This issue of **INSIGHT** is published principally, in response to a growing demand, as an aid to:

(i) Candidates preparing to write future examinations of the Institute of Chartered Accountants of Nigeria (ICAN) at an equivalent level;

(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 subjects contained therein; and

(iv) The profession in improving pre-examination and screening processes, and so the professional performance.

The answers provided in this book do not exhaust all possible alternative approaches to solving the questions. Efforts have been made to use methods, which will save much of the scarce examination time.

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.

NOTE

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

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AT/121/PIII.9 **Examination No.......................**

ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME WEST AFRICA
PART III EXAMINATIONS – MARCH 2012
PRINCIPLES OF AUDITING

Time Allowed – 3 hours

Insert your Examination number in the space provided above

SECTION A: Attempt All Questions

PART I: MULTIPLE-CHOICE QUESTIONS (30 Marks)

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

1. Which of the following is **NOT** an area of interest in a typical audit firm?

   A. Insolvency
   B. Production
   C. Taxation
   D. Audit Investigations
   E. Management Consultancy

2. An important document that defines clearly the extent of an auditor' responsibilities on any professional engagement and is intended to minimize areas of conflict between client and auditor is described as................Letter

   A. Representation
   B. Domestic
   C. Engagement
   D. Management
   E. Agreement

3. A true and fair view in financial statements requires that those statements comply with a comprehensive accounting system applied consistently on yearly basis and in conformity with all relevant legislations. Based on the above statement, a true and fair view may **NOT** be achieved, if the

   A. Figures on the financial statements are accurate in material amount.
   B. Financial statements conform to accounting policies required by regulatory authorities, comply with accounting standards and present relevant information.
   C. Financial statements are prepared on a basis that is consistent with previous period and there is adequate disclosure if rules of consistency are not applied.
   D. Presentation of the figures/balances in the financial statements is so obscured or complicated that they are difficult to interpret or understand.
   E. Description of the figures in the financial statements is full with proper disclosure of their substance.

4. Bright Company's Managing Director whose company started business recently requested you, as a professional accountant, to educate him on basic principles of auditing as applicable to a registered company. Audit carried out on Bright Company is compulsory because the law requires the Financial Statements of such company to be audited annually. Such an audit is known as

   A. Companies and Allied Matters Act Audit
   B. Compulsory Audit
   C. Compliance Audit
   D. Law required Audit
   E. Statutory Audit

5. Which of the following is the primary objective of an audit?

   A. Prevention of fraud and errors
   B. Assistance to the management in the establishment of effective auditing system
   C. Detection of any form of irregularity
   D. Report of the internal control weaknesses to the management
   E. Expression of professional opinion on the financial position of an enterprise

6. The judge in the …………………….said this about an auditor "He must be honest - that is, he must **NOT** certify what he does **NOT** believe to be true, and he must take reasonable care and skill before he believes that what he certifies is true".

   A. Re - Thomas Gerrard & Sons (1967)
   B. Re – Kingston Cotton Mill (1896)
   C. Re – London General Bank (1895)
   D. Re – London & Oil Storage (1904)
   E. Re – City Equitable Fire Insurance Co. Ltd. (1924)

7. An auditor violates the professional ethical standards when

   A. He performs audit services for a percentage of the client's turnover
   B. His firm's name end with the words "Chartered Accountants".
   C. He mentions the services he provides on the internet
   D. He makes available working papers for purposes of a peer review without the client's consent
   E. He recruits staff for his client

8. If an auditor discovers information which adversely affects the financial statements that he is currently auditing, he should

   A. Report to the audit committee
   B. Qualify his report at the end of the assignment
   C. Report to the Corporate Affairs Commission/Registrar of Companies
   D. Inform the Corporate Affairs Commission/ (Registrar of Companies) verbally
   E. Resign his appointment as an auditor.

9. Which of the following is **NOT** an exercise of due professional care?

   A. Examination of all available corroborating evidence
   B. Review of the judgement exercised at every level of supervision
   C. Bringing professional experience to bear in an assignment
   D. Reduction of audit risk to the barest minimum
   E. Prevention of fraud and irregularities

10. If an audit engagement is accepted but the auditor does **NOT** have knowledge about the client's operations, he should

    A. Employ a joint auditor who has experience on the nature of the client's business
    B. Reject the appointment outright
    C. Obtain knowledge of matters relating to client's business by hiring an expert
    D. Transfer the audit work to an experienced and big audit firm
    E. Obtain a legal advice on what to do.

11. Which of the following would **NOT** normally signal a going concern issue?

A. Stock would not have to be valued at their forced sale or net realizable value
B. Prepayments may have no future benefit
C. Long-term liabilities will immediately become payable
D. Long-term assets would need not be valued at net realizable value and not at cost less depreciation
E. New liabilities such as redundancy pay may need to be included in the financial statements

12. The auditor may **NOT** be expected to concern himself with **ONE** of the following statements while conducting “value for money audit”:-

A. The organizational structure, in particular the allocation of responsibilities, delegation of authority and the system for making managers accountable.
B. The existence and soundness of management’s arrangement for assessing competing priorities and programmes of work
C. Whether management has defined its overall objectives adequately and its strategy for achieving those objectives
D. Whether alternative means of achieving objectives have been considered
E. The expectation gap and performance gap in existence.

13. Which of the following factors may **NOT** impair the going concern of a business organization.

A. Management incompetence
B. Fraudulent practices of management
C. Political unrest
D. Ability to meet creditors bills as at when due
E. Failure of proper control mechanism and insider abuse.

14. The auditor may **NOT** consider **ONE** of the following while reviewing assets of an organization.

A. The purpose of the asset
B. The valuation date and age of the asset
C. The alternative usage of the asset
D. The remaining economic life
E. The basis of valuation.

15. The advantages of automated working papers include the following **EXCEPT**

A. The risk of errors is reduced
B. Standard forms do not have to be carried to audit location
C. The working papers will be neater and easier to review
D. Audit working papers can be transmitted for review through a modem or fax facilities and so on

E. Many files would have to be created on every asset.

16. A computer can be used by auditors in the following ways EXCEPT
A. Evaluation of audit risk
B. Analytical procedures
C. Duplication of audit work
D. Flow charting the client's system
E. Preparation of audit programmes.

17. What is the statutory number of Audit Committee members in a public limited company?

A. 5
B. 6
C. 8
D. No specific limit
E. 7

18. Test of the extent to which rules, policies, laws and government regulations are followed by an entity being audited is called

A. Government audit
B. Compliance audit
C. Forensic audit
D. Operational audit
E. Balance sheet audit

19. Which of the following headings is **NOT** relevant in the format of an audit report?

A. Title
B. Introductory paragraph
C. Auditors' opinion
D. Date of incorporation
E. Reporting standard

20. To which organ of government does the Auditor General of your country report?

A. The Judiciary
B. The Executive
C. The Accountant General's Office
D. The Legislature
E. The Auditor General's Office

21. In designing written audit programmes, an auditor should establish specific audit objectives that relate primarily to the

A. Timing of audit procedures

B. Financial statement assertions
C. Cost benefit of gathering evidence
D. Assertions of management
E. Selected audit techniques

22. Which of the following statements is **NOT** a component of an entity's Internal control?

A. Risk assessment
B. Monitoring of control
C. Control summary
D. Control procedures
E. Control environment

23. When considering internal control, the concept of reasonable assurance should be observed by an auditor. This implies that

A. Adequate safeguards over access to assets and records should permit an entity to maintain proper accountability
B. Internal control may be ineffective due to mistakes in judgement and personal carelessness
C. The cost of an entity's internal control should not exceed the benefits expected to be derived
D. Establishing and maintaining internal control is an important responsibility of management
E. The auditor should plan his audit engagement to remove the limitations inherent in internal control systems

24. Everyone in the organization has responsibility for internal controls in an organization **EXCEPT**

A. Management
B. Board of directors
C. Internal auditors
D. Shareholders
E. Other personnel

25. Which of the following is **NOT** a reason why a company establishes a system of internal controls.

A. Help achieving its performance and profitability goals
B. Prevent loss of resources by fraud and other means
C. Ensure reliable financial reporting
D. Compliance with laws and regulations
E. Control management spending

26. Which **ONE** of the following audit terms is **NOT** a technique of substantive test?

    A. Inspection
    B. Enquiry
    C. Walk through test
    D. Computation
    E. Vouching

27. A sampling method in which values of a particular magnitude are selected is referred to as

    A. Discovery sampling
    B. Haphazard sampling
    C. Random sampling
    D. Stratified sampling
    E. Multi-stage sampling

28. **ONE** of the following audit working papers is an example of items to be kept in a Current Audit working papers file.

    A. Details of the system of accounting including that of the computer applications
    B. A copy of the organization's statutes and other legal or statutory documents governing existence of the business
    C. Details of the audit plan, including time budgets, staffing, statement of the scope and level of tests
    D. An organizational chart showing the top management functions and division of responsibilities
    E. A letter of engagement for the preceding financial year

29. The main reasons for preparing audit working papers **EXCLUDE**

    A. Provision of evidence of work done
    B. Supportive of audit opinion
    C. Assistance in audit planning
    D. Assistance to the management to increase company's profitability
    E. Enabling audit partners and managers to review work done by their subordinates

30. Presenting Financial Statements in a way to portray a state of affairs of an organization better than its real financial position is called

    A. Teaming and lading
    B. Misappropriation
    C. Misinterpretation
    D. Window dressing
    E. Maladministration

PART II: SHORT-ANSWER QUESTIONS (20 Marks)

Write the answer that best completes each of the following questions/statements

1. The word Audit is derived from a Latin word which means..................

2. The compliance of a firm with appropriate accounting standards on a consistent basis from year to year and also in accordance with all relevant legislation will ensure................of the financial statements of an entity.

3. The competitive position of a firm and its good reputation constitute.................

4. Providing accounting as well as audit service to the same client carries a risk of.........................

5. The external auditor is normally removed by......................

6. The Professional behaviour of members of a professional body are guided by.............................

7. The auditor is expected to be familiar with rules and regulations of governance guiding the operation of client's business. The document that contains such rules is the.....................

8. Before accepting an audit engagement from a prospective client whose financial statements for the preceding period were audited by another auditor, the in-coming auditor should.................the out-going auditor.

9. Professional bodies of Accountants are empowered to initiate disciplinary action on erring members through the.............for necessary sanctions.

10. The auditor's.................might be compromised if he receives an unduly large proportion of the firm's recurring gross fees from one client.

11. The information obtained by the auditor in arriving at the conclusion on which the audit opinion is based is referred to as.....................

12. The risk that the auditor's substantive procedures will **NOT** detect a misstatement that exists in an account balance or class of transactions that could be material is called.......................

13. The error that the auditor expects to be present in the population is known as ....

14. The process of dividing a population into sub-populations, each of which is a group of sampling units which have similar characteristics is called.....................

15. Application of auditing procedures using the computer as an audit tool are known as ....

16. How long can a person serve as the Auditor-General of your Country?

17. A test that is designed to aid the auditor in ensuring that all expenses and liabilities for the period under audit are properly reported is referred to as...........................

18. List **TWO** situations which will cause an auditor to issue a qualified audit report.

19. What does the acronym SMO stands for?

20. When financial statements comply with generally accepted accounting practices that are applied consistently from year to year, and all relevant legislations, they are said to present..........................

SECTION B - Attempt Any FOUR Questions (50 Marks)

QUESTION 1

Auditors might be liable to third parties where the third parties might have relied on the information contained in the audited financial statements.

You are required to:

a. Explain **SIX** ways the auditors in public practice can minimize audit risks to audit firms. (8 Marks)

b. What are the conditions that must exist before damages can be awarded against the auditor for negligence? (4½ Marks)

(Total 12½ Marks)

QUESTION 2

Every Public Limited Liability Company is required to appoint an auditor who is expected to give his opinion on the financial statements at the Annual General Meeting.

