



**THE INSTITUTE OF CHARTERED  
ACCOUNTANTS OF NIGERIA**

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# **PATHFINDER**

**MAY 2023 DIET  
FOUNDATION LEVEL EXAMINATIONS**

**Question Papers**

**Suggested Solutions**

**Examiners' Reports**

**and**

**Marking Guides**

## **FOREWARD**

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

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

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

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

### **NOTES**

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

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**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA****FOUNDATION LEVEL EXAMINATION – MAY 2023****FINANCIAL ACCOUNTING****EXAMINATION INSTRUCTIONS****PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER**

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

**TUESDAY, MAY 16, 2023**

# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

## FOUNDATION LEVEL EXAMINATION – MAY 2023

### FINANCIAL ACCOUNTING

Time Allowed: 3 $\frac{1}{4}$  hours (including 15 minutes reading time)

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

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

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

1. Which of the following is the sequence of the accounting processes?
  - A. Identifying, recording, summarising and communicating financial information
  - B. Identifying, summarising, recording and communicating financial information.
  - C. Communicating, identifying, summarising and recording financial information
  - D. Communicating, recording and identifying financial information
  - E. Summarising, identifying, recording and communicating financial information
  
2. Which of the following is a measurement basis for the elements of financial statement when a company is **NOT** a going concern?
  - A. Historical cost
  - B. Current cost
  - C. Realisable value
  - D. Present value
  - E. Value in use
  
3. Which of the following is **NOT** a component of financial statements under IFRS?
  - A. Statement of financial position
  - B. Statement of profit or loss and other comprehensive income
  - C. Statement of changes in equity
  - D. Statement of cashflow
  - E. Statement of affairs

4. Double entry rule is expressed as
- Debit the receiver, credit the giver
  - Debit the giver, credit the receiver
  - Debit the receiver, credit the bank/cash account
  - Debit the bank/cash account, credit the giver
  - Debit the amount paid, credit the amount received
5. A business proprietor failed to maintain proper records, but you managed to ascertain that his opening capital, closing capital and drawings during the year were ₦225,000, ₦260,000 and ₦10,000 respectively. Determine the profit for the period
- ₦25,000
  - ₦45,000
  - ₦55,000
  - ₦65,000
  - ₦75,000
6. Shade Olu Enterprise had ₦182,000 allowances for receivables at the beginning of the period. At the end of the year the receivables balance was ₦2,956,000 and an estimate of doubtful receivables allowance of 5% was made on this amount
- What adjustment should be made in the statement of profit or loss?
- Increase in profit by ₦34,200
  - A charge of ₦34,200 to profit or loss
  - A charge of ₦147,800 to profit or loss
  - Increase in profit by ₦182,000
  - A charge of ₦216,200 to profit or loss
7. The bank statement of a trader shows a debit balance before reconciliation with the cash book balance. Which of the following transactions will reduce the balance when necessary adjustments are completed?
- Dividends received directly by the bank on behalf of the trader
  - Outstanding deposits
  - Unpresented cheques
  - Error committed in the cash book of the trader
  - Dishonoured cheques

8. When is depreciation on property, plant and equipment required to start in accordance with IAS 16?
- At the date the asset was purchased
  - When payment to the vendor are completed
  - When the assets are put to use by the management
  - When the assets are available for use
  - After employees are trained on the use of the assets
9. Which of the following is **NOT** considered in the determination of the useful life of a non-current asset?
- Wear and tear due to erosion and rust
  - Change in technology
  - Time factor
  - Inflation
  - Usage
10. Shark and Co. purchased a piece of equipment for ₦960,000 on September 1, 2016. Depreciation was charged at 12.5% per annum on a straight-line with zero residual value. Depreciation is charged from acquisition date to disposal date.
- The equipment was sold for ₦315,000 on June 30, 2022.
- Calculate the profit or loss on disposal.
- ₦45,000 Gain
  - ₦45,000 Loss
  - ₦50,000 Gain
  - ₦55,000 Gain
  - ₦55,000 Loss
11. Saka, Bako and Sule are in partnership sharing profits or losses in ratio 3:2:1. During the year the partnership divisible profit was ₦17,730,000. Saka but not Bako guaranteed Sule a minimum share of profit of ₦3,800,000. Calculate the share of profit of Saka.
- ₦5,850,900
  - ₦6,965,000
  - ₦8,000,000
  - ₦8,020,000
  - ₦8,865,000

12. Which of the following adjustments is required to remove goodwill from the books of partnership business, when a new partner is admitted?
- Debit capital accounts of all partners in new profit sharing ratio, credit goodwill account
  - Debit capital accounts of old partners in old profit sharing ratio, credit goodwill account
  - Debit capital accounts of old partners in old profit sharing ratio, credit capital accounts of all partners in new profit sharing ratio.
  - Debit capital accounts of all partners in new profit sharing ratio, credit old partners' capital accounts in old profit sharing ratio.
  - Credit capital accounts of all partners in new profit sharing ratio, credit cash

13. In a partnership that maintains fixed capital accounts, which of the following transactions will increase partners' capital account balance?

- Profit on revaluation
- Partners' drawings
- Partners' share of goodwill
- Loan advanced to the business by a partner

- I and II
- I and III
- II and IV
- I and IV
- I, III and IV

14. The following information relates to Phoenix and Co

	₦
Opening inventory	125,000
Closing inventory	96,000
Sales	8,913,300

Mark-up is 10%.

Determine the cost of sales for the period

- ₦7,002,970
- ₦8,050,970
- ₦8,074,000
- ₦8,103,000
- ₦8,132,000



15. In the process of drawing up financial statements, adjustments are made for prepaid expenses and accrued expenses in order to comply with which of the following fundamental accounting concept?
- A. Matching
  - B. Prudence
  - C. Aggregation
  - D. Duality
  - E. Consistency
16. The accounting principle that requires financial statements information to be supported by evidence other than someone's opinion or imagination is known as
- A. Consistency
  - B. Prudence
  - C. Accrual
  - D. Aggregation
  - E. Objectivity
17. Which of the following must be recognised on the face of the statement of profit or loss, classified by function of expenses?
- I. Depreciation
  - II. Tax charge
  - III. Dividends
  - IV. Finance charges
- A. I and II
  - B. II and III
  - C. I and IV
  - D. II and IV
  - E. III and IV
18. Which of the following account is created to achieve a temporary agreement of the final balance or other self-balancing ledgers?
- A. Total payables account
  - B. Total receivables account
  - C. Suspense account
  - D. Adjustment account
  - E. Journal

19. A company's tax liability at the beginning of the year was ₦420,000, current tax for the year was ₦850,000, The tax charged for the previous year was Under estimated by ₦14,200. During the year a tax of ₦428,000 was paid by the company.  
How much tax should be charged to the statement of profit or loss for the year?
- A. ₦413,800
  - B. ₦422,200
  - C. ₦835,800
  - D. ₦856,200
  - E. ₦864,200
20. The difference between the assets and liabilities of a not-for-profit organisation is called
- A. Net asset
  - B. Net liability
  - C. Accumulated fund
  - D. Working capital
  - E. Net capital

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

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

**QUESTION 1**

It was discovered on December 31, 2016, Baruwa Limited had receivables balance of ₦15,000,000. It was discovered, before the preparation of that final accounts, that a customer owing ₦3,000,000 would not be able to settle such debts. It is the policy of Baruwa Limited to make allowances for doubtful receivables of 5% of all outstanding receivables at the end of each accounting period.

During the accounting year of 2017, the company made a total credit sales of ₦19,600,000 out of which an amount of ₦11,000,000 was collected from customers. A court declared a customer who owes the company an amount of ₦1,700,000 bankrupt in August 2017. The company recorded some cheques amounting to ₦3,500,000 that were dishonoured.

The company recorded ₦30,000,000 and ₦17,000,000 in connection with cash and credit sales respectively in the year 2018. The company received ₦25,000,000 from trade receivables and also showed ₦13,400,000 as the outstanding balance on the sales ledger account. A cheque was received from the customer whose debt was written-off in 2016 in full settlement of his debt.

**You are required to post and balance the following accounts:**

- |    |   |         |
|----|---|---------|
| a. | Trade receivables   | 8 Marks |
| b. | Bad debts   | 3 Marks |
| c. | Allowances for doubtful receivables   | 6 Marks |
| d. | Extract of the statement of financial position at the end of each financial period. | 3 Marks |

**(Total 20 Marks)**

**QUESTION 2**

Samu PLC is a listed company. The following financial statements of the company are available:

**Statement of profit or loss for the year ended December 31, 2018.**

	<b>₺'m</b>
Revenue	6,740
Cost of sales	<u>(4,840)</u>
Gross profit	1,900
Income from investment property	60
Distribution costs	(120)
Administrative expenses	(350)
Finance costs	<u>(50)</u>
Profit before tax	1,440
Income tax expense	<u>(160)</u>
Profit after expense for the year	<u><u>1,280</u></u>

**Statement of financial position as at December 31**

	<b>2018</b>	<b>2017</b>
	<b>₺'m</b>	<b>₺'m</b>
<b>Non-current assets (Note i):</b>		
Plant and equipment	2,880	1,860
Investment property	420	400
<b>Current assets:</b>		
Inventory	1,210	810
Trade receivables	480	590
Bank	<u>1,010</u>	<u>-</u>
<b>Total assets</b>	<b><u>6,000</u></b>	<b><u>3,660</u></b>
<b>Equity:</b>		
Equity share capital of ₺0.50	2,000	600
Share premium	750	50
Retained earnings	1,440	1,310
<b>Non-current liabilities:</b>		
8% Loan notes	250	430
<b>Current liabilities:</b>		
Trade payables	1,410	1,050
Bank overdraft	Nil	120
Income tax payable	<u>150</u>	<u>100</u>
	<b><u>6,000</u></b>	<b><u>3,660</u></b>

**The following additional information is available:**

- (i) An item of plant with a carrying amount of ₦240million was sold at a loss of ₦90million during the year. Depreciation of ₦280 million was charged on property, plant and equipment in the year ended December 31, 2018. There was no sales of investment property during the year.
- (ii) Part of the 8% loan notes were redeemed during the year.
- (iii) There was an issue of shares for cash on June 1, 2018.
- (iv) Dividend was paid on September 1, 2018.

**Required:**

Prepare a statement of cash flows for Samu PLC for the year ended December 31, 2018 in accordance with IAS 7 Statement of cash flows, using indirect method.

**(Total 20 Marks)**

**QUESTION 3**

- a. Identify and discuss the **FOUR** measurement bases for elements of financial statements, as contained in the International Accounting Standard Board's (IASB's) Conceptual Framework for Financial Reporting. (12 Marks)
- b. IAS 8, deals with the measurement, recognition and disclosure of accounting policies, changes in accounting estimates and correction of prior period errors

**Required:**

- i. Define an accounting policy and change in accounting estimates, with **TWO** examples each. (6 Marks)
- ii. Outline the accounting treatments required to record a change in accounting estimates. (2 Marks)

**(Total 20 Marks)**

**QUESTION 4**

Lag and Kase were in partnership.

Their first year of operation ended on December 31, 2018. On January 01, 2018, Lag made a cash contribution of ₦96,000,000 and a motor car valued at ₦28,000,000. The car cost ₦45,000,000 few years ago when it was purchased.

Kase contributed ₦84,000,000 cash.

**The partnership constitution spelt out the following:**

- (1) Profit or loss sharing ratio shall be Lag 3, Kase 2
- (2) Interest on capital shall be 8% per annum
- (3) Interest on drawings shall be 6% per annum

- (4) A salary of ₦16,000,000 per annum shall be paid to Kase who is an active partner.

During the year ended December 31, 2018, the business made a net profit of ₦58,000,000 before any appropriation and interest on 10% ₦40,000,000 loan advanced by Lag to the business.

Drawings during the year were Lag ₦15,000,000 and Kase ₦18,000,000.

**You are required to prepare the following accounts in the book of the partnership.**

- a. Profit or loss appropriation accounts for the year ended December 31, 2018.
- b. The partners' current accounts and capital accounts for the year ended December 31, 2018.
- c. The statement of financial position (extract) as at December 31, 2018.

**(Total 20 Marks)**

### **QUESTION 5**

- a. Write up a two-column cash book from the following details and balance off as at the end of the month.

January 1 Started business with capital ₦1,000,000 cash  
January 2 Paid rent of ₦100,000 cash  
January 3 I.K. Opara lent ₦5,000,000 by cheque  
January 4 Ebenezer was paid by cheque ₦650,000  
January 5 Cash sales ₦980,000  
January 7 Ileri paid us cheque, ₦620,000  
Cash sales, ₦530,000  
Received cash of ₦650,000 from Robert  
January 9 Paid George ₦220,000 cash  
January 16 Took ₦500 out of the cash till and paid into the bank account.  
January 19 I.K. Opara was repaid ₦1,000,000 by cheque  
January 22 Cash sales paid directly to the bank ₦600,000  
January 26 Motor expenses of ₦120,000 was paid by cheque  
January 30 ₦1,000,000 cash was withdrawn from bank for business use  
January 31 Paid wages of ₦970,000 by cash (10 Marks)

- b. i. Explain the uses of the Journal (4 Marks)
- ii. The following transactions took place in the books of Olson Limited in June, 2019:
- A machine is bought on credit from Sylva Enterprises for ₦186,000 on June 1.

- A motor vehicle is sold to Adefela on credit for ₦360,000 on June 8.
- Wonu a customer owed ₦160,000. She offers a motor in full settlement of the debt on June 16 and the offer was accepted.
- Akinola is a creditor. On June 25, his business was taken over by Akinlade Ventures, to which the debt of ₦45,000 is now to be paid.

**Required:**

Prepare the journal entries to record the transactions, including narrations.  
(6 Marks)

**(Total 20 Marks)**

**QUESTION 6**

- In the context of IAS 16, identify the elements of cost of an item of "Property, Plant and Equipment," giving **FOUR** examples of directly attributable costs.  
(8 Marks)
- The carrying amount of ten cars used by Bayo Limited on January 1, 2017 was ₦12,000,000 and the accumulated depreciation was ₦3,200,000. On January 2, 2017 the entity bought a new car costing ₦2,000,000. The dealer accepted a car owned by the entity in part exchange at a value of ₦160,000. The car originally cost ₦1,200,000 and its accumulated depreciation was ₦1,080,000.

**Required:**

- Calculate the gain or loss on disposal of the old car. (4 Marks)
- Show how the purchase of the new car and the disposal of the old car will be recorded in the ledger accounts of Bayo Limited. (8 Marks)

**(Total 20 Marks)**

## **SECTION A**

### **MCQ - SOLUTIONS**

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

### **Tutorials to the MCQ**

5. Net profit = closing capital + drawing – capital introduced – opening capital  
 $\text{N}^{\circ}000 (260,000 + 10,000 - 225,000) = \text{N}45,000$

6. Calculation of allowance for receivables

	<b>₦</b>
Balance b/d	182,000
Decrease in allowances credited to profit or loss	<u>147,000</u>
Allowances c/f 5% x <del>₦</del> 2,956,000	<u>(34,200)</u>

The amount is credited to profit or loss and this will increase profit for the year.

