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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ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME WEST AFRICA (ATSWA)
PART III EXAMINATIONS – SEPTEMBER 2013
PRINCIPLES OF AUDITING

Time Allowed: 3 Hours

SECTION A: PART I ATTEMPT ALL QUESTIONS (30 Marks)

MULTIPLE CHOICE QUESTIONS

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

1. In a computer environment, files are organized in the following ways **EXCEPT**

   A. Indexed randomly
   B. Indexed sequentially
   C. Serially
   D. Sequentially
   E. Randomly

2. Which of the following statements is **NOT** a benefit of Electronic Data Processing

   A. Elimination of tedious tasks
   B. The computer executes instructions diligently and accurately
   C. It leads to production of more paper work than non-EDP system
   D. It processes large volume of data
   E. It makes management information more readily available.

3. Which of the following factors is **NOT** considered in designing audit sample?

   A. Population
   B. Level of risk and assurance required
   C. Tolerable error
   D. Non-sampling risks
   E. Audit objectives

4. Which of the following is **NOT** a function of Internal Control Questionnaire?

   A. It is a method of ascertaining the system of internal control
   B. Enables the auditor to review and assess the adequacy of internal control
   C. Enables the auditor to detect errors
   D. Enables the auditor to design a series of tests to be performed during the audit.
   E. Assists the auditor to draw up his audit programmes.

5. Which of the following is **NOT** a content of a Current Audit file?

   A. A copy of the accounts on which the auditors is reporting
   B. An index covering all the working papers
   C. Details of principal accounting policies
   D. A check list concerning compliance with statutory disclosure provisions.
   E. Letter of representation

6. When there is a disagreement that is material but **NOT** fundamental to a financial statement, the auditor's opinion will be a/an

   A. Adverse opinion
   B. Subject to opinion
   C. Disclaimer
   D. Except for
   E. Qualified opinion

7. Which **ONE** of the following aspects of the financial statements of a Limited Liability Company indicates going concern problems?

   A. Statement of Financial position
   B. Income statement
   C. The five year financial summary
   D. Value Added Statement
   E. The Statement of Cash Flows

8. When an auditor says a set of accounts gives a true and fair view, it implies the following **EXCEPT**

   A. Compliance with ALL standards
   B. That all accounting policies are appropriate, acceptable and consistently applied
   C. That all cadres of staff who should be in the system are present

D. That there are no material misstatement of facts or figures
E. That all relevant information has been received

9. Observations to which an auditor seeks explanation are referred to as:

A. Errors
B. Fraud
C. Misdemeanor
D. Audit queries
E. Malfeasance

10. Which of the following is **NOT** an “audit completion procedure”?

A. Final review of draft financial statements
B. Completion of audit report
C. Drafting the audit report
D. Issues documentation
E. Indexing the Fixed Assets Register

11. The criteria for assessing the internal audit function does **NOT** include

A. Resources availability
B. Technical competence
C. Scope of functions
D. Number of staff in the internal audit section
E. Due professional care.

12. In which of the following circumstances is the Positive method of debtors circularisation **NOT** acceptable

A. There is need to confirm the existence and amount of the debts
B. The debts are material
C. There are numerous small accounts to be circularized
D. The debts are in dispute
E. The internal control system is not satisfactory.

13. Which **ONE** of the following is **NOT** a test of control?

A. Checking for authorization of transactions by an appropriate person
B. Re-performance of control procedures
C. Verification of value to invoices
D. Inspection of documents
E. Observation of controls

14. Which **ONE** of the following is **NOT** true of audit risk?

    A. It cannot be minimized in any form
    B. It can be mathematically expressed as: audit risk = inherent risk x control risk x detection risk
    C. It includes inherent risk
    D. It includes control and detection risk
    E. Its presence can make the auditor give an invalid opinion on the financial statements.

15. Which of the documents listed below will **NOT** be included in the current audit file.

    A. Client Article/Certificate of Registration
    B. Management letter
    C. Copy of current year financial statements
    D. Letter of representation
    E. Replies to queries raised by the auditors.

16. Which **ONE** of the following is responsible for the appointment of the first auditors of a company?

    A. Management
    B. Directors
    C. Government
    D. Shareholders
    E. Creditors

17. The ethical requirement not to disclose client's information to unauthorised third parties is referred to as

    A. Objectivity
    B. Fairness
    C. Independence
    D. Confidentiality
    E. Competence

18. The component of audit risk that derives from the characteristics of a company's environment is

    A. Detection risk
    B. Inherent risk
    C. Control risk

D. Preventive risk
E. Purposive risk

19. The removal of an auditor before the expiration of his term of office requires the passing of a/an

A. Extra ordinary resolution
B. Ordinary resolution
C. General resolution
D. Principal resolution
E. Systems resolution

20. Which of the following will **NOT** affect the independence of an auditor?

A. Expression of an audit opinion
B. Acting in an executive capacity for a client
C. Acting as an auditor for two opposing parties
D. Accepting or giving gifts from or to a client
E. Giving or accepting loans to or from a client

21. "The auditor is **NOT** bound to be a detective. However, he is a watchdog, but not a bloodhound". The statement is linked to

A. London and General Bank (1896)
B. Candler v Crane Christmas & Co. (1951)
C. Re: Kingston Cotton Mill & Co. (1896)
D. Jeb Fasterners Case (1981)
E. Re:-Thomas Gerrard & Sons (1967)

22. Accountants in public practice should refrain from the following **EXCEPT**

A. Unreasonably withholding giving clearance to another member who has been duly appointed to act in his/her place as auditor
B. Putting forward as his partners members who do not practice with him
C. Soliciting for clients by the issue of circulars
D. Accepting appointment in government without getting clearance from the professional institute
E. Basing his audit fees on percentage of the turnover of the client's business

23. A retired member of a practising firm who is retained by the firm for the sake of continuity is described as

A. External auditor
B. Consultant
C. Registered accountant
D. Managing partner
E. Foundation partner

24. **ONE** of the following may **NOT** impair the auditor's independence.

A. Acceptance of goods and services from client
B. Offering Taxation services to audit client
C. Receiving loans from clients
D. Giving loans to clients
E. Owing share in the client company

25. A chartered accountant, in addition to his services as an auditor of a client, can give the following professional services **EXCEPT**

A. Consideration of reporting his client to the police authority
B. Recommending remedial actions to the audit committee
C. Keeping client's accounting books
D. Acting as reporting accountant in an initial public offer
E. Participating in recruitment exercise for the client.

26. Which of the following tasks must an Auditor **NOT** perform before the stock-taking?

A. Test counts to assess the accuracy of the records
B. Review of prior year audit working papers on the stock
C. Consider the location and nature of work
D. Consider whether expert help will be needed
E. Review of stock taking instructions.

27. Which of the following is **NOT** an indicator of going concern problems?

A. Adverse key financial ratios
B. Prompt payment of wages and salaries
C. Loss of key franchise by the company
D. Payment of dividends and statutory dues in arrears.
E. Use of short term fund to finance long term projects

28. Which of the following techniques is **NOT** a technique for a value for money audit?

A. Effectiveness review
B. Management and systems review
C. Review of the management policies and mission
D. Efficiency assessment
E. Analysis of planning and control processes.

29. Which of the following financial ratios will assist the auditor to ascertain whether a company is having working capital problem?

A. Primary ratios
B. Price earnings ratios
C. Earnings per share
D. Current ratio
E. Return on capital employed.

30. Which of the following is **NOT** a quality control mechanism employed by professional accountancy bodies?

A. Establishment of code of conduct for members
B. Publishing of auditing guidelines
C. Establishment of public practice section
D. Establishment of internet services for members
E. Publishing of auditing standards.

SECTION A: PART II **ATTEMPT ALL QUESTIONS** **(20 Marks)**

SHORT-ANSWER QUESTIONS

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

1. An.................... is a list of the work an auditor performs on each key/relevant section of client's financial statements.

2. The uncertainty inherent in audit procedures is called ....

3. Tracing of transactions and documents from inception to conclusion, observing the incidence of internal control is known as ....

4. Transactions and standing data relating to each computer-based accounting system and therefore specific to each such application is called ....

5. A sampling technique in which each item of the population has equal chance of being selected is described as ....

6. A modified opinion issued by an auditor as a result of fundamental limitation of scope is called ....

7. The Committee of the National Assembly/Parliament/Legislature that is responsible for public accounts is known as ....

8. The matters which occur between financial year-end date and the date on which financial statements are approved by the Board of Directors is called ....

9. Value for Money Audit which is directed towards the ascertainment of the economy, efficiency, and effectiveness of an entity's operation can also be referred to as ....

10. The policies and procedures adopted by a firm to provide reasonable assurance that all audits done by the firm are being carried out in accordance with the objective and general principles governing an audit of financial statements is called ....

11. An audit procedure that involves detailed examination of assets and liabilities in the financial records at the year end is known as ....

12. An independent unit within an entity for the review of operations as a service to management is called ………………………

13. Where fraud is suspected by the auditor in the accounts receivable ……………………… method of circularization should be used.

14. At what stage of the inventory count does the auditor consider whether to engage the service of an Expert?

15. The document that contains general instructions on the firm's method of auditing in each area and on the audit firm's procedures generally is known as ………………………

16. A quantitative statement of the cost and revenue expectations of an audit assignment which will enable the auditor to determine the profitability of the audit is referred to as ………………………

17. The process of obtaining and evaluating audit evidence through a representation of information or an existing condition directly from a third party is known as ………………………

18. A verification procedure whereby trade debtors are contacted directly to confirm their balances is called ………………………

19. The entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions is known as ………………………

20. The part of the auditor's report which clearly indicates the financial reporting framework used to prepare the financial statements is usually referred to as ……………………… paragraph.

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

a. Enumerate any **FIVE** qualities expected of an auditor. (2½ Marks)

b. Describe any **FIVE** kinds of relationships which could impair the independence of an auditor. (5 Marks)

c. Describe any **FIVE** statutory provisions and professional requirements which tend to ensure the independence of the auditor. (5 Marks)

(Total 12½ Marks)

QUESTION 3

You are the auditor of XYZ Limited, Abuja whose Balance Sheet as at 31st December 2012 includes an item of inventory for ₦30m which are held in more than one warehouse.

Required:

a. What factors will assist you as the auditor to determine the location that will be visited for audit purpose? (7½ Marks)

b. Enumerate **FIVE** factors which should be considered by the external auditor in determining his level of reliance on the work carried out by the internal auditor. (5 Marks)

(Total 12½ Marks)

QUESTION 4

Stock taking attendance is **ONE** of the ways by which the auditor seeks to confirm the existence of inventory items through obtaining satisfaction that the procedure the client has laid down for proper inventory count have been complied with.

a. Briefly explain "cut-off" as an inventory count procedure and relate this to receivables and payables cut off. (4½ Marks)

b. Give **FOUR** types of inventories. (4 Marks)

c. Briefly list any **FOUR** duties of the auditors before the inventory count. (4 Marks)

(Total 12½ Marks)

QUESTION 5

a. What do you understand by the term "audit working papers"? (1½ Marks)

b. List **FIVE** contents of audit working papers. (5 Marks)

c. Explain what you understand by the concept current audit file and its contents. (2 Marks)

d. List **FOUR** qualities of good working papers? (4 Marks)

(Total 12½ Marks)

QUESTION 6

a. Auditors must strictly comply with "Rules of professional conduct issued by their Professional bodies as conditions for membership".