You are required to:

a. Outline the responsibilities of the directors in relation to the preparation of financial statements? (4 Marks)

b. List the responsibilities of the shareholders in view of the above statement? (8½ Marks)

(Total 12½ Marks)

QUESTION 3

Auditors do not go through all the records during the examination of the books of the organisation in the course of the audit exercise. They rather take representative samples for testing.

Required:

a. What is sampling? (1 Mark)

b. Write short notes on the following:
   (i) Haphazard sampling (1½ Marks)
   (ii) Random sampling (1½ Marks)
   (iii) Stratified sampling (1½ Marks)
   (iv) Systematic sampling (1½ Marks)
   (V) Multi-stage sampling (1½ Marks)
   (7½ Marks)

c. Enumerate **FOUR** factors to be considered in choosing a sample size. (4 Marks)

(Total 12½ Marks)

QUESTION 4

Listed below are some basic concepts which underline the practice of auditing:

a. Auditor's Responsibility
b. Independence of the Auditor
c. Materiality
d. Audit Evidence
e. True and fair view

You are required to write brief notes on each of them. (12½Marks)

QUESTION 5

Auditors are supposed to render report to the shareholders of the organizations on the financial statements presented to them for audit. On some occasions, such audit reports are qualified especially where there are "uncertainties" and "disagreements".

Required:

a. Briefly enumerate the basic principles to follow in issuing a qualified audit report. (2½ Marks)

b. List the "uncertainties" and "disagreements" that can cause such qualification of audit reports. (10 Marks)

(Total 12½ Marks)

QUESTION 6

Internal controls are procedures which ensure that all transactions, assets and liabilities are recorded correctly.

Required:

a. What are the control procedures in the following areas?
   i. Cash receipts and payments (5 Marks)
   ii. Wages and salaries (5 Marks)

b. Why does the auditor have to assess and evaluate the internal control systems? (2½ Marks)

(Total 12½ Marks)

SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

1. B

2. C

3. D

4. E

5. E

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

29. D

30. D

EXAMINER'S COMMENT
Questions set under Multiple choice questions covered most topics of the Syllabus and only 50% of the candidates scored passed marks due to inadequate preparations towards the examinations and non-coverage of the entire syllabus

PART II SHORT-ANSWER QUESTIONS

1. To hear
2. True and fair view
3. Goodwill
4. Self review threat
5. Shareholders
6. Codes of Ethics /Ethical standards
7. Articles of Association
8. Communicate with/contact
9. Disciplinary Tribunal/Committee
10. Independence
11. Audit Evidence/Evidential matter
12. Detection Risk/Inherent Risk
13. Expected Error
14. Stratified sampling
15. Computer Assisted Audit Techniques/CAAT
16. Age of 60 years /35 years of service
17. Subsequent events review /cut –off procedures

18. (i) Disagreement (ii) Uncertainty

19. Statement of Member Obligation

20. A true and fair view

EXAMINER'S COMMENT
Candidates' performances in short answer questions were below examiners expectations. About 50% of the candidates managed to have half of the allocated marks.

SECTION B
SOLUTION 1

(a) Accountants and auditors in public practice can minimize potential risks liabilities for professional negligence in many ways. Such as:

1. Having a functioning quality control system.

2. Ensure that audit procedures are carried out properly in accordance with International Standards on Auditing.

3. Agreeing the duties and responsibilities in an engagement letter specifying the specific tasks to be undertaken.

4. Defining in the audit report the precise work undertaken, the work not undertaken and any limitations to the work.

5. Stating in the engagement letter the purpose for which the report has been prepared and that the client may not use it for any other purpose.
6. Stating in any report the purpose of the report and that it may not be relied on for any other purpose.

7. Identifying the authorized recipients of reports in the engagement letter and in the report.

8. Putting a disclaimer to the report.

9. Obtaining an indemnity from the client or the third party.

10. Take out a professional Indemnity Insurance.

b. Negligence is an act or omission which occurs because the person (e.g. an auditor) failed to exercise that degree of reasonable skill and care which is reasonably to be expected in the circumstances of the case.

For an allegation of negligence to succeed and damages awarded against the auditor, the following conditions must be in existence.

(i) There must be a clear case of negligence.

(ii) Financial loss has resulted.

(iii) Financial loss must be directly attributable to the reliance upon the negligently prepared document.

(iv) The auditor must have known the purpose for which the document was prepared and it would be relied upon.

(v) The auditor had a duty of care to the client. There was a breach of such duty of care.

EXAMINER'S COMMENT

This question demanded six ways that auditors in Public Practice can minimize audit risks to audit firms and conditions that must exist before damages can be awarded against the auditor for negligence. About 30% of the candidates attempted this question and the performance was poor. Major pitfalls observed include candidates' failure to understand the demand of the question due to inadequate preparation and non-coverage of the syllabus.

SOLUTION 2

(a) The directors of a business enterprise are responsible for the preparation of the financial statements as well as the institution of the systems of internal control in operation.

This accounting involves:

- The maintenance of accounting records and documents like vouchers, receipts and invoices, balancing of books or transactions recorded in the various ledgers,
- Extraction of the Trial Balance and
- Finally the preparation of the financial statements of the enterprise in the form of Trading , Profit and Loss accounts which show the profit or loss made in a particular period or year and the Balance Sheet which shows the state of affairs in terms of the financial position of the enterprise at a particular date.

(b) The Shareholders of a company as providers of finance usually entrust the day to day running of the company to professional managers to runs its affairs and prepare an account of their stewardship function for the consideration of the shareholders at the annual general meeting.

The providers of finance who are not directly involved in the management of an enterprise required summaries of transactions so that they could understand the enterprise's financial position without having to go through the cash book in details.

EXAMINER'S COMMENT

Directors' responsibilities in relation to the preparation of financial statements and shareholders responsibilities to the financial statements were tested. About 90% of the candidates that attempted the question recorded poor marks. Candidates are advised to prepare adequately for subsequent examinations and cover the syllabus so as to have good performance.

SOLUTION 3

(a) **Auditing Sampling:**

It is a process of selecting a representative number from a given population for testing to assist in drawing conclusion on the characteristics of the population.

(b) (i) Haphazard Sampling: This involves choosing items subjectively but avoiding bias.

(ii) Random Sampling: It involves making a random selection of item.

(iii) Stratified Sampling: It involves the division of the population into sub-population (layers) in choosing a sample.

(iv) Systematic: This involves making a random start and then taking Every e.g 10^{th} thereafter.

(vi) Multi-stage sampling: The appropriate data is stored in two or more levels (e.g. chains of shops and stock items –select shop first, then stock items).

(c) **Factors to be considered in choosing a sample size:**

(i) Population: When a few items are under examination, sampling may not be appropriate, however, with large population the use of sampling technique is relevant.

(ii) Risks: Population with high degree of risks will require a larger sample to be examined.

(iii) Materiality: The material concept is very important in auditing, Auditor should pay attention to items that are very significant.

(iv) Error rate: The tolerable level of error should be carefully determined.

(v) Degree of Assurance: The degree of assurance and the confidence level will affect the auditors judgment in choosing a sample size.

EXAMINER'S COMMENT

The question centred on "what is Sampling?" and short notes on five types of Sampling. About 50% of the candidates attempted this question and scored poor marks due to shallow preparations towards examinations by the candidates. Candidates are advised to have adequate knowledge and cover the entire syllabus for each subject.

SOLUTION 4

(a) **Auditor's responsibility**: Auditing commences on the completion of accounting functions. The audit function normally involves the auditor to give his independent opinion whether the accounting functions have been properly carried out and to verify the figures in the accounting books and records to ensure they are reasonable.

(b) **Independence of the auditor:** The concept of an auditor's independence is an attitude of the auditor's mind that is characterized by the auditors integrity and professional approach to his work. In essence, the auditor should not be involved in any relationship with his client which may cast doubts in the minds of users of financial statements and doubt his audit opinion. Therefore the auditor should not only be independent of his clients at all times but he must be seen to be independent.

(c) **Materiality:** An item is said to be material where it's non-disclosure, omission or misstatement or otherwise will destroy the truth and fairness of the view shown by the financial statements. Materiality may be considered in the context of a particular item within the profit and loss account or the financial statements as a whole. It may be assessed in relative or absolute terms.

(d) **Audit evidence:** Audit evidence consists of information/document that auditors come across in the course of an audit so as to assist in the process of forming an independent opinion on an enterprise's financial statements.

The primary objective of the auditor is to express an opinion as to the truth and fairness view given by the client's financial statements and in discharging this duty, he must endeavour to generate sufficient evidence to back-up the figures and facts in the financial statements presented to the users of the accounts.

(e) **True and fair view:** This is an important concept to the accountancy profession especially to the auditor. Moreover, the provision of Companies and Allied Matters Act (CAMA) 1990 require the financial statements to show true and fair view but fails to define what is true and fair view.

There is equally no authoritative legal definition and interpretation of the concept. True seems to mean an objective verification that the information contained therein are factual without error. Fair seems to mean the presentation of the right impression and is not misleading.

When a set of accounts is portrayed to show a true and fair view, it implies the following:

1. The assets are fairly stated, that they exist, owned by the business and properly valued.

2. All the liabilities have been fully disclosed.

3. The results shown in the profit and loss accounts are accurate and fairly stated.

4. There are no material errors or misstatements in the financial statements.

EXAMINER'S COMMENT

All candidates attempted the question and about 70% of the candidates scored 50% and above of the allocated marks. Failure to define the concepts clearly made the candidates to lose pass marks.

SOLUTION 5

(a) The following principles are to be followed in issuing a qualified audit report.

(i) Give all the reasons and explanations for the qualification.

(ii) Estimate and qualify the financial effect (if applicable).

(iii) Report should be clear, concise and unambiguous.

(iv) Wordings should reflect the nature of circumstances and

(v) Degree of materiality.

(b) **Uncertainties:**

The major uncertainty occur where the auditor is unable to form an opinion on a matter relating to the accounts presented.

Some causes of uncertainties are:

(i) Inherent uncertainties (nature of the item).

(ii) Limitations in the scope of the audit.

(iii) Absence of proper accounting records (documents).

(iv) Doubt about the outcome of a major litigation.

(v) Doubt about the outcome of long-term contract.

(vi) Doubt about the ability of the company to remain a going-concern.

(vii) Liability to obtain all the information and explanations necessary.

(viii) Inability to carry out a necessary audit procedure.

(c) Disagreements:

A disagreement is a situation where the auditor's opinion on a matter relating to the accounts conflicts with the view given by the financial statements. A disagreement may affect a particular item in the accounts or the financial statement taken as a whole.

Causes of disagreements

(i) Failure to comply with legislature.

(ii) Company follows an inappropriate pronouncements/guidelines (IFAC, IAS, IPSAS).

(iii) Disagreement as to facts or figures.

(iv) Company adopts an inappropriate accountancy policy.

(v) Disagreement as to facts or figures.

EXAMINER'S COMMENT

Listing of basic principles needed before issuing a qualified audit report and listing of the "Uncertainties" and "disagreements" that can cause such qualification of audit reports. More than 99% that attempted the question had average marks.

SOLUTION 6

(a) **Control procedures on cash receipts and payment:**

Cash receipts and payment.

i. Review the operation of the cash system.

ii. Appointment of suitable person to be responsible at different stages of collection and handling of money received with clearly defined responsibility.

iii. How, by whom, and at what frequency cash offices and registers are to be cleared

iv. What arrangements are to be made for agreeing cash collections with cash and sales records.

v. What arrangements are to be made for dealing with recording and investigating any cash shortage or surpluses.

vi. Rules as to cash advances to employees and official, i.o.u's and the casting of cheques.

vii Whether any limit is to be imposed as regards amounts disbursed in respect of individual payments (limitation of disbursement).

viii Arrangements to ensure that workers supporting payments cannot be presented for payment again (payment voucher marked paid).

ix Nomination of a responsible person to authorize expenditure, the means of indicating authorization and the documentation (Authorisation of expenditure).