10. Calculation of profit or loss on disposal of PPE January 01, 2016:

	<b>₦</b>	<b>₦</b>
Proceed from sales of plant		315,000
Cost of PPE	960,000	
Accumulated depreciation 70/96 x 960,000 x 5%	<u>700,000</u>	
Carrying amount		<u>(260,000)</u>
Gain on disposal		<u><u>55,000</u></u>

11. Share of profit of Saka

	Saka	Sule
	<b>₦'000</b>	<b>₦'000</b>
Share of profit 1/6 x 17.7m-Sule		2,955
Share of profit 3/6 x 17.7m-Saka	8,865	
Minimum guarantee (3,800- 2,955)	<u>(845)</u>	<u>845</u>
	<u>8,020</u>	<u>3,800</u>

14. Cost of sales

	<b>₦</b>
Sales	8,913,300
Mark-up 10/110 x <del>₦</del> 8,913,000	<u>891,330</u>
Cost of sales	<u>8,103,000</u>

19. Calculation of income tax charged to profit or loss.

	<b>₦</b>
Current tax	850,000
Under-provision for previous year	<u>14,200</u>
Income tax expense	<u>864,200</u>



## SECTION B

### SOLUTION 1

(a)

<b>Baruwa LTD</b>					
<b>Trade receivables account</b>					
<b>₦'000</b>			<b>₦'000</b>		
2016	Balance b/f	15,000	2016	Bad debt	3,000
			2016	Balance c/f	12,000
		<u>15,000</u>			<u>15,000</u>
2017	Balance b/f	12,000	2017	Bank	11,000
2017	Credit sales	19,600	2017	Bad debt	1,700
2017	Dishonoured cheques	<u>3,500</u>	2017	Balance c/f	<u>22,400</u>
		<u>35,100</u>			<u>35,100</u>
2018	Balance b/f	22,400	2018	Bank	25,000
2018	Credit sales	17,000	2018	Bad debt	1,000
	Bad debt recovered	3,000	2018	Bank (debt recovered)	3,000
			2018	Balance c/f	<u>13,400</u>
		<u>42,400</u>			<u>42,400</u>
2019	Balance b/f	13,400			

(b)

<b>Bad debts account</b>					
<b>₦'000</b>			<b>₦'000</b>		
2016	Trade receivables	<u>3,000</u>	2016	Profit or loss	<u>3,000</u>
2017	Trade receivables	<u>1,700</u>	2017	Profit or loss	<u>1,700</u>
2018	Trade receivables	<u>1,000</u>	2018	Profit or loss	<u>1,000</u>

(c)

<b>Allowances for doubtful receivables account</b>					
<b>₦'000</b>			<b>₦'000</b>		
2016	Balance c/f	<u>600</u>	2016	Profit and loss a/c	<u>600</u>
2017	Balance c/f	1,120	2017	Balance b/f	600
			2017	Profit or loss	<u>520</u>
		<u>1,120</u>			<u>1,120</u>
2018	Profit or loss	450	2018	Balance b/f	1,120
	Balance c/d	<u>670</u>			
		<u>1,120</u>			<u>1,120</u>

**(d) Statement of financial position (Extracts) as at December 31**

	2016	2017	2018
	₦'000	₦'000	₦'000
<b>Current assets:</b>			
Receivables (w1)	<u>11,400</u>	<u>21,280</u>	<u>12,730</u>

**Workings**

**1. Calculation of trade receivables**

Trade receivables	12,000	22,000	13,400
Allowances for doubtful receivables	<u>(600)</u>	<u>(1,120)</u>	<u>(670)</u>
	<u>11,400</u>	<u>21,280</u>	<u>12,730</u>

**W2 Allowance for doubtful receivables**

		₦'000
2016	₦12,000,000 x 5%	<u>600</u>
2017	₦22,400,000 x 5%	<u>1,120</u>
2018	₦13,400,000 x 5%	<u>670</u>

**Examiner's report**

The questions test all aspects of the syllabus and have balanced questions in the areas of principles, concepts, theories and their applications.

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

Candidates' poor performance was due to their poor understanding of the principles, concepts and their applications.

Candidates are advised to cover sections of the syllabus and make use of the Study Text and Pathfinder for better performance in future examinations of the Institute.

**SECTION B**

**SOLUTION 1**

The questions test all aspects of the syllabus and have balanced questions in the areas of principles, concepts, theories and their applications.

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

Candidates' poor performance was due to their poor understanding of the principles, concepts and their applications.

Candidates are advised to cover sections of the syllabus and make use of the Study Text and Pathfinder for better performance in future examinations of the Institute.

### Marking guide

	<b>Marks</b>	<b>Marks</b>
(a) <b>Trade receivables account</b>		
- Opening balances correctly b/f	2	
- Correct entries for credit sales	1	
- Correct entries for bad debts	1	
- Correct entries for bad debts recovered	1	
- Correct entries for cash received from customers	1	
- Correct balances c/d	1½	
- Correct entry for dishonoured cheques	<u>½</u>	<b>8</b>
(b) <b>Bad debts account</b>		
- Correct transfer from trade receivables account	1½	
- Correct transfer to statement of profit or loss account	<u>1½</u>	<b>3</b>
(c) <b>Allowances for doubtful receivables account</b>		
- Calculation of doubtful receivables	2	
- Correct entries for charges to profit or loss	1½	
- Correct entries for balance carried forward	1 ½	
- Correct entries for balance brought forward	<u>1</u>	<b>6</b>
(d) <b>Statement of financial position extract</b>		
- Calculation of receivables	1½	
- Recognising receivables as current asset	<u>1½</u>	<u>3</u>
<b>Total</b>		<b><u>20</u></b>

## SOLUTION 2

### Samu PLC

#### Statement of cash flows for the year ended December 31, 2018

	N'm	N'm
<b>Operating activities:</b>		
Profit before tax	1,440	
<b>Adjust for items not involving cash movement:</b>		
Depreciation	280	
Loss on plants	90	
Income receivable from investment property	(60)	
• Finance cost	<u>50</u>	
	1,780	
<b>Change in working capital:</b>		
Increase in inventory	(400)	
Decrease in trade receivables	100	
Increase in trade payables	360	
Gross cash flows from operating activities	1,850	
Income tax paid (w2)	<u>(110)</u>	
Net cash flows from operating activities		1,760
<b>Investing activities:</b>		
Purchase of investment property (w1)	(20)	
Disposal of plants	150	
Income received from investment property	60	
Purchase of PPE	<u>(1,540)</u>	
Net cash used in investing activities		(1350)
<b>Financing activities:</b>		
Cash received from issues of shares (w4)	2,100	
Finance costs paid	(50)	
Part payment of loan notes	(180)	
Dividends paid (w3)	<u>(1,150)</u>	
Net cash flows financing activities		<u>720</u>
Cash and cash equivalents at the beginning		1,130
Bank overdraft		<u>(120)</u>
<b>Cash and cash equivalents at the end</b>		<b><u>1,010</u></b>

- Note: If candidates treat finance cost under operating activities, it is acceptable.

## Workings:

### 1. Property, plant and equipment – (PPE)

	<b>₺'m</b>
Balance b/d	1,860
Disposal	(240)
Depreciation charged	(280)
<b>Addition during the year</b>	<b><u>1,540</u></b>
Balance c/d	<b><u>2,880</u></b>

### 2. Taxation

	<b>₺'m</b>
Balance b/d	100
Charge for the year	<u>160</u>
	260
Bal c/d	<u>150</u>
Tax paid	<u>110</u>

### 3. Retained earnings – Dividend paid

	<b>₺'m</b>
Balance b/d	1,310
Profit for the year	1,280
	<u>2,590</u>
Balance c/d	<u>1,440</u>
Dividends paid	<u>(1,150)</u>

### 4. Issue of shares

	<b>₺'m</b>	<b>₺'m</b>
Ordinary shares b/d	600	
Share premium b/d	<u>50</u>	
		650
Ordinary shares c/d	2000	
Share premium c/d	<u>750</u>	
		<u>2,750</u>
Cash received (2,750 – 650)		<u>2,100</u>

## Examiner's report

The question tests candidates' ability to prepare the statement of cash flows, using the indirect method in accordance with IAS7.

Only about 60% of the candidates attempted this question and their performance was below average.

The major problems encountered by the candidates include:

- i. Their inability to determine under which of the classification heads to recognise each item of cash generated or expended during the period, in accordance with IAS 7-Statement of Cash Flows; and
- ii. Their inability to calculate the tax paid, property purchased for cash and dividends paid during the period.

Candidates are advised to study the two methods specified under IAS 7 for preparation of statement of cash flows. They should also pay attention to classifications of cash flows under operating activities, investing activities and financing activities, to arrive at the cash flows generated during the period and how this figure is reconciled with cash and cash equivalents brought forward and carried forward.

## Marking guide

	Marks	Marks
<b>Statement of cash flows</b>		
- Title		½
<b>Cash flows from operating activities:</b>		
- Profit before tax	½	
- Adjusting for item not involving cash movement	2½	
- Movement in working capital items	3	
- Determination of gross cash flows from operating activities	½	
- Income tax paid	½	
- Determination of net cash flows from operating activities	<u>1½</u>	8 ½
<b>Cash flows from investing activities:</b>		
- Purchases of investment property	½	
- Income received from investment property	½	
- Purchases of PPE	1½	
- Disposal of plant	1	
- Net cash flows used in investing activities	<u>½</u>	04
<b>Cash flows from financing activities:</b>		
- Finance cost paid	½	
- Cash received from issue of shares	2	
- Redemption of loan notes	1	
- Dividend paid	1½	
- Net cash flows from financing activities	<u>½</u>	5½
i. <b>Cash and cash equivalents:</b>		

- For the year	1/2	
- Brought forward	1/2	
- Carried forward	<u>1/2</u>	<u>1 1/2</u>
<b>Total</b>		<b><u>20</u></b>

### SOLUTION 3

a. Measurement bases for elements of financial statements as contained in the IASB's conceptual framework.

i. **Historical cost**

- This provides information derived from the price of the Transaction or other events that give rise to the item being measured.
- Historical cost of assets is reduced when they become impaired and the historical cost of liabilities is increased when they become onerous.

ii. **Current cost**

Current cost reflects the current amount that would be paid to acquire an asset and received to take on an equivalent liability at the measurement date.

iii. **Net realisable value (NRV) or settlement value**

NRV reflects the net consideration from sales proceeds of any asset after deducting incidental expenses.

iv. **Present value or discounted value**

Present value reflects entity-specific expectations about the amounts, timing and uncertainty of future cash flows. It is measured as the discounted value of the future stream of cash flows to present value at the measurement date, using the implicit rate of interest obtainable at that date.

b. **IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors**

i. **Accounting policies** are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Examples of accounting policies are:

- Valuation of inventory
- Valuation of investments
- Valuation of non-current assets
- Depreciation methods
- Costs of research and development
- Translation of foreign currency

**Changes in accounting estimates** is an adjustment of the carrying amount of an asset or a liability, or related expense, resulting from reassessing the expected future benefits and obligations associated with that asset or liability.

**Examples of changes in accounting estimates are:**

- Allowance for doubtful receivables accounts
  - Reserve for obsolete inventory
  - Changes in the useful life of depreciable assets
  - Changes in the salvage values of depreciable assets
  - Changes in the amount of expected warranty obligations
- ii. The effect of changes in accounting estimates is recognised prospectively by including it in profit or loss in:  
The period of the changes, if the changes affect that period only;  
or  
The period of the changes and future periods, if the changes affect both

### **Examiner's report**

The part (a) of the question tests candidates' understanding of the measurement bases for elements of financial statements while part (b) tests candidates' understanding of the measurement, recognition and disclosure requirements of accounting policies and changes in accounting estimates.

About 70% of the candidates attempted part (a) of the question and performance was below average, while 50% of the candidates attempted part (b) of the question and their performance was also below average.

The following pitfalls were responsible for candidates' poor performance in part (a)

- i. Most candidates discussed elements of financial statements or the accounting bases that determine the time transactions should be recorded in the accounts.
- ii. Those who could identify the correct bases for the measurement of the elements of financial statements could hardly explain them.

In part (b), almost all the candidates who attempted the question could neither explain nor give examples and accounting treatments of accounting policies and changes in accounting estimates. This underscores the fact that they did not study this part of the syllabus.

Candidates are advised to cover all aspects of the syllabus. They should also painstakingly study and understand the differences between terminologies used in financial accounting, however seemingly similar they may appear. Candidates are also advised to study their Study Texts and make use of the Pathfinders to be able to get acquainted with the definition, measurement and recognition of these terminologies.



## Marking guide

	Marks	Marks
(a) <b>Measurement bases of element of financial statements</b>		
- Identification of 4 bases of measurement	4	
- Discussion of the 4 bases of measurement	<u>8</u>	12
(b) i <b>Accounting policies and changes in accounting estimates</b>		
- Definition of accounting policies	2	
- Two examples of accounting policies	1	
- Definition of changes in accounting estimates	2	
- Two examples of changes in account estimates	<u>1</u>	<u>6</u>
ii. Treatment of changes in accounting estimates		<u>2</u>
<b>Total</b>		<b><u>20</u></b>

## SOLUTION 4

a. **Lag and Kase**  
**Profit or loss appropriation accounts for the year ended December 31, 2018**

	N'000	N'000
Net profit for the year		58,000
Loan interest Lag (w1) 10% x ₦40m		<u>(4000)</u>
Adjusted net profit for the year		54,000
Interest on drawings:		
-Lag 6% x ₦15m	900	
-Kase 6% x ₦18m	<u>1,080</u>	<u>1,980</u>
		55,980
Interest on capital		
-Lag 8% x ₦124m	9,920	
-Kase 8% x ₦84m	6,720	
Partner's salary-Kase	16,000	<u>(32,640)</u>
Profit available for distribution		23,340
Share of profit:		
-Lag 3/5 x ₦23.34m	14,004	
-Kase 2/5 x ₦23.34m	<u>9,336</u>	<u>23,340</u>

b.

**Lag and Kase**

**Partners' current accounts for the year ended December 31, 2018**

	Lag ₱'000	Kase ₱'000		Lag ₱'000	Kase ₱'000
Interest on drawings	900	1,080	Interest on capital	9,920	6,720
Drawings	15,000	18,000	Partner's salary		16,000
Balance c/d	8,024	12,976	Share of profit	<u>14,004</u>	<u>9,336</u>
	<u>23,924</u>	<u>32,056</u>		<u>23,924</u>	<u>32,056</u>

c. **Partners' capital accounts for the year ended December 31, 2018**

	Lag ₱'000	Kase ₱'000		Lag ₱'000	Kase ₱'000
Balance c/d	<u>124,000</u>	<u>84,000</u>	Cash	96,000	84,000
	<u>124,000</u>	<u>84,000</u>	Motor vehicle	<u>28,000</u>	<u>          </u>
				<u>124,000</u>	<u>84,000</u>

d.

**Lag and Kase**

**Statement of financial position (extract) as at December 31, 2018**

	₱'000	₱'000
<b>Equity and liabilities:</b>		
<b>Partners' capital accounts</b>		
Lag	124,000	
Kase	<u>84,000</u>	208,000
Partners' current accounts:		
Lag	8,024	
Kase	<u>12,976</u>	<u>21,000</u>
<b>Total equity</b>		<b><u>229,000</u></b>
<b>Non-current liabilities</b>		
Loan notes		<u>40,000</u>

**Examiner's report**

The question tests candidates' ability to prepare the final accounts of a partnership that has just commenced business.

Most candidates attempted this question their performance was average.

The following weaknesses were noted:

- i. Wrong treatment of interest on loan as appropriation item instead of a charge to the profit or loss.

- ii. Deducting interest on drawings from and adding interest on capital to profit or loss to arrive at profit available for distribution to the partners.
- iii. Treating loan from a partner as part of the partner's equity instead of treating it as non-current liabilities.

Candidates are advised to always pay attention to details while answering illustrative questions before checking the answers.