You are required to mention and explain any **FOUR** fundamental principles of professional code of conduct for accountants. (8 Marks)

b. Every Company shall appoint annually a person approved by Shareholders whose duties shall be to present to the shareholders a report on the annual Financial Statements of the Company.

What are the conditions to be met to qualify as an "approved auditor?" (4½ Marks)

(Total 12½ Marks)

SUGGESTED SOLUTION

SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

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

18. B

19. B

20. A

21. C

22. D

23. B

24. B

25. D

26. A

27. B

28. C

29. D

30. D

EXAMINER'S COMMENT

Being compulsory questions, all candidates attempted questions set which constituted PART 1 of Section A. 50% of candidates scored pass mark and above. 40% of the candidates did not score up to pass mark. The candidate who failed exhibited inadequate preparation, and non coverage of the entire syllabus.

PART II SHORT-ANSWER QUESTIONS

1. Audit programme
2. Audit Risk
3. Walk through test
4. Application controls
5. Random sampling
6. Disclaimer
7. Public Accounts Committee
8. Post balance sheet events
9. Performance audit
10. Quality control
11. Verification
12. Internal Audit
13. Negative
14. Planning stage
15. Audit manuals
16. Audit budget
17. External confirmation
18. Debtors circularisation
19. Population
20. Opinion

EXAMINER'S COMMENT

All candidates attempted the short-answer questions. 80% of the candidates scored good or pass marks and the remaining candidates that failed this section of the paper exhibited their failures on the remaining parts of the paper. The main cause was due to inadequate preparation for the examinations.

SECTION B

SOLUTION 1

a. Accountants and auditors in public practice can minimise potential risks/liabilities for professional negligence in many ways. Such ways include:

   i. Having a functioning quality control system.

   ii. Ensuring that audit procedures are carried out properly in accordance with International Standards on Auditing.

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

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

   v. 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.

   vi. Stating in any report the purpose of the report and that it may not be relied on for any other purpose.

   vii. Identifying the authorised recipients of reports in the engagement letter and in the report.

   viii. Putting a disclaimer to the report.

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

(b) Negligence is an act or omission which occurs because the person concerned (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 the duty of such care.

EXAMINER'S COMMENT

This question centered on six ways the 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 65% of the candidates that attempted the question, 45% of such candidates scored pass mark in the question. 55% of the candidates that attempted the question did not score up to pass mark. The score in this question showed that candidates did not have adequate preparation for the examinations.

SOLUTION 2

The auditors' qualities are the following:

a)i. Independence: The person reporting to the shareholders on the company's accounts should have his own mind and character different from those who are responsible for preparing the accounts i.e. the directors in the case of company. The auditor should not be influenced by the relationship with the directors.

ii. Competence: The auditor should carry out his professional duties with proper regards to the technical and professional standards expected of him. He should seek advice where necessary to enable him perform effectively and efficiently.

iii. Integrity: He should be able to maintain a high standard of conduct by not misleading or misrepresenting facts to others. He should be honest in all ramifications.

iv. Objectivity: He should not allow for personal judgement but must base his opinion on verifiable facts.

v. Confidentiality: The information about a client must be preserved both within and outside its client's company. When there are conflicts of interest, disclosures should be made only with proper authority, or where there is professional obligation, a right, a legal requirement or by a public duty.

(b) The kinds of relationships which could impair the independence of an auditor are:

i. Possession of direct and/or indirect beneficial interest in any company for which he or his firm acts as an auditor.

ii. Accept fees, except where this cannot be avoided because of legislation or documentation or agreement to which he is not a party.

iii. Act for any two opposing parties in respect of a negotiation claim or settlement unless appointed as an arbitrator under due process of law.

iv. Carry out the work as an auditor concurrently with carrying out work for the client in an executive capacity.

v. Members involving themselves in financial relationships as borrowing, giving guarantee of leading to client, except where the ordinary business of the client is to lend.

vi. Member in public practice having acted as a receiver of any of the assets of the company, accept appointment as auditor of the company for any accounting period, during which the receiver acts or exercises control.

vii. Accepts a gift from an audit client.

viii. A member accepting an audit assignment or any other professional assignment that will give rise or bring a conflict of interest.

(c) The statutory provisions and professional requirements which tend to ensure the independence of the auditor are:

- Auditor should not be an officer or employee of the client.
- Auditor is normally appointed by shareholders.

- Auditor cannot be a partner to an officer or employee of the company
- An auditor can only be removed by the shareholders
- The auditor reports directly to the shareholders.
- The auditor has the right of access to books and records of the company at all times.
- The auditor is not qualified as a receiver of the same company, in the same accounting year.
- Auditors remuneration is fixed by the shareholders
- Auditor has the right to make representation of a reasonable length in case of an attempt to remove him.
- Auditor has the right to information and explanations necessary for the purpose of the audit.

Other rules:

- Auditor should not be a director in associated holding or subsidiary company of a client.
- Auditor should not accept or give gifts from or to the client.
- Audit should not engage in any commercial dealing with an audit client, other than within his normal scope of practice.
- Auditor should not grant or accept loans from the client
- Auditor should not accept undue hospitality from the client.
- Auditor should not accept an engagement, the fees of which constitutes the greatest share of his income.
- Auditor should not be involved in an assignment where he has relationship either by blood or by marriage.

EXAMINER'S COMMENT

Qualities of the Auditor, kinds of relationships which could impair the independence, statutory provisions and professional requirements which tend to ensure the independence of an auditor were tested. About 98% of the candidates attempted the question and 93% of the candidates scored pass marks. 7% of the candidates that failed this question exhibited inadequate preparation and non-coverage of the syllabus.

SOLUTION 3

i. Where the client holds stock at more than one location, it may not be necessary to attend them all. Locations for attendance should be selected by reference to the following factors:-

a. The materiality of estimated stock levels at each location.
b. The extent to which different locations are covered by the same procedures and overall control.
c. Unusual stock levels, gross margins, or operating results at a particular location.
d. The nature and reliability of supporting stock records and the results of stocktaking both in previous years and during the current period.
e. The findings of any internal audit reports
f. Client expectations of external audit attendance

ii. The factors to be considered by External Auditor are:

a. The internal auditor's independence and objectivity
b. The attitude of management to their reports
c. Their technical knowledge and professional competence
d. The professional standard including control procedures applied on their work
   - recruitment and training of staff
   - Supervision of work
   - Assignment of staff to projects
   - Post-project reviews of work

e. The scope of the internal auditor's work

f. How closely related are the objectives of both internal and external auditor.

EXAMINER'S COMMENT

Question centred on factors that would assist the auditor to determine the location that will be visited for audit purpose when the client had more than one warehouse and factors to consider before external auditor could rely on Internal Auditor's work. About 25% of the candidates attempted the question and 40% of such candidates passed the question while 60% of those who attempted the question did not get up to pass mark. Those that failed exhibited inadequate preparation/non coverage of the syllabus.

SOLUTION 4

a. Stock cut off:-

This is the procedure to ensure that movements of stock items into, within and out of stock, up to the balance sheet date are reflected in the financial statements for the period.

The procedures are also intended to ensure in conjunction with creditors' cut off, that the liability for all items included in stocks is taken up in the financial statements and in conjunction with debtors cut off, that the sales which are included in the financial statements are matched by the corresponding cost of such sales, which has been excluded from stocks.

b. Stocks are defined as comprising

i. Goods or other assets purchased for resale i.e. finished goods

ii. Consumable stores

iii. Raw materials, semi-finished items, and components purchased for incorporation into products for resale i.e. finished goods.

iv. Products and services in intermediate stages of production i.e. (work in progress).

c. Duties of auditors before the stock-taking

- Auditors should observe the compliance with stock taking instructions and report non-compliance so that correction could be made immediately.
- Consider whether expert help will be needed.
- Review of prior year audit working papers on the stock.
- Review the client's control systems and accounting for stocks with the aim to identify potential areas of difficulties e.g. cut-off procedures.
- Make arrangements to circularise third parties in respect of stocks held by them or on their behalf by the client.

EXAMINER'S COMMENT

"Cut-off" in relation to inventory count procedure, receivables and payables cut off, types of inventories and duties of the auditors before the inventory count were tested. About 10% of the candidates attempted the question and almost all the candidates exhibited ignorance on cut-off procedures hence the performance was poor.

SOLUTION 5

a. **Audit working papers**

Audit working papers is the process by which Auditor amasses papers. It is generally believed that the more paper an auditor gathered, the better the audit exercise that has been carried out. This view is commonplace even in the contemporary modern audit where a large number of papers have been generated that indexing or referencing of the papers so generated is required.

b. The contents of audit working papers include the following:

i. Information concerning the legal and organizational structure of the client.

ii. Evidence of the planning, process and any changes thereto.

iii. Extracts or copies of important legal documents, agreements, and minutes.

iv. Evidence of interest and control risk assessment, any revisions.

v. Evidence of the auditors consideration of the work of internal audit (if any).

vi. Analysis of transactions and balances.

vii. Analysis of significant ratios and trends.

viii. A record of the nature, timing, extent and results of auditing procedures.

ix. Details of confirmation, procedures on work carried out by other auditors (if any).

x. Information concerning the client's industry, economic and legal environments.

xi. Copies of correspondence with the client, reports to directors or management and notes of discussions with the entity's directors or management concerning the audit matters.

xii. Copies of communications with other experts and third parties. (5 Marks)

c. Current audit file and its contents

The current audit file is kept to record all audit works programmes and working papers for the year under review. The purpose and importance of working papers should be understood.

Contents of current audit files

The contents of current audit file include:

i. A copy of the management accounts being audited usually authenticated by the directors' signature.
ii. An index to the file.
iii. A description of the internal control system in operation
iv. An audit programme
v. Letter of representation

Qualities of good working papers:-

The factors that determine the quality of good audit working papers include the following.

i. The working papers must be clear and unambiguous
ii. They must be complete
iii. The information therein must be concise
iv. The audit working papers should contain conclusions drawn from evidences obtained.
v. The information in the audit working papers must agree with the financial statements
vi. The information in the audit working papers must agree with audit programme.
vii. The audit working papers must be logical and neat.
viii. The audit working papers should include all important decisions taken during the audit.

ix. The audit working papers should include all important decisions taken during the audit.

x. It should also include the following:
   - Name of the client
   - Title
   - Reference
   - Period of examinations
   - Cross references
   - Initials of the preparer and reviewer
   - Date of preparation

EXAMINER'S COMMENT

Question tested definition of "audit working papers", contents of audit working papers, concept of current audit file and its contents were tested.

95% of the candidates attempted this question and half of the candidates scored pass marks. Candidates that failed the question did not prepare adequately for the examination. They might also not have covered the syllabus adequately.

SOLUTION 6

a. Guidelines on professional conduct are issued to guide members in the efficient discharge of their professional duties.

