



**THE INSTITUTE OF CHARTERED  
ACCOUNTANTS OF NIGERIA**

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# **PATHFINDER**

**NOVEMBER 2021 DIET  
FOUNDATION LEVEL EXAMINATIONS**

**Question Papers**

**Suggested Solutions**

**Marking Guides**

**and**

**Examiners' Reports**

## **FOREWARD**

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

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

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

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

### **NOTES**

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

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**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**  
**FOUNDATION LEVEL EXAMINATION – NOVEMBER 2021**  
**FINANCIAL ACCOUNTING**

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

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

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

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

1.     Which of the following will result in an increase in cash of the business?
  - A.     Drawings from the business
  - B.     Payments for a new assets
  - C.     Proceeds from disposal of non-current assets
  - D.     Payments to a suppliers
  - E.     Goods sold on credit to customers
  
2.     Which of the following is a **correct** accounting principle?
  - A.     Revenue should be supported by equity
  - B.     There should be a balance in the account payable in order to measure total assets
  - C.     Where total liabilities is zero, the assets are equal to equity
  - D.     Total liabilities and equity are equal
  - E.     Total assets can be less than liabilities and equity
  
3.     A cheque of ₦5,000,000 paid to Alhaji Daleko was correctly entered in the cash book but omitted in Alhaji Daleko's account. To correct this error, debit Alhaji Daleko's account and credit.
  - A.     Cash account
  - B.     Bank account
  - C.     Suspense account
  - D.     Purchases account
  - E.     Control account

4. Success Motors bought three Toyota Jeep on cash at the cost of ₦16,000,000. On debiting the vehicle account, the corresponding credit for the purchase will appear in the
- A. Sales day book
  - B. Purchase day book
  - C. Payable account
  - D. Cash book
  - E. Purchases account
5. An item credited in the bank statement but yet to be recorded in the firm's cash book is
- A. Standing order
  - B. Direct credit
  - C. Direct debit
  - D. Uncredited lodgements
  - E. Unpresented cheques
6. The control account is used in facilitating
- A. The location of errors in the various accounts
  - B. To update bank transactions
  - C. The payment of debts and liabilities of the firm
  - D. Location of petty cash book error
  - E. Balancing the trial balance
7. Subscription in arrears is treated in the statement of financial position of a not-for-profit organisation as
- A. Current asset
  - B. Current liability
  - C. Non-current assets
  - D. Intangible asset
  - E. Tangible asset
8. Accounting concepts are generally accepted principles used in the preparation and presentation of financial statements. Which of the following is **NOT** an accounting concept?
- A. Going concern
  - B. Impairment
  - C. Matching
  - D. Periodicity
  - E. Prudence

9. According to IAS 2-Inventories, which of the following costs should be included in determining the value of inventories of a manufacturing company?
- A. Carriage inwards
  - B. Carriage outwards
  - C. General administrative overheads
  - D. Depreciation of land and building
  - E. Discount allowed
10. In accordance with IAS 1-Presentation of Financial Statements, which of the following is **NOT** a component of financial statements
- A. Statement of financial position
  - B. Statement of profit or loss and other comprehensive income
  - C. Statement of changes in equity
  - D. Statement of affairs
  - E. Statement of cashflows
11. If the total discount allowed in a cash book was ₦52,000 and the total discount received was ₦66,700, which of the following is **TRUE** concerning the two discounts?
- A. They should not appear in the trial balance as they were already either received or paid out
  - B. They must be balanced in the cash book and the difference taken to the receivables
  - C. They must not appear in the general ledger
  - D. They must be balanced in the cash book and the difference taken to the trial balance
  - E. They should not be balanced in the cash book before being taken to the trial balance
12. A source document for the sales day book is
- A. An invoice
  - B. Cheque stub
  - C. A customer advice
  - D. A credit advice
  - E. A requisition form

- 13 In a cash book, the opening balance was ₦70,600, closing balance was ₦86,600 and the total cash received during the period was ₦180,000. What was the amount of cash paid out during the period?
- A. ₦89,000
  - B. ₦98,000
  - C. ₦146,000
  - D. ₦164,000
  - E. ₦186,000
- 14 The fixed amount of money given to a petty cashier at the beginning of a period is called
- A. Float
  - B. Imprest
  - C. Petty cash
  - D. Cash received
  - E. Cash advance
- 15 Which of the following bank reconciliation items should **NOT** be added or subtracted from the cash book balance to determine the adjusted bank balance?
- A. Bank service charges
  - B. Unpresented cheques
  - C. Direct transfer
  - D. Cash book error
  - E. Value added tax charges
16. The basic features of the single entry system of accounting are:
- A. Books of accounts are not maintained and business relies only on bank statement
  - B. The journal records are absent and only the main ledger is kept
  - C. There are incomplete classifications and recording of accounting procedures
  - D. Only credit sales transactions and credit purchases are recorded
  - E. Only debit entries are made

17. A business proprietor failed to maintain proper records, but you managed to ascertain that his opening capital, closing capital and drawings during the year were ₦225,000, ₦260,000 and ₦10,000 respectively. Determine the profit for the period
- A. ₦25,000
  - B. ₦45,000
  - C. ₦55,000
  - D. ₦65,000
  - E. ₦75,000
18. Adjustments are made for prepaid and accrued expenses in order to comply with which fundamental accounting concept?
- A. Matching
  - B. Prudence
  - C. Aggregation
  - D. Materiality
  - E. Consistency
19. Which of the following is **NOT** a liability?
- A. Accrued wages
  - B. Trade Payables
  - C. Prepayments
  - D. Insurance due but unpaid
  - E. Rent arrears
20. Goodwill can be valued in partnership when
- A. Partners make profit
  - B. Large losses are made
  - C. A partner retires
  - D. A new branch is opened
  - E. A partner receives salary

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

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

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

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

**You are required to:**

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

**(Total 20 Marks)**

**QUESTION 2**

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

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

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

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

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

	₦'000	₦'000
<b>Capital accounts:</b>		
Bala		28,000
Ade		18,000
<b>Current accounts:</b>		
Bala		4,800
Ade		2,000
Amount paid in by Ngozi		2,800
Revenue		272,000
Purchases	190,000	
Wages	20,000	
Salaries	25,000	
General expenses	10,000	
Plant and machinery	25,000	
Motor vehicles	15,000	
Receivables	20,000	
Telephone expenses	3,750	
Payables		24,350
Inventory January 1, 2020	15,000	

Allowances for bad debts		1,500
Bank balance	17,100	
<b>Drawings:</b>		
Bala	6,600	
Ade	5,000	
Ngozi	1,000	
	<u>353,450</u>	<u>353,450</u>

**You are informed that**

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

**You are required to prepare**

- a. Statement of profit or loss and appropriation for the year ended December 31, 2020; accounting for Ngozi on a pro rata time basis. (12 Marks)
  - b. Partners' current account for the above period. (8 Marks)
- (Total 20 Marks)**

**QUESTION 3**

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

	<b>₦'000</b>
200,000,000 ordinary shares of ₦1 each	200,000
Cash at bank and in hand	500
Inventory at December 31, 2020	61,200
Receivables	18,005
Payables	15,009
Gross profit for the period ended December 31, 2020	128,942
General reserves	25,000
Salaries and wages	28,430
Prepayments	600
Bad debts written off	500
Accrued expenses	526
Director's account (Credit)	2,500
Interest on loan notes ( <sup>1</sup> / <sub>2</sub> year to June 30, 2020)	600
Sundry expenses	4,100
Rates and insurance	1,520
6% loan notes	20,000
Lighting and cooling	1,310
Postage and telephones	800

Motor vehicles (cost ₦25,000,000)	15,000
Office fittings and equipment (cost ₦65,500,000)	42,350
Profit or loss at January 1, 2020 (Credit)	22,300
Land and buildings at cost	<u>239,362</u>

**The following additional information is relevant.**

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

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

**You are required to prepare**

- a. Trial balance of Chukwu Limited at December 31, 2020. (6 Marks)
  - b. Statement of profit or loss for the year ended December 31, 2020. (8 Marks)
  - c. Statement of financial position as at December 31, 2020. (6 Marks)
- Note: Ignore taxation. **(Total 20 Marks)**

**QUESTION 4**

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

**Required:**

- i. Explain cash, accrual and break-up bases of accounting. (6 Marks)
  - ii. State **FOUR** limitations associated with cash basis of accounting. (8 Marks)
- d. Mallam Isa is considering setting up a petty cash book from which to pay small expenses, however he is not sure of how a petty cashbook operates.

**Required:**

Explain to Mallam Isa the operation of a petty cash book.

(6 Marks)

**(Total 20 Marks)**

**QUESTION 5**

- a. Explain the term “inventories” as defined by IAS 2-Inventory. (3 Marks)
- b. Explain the costs which should be included when measuring the value of inventories. (8 Marks)
- c. Identify any cost which should be excluded when measuring the value of inventories. (4 Marks)
- d. Ebuka and Sons Enterprises is a manufacturing business entity which imports some of its raw materials from overseas. The business recently took delivery of some materials as detailed below:
- (1) 2000kg of materials at ₦625 per kg subject to a trade discount of 5%.
  - (2) Import duties and other non-recoverable taxes paid amounted to ₦266,000.
  - (3) 3% early payment discount allowance enjoyed by the enterprise amounted to ₦37,500.
  - (4) Delivery cost on materials imported from custom warehouse to production plant is ₦125,000.
  - (5) 3,500kg of local materials at ₦250 per kg subject to a trade discount of ₦50,000.
  - (6) Carriage inwards on local materials purchased was ₦205,000.
  - (7) Special toll fare paid to commodity board for local materials purchased was ₦25,000.

**Required:**

- i. Calculate the total cost of inventory of raw materials (3 Marks)
  - ii. It is estimated that these materials can produce 5000 units of the finished product. Calculate the material cost per unit of the finished product. (2 Marks)
- (Total 20 Marks)**

## QUESTION 6

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

### Required:

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

- b. Propati Limited has fleet of motor vehicles that are used to distribute goods to the market. As at July 2020, the cost of the vehicles was ₦750,000,000 and their accumulated depreciation was ₦30,500,000. On January 1, 2021, the company bought a new vehicle for ₦2,800,000. One of the old vehicles which was acquired 3 years ago at a cost of ₦1,000,000 with accumulated depreciation of ₦600,000 was accepted by the seller in part-exchange at a value of ₦480,000.

### Required:

- i. Calculate the gain or loss on disposal of the old car. (2 Marks)

Prepare the following ledger accounts in respect of the transactions:

- ii. Motor vehicles account (4 Marks)  
iii. Accumulated depreciation account (2 Marks)  
iv. Disposal of asset account (2 Marks)

**(Total 20 Marks)**

## MCQ SOLUTIONS

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

### Tutorial

Cash book			
	₹		₹
13.			
Bal b/d	70,600	Payments	164,000
Customers	180,000	Bal c/d	86,600
	<u>250,600</u>		<u>250,600</u>

17.

	₦
Opening capital	225,000
Profit for the period (balancing)	45,000
	<u>270,000</u>
Drawings	(10,000)
Closing capital	<u>260,000</u>

## **MULTIPLE CHOICE SOLUTIONS**

### **Examiner's report**

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

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

Candidates displayed inadequate knowledge of some accounting concepts, principles and their applications, thereby selecting the wrong options.

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

## **SOLUTION 1**

(a)

<b>Alhaji Mogaji</b>			
<b>Adjusted cash book for the month of March 2020</b>			
	<b>₦'000</b>		<b>₦'000</b>
Direct credits	2,170	Balance b/d	52,599
Cash receipts posted as		Bank charges	201
cash payment	8,470	Default penalty	250
Balance c/d	44,770	Dishonoured cheque	1,230
		Dishonoured chq charge	15
		Standing orders & direct debits	<u>1,115</u>
	<u>55,410</u>		<u>55,410</u>
		Balance b/d	44,770

b)

**Alhaji Mogaji**  
**Bank reconciliation statement as at March 31, 2020**

	N'000	N'000
Balance as per cash book		(44,770)
Less cheque written not yet presented		
Cheque number:		
4528	840	
4535	1,740	
4537	<u>3,670</u>	
		6,250
		<u>(38,520)</u>
Add lodgements made not yet credited		5,120
Correct bank statement balance		<u>(43,640)</u>
Bank errors		
Wrong credit to the account	1,250	
Proprietor's personal account wrongly credited	<u>650</u>	
Balance as per the bank statement		<u><u>1,900</u></u> <u>(41,740)</u>

**Alternative**

**Alhaji Mogaji**  
**Bank reconciliation statement as at March 31, 2020**

	N'000	N'000
Balance as per bank statement		(41,740)
Add uncredited lodgement		<u>5,120</u>
Less unrepresented cheques		(36,620)
Cheque number:		
4528	840	
4535	1,740	
4537	<u>3,670</u>	
		<u>6,250</u>
		<u>(42,870)</u>
Less amount credit by the bank in error on bank statement		1,250
Less amount transferred to personal bank account but wrongly credited by the bank		<u>650</u>
Balance as per adjusted cash book		<u><u>(44,770)</u></u>

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

### **Examiner's report**

This question tests candidates' ability to prepare adjusted cash book, bank reconciliation statement and to state the reasons for preparing bank reconciliation statement.

Majority of the candidates attempted the question and their performance was average. A good number of the candidates performed very well in the preparation of the adjusted cashbook but many performed poorly in the other parts of the question.

Candidates' commonest pitfalls include their:

- i. Inability to correct errors committed by the bank;
- ii. Failure to realise that addition of unpresented cheques to cashbook overdraft balance would reduce the balance rather than increase it; and
- iii. Inability to marshal their points on the need for entities to prepare bank reconciliation statement.

Candidates are advised to cover all areas of the syllabus and make use of past examination papers of the Institute.

### **Marking guide**

	<b>Marks</b>
a. Adjusted cash book 9 correct entries at 1 mark each	9
b. Bank reconciliation statement 7 correct entries at 1 mark each	7
c. Reasons for preparation of bank reconciliation statement 2 correct reasons at 2 marks each	4
<b>Total</b>	<b><u>20</u></b>

## SOLUTION 2

(a)

**Bala, Ade and Ngozi Partnership**  
**Statement of profit or loss and appropriation**  
**for the year ended December 31, 2020**

	N'000	N'000	N'000
Revenue			272,000
Cost of sales:			
Inventories at January 1, 2020		15,000	
Purchases		<u>190,000</u>	
		205,000	
Inventories at December 31, 2020		<u>12,000</u>	
		193,000	
Add wages		<u>20,000</u>	213,000
Gross profit			59,000
Allowance for bad debts written back			<u>500</u>
			59,500
<b>Less operating expenses:</b>			
Salaries		25,000	
General expenses		10,000	
Telephone		3,750	
Depreciation on:			
Plant and machinery	5,000		
Motor vehicle	<u>3,750</u>	<u>8,750</u>	<u>47,500</u>
Profit for the year			12,000

### Appropriations

Partners' salaries:			
Bala		3,000	
Ade		3,000	
Ngozi		<u>900</u>	
		<u>6,900</u>	
Share of profits:			
Bala		2,760	
Ade		1,840	
Ngozi		<u>500</u>	
		<u>5,100</u>	<u>12,000</u>

### Workings

#### 1: Allowance for bad debts written back

Allowance for bad debts brought forward	1,500
Current year allowance 5% of N20,000	<u>1,000</u>
	<u>500</u>

<b>2: Ngozi's salary</b>		
Ngozi's annual salary as a partner		<u>2,700</u>
Ngozi's salary on pro rata basis ( $\frac{4}{12}$ of 2,700)		900
<b>3: Ngozi's share of profit</b>		
Profit for the year		12,000
Less salaries (3,000+3,000+900)		<u>6,900</u>
Net after partner's salaries		<u>5,100</u>
Share ( $\frac{4}{12}$ of 20% of 5,100)	<u>340</u>	
On the basis of guaranteed minimum ( $\frac{4}{12}$ of 1,500)		<u>500</u>
<b>4: Bala's share of profit</b>		
$\frac{3}{5}$ of ₦(5,100-500)		2,760
<b>5: Ade's share of profit</b>		
$\frac{2}{5}$ of ₦(5,100-500)		1,840

(b) **Bala, Ade and Ngozi Partnership**  
Partners' current account for the year ended December 31, 2020

	Bala	Ade	Ngozi		Bala	Ade	Ngozi
	₦'000	₦'000	₦'000		₦'000	₦'000	₦'000
Drawings	3,000	3,000	1,000	Balance b/d	4,800	2,000	2,800
Capital	-	-	2,800	Salaries	3,000	3,000	900
Balance c/d	<u>3,960</u>	<u>1,840</u>	<u>400</u>	Share of profits	<u>2,760</u>	<u>1,840</u>	<u>500</u>
	<u>10,560</u>	<u>6,840</u>	<u>4,200</u>		<u>10,560</u>	<u>6,840</u>	<u>4,200</u>

### Examiner's report

The question tests candidates' ability to prepare statement of profit or loss, appropriation account and the current accounts of a partnership with admission of a new partner during the year.