### Marking guide

	<b>Marks</b>	<b>Marks</b>
<b>(a) Profit or loss appropriation account</b>		
- Determination of adjusted net profit	1	
- Interests on drawings	2½	
- Interests on capital	2½	
- Share of profit	<u>2</u>	8
<b>(b) i. Partners' current accounts:</b>		
- Correct entries for interest on drawings	1	
- Correct entries for drawings	1	
- Correct entries for interests on capital	1	
- Correct entry for partners' salary	½	
- Correct transfer of share of profits	1	
- Correct balances c/d	<u>1</u>	5 ½
<b>ii. Partners capital accounts:</b>		
- Correct entries for cash introduced	1	
- Correct entries for motor vehicle introduced	½	
- Balance c/d	<u>1</u>	2 ½
<b>(c) Statement of financial position (extracts)</b>		
<b>Equity:</b>		
- Extract of partners' capital accounts	1½	
- Extract of partners' current accounts	1½	
<b>Non-current liabilities :</b>		
- Loan notes	½	3½
	<b>Total</b>	<b><u>20</u></b>

## SOLUTION 5

a)

<b>Two-column cash book</b>							
<b>Date</b>	<b>DR DETAILS</b>	<b>Cash</b>		<b>Bank</b>		<b>CR Cash</b>	<b>Bank</b>
		<b>₦'000</b>	<b>₦'000</b>	<b>Date</b>	<b>Details</b>		
Jan 1	Capital	1,000		Jan 2	Rent	100	
" 3	Loan – I.K Opara		5,000	" 4	Ebenezer		650
" 5	Cash Sales	980		" 9	George	220	
" 7	Ilori		620	" 16	Bank ©	0.5	
" 7	Sales	530		" 19	I.K Opara		1,000
" 7	Robert	650		" 26	Motor Expenses		120
" 16	Cash		0.5	" 30	Cash ©		1,000
" 22	Sales		600	" 31	Wages	970	
" 30	Bank	<u>1,000</u>		" 31	Balance c/d	<u>2,869.5</u>	<u>3,450.5</u>
		<u>4,160</u>	<u>6,220.5</u>			<u>4,160</u>	<u>6,220.5</u>
Feb 1	Balance b/d	2,869.5	3,450.5				

b)

i. Uses of the Journal

The journal is used for the following:

- Opening and closing entries of transactions
- Transfer from one account to another
- Purchases and sales of non-current assets on credit
- End of period adjustments
- Correction of errors

ii. Olson LTD Journal

<b>Date</b>	<b>Description</b>	<b>Dr ₦</b>	<b>Cr ₦</b>
2019			
June 1	Machinery Sylva Enterprises Recording machinery bought on credit	186,000	186,000
June 8	Adefela – receivables Sales of motor vehicles account Recording motor vehicle sold on credit	360,000	360,000
June 16	Motor vehicle Wonu Recording acceptance of motor car in full settlement of debt	160,000	160,000
June 25	Akinola Akinlade Ventures Debt owed to Akinola to be paid to Akinlade Ventures	45,000	45,000

## Examiner's report

Part (a) of the question tests candidates' ability to prepare double-column cash book while part (b) tests candidates' knowledge of the uses of the journal and their ability to journalise transactions.

Majority of the candidates attempted both part (a) and (b) of the question. Their performance was above average in part (a) while their performance was below average in part (b).

The following weaknesses were noted:

- i. Candidates' inability to treat contra items correctly.
- ii. Inadequate knowledge of the uses of the journals, for example, most candidates could only mention correction of errors as the only use.
- iii. Wrong postings in the journal, such as debiting accounts that need to be credited and vice-versa. Some candidates also prepared ledger accounts instead of the journal entries required.

Candidates are advised to study all aspects of the syllabus and pay attention to detail treatment of transactions.

## Marking guide

	<b>Marks</b>	<b>Marks</b>
<b>a. i. Two-column cash book</b>		
<b>Debit side</b>		
- Correct entries in the cash column	2	
- Correct entries in the bank column	2	
<b>Credit side</b>		
- Correct entries in the cash column	2	
- Correct entries in the bank column	2	
<b>Balance c/d:</b>		
- Cash	$\frac{1}{2}$	
- Bank	$\frac{1}{2}$	
<b>Balance b/d</b>		
- Cash	$\frac{1}{2}$	
- Bank	$\frac{1}{2}$	<u>10</u>
<b>b. i Uses of journal:</b>		
- Four uses of journal	4	
<b>Journal entries and narration:</b>		
- Machines bought on credit	$1\frac{1}{2}$	
- Motor vehicle sold on credit	$1\frac{1}{2}$	
- Cash received from customer	$1\frac{1}{2}$	
- Debts due to Akinola transferred to Akinlade ventures	$1\frac{1}{2}$	<u>10</u>
	<b>Total</b>	<b><u>20</u></b>

## SOLUTION 6

- a) Elements of cost of an item of property, plant and equipment (PPE) include the following:
- i. Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discount and rebates.
  - ii. Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
  - iii. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Examples of attributable costs include the following:

- i. Costs of employees' benefits arising directly from the construction or acquisition of the item of property, plant and equipment.
- ii. Costs of site preparation.
- iii. Initial delivery and handling costs.
- iv. Installation and assembly costs.
- v. Cost of testing whether the asset is functioning properly.
- vi. Professional fees.
- vii. Borrowing costs (IAS 23).

b i)

<b>Bayo Limited</b>		
<b>Calculation of gain or loss on disposal of the old car</b>		
	<b>₦'000</b>	<b>₦'000</b>
Sales value of old car		160
<b>Carrying amount of old car:</b>		
Original cost of old car disposed	1,200	
Accumulated depreciation on old car disposed	<u>(1,080)</u>	<u>(120)</u>
<b>Gain on disposal of old car</b>		<u><u>40</u></u>

ii)

<b>Bayo Limited</b>			
<b>Motor vehicle account</b>			
	<b>₦'000</b>		<b>₦'000</b>
01/01/2017 Balance b/f (Wk 1)	15,200	02/01/2017 Motor vehicle disposal	1,200
02/01/2017 Bank	1,840	Balance c/d	<u>16,000</u>
02/01/2017 Trade-in value of old car	160		
	<u>17,200</u>		
Balance b/d	16,000		<u><u>17,200</u></u>

### Motor vehicle disposal account

	<b>₦'000</b>		<b>₦'000</b>
02/01/2017 Motor vehicle	1,200	02/01/2017 Motor vehicle trade in value	160
Statement of profit or loss	<u>40</u>	Accumulated depreciation	<u>1,080</u>
	<b><u>1,240</u></b>		<b><u>1,240</u></b>

### Accumulated depreciation account

	<b>₦'000</b>		<b>₦'000</b>
Disposal	1,080	1/1/2017 Balance b/d	3,200

### Workings

#### Wk 1: Determination of total costs of 10 motor cars as at 31/12/2016

Carrying amount of 10 cars on 01/01/2017	<b>₦'000</b> 12,000
Accumulated depreciation on the 10 cars	<u>3,200</u>
	<b><u>15,200</u></b>

### Examiner's report

The question tests candidates' knowledge of elements of cost of property, plant and equipment, accounting for asset trade-in for another asset and the preparation of ledger accounts for purchase and disposal of an item of property, plant and equipment.

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

However, some candidates could not correctly determine the trade-in value of the old car in the ledger accounts.

Candidates are advised to cover all aspects of the syllabus and be diligent in studying with their Study Texts and the Pathfinders.

## Marking guide

	<b>Marks</b>	<b>Marks</b>
(a) <b>Elements of cost of an item of PPE</b>		
- Identifying elements of cost	6	
- Giving 4 examples of directly attributable costs	<u>2</u>	8
(b) i. Gain or loss on disposal of old car	4	
ii. <b>Recording of purchase and disposal of car in the ledger:</b>		
- Motor vehicle account	3½	
- Motor vehicle disposal account	2½	
- Accumulated depreciation account	1	
- Determination of original costs of motor cars	<u>1</u>	<u>12</u>
<b>Total</b>		<u><b>20</b></u>



**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**



**FOUNDATION LEVEL EXAMINATION – MAY 2023**

**MANAGEMENT INFORMATION**

**EXAMINATION INSTRUCTIONS**

**PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER**

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

**TUESDAY, MAY 16, 2023**

**DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**  
**FOUNDATION LEVEL EXAMINATION – MAY 2023**

**MANAGEMENT INFORMATION**

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

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

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

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

1. A cost that is not easily or conveniently traceable to a cost object is known as:
  - A. Collective cost
  - B. Untraceable cost
  - C. Objective cost
  - D. Indirect cost
  - E. Direct cost
  
2. Which of the following is another name for mixed cost:
  - A. Double cost
  - B. Semi-Variable cost
  - C. Fluctuating cost
  - D. High and Low cost
  - E. Triple cost
  
3. A budgeting method where activities are analysed thoroughly to predict costs is known as
  - A. Cost based budgeting
  - B. Production based budgeting
  - C. Market focussed budgeting
  - D. Activity based budgeting
  - E. Raw materials based budgeting

4. The method of allocation of costs to individual users based on their usage of a common cost is known as
  - A. Bundled products allocation method
  - B. Variable cost allocation method
  - C. Stand-alone cost allocation method
  - D. Grouped allocation method
  - E. Incremental cost allocation method
  
5. Assigning indirect costs to cost centres is known as
  - A. Cost allocation
  - B. Sales tracing
  - C. Sales allocation
  - D. Cost tracing
  - E. Allotment
  
6. When compared to the sales value of main products, the sales value of by-products is
  - A. Higher
  - B. Relevant
  - C. Lower
  - D. Manageable
  - E. Unstable
  
7. The basic objective of cost accounting is
  - A. Financial audit
  - B. Cost ascertainment
  - C. Cost allocation
  - D. Profit analysis
  - E. Cost production
  
8. Factory overhead can be absorbed on the basis of
  - A. Percentage of material cost
  - B. Service cost
  - C. Manufacturing cost
  - D. Direct expenses
  - E. Depreciation

9. Where machine hours is 7,200 hours, machine set-up time allowed is 720 hours and works overhead is ₦32,400. What is the machine hour rate?
- A. ₦2
  - B. ₦3
  - C. ₦4
  - D. ₦5
  - E. ₦6
10. When prices are rising, FIFO method will provide
- A. Highest value of closing stock but lowest profit
  - B. Highest value of profit but lowest value of closing stock
  - C. Highest value of closing stock and profit
  - D. Lowest value of closing stock and profit
  - E. Same value of closing stock and profit
11. The first step in the process of communication is
- A. Sending
  - B. Messaging
  - C. Decoding
  - D. Encoding
  - E. Receiving
12. Which of the following is used to store large amount of data?
- A. Hard Disk Drive (HDD)
  - B. USB Flash Memory
  - C. Cache memory
  - D. Random Access memory
  - E. DVD-RAM
13. Which of the following is a mandatory component of a URL?
- A. File name
  - B. Protocol identifier
  - C. Port Number
  - D. Host Name
  - E. Reference

14. A network that interconnects computers within a limited area such as a residence, school, laboratory, university campus or office building is known as
- A. Local Area Network
  - B. Wide Area Network
  - C. World Wide Web
  - D. Metropolitan Area Network
  - E. Internet
15. Changing computer language of 1's and 0's to characters that a person can understand is
- A. Highlighting
  - B. Coding
  - C. Decoding
  - D. Encoding
  - E. Messaging
16. <https://www.icanig.org> is an example of
- A. An access code
  - B. A directory
  - C. A URL
  - D. A server
  - E. Network pointer
17. A computer cannot "boot" without the
- A. Assembler
  - B. Compiler
  - C. Loader
  - D. Operating System
  - E. Application program
18. The process of dividing the disk into tracks and sectors is known as
- A. Alloting
  - B. Tracking
  - C. Formatting
  - D. Crashing
  - E. Dividing

19. The use of icons and menus displayed on the screen to send commands to the computer system is known as
- A. Command-based user interface
  - B. GUI
  - C. System utility
  - D. API
  - E. CMD
20. The following are peripheral devices, **EXCEPT**
- A. Image scanners
  - B. Tape drives
  - C. Microphones
  - D. Loudspeakers
  - E. Motherboard

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

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

**QUESTION 1**

A company manufactures a product which goes through two processes.

The following are the extracts from the company's records:

**Process 1:**

- Materials 10,000 units at the cost of ₦100,000
- Labour is ₦20,000
- Overheads is ₦20,000
- Normal loss is 10%
- Actual production is 8,500 units
- Scrap sales is ₦5 per unit

**Process 2:**

- Transfer from process 1 – 8,500 units valued at ₦127,500
- Labour is ₦15,000
- Overheads is ₦10,000
- Normal loss is 10%
- Actual production is 8,400 units
- Scrap sales is ₦3 per unit

**Required:**

- a. Prepare Process 1 account (10 Marks)
- b. Prepare Process 2 account (10 Marks)

(Show the calculations of cost of goods produced and applicable abnormal loss or gain). **(Total 20 Marks)**

## QUESTION 2

- a. State **FIVE** of the qualitative factors to be considered when making a 'Make or Buy' decision. (5 Marks)
- b. BBY Limited manufactures jugs. They have just got an offer for the supply of the same product at ₦500 per jug. The plan is to manufacture 5,000 units within the next 3 months with the following budget:

	<b>₦'000</b>
Direct materials	1,000
Direct labour	700
Variable production overhead	600
Variable selling and distribution overhead	700
Fixed production overhead	1,000
Fixed selling and distribution overhead	500
Fixed admin overhead	300

The special offer customer would pick up the products from the factory.

### Required:

- i. Advise whether the company should accept or reject the offer using the data above. You are to support your computation and decision with appropriate reasons. (10 Marks)
- ii. Would you have made a different decision if the budget figures are as presented below:

	<b>₦'000</b>
Direct materials	1,030
Direct labour	925
Variable production overhead	645
Variable selling and distribution overhead	350
Variable admin overhead	430
Fixed production overhead	1,100
Fixed selling and distribution overhead	520
Fixed admin overhead	310

(Show your computations and state reasons for your decision). (5 Marks)

**(Total 20 Marks)**

## QUESTION 3

Joyle Construction Limited is currently working on two contracts with the following details as at December 31.

	Contract 'A'	Contract 'B'
	₦'000	₦'000
Material	16,140	23,100
Wages	61,900	23,136
Expenses on site	8,270	10,344
Plant purchased	191,000	78,000
Accrued wages	5,060	2,690
Materials as at 31/12	2,670	7,680
Value of work certified	140,000	102,000
Cash received on certified work	119,000	76,500
Completed work not yet certified	4,450	2,640
Head office charges apportioned	15,660	12,230
Plant value as at 31/12	152,800	62,400

The contract value is ₦500,000,000 for contract 'A' and ₦350,000,000 for contract 'B'.

**Required:**

Prepare contract 'A' and contract 'B' accounts for Joyle Construction Limited as at December 31 in a columnar form. Show the profit taken at year end and the balances carried forward.

(Show workings where necessary).

**(Total 20 Marks)**

**QUESTION 4**

- Identify **TWO** purposes of information management in an organisation. (3 Marks)
- Identify and explain **FOUR** ways good information systems can assist organisations. (8 Marks)
- What is "open source software"? State **TWO** examples. (4 Marks)
- Identify **FIVE** differences between system software and application software. (5 Marks)

**(Total 20 Marks)**

**QUESTION 5**

- Identify the difference between data privacy and data protection. (4 Marks)
- Identify **TWO** reasons why data privacy is important. (2 Marks)
- Identify and explain **FOUR** tools and technologies that can be deployed to safeguard information resources. (8 Marks)
- Explain the differences amongst threat, vulnerability and risk. (6 Marks)

**(Total 20 Marks)**

**QUESTION 6**

- What is "Machine Learning?" (4 Marks)



- b. Identify and explain **FOUR** differences between machine learning and statistical learning. (8 Marks)
  - c. Explain- **FOUR** methods of data input into the computer system. (8 Marks)
- (Total 20 Marks)**

## SECTION A

### MCQ - SOLUTIONS

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

#### Workings

Works overhead	₹32,400
Machine hours	7,200
Machine setting time 720 hours	
Machine hour rate	<u>₹32,400</u>
	(7200 -720)
	₹5

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

a.