The following are the fundamental principles

i. A member should behave with integrity in all professional and business relationship.

ii. A member should strive for objectivity in all professional and business judgements.

iii. A member should not accept or perform work which he is not competent to undertake unless he obtains such advice and assistance that will enable him completely carry them out.

iv. A member should carry out his or her professional work with due skill, care, diligence and expectation with proper regard for technical and professional standards expected of him or her.

v. A member should conduct himself with courtesy and considerations towards all with whom he comes into contact during the course of performing his work.

vi. A member should respect the confidentiality of information acquired as a result of professional and business relationship and should not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose.

(b) The approved auditor shall be an auditor who has met the following conditions:

i. Must not be a body corporate.

ii. Must not be an officer or servant of the company.

iii. Must not be a partner of or employee of an officer or servant of a company.

iv. Must not be a firm or a person which or who provides taxation, secretarial and financial management, consultancy services, etc.

EXAMINER'S COMMENT

Fundamentals principles of professional code of conduct for accountants were tested.

95% of the candidates attempted the question, and 80% of such candidates scored pass mark and above. The question was well attempted by majority of the candidates. Those who did not score pass marks showed traits of inadequate coverage of the syllabus/preparation for the examinations.

AT/132/PIII.10

ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME WEST AFRICA
PART III EXAMINATION
COST ACCOUNTING

Time Allowed: 3 Hours

SECTION A: PART I ATTEMPT ALL QUESTIONS (30 Marks)

MULTIPLE CHOICE QUESTIONS

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

1. A cost driver is

   A. An item of production overhead
   B. A common cost which is shared over cost centres
   C. Any cost relating to transport
   D. An activity which generates costs
   E. An item of direct cost

2. A cost unit is

   A. The cost per hour of operating a machine.
   B. The cost per unit of electricity consumed.
   C. A unit of product or service in relation to which costs are ascertained.
   D. A measure of work output in a standard hour.
   E. The cost ascertained during production.

3. The following data relate to inventory item GB33

Ordering cost	₦400 per order
Stockholding cost	₦16 per unit per annum
Annual demand	10,000 units

   What is the Economic Order Quantity for GB33?

   A. 250 units
   B. 707 units
   C. 500 units

D. 1000 units

E. 354 units

Use the following information to answer questions 4 and 5.

A company manufactures a single product. The total cost of making 4000 units is ₦20,000 and total cost of making 20,000 units is ₦40,000. Within this range of activity, the total fixed cost remain unchanged.

4. What is the variable cost per unit of the product?

A. ₦1.20

B. ₦0.80

C. ₦1.25

D. ₦2.00

E. ₦1.80

5. What is the total fixed cost

A. ₦11,500

B. ₦15,000

C. ₦17,500

D. ₦15,500

E. ₦16,025

6. Topex Limited has the following stock record

Date		Number	Unit Cost
1/4/10	Opening Stock	1000 units	₦4.00
5/4/10	Receipt	600 units	₦4.50
10/4/10	Receipt	1800 units	₦4.25
15/4/10	Issue	2500 units	

Using Last-In-First-Out pricing method, what is the valuation of 2500 units issued to production?

A. ₦17,050

B. ₦10,750

C. ₦12,552

D. ₦16,500

E. ₦11,505

Use the following to answer questions 7 and 8

Break Even Point (Qty)	= 2000
Sales	= 3000 units @ ₦6/unit
Fixed Cost	= ₦2000

7. The Marginal Cost per Unit is

A. ₦6.25
B. ₦7.50
C. ₦5.00
D. ₦4.25
E. ₦4.75

8. The total profits is

A. ₦3,250
B. ₦2,000
C. ₦1,750
D. ₦1,000
E. ₦1,850

9. Zee Co. makes a single product and sells for ₦16 per unit. The Fixed Cost is ₦76,800 and the product has P/V Ratio of 40%. In a period when actual sales were ₦224,000. Zee Co. Margin of safety in unit is

A. 2150 units
B. 1875 units
C. 3050 units
D. 2250 units
E. 2000 units

10. The main objectives of material pricing are to

i. Provide a satisfactory basis of valuation of inventory on hand.
ii. Ensure price stability in the period of inflation.
iii. Minimise balance of holding and ordering costs
iv. Charge to production on a realistic basis, the costs of materials used.

A. (i), (ii) and (iii)
B. (i), (ii) and (iv)
C. (i) and (iv)
D. (iii) and (iv)
E. (ii), (iii) and (iv)

11. The unit of discarded substance having no value is

A. Spoilage
B. Scrap
C. Waste
D. Salvage
E. Defect

12. Which of the production operations would be most likely employed in a process costing system?

A. Home building
B. Ship making
C. Aircraft manufacturing
D. Furniture making
E. Chemical production

13. Zoni Limited manufactures three products, the selling price and cost details of which are given below:

	JET	LUX	OPERA
	₦	₦	₦
Selling Price	150	190	190
Cost Per Unit:			
Direct Materials (₦10/kg)	20	10	30
Direct Labour (₦8/hr	32	48	40
Variable Overhead	16	24	20
Fixed Overhead	24	36	30

In a period, when direct materials are restricted in supply, most and least profitable uses of direct materials are:

	Most Profitable	Least Profitable
A.	Lux	Opera
B.	Opera	Lux
C.	Jet	Lux
D.	Opera	Jet
E.	Lux	Jet

14. In the long run, all costs are?

A. Fixed
B. Semi - Variable
C. Marginal
D. Variable
E. Incremental

15. A Zero base budget

A. Is also known as flexible budget
B. Is the budget for not for-profit organisation
C. Is drawn up without regard to historical cost
D. Ensures that figures are expressed to nearest kobo
E. Applies a uniform incremental percentage on past performance

16. Standard Cost is

A. What cost should be
B. Costs based on actual production
C. What costs had been
D. Actual costs in the last accounting period
E. Expected costs in the next budget period

17. Latex Limited budgeted to sell 16000 units at a price of ₦12.50 per unit. Actual sales last month were 18,000 units giving a total sales revenue of ₦234,000. What was the sales price variance for last month?

A. ₦8,000 favourable
B. ₦8,000 adverse
C. ₦9,000 favourable

D. ₦10,500 favourable
E. ₦10,000 favourable

18. Total Material Cost is made up of purchase cost, ordering cost and

A. Security cost
B. Carrying cost
C. Stock-Out cost
D. Supervision cost
E. Carrying cost and Stock-out cost

19. The following information relates to a small production unit during a period.

Budgeted Hours	-	19000 hours
Actual hours worked	-	18400 hours
Standard hours of work produced	-	18600 hours

What is the efficiency ratio for the period?

A. 97%
B. 101%
C. 99%
D. 98%
E. 103%

20. The point of focus for the cost relating to a particular activity in an activity-based costing system is called

A. Activity
B. Production
C. Cost-driver
D. Cost-pool
E. Cost-apportionment

21. Notional charges in cost accounts such as interest on capital and charges in-lieu of rent are meant to

A. Be kept in a Bank Account for future use
B. Reduce distributive profit
C. Differentiate the cost accounts from financial accounts

D. Bring out a more realistic profit figure
E. Reward the capital providers and owner of building

22. What type of specific order costing is likely to be used in a bakery

A. Job costing
B. Batch costing
C. Process costing
D. Mass Production costing
E. None of the above

23. Sadam Limited forecasted the following:

Year	Cashflow (₦)	DF(15%)
0	(280,000)	1
1	149,000	0.870
2	128,000	0.756
3	84,000	0.658
4	70,000	0.572

What is the Net Present Value of this Project?

A. ₦52,720
B. ₦35,700
C. ₦41,710
D. ₦42,800
E. ₦28,200

24. Which of the following is **NOT** a functional budget

A. Cash budget
B. Sales budget
C. Selling cost budget
D. Production budget
E. Distribution Cost budget

25. An ideal standard is

A. Easily attainable
B. Meant for statistical proposes only
C. Not attainable
D. Attainable only under the most favourable condition
E. Attainable if all concerned can be dedicated

26. Which of the following is always a desirable quality of information

A. Understandability
B. Voluminous
C. Complete accuracy
D. Instant availability
E. Non-ambiguity

27. A supervisor's salary of ₦150,000 per month is an example of

A. Step cost
B. Mixed cost
C. Fixed cost
D. Variable cost
E. None of the above

28. Which of the following is **NOT** a feature of a good coding system:

A. Non-ambiguity
B. indexing
C. Brevity
D. Uniqueness
E. Distinctiveness

29. Which of the following is **NOT** the primary objective of Total Quality Management (TQM)?

A. Satisfying customer requirement
B. Meeting budgeting targets
C. Improving the profit of the company
D. Meeting management goals
E. Meeting shareholders' dividend goals

30. ABC and ABM stand for what?

A. Activity Based Costing and Activity Based Manager
B. Activity Budget Concept and Activity Based Manager
C. Activity Business Concept and Action Based Manager
D. Activity Based Costing and Activity Based Management
E. Advanced Business Concept and Action Based Manager

SECTION A: PART II **ATTEMPT ALL QUESTIONS** **(20 Marks)**

SHORT-ANSWER QUESTIONS

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

1. Losses that are not expected to occur under efficient operating conditions are referred to as.............................

   Use the following information to answer question 2 and 3

Total Fixed Cost per annum	₦20,000.00
Variable Cost per unit	₦6.00
Selling price per unit	₦10.00

2. Determine the Break-even quantity

3. Determine the Break-even value

4. A comprehensive and co-ordinated plan expressed in financial terms for a specific period in future is called...........................

5. The process of classifying a given variance into its sub-variance is termed ....

6. The standard which can be attained under most favourable conditions with no allowance for normal loss waste and machine break down is called..............

7. A factor that restricts the level of activity of a business is called ....

8. A common absorption rate used throughout a factory and for all jobs and units of output irrespective of the department in which they were produced is called ....

9. A technique that assesses the relative value of jobs that establish differential in terms of the amount paid to employees is called ....

10. A type of cost that contains both fixed and variable components and which is thus partly affected by a change in the level of activity is termed ………………….

11. A move towards zero inventory in production is known as ……………………….

12. The allotment of whole items of cost to cost centres or cost units is termed …………………….

13. The wages paid for the normal idle time period is treated as ……………………..

14. A technique for recording the times and rates of working for the elements of a specified job carried out under specified conditions is termed …………………….

15. A product that incidentally arises in the production of the main product(s) and which has a relatively small sales value compared with the main product is called …………………….

16. The accounting technique in which variable costs are charged to cost units and fixed costs of the period are written off against aggregate contribution is termed as …………………….

17. Cost that remains constant for a range of activity when activity increases still further, the cost has to be increased by a significant amount is called …………………….

18. The arrangement of cost items in logical groups, having regard to their nature, purpose, parameter or basis is called ……………………….

19. The formulation, evaluation and selection of strategies for the purpose of preparing a long term plan of action to attain objectives, also known as corporate planning and long range planning is called ……………………….