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

The following deficiencies were noted:

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

- iii. Wrong application of double entry principle to the capital introduced by the new partner.

Candidates are advised to cover all areas of the syllabus and pay attention to details. They should also make use of the Institute's study text for better performance in future examinations.

### Marking guide

	Marks	Marks
a. - Statements of profit or loss and appropriation		
20 correct entries at ½ mark each	10	
- Workings		
8 correct entries at ¼ mark each	<u>2</u>	12
b. Partners' current accounts -		
16 correct entries at ½ mark each		<u>8</u>
<b>Total</b>		<b><u>20</u></b>

### SOLUTION 3

a)

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

	DR N'000	CR N'000
200,000,000 ordinary shares of ₦1 each		200,000
Cash at bank and in hand	500	
Inventory (December 31,2020)	61,200	
Receivables	18,005	
Payables		15,009
Gross profit for the period ended December 31, 2020		128,942
General reserves		25,000
Salaries and wages	28,430	
Prepayments	600	
Bad debts written-off	500	
Accrued expenses		526
Directors account		2,500
Interest on loan notes (½ year to June 30, 2020)	600	
Sundry expenses	4,100	
Rates and insurance	1,520	
6% Loan notes		20,000
Lighting and cooling	1,310	
Postage and telephones	800	
Motor Vehicles	25,000	

Provision for depreciation – Motor Vehicles		10,000
Office fittings and equipment	65,000	
Provision for Depreciation – Office fittings and equipment		23,150
Profit or loss at 1/1/2020		22,310
Land and building at cost	239,362	
	<u>447,427</u>	<u>447,427</u>

b) **Chukwu Limited**  
**Statement of profit or loss for the year ended December 31, 2020**

	₦'000	₦'000
Gross profit for the year		128,942
<b>Operating Expenses:</b>		
Depreciation – Office fittings and equipment (Wk2)	9,825	
Depreciation – Motor vehicles (Wk 3)	5,000	
Directors' fees	6,000	
Audit fees	2,500	
Rates and insurance (Wk 4)	1,120	
Electricity	548	
Salaries and wages	28,430	
Bad debts	500	
Lighting and cooling	1,310	
Postage and telephones	800	
Sundry expenses	<u>4,100</u>	<u>60,133</u>
Operating Profit		68,809
Loan and interest (Wk 5)		(1,200)
Profit for the year		<u>67,609</u>

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

	Cost ₦'000	Acc. dep. ₦'000	Carrying Amount ₦'000
<b>Non-current assets:</b>			
Land and buildings	239,362	-	239,362
Motor vehicles	25,000	(15,000)	10,000
Office fittings and equipment	<u>65,500</u>	<u>(32,975)</u>	<u>32,525</u>
	<u>329,862</u>	<u>(47,975)</u>	281,887
<b>Current assets:</b>			
Inventory		61,200	
Receivables		18,005	
Prepayments (Wk 6)		1,000	
Cash and bank balances		<u>500</u>	<u>80,705</u>
<b>Total assets</b>			<u>362,592</u>

**Equity and liabilities:****Equity:**

200,000,000 Ordinary shares of ₦1 each		200,000
--	--	---------

**Reserves:**

General reserves	40,000	
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Retained earnings	<u>74,909</u>	<u>114,909</u>
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<b>Total equity</b>		<b>314,909</b>
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**Non-Current Liabilities:**

6% Loan notes		20,000
---------------	--	--------

**Current Liabilities:**

Payables	15,009	
----------	--------	--

Accruals (Wk 7)	4,174	
-----------------	-------	--

Directors' current accounts (2500 + 6000)	<u>8,500</u>	
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		<u>27,683</u>
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<b>Total equity and liabilities</b>		<b><u>362,592</u></b>
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Workings

W1

**Chukwu Limited****Statement of changes in equity for the year ended December 31, 2020**

	Ordinary Share Capital ₦'000	General reserves ₦'000	Retained Earnings ₦'000	TOTAL ₦'000
Balance at January 1, 2020	200,000	25,000	22,300	247,300
Profit for the year	-	-	67,609	67,609
Transfers	-	15,000	(15,000)	-
<b>Balance at December 31, 2020</b>	<u>200,000</u>	<u>40,000</u>	<u>74,909</u>	<u>314,909</u>

**Chukwu Limited**

## Working

Wk 2: Calculation of depreciation on office fittings and equipment

Office fittings and equipment at cost	<u>65,500</u>
Depreciation at 15%	<u>9,825</u>

Wk 3: Calculation of depreciation on motor vehicles

Motor vehicles at cost	<u>25,000</u>
Depreciation at 20%	<u>5,000</u>

<b>Wk 4: Determination of rates and insurance expenses for the year</b>	
Rates and insurance as per trial balance	1,520
Prepaid insurance (8/12 x ₦600,000)	<u>-400</u>
	<u><u>1,120</u></u>
<b>Wk 5: Calculation of loan interest for the year.</b>	
Principal amount of loan	20,000
Loan interest at 6%	<u>1,200</u>
<b>Wk 6: Determination of prepayments for the per statement of financial position</b>	
Prepayments as per trial balance	600
Prepaid insurance (wk 4)	<u>400</u>
	<u><u>1,000</u></u>
<b>Wk 7: Determination of accruals for the statement of financial position</b>	
Accruals as per trial balance	526
Accrued audit fees	2,500
Accrued electricity	548
Accrued loan interest (₦1,200,000 – ₦600,000)	<u>600</u>
	<u><u>4,174</u></u>

### **Tutorial**

Dividend proposed (or recommended by directors) on ordinary shares is not a liability under IAS 10, Events after the Reporting Period, hence it would only be disclosed in the notes to the financial statements.

### **Examiner's report**

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

Most candidates attempted the question but performance was below average.

Majority of the candidates were able to prepare the trial balance correctly but performed poorly in other parts of the question.

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

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

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

## Marking guide

	Marks	Marks
a. Title	$\frac{1}{4}$	
Preparation of trial balance		
23 correct entries at $\frac{1}{4}$ mark each	$5\frac{3}{4}$	6
b. Statements of profit or loss		
14 correct entries at $\frac{1}{2}$ mark each	7	
Workings - 4 correct entries at $\frac{1}{4}$ mark each	<u>1</u>	8
c. Statement of financial position		
24 correct entries at $\frac{1}{4}$ mark each		<u>6</u>
<b>Total</b>		<b><u>20</u></b>

## SOLUTION 4

### The cash basis of accounting

- This means that the effects of transactions and events are recognised when cash or its equivalent is received or paid.
- It is not used for the preparation of financial statements except statement of cashflows.

### The accrual basis of accounting

- This means that the effects of transactions and other events are recognised as they occur and not as cash or its equivalent is received or paid.
- This is the basis for recognising transactions and other events in the financial statements. It dictates the period in which transactions should be incorporated in the financial statements.

### Break-up basis of accounting

- This is the basis in which the asset value of a business is computed, when the going concern basis of the entity is in doubt.
- The assets are priced individually at their forced sales value rather than at their fair value or cost.

### ii. Limitations associated with cash basis of accounting include the following:

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

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

### **Examiner's report**

The question tests candidates' knowledge of the nature and significance of accounting bases and the principles guiding the operations of the petty cash system.

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

Candidates' common pitfalls include their inability to explain the break-up basis of accounting and poor explanation of how to operate the petty cash system.

Candidates are advised to study the IASB Conceptual Framework for Financial Reporting and practice the Institute's past examination questions in this area when preparing for future examinations.

## Marking guide

	Marks	Marks
ai. - Cash basis of accounting 2 points at 1 mark each	2	
- Accrual basis of accounting		
- Break up basis of accounting 2 points at 1 mark each	2	6
ii. Limitations of cash basis of accounting 4 points at 2 marks each	<u>2</u>	8
b. Operations of petty cash book 3 points at 2 marks each		6
<b>Total</b>		<b><u>20</u></b>

## SOLUTION 5

- (a) According to IAS 2 Inventory is defined as assets:
- Held for sale;
  - In the process of production for sale; and
  - In the form of materials or supplies to be used in the production process.
- (b) The following costs are to be included when measuring the value of inventories:
- Purchase cost
    - Purchase price
    - Import duties and other non-recoverable taxes
    - Transport, handling and other costs directly attributable to the purchase, if they are additional to the purchase price;
  - Conversion costs
    - Costs directly related to units of production
    - Fixed and variable production overheads, which must be allocated to costs of items produced and closing inventories
    - Other costs incurred in bringing the inventories to their present location and condition; and
  - Production overheads
    - Costs of indirect labour
    - Depreciation costs of non-current assets used in production
    - Costs of carriage inwards, if these are not included in the purchase costs of the materials.

- (c) The following are costs that should be excluded when measuring the value of inventories:
- (i) Recoverable sales tax;
  - (ii) Settlement discounts which is the cost after deduction of trade discount
  - (iii) Administrative costs; and
  - (iv) Selling and distribution costs.

(d)

**Ebuka and Sons Enterprise**

	₦
<b>(i) Total cost of raw materials inventory:</b>	
2,000kg of materials at ₦625 per kg subject to trade discount of 5% (2,000 x ₦625 x 95%)	1,187,500
Import duties and other non-recoverable taxes paid	266,000
Delivery cost on materials imported from custom warehouse	125,000
3,500kg of local materials at ₦250 per kg subject to trade discount of ₦50,000 ((3,500 x ₦250) – 50,000)	825,000
Carriage inwards on local materials purchased	205,000
Toll fare paid to commodity board for local materials	<u>25,000</u>
<b>Total</b>	<b><u>2,633,500</u></b>
 <b>(ii) Material cost per unit of finished product:</b>	
Total units of finished product	5,000
Total cost of raw material inventory as in (i)above	₦2,633,500
Cost per unit of finished product =	<u>₦2,633,500</u>
	5,000
	<b>₦526.70</b>

**Examiner's report**

The question tests candidates' knowledge of the definition, concepts of measurement of costs of inventories and the application of these principles to calculate the costs of inventory.

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

However, many candidates could not be able to apply the principles correctly to calculate the cost of inventory from the information given.

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

## Marking guide

	Marks	Marks
a. Explaining definition of inventory 3 points at 1 mark each		3
b. Explanation of cost of inventory 8 points at 1 mark each		8
c. Cost to be excluded from inventory 4 points at 1 mark each		4
d.i Calculation of cost of inventory 12 correct entries at ¼ mark each	3	
ii. Calculation of material cost Per unit of finished product 2 correct entries at 1 mark each	<u>2</u>	<u>5</u>
<b>Total</b>		<b><u>20</u></b>

## SOLUTION 6

- (a) IAS 16-Property, plant and equipment requires the following disclosures in the notes to the financial statements, for each major class of plant and equipment:
- The measurement bases used;
  - The depreciation methods used;
  - The useful lives or depreciation rates used;
  - Gross carrying amounts and the accumulated depreciation at the beginning and at the end of the period;
  - A reconciliation between the opening and closing values for gross carrying amounts and accumulated depreciation, showing:
    - Additions during the year;
    - Disposals during the year; and
    - Depreciation charge for the year.

b.(i)

### Propati Limited

#### Calculation of gain/(loss) on sale of old vehicle

	₦'000	₦'000
Trade – in value of old vehicle		480
Carrying amount of old vehicle disposed:		
Original cost of purchase of old vehicle disposed	1,000	
Accumulated depreciation on old vehicle disposed	<u>(600)</u>	<u>(400)</u>
Gain on sale of old vehicle		<u>80</u>

ii)

**Propati Limited  
Motor vehicles account**

		N'000			N'000
01/07/2020	Bal b/f	750,000	01/01/2021	Disposal of vehicles	1,000
01/01/2021	Bank	2,320	30/06/2021	Bal c/d	751,800
01/01/2021	Disposal of vehicles (trade-in value)	480			
		<u>752,800</u>			<u>752,800</u>
01/07/2021	Bal b/d	751,800			

iii)

**Propati Limited  
Accumulated depreciation account**

		N'000			N'000
30/06/2021	Disposal of vehicles	600	01/07/2020	Bal c/f	1,000
30/06/2021	Bal c/d	179,980	30/06/2021	Statement of profit or loss	150,080
		<u>180,580</u>			<u>180,580</u>

iv)

**Propati Limited  
Disposal of vehicles account**

		N'000			N'000
30/06/2021	Motor vehicles	1,000	01/01/2021	Motor vehicles(trade in)	480
30/06/2021	Statement of profit or loss	80	30/06/2021	Accumulated depreciation	600
		<u>1,080</u>			<u>1,080</u>

**Propati Limited**

**Working**

**Wk 1: Calculation of depreciation rate per annum on vehicles**

Useful lives of old vehicle disposed	3 years	N'000
Accumulated depreciation on vehicles disposed		600
Depreciation per annum on old vehicles ( $\frac{N600,000}{3}$ )		200
Original cost of vehicle disposed		1,000
Depreciation rate per annum ( $\frac{N200,000}{N1,000,000} \times 100$ )		20%

**Wk 2: Calculation of depreciation for the year on vehicles**

	N'000	N'000
Total cost of vehicles at beginning	750,000	
Cost of old vehicle disposed	(1,000)	
<b>Total costs of existing old vehicles</b>	<u>749,000</u>	
Depreciation on existing old vehicles ( $20\% \times N749,000$ )		149,800
Depreciation on new vehicle ( $20\% \times N2,800,000 \times \frac{6}{12}$ )		280
<b>Total depreciation for the year</b>		<u>150,080</u>

### Examiner's report

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

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

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

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

### Marking guide

	Marks	Marks
a. Disclosures under IAS 16 5 points at 2 marks each		10
bi. Calculation of gain or loss on disposal of PPE 4 correct entries at ½ mark each	2	
ii. Preparation of disposal of asset account 4 correct entries at ½ mark each	2	
iii. Preparation of motor vehicles account 4 correct entries at 1 mark each	4	
iv. Accumulated depreciation account 4 correct entries at ½ mark each 2 ticks at 1 mark	<u>2</u>	
<b>Total</b>		<u>10</u> <b>20</b>