**Process 1 Account**

	Units	₦		Units	₦
Materials	10,000	100,000	Normal loss	1,000	5,000
Labour		20,000	Abnormal loss	500	7,500
Overhead		20,000	Transfer to process 2	8,500	127,500
		140,000			140,000

Cost of good Production:	units	₦
Material	10,000	100,000
Labour		20,000
Overheads		20,000
	10,000	140,000
Less normal loss 10%	<u>1,000</u>	<u>5,000</u>
Good Production	<u>9,000</u>	<u>135,000</u>

Cost of good production per unit =  $135,000/9000 = \text{₦}15$

Transfer to process 2 =  $8,500 \text{ units} @ \text{₦}15 = \text{₦}127,500$

Abnormal loss: Normal loss =  $10\% \text{ of input} = 10\% \text{ of } 10,000 \text{ units} = 1000 \text{ units}$

Actual loss =  $\text{input units less output units} = 10,000 - 8,500 = 1,500$

Abnormal loss =  $(1,500 - 1000) \text{ units} = 500 \text{ units}$

Cost of abnormal loss =  $500 @ \text{₦}15 = \text{₦}7,500$

b.

**Process 2 Account**

	Units	₦		Units	₦
Transfer from process 1	8,500	127,500	Transfer to	8,400	164,650
Labour		15,000	finished goods		
Overhead		10,000	Normal loss	850	2,550
Abnormal gain	750	14,700			
		167,200			167,200

### Cost of good production:

	Units	₦
Material	8,500	127,500
Labour		15,000
Overheads		10,000
	<u>8,500</u>	<u>152,500</u>
Less normal loss 10%	<u>850</u>	<u>2,550</u>
Good Production	<u>7,650</u>	<u>149,950</u>

Cost of good production per unit =  $149,950/7,650 = \text{₦}19.6013$

Transfer to finished goods =  $19.6013 \times 8,400 \approx \text{₦}164,650$

Abnormal gain: Normal loss = 10% of input = 10% of 8,500 units = 850 units

Actual loss = input units less output units =  $8,500 - 8,400 = 100$

Abnormal gain =  $(100 - 850)$  units = 750 units

Value of abnormal gain =  $750 @ \text{₦}19.60 = \text{₦}14,700$

### Examiner's report

This question tests candidates' understanding of process costing.

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

The major pitfall that accounted for the poor performance was inadequate understanding of determining abnormal loss and abnormal gain.

Candidates are advised to prepare harder for the future examinations.

### Marking guide

		Marks
Process 1:		
Process 1 account	12 figures for $\frac{1}{2}$ mark each	6
Cost of good production per unit: $135,000/9000$	= $\frac{1}{2}$ , $\text{₦}15 = \frac{1}{2}$	1
Transfer to process 2: 8,500 units @ $\text{₦}15$	= $\frac{1}{2}$ , $\text{₦}127,500 = \frac{1}{2}$	1
Abnormal loss (1,500 - 1000) units	= $\frac{1}{2}$ , 500 units = $\frac{1}{2}$	1
Cost of abnormal loss 500 @ $\text{₦}15$	= $\frac{1}{2}$ , $\text{₦}7,500 = \frac{1}{2}$	1
Process 2:		1
Process 2 account	12 figures for $\frac{1}{2}$ mark each	1
Cost of good production per unit: $149,950/7,650$	= $\frac{1}{2}$ , $\text{₦}19.6013 = \frac{1}{2}$	1
Transfer to finished goods $19.6013 \times 8,400$	= $\frac{1}{2}$ , $\text{₦}164,650 = \frac{1}{2}$	1
Abnormal gain (100 - 850) units	= $\frac{1}{2}$ , 750 units = $\frac{1}{2}$	1
Value of abnormal gain 750 @ $\text{₦}19.60$	= $\frac{1}{2}$ , $\text{₦}14,700 = \frac{1}{2}$	1

**(Total 20 Marks)**

## SOLUTION 2

- a. Qualitative factors to be considered when making a make or buy decision are:
- i. Reliability of the supplier on timely deliveries of goods;
  - ii. Assurance that the supplier will not change the price in foreseeable future;
  - iii. Quality and reliability of the goods to be bought to maintain the reputation of the company with its customers;
  - iv. Possible alternative use of the idle resources in the future;
  - v. Foreign exchange rates risk of the item is to be imported;
  - vi. Import policies of home country;
  - vii. Continuity of future supply;
  - viii. Possible adverse effects of revealing trade secrets.

b.

### BBY LTD

i. **COMPUTATION OF MARGINAL COST OF A JUG**

	<b>₦'000</b>
Direct materials	1,000
Direct labour	700
Variable Production Overhead	<u>600</u>
<b>Total</b>	<b><u>2,300</u></b>

Marginal cost per unit =  $\frac{\text{₦}2,300,000}{5000} = \text{₦}460$  per unit

Decision: The company should accept the offer as the marginal cost of production,  $\text{₦}460$ , is lower than the  $\text{₦}500$  offer.

ii.

	<b>₦'000</b>
Direct materials	1,030
Direct labour	925
Variable Production Overhead	645
Variable Admin Expense	<u>430</u>
<b>Total</b>	<b><u>3,030</u></b>

Marginal cost per unit =  $\frac{\text{₦}3,030,000}{5000} = \text{₦}530$  per unit

Decision: The company should reject the offer as the marginal cost of production,  $\text{₦}530$ , is higher than the  $\text{₦}500$  offer.

### **Examiner's report**

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

About 75% of candidates attempted this question but performance was slightly above average as about 60% of them scored 50% and above of the marks allocated to the question.

Most candidates who did not perform well suffered from lack of knowledge of general principles of marginal costing.

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

### **Marking guide**

	<b>Marks</b>
a. 1 mark for any 5 points	5
b. i. Direct materials	1
Direct labour	1
Variable production overhead	1
Total	1
Marginal cost per unit: workings	1
answer	1
Explanation on figures used	1
Decision	1
	1
ii. Direct materials	1
Direct labour	1
Variable production overhead	1
Total	1
Marginal cost per unit: workings	1
answer	1
Explanation on figures used	1
Decision	1
<b>Total</b>	<b><u>20</u></b>

### SOLUTION 3

a.

#### DOYLE CONSTRUCTION LIMITED

	Contract A	Contract B		Contract A	Contract B
Materials	16,140	23,100	Materials c/d	2,670	7,680
Wages	66,960	25,826	WIP	4,450	2,640
Expenses onsite	8,270	10,344	Plant c/a	152,800	62,400
Plant purchased	191,000	78,000			
H/O Charges	<u>15,660</u>	<u>12,230</u>	Cost of work certified	<u>138,110</u>	<u>76,780</u>
	<u>298,030</u>	<u>149,500</u>		<u>298,030</u>	<u>149,500</u>
Cost of work certified	138,110	76,780	Value of work certified	140,000	102,000
Profit taken	1,071	12,610			
Profit not yet taken	819	12,610			
	<u>140,000</u>	<u>102,000</u>		<u>140,000</u>	<u>102,000</u>
Material b/f	2,670	7,680	Accrued Wages b/f	5,060	2,690
WIP b/f	4,450	2,640	Profits not yet taken	819	12,610
Plant b/f	152,800	62,400			

#### Alternative solution

	Contract A	Contract B		Contract A	Contract B
Materials	16,140	23,100	Materials c/d	2,670	7,680
Wages	61,900	23,136	Plant c/d	152,800	62,400
Accrued Wages	5,060	2,690	Cost of work certified	142,560	79,420
Expenses on Site	8,270	10,344			
Plant Purchased	191,000	78,000			
Head Office Expenses	<u>15,660</u>	<u>12,230</u>			
	<u>298,030</u>	<u>149,500</u>		<u>298,030</u>	<u>149,500</u>
Cost of date b/d	142,560	79,420	Value of work certified	140,000	102,000
			Value of work not yet certified		
Profit taken	1,071	12,610	c/d	4,450	2,640

Profit not yet taken c/d	<u>819</u>	<u>12,610</u>		
	<u>144,450</u>	<u>104,640</u>		<u>144,450</u> <u>104,640</u>
Material b/f	2,670	7,680	Accrued Wages b/f	5,060    2,690
Value of work not yet Certified b/f	4,450	2,640	Profit not yet taken b/f	819    12,610
Plant b/f	152,800	62,400		

$$\text{Profit taken} = \frac{\text{Notional Profit} \times \text{Cash received}}{\text{Work Certified}} \times \frac{2}{3}$$

$$\text{Project A} = \frac{1890 \times 119,000}{140,000} \times \frac{2}{3} = 1071$$

$$\text{Project B} = \frac{25,220 \times 76,500}{102,000} \times \frac{2}{3} = 12,610$$

Calculation of Profit for the year

	<u>Contract 'A'</u>	<u>Contract 'B'</u>
	₦'000	₦'000
Value of work certified	140,000	102,000
Less: Cost of work certified	<u>138,110</u>	<u>76,780</u>
Profit	<u><u>1,890</u></u>	<u><u>25,220</u></u>

<u>Wages</u>	<u>Contract 'A'</u>	<u>Contract 'B'</u>
	₦'000	₦'000
Wages	61,900	23,136
Accrued wages	5,060	2,690
	<u><u>66,960</u></u>	<u><u>25,826</u></u>

### Examiner's report

This question tests candidates' knowledge of contract costing with emphasis on profit to be taken on ongoing contracts before year end.

The question was attempted by more than 80% but performance was good as about 65% of the candidates scored 50% and above of the marks allotted.

The factor responsible for the poor performance of candidates was the inability to correctly determine the profit to be taken at the end of the financial year.



Candidates should understand that profit determination is the core of contract costing.

### Marking guide

	Marks
Heading	1
Columnar format	1
Contract account – 24 figures = ½ mark each	12
Profit for the year – 6 figures = ½ mark each	3
Wages – workings - 6 figures = ½ mark each	<u>3</u>
<b>Total</b>	<b><u>20</u></b>

### SOLUTION 4

a. **Purpose of information management in an organisation**

- i. To design, develop, manage, and use information with insight and innovation.
- ii. To support decision-making and create value for individuals, organisations, communities, and societies.

b. **Benefits/Importance of Information Systems**

Information systems can help an organisation in any of the following ways:

- i. **Operational Efficiency:** This entails doing routine tasks faster, cheaper, neater, and more accurately. The use of transaction processing software, word processing, and electronic spreadsheet help to make operations more efficient;
- ii. **Functional Effectiveness:** This entails the use of decision support software which is oriented towards helping managers to make better decisions;
- iii. **Provision of better-improved services:** This entails the use of helpful technologies like the automatic teller machine (ATM), e-commerce, and reservation systems used by travel agents. All these are examples of the provision of improved services to customers;
- iv. **Better Product selection:** The provision of information helps in the selection of products offered for sale by industries like banks, insurance companies, travel, and financial services. Products that can be differentiated largely on the basis of the information inherent in them are called Information-Intensive Products;

- v. **Competitive Advantage:** Providing information and creating new products through information technology can give some companies a competitive advantage over other companies in the same industry;
- vi. **Seamless communication.** Information systems assist in disseminating information by allowing managers and other organisation leaders to store data in folders and documents that can be seamlessly shared with the appropriate employees;
- vii. **More efficient operations management:** Information systems enable organisations to collect and access recent information as well as keep a comprehensive collection of all organisation data;
- viii. **Better record keeping:** Efficient record-keeping is necessary. There are industry regulations that need to be adhered to and recorded proof those regulations have been adhered to;
- ix. **More informed decision-making:** Organisation and business leaders need the most accurate, up-to-date information if they are to make the best decisions for the future of their group;
- x. **Enhances the productivity of employees of the organisation;**
- xi. **Efficient coordination and control of the organisation;**
- xii. **Provision of information to help the organisation identify its strengths and weaknesses; and**
- xiii. **Visualisation:** creating images, diagrams, or animations to communicate a message.

**c. Open source software**

Open-source software is a type of computer software in which source code is released under a license in which the copyright holder grants users the rights to use, study, change, and distribute the software to anyone and for any purpose.

OR

Open-source software is software with source code that anyone can inspect, modify, and enhance. Source code is the part of the software that most computer users do not ever see; it's the code computer programmers can manipulate to change how a piece of software works.

OR

Open source software is a computer software that is distributed with its source code, making it available for use, modification and distribution with its original rights.

**Examples of open-source software are:**

- i. Linux is one of the most user-friendly open-source software.
- ii. Mozilla Firefox a Web browser that competes with Internet Explorer.
- iii. VLC Media Player.
- iv. Open Office - a competitor to Microsoft Office.
- v. MySQL, Ingres, and Enterprise DB - open-source database software packages that each go head-to-head with commercial products from Oracle, Microsoft, Sybase, and IBM.

**d. Difference between system software and application software**

- i. System software is a set of background programs that enable the application software to run smoothly. Application software consist of programs which carry out specific tasks for the user.
- ii. System software can run independently. An application software cannot run independently. It cannot run without the presence of system software.
- iii. System software are developed using low-level language, while application software are developed using high-level language.
- iv. Examples of system software include operating systems, compilers, assemblers, debuggers, drivers, etc. Examples of application software include word processors, web browsers, media players, etc.
- v. System software are installed on the computer when operating system is installed. Application software are installed according to user's requirements.
- vi. System software is used for operating the computer while application software is used by users to perform specific tasks.
- vii. System software is the interface between application software and the computer while application software runs as per users' requests.
- viii. System software are complex whereas application software are not complex.
- ix. System software start running as soon as the computer is put on/switched on and run until the computer is put off, whereas application software start when the user begins and ends when the user stops it.

- x. System software is a general purpose software while application software is specific purpose software.

### Examiner's report

This question tests candidates' knowledge of information systems including software management.

It was attempted by at least 80% of the candidates and performance was good as about 70% of them scored 50% and above of the marks allocated.

Inability to define simple terms accounted mainly for the poor performance of a few of the candidates.

Candidates are advised to have a proper understanding of simple definitions against future examinations.

### Marking guide

	<b>Marks</b>	<b>Marks</b>
a. 1 tick for correct definition	1	3
b. 2 ticks each for correct answer and explanation	4	8
c. 1 tick each for correct answer with examples	1	4
d. 1 tick each for correct mentioning	5	<u>5</u>
<b>Total</b>		<b><u>20</u></b>

### SOLUTION 5

- a. **Data Privacy** has to do with what people who have collected your data lawfully can and should do with it and what control you have over the retention and use of data.

OR

It is the right of the individual to influence the kind quantity and quality of information contained in the system which is readily identifiable to the individual.

OR

It is the keeping of data safe against improper access, theft or loss.

**Data Protection** ensures that your data is safeguarded from unlawful access by authorised parties.

OR

It is the proper storage, access, retention, immutability, and security of sensitive data i.e. provision of tools and policies to actually restrict access to the data.

OR

Data Protection is maintaining data availability by way of backups so you can easily restore data.

