



THE INSTITUTE OF CHARTERED ACCOUNTANTS  
OF NIGERIA

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# PATHFINDER

**MAY 2012 FOUNDATION EXAMINATION**

Question Papers

Suggested Solutions

Plus

Examiners' Reports

# PATHFINDER

## FOREWORD

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 subjects contained herein; and
- (iv) The profession; 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 altered slightly so that some principles or application of them 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.

# PATHFINDER

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# PATHFINDER

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA  
FOUNDATION EXAMINATION -MAY 2012  
FUNDAMENTALS OF FINANCIAL ACCOUNTING  
Time Allowed – 3 hours

SECTION A: Attempt All Questions

PART I: MULTIPLE CHOICE QUESTIONS (20 Marks)

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

1. The following items normally feature in the statement of financial position of a club EXCEPT
  - A. Current year's subscription
  - B. Salary in arrears
  - C. Rental income received in advance
  - D. Advance subscription in respect of a coming year
  - E. Subscription in arrears.
2. Which of the following is NOT a shortcoming of single entry book-keeping?
  - A. A trial balance is not available
  - B. Profits are overstated
  - C. There are no subsidiary books
  - D. There are no control accounts
  - E. There are no ledger accounts.
3. In which of the following circumstances will the preparation of a Trial Balance assist in disclosing an error?
  - A. Failure to post an entry journal
  - B. Posting rent expenses to motor running account
  - C. Failure to post part of a journal entry
  - D. Posting the debit of a journal entry as a credit and vice versa

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E. Failure to record an entry in the journal

4. Which of the following is NOT a function of Financial Reporting Council of Nigeria?
- A. Promoting and enforcing compliance with the accounting standards developed by the Board
  - B. Developing and publishing in the public interest accounting standards to be observed in the preparation of financial statements
  - C. Advising State Governments on matters relating to accounting standards
  - D. Receiving notices of non-compliance with its standards from the preparer
  - E. Advising the Minister on making of regulations under Section 356 of Companies and Allied Matters, Cap C20, LFN 2004
5. According to IAS 16 - "Accounting for Property, Plant and Equipment" all of the following are features of non-current asset EXCEPT where they are
- A. Held by an enterprise for use in the production or supply of goods and services
  - B. Expected to be used on a continuing basis
  - C. Intended for sale in the ordinary course of business
  - D. Financed by leasehold rights
  - E. Held for rental to others, or for administration purpose.
6. The profits of ABC Partnership firm for 5 year ended 31 December 2011 were as follows:

Year	Profits ₦'000
2007	15,000
2008	9,000
2009	4,500
2010	7,500
2011	10,500

The firm intends to admit a new partner 1 January 2012.

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What is the value of goodwill where the partners have decided to value goodwill at 4 years' purchase of the average super profit over the last 5 years based on normal profits of ₦3,000,000 per annum?

- A. ~~₦~~6,300,000
  - B. ~~₦~~9,300,000
  - C. ~~₦~~25,200,000
  
  - D. ~~₦~~25,300,000
  - E. ~~₦~~25,350,000.
7. Which accounting entries should be raised to record an increase in the value of assets on revaluation by the partners?
- A. Debit revaluation account and credit partners capital account
  - B. Debit partners capital account and credit revaluation account
  - C. Debit revaluation account and credit partners current account
  - D. Debit revaluation account and credit assets account
  - E. Debit assets account and credit revaluation account.
8. Which of the following is NOT an action for admission of a partner during the year?
- A. Preparing the financial statements up to the date of admission
  - B. Determining a goodwill if any, at that date
  - C. Preparing a statement of account
  - D. Preparing a statement of financial position
  - E. Partners will decide if goodwill should be maintained in books or not.
9. Which of the following will NOT affect cash and bank balances in the statement of financial position of a company?
- A. Cash paid into the bank
  - B. Company's cheque returned unpaid
  - C. Cheque received on account receivable paid to the bank but was returned unpaid
  - D. Bank charges in the statement of account
  - E. Cash discount on accounts receivable.
10. The value of goods taken by the proprietor of a firm for his consumption will affect all but ONE of the following
- A. Gross profit

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- B. Net profit  
C. Inventory balance  
D. Company's capital  
E. Inventory valuation.
11. Goods sold on cash and carry basis returned by a customer is treated in the account by
- A. Debiting Sales and Crediting Cash  
B. Debiting Sales and Crediting Accounts Payable  
C. Debiting Inventory and Crediting Cash  
D. Debiting Inventory and Crediting Bank  
E. Debiting Sales and Crediting Accounts Receivable.
12. At 1 January 2011, the capital structure of Jumbo Plc was as follows:
- |  |  | £          |
|--|--|------------|
| Issued share capital,                    |  |            |
| 10,000,000 ordinary shares of £1.00 each |  | 10,000,000 |
| Share premium account                    |  | 500,000    |
- On 1 September 2011, the company made a fresh issue of 500,000 shares at £1.30 each. Which of the following correctly presents the company's share capital and share premium accounts as at 31 December 2011?
- |    | Share capital | Share premium |
|----|---------------|---------------|
| A. | £10,000,000   | £650,000      |
| B. | £10,500,000   | £650,000      |
| C. | £10,650,000   | £500,000      |
| D. | £10,150,000   | £1,000,000    |
| E. | £10,000,000   | £500,000      |
13. According to International Accounting Standard No 2 on "Inventories", which of the following methods can best be employed for the calculation and valuation of inventories?
- A. Last purchase price  
B. Last-In-First-Out  
C. Base stock  
D. Average cost  
E. Replacement cost
14. The amount of £500,000 for the maintenance of the factory machine was debited to the Plant and Machinery account after crediting bank account with same amount. Which error has been committed?