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**  
**FOUNDATION LEVEL EXAMINATION – NOVEMBER 2021**

**MANAGEMENT INFORMATION**

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

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

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

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

1. Which of the following is **NOT** part of the main purposes of cost codes?
  - A. Reduces clerical work
  - B. Facilitates electronic data processing
  - C. Facilitates a good costing system
  - D. Facilitates logical and systematic arrangement of costing records
  - E. Facilitates control
  
2. Which of the following is **NOT** a limitation of scatter diagram?
  - A. Quickest and easiest approach to cost estimation
  - B. Drawing the line of the best fit can be quite subjective
  - C. It indicates a relationship where there is none
  - D. It only shows relationship between two variables at a time
  - E. It might lead to incorrect conclusions
  
3. Which of the following is **NOT** used in updating inventory records?
  - A. Material requisition notes
  - B. Material returns note
  - C. Material invoices
  - D. Goods received notes
  - E. Goods returned notes
  
4. Which of the following is **NOT** an example of labour costs?
  - A. Basic wages and salaries
  - B. Additional payment for overtime working
  - C. Bonuses
  - D. Employer Pension Contribution
  - E. Obsolescence

5. Activity based costing is **NOT** suitable as a method of costing in which of the following circumstances?
- Where absorption costing is required for inventory valuation
  - Where large proportion of production costs are overhead costs
  - Where products are provided to customer specifications
  - Where production process is not complex
  - Where direct labour costs are relatively small
6. Which of the following is **NOT** a purpose of budgeting?
- To coordinate the actions of all the different parts of the organisation
  - To communicate the company plans to individuals
  - To motivate managers and employees
  - To ensure that planning is linked to the long-term objectives
  - To convert short-term plans into more detailed long-term plans
7. ABCD uses 240,000 units of material BC each year, which cost ₦5.40 for each unit after a 10% discount. The cost of making an order for the year is ₦15,312.50. Find the quantity that will minimise the total cost.
- 36,893 units
  - 35,000 units
  - 26,087 units
  - 24,745 units
  - 24,000 units
8. 'When direct labour is being paid but has no work to do, it is called idle time'. Which of the following is **NOT** a case of idle time?
- Machine breakdown during production process
  - Machine breakdown during non-production process
  - Time spent waiting for work due to a bottleneck
  - Running out of vital direct material and waiting for new delivery
  - Lack of work to do due to lack of customer orders
9. STUV is into production of a single product TU. Standard material cost per unit is 2kg @₦500 per kg. Actual production during the period is 5,000 units. Using 1.95kg purchased at the rate of ₦510 per kg. What is the total material variance?
- ₦125,000 (F)
  - ₦97,500 (A)
  - ₦97,500 (F)
  - ₦27,500 (F)
  - ₦27,500 (A)

10. The computation of the gross pay for each employee and calculation of payments to be made to employees, government and pension funds is called
- A. Wages control Accounting
  - B. Labour cost accounting
  - C. Payroll accounting
  - D. Direct labour accounting
  - E. Overhead control accounting
11. The intersection of a row and column in an excel spreadsheet is called
- A. Tab
  - B. Box
  - C. Cell
  - D. Column
  - E. Row
12. Which of the following is **NOT** an example of a secondary storage
- A. SD card
  - B. Cache
  - C. DVD
  - D. Floppy diskette
  - E. Tape drive
13. Cookies are stored
- A. On the client's computer system
  - B. On the Web server
  - C. In HTML
  - D. On the Network
  - E. SD Card
14. The acronym DNS in Internet technology stands for
- A. Dynamic Name Systems
  - B. Domain Name Systems
  - C. Data Name Systems
  - D. Distributed Name Systems
  - E. Domain Network Systems

15. The main characteristic of the fourth generation computer is
- A. Transistor
  - B. Vacuum tubes
  - C. Integrated circuit
  - D. VLSI (Very Large Scale Integrated)
  - E. Memory
16. The CPU and primary memory are located on the
- A. Output device
  - B. Storage device
  - C. Motherboard
  - D. Expansion board
  - E. Input device
17. Which of the following arranges the common data elements in order, from smallest to largest?
- A. Character, File, Record, Field, Database, File
  - B. Character, Record, Field, Database, File
  - C. Character, Field, Record, File, Database
  - D. Bit, Byte, Character, Record, Field, File, Database
  - E. Database, Field, File, Record, Character
18. Permanent instructions that the computer uses when it is turned on which cannot be changed by other instructions are contained in
- A. ROM
  - B. RAM
  - C. ALU
  - D. CPU
  - E. Expansion board
19. Encryption and decryption of data is performed in
- A. Presentation layer
  - B. Physical layer
  - C. Data link layer
  - D. Session layer
  - E. Network layer

20. The acronym EEPROM stands for
- A. Electronically Erasable Programmable Read Only Memory
  - B. Electrically Erasable Programmable Read Only Memory
  - C. Electronically Erasable Programmable Reach Only Memory
  - D. Electrically Erasable Practical Reach Only Memory
  - E. Electrically Erasable Practical Read Only Memory

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

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

**QUESTION 1**

ABCD is into manufacturing of two products AB and CD using similar equipment and methods. The following data were collected from the company's record:

	<b>AB</b>	<b>CD</b>
Units produced	140,000	200,000
Labour hour per 500 units	3	2
Machine hour per 500 units	2	1.5
Set-up in period	20	30
Orders handled in the period	40	60
Overhead for the period	<b>₦</b>	
Budgeted Overhead	1,344,800	
<b>Actual</b>		
Relating to production set-ups	550,000	
Relating to Order handling	200,000	
Relating to machine activity	<u>609,000</u>	
	<u><b>1,359,000</b></u>	

**Required:**

Calculate the overheads to be absorbed per unit of each product based on

- a.
  - i. Conventional absorption costing using predetermined labour hour absorption rate. (6 Marks)
  - ii. An ABC approach using suitable cost drivers. (9 Marks)
- b. State **THREE** advantages and **TWO** disadvantages of activity based costing system. (5 Marks)

**(Total 20 Marks)**

## QUESTION 2

- a. The following data was extracted from the records of a company manufacturing a single product.

### Standard Cost Card

	₦
Material 5kg @250/kg	1250
Direct labour 2 hours @350/hr	700
Overhead -variable (per hour)	250
Overhead – fixed (per hour)	400

Budgeted Production – 2,500 units

### Actual Results

Production	2,400 units
Direct material (11,800kgs)	₦2,891,000
Direct Labour paid(5,000hrs)	₦1,800,000
Overhead – Variable	₦1,300,000
Overhead – Fixed	₦1,900,000

### Required:

Calculate the following variances:

- Direct material – (price and usage) (5 Marks)
  - Direct labour – (rate and efficiency) (5 Marks)
  - Variable overhead – (expenditure, efficiency and total) (5 Marks)
  - Fixed overhead – (expenditure) (2 Marks)
- b. State the causes of the variances in each of (i) and (ii) above (3 Marks)
- (Total 20 Marks)**

## QUESTION 3

PQRS is a manufacturing company in Abuja producing a single product called QR. The selling price of the product is ₦250 with a marginal cost of ₦160, while the fixed cost is ₦1,800,000 per annum.

### Required:

Calculate

- Number of units to break even (2 Marks)
  - Contribution/Sales ratio (2 Marks)
  - Sales value at breakeven point (2 Marks)
  - Number of units to be sold to achieve a profit of ₦450,000 (2 Marks)
  - At a margin of safety of 50%, prepare a statement using the profit to be achieved. (6 Marks)

- b. i. List **FOUR** assumptions behind the cost-volume-profit (CVP) analysis. (4 Marks)
  - ii. List **TWO** uses of the CVP analysis. (2 Marks)
- (Total 20 Marks)**

#### QUESTION 4

- a. Explain technology platforms (3 Marks)
  - b. List **FIVE** examples of technology platforms (5 Marks)
  - c. Identify **TWO** differences between TCP and UDP protocols (4 Marks)
  - d. List **FOUR** types of application software and state **ONE** example each (8 Marks)
- (Total 20 Marks)**

#### QUESTION 5

- State **THREE** differences between ROM and RAM? (6 Marks)
  - a. List **TEN** examples of output devices for computer systems (5 Marks)
  - b. Identify **SIX** types of wireless technologies (6 Marks)
  - c. Convert 234 to a binary number (3 Marks)
- (Total 20 Marks)**

#### QUESTION 6

- a. What is Virtual Private Network (VPN)? (3 Marks)
  - b. Explain **TWO** types of Virtual Private Network (VPN) Protocols (4 Marks)
  - c. Explain the difference amongst multiprogramming, multitasking, multithreading and multiprocessing (8 Marks)
  - d. Identify **FIVE** advantages of multi-programming (5 Marks)
- (Total 20 Marks)**

## **SOLUTIONS**

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

### **Workings**

$$7. \quad \text{EOQ} = \sqrt{2\text{CoD}/C_1} = \sqrt{2 \times 15312.5 \times 240000}/6 = 35,000\text{units}$$

$$9. \quad ((9750 \times 510) - (9750 \times 500)) - ((9750 \times 500) - (10000 \times 500)) \\ = \underline{27,500(F)}$$

### **MCQ - Examiner's report**

This section comprises of 20 questions drawn from virtually the whole syllabus. It was attempted by all candidates and performance was good in the costing part while it was below average in the information technology part.

Candidates are hereby reminded that information technology is an integral part of the syllabus and preparations for future examinations should take this into consideration.

## SOLUTION 1

ai. Labour Absorption rate

$$\frac{\text{AB}}{140,000} \times 3$$

$$= 840 \text{ hrs}$$

$$\frac{\text{CD}}{200,000} \times 2$$

$$= 800 \text{ hrs}$$

$$\text{Absorption rate} \quad \frac{1,344,800}{840 + 800} = \text{N}820/\text{hr}$$

$$\begin{array}{l} \text{AB} \\ 840 \times 820 \\ = \text{N}688,800 \end{array}$$

$$\begin{array}{l} \text{CD} \\ 800 \times 820 \\ = \text{N}656,000 \end{array}$$

Overhead absorbed  
Per unit

$$\frac{688,800}{140,000} = \text{N}4.92$$

$$\frac{656,000}{200,000} = \text{N}3.28$$

aii. ABC Approach using suitable cost drivers

$$\begin{array}{l} \text{Machine hour} \end{array} \quad \begin{array}{l} \text{AB} \\ \frac{140,000}{500} \times 2 \\ = 560\text{hrs} \end{array} \quad \begin{array}{l} \text{CD} \\ \frac{200,000}{500} \times 1.5 \\ = 600\text{hrs} \end{array}$$

$$\begin{array}{l} \text{Machine hour rate} \end{array} \quad \frac{609,000}{560 + 600} = \text{N}525$$

$$\begin{array}{l} \text{Overhead absorbed per} \\ \text{Machine hour} \end{array} \quad \begin{array}{l} 294,000 \\ 315,000 \end{array}$$

$$\begin{array}{l} \text{Set-ups (cost per set-up)} \end{array} \quad \frac{550,000}{50} = \text{N}11,000$$

	AB	CD
Set-up cost	$20 \times \text{N}11,000$ $= 220,000$	$30 \times \text{N}11,000$ $= 330,000$
Cost per order	$\frac{200,000}{40+60} = \text{N}2,000$	
	$40 \times \text{N}2,000$ $= \text{N}80,000$	$60 \times \text{N}2,000$ $= \text{N}120,000$
Cost Per Unit absorbed		
Machine hr	294,000	315,000
Set-up cost	220,000	330,000
Order cost	<u>80,000</u>	<u>120,000</u>
	<u>594,000</u>	<u>765,000</u>
	<u>594,000</u>	<u>765,000</u>
	140,000	200,000
	= 4.24	= 3.825

OR

### ALTERNATIVE SOLUTION

Cost Drivers

Production Set-up  $\frac{550,000}{50} = \text{N}11,000$  per set up

AB =  $20 \times \text{N}11,000 = \text{N}220,000/140,000 = \text{N}1.57$  per unit

CD =  $30 \times \text{N}11,000 = \text{N}330,000/200,000 = \text{N}1.65$  per unit

Order Handling  $\frac{200,000}{100} = \text{N}2,000$  per order

AB =  $40 \times \text{N}2,000 = \text{N}80,000/140,000 = \text{N}0.57$  per unit

CD =  $60 \times \text{N}2,000 = \text{N}120,000/200,000 = \text{N}0.60$  per unit

Machine hour

AB =  $140,000/500 \times 2 = 560$  hours

CD =  $200,000/500 \times 1.5 = 600$  hours  
1,160 hours

Machine rate per hour      $\text{N}609,000/1160$      =      $\text{N}525.00$

Absorption per product

AB     =      $560 \times \text{N}525$      =      $\text{N}294,000/140,000$      =      $\text{N}2.10$  per unit

CD     =      $600 \times \text{N}525$      =      $\text{N}315,000/200,000$      =      $\text{N}1.58$  per unit

	AB	CD
Production set-up	1.57	1.65
Order handling	0.57	0.60
Machine hour	<u>2.10</u>	<u>1.58</u>
	<u>4.24</u>	<u>3.83</u>

**b. Advantages and disadvantages of ABC**

**Advantages**

- ABC provides useful information about the activities that drive overhead costs. Traditional absorption costing and marginal costing do not do this.
- ABC provides information that could be relevant to long-term cost control and long-term products election or product pricing.
- With ABC, overheads are charged to products on the basis of the activities that are required to provide the product. Each product should therefore be charged with a 'fairshare' of overhead cost that represents the activities that go into making and selling it.
- It might be argued that full product costs obtained with ABC are more 'realistic', although it can also be argued that full product cost information is actually of little practical use or meaning for management.
- There is also an argument that in the long-run, all overhead costs are variable (even though they are fixed in the short-term). Measuring costs with ABC might therefore provide management with useful information for controlling activities and long-term costs.

## **Disadvantages**

- ABC systems are costly to design and use. The benefits might not justify the costs.
- The analysis of costs in an ABC system maybe based on unreliable data and weak assumptions. In particular, ABC systems may be based on inappropriate activities and cost pools, and incorrect assumptions about cost drivers.
- ABC provides an analysis of historical costs. Decision-making by management should be based on expectations of future cashflows.
- Within ABC systems, there is still a large amount of overhead cost apportionment. General overhead costs such as rental costs, insurance costs and heating and lighting costs may be apportioned between cost pools. This reduces the causal link between the cost driver and the activity cost.
- Many ABC systems are based on just a small number of cost pools and cost drivers. More complex systems are difficult to justify, on grounds of cost.
- Identifying the most suitable cost driver for a cost pool/activity is often difficult. Many activities and cost pools have more than one cost driver.
- Traditional cost accounting systems may be more appropriate for the purpose of inventory valuation and financial reporting.

## **Examiner's report**

This question tests candidates' knowledge of conventional absorption costing and activity-based costing.

It was attempted by about 60% of the candidates and performance was above average.

Candidates displayed poor knowledge of absorption costing and this revealed that not many efforts were directed to this area during their preparations.

Candidates are advised that though the concept of absorption costing is an old one, it still forms part of the syllabus. Therefore candidates should familiarise themselves with this part of the syllabus when preparing for future examinations.