Wages and Salaries

(i) What arrangements are to be made to provide the requisite cash For paying out and what slips are to be taken to safeguard such Moneys during collection and treatment and until distribution.

(ii) What safeguard against inequalities are to be adopted and what particulars are to be given to the payee.

(iii) Who is to pay cash wages over to employees.

(iv) How payee's identities are to be verified and how distribution is to be recorded.

(v) What arrangements are to be made for dealing with unclaimed wages.

(vi) Which persons are to prepare and to sign cheques and bank transfer list.

(vii) Whether a separate wages and salary bank account is to be maintained, what amounts are to be transferred to it from time to time.

(b) **The auditor have to assess and evaluate the internal control in order to be position to:**

i. Place reliance on the system.

ii. Establish the integrity of the operator of the system

iii. Assist him in determining the nature, timing and extent of substantive testing necessary to enable him express an opinion on the financial statement.

EXAMINER'S COMMENT

Control procedures on (i) Cash receipts and payments and (ii) Wages and Salaries and reason why auditor have to assess and evaluate the Internal Control System were tested.

About 90% of the candidates attempted the question. Some candidates managed to have half of the allocated marks. Candidates were ill-prepared and did not give necessary attention to details/ requirements of the question which accounted for their pitfalls in the examinations

AT/121/PIII.10 **Examination No……………**

ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME WEST AFRICA
PART III EXAMINATIONS – MARCH 2012
COST ACCOUNTING

Time Allowed - 3 hours

Insert Your Examination number in the space provided above.

SECTION A (ATTEMPT ALL QUESTIONS)

PART I – MULTIPLE-CHOICE QUESTIONS (30 MARKS)

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

1. **ONE** of the following is **NOT** part of the objectives of Advanced Manufacturing Technology (AMT)

   A. Greatest possible manufacturing flexibility
   B. Greater offer of product variety whilst manufacturing their costs
   C. Greater offer of product variety whilst reducing their costs
   D. Providing no incentive for improvement
   E. Providing high levels of customer satisfaction

2. Cost Control and Cost Reduction are

   A. Two distinct management tools
   B. Aimed at replacing humans with machinery
   C. Aimed at changing specifications of materials input into production process
   D. Used during crisis situations
   E. Opposite of each others

3. An ideal standard is

   A. What costs are expected to be
   B. Actual cost in the last period
   C. Expected costs in the next period
   D. Costs based on actual condition
   E. Actual cost in the present period

4. A standard specifically established based on the prevailing working condition within the industry is known as

   A. Basic standard
   B. Non-Basic standard
   C. Current standard
   D. Potential standard
   E. Regular standard

5. Trade discount is a

   A. Special sales promotion
   B. Special sales commission
   C. Boxing day jumbo sales
   D. Reduction in price per unit given to specific customers
   E. Reduction in price to special customers due to early payment

6. Which of the following is a benefit of budgeting?

   A. Encourages inter-departmental conflicts
   B. Involves considerable costs
   C. Promotes coalition of interest
   D. Replaces the need for supervisory executive ability
   E. Places a great demand on management time

7. Which of the following investment appraisal techniques can be classified as a traditional method?

   A. Net Present Value
   B. Internal Rate of Return
   C. Discounted Payback Period
   D. Profitability Index Method
   E. Accounting Rate of Return

8. Decision rule under Accounting Rate of Return (ARR) method of Investment Appraisal is to select all projects whose

   A. ARR are lower than the company's required rate of return
   B. Payback periods are shorter than the minimum established by the organisation
   C. Present value of cash inflows equals present value of cash outflows
   D. ARR are higher than the company's required rate of return
   E. Present value of cash inflows exceeds present value of cash outflows

9. Which of the following is a disadvantage of Net Present Value method of investment Appraisal?

   A. Ignores risk
   B. Ignores time value of money
   C. Ignores the actual size of the cashflow
   D. Ignores the impact of inflation
   E. Ignores wealth maximization objective of the organization

10. The cost of an asset acquired two years ago is a good example of a

   A. Budgeted cost
   B. Well calculated cost
   C. Notional cost
   D. Relevant cost
   E. Sunk cost

11. In a process account, normal losses are valued at

   A. Good production cost less work-in-progress (WIP)
   B. Good production cost
   C. No cost

D. Cost of raw materials
E. Good production cost less scrap value

12. The output from the production process with little value is referred to as

A. Left over
B. Residue
C. Good production
D. Waste
E. Scraps

13. **ONE** of the possible reasons for discrepancy between physical stock and stock shown in records is

A. Violent fluctuations in prices
B. Quantum of materials used in the organisation
C. Frequency of purchases and issues
D. Stock returns not properly recorded
E. Bulkiness of the materials

14. Economic order quantity is a quantity of materials to be ordered which takes into account the optimum combination of all but **ONE** of the following.

A. Usage rate
B. Cost of processing the order
C. Order delivery time
D. Stockholding costs
E. Cost of money tied up in inventory

15. Costs associated with running out of stock **INCLUDE**

A. Insurance and security costs
B. Pilferage and damage costs
C. Loss of customer goodwill
D. Handling costs
E. Storage costs

16. Idle time is the difference between hours paid and hours worked. Which of the following is a cause of normal idle time?

A. Temporary lack of work
B. Machine setting up time
C. Machine breakdown
D. Black out as a result of Energy workers strikes and lock-outs
E. Waiting for tools

17. Labour turnover is the movement of people into and out of the organization. Which of the following is an avoidable cause of Labour Turnover?

A. Health conditions
B. Retirement
C. Death
D. Climatic conditions
E. Poor terms of engagement

18. Administrative overhead is incurred for carrying out the administrative function of an organization. Which **ONE** of the following costs can be classified under administrative overhead?

A. Discount and rebates
B. Patent fees
C. Audit and legal fees
D. Carriage inwards
E. Carriage and freight outwards

19. A cost which tends to vary directly with the volume of output is known as

A. Fixed cost
B. Step costs
C. Mixed costs
D. Non-linear costs
E. Variable cost

20. Prime cost is

A. The total of direct costs
B. The material cost of a product
C. The cost of operating a department
D. The total of indirect costs
E. All costs incurred in manufacturing a product

21. Costing methods refer to the systems of cost finding and ascertainment. Which of the following methods is **NOT** a costing method?

A. Job costing
B. Standard costing
C. Batch costing
D. Service costing
E. Operation costing

22. Opportunity cost is

A. The cost at which an asset identical to that which is being replaced could be purchased
B. Hypothetical cost which is specially computed outside the accounting system for the purpose of decision-making

C. The sacrifice involved in accepting an alternative under consideration.
D. Additional cost of producing one additional unit
E. The increase or decrease in total cost that results from an alternative course of action

23. Which of the various techniques listed below is **NOT** commonly used for inventory control?

A. ABC Technique
B. Economic Order Quantity (EOQ)
C. Stock levels
D. Works cost
E. Perpetual inventory system

24. Many businesses have problems of slow-moving, non-moving and obsolete materials. Which of the following is a main reason for these kinds of problems?

A. Proper storage of materials
B. Proper purchase procedure
C. Preparation of material budgets
D. Review of the stores ledger
E. Technological changes

25. Last-in-first-out (LIFO) method of pricing material issues is based on the assumption that

A. Materials which are purchased first are issued first
B. When materials purchased in different lots are stored together, their identity is lost and therefore, issues should be charged with this consideration in mind
C. Issues should be priced using the price at which materials would be replaced
D. The last materials purchased are the first materials issued out
E. Materials issued are charged at the rate of the highest priced materials in stores

26. Bin card is maintained by

A. An officer in the cost office
B. Storekeeper
C. Plant engineer
D. Departmental head
E. Production planner

27. The accounting system where the cost accounts and financial accounts are combined in one set of accounts is known as

A. Integrated accounting system
B. Interlocking accounting system
C. Control accounting system
D. Cost control accounting system

E. Marginal costing system

28. Payroll sheet is prepared by the

A. Engineering department
B. Cost Accounting department
C. Personnel department.
D. Time-keeping department
E. Wages department

29. Over – absorption of factory overhead due to inefficiency of management should be disposed of by

A. Transfer to costing profit and loss account
B. Carry forward to next year
C. Supplementary rate
D. Comprehensive rate
E. Allocation

30. The stage of production at which separate products are identified is known as

A. Apportionment point
B. Split – off stage
C. Reverse cost point
D. Pre-separation stage
E. Allocation stage

PART II – SHORT ANSWER QUESTIONS (20 MARKS)

Write the answer that best completes each of the following questions/statements

1. A top executive who heads the budget control organization is known as……………

2. What will be the Break Even Point in Naira when fixed cost is ₦1 million and Profit Volume Ratio is 40%.

3. What will be the Material Cost Variance where actual material cost is 500 units at ₵6 per unit and Standard Material Cost is 600 units at ₵5 per unit?

4. Labour Mix variance is a sub-variance of………………………

5. The summary of all functional budgets is known as…………………..

6. The rate of change in the composition of the labour force in an organization is called……………………..

7. The time required for the cash inflows from a capital investment project to equal the cash outflows is known as……………………………

8. The cost of abnormal idle time is normally charged to……………………..

9. Indirect expenditure incurred in formulating an organisation's policy, directing and controlling its operations is categorized as…………………….

10. An unavoidable residue materials arising in certain types of manufacturing processes is referred to as…………………….

11. When the amount of overhead absorbed is more than the amount of actual overheads incurred, it is known as………………….

12. A prediction of what may happen as a result of a given set of circumstance is referred to as…………………….

13. Material Price Variance is the responsibility of…………………………

14. State the formula for calculating Accounting Rate of Return (ARR).

15. The verification of cost accounts and a check on the adherence to the cost accounting plan is called………………….

16. The amount of difference when expenses exceed revenue for an accounting period is referred to as…………………….

17. A move towards zero inventory and an emphasis on perfect quality or zero defects are features of……………….technique.

18. Life cycle costing tracks and accumulates the actual costs from the beginning to the end of a……………………

19. State the formula for calculating Direct Labour Efficiency variance.

20. A budget which is continuously updated by adding a further accounting period when the earliest accounting period has expired is called…………………….

SECTION B (ATTEMPT ANY FOUR QUESTIONS) (50 MARKS)

QUESTION 1

Ramilado Industries maintain separate books for Financial Accounting and Cost Accounting. The Financial Income Statement of the company for the year ended 31st March 2011 is given as:

Income Statement
For the Year ended 31st March 2011

Particular	₵	₵	Particular	₵	₵
Opening balance of stock:					
Raw materials	100,000		Sales		1,804,000
Work-in-progress	25,000				
Finished goods	75,000	200,000			
			Closing balance of stock:		
Purchases of Raw Materials		770,000	Raw materials	90,000	
Wages		240,000	Work-in-progress	20,000	
Factory Overhead		130,000	Finished Goods	80,000	190,000
Admin. Overheads		120,000			
Distribution& Selling Overheads		90,000	Miscellaneous Income		11,000
Debenture Interest		20,000			
Preliminary Expenses written off		25,000			
Net Profit		410,000			
		2,005,000			2,005,000

A statement reconciling profit as per Financial Accounts records prepared by the firm is as shown below:

Particulars		₵	₵
Profit as per Profit and Loss A/c			410,000
(a) Differences in valuation of inventory			
Deduct			
- Raw Materials b/f		10,000	
- WIP b/f		6,000	
- WIP c/f		2,000	
- Finished Foods b/f		15,000	
		33,000	(33,000)
Add:			
- Raw Materials c/f	15,000		
- Finished Goods c/f	7,500	22,500	22,500

(b) Other Items:

Add: Debenture Interest	20,000
Preliminary expenses Written off	25,000
	45,000

Deduct:		
Miscellaneous Income	11,000	34,000
Profit as per Costing Profit & Loss A/c		433,500

You are required to prepare the following accounts as they would appear in the cost records:

a. Raw Materials Control account (2½ Marks)
b. Work In Progress Account (2½ Marks)
c. Finished Goods Stock Account (2½ Marks)
d. Cost of Sales Account (2½ Marks)
e. Costing Profit and Loss Account (2½ Marks)
Show all workings **(Total12½ Marks)**

QUESTION 2

AGERIGE Transport Company is running a fleet of six buses between two towns 150 kilometres apart. Seating capacity of each bus is 40 passengers. The following particulars are available for the month of September.