20. The automation technique that assists in the valuation of real property is …………………….

SECTION B **ATTEMPT ANY FOUR QUESTIONS** **(50 Marks)**

QUESTION 1

DELI Limited is a manufacturing company with no specific purchasing policy for its raw materials which is a monthly average of 1,250 units. As the Management Accountant, you have been informed by the Procurement Manager that average total purchasing price of the material for a month's consumption is ₦12,500 and that annual carrying cost per unit is 10% of the cost of material, while the ordering cost is ₦300 per order.

a. **You are to calculate:**

i. The Economic Order Quantity (2 Marks)

ii. The relevant cost of ordering and holding the materials for the year. (3 Marks)

b. Advise the company on the number of times to order using calculations for the following trial times: 2, 3, 4, 6, and 12; and determine the annual relevant costs of each purchasing option. (7½ Marks)

(Total 12½ Marks)

QUESTION 2

DOWN-TUNE PLC has two production departments X and Y. Each unit of its product LEK requires processing time of $^1/_3$ hour and ½ hour in departments X and Y respectively.

The company has the following information as it relates to the budgeted production for the month of September 2012. There were 25 working days specified in the budget. However, actual days worked were 24 due to one-day special holiday.

	X	Y
Actual Hours worked	9000	4000
Budgeted Standard Hours	7000	5000
Actual Production (Units)	26000	9000

a. You are required to compute the following rates for the month:

i.	The efficiency ratio	(2½ Marks)
ii.	The activity ratio	(2½ Marks)
iii.	The capacity ratio	(2½ Marks)
iv.	The calendar ratio	(1Mark)

b. Outline one importance each, for the ratios computed in (a) above.

(4 Marks)

(Total 12½ Marks)

QUESTION 3

AAO Nigeria Limited is considering a capital investment proposal, where two alternatives involving differing degrees of mechanization are being considered.

	Machine 1	Machine 2
	₦	₦
Cost	2,780,000	8,050,000
Scrap Value	280,000	1,500,000
Annual Cash inflows	1,000,000	2,500,000

Both investments would have a five year life. Depreciation is provided on a straight line basis. The cost of capital is 15%.

You are required to calculate for each option:

a. Net Present Value (6 Marks)
b. Payback Period (2½ Marks)
c. Accounting Rate of Return (4 Marks)

(Total 12½Marks)

QUESTION 4

JOGGY LIMITED produces three joint products namely TUNS, YEMS and XEM. The products pass through two chemical processes consecutively. Outputs from process one are transferred to process two, where the three products are produced and immediately sold.

The previous months operating data for the processes is given below:

Process	ONE	TWO
Direct Material (50,000 kg @ ₦4/kg)	200,000	-
Direct Labour	125,000	138,000
Overheads	90,000	138,000
Normal Loss	10% of input	Nil
Scrap value of normal loss	₦2 per kg	-
Output	46,000	

Joint product:

TUNS	-	18000kg
YEMS	-	16000kg
XEM	-	12000kg

There were no opening or closing stocks in both process and the selling prices of output from process **TWO** were:

Joint	TUNS	₦50/kg
	YEMS	₦36/kg
	XEM	₦24/kg

You are required to:

a. Prepare an account for Processes One and Two respectively to record all necessary activities for the month. (6 Marks)

b. Calculate the profit attributable to each of the joint products by apportioning the total costs from process **TWO** on weight of output basis. (6½ Marks)

(Total 12½ Marks)

QUESTION 5

VAN DAME PLC accounting year ends on 31st December. The company has instructed its Finance Manager to prepare for the first three months of the year beginning from January 2013.

The following data are given with an expected opening cash balance of ₦720,000

Budgeted Sales		₦
November	2012	1,920,000
December	2012	2,160,000
January	2013	1,800,000
February	2013	1,800,000
March	2013	1,920,000

Analysis of records shows that debtors settle according to the following pattern:

55% within the month of sales
25% following the month of sales, while the balance,
settled two months after sales

Extracts from the purchase budget are as follows:

		₦
December	2012	1,440.000
January	2013	1,320,000
February	2013	1,080,000
March	2013	1,320,000

All purchases are on credit and past experience shows that 85% are settled in the month of purchase and the balance settled the month after.

Wages of ₦360,000 and overheads of ₦480,000 (including ₦120,000 depreciation) are settled monthly.

Taxation of ₦192,000 has to be settled in February and the company will receive settlement of an insurance claim of ₦600,000 in March 2013.

You are required to prepare the Cash Budget for January, February and March 2013.
(12½ Marks)

QUESTION 6

MATILOV LIMITED operates separate financial and costing accounting systems. The Financial Accounts profit of ₦152,070, differs from the Cost Accounts profit of ₦123,970.

The company provides the following information as it relates to the Profits for the period ended 31/12/2012.

	₦	₦
Sales (150,000 units)		562,500
Less: Cost of Sales:		
Opening Stock	-	
Purchases	300,000	
	300,000	
Closing Stock	(25,500)	
	274,500	
Add: Direct Wages	84,700	
Cost of Sales		(359,200)
Gross Profit		203,300
Add: Other Incomes		
Discount received	5,000	
Investment Income	33,500	38,500
		241,800
Less: Expenses		
Production Expenses	19,440	
Selling Costs	33,300	
Administration Expenses	27,160	
Depreciation	9,830	(89,730)
Net Profit		152,070

You were, however, given the following additional information in respect of the accounts:

a. The Cost Accountant Valued Costing Stock at ₦55,680.
b. Depreciation was valued by Cost Accountant at ₦7,080.
c. Selling and Administration Costs were valued at 10% of sales value and ₦0.24 per unit of sales in the Cost Accounts.
d. Production expenses valued by Cost Accountant at ₦10,180.

You are required to prepare a profit reconciliation statement, to reconcile the profit as shown by the Cost account with the one shown by the financial account. (12½ Marks)

SUGGESTED SOLUTIONS

SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

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

19. B

20. C

21. D

22. B

23. C

24. A

25. D

26. A

27. C

28. B

29. E

30. D

EXAMINER'S COMMENT

The questions cover a wide area of the syllabus and was attempted by all the candidates. Performance was good as over 70% of the candidates scored more than half of the allocated marks.

It is obvious that candidates who did not perform well never prepared for the examination.

Candidates are advised to cover the whole syllabus when preparing for the examinations in future.

WORKINGS

Q3 $Q = \frac{\sqrt{2X10,000X400}}{16}$

Q= 707 UNITS

(ii)

Q4 Total cost Activity

	Total cost ₦	Activity level (units)
Low	20,000	4,000
High	40,000	20,000
Diff.	20,000	16,000

Variable cost per unit = $\frac{20,000}{16,000}$ = ₦1.25k

Q5 (iii)

Using High Level of Activity

Total cost = TVC + TFC

40,000 = 1.25 (20,000) + TFC

40,000 = 25,000 + TFC

TFC = 40,000 – 25,000

TFC = ₦15,000

(iv)

Q6 Valuation of 2500 units of stock using LIFO method

Date	Units		₦
10/4	1800	@ ₦4.25each	= 7650
5/4	600	@ ₦4.50each	= 2700
1/4	100	@ ₦4.00	= 400
	2500		10,750

Q7 and Q8

BEP(Qty) = $\frac{\text{Fixed Cost}}{\text{contribution per unit}}$

2000 = $\frac{₦2000}{x}$

2000 x = ₦2000

x = $\frac{₦2000}{₦2000}$ - ₦1.00

∴ Marginal cost per unit, =

Q7 and Q8

	₦
Sales price per unit	6.00
Marginal cost	5.00
Contribution per unit	1.00

Total profit is;

	₦
Sales (₦3000 x ₦6)	18,000
Marginal cost (3000xN5)	15,000
Total contribution	3,000
Fixed cost	(2,000)
Total profit	1,000

Q9

Actual sales in Quantity = $\frac{₦224.000}{₦16}$

= 14,000units

	₦
Sales price per unit	16.00
Variable cost p x unit	9.60
Contribution (pv/ratio of 40%)	6.40

BEP (Qty) = $\frac{\text{Fixed cost}}{\text{Contribution per unit}}$

= $\frac{76,800}{6.40}$

= 12000 units

MOS (Qty) = 14000 – 12000

= 2000 units

Q13 (vii)

	JET	LUX	OPERA
	₦	₦	₦
Selling price unit	150	190	190
Less:			
Cost per unit (variable)			
Direct material (10kg)	(20)	(10)	(30)
Direct Labour (N8/hr)	(32)	(48)	(40)
Variable overhead	(16)	(24)	(20)
Contribution/unit	82	108	100
Contribution/Limiting Factor			

82	108	100
2	1	3
41	108	$33^{1/3}$
2nd	1st	3rd

(viii)

Q17

Sales price variance
(SSP - ASP) AQS
(12.50 – 13) 18000
Spv = 9000 favorable

Q19 (ix)

$$\text{Efficiency ratio} = \frac{\text{standard hours}}{\text{Actual hours}} \times \frac{100}{1}$$

$$\frac{18600}{18400} \times \frac{100}{1}$$

$$= 101\%$$

Q23 (x)

Net present value of the project

Yr	Cash flow	Dfe165%	PV
	₦		₦
0	(280,000)	1	(280,000)
1	149,000	0.86	128,140
2	128000	0.74	94,720
3	84000	0.63	52,920
4	70000	0.54	37,800
5	54000	0.47	25,380
		+NPV	58,960

PART II SHORT ANSWER QUESTION

1. Abnormal Losses
2. ₦ 20,000 ÷ ₦ 4 = 5000 units
3. 5000 units x ₦10 = ₦50,000
4. A Budget
5. Variance Analysis
6. Ideal Standard
7. Limiting Factor/Principal Factor/Budget Factor/Constraints
8. Blanket Absorption Rate Factor
9. Job Evaluation
10. Mixed Cost/semi variable cost
11. Just – In – Time - Technique
12. Cost Allocation
13. Production Overhead/indirect cost
14. Time and Motion Study
15. By Product
16. Marginal Costing Technique
17. Step Costs
18. Cost Classification
19. Planning Programming Budgeting System (PPBS)/Strategic Planning
20. Automated Valuation Model/Method

EXAMINER'S COMMENT

Almost all sections of the syllabus were covered by the questions and all candidates attempted this part.

Performance was fair as about 50% of the candidates scored 50% and above of the marks obtainable

Lack of adequate preparation was the major pitfall on the part of candidates who did not perform well.

Candidates are advised to always cover the whole syllabus during preparations in future.

SECTION B

SOLUTION 1

(a) DELI LIMITED

(i) Calculation of Economic Order Quantity

$$Q = \frac{\sqrt{2Doc}}{Cc}$$

$$Q = \frac{\sqrt{2x1250x12x300}}{10\% \, x \frac{12500}{1250}}$$

$$Q = \frac{\sqrt{2 \text{ x } 15000 \text{ x } 300}}{1}$$

Q = 3,000units

(ii) Total relevant cost of the material for the year

Total ordering cost (TOC) = D/Q x Oc

$= \frac{15000}{3000}$ x ₦300 = ₦1500

Total Carrying Cost (TCC) = Q/2 x Cc

$= \frac{3000}{2}$ x ₦1 = ₦1500

= ₦3000

(b) Annual relevant costs of purchasing option

No of order:

D/Q	=	2	3	4	6	12
Q	=	7500	5000	3750	2500	1250

Average stock;

Q/2	3750	2500	1875	1250	625
Total Ordering Costs	₦	₦	₦	₦	₦
(D/Q x Oc)	600	900	1200	1800	3600
Total Carrying Costs;					
(Q/2 x Cc)	3750	2500	1875	1250	625
	4350	3400	3075	3050	4225

DECISION:

The best purchasing option to the company at the optimal level is to order 6times in a year with the total relevant costs of ₦3,050.