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- A. Complete reversal of entries
  - B. Error of commission
  - C. Error of original entry
  - D. Error of omission
  - E. Error of principle
15. Which of the following items should NOT be on the Credit side of Accounts Payable Control Account?
- A. Total of purchases day book
  - B. Interest charged by suppliers
  - C. Transfer of debit balance to accounts receivable ledger
  - D. Transfer of credit balance from accounts receivable ledger
  - E. Set offs
16. If goods that cost ₦900,000 were sold for ₦1,200,000, which of the following statements are correct?
- (i) Mark-up is 25%
  - (ii) Margin is  $33\frac{1}{3}\%$
  - (iii) Margin is 25%
  - (iv) Mark-up is  $33\frac{1}{3}\%$
- A. (i) and (ii)
  - B. (i) and (iii)
  - C. (ii) and (iii)
  - D. (iii) and (iv)
  - E. (ii) and (iv)
17. The advantages of Control Account do NOT include
- A. Locating errors
  - B. Facilitating the extraction of trial balance
  - C. Detecting fraud
  - D. Checking on the accuracy of ledger entries
  - E. Discouraging adherence to double entry principle
18. The aggregate of prime cost and indirect overheads is
- A. Cost of goods sold
  - B. Cost of materials used in production
  - C. Market value of goods produced



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- D. Factory cost
  - E. Total overhead
19. Which of the following is NOT an advantage of computer accounting application packages over manual accounting?
- A. Generating variety of accounting reports
  - B. Improving the quality of financial reporting
  - C. Allowing the use of common data to update relevant accounting modules
  - D. Processing larger quantity of data quickly and accurately
  - E. Allowing non-experts unrestricted use of the application packages.

20. The following data relate to an equipment acquired by an enterprise:

Cost	£435,600
Expected useful life	4 years
Annual depreciation	£100,000

What is the residual value of the equipment at the end of its useful life?

- A. £35,000
- B. £35,600
- C. £73,500
- D. £83,750
- E. £108,000

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## PART II: SHORT-ANSWER QUESTIONS

(20 MARKS)

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

1. The least amount of royalty payable by the leasee and sub-leasee, if any, irrespective of the actual royalty is .....
2. What is the name of a periodic statement sent by the consignee to the consignor called?
3. In branch account, a loss that occurs due to natural causes or perishable character of the goods, and as such are inevitable, is a ..... loss.
4. The most appropriate basis for apportioning inventory holding cost among departments is to use the value of.....
5. X and Y are two departments that share 50% of all joint costs equally and the balance in the ratio of 2:1 respectively. If a sum of ₦300,000 is incurred jointly, what will be the portion attributable to X?
6. A computer company operating retail stores in six cities in Nigeria invoices goods to the branches at cost plus a mark-up of 25%. What is the mark-up percentage on selling price?
7. Which account should a rapidly growing business organisation with multiple units that is interested in comparing the performance and weakness of each unit adopt?
8. Borox Limited makes provision for all known losses and value its inventories at the lower of cost and net realisable value. Which accounting concept is the company complying with?

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9. Ishola & Sons Limited purchased a moulding machine for ₦2,550,000 from Japan, the transport expenses amounted to ₦250,000, installation cost amounted to ₦150,000 and the annual maintenance is ₦170,000. At what cost will the moulding machine be stated in the statement of financial position?
10. A decrease in provision for doubtful debts is ..... to the income statement and..... to the provision for doubtful debt account.
11. An asset has a useful life span of 5 years with no residual value. Using the sum-of-year digit method of depreciation, what proportion of the asset cost will have been written-off at the end of year 3?
12. An intangible business asset which relates to reputation, customers loyalty and popularity garnered over the years and due to the expertise of the business owner or quality of goods produced or services rendered, is called .....
13. A collection or pool of related data which is available for use by any number of application and accounting packages is .....
14. In accordance with International Accounting Standard (IAS), on construction contract, the process where the rate of progress billings for payment is higher than those utilised for revenue recognition is .....
15. Chinko Limited bought office equipment on 1 January 2008 at a cost of ₦900,000. If depreciation is calculated at 20% on a reducing balance basis, the net book value of the asset at the end of year 2010 will be.....
16. The physical component of a computer is called.....

Use the information below to answer questions 17 and 18.

The Income Tax Account of Wazobia Limited showed a balance of ₦50,000 on 1 January 2011. Tax paid during the year was ₦45,000 and the estimated tax based on current year's account is ₦60,000.

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17. What is the amount to be debited to the company's income statement as income tax for the year ended 31 December 2011?
18. What is the amount to be shown in the company's statement of financial position as closing balance from the company's Income Tax Account?
19. The series of accounting activities that take place from the beginning of the accounting period of an enterprise to the end of that period, and repeated in subsequent years, is known as.....
20. The excess of minimum royalty over actual royalty paid on output is called.....

## SECTION B (Attempt Any Four Questions)

(60 Marks)

### QUESTION 1

The following details are available from the books of Tops Darts Society:

(i)	31/12/2010	31/12/2011
	<del>₦</del>	<del>₦</del>
Inventories of Darts	182,400	80,200
Payables for Darts supplies	8,200	44,400
Payables for general expenses	1,200	3,000
Equipment	160,000	—
Subscriptions owing	6,000	10,600

(ii) Summary of Bank Account - 2011			
	<del>₦</del>		<del>₦</del>
Bal b/f	142,800	Dart supplies	653,600
Subscriptions	195,400	Rent	179,200
Dart sales	848,000	Rates	55,000
Life membership	12,000	General expenses	11,800
Bal c/d	43,800	Salaries	342,400
	1,242,000		1,242,000

- (iii) The person who handled Dart sales, "all in cash", had disappeared taking with him monies he received from this source. It was not known how much money he had stolen, but all Darts were sold at a profit of  $33\frac{1}{3}\%$  on cost price.
- (iv) Three people had each paid life membership fees of N4000. It was decided to treat this as being prepaid amount, except for one-tenth to be credited to the income and expenditure account each year.

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- (v) Equipment is to be depreciated at 20%.

You are required to:

- (a) Draw up a Darts Income Statement for the year 2011 to calculate gross profit on Dart sold. The cash stolen should be credited to this account, a debit to be shown in the Income and Expenditure Account.
- (b) Prepare an Income and Expenditure Account for the year ended 31 December 2011 and Statement of Financial Position as at that date.

(15 Marks)

## QUESTION 2

Tap, Sea, Air and River are in partnership business sharing profits and losses in ratio 8:5:4:3 respectively.

Their Statement of Financial Position was as follows as at 1 January 2009:

	£'000	£'000
Motor vehicles		120,000
Plant and machinery		90,000
Furnitures and fittings		<u>75,000</u>
		285,000
Goodwill	15,000	
Inventories	17,250	
Accounts receivable	10,800	
Cash at bank	<u>1,950</u>	<u>45,000</u>
		<u>330,000</u>

Represented by:

	Capital Account	Current Account	£'000
	£'000	£'000	
Tap	75,000	13,500	88,500
Sea	45,000	16,500	61,500
Air	30,000	(7,500)	22,500
River	15,000	(10,500)	<u>4,500</u>
			177,000
10% Loan			120,000
Accounts payable			<u>33,000</u>

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330,000

On the date of the statement of financial position, the business was brought to an end and realized as follows:

	₦'000
Motor vehicles	60,000
Plant and Machinery	60,000
Furniture and fittings	52,500
Inventories	15,300
Accounts receivable	9,450

Dissolution expense was ₦22,500,000 and it was paid.