	₦
Wages of drivers, conductors and cleaners	180,000
Salaries of office and supervisory staff	75,000
Diesel and other lubricants	516,000
Repairs and maintenance	60,000
Taxation, insurance etc	120,000
Depreciation	195,000
Interest on capital	150,000

Actual passengers carried were 100% of the seating capacity. All the buses ran on all days of the month. Each bus made one round trip per day.

You are required to calculate the cost per passenger – (in kilometers). (12½ Marks)

QUESTION 3

a. ABC Technique is one of the various techniques commonly used for inventory control.

You are required to give THREE advantages of this value based system of inventory control. (3 Marks)

b. Egbuya Nigeria Limited uses three varieties of stock items totaling 25,000units. The following information relates to the holding and usage of these items of stock.

	No of Units of stock	%	% in value of stock holding	% in usage of stock
1)	23,625	94.5%	15%	5%
2)	1,300	5.2%	25%	10%
3)	75	0.30%	60%	85%
	25,000	100%	100%	100%

You are required to classify the stock items as per ABC Analysis Technique.
Comment on your analysis. (9 ½Marks)

(Total 12½ Marks)

QUESTION 4

Kilesi Nigeria Limited is considering a capital investment and the estimated cash flows are as stated below:

Year	Cashflow (Le)
0	(1,000,000)
1	600,000
2	800,000
3	400,000
4	300,000

The company's cost of capital is 25%.

You are required to:

a. (i) Calculate the NPV of the project (7 ½ Marks)
 (ii) Assess whether the project should be undertaken. (1 Mark)

b. State **TWO** advantages and **TWO** disadvantages of Net Present Value (NPV) technique of Investment Appraisal (4 Marks)

Total 12½ Marks)

QUESTION 5

Fortour Limited makes and sells a single product. The following data relate to the year 2011.

Production 2200 units

Sales 2000 units ₦

Variable manufacturing cost/unit	= 14
Fixed manufacturing overhead (total)	= 4400
Variable selling and administration overhead/unit	= 1.00
Fixed selling and administration overhead	= 800
Selling price per unit	= 30

You are required to:

a. Prepare the company's income statement based on
   (i) Marginal costing principles (6 Marks)
   (ii) Absorption costing principles (5½ Marks)

b. Explain the difference in profit figure, if any (1 Mark)

(Total 12½ Marks)

QUESTION 6

Just-in-time (JIT) system has been widely acclaimed as a major contributor to Japan's Success in manufacturing process.

You are required to:

a. Explain the term JIT System. (2 Marks)

b. State **FIVE** main goals of JIT (2 ½ Marks)

c. Adeolu plans to sell children's gurgles at Oyo State International Trade Fair holding at Sango in April this year. He has been given the privilege of purchasing these gurgles at ₦50 each and returning all unsold ones. The booth rent at the Fair is ₦20,000 payable in advance and each gurgle will be sold at ₦90 each.

   You are required to determine the number of gurgles to be sold to:
   i. Break-even (4 Marks)
   ii. Yield 20% operating margin on sales (4 Marks)

(Total 12 ½ Marks)

SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

1. D

2. A

3. A

4. C

5. D

6. C

7. E

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

EXAMINER'S COMMENT
Thirty (30) questions on various topics of the syllabus. Five(5) suggested answers of which only the correct one is to be given by the candidate.

This was the major area that determined the fate of the students in this examination.

PART II SHORT-ANSWER QUESTIONS

1. Budget Controller
2. ₦2,500,000
3. NIL
4. Labour Efficiency Variance
5. Master budget
6. Labour Turnover Rate
7. Payback Period
8. Costing P & L A/C
9. Administrative or Office or General Overheads
10. Scrap
11. Over-absorption or over-recovery of overheads
12. Forecast
13. Purchase Manager
14. ARR $= \frac{\textit{Estimated Average Profit}}{\textit{Estimated Average Investment}}$ x 100
15. Cost Audit
16. Loss
17. Just – In - Time
18. Product
19. Labour Efficiency Variance = (Std Hours – Act Hours) Std Rate
20. Rolling or Continuous Budget

Workings

Question 2.

BEP $= \frac{FC}{P/V}$ ratio

$= \frac{1{,}000{,}000}{40\%}$

= ₦2,500,000

Question 3.

Material Cost Variance = Standard Material Cost - Actual Material Cost

= (500 x ₦6) - (600 x ₦5)
= ₦3,000 - ₦3,000
= NIL

EXAMINER'S COMMENT
Twenty (20) questions requiring candidates to supply short direct answers. This and the Multiple Choice Question determined the fate of candidates in the examination.

SECTION B

SOLUTION 1

Ramilado Industries

(i) Raw Materials Control A/C

	¢		¢
Opening Balance	110,000	Closing Balance	105,000
Purchases	770,000	WIP A/C	775,000
	880,000		880,000

(ii) Work In Progress A/C

	¢		¢
Opening Balance	31,000	Closing Balance	18,000
Raw Materials Control A/C	775,000	Finished Goods Stock A/C	1,158,000
Wages Control A/C	240,000		
Factory Overheads Control A/C	130,000		
	1,176,000		1,176,000

(iii) Finished Goods Stock A/C

	¢		¢
Opening Balance	90,000	Closing Balance	87,500
Work In Progress Control A/C	1,158,000	Cost of Sales A/C	1,160,500
	1,248,000		1,248,000

(iv) Cost of Sales A/C

	¢		¢
Finished Good Stock A/C	1,160,500	Costing Profit and Loss A/C	1,160,500
	1,160,500		1,160,500

(v) Costing Profit and Loss A/C

	¢		¢
Cost of Sales	1,160,500	Sales	1,804,000
Admin Overhead	120,000		
Selling & Distribution O/head	90,000		
	1,370,500		
Net Profit (as per Cost A/Cs)	433,500		
	1,804,000		1,804,000

Workings:

i. Opening Balance for Raw Materials in Cost Accounting

		¢
Opening bal as per Fin. A/Cs	100,000	
Add: Diff. as per Reconciliation Statement	10,000	
		110,000

ii. Closing balance of Raw Materials in Cost Accounting

		¢
Closing bal as per Fin. A/Cs	90,000	
Add: Diff. as per Reconciliation Statement	15,000	
		105,000

iii. WIP opening balance in Cost Accounting

	¢
Opening balance	25,000
Add: Diff. as per Reconciliation	6,000
	31,000

v. WIP closing balance in Cost Accounting

	¢
Opening balance	20,000
Less: Diff. as per Reconciliation	2,000
	18,000

iv. Finished Goods Opening balance in Cost Accounting

	¢
Opening balance	75,000
Add: Diff. as per Reconciliation	15,000
	90,000

Finished Goods Closing balance in Cost Accounting

	¢
Opening balance	80,000
Add: Diff. as per Reconciliation	7,500
	87,500

EXAMINER'S COMMENT

Cost Accounts Book Keeping under Interlocking Accounts. About 45% of the candidates attempted the question, with less than 10% of them getting pass marks. Their main pitfall was the inability to carry out the necessary adjustments required for the solutions.

SOLUTION 2

AGERIGE TRANSPORT COMPANY

Cost/Passenger – km = Total Cost ÷ No. of passenger – km

Passenger – km for the month =

$\left\{\begin{matrix}\text{No. of} \\ \text{Buses}\end{matrix}\right\}$ x Distance x $\left\{\begin{matrix}\text{Capacity of} \\ \text{each Bus}\end{matrix}\right\}$ x $\left\{\begin{matrix}\text{Actual capacity} \\ \text{utilized}\end{matrix}\right\}$ x Round trip x No. of days

= 6 x 150 x 40 x 100% x 2 x 30

= 2,160,000 passenger - kilometre

Operating Cost sheet for the month of September

Passenger – Kilometre = 2,160,000

		₦	₦
1.	Standing Charges:		
	Wages	180.000	
	Salaries	75,000	
	Taxation etc	120,000	
	Interest	150,000	525,000
2.	Variable charges		
	Diesel etc	516,000	
	Repairs & Maintenance	60.000	576,000
3.	Depreciation		195,000
	TOTAL COST		1,296,000

Cost per passenger - km = Total Cost ÷ No. of passenger – km

= ₦1,296,000 ÷ 2,160,000

= ₦0.60

EXAMINER'S COMMENT

Question on Service Costing Method; Transport Costing Statement. About 60% of the candidates attempted the question. Average score was 40% of maximum scores.

SOLUTION 3

(a) Advantages of ABC techniques

1) Closer and stricter control can be exercised on those items which represent large amounts of capital
2) Economy in stock holding costs
3) Enhances regulation of investment in stock
4) Selective control helps in maintaining high stock turnover rate
5) Helps to maintain enough safety stock for ‘C’ category items

(b) ABC Classification

Category	No. of items (units)	% in value	% of usage
A	75	60	85
B	1,300	25	10
C	23,625	15	5

Comments:

‘A’ items
75 items constituting 0.30% of the total number of the items represents 60% of total inventory value and 85% of the total usage in the final product. They are classified as ‘A’ items because of their highest value in the total material cost.

‘B’ items

1300 items constituting 5.2% of the total number of the items represents 25% of the total inventory value and 10% of the total usage in the final product. They are classified as ‘B’ items because of their moderate value.

'C' items

23625 items constituting 94.5% of the total number of the items represents 15% of the total inventory value and 5% of the total usage in the final product. They are classified as 'C' items because of their low value.

EXAMINER'S COMMENT
Question on ABC technique of Inventory Control. Only about 10% of candidates attempted the question and average performance was poor.

SOLUTION 4

(a) **ILESI NIG. LTD.**

Year	Cash flow	Discount factor @ 25%	Present value
	₦		₦
0	(1,000,000)	1.000	(1,000,000)
1	600,000	.800	480,000
2	800,000	.640	512,000
3	400,000	.512	204,800
4	300,000	.410	123,000
		NPV	319,800

ii. The present value of cash inflows exceeds the present value of cash outflows by ₦319,800 which means that the project will earn a discounted cash flow yield in excess of 25%. Therefore, the project should be undertaken.

b. Advantages of NPV

1. It recognises the time value of money
2. Gives absolute guide to how much shareholders' wealth will improve if the project is accepted.
3. Useful in ranking projects in capital rationing situation

Disadvantages of NPV

1. It relies on current estimation of the cost of capital
2. Not easy to calculate
3. Ignores risk involved in each project

EXAMINER'S COMMENT
Net Present Value approach to Capital Investment Appraisal. About 98% of the candidates attempted the question and not more than one out of every 20 of them failed it. Students find it easier with the computations than with explanation of advantages and disadvantages.