## Marking guide

	<b>Marks</b>	<b>Total</b>
ai. Labour hours for each product	2	
Absorption rate	1	
Total overhead absorbed	2	
Overhead absorbed per product	<u>1</u>	<b>6</b>
ii. Machine hours for each product	2	
Machine hour rate	1	
Overhead absorbed per machine hour/product	1	
Cost per set-up	1	
Set-up cost per product	1	
Order handling cost per order	1	
Order handling cost per product	1	
Overhead absorbed per product	<u>1</u>	<b>9</b>
b. 1 mark each for any 3 advantages and 1 mark each for any 2 disadvantages		<u>5</u>
<b>Total</b>		<b><u>20</u></b>

## SOLUTION 2

			<b>ALTERNATIVE SOLUTION</b>
ai.	<b>Direct Material</b>	<b>₦</b>	<b>₦</b>
<b>Price</b>	Actual Purchased x Standard Price/Kg (11,800 x 250)	2,950,000	
	Actual Purchased x Actual Price/Kg	(2,891,000)	
		<u>59,000F</u>	
			<b>₦</b>
<b>Usage</b>	Standard quantity for actual production	12,000	3,000,000
	Actual quantity for actual production	(11,800)	(2,950,000)
	Usage variance (Kgs)	200	
	Standard cost per Kg	x ₦250	
	Usage Variance (₦)	<u>₦50,000F</u>	<u>₦50,000F</u>
ii. Direct Labour			
		<b>₦</b>	<b>₦</b>
<b>Rate</b>	Actual hours paid x Standard rate/hr (5,000 x 350)	1,750,000	

	Actual hours paid x Actual rate/hr	(1,800,000)	
	Labour rate Variance	<u>(50,000)A</u>	
		Hours	
<b>Efficiency</b>	Standard labour hours for actual production (2 x 2,400)	4,800	1,680,000
	Actual labour hours for actual production	<u>(5,000)</u> (200)	(1,750,000)
	Standard rate/hr	x ₦350	
	Usage Variance (₦)	<u>(₦70,000)A</u>	<u>(₦70,000)A</u>
<b>iii. Variable Overhead</b>			
		₦	₦
<b>Expenditure</b>	Actual hours worked x Standard rate/hr (5,000 x 250)	1,250,000	
	Actual hours worked x Actual rate/hr	(1,300,000)	
	Overhead variance	<u>(50,000)A</u>	
		Hours	
<b>Efficiency</b>	Standard hours for actual production (2 x 2,400)	4,800	1,200,000
	Actual hours for actual production	<u>(5,000)</u> 200	(1,250,000)
	Standard rate/hr	x ₦250	
	Usage Variance (₦)	<u>(₦50,000)A</u>	<u>(₦50,000)A</u>
<b>iv. Fixed Overhead</b>		₦	
<b>Expenditure</b>	Budgeted fixed overhead (5,000 x 400)	2,000,000	
	Actual fixed overhead incurred	(1,900,000)	
	Fixed overhead expenditure variance	<u>100,000F</u>	

(b) **Causes of variance in direct materials**

1. Buying higher or lower quantity than ever budgeted
2. Losing or gaining quantity discount.
3. Making use of substitute materials due to inavailability of the intended material
4. Paying higher or lower prices than planned
5. Purchase of inferior material at lower price

**Causes of labour rate variance**

1. Payment of unplanned overtime bonus
2. Higher or lower grade of worker being used than planned
3. Higher rate being paid than planned
4. Negotiated increase in wages rate

**Examiner's report**

This question tests candidates' knowledge of standard costing and basic variance analysis.

About 70% of the candidates attempted this question and performance was good. A few candidates however relied on formulae instead of having a good understanding of the basics of the topic.

Candidates are advised to obtain basic knowledge rather than cramming of formulae when preparing for future examination.

**Marking guide**

	<b>Marks</b>	<b>Marks</b>
ai. <b>Direct Material</b>	<b>1</b>	
Actual Purchased x Standard Price/Kg	1/2	
Actual Purchased x Actual Price/Kg	1	
Standard quantity for actual production	1/2	
Actual quantity for actual production	1/2	
Usage variance (Kgs)	1/2	
Usage variance (₹)	1	5
ii. <b>Direct Labour</b>		
Actual hours paid x Standard rate/hr	1	
Actual hours paid x Actual rate/hr	1/2	
Labour rate variance	1	

	Standard labour hours for actual production	1/2	
	Actual labour hours for actual production	1/2	
	Standard rate/hr	1/2	
	Usage variance (₦)	1	5
iii.	Actual hours worked x Standard rate/hr	1	
	Actual hours worked x Actual rate/hr	1/2	
	Overhead variance	1	
	Standard hours for actual production	1/2	
	Actual hours for actual production	1/2	
	Standard rate/hr	1/2	
	Usage variance (₦)	1	5
iv.	Budgeted fixed overhead	1/2	
	Actual fixed overhead incurred	1/2	
	Fixed overhead expenditure variance	1	2
b.	3 causes of variance in direct material	1 1/2	
	3 causes of variance in labour rate	1 1/2	<u>3</u>
	<b>Total</b>		<b><u>20</u></b>

### SOLUTION 3

#### PQRS MANUFACTURING COMPANY

- i. Break-even point in units = Fixed cost/contribution per unit  
 $1,800,000 / (\text{₦}250 - \text{₦}160)$   
 $= 1,800,000 / \text{₦}90$   
 $= 20,000 \text{ units}$
- ii. Contribution/Sales ratio =  
Contribution =  $(\text{₦}250 - \text{₦}160) = \text{₦}90$   
Sales =  $\text{₦}250 = 90/250 \times 100/1$   
 $= 36\%$

iii. Sales Value at Break Even point = FC/Contribution per Unit \*Sales Price per Unit  

$$= 1,800,000/90 \times 250$$

$$= \text{₦}5,000,000$$

iv. Fixed Cost + Target Profit/Contribution per Unit =  

$$1,800,000 + 450,000/90 = \frac{2,250,000}{90}$$

$$= 25,000 \text{ units}$$

v. Break-even point in value = ₦5,000,000  
 Margin of safety required = 50%  
 Sales in value = ₦5,000,000/50%  

$$= \frac{\text{₦}10,000,000}{250}$$

$$= 40,000 \text{ units}$$

Profit statement at 50% margin of safety

<b>₦</b>	
Sales	40,000 x 250 = 10,000,000
Marginal Cost	40000 x 160 = <u>6,400,000</u>
Contribution	3,600,000
Less Fixed Cost	<u>(1,800,000)</u>
Profit	<u><b>1,800,000</b></u>

**b. Assumptions of CVP Analysis**

**It is assumed that:**

1. The company produces a single product, and if otherwise, multiple products are produced at constant mix.
2. Variable costs per unit remain constant.
3. All costs can be accurately divided into fixed and variable cost.
4. Selling price per unit would remain constant
5. Total fixed costs are normally assumed to remain unchanged at all levels of output.
6. Quantities produced and sold are the same, and if otherwise, closing inventories are valued at variable cost only.

## Uses of CVP Analysis

1. Useful for the prediction of net profit
2. Studies the relationship between cost, volume and profit at different levels of activities
3. Can be relied upon for short term planning and decision making in
  - a. Choice of sales mix;
  - b. Price policy;
  - c. Special order acceptance; and
  - d. Multi-shift workings.

## Examiner's report

This question tests candidates' understanding of cost-volume-profit analysis.

About 75% of the candidates attempted the question and performance was good on the average. A few candidates however, could not list the basic assumptions underlying cost-volume-profit analysis.

Candidates are advised that, they are required to fully understand the theoretical aspects of the topic alongside the computational aspects when preparing for future examinations.

## Marking guide

	<b>Marks</b>	<b>Marks</b>
ai. <b>Break-even point in units</b>	2	
ii. Contribution/sales ratio	2	
iii. Sales value at break-even point	2	
iv. Numbers to be sold to achieve target profit	2	
v. Sales in value	1	
Total units to sold	1	
Marginal cost	1	
Contribution	1	
Fixed cost	1	
Profit	<u>1</u>	
		14
b. One mark for any 4 Assumptions of CVP	4	
One mark for any 2 uses of CVP	<u>2</u>	<u>6</u>
<b>Total</b>		<b><u>20</u></b>

## **SOLUTION 4**

### a) **Technology platforms**

Technology platform refers to the specific platforms on which technical architecture is laid out and is made to run. This type of platform mostly consists of mixture of hardware and software services. A technology platform is an environment for building and running applications, systems and processes

### b) **Examples of technology platforms**

1. Application platforms
2. Computing platforms
3. Storage platforms
4. Mobile platforms
5. Web platforms
6. Games platforms
7. IoT platforms
8. API platforms
9. Security platforms
10. Robotics
11. Analytics
12. Content management systems
13. Operating systems
14. Media platforms

### c) **Differences between TCP and UDP**

- 1) TCP is a connection-oriented protocol, whereas UDP is a connectionless protocol.
- 2) The speed for TCP is slower while the speed of UDP is faster
- 3) TCP uses handshake protocol like SYN, SYN-ACK, ACK while UDP uses no handshake protocols
- 4) TCP does error checking and also makes error recovery, on the other hand, UDP performs error checking, but it discards erroneous packets.
- 5) TCP has acknowledgment segments, but UDP does not have any acknowledgment segment.
- 6) TCP is heavy-weight, and UDP is lightweight

### d) **Examples of application software**

- 1) **Word Processing software:** This software enables users to create and edit documents. The most popular example for this type of software are MS-Word, WordPad and Notepad among other text editors, corel word perfect. Apple iwork.

- 2) **Database software:** Database is a structured collection of data. A computer database relies on database software to organize data and enable database users to perform database operations. Database software allows users to store and retrieve data from databases. Examples are Oracle, MsAccess, Microsoft SQL, MySQL, RDBMS.
- 3) **Spreadsheet software:** Excel, Lotus 1-2-3 Apple Numbers and Google sheet are some examples of spreadsheet software. Spreadsheet software allows users to perform calculations using spreadsheets. They simulate paper worksheets by displaying multiple cells that make up a grid.
- 4) **Multimedia software:** They allow users to create and play audio and video files. They are capable of playing media files. Audio converters, audio players, burners video encoders are some forms of multimedia software. Example of this type of software include Real Player and Media Player.
- 5) **Presentation software:** The software that is used to display information in the form of a slide is known as presentation software. This type of software includes three function, namely, editing that allows insertion and formatting of text, methods to include graphics in the text and a functionality of executing slide shows. Microsoft PowerPoint is the best example of presentation software, others are Google Slide, Zohoshow.
- 6) **Enterprise software:** It deals with the needs of organization processes and Data flow. Customer relationship management or the financial in an organization are carried out with the help of enterprise software.
- 7) **Educational software:** It has the capabilities of running tests and tracking progress. It also has the capabilities of a collaborative software. It is often used in teaching and self-learning. Dictionaries like Britannica and Encarta, mathematical software like Matlab and others like Google Earth and NASA World Wind are some of the well-known names in this category.
- 8) **Simulation software:** Used to simulate physical or abstract systems, simulation Software finds applications in both, research and entertainment. Flight simulators and scientific simulators are example software.
- 9) **Graphic software** e.g Adobe illustrator, photoshop, corel draw.

## Examiner's report

This question tests candidates' knowledge of technology platforms, protocols and application software.

About 45% of the candidates attempted the question and performance was generally fair.

Candidates displayed lack of adequate preparation in this area as the marks scored were more from commonsense and residual knowledge rather than from preparation. Candidates should include information technology topics in their future preparations.

## Marking guide

	<b>Marks</b>	<b>Marks</b>
a. 1½marks for definition plus 1½marks for explanation	3	
b. 1mark each for 5 examples	5	
c. 2marks each for any 2 differences	4	
d. 2marks each for 4 types and examples	<u>8</u>	
<b>Total</b>		<b>20</b>

## SOLUTION 5

### a) Differences between ROM and RAM

1. ROM is a form of permanent storage, while RAM is a form of temporary storage.
2. ROM is non-volatile memory, while RAM is volatile memory.
3. ROM can hold data even without electricity, while RAM needs electricity to hold data.
4. ROM is a slow speed memory, while RAM is a high speed memory.
5. ROM is a small size with low capacity, while RAM is larger size with higher capacity.

### b) Examples of output devices of computer system

1. Monitor
2. Printer
3. Audio speakers
4. Headphones
5. Projector
6. GPS
7. Sound card
8. Video card

9. Braille reader
10. Plotter
11. Magnetic disks
12. Speech generating devices
13. Flash

c) **Types of wireless technologies**

1. Radio and television broadcasting
2. Radar communication
3. Satellite communication
4. Cellular communication
5. Global positioning system
6. WiFi (Wireless LAN)
7. Bluetooth
8. Radio frequency identification
9. Infrared communication
10. Mobile telephone systems

d) **Conversion of 234 to binary**

$$234 / 2 = 117 \text{ with } 0 \text{ remainder}$$

$$117 / 2 = 58 \text{ with } 1 \text{ remainder}$$

$$58 / 2 = 29 \text{ with } 0 \text{ remainder}$$

$$29 / 2 = 14 \text{ with } 1 \text{ remainder}$$

$$14 / 2 = 7 \text{ with } 0 \text{ remainder}$$

$$7 / 2 = 3 \text{ with } 1 \text{ remainder}$$

$$3 / 2 = 1 \text{ with } 1 \text{ remainder}$$

$$1 / 2 = 0 \text{ with } 1 \text{ remainder}$$

Then, when we put the remainders together in reverse order, we get the answer. The decimal number 234 converted to binary is therefore: 11101010

## Examiner's report

This question tests candidates' understanding of memory, output devices and wireless technologies.

About 80% of the candidates attempted the question but performance was generally below average.

The major pitfall was the general apathy towards information technology topics.

Candidates should realise that information technology covers 50% of Management Information syllabus and therefore cannot be wished away.

## Marking guide

	Marks	Marks
a. 2 marks each for any 3 differences	6	
b. ½ mark each for any 10 examples	5	
c. 1 mark each for 6 types	6	
d. 2 marks for workings plus 1 mark for answer	3	
<b>Total</b>		<b>20</b>

## SOLUTION 6

### a) Virtual Private Network (VPN)

A virtual private network, or VPN, is an encrypted connection over the internet from a device to a network. The encrypted connection helps ensure that sensitive data is safely transmitted. It prevents unauthorised people from eavesdropping on the traffic and allows the user to conduct work remotely.

OR

Virtual Private Network (VPN) is an arrangement where a secured, apparently private network is achieved using encryption over a public network typically the Internet.

### b) Types of Virtual Private Network (VPN) protocols

1. **Internet Protocol Security (IPSec):** Internet Protocol Security, known as IPSec, is used to secure Internet communication across an IP network. IPSec secures Internet Protocol communication by verifying the session and encrypts each data packet during the connection.
2. **SSL and TLS:SSL (Secure Sockets Layer) and TLS (Transport Layer Security):** Generate a VPN connection where the web browser acts as

the client and user access is restricted to specific applications instead of entire network.