Air became bankrupt and his administrator was able to pay ₦40 on every ₦100 owed in accounts payable.

However, the other partners were all solvent. The expected amount was collected from administrator of Air and cash were returned to or received from partner as appropriate.

You are required:

- (a) State ways in which the amount owing to the business by Air will be absorbed by other partners. (3 Marks)
- (b) Show the necessary ledger accounts to close the partnership business books. (12 Marks)
- (Total 15 Marks)

## QUESTION 3

Nimyaró Limited sold goods in containers, which are charged out to customers at ₦15 each. Customers were credited with ₦10 for each container returned before the expiration of the due dates. At the end of the year, inventories of containers in warehouse and all returnable containers in the hands of customers were valued at ₦5 each.

On 1 August 2011, the number of such containers were 10,000 and 35,000 respectively. During the year ended 31 July 2011, the following transactions relating to containers took place:

- (i) 40,000 were purchased at ₦7.50 each.

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- (ii) 150,000 were charged to customers.
- (iii) 125,000 were returned by customers.
  
- (iv) 4,000 of the returned containers were useless and sold for ₦5,000.
- (v) On 31 July 2011, 55,000 containers invoiced since 1 July 2011 were in the hands of customers.

You are required to record the above transactions in the books of Nimyaro Limited for the year ended 31 July 2011 using Containers Suspense Account Method.

(15 Marks)

### QUESTION 4

The general day-to-day banking activities of business enterprises are bound to generate large volume of transactions to the extent that there are always disagreements between the bank balance shown in the accounts of an organisation and the balance shown in the bank statement.

- (a) You are required to state any FIVE causes of disagreement between the cash book balance and the bank statement. (5 marks)
  
- (b) The cashbook of Ecobiz Plc showed an overdraft of ₦180,000 on 31 March 2011 while the bank statement balance was an overdraft of ₦1.6m. On checking the two records, you made the following discoveries:
  - (i) Cheques drawn in respect of payment made to suppliers amounting to ₦250,000 had been entered in the cash book but were yet to be presented to the bank.
  - (ii) Ecobiz Plc instructed the bank to transfer interest of ₦40,000 due on its bank deposit account to the current account and this was not effected by the bank until April 2011 whereas the entries have been made in the cash book.
  - (iii) The bank made e-payment charges of ₦50,000 on the company's account.
  - (iv) The receipt side of the cash book was overcasted by ₦100,000 by the account clerk.
  - (v) Cheques received and deposited to the bank which amounted to ₦480,000 had been entered in the cash book but had not been credited by the bank.
  - (vi) E-dividend payments made through the bank by the company amounting to ₦360,000 were yet to be posted in the company's cashbook.

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- (vii) A cheque issued for the purchase of an office equipment had been entered in the bank statement as ₦800,000 instead of ₦300,000.
- (viii) A cheque for ₦70,000 issued to one of the suppliers included in (i) above had been erroneously posted on the wrong side of the cashbook (i.e. the receipt side).

Required:

Prepare the adjusted cash book and a statement reconciling the amended balance with that shown in the bank statement. (10 Marks)

(Total 15 marks)

## QUESTION 5

Fancy Enterprises has a machinery that cost ₦750,000 with an Accumulated Depreciation of ₦510,000. The firm is contemplating acquiring a new machinery to replace the old one. The new machinery has a catalogue price of ₦1,290,000. It will attract 12% trade discount when acquired. In addition to the foregoing information provided, assume that the firm is faced with the following options:

- (i) Trade-in the old machinery and also add cash of ₦895,200 for the new one.  
(ii) Trade-in the old machinery and also add cash of ₦600,000 for the new one.  
(iii) Trade in the old machinery and also add cash of ₦1,080,000 for the new one.

Required:

- (a) Raise journal entries for each of the options stated, having considered the information given above. (14 Marks)
- (b) Which of the options stated above is economically viable for the firm to acquire the new machinery? (1 Mark)  
N.B.: Show all workings (Total 15 Marks)



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## QUESTION 6

Fortward Geso Trading Store maintained a single entry system. The following information was extracted from the records:

	Year ended 31 December 2011	Year ended 31 December 2010
	₤	₤
Accrued expenses	10,000	-
Account receivables	196,000	130,000
Prepaid expenses	-	16,000
Bank balances	(40,000)	200,000
Investment	500,000	-
Cash balance	366,000	106,000
Accounts payable	74,000	90,000
	1,500,000	1,500,000
Land and buildings		
Delivery van	260,000	260,000
Inventories	190,000	74,000
Loan from bank	300,000	300,000

The following additional information was also made available in respect of 2011 accounting year:

- (i) Provision for doubtful debt should be made for ₤3,000.
- (ii) Depreciation is to be provided on book value as follows:
  - (a) Land and buildings 5%
  - (b) Delivery van 10%
- (iii) Additional capital of ₤250,000 was introduced into the business during the year.
- (iv) The owner of the store withdrew a total sum of ₤20,000 during the year.

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Required:

Prepare the Statements of Affairs of Fortward Geso Trading Stores for the two years to show:

- |                               |                  |
|-------------------------------|------------------|
| (a) The opening capital       | (6 Marks)        |
| (b) Net worth of the business | (6 Marks)        |
| (c) Profit                    | (3 Marks)        |
|                               | (Total 15 Marks) |

## SOLUTIONS TO SECTION A

### MULTIPLE -CHOICE QUESTIONS

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

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18. D  
19. E  
20. B

## Tutorials

6.	Total Profits for 5 years	=	₹46,500,000
	Average Profits	=	₹46,500,000 ÷ 5
		=	₹9,300,000
	Super Profit	=	₹9,300,000 - ₹3,000,000
		=	₹6,300,000
	Goodwill	=	₹6,300,000 X 4 = ₹25,200,000
12.	Share Capital	=	₹10,000,000 + ₹500,000
		=	₹10,500,000
	Share Premium	=	₹500,000 + ₹150,000
			₹650,000
16.	Margin	=	$\frac{₹300,000}{₹1,200,000} \times 100\% = 25\%$
	Mark-up	=	$\frac{300,000}{900,000} \times 100\% = 33\frac{1}{3}\%$
20.	Cost		₹ 435,600
	Accumulation Depreciation (100,000 x 4)		<u>400,000</u>
	Residual value		<u>₹35,600</u>

## EXAMINERS' REPORT

The questions cover all the sections of the syllabus. All the candidates attempted the questions and performance was good.