**b. Reasons why data privacy is important**

1. Data privacy safeguards individuals' sensitive personal data (e.g. security number, health information, financial records, etc).
2. Through privacy, companies can build a reputation for reliability and integrity.
3. Various data protection laws and regulations enable companies to protect individuals' privacy rights.
4. When individuals trust that their data will be handled responsibly and securely, they are more likely to willingly share information.
5. It facilitates trust and confidence.
6. It facilitates legal and regulatory compliance so that companies can avoid legal repercussions, hefty fines, and damage to their reputation.
7. It facilitates ethical data practices so that companies can share their commitment to respecting individual rights and promoting transparency in their operations.
8. It preserves individual autonomy by empowering individuals to maintain control over their data.
9. It prevents proprietary data being put in the hands of competitors.
10. A breach of data privacy can put top secret information in the hands of an enemy.
11. It improves company brand value.

c. **Tools and technologies to safeguard information resources**

- i. **Encryption:** This is the technique of disguising information in order to preserve its confidentiality during transmission and when stored. The process of encryption and decryption comprises an algorithm and a key.
- ii. **Controls:** These track the programs and servers used, the files opened, etc., and create audit trails.
- iii. **Staff controls:** These include a screening of job applicants, segregation of duty, manual and automated controls, and the destruction of all printouts, printer ribbons, and other wastes that may yield passwords and trade secrets to outsiders.
- iv. **Disaster Recovery Plans:** These are methods used to restore information processing operations that have been halted by destruction or accident. It includes arrangements for alternative locations, which may be Hot or Cold sites.
- v. **Use of card, key, signature, badge:** To determine what the user has for identification and access.
- vi. **Authentication:** The ability to know that a person is who he or she claims to be.
- vii. **Password, Digital Signature:** To identify what the user knows.
- viii. **Biometrics:** To identify who the user is.
- ix. **Firewalls:** Designed to prevent unauthorised access into or out of a computer network (resource).
- x. **Smart Card:** Physical plastic card with an embedded integrated chip acting as a security token for preventing unauthorised access to a computer resource.
- xi. **Antimalware** is a software program created to protect Information Technology Systems/resources and computers from malicious damage.
- xii. **Intrusion detection systems:** Is a monitoring system that detects suspicious activities on computer resources and generates alerts when they are detected.

d. **Difference between threat, vulnerability and risk.**

A threat to a computer system is any event which occurrence will adversely affect one or more of the assets or resources (hardware, software, network, media and data, etc.), which make up the system. The threat may be physical or human. OR it is a potential negative action or event facilitated by vulnerability that result in an unwanted impact on a computer system or application.

A vulnerability exposes your organisation to threats in the form of a weakness, flaw or other shortcoming in a system (e.g. infrastructure, database or software)

A risk refers to data breaches, data loss, data manipulation, and data exposure, which may be caused by an entity's limitations or weaknesses in handling data properly. OR

Risk is the probability of a negative (harmful) event occurring as well as the potential of scale of that harm.

**Examiner's report**

This question tests candidates' knowledge of data protection and privacy; and how to safeguard information.

The question was attempted by more than 70% of the candidates but performance was average as only about 55% of them scored 50% and above of the marks allocated.

Due to poor preparation, candidates some candidates could not distinguish between threats, risks and vulnerabilities.

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

**Marking guide**

	<b>Marks</b>	<b>Marks</b>
a. 2 ticks for correct definition	2	4
b. 1 tick each for correct answer	2	2
c. 2 ticks each for correct answer with explanation	4	8
d. 2 ticks each for correct stating and explanation	3	<u>6</u>
<b>Total</b>		<b><u>20</u></b>

## **SOLUTION 6**

- a. Machine learning is an application of artificial intelligence (AI) that provides systems the ability to automatically learn and improve from experience without being explicitly programmed.

OR

Machine learning is the application of AI that is the process of using mathematical models of data to help computer learn without direct instructions thereby continue learning and improving on its own based on experience.

OR

Machine learning is a subfield of AI and defined as the capability of a machine to imitate intelligent human behaviour.

b. **Differences between machine learning and statistical learning are:**

- i. Statistical Learning relies on rule-based programming formalised in the form of relationships between variables, while Machine Learning learns from data without explicitly programmed instructions.
- ii. Statistical Learning is based on a smaller dataset with a few attributes, compared to Machine Learning where it can learn from billions of observations and attributes.
- iii. Statistical Learning operates on assumptions. Machine Learning is not assumptions dependent and in most of cases ignores them.
- iv. Statistical Learning is mostly about inferences; most of the idea is generated from the sample, population, and hypothesis, in comparison to Machine Learning which emphasizes predictions, supervised learning, unsupervised learning, and semi-supervised learning.
- v. Statistical Learning is maths, intensive, which is based on the coefficient estimator and requires a good understanding of data. On the other hand, Machine Learning identifies patterns from your dataset through the iterations which require a way less of human effort.

c. **Methods of Data Input**

- i. Keyboard input: This is by far the most common way of inputting data into a computer. For example, a word-processing application or perhaps a command line interface for instructing the operating system.
- ii. Voice Synthesis: This method involves speaking into a microphone connected to the computer.



- iii. Touch: For example, placing a finger over a displayed item then skidding it across the screen by simply sliding your finger. Or using two fingers moving away from each other to zoom in on a displayed object.
- iv. Movement: The computer interfaces that detect arm and leg movements directly without any need to hold a sensor e.g. Kinect.
- v. Pointer/Mouse: The classic pointing device is the mouse. Although there are other devices such as light pens which are also used as a pointing device. A pointing device is mainly used to select items on screen. A graphical user interface makes extensive use of the mouse as a pointing device.
- vi. Scanning: A variety of scanning devices exist for the automatic capture of spatial data
- vii. Voice data entry: involves the use of a voice recognition unit that recognises a limited number of keys on the keyboard.
- viii. Magnetic stripes cards: used for input by the use of magnetic card reader.
- ix. Document readers: for reading/detecting information on documents, MICR, OMR and OCR.
- x. Barcode: Barcode is a method of representing data in a visual, machine-readable form.

### Examiner's report

This question tests candidates' knowledge of machine learning, statistical learning and data input.

The question was attempted by about 45% of the candidates and performance was just fair as only about 45% of them scored 50% and above of the marks allocated.

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

In future examinations, candidates are enjoined to prepare harder.

### Marking guide

	Marks	Marks
a. 4 ticks for correct definition	4	4
b. 2 ticks each for correct answer with explanation	4	8
c. 2 ticks each for correct answer with explanation	4	<u>8</u>
<b>Total</b>		<b><u>20</u></b>

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA****FOUNDATION LEVEL EXAMINATION – MAY 2023****BUSINESS, MANAGEMENT & FINANCE****EXAMINATION INSTRUCTIONS****PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER**

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

**WEDNESDAY, MAY 17, 2023****DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**  
**FOUNDATION LEVEL EXAMINATION – MAY 2023**

**BUSINESS, MANAGEMENT & FINANCE**

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

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

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

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

1. The following features describe an ordinary partnership business, **EXCEPT**
  - A. There is an understanding that the partners' liabilities are limited to capital contributions
  - B. There is the risk of disagreement between partners
  - C. Partners bear the risk that decisions taken may turn out bad
  - D. A sleeping partner must be made personally liable for any unpaid debts of the business
  - E. Each partner's share of the profits is treated as an income for the purpose of calculating personal income tax
  
2. Which of the following may be considered as a disadvantage of a virtual organisation?
  - A. May lack culture
  - B. Has no physical hub
  - C. Has no centre of operations
  - D. May use part-time workers
  - E. May use self-employed individuals
  
3. In accordance with the provisions of CAMA 2020, which of the following is **TRUE** of a company limited by guarantee?
  - A. Must be owned by one person
  - B. ₦200,000 in nominal value of its share capital must have been issued
  - C. 55% of the issued share capital of a company must have been paid up
  - D. The consent of the Attorney General of the Federation ("AGF") must be obtained before incorporation
  - E. It is restricted from appointing a director to hold the office of the Chairman and Chief Executive Officer of the Company

4. In respect of Public Limited Liability (PLC) companies, the position of CAMA 2020 is that upon incorporation
- A. ~~₦200,000~~ in nominal value of its share capital must have been issued
  - B. ~~₦400,000~~ in nominal value of its share capital must have been issued
  - C. ~~₦2,000,000~~ in nominal value of its share capital must have been issued
  - D. ~~₦4,000,000~~ in nominal value of its share capital must have been issued
  - E. ~~₦20,000,000~~ in nominal value of its share capital must have been issued
5. A legally-binding promise, given in writing is termed
- A. **Security**
  - B. Covenant
  - C. Debt Relief
  - D. Warranties
  - E. Guarantee
6. The following are characteristics of a limited liability partnership firm, **EXCEPT**
- A. Capital for the business is provided by owners
  - B. Owned by several individuals working together
  - C. It does not require regulation of its financial reporting
  - D. Commercial decisions are made by senior partners
  - E. Liability for the unpaid debts and other obligations of the business is limited
7. Economic activities in a nation comprise of professional services businesses or employment. The following statements in respect of economic activities are correct, **EXCEPT**
- A. Most businesses need employees to carry out their operations
  - B. Most employees do not contribute entrepreneurship to the economy
  - C. A growing economy does not need entrepreneurs and innovation to sustain its growth
  - D. Professionals and individuals in other specialised vocations contribute specialised skills
  - E. Professionals contribute value to clients and individuals by providing service of a high standard

8. A profession is an economic activity involving the provision of a personal service of a specialised nature. All the following features describe a profession, **EXCEPT**
- A. Main motive is to make a profit
  - B. Regulated by a professional body
  - C. Charges a fee for services rendered
  - D. Mandatory acquisition of a special knowledge and skill
  - E. Subject to discipline for breach of the code of conduct of the regulatory body

9. A firm plans to invest ₦20 million in a project with a life span of 3 years. Projected cash inflows are as follows:

Years	Cash flows (₦ Million)
1	8
2	10
3	8

If the cost of capital is 10%, calculate the NPV of the project

- A. ₦1.34 m
  - B. ₦1.44 m
  - C. ₦1.54 m
  - D. ₦1.64 m
  - E. ₦1.74 m
10. Companies prepare annual reports and accounts for the purpose of evidencing
- A. Efficiency
  - B. Reliability
  - C. Funding
  - D. Performance
  - E. Operation
11. Process theory of motivation concentrate on the process by which individuals are motivated and the strength of that motivation. Which of the following is an example of Process theory?
- A. Vroom's expectancy model
  - B. Maslow's hierarchy of needs
  - C. Weber's management theory
  - D. Stewart's management theory
  - E. Herzberg's hygiene and motivator factors

12. Market segmentation is important for strategic management. Which of the following is **NOT** a basis for market segmentation?
- A. Customer
  - B. Products function
  - C. Geographical area
  - D. Demographic factors
  - E. Competitive activities
13. The following activities define the functions of management, **EXCEPT**
- A. Monitoring actual performance
  - B. Setting targets for achievement
  - C. Putting organisational plans into action
  - D. Coordinating the activities of team colleagues
  - E. Converting sales income in a foreign currency into domestic currency
14. Which of the following is **NOT** within the scope of the functions of a supervisor?
- A. Empower staff
  - B. Front line management
  - C. Administrative management
  - D. Staff development and training
  - E. Conceptualise corporate strategy
15. Slamming of a door, shaking of a head and remaining silent best describe
- A. Verbal communication
  - B. Formal communication
  - C. Friendly communication
  - D. Non-verbal communication
  - E. Facial communication
16. Which of the following financial decisions can impede the achievement of organisational objectives?
- A. Investing short term cash surpluses
  - B. Rewarding equity holders appropriately
  - C. Protecting the organisation against financial risks
  - D. Financing long term expenditure with short term sources of funds
  - E. Maintaining a balance between long term and short term finance

17. Which of the following is **NOT** one of the five dimensions to differences in organisation culture as propounded by Hofstede?
- A. Uncertainty avoidance dimension
  - B. Medium-termism orientation
  - C. Power-distance dimension
  - D. Individualism versus collectivism dimension
  - E. Masculinity versus femininity
18. Separating the risk and return characteristics of market investments from the individual investment decisions is known as (the)
- A. Risk transformation
  - B. Separation Theorem
  - C. Financial intermediation
  - D. Maturity transformation
  - E. Amortisation
19. Which of the following is **NOT** an example of money market transactions and instruments?
- A. The interbank market
  - B. Treasury bills
  - C. Certificates of Deposit
  - D. The repo market
  - E. Bank deposits
20. Reinforcing already communicated information signifies
- A. Seriousness
  - B. Fidgeting
  - C. Disapproval
  - D. Recognition
  - E. Timidity

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

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

**QUESTION 1**

- a. Explain the term 'Stakeholders. (2 Marks)
  - b. Using occupation as a basis, identify the economic activities of individuals. (3 Marks)
  - c. State **FIVE** main features of each category identified in 1(b). (15 Marks)
- (Total 20 Marks)**

**QUESTION 2**

Johnson and Jacob Limited is considering whether to invest in one of these two projects. The expected cash flows are as stated below:

Year	Project Blue ₹'000	Project Pink ₹'000
0	(33,000)	(30,000)
1	18,000	3,000
2	6,000	3,000
3	3,000	6,000
4	15,000	30,000

The company anticipates a cost of capital of 12%. Using Internal Rate of Return (IRR) method of investment appraisal, which of the projects should be selected?  
**(Total 20 Marks)**

**QUESTION 3**

- a. Conflict arises between different workgroups or departments and between people in different workgroups. State **FIVE**- characteristics of conflicts. (10 Marks)
  - b. State and explain the **FOUR** leadership styles identified by Rensis Likert. (10 Marks)
- (Total 20 Marks)**

**QUESTION 4**

- a. Briefly explain **TWO** powers of a professional accounting organization. (5 Marks)
  - b. Identify **THREE** purposes of ICAN codes of ethics. (6 Marks)
  - c. State **SIX** safeguards created by profession, legislation or regulation against ethical threats and dilemmas. (9 Marks)
- (Total 20 Marks)**



### **QUESTION 5**

- a. Explain the following digital communication concepts:
- i. Social media
  - ii. Digital marketing
  - iii. Websites
  - iv. Electronic mail
  - v. Social media management
- (10 Marks)
- b. State **TEN** uses of social media pages.
- (10 Marks)  
**(Total 20 Marks)**

### **QUESTION 6**

- a. Describe a matrix organisational structure and state its **TWO** main advantages. (5 Marks)
- Describe a network organisational structure and state **FOUR** of its salient features. (5 Marks)
- c. State **FIVE** reasons why the policy of subsidising imported petroleum products failed in Nigeria. (10 Marks)
- (Total 20 Marks)**

## SECTION A

### MCQ – SOLUTIONS

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

1 mark each for any correct option

#### Workings

Question 9

Years	Cash flows	Df @10%	PV
0	20	1.000	20
1	8	0.909	7.272
2	10	0.826	8.26
3	8	0.751	6.008
		NPV	1.54

#### Examiner's report

Section A of the paper comprises 20 mandatory multiple-choice questions. All candidates attempted the questions in this section. The questions test candidates' comprehension of the various aspects of the syllabus.

About 60% of the candidates that attempted this section scored 50% of the marks allotted to the section.

For better performance in future examinations, prospective candidates should cover the entire syllabus while preparing for this subject. ICAN study text and Pathfinder offer the required guidance.