3. **Point-to-Point Tunneling Protocol (PPTP):** PPTP or Point-to-Point Tunneling Protocol generates a tunnel and confines the data packet. Point-to-Point Protocol (PPP) is used to encrypt the data between the connection.
4. **Open VPN:** Open VPN is an open source VPN that is commonly used for creating Point-to-Point and Site-to-Site connections. It uses a traditional security protocol based on SSL and TLS protocol.
5. **Site-to-Site VPN or Router-to-Router VPN:** Commonly used in large companies with branches in different locations to connect the network of one location to the network of another office location securely.
6. **Remote Access VPN:** Securely connecting a user to a private network and accesses all its services and resources remotely. This connection between the user and the private network occur through the internet and the connection is highly secured and private.

c) **Distinction between multiprogramming, multitasking, multithreading and multiprocessing**

- i. Multiprogramming is a form of parallel processing in which several programs can run at the same time using only one processor (uniprocessor). Due to one processor, there can be no concurrent execution of different programs but instead the operating system executes part of one program, the part of another, and so on.
- ii. Multitasking is an operating system allowing a user to perform more than one computing task (process, program, thread etc) at the same time. The system is able to keep track of where you are in one task and go from one task to another without losing information.
- iii. Multithreading is a CPU feature that allows two or more instruction threads to execute independently while sharing the same process resources. A thread is a self-contained sequence of instructions that can be executed in parallel with other threads that are part of the same root process.

OR

Multithreading is the ability of a process to manage its use by more than one user at a time and to manage multiple requests by the same user without having to have multiple copies of the program.

- iv. **Multiprocessing:** This is the process of using two or more CPU (Processors) within a single computer system simultaneously process two or more different portions of the same program.

OR

It is a parallel processing involving the use of several processors (CPUs) linked together to perform coordinated task/job at the same time.

**d. Advantages of Multiprogramming**

1. Increased CPU Utilisation – Multiprogramming improves CPU utilisation as it organises a number of jobs where CPU always has one to execute.
2. Increased Throughput – Throughput means total number of programs executed over a fixed period of time. In multiprogramming, CPU does not wait for I/O for the program it is executing, thus resulting in an increased throughput.
3. Shorter Turnaround Time – Turnaround time for short jobs is improved greatly in multiprogramming.
4. Improved Memory Utilisation – In multiprogramming, more than one program resides in main memory. Thus memory is optimally utilized.
5. Increased Resources Utilisation – In multiprogramming, multiple programs are actively competing for resources resulting in higher degree of resource utilisation.
6. Multiple Users – Multiprogramming supports

**Examiner's report**

This question tests candidates' understanding of virtual private networks and basic terminologies in multiprogramming.

About 70% of the candidates attempted the question but performance was not encouraging, which is characteristic of information technology part of the syllabus.

Candidates are encouraged to devote more time to information technology topics in their future preparations.

**Marking guide**

	<b>Marks</b>	<b>Marks</b>
a. 3 marks for definition	3	
b. 2 marks each for explanation of any two types	4	
c. 2 marks each for any 4 differences	8	
d. 1 mark each for any 5 examples	<u>5</u>	
<b>Total</b>		<b>20</b>

# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

## FOUNDATION LEVEL EXAMINATION – NOVEMBER 2021

### BUSINESS, MANAGEMENT AND FINANCE

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

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

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

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

#### SECTION A

1. A situation where an individual gives orders or guidance to others in an organisation and expects the orders to be obeyed or the guidance to be followed is known as
  - A. Delegation
  - B. Power
  - C. Militancy
  - D. Authority
  - E. Coercion
  
2. Which of the following according to Mintzberg is **NOT** an element or building blocks in an organisation?
  - A. Strategic apex
  - B. Techno-structure
  - C. Middle line
  - D. Support staff
  - E. Strategic planning
  
3. Theory Y approach to management can be described as
  - A. Deliberate management style
  - B. Participative management style
  - C. Emergent management style
  - D. Prescriptive management style
  - E. Transformational management style

4. Which of the following is **NOT** an example of agency conflicts?
- A. Moral hazard
  - B. Risk aversion
  - C. Earnings retention
  - D. Maturity transformation
  - E. Effort level
5. The acronym “DCF” represents
- A. Discounted Cash Flow
  - B. Discount Cash Flow
  - C. Distribution Cash Flow
  - D. Distributed Cash Flow
  - E. Discounted Cash Factor
6. A professional accountant is required to comply with the following fundamental principles, **EXCEPT**
- A. Integrity
  - B. Strategic framework
  - C. Confidentiality
  - D. Objectivity
  - E. Professional behaviour
7. The acronym “IFAC” stands for
- A. International Federation of Accountancy
  - B. International Federation of Accounting
  - C. International Federation of Accountants
  - D. Intermediate Federation of Accountants
  - E. Intermediate Federation of Accounting
8. The hierarchy of needs motivation theory was propounded by
- A. Victor Vroom
  - B. Douglass McGregor
  - C. David McClelland
  - D. Abraham Maslow
  - E. Fredrick Herzberg

9. In accordance with the provisions of the Companies and Allied Matters Acts (CAMA) 2020, which of the following is **TRUE** of a private company?
- A. 15% of the issued share capital must be paid up at all times
  - B. 25% of the issued share capital must be paid up at all times
  - C. 35% of the issued share capital must be paid up at all times
  - D. 45% of the issued share capital must be paid up at all times
  - E. 55% of the issued share capital must be paid up at all times
10. Which of the following is a source of long -term financing?
- A. Bank overdraft
  - B. Trade payables
  - C. Venture capital
  - D. Operating lease
  - E. Debt factoring
11. Bonds are debt instruments issued by governments, government agencies, international organisations and companies. Which of the following is **NOT** true of bonds?
- A. They may be issued for a fixed period of time
  - B. They can be classified either as domestic or international
  - C. They are redeemed by the issuer usually at their face value
  - D. The bond markets are accessible to small companies
  - E. While in issue, the issuer pays interest to the bondholders in each year
12. According to the works of Warren Bennis, which of the following describes a leader?
- A. Imitates
  - B. Maintains
  - C. Originates
  - D. Does things rightly
  - E. Places reliance on control
13. One of the contingency theories of leadership was developed by
- A. Lippitt and White
  - B. Blake and Mouton
  - C. Shannon and Weaver
  - D. Hersey and Blanchard
  - E. Tannenbaum and Schmidt

14. Which of the following **CANNOT** be categorised as an act of Non-Compliance with Laws and Regulations (NOCLAR)?
- A. Bribery
  - B. Whistle blowing
  - C. False accounting
  - D. Fraudulent practice
  - E. Mutilated financial records
15. The concept of cash flow is of vital importance to capital investment appraisal. Which of the following costs is relevant to investment decisions?
- A. Future costs
  - B. Notional costs
  - C. Committed cost
  - D. Absorbed Cost
  - E. Apportionment Cost
16. Separating the risk and return characteristics of market investments from the individual investment decisions is known as
- A. Risk transformation
  - B. Separation theorem
  - C. Financial intermediation
  - D. Maturity transformation
  - E. Amortisation
17. Agency theory was developed in 1976 by
- A. Fayol and Mayo
  - B. Kanter and Urwick
  - C. Jensen and Meckling
  - D. Mintzberg and Ouchi
  - E. Frank and Lillian Gilbreth
18. Shannon and Weaver's communication model was developed in
- A. 1929
  - B. 1937
  - C. 1949
  - D. 1957
  - E. 1969

19. Banks are important financial intermediaries because they
- Create new debit
  - Are the only source of debt finance
  - Are the only source of long term finance
  - Operate between investors and borrowers
  - Take deposits from all their customers
20. The cultural web consists of the following inter-related elements of culture within an organisation, **EXCEPT**
- Symbols
  - Interactions
  - Control systems
  - Stories and myths
  - Routine and rituals

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

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

**QUESTION 1**

According to Harold Koontz “management is an art of creating an environment in which people can perform and individuals can co-operate towards attainment of group goals”.

- Define “group cohesion” and explain briefly **FIVE** factors that impact group cohesion. (10 Marks)
  - Define Commercial Paper (CP) and state **THREE** advantages of convertible bonds for companies and **THREE** advantages of convertible bonds for investors. (10 Marks)
- (Total 20 Marks)**

**QUESTION 2**

- Explain the concept of a joint venture (2 Marks)
  - Explain **TWO** ways by which a joint venture can be created in Nigeria (4 Marks)
  - State **FIVE** purposes for creating a joint venture (5 Marks)
  - State **FOUR** characteristics of a joint venture (4 Marks)
  - State **THREE** advantages and **TWO** disadvantages of joint ventures (5 Marks)
- (Total 20 Marks)**

### QUESTION 3

- a. State **TWO** situations in each case when the following communication channels are suitable
- i. Email
  - ii. Face to face conversation
  - iii. Memo
  - iv. Phone call
  - v. Video conferencing
  - vi. Letter
- (12 Marks)
- b. State and explain **TWO** main policy approaches that governments use to meet macroeconomic objectives. (4 Marks)
- c. In many countries, upcoming industries are protected against foreign competition by government measures against imports.  
State **TWO** policies Nigeria may adopt to protect her cottage industry from foreign competition. (4 Marks)
- (Total 20 Marks)**

### QUESTION 4

- a. State and explain **FIVE** categories of management's responsibility as suggested by Peter Drucker. (10 Marks)
- b. State **FOUR** main features of bureaucracy as identified by Rosemary Stewart. (4 Marks)
- c. Explain **THREE** reasons for the growth of bureaucracy as put forward by Stewart. (6 Marks)
- (Total 20 Marks)**

### QUESTION 5

- a. State **THREE** advantages and **THREE** disadvantages of Accounting Rate of Return (ARR) method of investment appraisal. (6 Marks)

- b. McPat Investment Limited is considering investing in either of two mutually exclusive projects, namely Axiom and Axis. Each project costs ₦1.5 billion. The cost of capital to the company is 15%. The projected cash flows from the two projects are as stated below:

Year	Axiom ₦ '000	Axis ₦ '000
1	220,000	200,000
2.	220,000	200,000
3.	240,000	220,000
4.	240,000	220,000
5.	300,000	340,000
6.	300,000	340,000
7	280,000	280,000

You are required to evaluate the projects using Net Present Value method to decide which one to accept.

(14 Marks)

**(Total 20 Marks)**

### QUESTION 6

- a. Explain the following terms:
- Technological business model
  - Project management. (4 Marks)
- b. State **TWO** disadvantages each of Matrix and Virtual organisational structures. (4 Marks)
- c. In order to put the fundamental principles of ethics into practice, organisations need to adopt values that promote adherence to these principles. State and explain **SIX** of these values. (12 Marks)

**(Total 20 Marks)**

## **SOLUTION**

### **SECTION A**

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

### **Examiner's report**

Section A of the paper is mandatory and so all candidates attempted the twenty MCQs questions.

The questions test candidates' comprehension of the various aspects of the syllabus. About 55 % of the candidates that attempted this section scored below 50%.

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

## Marking guide

Award 1 mark each for any **correct option** chosen to a maximum of 20 marks

### SECTION B

#### SOLUTION 1

- (a) Group cohesion describes the strength of the bond uniting the group. When cohesion is strong the group will remain strong and stable and continue to exist. Conversely, when cohesion is weak, the group may ultimately disband.
- i. **Size of group:** Smaller groups tend to display greater cohesion than larger groups.
  - ii. **Heterogeneous vs. homogeneous:** Homogeneous groups who share common characteristics such as race, gender and religion will typically demonstrate greater cohesion than groups who are more diverse (heterogeneous) sharing fewer common characteristics.
  - iii. **Group success** This is arguably a 'self-fulfilling prophecy' – the more successful a group the greater the incentive to be part of it and hence the greater the cohesion. The less successful, the lower the cohesion.
  - iv. **Barriers to entry and prestige:** Human nature means that the more difficult it is to become a member of a group the greater the desire for outsiders to join the group. Subsequently, the group becomes prestigious and more cohesive. A good example might be an elite academic institution.
  - v. **Task cohesion:** The greater the need for a task to be completed by a group rather than individuals (e.g. a sports team or military operation) the more cohesive the group becomes as members on the whole accept the need to work together to achieve the shared objective.
  - vi. **Rewards and punishment:** The availability of reward for membership and/or punishment for leaving can have a bearing on the attractiveness of being part of a group and hence influence group cohesion.
  - vii. **Competition from external groups:** A lack of competition from alternative groups can lead to erosion in cohesion as members do not feel any pressure to perform. However, with the emergence of competition, groups typically become more cohesive as their competitive instincts amplify and the desire to defeat a rival drives them on.
  - viii. **Location:** Groups who enjoy segregation from others will tend to be more cohesive as strong interpersonal communication patterns develop and a sense of visible identity builds.
  - ix. **Leadership style:** An effective leadership style that matches the skills and personalities of the group can have a significant impact on promoting group cohesion. An ineffective leadership style for that particular group of people is likely to have the opposite effect and erode group cohesion.
  - x. **Social cohesion:** Social cohesion is the degree to which group members enjoy each other's company and how much they like each other. Group cohesion will be highest when members enjoy the social side of being part of the group.

- (b) Commercial paper (CP) is an unsecured promissory note.  
A promissory note is a promise by the issuer of the note to pay a specific amount of money on a specified date.

When a company issues CP, it promises to pay the face value of the paper at a specified date in the future. Meanwhile, non-financial companies issue CP through a bank, as part of a commercial paper programme. The bank issues the CP on behalf of the company and sells it to investors. All CP is negotiable, which means that it can be sold in the money market.

In practice, however, investors buying CP normally hold it to maturity when they are paid the face value of the paper they have bought.

The company issuing the CP therefore receives immediate cash (at a discount to the face value of the paper) and makes a payment when the paper reaches maturity.

**The advantages of convertibles for companies are as follows:**

- (i) The company can issue bonds now, and receive tax relief on the interest charges, but hope to convert the debt capital into equity in the future.
- (ii) The interest rate on convertibles is lower than the interest rate on similar straight bonds. This is because investors in the convertibles are expected to accept a lower interest rate in return for the option to convert the bonds into equities in the future.
- (iii) Occasionally, there is strong demand from investors for convertibles, and companies can respond to investors' demand by issuing convertibles in order to raise new capital.

**The advantages of convertibles for investors are as follows:**

- (i) Investors receive a minimum annual income up to the conversion date, in the form of fixed interest.
- (ii) In addition, investors in convertibles will be able to benefit from a rise in the company's share price, and hope to make an immediate capital gain on conversion.
- (iii) Convertibles therefore combine some fixed annual income and the opportunity to benefit from a rising share price.

The first part of the question tests candidates' knowledge of Teams and Team Roles with particular emphasis on Group Cohesion. The second part examines money market instruments with particular reference to Commercial Paper.

## Examiner's report

The first part of the question tests candidates' knowledge of teams and team roles with particular emphasis on group cohesion. The second part examines money market instruments with particular reference to commercial paper

The question was attempted by 35% of the candidates.

Performance was poor, as about 70% of the candidates who attempted the question scored below 50%.

The responses revealed that about 60% of the candidates that attempted the question had no good knowledge of group cohesion. Available statistics showed that about 50% of the candidates that attempted part b of the question relied on residual knowledge.