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## PART II SHORT ANSWER QUESTIONS

### SHORT ANSWER QUESTIONS

1. Minimum royalty payable/dead rent
2. Accounts sales
3. Normal
4. Purchases
5. ₦175,000
6. 20%
7. Departmental account
8. Prudence/conservatism
9. ₦2,950,000
10. Credit; debit
11.  $\frac{4}{5}$  or 0.8 or 80%
12. Goodwill
13. Database
14. Overbilling
15. ₦460,800
16. Hardware

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17. ~~£~~60,000
18. ~~£~~65,000
19. Accounting cycle/normal activities
20. Short workings

## Tutorials

5.	Share of Department x	<del>£</del>	
	Equally $\frac{1}{2} \times 50\% \times \del{£}300,000$	75,000	
	Apportionment $\frac{2}{3} \times 50\% \times 300,000$	<u>100,000</u>	
		<u>175,000</u>	

6. Mark-up = 25%

Margin =  $\frac{25}{100 + 25} \times 100\% = 20\%$

9.	Cost of machine	<del>£</del> '000	
	Purchase price	2,550	
	Transport expenses	250	
	Installation cost	<u>150</u>	
		<u>2,950</u>	

11.  $5 + 4 + 3 = 12$

$5 + 4 + 3 + 2 + 1 = 15$

$\frac{12}{15} \times 100\% = 80\% \text{ or } \frac{4}{5}$

15.	Cost (1/1/08)	<del>£</del>	900,000
	Depreciation - 2008 20%	<u>(180,000)</u>	720,000
	Depreciation - 2009 20%	<u>144,000</u>	576,000
	Depreciation - 2010 20%	<u>115,200</u>	<u>460,800</u>

17 & 18

Tax Payable A/c			
	<del>£</del>		<del>£</del>
Bank	45,000	Balance b/f	50,000
Bal c/d	<u>65,000</u>	Income Statement	<u>60,000</u>

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110,000

Bal b/f

110,000

65,000

## EXAMINERS' REPORT

The questions cover all the sections of the syllabus.

All the candidates attempted most of the questions and performance was good.

## SOLUTIONS TO SECTION B

### QUESTION 1

#### TOP DARTS SOCIETY

#### INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

	£	£
Sales (w2)		1,056,000
<u>Less: cost of Sales</u>		
Opening Inventories	182,400	
Purchases	<u>689,800</u>	
	872,200	
Closing Inventories	<u>80,200</u>	
		<u>792,000</u>
Gross Income		<u>264,000</u>

#### INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2011

	£	£
Darts Sales Income	264,000	
Subscriptions	200,000	
Life Membership	<u>1,200</u>	465,200
Cash Loss	208,000	
Rent	179,200	
Rates	55,000	
General Expenses	13,600	
Salaries	342,400	

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Depreciation (20% of 160,000)	<u>32,000</u>	<u>830,200</u>
Deficit		<u><del>1</del>365,000</u>

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	COST	ACC DEP	NBV
	<u>₹</u>	<u>₹</u>	<u>₹</u>
Equipment	<u>160,000</u>	<u>(32,000)</u>	128,000
<u>Current Assets</u>			
inventories Darts		80,200	
Subscriptions		<u>10,600</u>	
		<u>90,800</u>	
<u>Current Liabilities</u>			
Bank Balance		43,800	
Payables for Darts supplies		44,400	
Payables-General Expenses		3,000	
Life-membership		<u>10,800</u>	
		<u>102,000</u>	
Net Current Assets			<u>(11,200)</u>
			<u>116,800</u>
Financed by:			
Accumulated Funds (W1)			481,800
			<u>(365,000)</u>
Deficits			<u>116,800</u>
<u>Workings</u>			
W(1) Accumulated funds as at 1/1/2011:	Darts		182,400
	Equipment		160,000
	Subscriptions		6,000
	Bank		<u>142,800</u>
			491,200
Less: Payables (8,200 + 1,200)			<u>9,400</u>
			<u>481,800</u>

# PATHFINDER

W<sub>2</sub> Sales: (Gross Profit) =  $\frac{1}{3} \times \text{N}792,000 = \text{N}264,000$

Sales: =  $\text{N}792,000 + \text{N}264,000 = \text{N}1,056,000$

Life membership  $\text{N}12,000 - \text{N}12,000 = \text{N}10,800$

## EXAMINERS' REPORT

The question tests candidates' knowledge of accounting for not-for-profit-organisation.

Few candidates attempted the question and performance was poor.

Candidates' commonest pitfall was their poor understanding of the basic principles involved in the preparation of Income and Expenditure account from incomplete records.

Candidates' are advised to prepare well by reading the recommended texts.

## QUESTION 2

1(a) The amount owing by an insolvent partner to the partnership will be borne by solvent partners in a way agreed to by them. However, if the solvent partners are unable to agree on how the amount should be borne by them; these have to be borne using the ratio of their last agreed capital as laid down in the rule of GARNER Vs MURRAY (1906).

### (b) REALISATION ACCOUNT

	N'000			N'000
Motor Vehicle	12,000	Bank		197,250
Plant & machinery	90,000	Capital:		
Furniture & Fittings	75,000	T 8/20 x 153,300		61,320
Goodwill	15,000	S 5/20 x 153,300		38,325
Inventories	17,250	A 4/20 x 153,300		30,660
Accounts Receivable	10,800	R 3/20 x 153,300		22,995
Dissolution expenses	<u>22,500</u>			<u>        </u>
	<u>350,550</u>			<u>350,550</u>

Accounts Payable



# PATHFINDER

	₦'000		₦'000
Bank	<u>33,000</u>	Balanced b/d	<u>33,000</u>

## Bank Account

	₦'000		₦'000
Bank	<u>120,000</u>	Balanced b/d	<u>120,000</u>

## Capital Account

	T	S	A	R		T	S	A	R
	₦'000	₦'000	₦'000	₦'000		₦'000	₦'000	₦'000	₦'000
Current A/C	-	-	7,500	10,500					

	₦'000		₦'000
Balance b/d	1,950	Dissolution Expenses	22,500
Total realized	197,250	10% loan	120,000
Capital A	3,264	Account Payable	33,000
Capital R	19,059	Capital T	24,460
		Capital S	<u>21,543</u>
	<u>221,503</u>		<u>221,503</u>