EXAMINER'S COMMENT

This question tests candidates' ability to determine the best quantity of stocks to order at minimum cost and the frequency.

This question was attempted by about 70% of all candidates but performance was below average. Most candidates did not state the formulas and those who stated them lacked the adequate knowledge to apply them.

Candidates are advised to prepare better in future

SOLUTION 2

(a) DOWN – TUNE PLC

(i) Computation of Efficiency Ratio

$$\text{Efficiency Ratio} = \frac{\text{standard Hours}}{\text{Actual Hours}} \times \frac{100}{1}$$

Department	X	Y
	$\frac{8667}{9000} \times \frac{100}{1}$	$\frac{4500}{4000} \times \frac{100}{1}$
	96.30%	112.50%

(ii) Activity Ratio

$$\frac{\text{standard Hours}}{\text{Budgeted Hours}} \times \frac{100}{1}$$

Departments	X	Y
	$\frac{8667}{7000} \times \frac{100}{1}$	$\frac{4500}{5000} \times \frac{100}{}$
	123.8%	90%

(iii) Capacity Ratio $\frac{\text{Actual Hours worked}}{\text{Budgeted Hours}} \times \frac{100}{1}$

Department	X	Y
	$\frac{9000}{7000} \times \frac{100}{1}$	$\frac{4000}{5000} \times \frac{100}{}$
	128.6%	80%

(iv) Calendar Ratio $\frac{\text{Actual working days in a period}}{\text{Budgeted working days in the related period}} \times \frac{100}{1}$

$\frac{24}{25} \times \frac{100}{1}$ 96%

(b) Importance of each ratio

I	Efficiency Ratio	a. Determines the efficiency level of the worker b. Determines the level of idle time c. Determines output in relation to resources put in d. Determines the extent to which resources are utilized
ii	Activity Ratio	a. Measures actual production in relation to the budgeted production b. Determines the extent to which fixed cost are absorbed into production
iii	Capacity Ratio	a. Measures total hour worked in relation to the available capacity in hour b. Measures the extent to which available capacity is put to use
iv	Calendar Ratio	a. Determines the effective days worked in relation to the available working days

EXAMINER'S COMMENT

This question tests candidates' knowledge of standard costing and was attempted by about 60% of the candidates

Performance was bad as less than 30% of those who attempted it scored more than half of the marks obtainable.

As in previous examinations, candidates failed to devote quality time to this topic during their preparations.

Candidates should realise that standard costing is an integral part of the syllabus and cannot be wished away.

SOLUTION 3

(i) Calculation of Net Present Value

Year	Items	Cash flow	DCF	PV
		₦		₦
0	Cost	(2780000)	1	(2,780,000)
1-5	Inflow	1000000	3.3522	3,352,200
5	Scrap value	280000	0.4972	139,216
				711,416

Machine 2

Year	Items	Cash flow	DCF	PV
		₦	@15%	₦
0	cost	(8,050,000)	1	(8,050,000)
1-5	inflow	2,500,000	3.3522	8,380,500
5	Scrap value	1,500,000	0.4972	745,800
				(1,076,300)

(ii) Calculation of Payback Period

$$\text{Payback period} = \frac{\text{Initial outlay}}{\text{Annual cash inflows}}$$

Machine 1	Machine 2
$\frac{2,780,000}{1,000,000}$	$\frac{8,050,000}{2,500,000}$
2yrs 9mths	3yrs 3mths

(iii) Accounting Rate of Return

$$\frac{\text{Average Annual Profit}}{\text{Average Investment}} \times \frac{100}{1}$$

	Machine 1	Machine 2
Annual Depreciation:	$\frac{2780000 - 280,000}{5}$	$\frac{8,050,000 - 1,500,000}{5}$
	₦500,000	₦1,310,000
Annual Profit: Profit – Depreciation		
	1,000,000 – 500,000	2,500,000 – 1,310,000
	₦500,000	₦1,190,000
Average Investment $\frac{\text{Cost + S/U}}{2}$	$\frac{2,780,000 + 280,000}{2}$	$\frac{8,050,000 + 1,500,000}{2}$
	= 1530,000	4775,000
Accounting Rate of Return =	$\frac{500,000}{1,530,000} \times \frac{100}{1}$	$\frac{1,190,000}{4,775,000} \times \frac{100}{1}$
ARR	= 33%	25%

EXAMINER'S COMMENT

The question tests candidates' knowledge of Investment Appraisal Techniques and was attempted by about 85% of the candidates

The requirement of the question was well understood by those who attempted it. However, they could not apply the principles correctly. Consequently, performance was not encouraging as only about 30% if the candidates scored half of the marks obtainable

Candidates are advised not to limit their preparation to knowledge of principles but to extend it to the correct application.

SOLUTION 4

(a) PROCESS ONE ACCOUNT

	Qty	Price	Amount		Qty	Price	Amount
		₦	₦			₦	₦
Direct Material	50,000	4	200,000	Normal loss	5000	2	10,000
Direct Labour			125,000	Process Two	46,000	9	414,000
Overheads			90,000				
Abnormal Gain	1,000	9	9,000				
	51,000		424,000		51,000		424,000

Cost per unit = $\frac{\text{Cost – Scrap Value}}{\text{Expected Output}}$

= $\frac{415000 - 10{,}000}{45000}$

Cost per unit = ₦ 9/unit

PROCESS TWO ACCOUNT

	Qty	Price	Amount		Qty	Price	Amount
		₦	₦		(kg)	₦	₦
Process One	46,000	9	414,000	Normal loss	-	-	-
Direct Labour			138,000	TUNS	18,000	15	270,000
Overheads			138,000	YEMS	16,000	15	240,000
				XEM	12,000	15	180,000
	46,000		690,000		46,000		690,000

Cost per unit = $\frac{690{,}000}{46{,}000}$

Cost per unit = ₦15

(b) Profit attributable to the Joint Products (using weight of output)

Joint Product	Output (kg)	of cost	₦
TUNS	18,000	18000 x 690,000 / 46000	270,000
YEMS	16000	16000 x 690,000 / 46000	240,000
XEM	12000	12000 X 690,000 / 46000	180,000
	46,000		690,000

Product	TUNS	YEMS	XEM
Units (kg)	18000	16000	12000
Selling price (kg)	₦50	₦36	₦24

				Total
	₦	₦	₦	₦
Sales	900,000	576,000	288,000	1764,000
Less: Joint costs	270,000	240,000	180,000	6 90,000
Gross profit	630,000	336,000	108,000	1074,000

EXAMINER'S COMMENT

The question tests candidates' knowledge of process costing and it was attempted by about 90% of them

Performance was average as only about 50% of those who attempted it scored 50% and above of the marks obtainable.

The major pitfall is on calculation of attributable profit. Most candidates limit their preparation to the main process accounts.

Candidates should realise that the main process accounts are just the foundation for determining the crucial result.

SOLUTION 5

VANE DAME PLC

CASH BUDGET FOR JAN, FEB & MARCH, 2010

	Jan	Feb	Mar
Receipts/inflows	₦'000	₦'000	₦'000
Sales (Wn I)	1914	1872	1866
Insurance claims	-	-	600
Total cash inflow(A)	1914	1872	2466

Payments/\outflows	₦'000	₦'000	₦'000
Purchase (wn II)	1338	1116	1284
Wages	360	360	360
Overheads(wn III)	360	360	360
Taxation	-	192	-
Total cash outflows (B)	2058	2028	2004

	₦'000	₦'000	₦'000
Bal bld	720	576	420
Net cash inflow (A-B)	(144)	(156)	462
Bal c/d	576	420	882

Workings:

(i) Schedules of Debtors & Receipt

	NOV	DEC	JAN	FEB	MAR	APR	MAY
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	
	1920	2160	1800	1800	1920		
55%	1056	1188	990	990	1056		
25%		480	540	450	450	480	
20%			384	432	360	360	384
			1914	1872	1866		

(ii) Schedule of Creditors & Payments

	DEC	JAN	FEB	MAR	APR
	₦'000	₦'000	₦'000	₦'000	₦'000
	1440	1320	1080	1320	
	₦	₦	₦	₦	₦
85%	1224	1122	918	1122	
15%		216	198	162	198
		1338	1116	1284	

(iii) Schedule of Overhead payments

	JAN	FEB	MAR
	₦	₦	₦
Overheads	480,000	480,000	480,000
Less Dep.	(120,000)	(120,000)	(120,000)
	360,000	360,000	360,000

EXAMINER'S COMMENT

The major pitfall on the part of those who performed poorly is on the correct application of the accrual concepts. Candidates are advised to seek to understand the crucial concepts in their future preparations.

SOLUTION 6

MATILON LIMITED

Reconciliation of Financial profit with cost Accounts profit as at 31/12/2010

			₦
Profit as per Financial Accounts:			152,070
	Add	Deduct	
Items in Financial Account	₦	₦	
Discount received		5000	
Investment income		33,500	
Items in both Accounts			
Financial and cost Accounts			
Closing stock (Wn)	30180		
Production Expenses (Wn)	9260		
Selling Costs (Wn)		22,950	
Administration Expenses (Wn)		8840	
Depreciation (Wn)	2750		
	42190	70290	(28100)
Profit as per cost Accounts			123,970

Working Notes (1)

Schedules:

Items	Cost Accounts	Financial Account	Difference
	₦	₦	₦
Closing stock	55,680	25500	30180+
Production Expenses	10,180	19440	9260+
Selling cost(10% x 562500)	56250	33300	22950-
Adm. Cost (0.24x150,000)	36,000	27160	8840-
Depreciation	7080	9830	2750+

EXAMINER'S COMMENT

The major pitfall is on the format of the presentation as many candidates veered away from the acceptable format.

Candidates are advised to study the standard format alongside their knowledge of the subject in future.

AT/132/PIII.11

ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME WEST AFRICA
PART III EXAMINATION – SEPTEMBER 2013
PREPARATION TAX COMPUTATION AND RETURNS

Time Allowed: 3 Hours

SECTION A: PART I ATTEMPT ALL QUESTIONS (30 Marks)

MULTIPLE CHOICE QUESTIONS

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

1. Which of the following statements is **FALSE**?

   A. There is no restriction on capital allowance claim for agricultural business
   B. There is no restriction on capital allowance claim for manufacturing business
   C. There is a restriction on capital allowance claim for all other businesses
   D. The rate of restriction for all other businesses is 66⅔ of assessable profit
   E. There is no restriction on capital allowance claim for all businesses

2. Every company shall pay provisional tax of an amount equal to the tax paid in the Immediate preceding year of assessment as may be approved by the Board not later than ……………………. from the commencement of each year of assessment.

   A. 2 months
   B. 4 months
   C. 6 months
   D. 3 months
   E. 5 months

3. A tax return for self- assessment comprises the following **EXCEPT**

   A. Duly completed self- assessment income tax form
   B. Original Tax Clearance Certificate
   C. Capital allowance computations
   D. Tax computations for the year of assessment
   E. Audited financial statements together with the relevant schedules showing assets, trade debtors, trade creditors etc.