SOLUTION 5

ai. For-four Limited

Income Statement for the year ended 31st December 2011 based on Marginal Costing Principles

	₦	₦
Sales (2000 units @ ₦30)		60,000
Variable Cost (2200 @ ₦14)	30,800	
Less:		
Closing stock (200@14)	2,800	
Cost of goods produced	28,000	
Add:		
Variable selling & Admin O'head (2000 @ ₦1.00)	2000	
Total Variable Cost	30,000	(30,000)
CONTRIBUTION		30,000
Less:		
Fixed Overhead- Manufacturing	4,400	
Selling & Admin	800	5,200
		24,800

(aii) Income statement for the year ended 31st December 2011 based on Absorption Costing Principle

	₦	₦
Sales (2000 units @ ₦30)		60,000
Variable overhead (2200 @ ₦14)	30,800	
Fixed overhead (2200 @ ₦2)	4,400	
Cost of goods produced	35,200	
Less:		
Closing stock (200@16)	3,200	
Cost of goods sold	32,000	
Add:		
Selling & Adm O'head		
-Variable (₦2,000 @₦1.00)	2,000	
-fixed	800	
Total Cost		34,800
Profit		25,200

(b) Profit under absorption costing ₦25,200 and under marginal costing ₦24,800. The difference of ₦400 in profit is due to over-valuation of closing stock in absorption costing by ₦400 (₦3,200 – ₦2,800)

EXAMINER'S COMMENT

Profit Statement preparation, comparing Absorption and Marginal Costing Techniques. Over 95% of the candidates attempted the question. Many candidates were unable to calculate rightly the value of closing stock under Absorption Costing Technique. Notwithstanding that, the question was, on average, well attempted by candidates.

SOLUTION 6

a. Just in Time (JIT) System

It is a system developed with the aim of reducing non-value-adding costs and long-run costs. It is a system whose objective is to produce or procure products/components as they are needed or required than for inventory. It involves a continuous commitment to the pursuit of excellence in all phases of manufacturing systems design and operations.

It is a system designed to produce the required items of high quality, exactly at the time they are required and in the required quantities.

b. Main Goals of JIT

(i) No opening or closing stocks
(ii) Elimination of non value adding activities
(iii) No production wastages
(iv) 100% on time deliveries
(v) Batch sizes of one
(vi) Demand – pull manufacture
(vii) No breakdowns
(viii) Short set-ups

c. Adeolu Sales of Gurgles

i. Selling Price/Unit = ₦90
Var Cost/Unit = 50
∴ Contribution/Unit = 40

At B/Even Point , Total Cont = Fixed Cost
x being units sold, $40x = 20,000$

$$x = \frac{20,000}{40} = 500 \text{ units}$$

(ii) Quantity required to yield 20% operating margin on sales is arrived at by determining the contribution that leaves 20% of sales after deducting Fixed Costs of ₦20,000.

Sales	=	$90x$
Variable Cost	=	$50x$
∴ Contribution	=	$40x$

$40x = 20000 + (0.2 \text{ sales})$
$40x = 20000 + 18x$
$\therefore 22x = 20000$ units
$x = 909$ units

Computations : Sales 90 (909) = 81,810
Cost 50 (909) = 45,450

Cont. 40 (909)	=	36,360	
Fixed Costs	=	20,000	
Profit (Operating margin)	=	16,360	= 20% of 81810

EXAMINER'S COMMENT

i "Just-In-Time" approach to stock management and

ii. Cost-Volume Profit analysis for Decision making.

About 90% of the candidates attempted the question, showing that they availed themselves of the Institute's efforts to acquaint them with current global developments in the profession. They were however unable to score very good marks due to poor expressions.

As for the C-V-P part of the question, not up to half of the candidates were able to calculate beyond the break-even point.

AT/121/PIII.11 **Examination No……………..**

ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME WEST AFRICA
PART III EXAMINATIONS - MARCH 2012
PREPARING TAX COMPUTATION AND RETURNS

Time allowed: 3 hours

Insert your Examination number in the space provided above

SECTION A: (Attempt all questions)

PART 1 MULTIPLE-CHOICE QUESTIONS (30 MARKS)

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

1. Which of the following is NOT a reason why the office of a Tax Appeal Commissioner would be declared vacant?

A. Where he brings integrity to bear in carrying out or discharging his duties
B. Where he has absented himself from two consecutive meetings without an approval from the chairman
C. Where he is confirmed to be of unsound mind
D. Where he has committed a criminal offence or felony or offence related to tax matters
E. Where he has attended a meeting concerning a tax payer in which he has interest without informing the other commissioners

2. An annual return submitted by a tax payer should contain the following **EXCEPT**

A. The audited financial statements
B. The income tax computations
C. The number of houses built
D. The capital allowance computations
E. Details of Property, Plant & Equipment disposed of during the year

3. The Tax Clearance Certificate shall **NOT** disclose which **ONE** of the following?

A. Turnover
B. Name, address and Tax-payer's Identification Number (TIN)
C. Tax paid
D. Taxable income
E. Nature of business

4. Which of these Stamp duty instruments is NOT liable to fixed duties?

A. Payment Receipt
B. Cheque leaves
C. Bank Notes
D. Guarantor's form
E. Promissory Notes

5. The following documents shall be forwarded to the relevant tax authorities when returns are filed for the first time **EXCEPT**

A. Original of the Certificate of Incorporation
B. Certified true copy of Memorandum and Articles of Association
C. Letter of appointment of the Auditors
D. Unaudited Financial Statements of the Company
E. Tax and capital allowances computations for the year

6. Which of the following is **NOT** qualified to be a member of a Tax Appeal Tribunal?

A. A person experienced in business
B. A Legal Practitioner
C. A Chartered Accountant
D. A Tax Practitioner
E. A Tax Evasion Specialist

7. Which of the following is **NOT** a form of assessment?

   A. Self assessment
   B. Provisional Assessment
   C. Best of judgment assessment
   D. Installment assessment
   E. Revised assessment

8. To which of the following courts can a tax payer go if the decision of the tax Appeal Commissioner is not satisfactory to him?

   A. The Tribunal Court
   B. The Magistrate Court
   C. The High Court
   D. The Court of Appeal
   E. The Revenue Court

9. Which of the following is **NOT** contained in an annual tax return?

A. The payroll computation
B. A copy of the duly completed self assessment form
C. The audited financial statement
D. The income tax computation
E. The capital allowances computation

10. Education Tax Liability is computed as

A. 2% of Chargeable profit
B. 2% of Taxable profit
C. 2% of Assessable profit
D. 2% of Net profit
E. 2% of Additional profit

11. Unrelieved Loss from a non-insurance business can be carried forward for tax purposes for

A. Five years
B. Four years
C. Seven years
D. An indefinite period until it is totally relieved
E. Three years

12. Income of a Trustee, Settlor or Executor of an Estate is described for tax purposes as

A. Earned income
B. Trust income
C. Third party income
D. Unearned income
E. Future income

13. The "Principal place of residence" of an individual whose only source of income is pension is

A. His state of origin
B. That place in which he usually resides
C. That place nearest to his usual place of work
D. His place of work
E. Place nearest to his place of worship

14. Accounting period for a business that has been operating for some years is normally

A. 9 months
B. 10 months

C. 6 months
D. 18 months
E. 12 months

15. Which of the following is **NOT** a reason for changing the accounting date of a business?

A. Aligning with government fiscal year
B. Complying with government directive
C. Change in office location
D. For uniformity and convenient consolidation of companies within a group
E. When a company merges with another which has a different accounting date

16. The Tax Authority in charge of collection of Companies Income Tax is

A. Internal Revenue Service
B. Local Government Authority
C. Bureau of State/Inland Revenue Service
D. Federal/National Inland Revenue Service
E. Joint Tax Board

17. Which of the following forms the basis of computing annual allowance for a new asset?

A. Cost of asset dividend by the estimated tax life of the asset
B. Cost of asset less the initial allowance
C. Cost of asset divided by the Corporate tax
D. Cost of asset less the initial allowance divided by the estimated tax life of the asset
E. Cost of asset less the estimated tax life divided by the initial allowance

18. A company with accounting year-end of 31 December each year should submit Returns latest by

A. 30 September of the following year
B. 30 June of the following year
C. 30 April of the following year
D. 31 March of the following year
E. 31 May of the following year

19. Omojola Nigeria Limited has June 30 as its permanent year-end, which of the following forms the basis of assessment for 2007?

A. 1/1/2007 - 31/12/2007
B. 1/7/2005 - 30/6/2006
C. 1/1/2006 - 31/12/2007
D. 1/7/2006 - 30/6/2007
E. 1/7/2007 - 31/12/2007

20. A Company that is engaged in agricultural business is subject to a tax free period of

A. 6 years
B. 7 years

C. 3 years
D. 5 years
E. 10 years

21. In partial disposal of assets in Capital Gains Tax, the cost of the part disposed is determined using this formula.

$$\frac{x}{x+y} \times z$$

From the above, y represents

A. Market value of the part not disposed of
B. Cost of acquiring whole asset
C. Cost of acquiring the part disposed of
D. Market value of the part not disposed of
E. Sale proceeds of the part disposed of

22. In Question 21 above, x equals

A. Cost of acquiring whole asset
B. Amount reinvested
C. Market value of part disposed of
D. Market value of part not disposed of
E. Sales proceed on the part disposed of

23. Which of the following is **NOT** is exempt from Capital Gains Tax?

A. Gains on disposal of a dwelling house
B. Gains arising from a registered friendly society
C. Gains from disposals and diplomatic bodies
D. Gains arising on the disposal of capital items
E. Gains arising from the disposal of any government security

24. Which of the following is allowed for tax purposes?

A. Stamp duties on increase in share capital
B. Income Tax provision
C. Any sum recoverable under an insurance
D. Any contribution to a pension fund
E. General legal advisory services

25. Which of the following is an example of incorporeal property under Capital Gains Tax?

A. Earned income
B. Stock
C. Patent
D. Debts
E. Capital allowance

26. Which of the following is **NOT** an example of Stamp duty instruments for Ad-valorem assessment?

    A. Bill of Exchange
    B. Share Capital of company
    C. Cheque leaves
    D. Promissory Notes
    E. Policy of life insurance

27. The benefits of adjudication include the following **EXCEPT**

    A. It shows the genuiness of the instrument
    B. It satisfies the statutory requirements
    C. It confers tax clearance certificates to the payer
    D. The instrument is admissible for all purpose not withstanding any objection as to the duty required to be paid
    E. It is the first step in disputing the stamp duties opinion of the correct amount.

28. The penalty for aiding and abetting a Value Added Tax (VAT) offence is

    A. Fine of ₦5,000 or imprisonment for a term of five years
    B. Fine of ₦50,000 or imprisonment for a term of five years
    C. ₦25,000 Fine or imprisonment for a term of five years
    D. ₦10,000 Fine or imprisonment for a term of five years
    E. ₦7,500 Fine or imprisonment for a term of five years

29. Payment of Value Added Tax (VAT)/Goods and Services Tax (GST) should be effected not later than………………following the month of transaction.

    A. 30 days
    B. 5 days
    C. 20 days
    D. 21 days
    E. 10 days

30. Which of the following information will **NOT** feature in a tax invoice?

    A. Rate of VAT
    B. Biodata of tax payer
    C. Customer's name and address
    D. Tax payer's identification number
    E. Type of goods

SECTION A

PART II: SHORT ANSWER QUESTIONS (20 MARKS)

Write the answer that best completes each of the following questions/statements

1. Under the Education Tax Act CAP E4 LFN 2004, the due date for the payment of education tax is within………………days of the service of the notice of assessment by the Federal Inland Revenue Service Board (FIRSB)

2. A quasi-Court of "`first instance" to settle tax disputes is known as the…………..

3. An aggrieved tax payer is entitled to appeal against a tax assessment by giving notice of appeal to……………..

4. An aggrieved tax payer may be represented before the tribunal by a…………….

5. For the purpose of tax computations, income received net of withholding tax must be state……………………..

6. The document which the relevant tax authority issues to every beneficiary as an evidence that withholding tax was deducted from its income is called…………..