Realisation A/c	61,320	38,325	30,660	22,995	Bal. b/d	75,000	45,000	30,000	15,000
Capital A/c	2,720	1,632	-	544	Current A/C				
Bank	24,460	21,543	-	-	Bank	13,500	16,500	3,264	-
					Capital T			2,720	-
					S	-	-	1,632	
					R	-	-	544	
					Bank				19,039
	<u>88,500</u>	<u>61,500</u>	<u>38,160</u>	<u>34,039</u>		<u>88,500</u>	<u>61,500</u>	<u>38,160</u>	<u>34,039</u>

## Bank Account

Workings:

# PATHFINDER

- (i) Air was insolvent and cannot pay all that he owes. He can pay £40 on every £100 he owes, which means he can pay 40% on whatever he is owing i.e. the administrator can pay 40% of £8,160,000 = £3,264,000.
- (ii) The amount Air could not pay is
- $$\begin{aligned} &= 60\% \text{ of } (£7,500,000 + 30,660,000 - 30,000) \\ &= 60\% \text{ of } £8,160,000 \\ &= £4,896,000 \end{aligned}$$

This amount is shared by all solvent partners in the ratio of their last agreed capital since the partner did not have any specific agreement as to the sharing of this loss.

This is shared between them as follows:

$$\begin{aligned} \text{Tap} &= 5/9 \times £4,896,000 = £2,720,000 \\ \text{Sea} &= 3/9 \times £4,896,000 = £1,632,000 \\ \text{River} &= 1/9 \times £4,896,000 = £544,000 \\ &\quad \underline{\underline{£4,896,000}} \end{aligned}$$

N.B.: The last agreed capital are:

Tap	£75,000,000
Sea	£45,000,000
Air	£30,000,000
River	£15,000,000

## EXAMINERS' REPORT

The question tests candidates' knowledge of dissolution of partnership.

Most candidates attempted the question and performance was poor.

Candidates' commonest pitfall was their inability to make use of Garner v Murray Case.

Candidates are advised to read relevant texts and materials before writing the examination.

## QUESTION 3

### Container Inventory Account

# PATHFINDER

	Rate	Qty.	₱'000		Rate	Qty.	₱'000
	₱	'000			₱	'000	
Balance b/d:				Scrapped		4	5
Warehouse	5	10	50	Containers Suspense:			
Customers	5	35	175	Profit on Containers	-	-	750
Bank	7.50	40	300	Retained by Customers	10	5	50
Income Statement			<u>660</u>	Balance c/d:			
				Warehouse	5	21	105
				Customers	5	<u>55</u>	<u>275</u>
		<u>85</u>	<u>1,185</u>			<u>85</u>	<u>1,185</u>
Balance b/d:							
Warehouse	5	21	105				
Customers	5	55	275				

## Container Suspense Account

	Rate	Qty.	₱'000		Rate	Qty.	₱'000
	₱	'000			₱	'000	
Containers Inventory:				Balance b/d	10	35	350
Profit on Containers	-	-	750	Sent to Customers	15	150	2,250
Retained By Customers	10	5	50				
Returned By Customers	10	125	1,250				
Balance c/d:	10	<u>55</u>	<u>550</u>				
		<u>185</u>	<u>2,600</u>			<u>185</u>	<u>2,600</u>

### EXAMINERS' REPORT

The question tests candidates' knowledge of container's accounts.

Few candidates attempted the question and performance was poor.

# PATHFINDER

Candidates' commonest pitfall was their inability to identify items to be posted into the relevant accounts.

Candidates are advised to cover all the sections of the syllabus before attempting to write the examination of the Institute.

## QUESTION 4

(a) Possible causes of disagreements between the bank balance shown in the bank statement and the cash book balance include:

- (i) Uncredited lodgement
- (ii) Unpresented cheques
- (iii) Bank Charges
- (iv) Posting Errors
- (v) Casting Errors
- (vi) Direct Credit
- (vii) E-payment
- (viii) Automated Teller Machine (ATM) withdrawal
- (ix) Standing Order
- (x) Stale Cheque
- (xi) Credit/Debit Transfer
- (xii) Dishonoured cheques

(b) ECOBIZ PLC

### Adjusted Cash Book as at 31 March 2011

	₦		₦
		Bal b/f	180,000
		E-payment charges	50,000
		Overcast-cashbook	100,000
		Wrong Posting	
		70,000 X 2	140,000
		E-dividend	360,000
			<u>830,000</u>
Bal c/d	<u>830,000</u>	Bal b/f	830,000
	<u>830,000</u>		

### BANK RECONCILIATION STATEMENT AS AT 31 MARCH 2011

	₦	₦
--	---	---

# PATHFINDER

Balance as per adjusted cash book		(830,000)
Uncredited cheque	(480,000)	
Int on bank deposit not yet posted by bank	( 40,000)	
Overposting of cheque drawn (800,000 - 300,000)	<u>(500,000)</u>	<u>(1,020,000)</u>
		(1,850,000)
Unpresented cheques		<u>250,000</u>
Balance per bank statement		(1,600,000)

## EXAMINERS' REPORT

The question tests candidates' knowledge of the preparation of bank reconciliation statement.

Most candidates attempted the question and performance was good.

Candidates commonest pitfall was their inability to identify and post correctly the required adjustment.

Candidates should make their learning process to be more practical.

## QUESTION 5

### (a) JOURNALS

#### Option (i)

		DR	CR
Machinery Account	Dr.	1,135,200	
Provision for Depreciation (Machinery) Account	Dr.	510,000	
Machinery Account			750,000
Cash Book			895,200
Being trade-in of the old machinery for a new one			

#### Option (ii)

Machinery Account	Dr.	840,000	
Provision for depreciation (Machinery) Account	Dr.	510,000	

# PATHFINDER

Machinery Account	750,000
Cash Book	600,000

Being trade-in of the old machinery for a new one

### Option (iii)

Machinery Account		Dr. 1,135,200
Provision for depreciation (Machinery) Account	Dr.	510,000
Machinery Account		Dr. 184,800
750,000	Cash Book	
1,080,000		

Being trade-in of the old machinery for a new one

(b) The most economically viable is option (ii), where the enterprise paid cash of ₦600,000 as additional consideration.

The profit of ₦295,200 is anticipated hence should not be realised, unlike the loss on acquisition of ₦184,800 – (Prudence Concept).