4. A Tax Clearance certificate is a certificate issued by the tax authority and covers a period of

   A. 2 years
   B. 3 years
   C. 4 years
   D. 5 years
   E. 6 years

5. Identification of income for tax purposes embraces all sources of income which include the following **EXCEPT**

   A. Profession or vocation
   B. Interest
   C. Money laundering
   D. Dividends
   E. Employment

6. The following statements are **TRUE** of a Tax Clearance certificate **EXCEPT**

   A. It may be issued when no tax is due
   B. It may be used for the application for a certificate of occupancy
   C. It must provide information for the last three years
   D. It must be issued within three weeks of the demand
   E. It must show the tax paid

7. Which of the following taxes can be administered by a State Board of Internal Revenue?

   A. Customs duties on goods imported by an individual in the state
   B. Value added tax
   C. PAYE of an officer of the Nigerian Police force working in the state
   D. Stamp duties on a transaction between individuals
   E. Capital Gains Tax for a company operating in the state

8. Which of the following is **NOT** part of the powers and duties of an inspector of taxes?

   A. He receives and examines tax returns
   B. He determines the appeal of an aggrieved taxpayer
   C. He issues notices of assessment
   D. He deals with claim for repayment where tax has been overpaid
   E. He issues Best of Judgment (BOJ) assessment in the event that no return is received from taxpayer

9. The Technical Committee of the State Board of Internal Revenue is headed by

   A. The Executive Secretary of the Service
   B. The Chief Legal Officer of the Service
   C. The Executive Chairman of the Service
   D. The Director of Assessment in the Service
   E. The Director of Collections in the Service

10. Appeal against the decision of the Tax Appeal Tribunal is

    A. Not allowed
    B. Made to the supreme Court directly
    C. Made to the Federal High Court
    D. Made to the Court of Appeal
    E. Made to the joint sitting of the Federal Inland Revenue Service and Joint Tax Revenue Service

11. A trader has income of ₦500,000, total expenses of ₦350,000. Out of which, ₦50,000 is for the office expansion and ₦10,000 for office telephone expenses.

    What is the taxable profit?

    A. ₦210,000
    B. ₦400,000
    C. ₦160,000
    D. ₦150,000
    E. ₦200,000

12. For personal income tax, which of the following expenses is an allowable deduction?

    A. Construction of iron gate
    B. Telephone expenses of the owners
    C. Entertainment of the owner's friends
    D. Office rent
    E. Gift to family members

13. The minimum tax rate for an employee for 2012 Assessment Year is

    A. 10% of Gross income
    B. 0.5% of Gross income
    C. 1% of Gross income
    D. 2.5% of Gross income
    E. 12% of Gross Income

14. Which of these is an example of a Relevant Tax Authority?

    A. National Tax authority
    B. Joint Tax Board
    C. State Board of Internal Revenue
    D. Federal Board of Revenue
    E. Inland Revenue

15. An employee having a gross income of ₦1,000,000 will have a consolidated relief of

    A. ₦600,000
    B. ₦400,000
    C. ₦700,000
    D. ₦405,000
    E. ₦500,000

16. Which of the following statements is **TRUE** about commencement rule?

    A. The tax payer may exercise his power of election in the second and third tax years
    B. The tax payer may exercise his power of election in the penultimate tax year

C. The tax payer may revoke this power any time it wishes

D. The tax authorities may exercise the power of election in the ultimate tax year

E. The tax authorities may exercise the power of election in the penultimate tax year

17. For an existing business, which of the following basis period may **NOT** be valid in accordance with the relevant tax laws?

A. 1/6/2007 – 31/5/2008

B. 1/9/2008 - 31/8/2009

C. 1/5/2009 – 30/9/2010

D. 1/1/2010 – 31/12/2010

E. 1/1/2009 – 31/12/2009

18. Which of the following is the actual year basis period for 2010?

A. 1/3/2009 - 28/2/2010

B. 1/9/2009 - 31/8/2010

C. 1/7/2009 - 30/6/2010

D. 1/1/2010 - 31/12/2010

E. 1/1/2009 – 31/12/2009

19. Babaagba Nigeria Ltd acquired a capital expenditure during 2011 Year of Assessment for ₦3,450,000. The company is located in a rural area in Borno State where there is no tarred road, electricity and telephone facilities. Compute the Rural Investment Allowance.

A. ₦2,415,000

B. ₦172,500

C. ₦345,000

D. ₦517,500

E. ₦603,750

20. Uyi & Associates changed its accounting year-end date from 31 December to 31 March 2009. In which year of assessment will the initial allowance be claimed on a generator acquired on 10 October 2009?

A. 2010 Year of Assessment
B. 2009 Year of Assessment
C. 2008 Year of Assessment
D. 2011 Year of Assessment
E. 2012 Year of Assessment

21. Rollover relief is applicable for the following assets **EXCEPT**

A. Goodwill
B. Ships
C. Motor Vehicle
D. Aircraft
E. Fixed plant & Machinery

22. Which of the following does not give rise to royalty?

A. Copyright of books
B. Goodwill
C. Extraction of mineral resource
D. Copyright of music
E. Use of patent

23. Capital Gain Tax applies only when the asset is

A. Acquired
B. Re- invested
C. Locked up
D. Disposed of
E. Used

24. The cost of acquisition of an asset is ₦480,000 and the sales proceeds of the asset equals ₦950,000, what is the capital gain tax on the asset?

A. ₦470,000
B. ₦47,000

C. ₦94,000
D. ₦ 4,700
E. ₦ 9,400

25. Which of these items is exempted from withholding tax?

A. Medical Services
B. Directors fees
C. Contract of supply
D. Management services
E. Commission

26. The difference between the Output VAT and Input VAT represents the amount

A. Credited to VAT
B. Debited to inflation account
C. On Extra statutory account
D. Payable to taxpayer
E. Payable to Federal Inland Revenue Service

27. Value Added Tax Technical Committee shall include all these members **EXCEPT**

A. Chairman of FIRS/ Revenue Agency Governing Board
B. Representative of State Government
C. Director of FIRS
D. Accountant-General of the Federation
E. Director of Nigeria Customs Service

28. Which of the following is no longer exempted from Value Added Tax?

A. Export Services
B. Baby products
C. Newspapers and magazines
D. Basic food Items
E. Books and Educational materials

29. The value of imported goods is deemed to include the following **EXCEPT**

A. Import duties levied on the goods
B. The imported price of the goods
C. VAT paid on the goods by reason of importation
D. Insurance premium incurred after the goods had been cleared from the port
E. The clearing Agent fees included in the bill

30. The following is a way of claiming tax refund

A. Indirect Cash method
B. Direct debit method
C. Direct payment method
D. Credit method
E. Checking method

SECTION A: PART II **ATTEMPT ALL QUESTIONS** **(20 Marks)**

SHORT-ANSWER QUESTIONS

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

1. A situation when sales proceeds on disposal of a qualifying capital expenditure exceeds the tax written down value of the asset as at the time of disposal is ....

2. What is the implication of instrument that is not properly stamped?

3. An outright action whereby the tax payer seeks to minimize his tax liabilities through legal act is known as ....

4. Who administers Capital Gains Tax in the case of a limited liability company?

5. Pre- operation levy payable by a company which is yet to commence business after at least 6 months of incorporation is ₦.................... for the first year it obtains the tax clearance.

6. The total education tax collected in a year is disbursed in proportion between the tertiary Institutions in Nigeria. The proportion due to Universities is .... %.

7. In replying tax queries, for ease of proper identification, the Tax Consultant must state the taxpayer's name and ....

8. State Internal Revenue Service deals with which group of taxpayers?

9. A person disputing a tax assessment may apply to the relevant tax authority by notice of objection in ....

10. Under the Value Added Tax, any failure to notify the tax office of any change in address within one month of such change, attracts a penalty of ₦ ....

11. Income earned by a person who is employed by another person is taxed under the .... Tax system.

12. What is the difference between the tax written down value of an asset and the sales proceeds of such asset?

13. In terminal capital allowances, an agricultural business that ceases operation will carry backward any unutilized capital allowance to a maximum of ……… years?

14. Under Balancing Adjustments, there are two types of allowances namely Balancing allowance and ……………………

15. An asset whose disposal results in a chargeable gain is called ……………………

16. Under the Capital Gains Tax Act, which gains on assets disposed is exempt?

17. Which tax authority deals with gains on assets disposed by an individual resident outside the Federal Capital Territory?

18. Who is liable to the stamp duty on a conveyance on sale?

19. Which relevant Tax Authority administers Value Added Tax?

20. What form is used to file the monthly Value Added Tax returns?

SECTION B: ATTEMPT ANY FOUR QUESTIONS (50 Marks)

QUESTION 1

Self assessment scheme is an effortless means of raising revenue to the government without coercion.

Required:

a. State **TWO** merits and **TWO** limitations of self assessment scheme (4 Marks)

b. Explain briefly the following

(i) Additional assessment (4½ Marks)

(ii) Provisional assessment (2 Marks)

c. List **FOUR** contents of a Tax Clearance Certificate. (2 Marks)

(Total 12½ Marks)

QUESTION 2

Relevant Tax Authority is the Revenue Board that has the mandate to assess and collect tax.

Required:

a. State the relevant tax authority for the following

i. Individuals and sole proprietors (1½Marks)
ii. executor (1½ Marks)
iii. village or indigenous community (1½ Marks)
iv. partnership (1½ Marks)
v. companies and non-resident shareholders. (1½Marks)

b. List **FIVE** challenges of tax administration. (5 Marks)

(Total 12½ Marks)

QUESTION 3

a. In line with the Personal Income Tax Act Cap P8 LFN 2004, write briefly on the following:

i. Earned Income (2 Marks)
ii. Unearned Income (2 Marks)

b. Olu Hamza is an employee of a company in Lagos, Nigeria.

The following is the income that accrued to him in 2012 Tax year.

	₦
Salary	1,200,000
Housing Allowance	900,000
Transport Allowance	300,000
Leave Allowance	200,000
Meal Subsidy	120,000

Additional Information;

- He has one wife and 3 children aged 15, 13 and 10 years old.
- He pays ₦120,000 annual premium on his life assurance policy.
- He collects ₦540,000 per annum (net of withholding Tax) rent on his property.
- During the year, he collected a total of ₦200,000 dividend net of withholding tax.

Required:

i. Compute the chargeable income of Olu Hamza for 2012 year of assessment. (4 Marks)

ii. Compute the tax payable for 2012 Year of Assessment. (4½ Marks)

(Total 12½ Marks)

QUESTION 4

Moonde Ball PLC has submitted to the Revenue Authority the following Profit & Loss Account for its accounting year ended 31 December 2011.