## **SECTION B**

### **SOLUTION 1**

- a. As stakeholder in an organisation is a person who has an interest in what the organisation does, and who might therefore try to influence the decisions and actions of the organisation. Stakeholders can be divided into two categories, namely: internal and external stakeholders.
- b. Identified economic activities of individuals can be categorised as follows:
  - i) **Profession/Vocation:** A profession is an occupation involving the provision of a personal service of a specialised nature, based on a professional education, training, and experience in a specialised role. Professionals are members of a professional bodies and work to professional standards and a code of ethical conduct set by these bodies. Many professionals provide services to clients, in return for a fee. (Some professionals choose to work for an employer, in which case they are employees.) Some professionals establish their own businesses, in which case they come in the 'business' category of economic activity.
  - ii) **Employment:** Employment involves the provision of a service by an individual to an employer, under a contract of employment, in return for a wage or salary. The employer decides what activities the employee should undertake, and the employees follows the rules of conduct set by the employer.
  - iii) **Business:** Individuals may establish their own businesses. A business is an organisation that is concerned with the production of goods or provision of services with the objective of making a profit. Businesses are classified into different types, such as industrial businesses, trading businesses, and businesses that assist industrial and trading businesses, such as transport and warehousing, banking and insurance, advertising, and so on.
    - i) **The main features of a profession/ vocation are:**
      - i. Individual has to acquire a piece of special knowledge and skill;
      - ii. Regulated by a professional body;
      - iii. Has a code of conduct to be followed by the members;
      - iv. Members often establish their own firms;
      - v. Provide scale of fees for services rendered by members;
      - vi. Members may opt for paid jobs as employee of organisations;
      - vii. Regulatory body has the authority to discipline any professional member that breaches the code of conduct licence of the

- viii. regulatory body; and
- viii. Regulatory body has the authority to withdraw the license of an erring member depending on the gravity of the offence committed.

ii) **The main features of employment are:**

- i. an employee works for an organisation;
- ii. an employee receives a salary or wage;
- iii. There is usually an employment contract that binds both the employer and employee;
- iv. A breach of the employment contract by either party permits the other party to take legal action for the enforcement of his/her legal right;
- v. A certain level of basic or technical education is expected;
- vi. The reason for seeking employment is to secure assured income by virtue of wages and/or salaries; and
- vii. Either party can terminate the contractual relationship by giving adequate notice as specified in the contract of employment.

iii) **The main features of the business are:**

- i. The major goal of business is to make a profit;
- ii. Profit is considered important for the survival and growth of the business;
- iii. Involves an activities in which where a persons engage in the manufacturing or selling of goods and/or services;
- iv. The transaction must be continuous to be regarded as a business.
- v. Involves the investment of capital before its commencement;
- vi. Additional investment may be required for the survival and growth of the business; and
- vii. It involves an element of risk.

### **Examiner's report**

The question is in three parts. It examines business organisations and their stakeholders. Part (a) of the question specifically tests candidates' understanding of stakeholders as a concept. Parts (b) and (c) test candidates' ability to identify the economic activities of individuals using occupation as a basis and the main features of each category of occupation identified.

Most of the candidates attempted the question but performance was below average.

Though most of the candidates could explain who stakeholders are and even give examples of the various stakeholders; quite a number of them could not properly

identify the main features of the economic activities of individuals using occupation as a basis.

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

<b>Marking guide</b>	<b>Marks</b>
a) Award a maximum of 5 marks for a correct explanation of Stakeholders	5
b) Award a maximum of 2 marks for a correct explanation of profession/ vocation	2
Award a maximum of 1½ marks for a correct explanation of employment	1½
Award a maximum of 1½ marks for a correct explanation of business	1½
c) Award a maximum of 1 mark each for 3 correct features of the profession/vocation stated	3
Award a maximum of 1 mark each for 3 correct features of employment	3
Award a maximum of 1 mark each for 4 correct features of the business	4
<b>Total</b>	<b><u>20</u></b>

## SOLUTION 2

Year	Cashflow N'000	DCF@12%	Present value N'000	DCF@10%	Present value N'000
0	-33,000	1.0000	-33,000	1.000	-33,000
1	18,000	0.8929	16,072	0.9091	16,364
2	6,000	0.7972	4,783	0.8264	4,958
3	3,000	0.7118	2,135	0.7513	2,254
4	15,000	0.6355	9,533	0.6830	10,245
		<b>NPV</b>	<b>-477</b>	<b>NPV</b>	<b>821</b>

$$IRR = LR + \frac{NPV_{LR}}{NPV_{LR} + NPV_{HR}} \times [HR - LR]$$

Where:

LR is the lower interest rate with a positive NPV

HR is the higher interest rate with a negative NPV

NPV<sub>LR</sub> is the NPV (positive) at a lower rate of LR

NPV<sub>HR</sub> is the NPV (negative) at the higher rate of HR

$$IRR = 10\% + \frac{821}{821 + 477} \times [12\% - 10\%]$$

$$IRR = 10\% + \left[ \frac{821}{1298} \times 2\% \right]$$

$$\text{IRR} = 10\% + 1.265\%$$

$$\text{IRR} = 11.27\%$$

Year	Cashflow N'000	DCF@12%	Present value N'000	DCF@10%	Present valueN'000
0	-30,000	1.0000	-30,000	1.000	-30,000
1	3,000	0.8929	½ 2,679	0.9091	2,727
2	3,000	0.7972	½ 2,392	0.8264	2,479
3	6,000	0.7118	½ 4,271	0.7513	4,508
4	30,000	0.6355	½ 19,065	0.6830	20,490
		<b>NPV</b>	½ -1,594	<b>NPV</b>	<b>204</b>

$$\text{IRR} = LR + \frac{NPV_{LR}}{NPV_{LR} + NPV_{HR}} \times [HR - LR]$$

$$\text{IRR} = 10\% + \frac{204}{204 + 1594} \times [12\% - 10\%]$$

$$\text{IRR} = 10\% + \left[ \frac{204}{1798} \times 2\% \right]$$

$$\text{IRR} = 10\% + 0.2269\%$$

$$\text{IRR} = 10.23\%$$

### Decision:

The decision rule of IRR is to accept a project if the IRR of the project is greater than or equal to the minimum required return and reject the project if the IRR is less than the minimum acceptable rate of return. IRR of Project Blue is 11.27% while that of Project Pink is 10.23%. Based on the decision rule of IRR, the two projects should be rejected seeing that the IRR of the two projects is less than the minimum required rate of return at 12%.

### Examiner's report

The question tests candidates' understanding of the internal rate of return method of investment appraisal.

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

The candidates could not properly apply the IRR as a method of investment appraisal because some of them muddled up the formulae and used wrong discounting factor; and the few of them who got it a bit right could not give the correct advice.

Candidates are strongly advised to cover the entire syllabus in the course of their preparations for this subject in the future. The institute may need to provide a video recording of the teaching of each topic covered by the ICAN study text in addition to the present arrangement of making the study text and Pathfinder available in soft and hard copies.

<b>Marking guide</b>	<b>Marks</b>
DCF @ 12% (1/2 mark each x maximum of 4 ticks)	2
DCF @ 10% or any rate chosen by the candidate that can provide NPV (1/2 mark each X maximum of 4 ticks)	2
Calculate of Present Value:	
Project Blue (1/2 mark each x maximum of 8 ticks)	4
Project Pink (1/2 mark each x maximum of 8 ticks)	4
Total PV figure:	1
Project Blue (1/2 mark each X maximum of 2 ticks)	1
Project Pink (1/2 mark each X maximum of 2 ticks)	1
Calculation of IRR (formula)	1
Calculation of IRR (steps)	1
Project Blue	1
Project Pink	1
Calculation of IRR (Final Answer)	1
Project Blue	1
Project Pink	1
Conclusion (the two projects)	1
<b>Total</b>	<b><u>20</u></b>

### **SOLUTION 3**

#### **Characteristics of Conflicts**

- i. Conflict usually has a negative impact on the effectiveness of an organisation.
- ii. There may be unhealthy rivalries between workgroups, departments, or individuals.
- iii. The individuals or groups in conflict are unlikely to communicate openly with each other.
- iv. There may be inter-departmental disputes and arguments.
- v. Individuals or groups will be unwilling to listen to ideas from others with whom they are in conflict.
- vi. There will be a refusal to cooperate.
- vii. The opponents or rivals will constantly make accusations of wrongful treatment or improper behaviour.
- viii. Individuals are likely to feel frustrated in their work and put the blame on the 'enemy'.
- ix. There may be disputes over rights and responsibilities.

## **Leadership styles identified by Rensis Likert**

- b)
- i. Exploitative authoritative
  - ii. Benevolent authoritative
  - iii. Consultative
  - iv. Participative
- i. **Exploitative authoritative**  
The leader has a low concern for people. He uses threats and other fear-based methods to get others to do what he instructs. Communication is almost entirely a downward process, from the leader to the subordinates.
- ii. **Benevolent authoritative**  
The leader is authoritarian but also shows concern for people. He is a 'benevolent dictator'. He uses rewards to encourage performance. He listens to the concerns of people lower down in the organisation, but he is often told by subordinates what they think he would like to hear. Most decisions are taken by the leader. There is not much teamwork among the subordinates.
- iii. **Consultative**  
The leader makes a genuine attempt to listen to his subordinates. He has substantial trust in his subordinates, but not enough to let them take major decisions (which he takes himself). There is some two-way vertical communication between leader and subordinates, and some horizontal communication between subordinates, with a moderate amount of teamwork and cooperation.
- iv. **Participative**  
The leader engages subordinates in the decision-making process. He has complete confidence in his subordinates, who feel a sense of responsibility for the organisation's goals. People are psychologically close and work well together. Subordinates receive economic rewards based on achieving goals that have been set with their participation. Likert argued that a participative style of leadership was ideal for the profit-oriented, human-concerned organisation.

### **Examiner's report**

Part (a) tests candidates' knowledge of characteristics of conflicts in different workgroups or departments, while part (b) focuses on the leadership styles identified by Rensis Likert.

About 50% of the students attempted the question but performance was poor.

It appears most of the candidates had little or no clue of what the question was about, hence, they could not do justice to it. Though most of them could state what conflicts are, they could not properly state the characteristics of conflicts and had very little knowledge of the leadership styles identified by Rensis Likert. Instead,



they were confusing them with the popular autocratic, laissez-faire and democratic leadership styles.

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

<b>Marking guide</b>		<b>Marks</b>
a)	Subject to a maximum of 5 characteristics, award a maximum of 2 marks each for a correct characterisation of conflict stated	10
b)	Award a maximum of 1 mark each for correctly stating 4 leadership styles identified by Rensi Likert	4
	Award a maximum of 1½ marks each for correctly explaining the 4 leadership styles identified by Rensi Likert	6
<b>Total</b>		<u><b>20</b></u>

#### **SOLUTION 4**

- a) **An accounting professional body has the power to:**
- i. Admits new members to the profession
  - ii. Awards qualifications to individuals who achieve a required standard of skill or competence; and
  - iii. Expels members from the profession, for unprofessional conduct.
- b) **Purposes of ICAN Code of Ethics**
- i. Supports the moral principles and commitments of an organisations;
  - ii. It spells out acceptable and responsible behaviour in a way that is clear to all within the organisation;
  - iii. It enlightens the public on what the organisation stands for; and
  - iv. It informs the public what to expect when doing business with its members.
- c). **Safeguards created by the Profession Legislation or Regulation against Ethical threats and Dilemmas**
- i. Educational, training, and experience requirements for entry into the profession.
  - ii. Continuing professional development requirements.
  - iii. Corporate governance regulations.
  - iv. Professional standards.
  - v. Professional or regulatory monitoring and disciplinary procedures.
  - vi. Effective, well-publicised complaint systems operated by the employing organisation, the profession, or a regulator, which enable colleagues, employers, and members of the public to draw attention to unprofessional or unethical behaviour.

- vii. An explicitly stated duty to report breaches of ethical requirements placed on members of a profession.

### Examiner's report

Part (a) of the question tests candidates' understanding of the powers of a professional accounting organisation. Part (b) tests the purposes of ICAN codes of ethics while Part c tests the safeguards created by the profession, legislation or regulation against ethical threats and dilemmas.

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

Almost all the candidates could not do justice to this question. They mostly confused the powers of professional accounting organisation with the powers of an accountant. Also, they had very poor knowledge of the three purposes of ICAN codes of ethics and barely knew what the safeguards created by profession, legislation or regulation against ethical threats and dilemmas.

Candidates should concentrate on all aspects of the syllabus and use ICAN Study Text and suggested solution to past examinations as provided in Pathfinders for future examinations.

### Marking guide

	Marks
a) Award a maximum of 2½ marks each for correctly stating 2 powers of an accounting professional body	5
b) Award a maximum of 2 marks each for correctly stating 3 purposes of the ICAN code of ethics	6
Award a maximum of 1½ marks each for correctly stating 6 safeguards created by the profession, legislation, or regulation against ethical threats and dilemmas	9
<b>Total</b>	<b><u>20</u></b>

### SOLUTION 5

#### a) Digital communication concepts

##### (i) Social media can be described as:

- a computer-based technology that facilitates the sharing of ideas, thoughts, and information through the building of virtual networks and communities;
- internet services that let you interact with others and share and create content through online communities;
- the means of interactions among people in which they create, share, and/or exchange information and ideas in virtual communities and networks;
- internet services that let you interact with others and share and create content through online communities.

- (ii) **Digital marketing can be described as:**
- any online marketing efforts that introduce people to your company and convince them to buy.
  - the use of the Internet to reach consumers.
- (iii) **The website can be described as a**
- set of related web pages located under a single domain name, typically produced by a single person or organisation.
  - group of World Wide Web pages usually containing hyperlinks to each other and made available online by an individual, company, educational institution, government, or organisation.
  - collection of publicly accessible, interlinked web pages that share a single domain name. Websites can be created and maintained.
  - page or collection of pages on the World Wide Web that contains specific information which was all provided by one person or entity.
  - collection of web pages and related content that is identified by a common domain name and published on at least one web server.
  - central location with more than one web page or a series of web pages.
  - collection of linked web pages (plus their associated resources) that share a unique domain name.
  - collection of related material that contains text, images, and may also include video, audio or other media.
  - group of World Wide web pages usually containing hyperlinks to each other and made available online by an individual, company.
- (iv) **E-mail (Electronic mail) can be described as:**
- a system that allows users to send and receive messages through a computer network;
  - the transmission of messages (called emails, or email messages) over an electronic network such as the Internet or an intranet. E-mail (Electronic mail) is a system for sending and receiving messages electronically over a computer network;
  - the transmission of messages on the Internet; and
  - the electronic equivalent of a letter, but with advantages in timeliness and flexibility.
- (v) **Social media management can be described as:**
- the process of analysing social media audiences and developing a strategy that is tailored to them, creating and distributing contents for social media profiles, monitoring online conversations, collaborating with influencers, providing community service, and monitoring.
  - the process of managing online presence on social media platforms by creating, publishing, analysing the contents you post, engaging and interacting with social media users.
  - a practice that supports your digital marketing and social media strategies.

- b) **Ten uses of social media pages**
- i. Presents marketing opportunities for businesses of all sizes.
  - ii. Promotes the name of business and its brand.
  - iii. Serves as profitable marketing channels.
  - iv. Facilitates the building of brand awareness.
  - v. Connects with existing customers.
  - vi. Generates new leads to fill your funnel.
  - vii. Facilitates reputation management.
  - viii. Manages communication crisis.
  - ix. Facilitates Customer and audience engagement.
  - x. Enhances Customer service and customer support.
  - xi. Helps to connect with customers.
  - xii. Increases awareness of the brand.
  - xiii. Boosts leads and sales.
  - xiv. Fundamental to business marketing strategy.
  - xv. Provides an opportunity to establish customer service by gathering input, answering questions, and listening to their feedback.

### **Examiner's report**

Part (a) of the question tests candidates' intellectual capacity with respect to digital concepts, while part (b) examined candidates' knowledge of the uses of social media management. Majority of the candidates attempted the question and their performance was above average.

Though most of the candidates could properly explain most of the digital communication concepts, they could not properly explain what a website is, though they could cite examples of websites. Also, they could mostly state the non-business-related uses of social media pages.

Candidates should get acquitted with every aspect of the syllabus including ethical concepts and business ethics.