### Notes

Option (i)		₦
Cost Price (₦129,000 – 12% x 1,290,000)		
1,135,200		
Less: Net Book Value of old machinery		
	₦750,000	₦510,000 = ₦240,000
	Cash	<u>₦895,000</u>
<u>1,135,200</u>		<u>0</u>
Net Profit or loss		

<b>Option (ii)</b>	₦	₦
Cost price (₦1,290,000 – 12% x ₦1,290,000)		1,135,200
Less: Net Book Value of Old Machinery		
(₦750,000 – ₦510,000)	( 240,000)	
Cash	<u>(600,000)</u>	
<u>840,000</u>		
Profit on acquisition		<u>295,200</u>

# PATHFINDER

Option (iii)		₹
Cost price (1,290,000 – 12% x 1,290,000)		1,135,200
Less: Net Book Value of Old Machinery		
(₹750,000 – ₹510,000)	( 240,000)	
Cash	(1,080,000)	
		(1,320,000)
Loss on acquisition		<u>184,800</u>

## EXAMINERS' REPORT

The question tests candidates' knowledge of raising journal entries.

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

The candidates' commonest pitfall was poor knowledge of raising journals.

Candidates are advised to cover all sections of the syllabus before writing the examinations.

## QUESTION 6

(a)

FORTWARD GESO TRADING STORE  
STATEMENT OF AFFAIRS AS AT 31 DECEMBER 2010

NOTE	₹	₹
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# PATHFINDER

Non-Current Assets		
Land and Buildings		1,500,000
Delivery Van		<u>260,000</u>
		1,760,000
Current assets:		
Inventories	74,000	
Account receivables	130,000	
Pre-paid expenses	16,000	
Bank balance	200,000	
Cash balance	<u>106,000</u>	
		<u>526,000</u>
		<u><u>2,286,000</u></u>

## LIABILITIES

Bank Loan	300,000	
Accounts Payable	<u>90,000</u>	
		390,000
Opening Capital		<u>1,896,000</u>
		<u><u>2,286,000</u></u>

## (b) STATEMENT OF AFFAIRS AS AT 31 DECEMBER 2011

	NOTE	N	R
Non-current assets			
Land and buildings	(i)		1,425,000
Delivery Van	(ii)		
234,000			
Investment			
<u>500,000</u>			
2,159,000			
Current assets			
Inventories		190,000	
Accounts Receivable ( <del>N</del> 196,000 - <del>N</del> 3,000)		193,000	
Cash balance (366,000 - 20,000)		<u>346,000</u>	
<u>729,000</u>			
<u><u>2,888,000</u></u>			



# PATHFINDER

Capital (1/1/2011)	1,896,000
Additional Capital	<u>250,000</u>
	2,146,000
Add Profit	<u>338,000</u>
	2,484,000
Less: Drawings	<u>(20,000)</u>
	2,464,000
Liabilities	
Accounts Payable	74,000
Accrued expenses	10,000
Bank overdraft	40,000
Loan	<u>300,000</u>

424,000

2,888,000

Workings

(i)	Land and Building		Delivery Van
	Cost	1,500,000	260,000
	Less: Dep.	<u>(75,000)</u>	<u>(26,000)</u>
		<u>1,425,000</u>	<u>234,000</u>
(ii)	Opening Capital		
		2,286,000	
		<u>(390,000)</u>	
		<u>(1,896,000)</u>	
(iii)	Accounts Receivable		196,000
	Less: Provision for doubtful debt		<u>3,000</u>
			<u>193,000</u>

(iv) The profit for 2011 accounting year was arrived as follows:

	R	
Total Assets		2,888,000
Total liabilities		
Loan	300,000	
Payables	74,000	
Bank Overdraft	40,000	

# PATHFINDER

Accrued Expenses	<u>10,000</u>	424,000
------------------	---------------	---------

Opening Capital (Note ii)	1,896,000	
Add: Additional Capital	<u>250,000</u>	
	2,146,000	
Less: Additional Capital	<u>(20,000)</u>	
		<u>2,126,000</u>
		<u>2,550,000</u>
Profit		<u>338,000</u>

## EXAMINERS' REPORT

The question tests candidates' knowledge of preparation of accounts from incomplete records.

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

Candidates' commonest pitfall was their inability to compute correctly opening capital, net worth and profit.

Candidates are advised to read relevant texts and practise past questions.

# PATHFINDER

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA  
FOUNDATION EXAMINATION - MAY 2012  
ECONOMICS AND BUSINESS ENVIRONMENT

Time allowed - 3 hours

SECTION A: Attempt All Questions

PART I: MULTIPLE-CHOICE QUESTIONS (20 Marks)

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

1. The motive for the demand for money to facilitate day-to-day expenditure is known as
  - A. Speculative motive
  - B. Consumption motive
  - C. Expenditure motive
  - D. Transaction motive
  - E. Precautionary motive
  
2. Which ONE of the following is NOT an item of invisible trade?
  - A. Payment for diplomatic services abroad
  - B. Payment for tangible goods bought from abroad
  - C. Royalties earned on books sold abroad
  - D. Dividend paid to foreign shareholders of companies
  - E. Payments in respect of students' fees in foreign Universities
  
3. In perfect competition, price is determined by the
  - A. Government

## PATHFINDER

- B. Buyers
  - C. Market
  - D. Sellers
  - E. Producers
4. Which of the following concepts explains how changes in investment may bring about changes in national income?
- A. The accelerator
  - B. The consumption function
  - C. The multiplier
  - D. The production function
  - E. The saving function
5. Which of the following is NOT a cause of unemployment in Nigeria?
- A. Inadequate power supply for industries
  - B. Relocation of businesses from Nigeria
  - C. High level of corruption
  - D. Concessioning of some highways by the government to the private sector
  - E. Poor quality of education and training in academic institutions
6. If a production process is represented by  $Q = f(L, K)$ , where  $Q$  = output,  $L$  and  $K$  are labour and capital inputs respectively, the marginal rate of technical substitution between  $L$  and  $K$  ( $MRTS_{LK}$ ) is
- A.  $MRTS_{LK} = \frac{MP_L}{MP_K}$
  - B.  $MRTS_{LK} = \frac{MP_L}{AP_K}$
  - C.  $MRTS_{LK} = \frac{MP_L}{AP_L}$
  - D.  $MRTS_{LK} = \frac{AP_L}{MP_L}$