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

## Marking guide

	Marks	Marks	Marks
a Award maximum of 2 ½ marks to <b>correct description</b> of the term "Group Cohesion"	2 ½	2 ½	
Award ½ mark each to any 5 points <b>mentioned</b>	5 points x ½	2 ½	
Award maximum of 1 mark each to any 5 points <b>explained</b>	5 points x 1	5	
b Award maximum of 1 mark each to the <b>explanation</b> provided in paragraphs 1 to 4 (Definition of Commercial Paper)	4 points x 1	4	
Award maximum of 1 mark each to any 3 advantages of convertibles bonds for companies presented	3 points x 1	3	
Award maximum of 1 mark each to any 3 advantages of convertibles bonds for investors presented	3 points x 1	3	

20

## **SOLUTION 2**

a) **Joint Venture**

A joint venture is a business entity characterized by mutual ownership, returns, risks and governance by two or more parties. In other words, is a formal venture/agreement entered by two or more separate entities to develop a business or an activity jointly.

b) **TWO** ways by which a Joint Venture may be created in Nigeria

- i. A foreign investor buying an interest in a local company in Nigeria
- ii. A local company buying an interest in an existing foreign company
- iii. Both local and foreign companies joining to form a new enterprise

c) **FIVE** purposes for creating Joint Venture

- i. create synergy
- ii. increased resources
- iii. move into a new emerging market
- iv. gain profits margins by combining their assets and operations
- v. access skills and capabilities
- vi. share the risk for major investments or projects
- vii. mutual competitive advantage
- viii. business expansion
- ix. develop new products

d) **FOUR** characteristics of Joint Venture

- i. Shared ownership/ entered into by two or more persons
- ii. Shared governance
- iii. Shared profit returns and risk
- iv. Enable growth without having to borrow funds
- v. Time bound (it is for a specific period of time)

e) State **THREE** advantages and **TWO** disadvantages of Joint Ventures

### **Advantages of Joint Ventures**

- i. Profit at low cost
- ii. Shared costs
- iii. Shared expenses
- iv. Shared risk
- v. Provides opportunity to gain new insights and expertise
- vi. Enables access to specialized technology, staff and other resources

### **Disadvantages of Joint Venture**

- i. Flexibility is restricted
- ii. Degree of partners' involvement may not be equal
- iii. It has unclear and unrealistic objectives.

**Total 20 Marks**

### **Examiner's report**

The question tests candidates' knowledge of business processes and environment with all the parts of the question revolving around joint venture as a method of collaboration and alliances. The question requires candidates to explain the meaning of the concept, how it can be created, purposes for its creation, its characteristics, advantages and disadvantages.

80% of the candidates who sat for the paper attempted this question and performance was extremely bad. About 50 % of the candidates who attempted the question scored below 40%.

Responses to the question show that candidates were ill prepared for the examination. A handful number of the candidates misconstrued joint venture as normal partnership.

Candidates are strongly advised to cover the entire syllabus in the course of their preparations for this subject in future.

### **Marking guide**

	<b>Marks</b>	<b>Marks</b>	<b>Marks</b>
A Award maximum of 2 marks to <b>correct description</b> of Joint Venture	Maximum of 2	2	
B Award maximum of 2 marks each to any 2 ways of creating Joint Venture <b>explained</b>	2 points x 2	4	
C Award maximum of 1 mark each to any 4 purposes of creating Joint Venture <b>stated</b>	4 points x 1	4	
D Award maximum of 1 mark each to any 5 characteristics of Joint Venture <b>stated</b>	5 points x 1	5	
E Award maximum of 1 mark each to any 3 advantages of Joint Venture <b>stated</b> Award maximum of 1 mark each to any 2 disadvantages of Joint Venture <b>stated</b>	3 points x 1 2 points x 1	3 2	
			<hr/> <b>20</b> <hr/>

### SOLUTION 3

a)

Channel of Communication	Suitable Situations
E mail	<ul style="list-style-type: none"> <li>i. <b>Retention of record of information is important.</b> Information has to be conveyed quickly.</li> <li>ii. Facilitate recipient to respond at a convenient time. Identical information has to be communicated to many persons</li> </ul>
Face-to-face conversation	<ul style="list-style-type: none"> <li>i. Interactive communication requiring prompt exchange of viewpoints.</li> <li>ii. Exchange of persuasive, bad-news and personal messages.</li> <li>iii. Where non-verbal communication is important.</li> </ul>
Memo	<ul style="list-style-type: none"> <li>i. Explanation of policies and procedures to employees</li> <li>ii. Dissemination of important information within an Organisation</li> </ul>
Phone call	<ul style="list-style-type: none"> <li>i. Conveying or obtaining quick information is important. Non-verbal cues are not important</li> <li>ii. Face to face meetings are not convenient</li> </ul>
Video conference	<ul style="list-style-type: none"> <li>i. Group interactions and consensus are important and members are in different locations</li> <li>ii. Saves time and money</li> </ul>
Letter	<ul style="list-style-type: none"> <li>i. Authentic signatures of the senders are Required: Formal communication with customers, external organisations and officials</li> </ul>

b) The main policy approaches used by governments to meet macro economic objectives include:

- i. Monetary policy
- ii. Fiscal policy

#### **Monetary policy**

This is a macroeconomic tool which regulates money supply in order to maintain price stability. Tools of monetary policy includes changes to interest rates, the supply of money and credit and also changes to the value of the exchange rate.

## **Fiscal policy**

This is the use of taxation, government spending and borrowing to regulate economic activity. Fiscal policy can be employed to achieve macro economic objectives of full employment, economic growth, external balance, price stability and equitable distribution of income and wealth.

- (i) The imposition of high import taxes on goods coming into Nigeria
- (ii) Setting quota limits on the amount of goods that can be imported into Nigeria
- (iii) Putting a ban on imports of some type of goods into Nigeria.

## **Examiner's report**

The question was presented in three parts. The first part of the question examines candidates' knowledge of a number of specified communication channels. The second and third parts focused on macroeconomic policies of government with respect to protectionism and approaches governments adopt in order to meet macroeconomic objectives generally.

This question appears popular since about 90% of the candidates attempted it. Therefore, a better performance was expected. However, 75% of the candidates who attempted it scored below 50% of the marks allotted to the question.

Although, candidates seemed to have a good understanding of the requirement of the question, but they could not cite appropriate instances where and when each channel of communication could be used.

Candidates need to know that the BMF is a fused paper of almost four subjects and so no aspect of the syllabus should be overlooked. Candidates are advised to have a mastery of all the contents of the syllabus and make use of ICAN Study Text and Pathfinders when preparing for future examinations.

**Making guide**

		Marks	Marks	Marks
a	Award maximum of 1 mark each to any 2 situations <b>correctly stated</b> ( situations when the specified channels of communication below are suitably applied)			
	Email	2 points x 1		
	Face to face conversation	2 points x 1		
	Memo	2 points x 1		
	Phone call	2 points x 1		
	Video conferencing	2 points x 1		
	Letter	2 points x 1		
			<b>12</b>	
b	Award maximum of 1 mark each for any 2 main policy approaches that governments use to meet macroeconomic objectives <b>correctly stated</b> .	2 points x 1	2	
c	Award maximum of 1 mark each for any 2 main policy approaches that governments use to meet macroeconomic objectives <b>correctly explained</b> .	2 points x 1	2	
d	(c) Award maximum of 2 marks each for any 2 policies Nigeria may adopt to protect her cottage industry from foreign competition <b>correctly stated</b> .	2 points x 2	4	
				<u><b>20</b></u>

**SOLUTION 4**

- a. The categories of management’s responsibility suggested by Peter Drucker are:
- a. Setting objectives
  - b. Organising work
  - c. Motivating and communicating
  - d. Measuring performance
  - e. Developing people

### **Setting objectives.**

Managers set objectives for the organisation, and decide on targets for the achievement of those objectives, which they then communicate to other people in the organisation.

### **Organising work.**

Managers organise the work that is done, by dividing it into activities and jobs. They integrate the jobs into a formal organization structure and select and appoint people to do the jobs.

### **Motivating and communicating.**

Managers need to motivate their employees. They must also communicate with their employees so that they can do their work.

### **Measuring performance.**

Managers measure performance, perhaps by comparing it against a target or yardstick (benchmark). They analyse and assess performance, and communicate their findings, both to their superiors and their subordinates.

### **Developing people.**

Managers need to develop their employees and also themselves. Drucker wrote that the managers 'brings out what is in their employees or he stifles them. He strengthens their integrity or he corrupts them.

### **b. The four main features of bureaucracy as identified by Rosemary Stewart are:**

- i. Specialisation;
- ii. Hierarchy of authority;
- iii. A system of rules; and
- iv. Impersonal

### **c. Reasons for the growth of bureaucracy as put forward by Stewart are:**

- i. **The growing size of organisations:** large organizations need some bureaucratic structure to function efficiently;
- ii. **Greater complexity of work:** complexity makes it necessary to have specialization of tasks within an organisation. Job-holders often need to be 'experts' in their work to deal with the complex issues involved;

- iii. **Scientific management:** a scientific approach to management is widely used. This approach supports a rational way of organizing work and having formal procedures for getting work done; and
- iv. **The demand for equality of treatment.** Citizens expect to be treated equally by organisations. Bureaucracies provide impartiality and should ensure equal treatment for all.

### **Examiner's report**

This question tests candidates' understanding of management theorists like Peter Drucker and Rosemary Stewart (bureaucracy). The first part examines candidates' intellectual capacity with respect to the categories of management's responsibility. The second part examines features of bureaucracy and reasons for its growth.

Almost 35% of the candidates that sat for this paper attempted it and performance was poor, as about 70% of the candidates who attempted the question scored below 40%.

Candidates had no idea of how Peter Drucker classified management's responsibility. It appears many candidates have the erroneous attitude towards management as a subject hence they often rely on residual knowledge in writing management examinations. It appeared candidates had no idea of the main features of bureaucracy as identified by Stewart.

Candidates should concentrate on all aspects of the syllabus and use ICAN Study Text and Pathfinders when preparing for future examinations.

## Marking guide

		Marks	Marks
a	Award maximum of 1 mark each for 5 categories of managements responsibilities <b>stated</b> , as suggested by Peter Drucker	5 points x 1 mark	5
	Award maximum of 1 mark each for 5 categories of managements responsibilities <b>explained</b> , as suggested by Peter Drucker	5 points x 1 mark	5
b	Award maximum of 1 mark each for 4 main features of bureaucracy <b>stated</b> , as identified by Rosemary Stewart	4 points x 1 mark	4
c	Award maximum of 2 marks each for 3 reasons for the growth of bureaucracy <b>stated</b> , as put forward by Rosemary Stewart	3 points x 2 marks	6

20

## SOLUTION 5

### a) Advantages of ARR

**The advantages of accounting rate of return are:**

- i. It is easy to calculate;
- ii. It is simple to understand and use;
- iii. It uses readily available accounting data; and
- iv. Unlike the payback period, it considers the profit over the entire life of the project.
- v. It is simple to calculate and its meaning is widely understood.
- vi. It can be calculated from readily available accounting data
- vii. It consider all profits over the life of the projects.
- viii. It is consistent with the return on investment approach to which most managers are familiar

### Disadvantages of ARR

- i. It uses accounting profits and not cashflows in appraising the project;
- ii. There are no rules for setting the minimum acceptable ARR by the management;
- iii. It ignores time value of money;
- iv. There is no unique definition of Accounting Rate of Return;
- v. It is a relative measure rather than an absolute measure
- vi. It is based on accounting profits rather than cash flows. It ignores the time value of money.
- vii. The same weight is placed on profits made in different years.
- viii. It is a relative measure rather than an absolute measure and hence takes no account of the size of the investment.

**B McPat Investment Limited**

Year	AXIOM			AXIS		
	Cash Flow N'000	DCF @15%	PV N'000	Cash Flow N'000	DCF @15%	PV N'000
0	(1,500,000)	1.000	(1,500,000)	(1,500,000)	1.000	(1,500,000)
1	220,000	0.8696	191,312	200,000	0.8696	173,920
2	220,000	0.7561	166,342	200,000	0.7561	151,220
3	240,000	0.6575	157,800	220,000	0.6575	144,650
4	240,000	0.5718	137,232	220,000	0.5718	125,796
5	300,000	0.4972	149,160	340,000	0.4972	169,048
6	300,000	0.4323	129,690	340,000	0.4323	146,982
7	280,000	0.3759	105,252	280,000	0.3759	105,252
		NPV	(463,212)		NPV	(483,132)

12 Marks

These are mutually exclusive projects meaning that you cannot accept both projects, the selection criterion will be based on project with higher positive NPV. However, neither of the project can be selected because both projects have a negative NPV and have a negative contribution to the wealth of the McPat Investment Limited.

**Total 20 Marks**

**Examiner's report**

The question examines candidates' understanding of the discounted cash flow (DCF) techniques of investment appraisal. The question specifically tests calculation of Net Present Value (NPV) method of DCF techniques using two mutually exclusive projects.

It was a popular question, so about 90% of the candidates attempted the question.

Performance was above average, as almost 75% of the candidates that attempted the question scored above 55% of the marks allotted to the question.

Many candidates are accustomed to this kind of question but may find it a bit challenging when both projects give a negative NPV. Additionally, some of the candidates were unable to apply the correct discount factors arrived at while others

that used correct values of the discount factors had difficulty adding up the cumulative present values of cash flows.

Candidates should make use of ICAN Study Text and Pathfinder as guide when preparing for future examinations.

### Marking guide

		Marks	Marks	Marks
A	Award maximum of 1 mark each to any 3 advantages of ARR stated	3 points x 1	3	
	Award maximum of 1 mark each to any 3 disadvantages of ARR stated	3 points x 1	3	
B	Evaluation of projects Axiom and Axis using NPV	24 ticks x ½	12	
	Decision making	1	1	
	Reason provided to support the decision taken	1	1	
				<u>20</u>

### SOLUTION 6

- a) i. A technological business model might be described as a model that leverage digital technologies to improve several aspects of an organisation. From how the company acquires customers, to what product it sells or service it provides. A technological business model is such when technology helps enhance value proposition.
- ii. Project management is the application of processes, methods, skills, knowledge and experience to achieve specific project objectives according to the project acceptance criteria within agreed parameters. Project management has final deliverables that are constrained to a finite timescale and budget.
- b) **Disadvantages of a Matrix organisational structure**
- i. Inefficiency: Unless there is close cooperation and communication between the different managers the structure can be inefficient.
- ii. Confusion: It can lead to confusion especially when individuals have to report to two different managers who cannot agree on what the individual should be doing. (2 Marks)

### **Disadvantages of a Virtual organisational structure**

- i. It has no tangible identity,
  - ii. It lacks culture,
  - iii. People who work for a virtual organisation may not have strong loyalty towards it.
  - iv. People who work for a virtual organisation may even work for several employers.
- c) Such values include the following:
- Openness
  - Honesty
  - Trust
  - Empowerment
  - Respect
  - Accountability

**Openness**–Individuals should be open about their actions. This means providing full and complete information and reasoning behind a decision as required.

**Honesty** –Individuals should be honest and should not only tell the truth but be prepared to give complete information on which others might depend.

**Trust** – Relying on the information provided by colleagues and accepting their judgements.

**Empowerment** - Those who are entrusted with responsibilities must have the authority to fulfil those responsibilities.

**Respect** -Treating others with courtesy and allowing them their dignity. Respect should be both given and earned.

**Accountability** – Individuals must understand their responsibilities and be held accountable for them. They must accept their responsibilities and this requires effective communication.

### **Examiner's report**

The question is in three parts. The first part examines candidates' knowledge of two management and business terms viz: technological business model; and project management. The second part tests candidates' knowledge of business and organisational structures with particular reference to Matrix and virtual organisational structures. The last part of the question examines the organisational values that promote adherence to fundamental principles of ethics as it affects accounting and business.

About 60% of the candidates attempted the question and performance was poor, as almost 70% of the candidates who attempted the question scored below 50%.

Candidates had knowledge of the requirement of the question but were unable to answer the question appropriately, probably because of inadequate preparation.

Candidates are advised to avail themselves of ICAN syllabus, study pack and the Pathfinders when preparing for future examinations.