### **Marking guide**

	<b>Marks</b>
a) Award a maximum of 2 marks for a correct explanation of social media	2
Award a maximum of 2 marks for a correct explanation of digital marketing	2
Award a maximum of 2 marks for a correct explanation of websites	2
Award a maximum of 2 marks for a correct explanation of electronic mail	2
Award a maximum of 2 marks for a correct explanation of social media management	2
b) Subject to a maximum of ten uses, award 1 mark each for stating the correct usage of social media pages	10
<b>Total</b>	<u><b>20</b></u>

## **SOLUTION 6**

### **a) Matrix organisational structure**

A matrix organisation can be described as any organisation that employs a multiple command system that includes not only a multiple command structure but also related support mechanisms and an associated organisational culture and behavior pattern.

#### **Main Advantages of Organisational Structure**

- i. It facilitates the use of specialised personnel, equipment, and facilities;
- ii. It provides professionals with a broader range of responsibilities and experience; and
- iii. Experience gathered through the use of matrix structure helps to develop the skills and competencies of personnel.

### **b) Network organisational structure**

A network organisation is a collection of autonomous units or firms that behave as a single larger entity.

The salient features of Network organisation structure

- a. May be legally independent entities
- b. May be wholly owned subsidiaries
- c. They are numerous individual partnerships
- d. They share same branding
- e. They share same codes of ethics
- f. They share same working practices.

### **c) Reasons for failure of the policy of subsidising imported petroleum products in Nigeria**

- i. The cost of maintaining the subsidy escalated significantly;
- ii. Stifled Nigeria's long-term development;
- iii. The regulatory framework used to enforce the subsidy was weak;
- iv. The regulatory framework used to enforce the subsidy suffered from a lack of transparency;
- v. Increased number of alleged incidences of misappropriation of subsidy funds;
- vi. Subsidised petrol being sold at a premium in neighbouring countries;
- vii. Lack of incentive to make Nigerian refineries more efficient; and
- viii. The IMF and World Bank did not fully support the subsidy.

### **Examiner's report**

The question which is presented in three parts tests various aspects of management individuals and organizational behaviour with a special focus on employees' motivation and its relationship with productivity. Part (a) examines candidates' knowledge of matrix organisational structure and Part (b) tests the network organisational structure. Part (c) of the question tests the reasons why the policy of subsidising imported petroleum products failed in Nigeria.

About 70% of the candidates attempted the question but their performance was poor.

The candidates had very little knowledge about both the matrix and network organisational structures, as such performed woefully. Surprisingly, most of the candidates could not properly state the reasons why the policy of subsidising imported petroleum products failed in Nigeria.

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

<b>Marking guide</b>	<b>Marks</b>
a) Award a maximum of 3 marks for a correct description of the matrix organisational structure	3
Award a maximum of 1 mark each for 2 main advantages of matrix organisational structure stated	2
b) Award a maximum of 1 mark for a correct description of the network organisational structure	1
Award a maximum of 1 mark each for 4 salient features stated	4
c) Subject to a maximum of 5 reasons, award a maximum of 2 marks each for each correct description of the reason why the policy of subsidising imported petroleum products failed in Nigeria.	<u>10</u>
<b>Total</b>	<b><u>20</u></b>

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA****FOUNDATION LEVEL EXAMINATION – MAY 2023****BUSINESS LAW****EXAMINATION INSTRUCTIONS****PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER**

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

**THURSDAY, MAY 18, 2023****DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**

**FOUNDATION LEVEL EXAMINATION – MAY 2023**

**BUSINESS LAW**

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

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

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

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

1. Which of the following is an element of a valid contract?
  - A. Conditional acceptance
  - B. Intention to create legal relations
  - C. Conditional offer
  - D. Anticipatory offer
  - E. Anticipatory acceptance
  
2. Agency created when a person by conduct allows an innocent party to believe that another person acted on his behalf is referred to as agency by
  - A. Disclaimer
  - B. Deceit
  - C. Estoppel
  - D. Necessity
  - E. Acceptance
  
3. Which of the following is the meaning of ‘tortfeasor’?
  - A. A person who commits a tort
  - B. A person who is injured by a tort
  - C. A person who avoids a tort
  - D. A person who demands a tort
  - E. A person who prevents a tort
  
4. In a sale of goods, the wrongful refusal of the seller to release possession of goods to the buyer is called
  - A. Retinue
  - B. Seizure
  - C. Impoundment
  - D. Detinue
  - E. Stoppage



5. Which of the following could signify the termination of a hire purchase contract?
  - A. New agreement
  - B. Dissatisfaction
  - C. Reclusion
  - D. Reproduction
  - E. Discouragement
  
6. The insurance principle which allows an insurance company to take over and enforce the right of the insured is known as
  - A. Usurpation
  - B. Representation
  - C. Subrogation
  - D. Contribution
  - E. Impersonation
  
7. The person who orders money to be paid on his behalf to a named person through a cheque is called
  - A. Payee
  - B. Payer
  - C. Drawer
  - D. Drawee
  - E. Payor
  
8. Where an employee incurs expenses on behalf of his employer in his normal course of duty, he must be
  - A. Penalised
  - B. Indemnified
  - C. Surcharged
  - D. Admonished
  - E. Sanctioned
  
9. Under intestacy, the legal term for an estate that is unclaimed by anybody, which devolves on the State is
  - A. *Res extincta*
  - B. *Bona vacantia*
  - C. *Res ipsa loquitor*
  - D. *Parí delicto.*
  - E. *Animus testandi.*
  
10. Under Alternative Disputes Resolution, which of the following steps could a party dissatisfied with the arbitration final award take?
  - A. Seek redress in court

- B. Refuse to honour the award
  - C. Decline acceptance of the award
  - D. Dictate his own award
  - E. Stalemate the arbitration process
11. When is shareholding qualification required of a director?
- A. To screen those qualified
  - B. At the direction of the Corporate Affairs Commission
  - C. When stipulated by the Memorandum of Association
  - D. When stipulated by the Articles of Association
  - E. When required by a Bill
12. A law passed by the National Assembly and assented to by the President is referred to as
- A. Edict
  - B. By-law
  - C. Decree
  - D. Act
  - E. Bill
13. A partner who is liable only to the extent of his capital contribution in apportioning of the partnership's debts is called a/an
- A. Special partner
  - B. Ordinary partner
  - C. Inferior partner
  - D. Quasi partner
  - E. Limited partner
14. .... appoints the first statutory auditors of a company
- A. Audit Committee
  - B. Finance Executive
  - C. Company Secretary
  - D. Board of Directors
  - E. Shareholders
15. Which of the following is an effect of a receivership order?
- A. Powers of the company directors cease
  - B. The Company Secretary becomes the Receiver Manager
  - C. The shareholders take over the company's assets
  - D. The official receiver locks up the company
  - E. The debtors are imprisoned

16. Which of the following is a feature of ethics?
- A. It is punitive
  - B. It is repulsive
  - C. It is assertive
  - D. It is coercive
  - E. It is persuasive
17. Under the Criminal Code, a person who deliberately makes false entries in the financial records of a business organisation is guilty of
- A. Negligent accounting
  - B. Fraudulent accounting
  - C. Inappropriate accounting
  - D. Unreliable accounting
  - E. Inchoate accounting
18. Under the Money Laundering (Prevention and Prohibition) Act, 2022 which of the following is the punishment against corporate bodies that obstruct authorised officers of the Agency from doing their lawful duties?
- A. ₦250,000 fine
  - B. ₦500,000 fine
  - C. ₦1 million fine
  - D. ₦5 million fine
  - E. ₦10 million fine
19. A person who fraudulently invades and corrupts the integrity of information of an electronic device is referred to as a/an
- A. Thief
  - B. Manipulator
  - C. Impersonator
  - D. Hacker
  - E. Intruder
20. The maximum turnover of a small company under the Companies and Allied Matters Act, 2020 is
- A. ₦160,000,000
  - B. ₦150,000,000
  - C. ₦140,000,000
  - D. ₦130,000,000
  - E. ₦120,000,000

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

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

**QUESTION 1**

- a. Under the law of torts, any person of legal capacity can be sued for torts committed by him.

**Required:**

State **FOUR** classes of persons exempted from this rule as provided in the Nigerian 1999 Constitution (as amended). (4 Marks)

- b. Under the Companies and Allied Matters Act, 2020 partnerships and companies are business organisations which have distinct features.

**Required:**

Explain briefly **THREE** similar features of a limited liability partnership and a public limited company. (6 Marks)

- c. Jaffer, who trades in importation of edible consumables from Cotonou, agreed with Fudu to import and deliver to Fudu in Lagos 50 tonnes of foreign parboiled rice in 50kg bags of the total value of ₦7million. Fudu paid an advance of ₦3million, and balance was payable on delivery of the consignment. Jaffer sent the bags of rice but it was confiscated by the Nigeria Customs Service at the border, as the Federal Government had banned the importation of rice into Nigeria. Fudu is aggrieved for non-delivery of the consignment to him and intends to sue Jaffer to recover the ₦3million deposit he had paid.

**Required:**

Advise Fudu accordingly, stating the legal issues involved. (10 Marks)

**(Total 20 Marks)**

**QUESTION 2**

- a. The Nigerian 1999 Constitution (as amended) stipulates the fundamental rights of citizens.

**Required:**

State **SIX** fundamental human rights under the Nigerian 1999 Constitution (as amended). (6 Marks)

- b. Partnership name, if not the real surnames of the partners, must be registered with the Corporate Affairs Commission.

**Required:**

Enumerate **FOUR** contents of the statement to be submitted to the Corporate Affairs Commission if a partnership name is not the surnames of the partners. (4 Marks)

- c. The Companies and Allied Matters Act, 2020 provides that the directors of public companies must prepare annual financial statements.

**Required:**

State **SIX** contents of the directors' annual financial report. (6 Marks)

- d. A cheque may be crossed in different ways.

**Required:**

i. Explain briefly "special crossing" on a cheque. (2 Marks)

ii. State **TWO** narrations that may be placed on such a crossed cheque. (2 Marks)

**(Total 20 Marks)**

**QUESTION 3**

- a. Tatafo insured his 2-storey house with an insurance company against fire and burglary incidents. A question in the proposal form required the insured to state any peculiar or special environmental information on the location of the house, to which Tatafo wrote "None". The house was recently destroyed by fire, which started from a near-by petrol station.

Tatafo filed for claims from the insurance company, but the insurance company refused to pay on discovering that the house was built behind the petrol station, which Tatafo failed to disclose on the insurance proposal form. Tatafo is aggrieved and intends to sue the insurance company.

**Required:**

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

- b. Fraudulent acts in business may be classified under economic tort.

**Required:**

Explain briefly, the following in business transactions:

i. Deceit (2 Marks)

ii. Passing Off (2 Marks)

- c. There are different types of agent under agency law.

**Required:**

State **SIX** types of agent. (6 Marks)

- d. A public company may be wound up by order of court.

**Required:**

State **FOUR** persons that could petition the court for the winding up of a public company. (4 Marks)

**(Total 20 Marks)**

**QUESTION 4**

- a. The Companies and Allied Matters Act, 2020 stipulates that public companies must appoint statutory auditors.

**Required:**

Explain briefly **FOUR** of the steps in the procedure for the removal of auditors of a public company before expiration of their tenure of office.

(8 Marks)

- b. Under the law of contract, invalid contracts are unenforceable.

**Required:**

i. State **FOUR** essential elements of a valid contract. (4 Marks)

ii. State **FOUR** rules guiding consideration in a contract. (4 Marks)

- c. Tort is a breach of personal duties, which gives rise to civil proceedings.

**Required:**

i. Explain "Negligence" briefly. (2 Marks)

ii. State **TWO** essential elements of negligence. (2 Marks)

**(Total 20 Marks)**

**QUESTION 5**

- a. Redundancy of employees in an organisation may arise as a result of excess manpower.

**Required:**

Explain briefly **THREE** conditions an employer must meet before the redundancy of its employees. (6 Marks)

- b. Hire purchase contract may be terminated under certain circumstances.

**Required:**

State **FOUR** circumstances under which a hire purchase contract may be terminated. (4 Marks)

- c. Mr. Agbons pledged his tricycle to secure a loan of ₦200,000 from Chief Osas, a moneylender. Mr. Agbons promised to repay the loan on December 31 and recover his tricycle from Chief Osas. However, Chief Osas sold the tricycle on

December 28 when he learned that Mr. Agbons had relocated to his village to be a farmer and might not return again. On the morning of December 31, Mr. Agbons came to meet Chief Osas to repay the ₦200,000, only to learn that the tricycle had been sold by Chief Osas. Mr Agbons is aggrieved and intends to sue Chief Osas for the replacement of his tricycle.

**Required:**

Advise Mr Agbons, stating the legal principle involved. (6 Marks)

- d. The Money Laundering (Prevention and Prohibition) Act, 2022 stipulates punishments for various offences under the Act.

**Required:**

Explain briefly the punishment for laundering of drug money by the following persons:

- i. Individual (minimum and maximum punishments) (2 Marks)  
ii. Corporate body (2 Marks)

**(Total 20 Marks)**

**QUESTION 6**

- a. E-mail evidence may be admissible in proving electronic fraud.

**Required:**

State **FOUR** means to authenticate an e-mail message as evidence in a case of electronic fraud. (4 Marks)

- b. Tort may be classified into different categories and classes.

**Required:**

Explain briefly **THREE** common rules applicable to tort liability. (6 Marks)

- c. Under Alternative Dispute Resolution (ADR), disputes can be resolved through arbitration.

**Required:**

State **TWO** disputes each:

- i. That can be referred to arbitration (2 Marks)  
ii. That cannot be referred to arbitration (2 Marks)

- d. Intestacy law relates to persons who die intestate.

**Required:**

State **SIX** persons that can apply for letters of administration of the estate of a person who dies intestate in their order of priority under the law of intestacy.

(6 Marks)

**(Total 20 Marks)**

## **SECTION A**

### **MCQ - SOLUTIONS**

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

### **Examiner's report**

The questions were spread fairly over the syllabus.

100% of the candidates attempted these questions of which about 95% scored 10 marks and above.



## SECTION B

### SOLUTION 1

- a. Classes of persons exempted from being sued in tort under the Nigerian 1999 Constitution are as follows:
  - i. The President, Vice-President, State Governors and their Deputies;
  - ii. Diplomats and Ambassadors of foreign countries;
  - iii. Judges, Magistrates, and other judicial officers acting in judicial capacity;
  - iv. Persons with legal incapacity, such as minors and persons of unsound mind
  - v. Members of the National Assembly and States' Houses of Assembly for their acts during house sessions; and
  - vi. Unborn children (*en ventre sa mere*).
  
- b. The following are similar features of a limited liability partnership and a public limited company, under the Companies And Allied Matters Act, 2020:
  - i. **Legal personality**  
Both a limited liability partnership and a public limited company are recognised in law as legal entities quite separate from the partners in the partnership and owners of the company (shareholders) respectively.
  
  - ii. **Body corporate**  
Both limited liability partnership and public limited company are classified as bodies corporate, which could enter into business transactions with third parties, sue, or be sued in their names.
  
  - iii. **Perpetual succession**  
Both limited liability partnership and public limited company have perpetual succession, and could exist until formal winding up. Thus, change in partners in the partnership or change in the company's ownership do not dissolve or liquidate the business.
  
  - iv. **Limited liability**  
In a limited liability partnership, the liability of the partners is limited to their capital contribution. Similarly, in a Public limited company, the shareholders' liability is limited to the value of the shares subscribed by them.
  
  - v. **Transferability of interests**  
Partners in a limited liability partnership and members of a public company may transfer their interests to third parties, subject to some rules.

vi. **Ownership of property**

The properties of each of the entities belong to it, and not the members.