## PATHFINDER

- E.  $MRTS_{LK} = \frac{AP_K}{MP_L}$
7. An entrepreneur can be viewed as the
- I - Coordinator of other production resources
  - II - Decision maker under uncertainty
  - III - Innovator
  - IV - Gap filler and input completes
- A. I and II  
B. I and III  
C. I, II and III  
D. III and IV  
E. I, II, III and IV
8. Which of the following would be a credit item in Nigeria's balance of payments?
- A. A two-week vacation trip to Japan by a Nigerian
  - B. A Nigerian company sells computer accessories to a company in Togo
  - C. A Nigerian student buys an accounting textbook from a UK Bookshop
  - D. A Nigerian company hires a Ghanaian citizen
  - E. The Nigerian government lends money to the Gambian government
9. Disequilibrium in the balance of payments occurs when
- A. The value of all imported goods is greater than the value of all exported goods
  - B. The value of imported goods and services is not equal to the value of exported goods and services
  - C. The value of invisible imports is less than the value of invisible exports
  - D. A country's foreign exchange reserves is greater than the value of imports
  - E. The gross domestic product is greater than the net income from abroad
10. The law of variable proportions is applicable only
- A. To monopolists
  - B. To small-scale enterprises
  - C. To large-scale business
  - D. In the long-run
  - E. In the short-run
11. Olubese Cement Company is located at Ibese, Ogun State, because

## PATHFINDER

- A. The demand for cement is highest in Ibese, Ogun State
  - B. The transport cost of cement to consumers is low
  - C. Labour is cheap in Ogun State
  - D. Ibese, Ogun State, has the required raw materials for the production of cement
  - E. Ogun State is a good source of finance for the cement company
12. The balanced budget multiplier is used to show
- A. An expansionary fiscal policy
  - B. An expansionary monetary policy
  - C. A contractionary monetary policy
  - D. A contractionary fiscal policy
  - E. A neutral monetary policy
13. A technique that allows group members to freely generate a large variety of ideas to solve an organisational problem without subjecting them initially to evaluation is known as
- A. Delphi Technique
  - B. Nominal group technique
  - C. Stepladder technique
  - D. Electronic meeting
  - E. Brainstorming
14. The managerial grid is a model which identifies all but ONE of the following dimensions of leadership
- A. Country club manager
  - B. Impoverished manager
  - C. Middle of the road manager
  - D. Initiating structure
  - E. Team manager
15. In the Portfolio Matrix, a business unit that usually generates more money than it needs to maintain its market share is
- A. A star
  - B. BCG
  - C. A blue chip

# PATHFINDER

- D. A cash cow
  - E. A question mark
16. The idea of getting work done with minimum effort, expense or waste is
- A. Economic management
  - B. Efficiency
  - C. Effectiveness
  - D. Entropy
  - E. Economy
17. Which ONE of the following is NOT a responsibility centre?
- A. Investment centre
  - B. Cash centre
  - C. Profit Centre
  - D. Expense centre
  - E. Revenue centre
18. Which ONE of the following is NOT an index of effectiveness?
- A. Morale
  - B. Job satisfaction
  - C. Employee turnover
  - D. Employee salary level
  - E. Net profit
19. The address used by a web browser to identify the location of content of a web page on the web is
- A. Domain Name System (DNS)
  - B. Uniform Resource Locator (URL)
  - C. Internet Protocol (IP) address
  - D. Hypertext Transfer Protocol (HTTP)
  - E. Simple Mail Transfer Protocol (SMTP)
20. A forecasting method in which experts reach consensus about future events through a series of continuously refined questionnaires rather than through face-to-face discussion is
- A. Sales Force Composite
  - B. Jury of Opinion

# PATHFINDER

- C. Delphi Technique
- D. Quantitative Technique
- E. Expert Opinion

## PART II: SHORT-ANSWER QUESTIONS

(20 MARKS)

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

1. The national income model of a closed economy is.....
2. Production function is an expression of the..... relationship within an organisation.
3. If  $Y=C+I+G$  is the national income model of a closed economy where  $C = 680+0.6Y_d$ ;  $T = -40 + 0.2Y$ ;  $Y_d = Y - T$ ;  $I = 300$ ; and  $G = 400$ , the equilibrium national income is .....
4. The circular flow diagram shows that the value of ..... is equal to income.
5. The function of money which makes it possible for any person to provide for old age is .....
6. An organised set of relationships, under a set of assumptions, from which a conclusion or a set of conclusions is logically derived is known as .....
7. The method of liquidating a debt on an installmental basis is known as .....
8. SURE is an acronym for .....
9. A firm is operating under ..... returns to scale if its output increases by 50% following a 60% increase in all the factor inputs.
10. The demand for a Giffen commodity will ..... when its price decreases.
11. An asset is less liquid if there is a ..... in the transaction cost of selling it.



## PATHFINDER

12. If a firm's total cost function is  $TC = 20 + 32q - 10q^2 + q^3$ , the average variable cost when  $q = 20$  is .....
13. A form of distribution aimed at having a product available in every outlet where target customers might want to buy it, is known as.....
14. An approach to organisation development in which the consultant seeks to facilitate clients in problem exploration and solution identification is known as.....
15. A statement that is concerned with what the organisation aspires to be in the future so as to enthuse, gain commitment and stretch performance is known as.....
16. A group of consumers for whom a marketing mix has been designed in order to meet their needs and to achieve a mutually satisfying exchange relationship is referred to as.....
17. A comprehensive management control system that balances traditional financial measures with operational measures relating to a company's critical success factors is called.....
18. An activity usually in manufacturing industries which aims to establish quality standards, ensure that they are being adhered to, take corrective action and set improved standards where possible is.....
19. The process that involves making decisions on the degree of specialisation of jobs, the rules to guide employees behaviour and the level of what decisions are to be made is.....
20. When managers influence the organisation's level of fixed cost to enhance the firm's performance, this is known as.....

SECTION B: ATTEMPT ANY FOUR QUESTIONS

(60 MARKS)

QUESTION 1

The banking sector has witnessed large-scale changes in the last few years.

You are required to:

# PATHFINDER

- (a) Explain the term “cashless economy”. (3 Marks)
- (b) Explain any FOUR factors that affect the demand for e-banking in Nigeria. (12 Marks)
- (Total 15 Marks)

## QUESTION 2

Differentiate between the following pair of concepts. Illustrate your answers with appropriate examples:

- (a) Production and Production function  
(b) Entrepreneur and Manager  
(c) Monopoly and Monopsony  
(d) Trade credits and Hire purchase  
(e) Liquidation and liquidity

(15 Marks)

## QUESTION 3

Business entities take various forms. The form to choose depends on the need of the promoters.