	₦	₦
Gross Profit		1,350,000
Less: Salaries & Wages	211,000	
Directors fees	106,000	
Rent & Rates	56,000	
Debenture interest	40,000	
Loss on revaluation of Fixed Asset	56,000	
Repairs & maintenance	68,000	
Legal expenses	64,000	
Administrative expenses	148,000	
Company's income tax	120,000	
Bad debts	78,000	
Depreciation	48,600	
		995,600
Net Profit after tax		354,400

Notes:
The following information relates to the company accounts:

(i) Administrative expenses included:

Travelling expenses	42,000
Postage and stationery	18,000
Formation cost written off	58,000
Donation to PPP Party	30,000
	148,000

(ii) Repairs & Maintenance:

Improvement to office building	27,000

(iii) Legal expenses consist of:

Collection of trade debts	18,000
Fine for late payment of tax	12,000
New issue of shares	34,000

(iv) Capital Allowances as agreed with the tax authority is ₦63,500.00

Required:

a. Compute the Company's adjusted profit for income tax purposes. (6¼ Marks)

b. Compute the income tax Liability for the relevant assessment year. (6¼ Marks)

(Total 12½ Marks)

QUESTION 5

a. i. To every rule, there are exemptions. Identify the exceptions under the application of withholding tax in cases of contract of supply of goods and services. (3 Marks)

ii. The administration of withholding tax is the responsibility of the appropriate relevant Tax Authority.

b. State the Relevant Tax Authority responsible for the administration of the following:

i. Companies
ii. Firms
iii. Residents of the Federal Capital Territory
iv. Professionals
v. Individuals (5 Marks)

a. Desquare Ltd is a Nigerian company that has been in operation for many years. It makes up its financial statements to 30 June every year. The following is the financial extract adjusted for tax purposes for the years ended 30 June 2011 and 2012.

	Year ended 30 June	
	2011	2012
	₦	₦
Dividend received from Kaykay (Net)	450,000	450,000
Dividend paid to shareholders (Gross)	1,500,000	2,000,000

Required:

Compute the net withholding tax payable or receivable by Desquare (Nig) Ltd arising from dividend paid and received. (4½ Marks)

(Total 12½ Marks)

QUESTION 6

Oriyomi Nigeria Limited is a registered VAT agent with the Federal Inland Revenue Service (FIRS). The company prepared the following accounts in relation to its VAT transactions for the year ended 31 December 2011.

VALUE ADDED TAX ACCOUNT

	₦	₦
Vat charged on services		986,666
Vat charged on purchased items for resale		2,773,334
Vat charged on manufactured goods		2,524,444
		6,284,444
VAT PAID		
On raw materials	754,844	
On merchandise items	2,148,444	
On Fixed Assets purchased	343,110	
On legal and other services	48,000	
		(3,294,398)
		2,990,046
Remittance to FIRS		(2,618,666)
Balance at 31 December 2011		371,380

Required:

a. Compute the total amount of VAT due to FIRS. (8½ Marks)

b. Ascertain the balance of VAT to be remitted at the end of the year. (4 Marks)

(Total 12½ Marks)

NIGERIA TAX RATES

1. CAPITAL ALLOWANCES

		Initial %	Annual %
Office Equipment		50	25
Motor Vehicles		50	25
Office Buildings		15	10
Furniture & Fittings		25	20
Industrial Buildings		15	10
Non-Industrial Buildings		15	10
Plant and Machinery -	Agricultural Production	95	Nil
-	Others	50	25

2. INVESTMENT ALLOWANCE 10%

3. RATES OF PERSONAL INCOME TAX:

Graduated tax rates with consolidated allowance of ₦200,000 + 20% of Gross income subject to a minimum tax of 1% of Gross Income whichever is higher.

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

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

4. **COMPANIES INCOME TAX RATE** 30%

5. **TERTIARY EDUCATION TAX** 2% (of assessable profit)

6. **CAPITAL GAINS TAX** 10%

7. **VALUE ADDED TAX** 5%

SUGGESTED SOLUTIONS

SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

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

23. D

24. B

25. A

26. E

27. D

28. C

29. D

30. D

EXAMINER'S COMMENT

The Multiple Choice Questions were drawn from all aspects of the course content. The questions test candidates' understanding of the basic tax administration, tax policy and tax laws in Nigeria. All the candidates attempted the questions in this section. More than 90% performed above average.

PART II SHORT-ANSWER QUESTIONS

1. Balancing charge

2. It is not admissible as evidence in the Court of Law.

3. Tax avoidance

4. Federal Inland Revenue Service

5. ₦20,000

6. 50%

7. Tax Identification Number (TIN)

8. Individuals and registered business names

9. Writing

10. ₦5,000 plus interest at bank rate (21%)

11. Pay As You Earn

12. Balancing adjustment or Balancing charge or Balancing Allowance

13. 5 years

14. Balancing charge

15. Chargeable Asset

16. Any of the following is correct;

    (i) An ecclesiastical, charitable or educational institutions of public character

    (ii) Any statutory or registered friendly society

    (iii) Any cooperative society registered under the cooperative society's law of any state.

    (iv) Any trade union registered under the Trade Union Act.

17. State Board of internal Revenue

18. The conveyor or Transferor

19. Federal Board of Inland Revenue Service

20. VAT Form 002

EXAMINER'S COMMENT

All the Candidates attempted the questions in this section and 80% scored above 60%. The candidates are advised to continue to prepare well for subsequent examinations to ensure high standard of performance.

SECTION B

SOLUTION 1

a. The merits of the Self assessment scheme include:

(i) It enhances the pace of tax collection as there is no need to wait for the computation, processing and raising of assessment;

(ii) It is democratic in nature as the tax payer is allowed to participate in assessment;

(iii) It gives the tax payer a sense of belonging and responsibility thereby making him more responsible citizen;

(iv) It reduces the cost of collection by shifting the cost of collection to the individual taxpayer.

Limitations

(i) There might be lower compliance rate as a result of high illiteracy level in the country.

(ii) There could be high level of understatement of tax liability due to high degree of desire to evade tax in Nigeria.

(b) (i) Additional Assessment

Whenever the Board discovers that any tax payer liable to tax has been assessed at a less amount than what ought to have been charged, may within a year of assessment or within six years after the expiration thereof, assess such tax payer at an additional amount.

(ii) Provisional Assessment

In a situation where the Board is of the opinion that a company is liable to pay tax but such tax payer has not delivered a return, a provisional assessment will be raised.

In this case, the Board may determine the amount of the total profit of the tax payer and make assessment accordingly, but such assessment shall not affect any liability incurred by such a taxpayer by reason of its failure or neglect to deliver a return.

Any taxpayer that disputes the assessment may apply to the Board by writing a notice of objection to review and revise the assessment. Such application must be made within thirty days from the date of service of the notice of assessment which must contain the grounds of objection, the amount of assessable and total profit and the amount of tax payable.

(c) The following shall be disclosed in Tax Clearance Certificate (TCC).

- Total profits or chargeable income
- Tax payable
- Tax paid
- Tax outstanding or alternatively a statement to the effect that no tax is due.

EXAMINER'S COMMENT

This is a three-part question on tax administration, covering the aspects of self-assessment scheme, Additional Assessment, Provisional Assessment and Tax clearance certificate. About 70 percent of the candidates attempted the question and 70% of the candidates scored above 50%. The major pitfall was lack of proper understanding of the limitations of self assessment scheme. Candidates should study extensively to cover all aspects of the tax administration in Nigeria.

SOLUTION 2

(a) The relevant tax authorities for the Identified assessable entities are as follows:

(i) **Individuals and Sole Proprietors**

The relevant tax authority is the tax authority of the state in which the individual is deemed to be resident in that year.

(ii) **Executor**

The relevant tax authority is the tax authority of the state in which the deceased was last deemed to be resident or would have been deemed to be resident prior to the date of his death.

(iii) **Village or indigenous community**

The relevant tax authority is the tax authority in which the community is found.

(iv) **Partnership**

The relevant tax authority is the tax authority of the state in which the principal office or place of the business office or place of the business of the partnership is situated on the first day of that year.

(v) **Companies and non-resident shareholders**

The relevant tax authority for companies and non-resident shareholders is the Federal Board of nland Revenue Service.

(b) **Limitations of Tax Administration**

The following are constraints to effective tax administration in Nigeria:

(i) Poor public enlightenment
(ii) Inadequate funding of Tax Authorities
(iii) Dearth of qualified and/or experienced tax officials at the State and Local Government tiers of government
(iv) Tax evasion
(v) Improper use of tax Consultants
(vi) Lack of will power on the part of tax authority personnel
(vii) Loop holes in the law
(viii) Poor governance

EXAMINER'S COMMENT

This is a two-part theory question. Part 'a' tests candidates' understanding of the relevant tax authorities in relation to corporate bodies and individuals, whilst part 'b' is on the challenges of tax administration. More than 95% of the Candidates attempted part 'a' and the performance was satisfactory. However, 80% of the candidates attempted part 'b' but the performance was below average. The Candidates should learn more about the tax administration in Nigeria.

SOLUTION 3

(a)

(i) Earned Income

"Earned Income" in relations to an individual, means income derived by him from a trade, business, profession, vocation or employment carried on or exercised by him and a pension derived by him in respect of a previous employment. It includes, profits, salaries, wages, commission, bonuses etc

(ii) Unearned Income

These are incomes derived from sources other than employment, business or reward for services rendered. It includes investment incomes such as rental incomes, dividends, royalty earnings from trademark, patents, etc. Others are gifts, inheritance and bequeathals.

(b)

OLU HAMZA

COMPUTATION OF CHARGEABLE INCOME FOR 2012 YEAR OF ASSESSMENT

	₦	₦
Earned Income		
Salary		1,200,000
Housing Allowance		900,000
Transport Allowance		300,000
Leave Allowance		200,000
Meal subsidy		120,000
		2,720,000
Unearned Income		
Rent $\left(\frac{540,000}{0.9}\right)$	600,000	
Dividend $\left(\frac{200,000}{0.9}\right)$	222,222	822,222
Statutory Total Income		3,542,222
Less Reliefs:		
(i) Consolidated Relief Allowance		
200,000 + 20% of 3,542, 222	908,444.4	
(ii) Life assurance	120,000	1,080444.4
Chargeable Income		2,513,777.6

3b (ii) Tax payable for 2012 year of assessment

Tay Payable		₦
First 300,000 @ 7%		21,000
Next 300,000 @ 11%		33,000
Next 500,000 @ 15%		75,000
Next 500,000@ 19%		95,000
Next 913,777.6 @ 21%		191,893.30
Total Tax less withholding tax on		415,893.30
Rent	60,000	
Dividend	22,222	
		(82,222)
Tax Payable		333,671.30

EXAMINER'S COMMENT

The part 'a' of this question tests the candidates' knowledge of 'Earned Income' and 'Unearned Income'. It was attempted by about 98% of the entire Candidates. More than 60% of the candidates scored above 50%. Part 'b' is a computation question on the chargeable income and tax payable by an individual. About 98% also attempted the question and more than 50% scored pass mark. Candidates are advised to consistently study the new PITA 2011 Tax Law, and always use the tax table provided in the question.

SOLUTION 4

(a) Computation of Adjusted Profit for the year ended 31st December, 2010

MoondeBall PLc

	₦	₦
Net Profit after tax as per account		354,400
Add back disallowable:		
Loan on Revaluations of Fixed Asset	56,000	
Company's Income Tax	120,000	
Formation Cost Written Off	58,000	
Donation to PPP Party	30,000	
Improvement to Office Building	27,000	
Fine for late payment of Tax	12,000	
New issue of shares	34,000	
Depreciation	48,600	385,600
Adjusted Profit		740,000

(b) MoondeBall Plc
Computation of Tax Liabilities
For 2011 Tax Year

	₦
Adjusted Profit	740,000
Less:	
Capital Allowance	63,500
Taxable profit	676,500
Tax Liability @ 30%	202,950

EXAMINER'S COMMENT

The question tests Candidates' understanding of adjusted profit. About 90% of the candidates attempted the question and more than 60% scored pass mark.