### Marking guide

		Marks	Marks	Marks
a	Award maximum of 2 marks for <b>correct explanation</b> of the term 'Technological Business Model'	Maximum of 2 marks	2	
	Award maximum of 2 marks for <b>correct explanation</b> of the term 'Project Management'	Maximum of 2 marks	2	
b	Award maximum of 1 mark each to any 2 disadvantages of matrix organisational structure stated	2 points x 1 mark	2	
	Award maximum of 1 mark each to any 2 disadvantages of matrix organisational structure stated	2 points x 1 mark	2	
c	Award maximum of 1 mark each for any 6 values that promote adherence to ethical principles <b>stated</b> .	6 points x 1 mark	6	
	Award maximum of 1 mark each for any 6 values that promote adherence to ethical principles <b>explained</b> .	6 points x 1 mark	6	

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**20**

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**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**

**FOUNDATION LEVEL EXAMINATION – NOVEMBER 2021**

**BUSINESS LAW**

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

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

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

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

1. Which of the following courts have coordinate powers?
  - A. The Supreme Court and the Federal Court of Appeal
  - B. National Industrial Court and National High Court
  - C. State Court of Appeal and Federal Court of Appeal
  - D. Magistrate Court and Federal Revenue Court
  - E. State High Court and State Customary Court of Appeal
  
2. Which of the following is **NOT** an offence?
  - A. Stealing
  - B. Burglary
  - C. Affray
  - D. Negligence
  - E. Robbery
  
3. Which of the following offences is **NOT** provided for in the Nigerian Cybercrime Act 2015?
  - A. Hacking computer systems
  - B. Cyber-bullying
  - C. Trafficking in persons
  - D. Child pornography offences
  - E. Identity theft

4. A foreign limited liability partnership
  - A. Can carry on business in Nigeria provided it is registered in its home country
  - B. Cannot carry on business in Nigeria without being incorporated in Nigeria
  - C. Need not register afresh in Nigeria before carrying on business in Nigeria
  - D. Is prohibited in Nigeria under the Companies and Allied Matters Act 2020
  - E. Must admit Nigerians as partners under the Companies and Allied Matters Act before carrying on business in Nigeria
  
5. With particular reference to section 377 of the Companies and Allied Matters Act 2020, whose duty is it to prepare the financial statements of a company for each year?
  - A. The directors
  - B. The chief accountant
  - C. The account clerks
  - D. The auditor
  - E. The company secretary
  
6. A Receiver of any undertaking of a company appointed by the court is an officer of the
  - A. Court
  - B. Shareholders
  - C. Company
  - D. Board of directors
  - E. Company's secured creditors
  
7. The consequence of a professional committing a crime could be a jail term. What is the consequence for a professional who commits a breach of ethical codes?
  - A. A fine payable to court
  - B. Withdrawal of professional licence
  - C. A suspended jail term
  - D. A fine payable to the Institute of Chartered Accountants of Nigeria
  - E. Reference to the Economic and Financial Crimes Commission for investigation

8. Mabel, acting under false pretences, induced Adam to transfer permanent possession of goods to her with no intention of retaining ownership. What offence can Mabel be charged for?
- A. Deception
  - B. Obtaining by false pretenses
  - C. Stealing
  - D. Receiving
  - E. Unlawful transfer
9. What offence is committed when a person transfers money derived from illicit traffic in cocaine in such a way as to hide the illicit source of the money and to avoid law?
- A. Drug trafficking
  - B. Unlawful transfer
  - C. Money trafficking
  - D. Money laundering
  - E. Illicit trafficking
10. Any crime committed using a computer is known as
- A. Cybercrime
  - B. Internet fraud
  - C. Internet crime
  - D. Computerised crime
  - E. Computer crime
11. Emeka and Ngozi negotiated and entered into a contract using Facebook throughout. What kind of contract is this?
- A. Facebook contract
  - B. Unenforceable contract
  - C. Contract pending signature
  - D. Social media contract
  - E. Electronic contract
12. An undisclosed principal
- A. Cannot sue a third party based on the acts of the agent done on his behalf
  - B. Is one whose existence and identity is dual
  - C. Is one whose identity is not known though his existence is known
  - D. Can sue a third party based on the acts of the agent done on his behalf
  - E. Is one who has no known address in Nigeria

13. A tortious liability borne by one as a result of another's tortious act is known as
- A. Third party liability
  - B. Varied liability
  - C. Vicarious liability
  - D. Vivacious liability
  - E. Transferred liability
14. In sale of goods, the seller is under a duty to deliver the goods to the buyer. The delivery means
- A. Transfer of ownership to the buyer
  - B. Transfer of possession to the buyer
  - C. Transfer of possession and ownership to the buyer
  - D. Collection of the goods by the buyer
  - E. Demand of the goods by the buyer
15. An owner that is in breach of a warranty under a hire purchase agreement is liable to
- A. Pay damages to the hirer
  - B. Forfeit every right under the agreement
  - C. Lose his right to further installment payments
  - D. Refund all installments already paid by the hirer
  - E. Repudiate the agreement
16. The document by which an insured initiates an insurance contract is known as
- A. Proposal form
  - B. Application form
  - C. Insurance form
  - D. Policy form
  - E. Proposer form
17. A banker/customer relationship comes into being only when a person
- A. Transacts any business with a bank
  - B. Has an account in his name in a bank
  - C. Presents a cheque to a bank for payment
  - D. Has a contractual relationship of whatever kind with a bank
  - E. Works for a bank

18. The relationship between two persons in which one person is subject to the command of the other on how he should do his work is known as
- A. Slavery
  - B. Contract for service
  - C. Contract of service
  - D. General contract
  - E. Casual employee
19. A trust which comes into being from the presumed intention of a settlor is known as
- A. Presumed trust
  - B. Private trust
  - C. Express trust
  - D. Implied trust
  - E. Constructive trust
20. The minimum number of a conciliation body is
- A. 5
  - B. 4
  - C. 3
  - D. 2
  - E. 1

**SECTION B: OPEN-ENDED QUESTIONS**

**(80 MARKS)**

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

**QUESTION 1**

- a. Nigerian courts are enjoined to apply the common law of England, doctrines of equity and statutes of general application that were in force on the 1<sup>st</sup> of January 1900.

**Required:**

Define

- i. Common law (1 Mark)  
ii. Equity (1 Mark)  
iii. Statutes of general application (1 Mark)
- b. Mercy and Samuel who are the only partners of a limited liability partnership are protesting a demand letter served on them for the payment of the sum of ₦500,000 each by the Corporate Affairs Commission for failure to audit the partnership's account for the immediate past year and failure to file annual returns for the same period. They are protesting on the grounds that they are not a company and, therefore, not liable to file annual returns, and that the Corporate Affairs Commission has no right to demand the audit. They have approached you as a professional to advise them.

**Required:**

Advise the partners in line with the provisions of the Companies and Allied Matters Act 2020 on:

- i. The Corporate Affairs Commission's demand for the partnership's audit. (4 Marks)  
ii. Whether or not the partnership was under a legal duty to file an annual returns with the Corporate Affairs Commission. (4 Marks)
- c. A limited liability partnership must have a designated partner.

**Required:**

What shall a designated partner be responsible for? (4 Marks)

- d. ADR is the abbreviation for Alternative Dispute Resolution.

**Required:**

- i. Explain briefly Alternative Dispute Resolution (2 Marks)  
ii. State **THREE** mechanisms of Alternative Dispute Resolution (3 Marks)

**(Total 20 Marks)**

## QUESTION 2

- a. Torts have categories.

**Required:**

State **FOUR** categories of tort that affect economic interest. (4 Marks)

- b. Chief Afeez is the chairman and majority shareholder of Afeez Nigeria Limited which has won a contract of ₦500 million that is much beyond the capacity of Afeez Nigeria Limited. Chief Afeez decides to raise the capital for the company by issuing shares and inviting friends to acquire shares in the company as well as issuing debentures.

**Required:**

Explain briefly **FOUR** of the following:

- i. Company securities
  - ii. Debentures
  - iii. Share capital
  - iv. Preference shares
  - v. Shareholder
- (12 Marks)
- c. You are a court-appointed receiver of a company with several persons including debenture holders, having interests in its assets.

**Required:**

Explain the step you should take in determining how the proceeds of the receivership are to be distributed. (4 Marks)

**(Total 20 Marks)**

## QUESTION 3

- a. A pharmaceutical company advertising its newly developed vaccine made an offer of ₦1,000,000.00 (One million naira) to anyone who contacted the disease after taking the vaccination administered freely.

Daniel accepted the offer, took the vaccine of his own free will, and contacted the disease. The pharmaceutical company has failed to pay him the one million naira.

**Required:**

Advise Daniel if his action for breach of contract would succeed or fail, giving reasons for your advice. (5 Marks)

- b. Explain the difference between a contract under seal and a simple contract. (5 Marks)
- c. Promoters usually enter into a contract on behalf of a proposed company.

**Required:**

Explain the means of validating a pre-incorporation contract and when it becomes invalid. (6 Marks)

- d. Ethical codes are codes adopted by professional bodies for differentiating between right and wrong conduct in the performance of members' professional duties.

**Required:**

State **FOUR** objectives of ethical codes. (4 Marks)

**(Total 20 Marks)**

**QUESTION 4**

- a. Adamu, a public officer whose duties relate to the administration of justice, was caught on camera corruptly requesting money from a person with a view to avoid doing his duties so as to favour that person.

**Required:**

- i. Under the Criminal Code, what offence could Adamu be charged for and what punishment is he liable to if convicted? (2 Marks)
- ii. What would be Adam's punishment on conviction if his duties did not relate to the administration of justice? (2 Marks)
- b. Thomas carried out a series of transactions on his bank account involving a frequency considered by the bank manager, Alhaji Adeyemo, to be unjustifiable or unreasonable. Adeyemo reported the transactions to the Economic and Financial Crimes Commission, leading to the interrogation of Thomas. Thomas has now filed a civil actions for defamation against Alhaji Adeyemo.

**Required:**

Advise Alhaji Adeyemo on possible liability for the action and his possible defence. (4 Marks)

- c. George who is the chief accountant of Digital Supermarkets has reasons to believe that certain online lodgments into the supermarkets' bank account by one of the salesgirls were highly suspicious.

**Required:**

- i. What steps should George take as the accountant? (2 Marks)
  - ii. Explain briefly what you understand by 'electronic fraud'. (2 Marks)
- d. Brenda, an agent who had instructions to sell his principal's house in the open market, bought the house for himself using his brother as front without informing the principal.

**Required:**

State **TWO** duties Brenda has breached as the agent. (2 Marks)

- e. Ngozi retains part of goods he was instructed to sell as an agent on the ground that the principal has refused to indemnify him for reasonable expenses incurred in the course of out the agency.

**Required:**

State the condition under which Ngozi as an agent could lawfully retain the goods. (2 Marks)

- f. Juliet is an officer of an auctioneer company with instructions to auction properties belonging to Adams, but the warehouse handlers displayed goods belonging to Mathias in error. Mathias has brought a suit against Juliet for negligence.

**Required:**

- i. Advise Juliet on the defence or defences available to her, explaining briefly the rule of law for your advice. (2 Marks)
- ii. State **TWO** necessary ingredients which must be proved by a plaintiff to succeed in an action for negligence. (2 Marks)

**(Total 20 Marks)**

**QUESTION 5**

- a. Christopher and Uche signed a sale agreement for goods which were in Christopher's showroom specifically identified as 20 cartons of tomato puree. The parties agreed that Uche would take delivery at Christopher's shop with his truck which Uche did, but before getting to his store, the truck fell into a ditch and the goods were all destroyed. Uche has refused to pay the price on the ground that the goods did not get to him.

**Required:**

- i. What kind of goods is the subject of the agreement? (1 Mark)
- ii. Advise Christopher under the Sale of Goods Act of his rights, explaining briefly who should bear the loss. (4 Marks)

- b. Chukwudi defaulted in the sum of ₦150.00 out of ₦500,000 in the payment of his installments under a hire purchase agreement. The owner repossessed the goods.

**Required:**

- i. Explain briefly the duty of a hirer relating to the payment of hire purchase installments. (2 Marks)
- ii. Advise Chukwudi who is thinking of challenging in court the repossession of the goods by the owner on the grounds that it is unfair since he had almost completed payment of the cash price. (3 Marks)

- c. An insurance policy creates rights in favour of the contracting parties which are assignable.

**Required:**

- i. Explain briefly 'assignment of insurance policy' and a situation in which an assignment of insurance becomes a legal assignment. (2 Marks)
- ii. Why is it not possible to transfer the rights in an insurance policy by delivery and when is a marine insurance policy not assignable? (3 Marks)
- d. A bank owes its customer a strict duty to treat information on the customer's account with secrecy and confidentiality.

**Required:**

- i. State **THREE** instances in which the bank may lawfully divulge information on the customer's account. (3 Marks)
- ii. When should the bank avoid the duty of keeping the customer's accounts separated? (2 Marks)

**(Total 20 Marks)**

**QUESTION 6**

- a. Francis died without a Will, leaving a widow and five children. He has ₦20 million in his bank account.

**Required:**

- i. Explain how Francis died under the law of administration of estates and the steps that the children of Francis must take to withdraw the money in the bank. (3 Marks)
- ii. Explain what is meant by an administrator and differentiate him from an executor. (2 Marks)

- b. Margaret has been working for Neki Limited for three years as a clerk without a letter of appointment but has been paid monthly salary regularly. On the last working day of a month, Margaret was handed her salary for that month and a letter terminating her appointment with immediate effect.

**Required:**

- i. Explain briefly **TWO** ways in which Margaret's rights as an employee have been violated by Neki Limited. (5 Marks)
- c. "For a limited liability partnership to be incorporated, two or more persons associated for carrying on a lawful business with a view to making profit shall subscribe their names to an incorporation document"– Section 753 (1) Companies and Allied Matters Act 2020.

**Required:**

- i. Under the Companies and Allied Matters Act 2020, state the kind of books of account that a limited liability partnership must maintain.
- ii. State the system of accounting that a limited liability partnership must comply with.
- iii. State the title of the account the limited liability partnership must prepare.
- iv. Within what period of time from the end of a financial year must a limited liability partnership prepare its accounts?
- v. How long after the closure of its financial year must a limited liability partnership file its annual returns? (1 Mark each = 5 Marks)
- d. A contract is a legally binding agreement with mandatory elements.

**Required:**

State **TWO** categories of person with limited capacity to contract and **THREE** exceptions to the rule of privity of contract. (5 Marks)

**(Total 20 Marks)**

## **MCQ ANSWERS**

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

## **Examiners' report**

The questions achieved a good spread over the syllabus.

Attempt rate was 100%, and pass rate was over 60%.

There was an indication that many candidates did not cover the syllabus in their preparation.

They are advised to cover all aspects of ICAN Study Texts, paying attention to the contents of the new syllabus.

## **SOLUTION 1**

- (a) (i) Common law is the unwritten law of England developed by the English courts before the passing of the Judicature Act 1873.
- (ii) Equity is the law based on fairness developed by the English courts of Chancery to mitigate the rigidity and hardship of the strict application of the common law.
- (iii) Statutes of general application are laws which were in force in England as at 1<sup>st</sup> day of January 1900 and received into Nigeria as part of Nigerian laws.
- (b) (i) The Companies and Allied Matters Act 2020 makes provisions requiring Every limited liability partnership's accounts to be audited in accordance with prescribed rules. (Section 772 (4) of the Companies and Allied Matters Act 2020). A breach of the provision renders the partnership liable to a penalty in such amount as shall be specified by the Corporate Affairs Commission.