7. When does an assessment become final and conclusive?

8. Self assessment was introduced on……………………

9. Dividend Income is an earned income. True or false?

10. The income accruing to a partner during the year he joins a partnership business will be assessed on………………..basis

11. What is the basis of assessment of the income of a partner from a partnership

12. When a qualifying capital expenditure is acquired through instalmental payment, the total amount paid excluding the interest element during the basis period forms the basis of computing the…………………

13. For assets acquired on Hire purchase,…………….is to be treated as an allowable expense.

14. In place of depreciation charge, the tax authority allows………………as deductible expense.

15. Sums allowable as deductions in computing the profits or gains or losses of a trade for income tax purposes are **NOT** allowable as deductions under Capital Gains Tax. True/False?

16. Withholding Tax of corporate bodies must be remitted to the relevant tax authority within………………..days following the date of transaction.

17. The increase in the capital value of an asset between the date of acquisition of the asset and the date of its disposal is called………………….

18. In respect of VAT (GST), an appeal from the Tax Appeal Tribunal shall be made to the ……………………

19. Failure to keep proper records attracts penalty of…………….for every month in which the failure occurs.

20. Credit method and…………………..are two methods of claiming VAT refund.

SECTION B - ATTEMPT ANY FOUR QUESTIONS (50 MARKS)

QUESTION 1

It is the civil obligations of citizens to pay tax and taxes which come in various forms.

You are required to:

a. Distinguish between Direct Taxes and Indirect Taxes. (4 Marks)
b. Explain the ethical issues in the administration of Income Tax. ($8^1/_2$ Marks)

(Total $12^1/_2$ Marks)

QUESTION 2

The organs of tax administration in Nigeria include Joint Tax Board (JTB), Federal Inland Revenue Service Board (FIRSB), State Board of Internal Revenue (SBIR), Local Government Revenue Committee and Joint State Revenue Committee.

You are required to:

a. State the members of the State Board of Internal Revenue. (7½ Marks)
b. Explain the ethical issues in the administration of Income Tax (8½ Marks)

(**TOTAL 12½ Marks)**

QUESTION 3

a. Tax Legislation contain rules that will apply when a company ceases operations.

You are required to:

i. Give **FOUR** instances where a business can cease operation (2 Marks)

ii. Explain briefly the cessation rules under Companies Income Tax Act CAP C21 LFN 2004. (4 Marks)

b. Mr. Chukwu who has been trading for several years recently decided to cease business due to lack of raw materials. He actually ceased trading on 30 June 2009. He declared the following adjusted profits:

L$

Year ended 31/12/2007	500,000
Year ended 31/12/2008	430,000
Period to 30/06/2009	70,000

You are required to:

a. Compute the assessable profits of Mr. Chukwu for the relevant years of assessment. ($6^1/_2$ Marks)

(Total $12^1/_2$ Marks)

QUESTION 4

The Net Profit of Kingsley Nigeria Ltd for the year ended 31 May 2009 was ₦62,580,000, after crediting profit on the sales of Property, Plant & Equipment and after charging the following:

	₦
Building Fund	40,000
Depreciation	4,250,000
Club house Project	24,500
Donation to Community fund	72,000
Recreations Club	57,300
Church Building fund	6,000
Legal Charges for purchase of leasehold rights	150,000
Directors' Remuneration	850,000

Other information include:

i. Profit on sale of Property, Plant & Equipment ₦8,000 (included in the net profit)

ii. The capital allowance and balancing allowance claimed for the year were agreed with Tax Authority at ₦9,500 and ₦52,580 respectively.

Required:
Calculate the income tax payable by the company for the relevant year of assessment.
($12^1/_2$ Marks)

QUESTION 5

Withholding tax is a tax deducted at source and which enhances voluntary compliance.

You are required to:

a. Enumerate other merits and demerits of the withholding tax system. (10 Marks)

b. List the information to be disclosed in Withholding Tax Returns. ($2^1/_2$ Marks)
(Total $12^1/_2$ Marks)

QUESTION 6

Benjis International Limited is a manufacturer of hospital equipment that registered for VAT purposes. During the year 2011, the company expended ₵1,920,000 on the materials in the process of converting same into finished products for resale, while it bought its major inputs for ₵12million. At the end of the year, only 55% of the total cost of finished products were sold at ₵18,240,000. The suppliers of major input materials are registered companies for VAT purposes.

You are required to:

a. Compute total VAT payable for the year ended 31 December 2011. ($7^1/_2$ Marks)

b. Explain briefly **FIVE** merits of the Value Added Tax (VAT) system. (5 Marks)
(Total $12^1/_2$ Marks)

SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

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

23. D

24. E

25. C

26. C

27. C

28. B

29. D

30. B

EXAMINER'S COMMENT
All the candidates attempted the multiple choice questions. Majority of the candidates scored above 60 percent in these questions. It is equally important to note that the questions cover the entire syllabus.

PART II SHORT-ANSWER QUESTIONS

1. 60 days

2. Tax Appeal Tribunal

3. Tax Appeal Tribunal

4. Solicitor or Chartered Accountant or Adviser

5. Gross

6. Withholding Tax Credit Note

7. An Assessment becomes final and conclusive when no valid objection or appeal has been lodged within the time limit

8. 1 January 1998

9. False

10. Actual year/Commencement basis

11. Preceding year basis

12. Capital allowance

13. Interest element

14. Capital allowance

15. True

16. 21

17. Capital Gain

18. Federal High Court

19. ₦2,000

20. Direct cash refund method

EXAMINER'S COMMENT
These short-answer questions also cover substantial part of the syllabus. All the candidates attempted the questions, but many scored below 50 percent.

SECTION B

SOLUTION 1

a. **DIFFERENCE BETWEEN DIRECT TAXES AND INDIRECT TAXES**

	DIRECT TAX	INDIRECT TAX
1	It is levied directly on person's income	Levied as a percentage of goods and services.
2	It has lower cost of collection	Cost of collection may be higher
3	It can give room for tax evasion	It can be used to check consumption pattern
4	It can be used to redistribute income	It can be used to check consumption

(b)

The administration of both the Companies Income Tax and Personal Income Tax in Nigeria is vested in the Federal Board of Inland Revenue Service and the State Board of Internal Revenue respectively.

The officials of these relevant tax authorities as well as the tax practitioners are expected to regard and deal with all documents, information returns and assessment with strict confidentiality and there should not be any conflict of interest in performing their duties. They must display integrity in all that they do.

A person shall be guilty of an offence under the obligation of secrecy if he communicates or attempts to communicate tax payers' information to another person for any reason.

A tax practitioner is not expected to act for two opposing parties. Notice of any attempt to do this must be sent across to the parties to seek their consent.

CONDITIONS FOR DISCLOSURE OF INFORMATION

Information on tax payers may be disclosed under the following conditions:

(i) If information is necessary by government for purpose of double tax relief.

(ii) If information is required by the Auditor-General of the Federation or any other officer authorized by him for the performance of his official duties.

EXAMINER'S COMMENT
This is a good question on the administration of tax. About 97 percent of the candidates attempted the question. Whilst many did well in 'a' part of the question, majority did not perform well in 'b' part which is on the ethical issues in the administration of income tax.

SOLUTION 2

(a) **COMPOSITION OF THE STATE BOARD OF INTERNAL REVENUE**

(i) The executive Chairman of the State Service,

(ii) The Directors and Heads of Department within the State Service

(iii) A Director from the State Ministry of Finance,

(iv) Three persons nominated by the Commissioner for Finance in the State,

(v) A legal Adviser to the state Service, from the State Ministry of Justice,

(vi) The Secretary to the State Service who shall be an ex-officio member.

(b) **COMPOSITION OF JOINT STATE REVENUE COMMITTEE**

(i) The Chairman of the State Internal Revenue Service as Chairman,

(ii) The Chairman of each of the Local Government Revenue Committees,

(iii) A representative of the Ministry of Local Government not below the rank of a Director

(iv) A representative of the National Revenue Mobilisation, Allocation and Fiscal Commission as an observer,

(v) The State Sector Commander of the Federal Road Safety Commission

(vi) The Legal Adviser of the State Board of Internal Revenue

(vii) The Secretary of the Committee who shall be a Staff of the State Internal Revenue Service. He shall be an ex-officio member

EXAMINER'S COMMENT
This is a two-part question on the organs of tax administration. About 90 percent of the candidates attempted the question. Majority of the candidates did not understand the composition of the State Board of Internal Revenue. However, the overall performance was fair.

SOLUTION 3

(ai) (i) Management decision- This can be as a result of misunderstanding.

(ii) Liquidity problem- when the business day to day running can no longer be financed.

(iii) Inavailability of raw materials for the business.

(iv) If Court orders the closure.

(v) Loss of market share.

(vi) If the business is unable to pay its creditors.

(vii) If the business runs into perpetual loss making.

(aii) The relevant years are final year and penultimate year. Final year is the ultimate year. The actual income for that period is the income from the beginning of the period to the day the business ceases operation.

- Penultimate year- This is the year immediately preceding the year of cessation. The income assessable is the income from 1st January to 31st December of the year or the income of the accounting year immediately preceeding the penultimate year, whichever is higher.

(b) **COMPUTATION OF ASSESSABLE INCOME FOR MR. CHUKWU FOR 2008 AND 2009 YEARS OF ASSESSMENT.**

YEAR OF ASSESSMENT **BASIS PERIOD** **ASSESSABLE**

		PROFIT ₦
2008. Higher of:		
Actual year Basis	1/1/08-31/12/08 (₦430,000)	
Preceding year Basis	1/1/07-31/12/07 (₦500,000)	500,000
2009: Actual Year Basis	1/1/09-30/6/09	70,000

Summary

Year of Assessment	Profit (₦)
2008	500,000
2009	70,000

EXAMINER'S COMMENT

This is a good question on cessation rule. More than 98 percent of the candidates attempted the question. Many candidates displayed proper understanding of the question. Suffice it to say that the general performance was satisfactory.

SOLUTION 4

OLABUWE NIGERIA LIMITED (1)
CALCULATION OF INCOME TAX PAYABLE FOR 2010 YEAR OF ASSESSMENT

	₦	₦
Net Profit per accounts		62,580,000 (1)
Add back:		
Building fund	40,000	
Depreciation	4,250,000	
Club house project	24,500	
Donation to Community Fund	72,000	
Recreation club	57,300	
Church Building Fund	6,000	
Legal charges for purchase of Leasehold rights	150,000	4,599,800
		67,179,800
Deduct:		
Profit on sale of fixed assets	8,000	8,000
		67,171,800
Less Capital Allowance	9,500	
Balancing allowance	52,580	
		62,080
Chargeable profit		67,109,720
Company income Tax @ 30%		20,132,916

EXAMINER'S COMMENT
This is a standard computation question on Companies Income Tax About 98 percent of the entire candidates attempted the question. The general performance was above average.