SOLUTION 5

(a) Exemptions provided under withholding tax are:

(i) Where a contract for the sale of goods constitutes trading stock to both the vendor and the purchaser.

(ii) Where permission has been granted to an Institution by the Executive Chairman to receive payments without the deduction of the tax.

(iii) Where the Executive Chairman of Internal Revenue Service exempts a person who has a satisfactory tax record.

(b)	**Body**		**Relevant Tax Authority**
(i)	Companies	-	Federal Board of Inland Revenue Service
(ii)	Firms	-	State Internal Revenue Service
(iii)	Resident of Federal Capital Territory	–	Federal Board of Inland Revenue Service
(iv)	Professionals	-	State Internal Revenue Service
(v)	Individuals	-	State Internal Revenue Service

B. Net Amount of Withholding Tax

Year Ended	2011
	₦
Withholding Tax on Dividend Received:	
$\frac{450{,}000}{0.9} = 500{,}000$	
WHT @ 10%	50,000
Withholding Tax on Dividend Paid:	
WHT @ 10% (1,500,000 x 0.1)	150,000
Net withholding tax payable	100,000

Year Ended	2011
	₦
Withholding Tax on Dividend Received:	
$\frac{450,000}{0.9} = 500,000$	
WHT @ 10%	50,000
Withholding Tax on Dividend Paid:	
WHT @ 10% (2,000,000 x 0.1)	200,000
Net withholding tax payable	150,000

EXAMINER'S COMMENT

The question tests candidates' knowledge of the exemptions under application of withholding tax. About 45% of the Candidates attempted the question and more than 70% scored above 50% of the marks obtainable. The major pitfall was lack of adequate knowledge of exemption under application of withholding taxes for individuals and corporate bodies. Candidates should ensure adequate coverage of the syllabus for better performance.

SOLUTION 6

Oriyomi Nigeria Limited

(a) Computation of Total Amount of VAT due to FIRS

		₦
Output VAT on:		
Services		986,666
Purchased for resale		2,773,334
Manufactured goods		2,524,444
		6,284,444
Deduct Input Vat on:		
Raw materials	754,844	
Merchandise items	2,148,444	
		(2,903,288)
VAT due to FIRS for the year		3,381,156

(b) Computation of Outstanding VAT

	₦
Total VAT due for the year	3,381,156
Amount remitted	(2,618,666)
Balance of VAT to be remitted	762,490

EXAMINER'S COMMENT

The question tests students' knowledge on computation of Value Added Tax (VAT). About 40% of the Candidates attempted the question with not less than 80% scoring pass mark.

AT/132/PIII.12

ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME WEST AFRICA
PART III EXAMINATION - SEPTEMBER 2013
MANAGEMENT

Time Allowed: 3 Hours

SECTION A: PART I **ATTEMPT ALL QUESTIONS** **(30 Marks)**

MULTIPLE CHOICE QUESTIONS

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

1. The 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 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. All but **ONE** of the following are kinds 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. All but **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. The following are inputs in the production system **EXCEPT:**

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

16. Which 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. ALL but **ONE** of these are elements of organizational 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 **ALL** but one of the alternatives

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. All the following are forms of penalties for indiscipline in an organization **EXCEPT:**

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. Which 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. The objectives of planning include the following **EXCEPT:**

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 a/an .... 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

SECTION A: PART II: ATTEMPT ALL QUESTIONS (20 Marks)

SHORT-ANSWER QUESTIONS

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 influence 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 exercised 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 specific goal is ....

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

9. A 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 selected 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 ....

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: ATTEMPT ANY FOUR QUESTIONS (50 Marks)

ESSAY

QUESTION 1

a. Define human resource management (2½ Marks)

b. Explain **FIVE** functions of human resource management (10 Marks)
(Total 12½ Marks)

QUESTION 2

Principle is a basic general truth, that is, the foundation of something. Explain **FIVE** principles of effective planning. **(12½ Marks)**

QUESTION 3

a. With the aid of a simple diagram, illustrate the key elements of a communication process. 2½ Marks

b. List **FIVE** common barriers to effective communication in organizations?
5 Marks

c. State how each of the **FIVE** barriers listed above can be mitigated. 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

Describe **FIVE** measures that can be put in place to forestall business failure.
(12½ Marks)

QUESTION 6

Explain Henry Mintzberg's managerial role and give specific examples of each role activities. **(12½ Marks)**

SUGGESTED SOLUTIONS

SETION A

PART 1 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

All the candidates attempted the question. Over 70 percent of the candidates showed a good understanding of the questions. Over 70 percent of the candidates scored above 50 percent in this part.

SHORT-ANSWER QUESTIONS

1. Job Rating

2. Trade Union/Labour Union

3. Strike

4. Commission

5. Production

6. Feedback Control

7. Formal Organisation

8. Coordination

9. Shopping Product

10. Demand

11. Opportunities

12. Business Level Strategy

13. Scanning

14. Victor V room

15. GrapeVine

16. Performing

17. Effective Manager

18. Controlling

19. Charles Babbage

20. General Partnership

EXAMINER'S COMMENT

All the candidates attempted the question. About 50 percent of the candidates scored above 50 percent. This was due to the fact that the questions required a good understanding of the concept being tested and NOT a question.

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.

OR

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

FUNCTIONS OF HUMAN RESOURCE MANAGEMENT

(i) Human Resource Planning: This is the process of forecasting human needs of an organization so that steps are taken forwards 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 attitudes 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.

Industrial Relations: This has to do with coordinating relations between the organization and employees. (2marks each for any 5 factors mentioned and explained

EXAMINER'S COMMENT

About 75% of the candidates attempted the question over 60% of the candidates' scored over 50% in the question. This showed that the candidates had a good grasp of the question. However, some candidates were breaking the functions into different points which did not attract any extra mark.

SOLUTION 2

(i) Principle of contribution to objectives: Plan should contribute towards the accomplishment of firms' 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 utilize 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 in to the plans.

(viii) Principle of Participation: Involving subordinates in the planning process

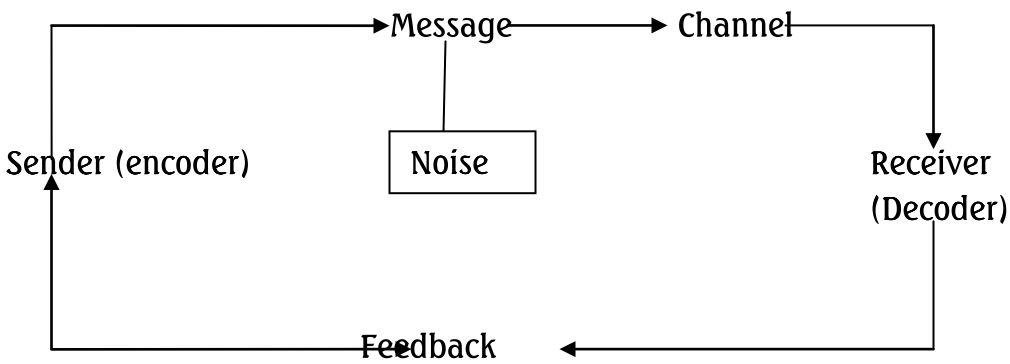
(ix) Principles of Open System Approach: Make your plan in a way that will make it external and internal environment compliant.

EXAMINER'S COMMENT

About 40 percent of the candidates attempted the question. 60 percent of them scored below 50 percent of the mark allocated. Majority of those who attempted the question were listing features and objectives of planning which was wrong.

SOLUTION 3

(a) Element of Communication Process



(b) Barriers to Effective Communication

i. Semantic
ii. Poor Listening Skills
iii. Conflicts
iv. Emotional Problems
v. Communication overload
vi. Poor Organisational Structure
vii. Lack of Planning
viii. Inappropriate Channels of Communication

(c) To Minimize the Effects of Barriers

i. Improve the general atmosphere for effective communication in 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. Overload of managers with volumes of irrelevant information must be avoided by regulating the quality of information flowing to them.
v. Break down physical barriers to communication by designing the office layout in such a way that it makes it possible for employees to interact.
vi. Reduce the use of highly technical jargons especially when communicating with subordinates.

EXAMINER'S COMMENT

95 percent of candidates attempted the question. About 85 percent of them scored above 50 percent. This is because most of the candidate had a good understanding of the core points required to do justice to the question.

SOLUTION 4

Purpose

The reason or purpose of the form should not only be considered, should also be its title.

Paper Size & Arrangement

International paper size range e.g. A4, quarto should be considered along with their suitability and ability to ease handling and filling.

Cost

Cost 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.

Form Appearance

The appearance of the form should be colourfu,l attractive and the wording bold and legible. Provision should be made on four sides of the form for dating, comments and filing purposes.

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

Quantity/Units

The number of copies required vis-a-vis the number of expected readers should be harmonized to curb waste likely to result from over production and inadequacy as a result of shortage.

Information Layout

The information should be laid out in the form that will attract readers. The sequence should flow from the less important to the most important.

Simple & Easy to Understand

The form should be in simple grammar that makes the information simple and easy to understand and digested. Technical words should be avoided.

Direct & Concise

The information on the form should be directed straight to beneficiaries. Statements should be brief and concise.

EXAMINER'S COMMENT

About 20 percent of the candidates attempted the question. About 10 percent of those who attempted the question scored above 50 percent. Most of the candidates were discussing factors to be considered in designing office layout instead of "Layout of control forms".

SOLUTION 5

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 requirement 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 strengths and weaknesses 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 a strong tie 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

Over 90 percent of the candidates attempted the question. About 55 percent of them scored above 50 percent. The major pitfall of the candidates was that they were listing and discussing factors responsible for business failure instead of measures to be put-in place to forestall business failure.

SOLUTION 6

Henry Minitzberg's Managerial Roles

I. **Interpersonal Roles:**
   i. **Figurehead:** The person who symbolizes an organization or a department. Where 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.

   ii. **Leader**: The manager encourages subordinates 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**: Managers link and coordinate the activities of people and groups both inside and outside the organization. Inside the organization, 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.

II **Inprmational Role:**

i. **Monitor**: Manager monitors and analyzes information from inside and outside the organization, so that he can effectively organize and control people and other resources

ii. **Disseminator:** The manager transmits information to other members of the organization to influence their work attitudes and behavior.

iii. **Spokesman**: The manager uses information to promote the organization so that people inside and outside the organization respond positively to it.

III **Decisional Role:**

i. **Entrepreneur:** The manager decides which project or programmes to initiate and how to invest resources to increase organizational performance.

ii. **Disturbance Handler**: The manager assumes responsibility for handling an unexpected event or crises that threaten the organisations access to resources.

iii. **Resource Allocator**: The manager decides how best to use people and other resources to increase organizational performance

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.

EXAMINER'S COMMENT

More than 96 percent of the candidates attempted the question and had a good understanding. About 70 percent of them scored above 50 percent. The pitfall of the candidates was their inability to explain each of the activity mentioned under each category of the roles identified.