In view of this clear provision of the law, the limited liability partnership is clearly liable to the penalty for failure to audit its accounts and they partners are accordingly advised to drop their protest on this ground as it is bound to fail.

- (ii) Section 773 (1) of the Companies and Allied Matters Act 2020 provides that a limited liability partnership shall file an annual return with the Commission within 60 days of closure of its financial year the default for which is punishable at subsection (2) by a penalty in such amount as the commission shall specify.

Accordingly, the partners are advised that by the provision of the law, they are under a legal duty to file an annual return with the Corporate Affairs Commission and they should drop their protest on this ground as it will fail.

- (c) A designated partner is responsible for the following:
- i. Doing all acts, matters and things that the CAMA requires a limited liability partnership to do to comply with it, including filing of any document return, statement and other report of the partnership.
  - ii. Liability for all penalties as may be imposed by the CAMA on the limited liability company.
- (d) (i) Alternative Dispute Resolution is a legal method of resolving dispute between parties in alternative to litigation in court.
- (ii) Three mechanisms of Alternative dispute Resolution include (a) Arbitration (b) Mediation (c) Conciliation (d) Negotiation (e) Facilitation (f) Settlement conference.

### **Examiner's report**

This question tests candidates' understanding of sources of Nigerian law, designated partners and their roles, audit and annual returns in limited liability partnership, as well as Alternative Dispute Resolution (ADR) mechanisms.

Attempt rate was 70%, and about 50% of the candidates scored pass marks.

Candidates' major pitfall was their lack of understanding of limited liability partnership and some ADR mechanisms.

Candidates are advised to read ICAN Study Texts diligently.

## Marking guide

	Marks	Marks
a. Definition of Common Law, Equity and Statutes of General Application (1 mark for 3 correct points)		3
b. i. Limited liability partnership has duty to audit its accounts at the pain of fine	2	
ii. The partnership is liable	2	
iii. The partnership has duty to file annual returns at pain of penalty	2	
- Partnership advised to file returns	2	
c. 2 responsibilities of designated partnership (2 marks each)	<u>4</u>	12
d. i. A.D.R is for resolution of disputes in alternative to litigation	2	
ii. 3 mechanisms of A.D.R		
(1 mark each for any 3 correct points)	<u>3</u>	<u>5</u>
<b>Total</b>		<b><u>20</u></b>

## SOLUTION 2

- (a) Torts that affect economic interests are:
- Deceit
  - Passing off
  - Conversion
  - Detinue
  - Professional negligence
- (b) (i) Company securities are the different instruments by which a company to raises capital. They include debenture, stocks, bonds, shares, and notes
- (ii) A debenture is an instrument usually under seal issued by a company containing an acknowledgement of indebtedness of a specified sum and which is usually given as a charge on the assets of the company.
- (iii) Share capital is the total amount of money a company raises or registered to raise through the allotment or sale of its shares. It is usually divided into shares of a fixed amount contained in the company's memorandum of association.
- (iv) Preference shares are shares which enjoy priority over other classes of share in the payment of dividends at a fixed rate or return of capital or both, but which do not participate in surplus profits.

- (v) A shareholder is any individual or institution who legally holds at least one share of any class in the share capital of a company and whose name is duly registered in the company's register of members.
- (c) A receiver appointed by the court where there are many persons interested in the assets of the company should by the provisions of Section 552 (2) of the Companies and Allied Matters Act 2020 apply to the court for directions.

### Examiner's report

This question tests candidates' understanding of economic torts, types of company securities, and the functions of a court-appointed receiver.

Attempt rate was about 70% and pass rate was over 60%.

Candidates' commonest pitfall was lack of understanding of economic torts and the functions of a court-appointed receiver.

Candidates are advised to pay more attention to the parts of the ICAN Study Texts that cover the pitfall areas.

### Marking guide

	Marks	Marks
a. 4 Torts that affect economic interest (1 mark each for any correct points)		4
b. i. Explain company security as means of capital raising	3	
ii. Explanation of debentures	3	
iii. Explanation of share capital	3	
iv. Explanation of preference shares	3	
v. Explanation of shareholder (3 marks each for any 4 correct points)	<u>3</u>	12
c. Seeking directions of court to distribute proceeds of receivership		<u>4</u>
<b>Total</b>		<b><u>20</u></b>

### **SOLUTION 3**

- (a) The question raises the issue of validity and enforceability of unilateral contracts.

The position of the law in *Carlill v Carbolic Smoke Balls Company* is that a unilateral contract is a valid one-sided contract which is binding on the party who unilaterally makes an offer to another on the condition that that other person does a thing.

When the party to whom the offer is made performs the condition contained in the offer as in the case of Daniel, the offeror, in this case, the pharmaceutical company, becomes bound.

Accordingly, my advice to Daniel is that his action for breach of contract will succeed.

- (b) A contract under seal is a contract the terms of which are reduced into writing signed by the party or parties with their seals affixed thereon, making it a deed. It derives its validity and binding force from the formal form and without the need for consideration.

A simple contract could be oral or in writing (except a contract for the sale or other disposition of land, which is required by law to be evidenced in writing), which must be supported by consideration.

- (c) Any contract that promoters purport to enter into on behalf of a proposed company becomes valid if ratified by the company after incorporation

If the contract is not so ratified, it becomes invalid against the company and the promoters are bound personally.

- (d) The Objectives of ethical codes include:
- (i) Integrity
  - (ii) Objectivity
  - (iii) Competence
  - (iv) Confidentiality
  - (v) Standard professional behaviour

### Examiner's report

This question tests candidates' knowledge and application of the rule on unilateral contract, the difference between specialty and simple contracts, validation of pre-incorporation contract, and objectives of professional code of ethics.

Attempt rate was over 60%, while pass rate was about 50%.

The major pitfall of the candidates was their lack of understanding of the topics as tested by the question.

Candidates are advised to study the topics in ICAN Study Texts more diligently.

### Marking guide

	Marks	Marks
a. - Unilateral contract is a binding one-sided contract	2	
- Contract binding on performance of condition	<u>3</u>	5
b. - Contract under seal as binding without consideration	2½	
- Simple contract may be oral or written, supported by consideration	<u>2½</u>	5
c. - Contract valid if ratified by company	3	
- Contract invalid if not ratified	<u>3</u>	6
d. 4 objectives of ethical codes (1 mark each for any 4 correct points)		<u>4</u>
<b>Total</b>		<b><u>20</u></b>

### SOLUTION 4

(a) (i) Adamu will be charged for the offence of official corruption, and will be liable to imprisonment for fourteen years.

(ii) Adamu will be liable to imprisonment for seven years if his duties did not relate to administration of justice.

(b) The Money Laundering Prohibition Act 2011 places a legal duty on financial institutions and their officers to report all suspicious financial transactions to the Economic and Financial Crimes Commission in appropriate cases.

The report by Alhaji Adeyemo of the transactions he considered unjustifiable and unreasonable is appropriate and Alhaji Adeyemo acted in good faith.

Section 6(10) of the Money Laundering (Prohibition) Act provides immunity to the directors, officers and employees of financial institutions and designated non-financial institutions who carry out their duties in good faith. They are not be liable to any civil or criminal liability nor can any criminal or civil proceedings brought against them by their customers.

The advice to Alhaji Adeyemo is that he cannot be made liable for a civil action of defamation filed by Thomas as Alhaji is statutorily protected from litigation.

- (c) (i) As an accountant, George should deploy his professional expertise to initiate investigations into the lodgments with a view to unraveling any fraudulent practice in relation to them and make appropriate reports.
- (ii) The term 'electronic fraud' is a fraud committed using electronic devices such as computers, phones and the internet. (2 Marks)
- (d) The **TWO** duties Brenda is in breach of as an agent are:
- i. The duty to avoid conflict of interest;
  - ii. Duty of full disclosure; and
  - iii. The duty not to make secret profits or acquire secret benefits.
- (e) Ngozi could retain the goods lawfully under his right of lien.
- (f) (i) The defence available to Juliet is the defence of mistake of fact since she was not aware that the goods displayed were the wrong goods. The general rule of the law is that ignorance of fact is an excuse.
- (ii) **TWO** necessary ingredients which must be proved by a plaintiff to succeed in an action for negligence include:
- Duty of care
  - Breach of the duty
  - Damage

### **Examiner's report**

This question tests candidates' understanding of the elements of official corruption offence, duties of financial institutions and their officers in cases of suspected money laundering transactions, duties of a professional accountant in suspicious financial transaction situations, electronic fraud, as well as the duties and rights of agents.

Attempt rate was about 55%, and their performance was above average.

The major pitfall of the candidates was their inadequate understanding of the law on money laundering and electronic fraud.

They are advised to study ICAN's Study Texts more diligently.

## Marking guide

		Marks	Marks
a.	i. Adamu to be charged for official corruption at 14-year imprisonment	2	
	ii. Adamu to be liable for 7years if his duty is not related to administration of justice	<u>2</u>	4
b.	- Adeyemo justified in reporting suspicious financial transaction	2	
	- Adeyemo has statutory protection from defamation	<u>2</u>	4
c.	i. Deployment of professional expertise to conduct investigations	2	
	ii. Electronic fraud committed using electronic devices	2	4
d.	2 duties of agent breached 2 marks for any 2 correct points		<u>2</u>
e.	Lien as condition for agent's retention of goods		2
f.	i. - Defence of mistake of fact available	1	
	- Mistake of fact is an excuse	1	
	ii. 2 ingredients of consideration (1mark for any 2 correct points	<u>2</u>	<u>4</u>
<b>Total</b>			<u><b>20</b></u>

## SOLUTION 5

- (a) (i) The goods in the agreement are specific goods being goods identified and agreed upon by the parties at the time the agreement was entered into.
- (ii) This question examines the point at which property in the goods passed as between the parties.

Generally, property in goods passes at the time the parties agree it will pass or upon delivery of the goods.

By the facts, Uche took delivery of the goods when his truck picked them up as was agreed by the parties and the property in the goods passed to Uche. Since risk passed with property, Uche is to bear the loss as the owner of the goods when they were destroyed.

- (b) (i) The hirer is under a duty to pay the installments under the agreement as and at when due without default.

- (ii) The issue in this question is the consequences of the failure of a hirer to pay any of his installments when due under a hire purchase agreement.

By virtue of the Hire Purchase Act, the owner cannot repossess the goods without a court order since the hirer has paid 3/5 (three-fifth) of the hire price. Chukudi could go ahead to challenge the repossession in court.

- (c) (i) An assignment of insurance policy is the transfer of the totality of the rights in an insurance policy from one person to another.

An assignment of insurance policy becomes a legal assignment when it is reduced into writing either by way of an endorsement of the assignment on the policy or by a separate instrument.

- (ii) The rights in an insurance policy cannot be transferred by delivery because they are choses in action which are not tangible.

A marine insurance policy is not assignable when there is a term expressly prohibiting assignment.

- (d) (i) Three instances in which a bank may lawfully divulge information on the customer's accounts include the following:

- Compulsion of law
- When it is under a public duty to disclose
- Where it is in the interest of the bank to disclose
- Where the customer consents.

- (ii) A bank may avoid the duty of keeping the customer's accounts separate only when there is an agreement to do so.

### **Examiner's report**

This question tests candidates' understanding of types of goods, as well as passing of property and risk in sale of goods, limit to repossession of goods by the owner in hire purchase transactions, assignability of insurance policy as well as derogation from banker's duty of secrecy and keeping of customer's account separate.

Attempt rate was below 50%, and pass rate was below average.

Candidates' major pitfall was their inadequate understanding of all the topics tested by the question.

Candidates are advised to study ICAN Study Texts diligently.

## Marking guide

	Marks	Marks
a. i. Goods are specific goods	1	
ii. Issue is when property passed	1	
- Generally property passes as agreed by parties or on goods delivery	1	
- Adeyemo has statutory protection from defamation	<u>2</u>	5
b. i. Failure of hirer to pay instalments when due is a breach	2	
ii. Consequence of failure to pay	1	
- Owner has no right of repossession because 3/5 of installments is paid	<u>2</u>	5
c. i. Assignment is total transfer of rights	1	
- Legal assignment is written	1	
ii. Insurance policy not transferable by delivery	1½	
- Express term make insurance policy not assignable	<u>1½</u>	5
d. i. 3 instances bank may divulge customer's information (1 mark each for any 3 correct points)	3	
ii. Bank may not keep customer's account separate by agreement	<u>2</u>	<u>5</u>
<b>Total</b>		<b><u>20</u></b>

## SOLUTION 6

- (a) (i) Under the law of administration of estates, Francis died intestate. The steps that must be taken to collect the money in the bank is for the family to obtain letters of administration appointing administrators for the estate of Francis. The administrators, who should be members of Francis' family, will have access to the bank deposit.

An Administrator is a person appointed by the court to administer the estate of a deceased person who died intestate. The difference between an Administrator and an Executor is that the Executor is usually appointed by a testator in his Will while the Administrator is appointed by court order.

- (b) (i) The general rule relating to termination of an employee's appointment and The giving of notice is that in the absence of express agreement, an employee is entitled to one month's notice or one month's salary in lieu of notice.

- (ii) Two ways in which Margaret's rights as an employee have been violated include:
- Failure to give her a letter of appointment
  - Terminating her appointment without the usual one month notice.
  - Not paying her a salary in lieu of notice.
- (c) (i) Under the Companies and Allied Matters Act 2020, a limited liability Partnership must maintain proper books of accounts on its affairs for each year.
- (ii) It must be on cash basis or accrual basis according to double entry system of accounting.
- (iii) The title of the account is "a statement of account and solvency"
- (iv) The period is six months from the end of the financial year.
- (v) It must file annual return with the CAC 60 days after closure of the financial year.
- (d) i. Persons with limited capacity to contract are:-
- Infants
  - Insane persons
  - Drunken persons
- ii. The exceptions to the rule of privity of contract are:-
- Insurance
  - Trust
  - Agency
  - Restrictive covenants
  - Negotiable instruments

### **Examiner's report**

This question tests' candidates' understanding and application of some key principles and procedures of administration of estates, termination of employment, maintenance of books of accounts by a limited liability partnership, privity of contract and capacity to contract.

Attempt rate was about 50%, and pass rate was about 60%.

The commonest pitfall was candidates' inadequate understanding of principles of administration of estates and limited liability partnership accounts.

Candidates are advised to read up the areas of their deficiency in the ICAN study Texts.

## Marking guide

	<b>Marks</b>	<b>Marks</b>
a. i. Francis died intestate	1	
ii. Letters of administration required	2	
iii. Differentiate administrator from executor	<u>2</u>	5
b. i. Absent express agreement, one month notice or one month's salary required	1	
ii. 2 violations of Margaret's rights (2 marks each for any 2 correct points)	<u>4</u>	5
c. i. Partnership to maintain books of accounts	1	
ii. Cash basis of accrual basis of double entry system	1	
iii. Title is "a statement of account and solvency"	1	
iv. The period is six months from end of financial year	1	
v. Duty to file annual returns 60 days after closure of financial year	<u>1</u>	5
d. i. 2 persons with limited contract capacity (1 mark each for any 2 correct points)	2	
ii. 3 exceptions to privity rule (1 mark each for any 3 correct points)	<u>3</u>	<u>5</u>
<b>Total</b>		<b><u>20</u></b>