SOLUTION 5

A(ii) merits of withholding tax systems

(1) It helps to broaden the tax base by bringing unknown tax payers to the tax authority

(2) Ensures faster mobilization of revenue i.e Government receives revenue from tax payers upfront

(3) It reduces the incidence of tax evasion

(4) It is self accounting in nature i.e involves little or no cost of collection

(5) It enhances voluntary tax compliance

(6) It educates the tax payer and collection agents on tax matters

(7) It saves time for the Revenue officers to attend to other duties

(ii) **DEMERITS OF WITHHOLDING TAX**

1. High rate of withholding tax is likely to affect the operational performance of most businesses
2. Since WHT is deducted at source at source, it will likely discourage hard work by Revenue officers
3. It leads to the lacking up of the capital of some businesses with the Revenue agencies
4. The application of Withholding tax affects the cash flow of most businesses as the receive amount is less than what they have estimated in the invoice issued

(b) **INFORMATION TO BE DISCLOSED IN WITHHOLDING TAX RETURN**

(i) Name and address of the tax payer
(ii) Name and address of the relevant tax authority to which remittance is being made
(iii) Name and address of the beneficiaries from whom withholding tax has been deducted
(iv) Nature of the transaction of each beneficiary
(v) Gross amount of the transaction
(vi) The annlicable rate of withholding tax
(vii) The tax withheld
(viii) The Net amount paid

EXAMINER'S COMMENT
This is a two-part question on withholding tax. About 30 percent of the entire candidates attempted the question. Many did not perform well in the 'a' part of the question, which tested candidates' understanding of the merits and demerits of withholding tax. However, they performed satisfactorily in the 'b' part of the question which deals with the withholding tax returns.

SOLUTION 6

(a)

BENJIS INTERNATIONAL NIGERIA LIMITED
SCHEDULE OF COMPUTED VAT PAYABLE FOR THE YEAR ENDED 31, DECEMBER 2011

Vat output ₦18,240,000 (1)	868,571.42
Less: Materials 1,920,000 x $^{5}/_{105}$ x55% (1)	(50,285.71)
Less: VAT input 12,000,000 x $^{5}/_{105}$ x55% (2)	(314,285.71)
Total VAT payable	504,000

(b) **Merit of VAT System**

- VAT is a reliable source of income to the government
- It provides solution to the problem of tax evasion in Nigeria
- It eliminates inadequacies and narrow scope of sales tax
- VAT is fair and equitable because consumer pay tax only in goods and services consumed
- It encourages export business and thus enhances balance of payment
- VAT addresses the issue of regressive taxation because the more you consume, the more you pay, therefore the richer tends to buy more and pay more
- VAT may be used as a tool for fiscal policy
- It is easy to administer five points
- Little or no cost of collection.

EXAMINER'S COMMENT
This is a good question on Value Added Tax (VAT). About 40 percent of the entire candidates attempted the question. The major pitfall was in the aspect of computation of VAT output and VAT input. The general performance was below average.

AT/121/PIII.12 **Examination No………………**

ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME WEST AFRICA
PART III EXAMINATIONS - MARCH 2012

MANAGEMENT

Time Allowed: 3 hours

Insert your Examination number in the space provided above

SECTION A (MULTIPLE-CHOICE QUESTIONS) (30 Marks)

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

1. The technical term used at meetings giving the right to any member to exercise his or her choice on any issue is

   A. Resolution
   B. Voting
   C. Proxy
   D. Amendment
   E. Motion

2. Which of these is **NOT** a principle of effective planning?

   A. Principle of efficiency
   B. Principle of Premising
   C. Principle of Navigational Change
   D. Principle of Commitment
   E. Principle of hierarchy

3. The flow of information through inter-related stages of analysis towards the achievement of an aim is called

   A. Progress
   B. Process
   C. Procurement
   D. Production
   E. Performance

4. What guides executives in defining the business their firm is in, the ends it seeks, and the means it will use to accomplish those ends is

   A. Strategy Formulation
   B. Long-range planning
   C. Task formulation
   D. Tactical planning
   E. Domestic planning

5. A message designed to be inclusive of the expectations of all stakeholders for the company's performance over the long run is

   A. Social Responsibility
   B. Mission Statement
   C. Tactical Statement

D. Long-range Statement
E. Task Statement

6. Which of the following is **NOT** an element in SWOT analysis?

A. Strength
B. Weakness
C. Opportunity
D. Opportunist
E. Threat

7. **ONE** of the following is a major consideration of McClelland's Motivation Theory

A. Existence need
B. Safety need
C. Need for power
D. Hygiene factors
E. Growth needs

8. The main thrust of Blake and Mouton's managerial grid is

A. Concern for people and concern for production
B. Country club management
C. Impoverished Management
D. Authority Compliance Management
E. Middle-of-the-road Management

9. Which of the following is **NOT** a type of information transmitted through upward communication?

A. Employee views and suggestions
B. Answers to queries
C. Instructions
D. Employee grievances
E. Reports and data

10. Which of the following arrangements describes the process of group formation?

A. Forming, Storming, Norming and Performing
B. Storming, Forming, Norming and Performing
C. Forming, Norming, Storming and Performing
D. Norming, Storming, Forming and Performing
E. Norming, Forming, Performing and Storming

11. Which **ONE** of the following are specific managerial roles identified by Mintzberg?

A. Leader
B. Spokesman
C. Negotiator
D. Arbitrator
E. Enterpreneur

12. **ONE** of the following statements is not true about managers

A. Top managers require the best conceptual skill, because their primary responsibilities are planning and organizing
B. Middle managers require the best human skills because they are required to communicate, coordinate and motivate people
C. Effective managers need conceptual, human and technical skills in sizeable proportion to avoid failure
D. First-line managers require more of human skills than technical skills
E. Middle level managers require the best technical skills than human skills to perform an organizational role

13. A special skill which requires a manager to demonstrate his ability to analyze and diagnose a situation and distinguish between cause and effect is

A. Human relations skills
B. Competitive skills
C. Technical skills
D. Conceptual skills
E. Collaboration skills

14. The theorist who interpreted and popularized the findings of Hawthorne experiment was

A. Henri Fayol
B. Henry Gantt
C. Max Webber
D. Elton Mayo
E. Peter Drucker

15. Which of the following is **NOT** an input in the production system?

A. Raw materials
B. People
C. Money
D. Convertion
E. Information

16. **ONE** of these is **NOT** a feature of batch production system

A. General purpose machine and equipment used
B. Provision of heavy shop-floor stores
C. It is usually found in heavy engineering firms

D. Strong emphasis is placed on production planning and scheduling
E. Short production runs which translated into higher production cost

17. Which of the following is **NOT** an element of an organization structure?

A. Configuration
B. Work specialization
C. Departmentalisation
D. Chain of command
E. Span of control

18. The linking together of superiors and surbodinates of units and sub-units at different levels of the organization is referred to as

A. Vertical coordination
B. Horizontal coordination
C. Composite coordination
D. Parallel coordination
E. Diagonal coordination

19. Control helps the organization to achieve which **ONE** of the following?

A. Adapting to changing conditions
B. Minimizing the Errors
C. Coping with organizational complexity
D. Minimizing cost
E. Determining the budget

20. When both line authority and staff authority are involved in an organization, it is called

A. Line and staff organization
B. Line organization
C. Staff organization
D. Specialised organization
E. Compulsory staff

21. An organization whose design is not defined by or limited to the vertical and horizontal demarcations is termed

A. Matrix structure
B. Budget structure
C. Simple structure
D. Boundaryless organization
E. Complex structure

22. For the prevention of fire, a safety provision measure is that every factory must be provided with

A. Water dam
B. Fire extinguisher
C. Transmission machinery
D. Goggles
E. Belts and ropes

23. Which of the followings is a form of penalty for indiscipline in an organization?

A. Fines
B. Demotion
C. Promotion
D. Discharge
E. Pay-cut

24. In Maslow hierarchy of needs, the need for protection from danger, threat or deprivation is called

A. Physiological needs
B. Safety needs
C. Social needs
D. Self-esteem needs
E. Self-actualization needs

25. **ONE** of these will **NOT** be of interest to a corporate organization with respect to social responsibility

A. Employees

B. Government
C. Consumers
D. Disabled but illegal group
E. Disabled but unrecognized group

26. Which of the following is **NOT** an objective of planning?

A. To minimize risk and uncertainty
B. To implement guidelines
C. To focus attention on objectives
D. To secure economy in operation
E. To make control activities effective

27. Which of these is a feature of mass production system?

A. It produces one off items
B. The products are made to customer's specification
C. General purpose machinery and equipment used
D. The workforce has wide range of skills
E. Long production runs for individual products

28. Which of these is in favour of social responsibility of business

A. Social involvement can create a weakened international balance of payments situation
B. Business has enough power, and additional social involvement would further increase its power and influence
C. There is lack of accountability of business to society
D. Business has a great deal of power that it is reasoned, should be accompanied by an equal amount of responsibility
E. There is no complete support for involvement in social actions

29. The view that society will benefit most when business is left alone to produce and market profitable products that society needs is an/a……………………….of social responsibility

A. Socio-economic model
B. Voluntary model
C. Economy model
D. Legal model
E. Ethical model

30. **ONE** of the mostly considered effort of management in institutionalizing ethical behavior is to set up Ethics Committee within the organization. Which of these is not expected to be the function of the Committee?

A. Holding regular meetings to discuss ethical issues
B. Checking for possible violations of the code
C. Communicating the code to all members of the organization

D. Reporting unethical behaviour within the organization
E. Reporting the activities of the committee to management

PART II: SHORT ANSWER QUESTIONS (20 Marks)

Write the answer that best completes each of the following questions/statements.

1. The activities involved in the placement of jobs according to their relative importance to other jobs can be described as……………………………

2. Any combination of workers or employees whether temporary or permanent, the purpose of which is to regulate the terms and conditions of employment of workers is called …………………………

3. The cessation of work by a body of persons employed acting in combination, or a concerted refusal to work under a common understanding is called ……………………………..

4. A payment that is a percentage of sales revenue is ………….……………

5. The creation of finished goods and services using factors of production is called …………………………..

6. The regulation exercise after a product or service has been completed to ensure that the final output conforms with standards is referred to as ………………………….

7. According to ETZIONI, an organization that is deliberately constructed to seek a specific goal is ……………………….

8. The management function of integrating the activities of an organization to achieve a common goal is termed…………..…………..

9. A consumer product that the consumer, in the process of selection and purchase, usually compares on such bases as suitability, quality, price and style is called……………………………

10. Human wants that are backed up by buying power is called……………………..

11. The conditions in the general environment that help a company achieve strategic competitiveness is……………………………………..

12. Strategy concerned with deciding how a firm should compete in the industries in which it has elected to participate is ………………………………

13. Identifying early signals of emerging trends and changes that may affect the

firm is ……………………………………

14. Expectancy theory of motivation was pioneered by ………..…………………

15. A type of communication whose origin cannot be readily traced to a known source is called ……………..…………

16. A stage in group development where members develop strong bond and become a strong, loyal and cohesive group is called …………………………..

17. A manager that ensures the completion of activities so that organizational goals are attained is an …………………………….

18. The process of comparing actual performance with planned action and taking corrective action if needed is…………………………………

19. The Management Theorist that recognized that science and mathematics could be applied in the management of organizations and also that detailed cost measurements were needed is ………………………….

20. A type of partnership in which all owners share in operating the business and assuming liability for the business debt is …………………………………

SECTION B- Answer any FOUR questions (50 Marks)
QUESTION 1

Human resources is seen as the most valued asset of any organization.

You are required to:

a. Define Human Resource Management (2½ Marks)

b. Explain **FIVE** functions of Human Resource Management (10 Marks)

(Total12½Marks)

QUESTION 2

Principle is a basic general truth, that is, the foundation of something. You are required to explain **FIVE** principles of effective planning. (12½ Marks)

QUESTION 3

Communication is the life-blood of any organization.

You are required to:

a. Illustrate the key elements of a communication process, (with the aid of a simple diagram) (2½ Marks)

b. Explain briefly **FIVE** common barriers to effective communication in organizations? (5 Marks)

c. Explain **TWO** ways by which a manager can minimize the effect of these barriers? (5 Marks)

(Total 12½ Marks)

QUESTION 4

As an office manager of an organization, describe **FIVE** factors you will consider in designing effective layout of control forms emanating from your office.

(12½ Marks)

QUESTION 5

As a new businesses are being built, some existing ones are dying. You are required to explain **FIVE** measures that can be put in place to forestall business failures.