- c. The legal issue involved is illegality as a vitiating factor in a contract. Any contract for the purpose of carrying out an act prohibited by law or any illegal business is null and void.

In this case, the contract between Jaffer and Fudu for the importation of banned rice into Nigeria is illegal. The effect is that the contract is null and void *ab initio*. Thus, the ₦3million deposit paid by Fudu is not recoverable.

Fudu is advised not to sue Jaffer for recovery of the ₦3million deposit he paid as the suit will fail.

**Examiner’s report**

The question tests the candidates’ knowledge of the categories of person that cannot be sued for torts; features of a limited partnership and a company that are similar; and the effect of illegality in a contract.

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

Candidates’ major pitfall was their lack of understanding of the characteristics of limited liability partnership and a company as well as the effect of illegality on a contract.

Candidates’ are advised to study the affected areas more diligently in the ICAN Study Text and other texts in their future preparation.

**Marking guide**

	<b>Marks</b>	<b>Marks</b>
a. Stating of 4 classes of persons exempted from being sued for tort (1 mark each for any 4 points= 4 Marks)		4
b. Explanation of 3 similar features of limited liability partnership and public limited company. (2 marks each for any 3 points = 6 marks)		6
c. (i) Legal issues involved is illegal contracts and effects.	4	
(ii) Apply to case – the contract is illegal, null and void	4	
(iii) Fudu is advised not to sue (illegal contract is void)	<u>2</u>	<u>10</u>
<b>Total</b>		<b><u>20</u></b>

## **SOLUTION 2**

- a. The following are the fundamental human rights contained in the Nigerian 1999 Constitution:
- i. Right to life;
  - ii. Right to dignity of the human person;
  - iii. Right to personal liberty;
  - iv. Right to fair hearing;
  - v. Right to private and family life;
  - vi. Right to freedom of thoughts, conscience and religion;
  - vii. Right to freedom of expression and press;
  - viii. Right to peaceful assembly and association;
  - ix. Right to freedom of movement; and
  - x. Right to freedom against discrimination.
- b. The following are contents of the statement to be submitted to the Corporate Affairs Commission if partnership name is not the surnames of the partners:
- i. The partnership business name;
  - ii. The general nature of the business;
  - iii. The addresses of the principal place and other places of business;
  - iv. The full residential addresses of the partners;
  - v. The full personal details of the partners, i.e, names, age, sex, occupation, etc; and
  - vi. The passport photographs of the partners.
- c. The contents of the directors' annual financial report are the following:
- i. Statement of the accounting policies;
  - ii. Statement of financial position;
  - iii. Statement of profit or loss and other comprehensive income;
  - iv. Notes to the financial statements;
  - v. Auditors' report;
  - vi. Directors' report;
  - vii. Statement of cash flow; and
  - viii. Statement of value added.
- di. **Special Crossing on Cheque**  
Special crossing is effected on a cheque by writing or stamping the name of a particular collecting bank on the face of the cheque and two transverse parallel lines drawn across the face of cheque.
- ii. A cheque with special crossing may have any of the following narrations written in between the two transverse parallel lines:
- Account Payee Only
  - Not Negotiable
  - & Co

### Examiner's report

The question tests candidates' understanding of fundamental human rights as provided for under the Nigerian Constitution; statement to be submitted to register a partnership name other than the partners' true surnames with the Corporate Affairs Commission; contents of the directors' annual financial report; special crossing of cheques; and narrations that crossed cheques bear.

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

Candidates' major pitfall was their lack of understanding of the contents of the registration of partnership statement and the types of, and narration on, crossed cheques.

Candidates are advised to study registration of partnerships and crossing of cheques more diligently in the ICAN Study Text and other texts in their future preparation.

### Marking guide

	Marks	Marks
a. Fundamental human rights contained in the Nigerian 1999 Constitution (1 mark each for any 6 rights = 6 marks)		6
b. Contents in the statement to be filed for partnership name registration with the Corporate Affairs Commission. (1 mark each for any 4 contents = 4 marks)		4
c. Contents of company directors' annual financial report (1 mark each for any 6 points = 6 marks)		6
d. i. 2 marks for discussion of special crossing on cheque	2	
ii. 2 marks for discussion of narrations on a specially crossed cheque	2	4
<b>Total</b>		<u><u>20</u></u>

### SOLUTION 3

- a. The legal issue involved is the principle of utmost good faith (*uberrimae fidei*) in insurance contracts with particular reference to disclosure of material facts by the insured. This is to aid the insurer in his decision on whether or not to accept the proposal, or in determining the adequate premium to cover the risk.

In this case, the location of the house near a petrol station was a material fact which Tatafo should have disclosed on the insurance proposal form. Indeed, the insurer specifically requested for any peculiar environmental information on the location of the house.

Flowing from the above, non-disclosure of that material fact by Tatafo is a breach of the principle of *uberrimae fidei*. The insurance company's refusal to pay Tatafo's claims may be upheld by the court. Tatafo is thus advised not to sue the insurance company.

bi. **Deceit**

The act of deceit in business occurs when a person, with a fraudulent intention, knowingly makes a false statement that induces another person to act upon the falsehood, which causes economic loss to that other person.

ii. **Passing Off**

This is a false representation made by a person who used a name similar to that of another business organisation, intended to induce other persons to patronise his goods or services.

c. The following are different types of agent under agency law:

- i. General Agent;
- i. Special Agent;
- ii. Universal Agent;
- iii. Auctioneer;
- iv. Factor;
- v. Broker;
- vi. Estate Agent;
- viii. *Del credere* agent; and
- ix. Rent collector.

d. Persons that could petition the court for the winding up of a public company are the following:

- i. The company (in voluntary winding up);
- ii. A creditor;
- iii. The Corporate Affairs Commission;
- iv. The Official Receiver;
- v. A contributory (if company is limited by guarantee);
- vi. An equity shareholder (if membership falls below 2); and
- vii. A trustee in bankruptcy.

**Examiner's report**

The question tests candidates' knowledge of material facts in the law of insurance; the torts of deceit and passing off; types of agent; and persons who may petition the court for winding up.

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

Candidates' knowledge of passing off and types of agent was deficient.

Candidates are advised to cover the passing off and types of agent more diligently in their future preparation.

### Marking guide

	<b>Marks</b>	<b>Marks</b>
a. (i) Legal issue involved is non-disclosure of material fact in insurance contract	2	
(ii) Apply to case – non-disclosure of petrol station nearness to the insured building is undisclosed material fact	2	
(iii) Tatafo is advised not to sue, as claim will fail	<u>2</u>	6
b. (i) Explanation of Deceit	<u>2</u>	
(ii) Explanation of Passing Off	<u>2</u>	4
c. Stating 6 types of Agents (1 mark each for any 6 = 6 marks)		6
d. Stating 4 persons that can petition court for winding-up of a public company (1 mark each for any 4 = 4 marks)		<u>4</u>
<b>Total</b>		<b><u>20</u></b>

### SOLUTION 4

- a. The steps in the procedure for the removal of auditors of a public company before expiration of their tenure in office are as follows:
- (i) Ordinary resolution for his removal must be passed at a general meeting of the company;
  - (ii) The auditor must be given notice of the general meeting where the resolution for his removal is to be passed;
  - (iii) The auditor must be given a copy of the resolution passed at the general Meeting;
  - (iv) The resolution must be filed with the Corporate Affairs Commission within 14 days of its passing;
  - (v) The removed auditor must be paid all entitlements due to him in respect of his removal from office; and
  - (vi) The removed auditor is entitled to attend the general meeting at which his term of office would otherwise have expired.
- bi. The essential elements of a valid contract are as follows:
- Offer;
  - Acceptance (agreement);
  - Intention to create legal relations;
  - Consideration (except contracts under seal); and
  - Legal capacity of parties.

- ii. The rules guiding consideration in a contract include the following:
- Consideration must move from the promisee but not necessarily to the promisor;
  - Consideration must be sufficient, but not necessarily adequate;
  - Consideration must not be illegal or immoral;
  - Consideration must be definite and not vague;
  - Consideration may be executed (now), or executory (future);
  - Consideration must not be past, except by the promissory *estoppel*.
- ci. **Negligence**  
Negligence means a breach of a legal duty of care which results into an injury or loss to another person.
- ii. The essential elements of negligence are the following:
- There must exist a legal duty of care;
  - There must be a breach of that legal duty of care; and
  - The breach must result in an injury or loss to the party to whom the duty is owed.

### Examiner's report

This question tests candidates' understanding of the steps for the removal of company auditors; elements of a valid contract and negligence as well as the rules on consideration in the law of contract.

About 75% of the candidates attempted the question, and performance was good. Candidates' major pitfall was their lack of understanding of the steps to take in removing company auditors.

Candidates are advised to study the auditor's removal more diligently in their future preparation.

### Marking guide

	<b>Marks</b>	<b>Marks</b>
a. Discussion of steps in the procedure to be followed for the removal of statutory auditor (2 marks each for any 4 = 8 marks)		8
b. i. Statement of essential elements of a valid contract (1 mark each for any 4 = 4 marks)	4	
ii. Statement of rules guiding consideration (1 mark each for any 4 = 4 marks)	<u>4</u>	8
c. i. Discussion of negligence	2	
ii. Elements for proof of negligence (1 mark each for any 2 = 2 marks)	<u>2</u>	<u>4</u>
	<b>Total</b>	<b><u>20</u></b>

## **SOLUTION 5**

- a. The conditions an employer must meet before effecting redundancy of its employees include the following:
  - i. The employer is obliged to notify the employees of the impending redundancy;
  - ii. The employer must give the main reason for the declaration as excess of manpower and not a vindictive or punitive measure;
  - iii. The employer must inform the employees' trade union or association of number of employees to be affected by the declaration; and
  - iv. The employer must make the best effort to negotiate redundancy benefits for employees to be discharged and payment terms.
  
- b. The circumstances under which a hire purchase contract may be terminated include the following:
  - i. A mutual agreement by both parties to rescind the contract;
  - ii. By the performance of all obligations under the contract;
  - iii. Supervening event or frustration of the contract, such as fire, act of God, etc;
  - iv. Repudiation by an aggrieved party;
  - v. Provision in the contract that allows the termination at any stage; and
  - vi. Court order or judgment of court.
  
- c. The legal issue involved relates to a pledge of goods as security for a loan or debt until the indebtedness is repaid. During the subsistence of the loan, possession of the goods goes to the lender while ownership remains with the borrower.

A pledge of goods by a borrower to a lender is to be held as security until the loan has been repaid. Hence, the lender has no right to sell the pledged goods as he does not have ownership.

Following from above, Chief Osas is wrong to have sold the tricycle, and Mr. Agbons is thus advised to go ahead to sue Chief Osas for the replacement of his tricycle.

- d. The punishments for laundering of drug money by the following persons are as stated below:
  - i. **Individual**  
An individual found guilty of laundering drug money, shall on conviction, be liable to a minimum punishment of 4 years imprisonment, and a maximum of 14 years imprisonment.



**ii. Corporate body**

A corporate body found guilty of laundering drug money shall, on conviction, be liable to compulsory winding up of the company and forfeiture of the company's assets to the Federal Government.

**Examiner's report**

The question tests candidates' understanding of conditions for employees' redundancy; occurrences for termination of a hire purchase contract; sale of goods pledged for loan before payment of the loan is due; and punishment for laundering of drug money.

About 65% of the candidates attempted it and performance was above average.

Candidates' major pitfall was inadequate understanding of redundancy and punishment for money laundering.

Candidates are advised to study the areas of deficiency more diligently in the ICAN Study Text and other texts in their future preparation.

**Marking guide**

	<b>Marks</b>	<b>Marks</b>
a. Steps that an employer must take before declaring employee redundant. (2 marks each for any 3 = 6 marks)		6
b. Circumstances for the termination of Hire Purchase agreement. (1 mark each for any 4 = 4 marks)		4
c. i. Legal issue involved is that goods pledged cannot be sold by the pledgee.	2	
ii. Application to case- Chief Osas is wrong to have sold the pledged tricycle and is liable to replace the tricycle.	2	
iii. Advice to Agbons - sue Chief Osas to replace the tricycle.	<u>2</u>	6
d. i. For convicted individuals, a minimum of 4 years and maximum of 14 years imprisonment.	2	
ii. For a corporate body, winding-up and forfeiture of the company's assets to the Federal Government.	<u>2</u>	<u>4</u>
	<b>Total</b>	<b><u>20</u></b>

## **SOLUTION 6**

- a. The means of authenticating an e-mail message as evidence in a case of electronic fraud include the following:
- (i) Testimony of the author or originator;
  - (ii) Comparing the e-mail message with other self-authenticating e-mail messages;
  - (iii) Obtaining the printout of the e-mail message;
  - (iv) Use of peculiar features of the e-mail message;
  - (v) Reliance on the witness who has a knowledge of the exchange of e-mail
  - (vi) Oral evidence of the recipient of the e-mail; and
  - (vii) Evidence that the e-mail message tallies with other admitted telephone discussions of the parties.
- b. The common rules applicable to tort liability are as follows:
- (i) The tortfeasor would not be liable unless the aggrieved person had suffered either physical injury or economic loss that resulted from the tort;
  - (ii) It is required that the tortfeasor must have been at fault either intentionally or through his acts of negligence, for which he will bear strict liability;
  - (iii) The liability to be borne depends on the duty imposed on the guilty party by rule of the specific tort;
  - (iv) Torts that are actionable *per se* can be successfully litigated without a need for proof of damage or injury to the aggrieved party; and
  - (v) The tort must contain a breach of a legal duty of the tortfeasor and the resultant injury or loss to the aggrieved party.
- c.i **Disputes that can be referred to arbitration under ADR include:**
- Disputes on justiciable issues;
  - Disputes that can be compromised by way of accord;
  - Domestic issues between spouses; and
  - Disputes to be withdrawn from court, if agreed by the parties.
- ii. **Disputes that cannot be referred to arbitration under ADR include:**
- Disputes arising from illegal contracts;
  - Disputes arising from void transactions;
  - Disputes of criminal nature; and
  - Disputes relating to indictment of public offence.

- d. The following are persons that could apply for letters of administration of the estate of a person who died intestate in their order of priority:
- (i) Surviving spouse.
  - (ii) Children of the deceased.
  - (iii) Parents of the deceased.
  - (iv) Brothers and sisters of full blood.
  - (v) Brothers and sisters of half blood.
  - (vi) Grandparents of the deceased.
  - (vii) Uncles and aunts of full blood.
  - (viii) Uncles and aunts of half blood.
  - (ix) The State, for any of the deceased's unclaimed estates (*bona vacancia*)

### Examiner's report

The question tests candidates' understanding of the means of authenticating an e-mail message in electronic fraud cases; referral of disputes to arbitration; rules that are common to tort liability; and persons that are eligible to apply for letters of administration in intestate succession.

About 45% of the candidates attempted the question, and performance was poor.

Candidates showed deficient knowledge of all segments of the question as stated above.

Candidates are advised to study the components of the question more diligently in the ICAN Study Texts and other texts in their future preparation.

### Marking guide

	Marks	Marks
a. Ways to authenticate email message in electronic fraud case (1 mark each for any 4 points = 4 marks)		4
b. Common rules applicable to tortious liability (2 marks each for any 3 = 6 marks)		6
c. i. Disputes that can be referred to arbitration (1 mark each for any 2 points = 2 marks)	2	
ii. Disputes that cannot be referred to arbitration (1 mark each for any 2 points = 2 marks)	<u>2</u>	4
d. Persons entitled to apply for letters of administration in their order of priority (1 mark each for any 6 points = 6 marks)		
	<b>Total</b>	<u><u>6</u></u> <b>20</b>