(12½ Marks)

QUESTION 6

You are an accounting officer in Bluebird Incorporated, and you read in a recent bulletin of the Corporate Affairs Department that Henry Mintzberg's managerial role is suitable for the company.

You are required to:

a. Explain Henry Mintzberg's managerial role (7½ Marks)

b. Give specific example of each role activity you have explained in (a) above. (5 Marks)

(Total 12½ Marks)

SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

1. B

2. E

3. B

4. A

5. B

6. D

7. C

8. A

9. C

10. A

11. D

12. D

13. D

14. D

15. D

16. C

17. A
18. A

19. E

20. A

21. D

22. B

23. C

24. B

25. D

26. B

27. E

28. D

29. C

30. D

EXAMINER'S COMMENT

The multiple choice questions covered all the parts of the syllabus. All the candidates attempted the questions and the general performance was good. More than 75% of the candidates who attempted the questions did very well.

PART II SHORT-ANSWER QUESTIONS

1. Job rating

2. Trade Union/Labor Union

3. Strike

4. Commission

5. Production

6. Feed back control/quality control

7. Formal organisation
8. Coordination

9. Shopping product

10. Demand /effective demand

11. Opportunities

12. Business level strategy

13. Scanning

14. Victor Vroom

15. Grape vine /Rumour

16. Performing

17. Effective manager

18. Controlling

19. Charles Babbage

20. General partnership/ordinary partnership

EXAMINER'S COMMENT

The short answers questions cut across the entire syllabus. All the candidates also attempted the questions. About 60% of the candidates who attempted the questions performed satisfactorily.

SECTION B

SOLUTION 1

Human resource management can be defined as all management decisions and actions that affect the relationship between the organization and employees.

Human resource management can be defined as all activities, concepts, policies programmes and theories jointly connected with the acquisition and utilization of people to achieve organizational goals.

FUNCTIONS OF HUMAN RESOURCES MANAGEMENT

i. Human Resources planning: This is the process of forecasting human needs of an organization so that steps are taken towards fulfilling it.

ii Recruitment and selection: This refers to all activities carried out to attract qualified applicants to fill vacant positions in an organization.

iii Training and development: This involves giving employees the knowledge, skills, methods and altitudes which will make them perform effectively and efficiently.

iv Performance appraisal. This has to do with the process of monitoring an employee's performance on the job.

v Employee compensation: This refers to rewards given to an employee in return for the contributions to the business.

vi Employee welfare services and benefits: This involves inducement of employees to put in their best by providing an enabling environment in the work place.

vii Industrial Relations: This has to do with coordinating relations between the organization and employees.

Viii Induction and orientation: it is designed to introduce the newly employed to the company and the company to the newly employed in order to reduce the adjustment problem of new employees and create a sense of belonginess.

ix Staff disciplines

EXAMINER'S COMMENT
The question tested the candidates' knowledge on Human Resource Management and its functions. More than 92% of the candidates attempted the question and the general performance was above average.

SOLUTION 2

The principles of effective planning are:

(i) Principle of contribution to objectives: Plan should contribute towards the accomplishment of a firm's objectives.

(ii) Principle of efficiency of plans: The principle stresses upon economical use of individual effort to achieve group goals.

(iii) Principle of planning premises: A coordinated structure of plans can only be developed when managers in the organization understand and agree to consistent planning premises

(iv) Principle of policy framework: Every member of the planning team must understand the basic policy framework of the organization.

(v) Principle of timing: The plan must have a time structure

(vi) Principle of limitations: Every plan is confronted with some limitations and these limitations are very critical to the attainment of the goals. If these limitations are well understood and recognized, the better for the planner.

(vii) Flexibility principle: Flexibility must be built to the plans

(viii) Principle of participation: This involves subordinate in the planning process.

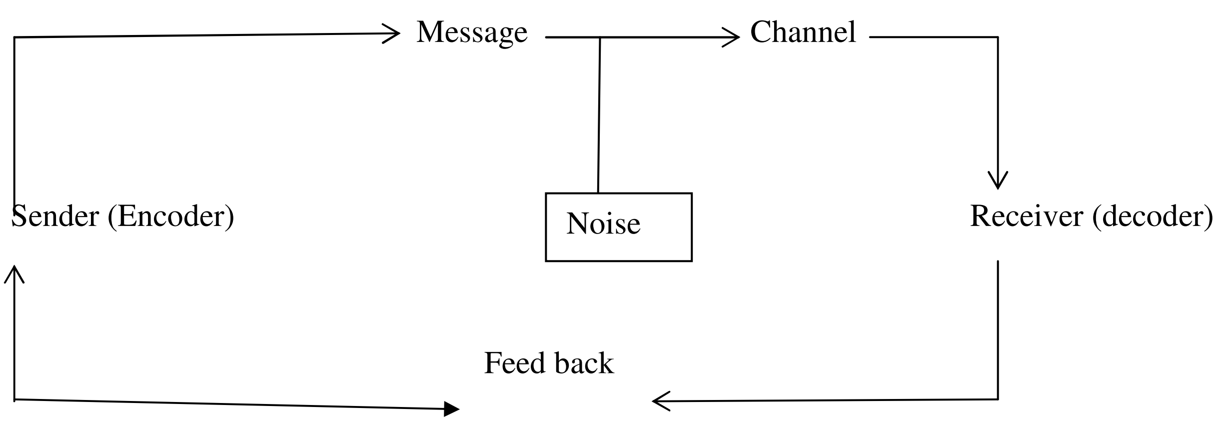
(ix) Principles of open system approach. Make your plan in a way that external and internal environment compliant

(x) Effective planning should be precise, practicable and simple to understand and operate.

EXAMINER'S COMMENT
The question tested the candidates knowledge on the principles of effective planning. More than 85% of the candidates attempted the question and the general performance was above average.

SOLUTION 3

ELEMENTS OF COMMUNICATION PROCESS



(b) **Barriers to effective communication are:**

i Semantic
ii poor listening
iii Conflicts
iv Emotional problems
v Communication overload
vi Poor organizational structure
vii Lack of planning
viii Inappropriate channels of communication

(c) **The ways to minimize the effects of the Barrier are:**

i. Improve the general atmosphere for effective communication by adopting open door style
ii. Planning before communicating
iii. Provision of the right media for communication and make these media accessible to all employees
iv. Over load of managers with volumes of irrelevant information must be avoided by regulating the quantity of information flowing to them
v. Break down physical barriers to communication by designing the office layout in such away that it makes it possible for employees to interact.
vi. Reduce the use of highly technical jargon especially when communicating with subordinates.

EXAMNIERS'
The question tested the candidates' knowledge on the elements of a communication process, barriers to effective communication and ways to minimize the effect of these barriers. More than 80% of the candidates attempted the question and the general performance was above average.

SOLUTION 4

The factors you will consider in designing effective layout of control forms emanating from my office are:

(i) **Purpose:** The reason or purpose of the form should not only be considered should also be its title

(ii) **Paper size and arrangement:** international paper size range e.g A4, quarto should be considered along with their suitability and ability to ease handling and filing

(iii) **Cost:** Costs involved in producing the form that includes the size, quality, quantity and method of printing the form should be considered through cost and benefit analysis

(iv) **Form Appearance:** The appearance of the form should be colourful, attractive and the wording bold and legible. Provision should be made on four sides of the form for dating, comments and filing purposes.

(v) **Paper texture and quality:** The quality of paper having to do with its weight, texture, grade and good colour should be considered in order to impress readers.

(vi) **Quantity/ Units:** The number of copies required vis avis the number of expected readers should be amornised to curb waste likely to result from over production and inadequacy as a result of shortage.

(vii) **Information layout**: The information should be laid out in the form that attracts readers. The sequence should flow from the less important to the most important.

(viii) **Simple & easy to understand:** The form should be in simple grammar that make the information simple and easy to understand and digest technical words should be avoided.

(ix) **Direct & Concise:** The information on the form should be directed straight to beneficiaries. Statements should be brief and concise.

EXAMNINER'S COMMENT

The question tested the factors in designing effective layout of control forms. About 10% of the candidates attempted the question but, 3% scored above average. The major pitfall was that some candidates were discussing about location of offices and control. Candidates are employed to read harder to cover the syllabus.

SOLUTION 5

The Measures that can be put in place to forestall business failures are:

1. **DEVELOPMENT OF BUSINESS PLAN:** There is a need to carry out a feasibility study which will reveal the viability or otherwise of the business.

2. **FINANCIAL INFORMATION:** There is a need to obtain accurate and timely financial information about the business. The financial requirements of the business will help a lot.

3. **TARGET CUSTOMER INFORMATION:** Most entrepreneurs go into business without having a target customer at the back of their mind. Who are our customers, where are they, what do they want, are all strategic questions.

4. **COMPETITOR PROFILE:** Competitors are real in business environment. There is a need to assess the strength and weakness of the competitors for a better business decision making.

5. **DEVELOP STRONG MANAGEMENT TEAM:** Sound and active workers must be recruited. Best hand that will give the business the best should be considered.

6. **NETWORKING:** Business does not operate in a vacuum. There is a need to develop strong ties with stakeholders in the market.

7. **BUSINESS WILL**: Will to succeed, this is very important in business undertaking.

8. **PROPER PLANNING:** There is a need for business to decide in advance what to achieve in the future.

9. **SOUND DECISION MAKING**: Business is all about decision. In order to prepare business for success, there is a need to be thorough in decision making.

10. **CAPITAL FORMATION:** One of the major reasons for business failure is shortage of capital. There is a need for provision of enough capital resource.

EXAMINER'S COMMENT

The question tested the candidates' knowledge on the measures that can be put in place to forestall business failures. More than 90% of the candidates attempted the question. Only 45% scored above average. The major pitfall was that most candidates' were discussing what makes businesses fail rather than the measures

SOLUTION 6

The Henry Mintzberg's Managerial Role is

1**.** **Interpersonal Role**

i Figure head: The person who symbolizes an organization or a department. Here the manager determines the direction or mission of the organization and informs employees and other interested parties about what the organization is seeking to achieve. e.g receives visitors, and signs documents.

ii Leader: The manager encourages surbordinates to perform at a high level and to take steps to train, counsel and mentor subordinates to help them reach their full potential.

iii Liaison: Manager link and coordinate the activities of people and groups both inside and outside the organization. Inside the organisation, managers are responsible for coordinating the activities of people in different departments to improve their ability to cooperate. Outside the organization, managers are responsible for forming linkages with suppliers or customers.

2. **Informational Role:**

I **Monitor**: Manager monitors and analyses information from inside and outside the organization, so that he can effectively organize and control people and other resources. He maintains personal contact.

ii **Disseminator:** The manager transmits information to other members of the organization to influence their work attitudes and behavior e.g holding meetings and making phone calls.

iii Spokesman: The manager uses information to promote the organization so that people inside and outside the organization respond positively to it. Eg Board meeting, passes information to the board and media.

3. **Decisional Role:**

i **Entrepreneur:** The managers decides which project or programes to initiate and how to invest resources to increase organizational performance e.g development of new programmes and control of activities.

ii **Disturbance Handler:** The manager assumes responsibility for handling an unexpected event or crises that threaten the organizations access to resources e.g correct variances.

iii **Resource Allocator**: The manager decides how best to use people and other resources to increase organisatiional performance e.g monitors budget and expenses.

iv **Negotiator:** The manager reaches agreements with other managers or groups claiming the first right to resources, or with the organization and outside groups such as shareholders or customers e.g maintaining good relationship between management, employees and outside world.

EXAMINER'S COMMENT

The question tested the candidates' knowledge on Henry Minitzberg's managerial roles. More than 70% of the candidates attempted the question and the general performance was above average. However, most candidates could not really distinguish the 'B' part. Candidates are advised to always cover the syllabus.