Required:

- (a) What is a Public Limited Company? (3 Marks)
- (b) Explain any SIX sources of finance to a Public Limited Company. (12 Marks)
- (Total 15 Marks)

## QUESTION 4

The table below shows the output produced by two countries in year 2011:

Country	Pepper (bags)	Vegetables (bags)
Nigeria	30	25
Ghana	20	15

# PATHFINDER

Required:

- (a) Calculate the opportunity cost of producing each unit of the commodities in both countries. (5 Marks)
  - (b) Mention which of the two countries has an absolute advantage in producing vegetable and why? (5 Marks)
  - (c) If these two countries should trade, determine which country should specialize in the production of pepper and why? (5 Marks)
- (Total 15 Marks)

## QUESTION 5

“Managers are increasingly being called upon to acquire some skills in order to perform their functions effectively”.

Required:

Suggest and explain FIVE skills that managers require to perform their functions effectively. (15 Marks)

## QUESTION 6

In a discussion between two senior managers, divergent views were presented on how to motivate employees using Herzberg’s Two-factor Theory and Adams Equity Theory of motivation.

Required:

Discuss briefly the salient aspects of the two theories. (15 Marks)

# PATHFINDER

## SECTION A

### PART 1: MULTIPLE-CHOICE QUESTIONS

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

# PATHFINDER

17. B
18. D
19. B
20. C

## EXAMINERS' REPORT

### MULTIPLE-CHOICE QUESTIONS

The questions test the various aspects of the syllabus.

Attempt was virtually by all the candidates. The candidates demonstrated a fair knowledge of the various concepts, principles and laws tested and their performance was also fair.

Candidate can do better if they spend more time in preparing for the examinations.

### PART II: SHORT ANSWER QUESTIONS

1.  $Y = C + I + G$
2. Input/Output
3.  $Y = 2,700$
4. Expenditure
5. Store of value
6. A model
7. Amortization
8. Subsidy Reinvestment and Empowerment Programme
9. Decreasing
10. Decrease
11. Rise
12. 232
13. Intensive/extensive distribution
14. Process consultation
15. Vision statement

# PATHFINDER

16. Target market
17. Balanced scorecard
18. Quality control
19. Organizing
20. Operating leverage

## EXAMINERS' REPORT

### SHORT-ANSWER QUESTION

The questions adequately over the syllabus.

Most candidates attempted this part of the paper and performance was good.

# PATHFINDER

## SECTION B

### QUESTION 1

(a) A cashless economy is an economy that relies, to a large extent, on the use of non-physical cash assets such as cheques, electronic payment devices (e.g. internet, mobile phone, ATM, etc) for transactional purposes or as a medium of exchange.

(b) The factors that affect the demand for e-banking in Nigeria include:

(i) Availability of e-bank facilities.

The e-banking payment system requires access to the internet which in turn requires access to constant or regular supply of electricity. For people to use e-banking effectively, this infrastructural facility must be available.

(ii) Level of education

The higher the literacy level and computer knowledge of the population, the higher the demand for e-banking services provided by the banks.

(iii) Government legislation

If the government insists on e-banking for economic transactions, this will force people to learn and use it. This will increase the demand for e-banking services.

(iv) The cost of e-banking transactions

If the cost of using the e-banking services in terms of charges by the banks and other network providers is high, less number of bank customers will want to use the platform.

(v) The use of weak coding system which allows criminals to get access to people's e-info on company data-base has contributed to less demand for e-banking in Nigeria.

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- (vi) The ignorance of people about the importance of e-banking constitutes a response lag to the effective adoption of e-banking in Nigeria.

## SECTION B

### EXAMINERS' REPORT

The essence of this question is to test the candidates' familiarity with this policy and the use that e-banking can serve in its implementation.

The candidates demonstrated good understanding of the cashless policy and its relevance in Nigeria, particularly in the present developmental era driven by globalization. Their discussions and presentations were lucid and intelligent; their performance was generally good.

### QUESTION 2

- (a) Production is the conversion of raw materials or primary products into finished goods and services and the distribution of the finished goods and services to the final consumers.

Production function on the other hand, is purely a technological relationship between the quantities of various inputs and the maximum output that can be produced at a given point in time.

An example of production is the conversion of flour into bread, and of production function is  $Q=f(L,K)$  where  $Q$  = output and  $L$  &  $K$  are factor inputs.

- (b) An entrepreneur is a person (or factor of production) that organizes, controls and co-ordinates other factors of production to produce a given level of output. He receives the profit and bears the business losses. A manager is however hired to oversee the day-to-day productive activities of the business and receives salary and other benefits.
- (c) Monopoly is a market with a single seller and many buyers of a product or service that has no close substitute whereas monopsony is a market that is characterized by one buyer and many sellers of a product or service. PHCN is an example of a monopoly.
- (d) Trade credit is an incentive given by suppliers to their customers such as when creditors supply raw materials or the factor inputs to a customer firm for a period



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of time without immediate payment. It is an indirect means of funding or financing a business while the credit lasts.

In contrast, hire purchase is a system of making goods available to customers where payment is made on instalmental basis.

- (e) Liquidation is the process of closing a business and disposing of the assets. With liquidation, a firm or business takes its exit from the market whereas liquidity is the process of converting assets into money quickly. A firm that is liquid will be able to meet its financial obligations as at when due.

For example, some banks that had serious liquidity problems were recently liquidated by the Central Bank of Nigeria.

## EXAMINERS' REPORT

This question tests candidates' understanding of some concepts in Economics as it requires them to distinguish between paired concepts.

Most of the candidates understood clearly the distinction between production and production function, entrepreneur and manager, monopoly and monopsony but showed poor understanding of the distinction between trade credits and hire purchase as well as between liquidation and liquidity. In both cases, candidates failed to illustrate or support their answers with relevant examples as required by the question. This failure caused candidates loss of marks. Overall, the performance of the candidates was average.

Candidates are therefore, advised to pay particular attention to the requirements of questions before rushing to answer them as partial answer to questions can only fetch partial scores. Candidates should also avail themselves of the opportunity for capacity building by the tuition houses.

## QUESTION 3

- (a) A Public Limited Company (PLC) is a business with a minimum of seven member founders (owners) who agree to form a company by each contributing shares towards its initial capital in accordance with laid down conditions of the various Companies Acts. It is strictly regulated and required by law to publish its

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complete and true financial position so that investors can determine the true worth of the company's stocks (share).

A Plc's share can be acquired by anyone and holders are only limited to potential loss on the amount paid for the shares.

(b) Sources of finance to a Public Limited Company include:

(i) Shares

This is a major source of financing plc. Some of these shares are: initial capital, ordinary shares, preferential shares, etc.

(ii) Debentures

This is a source of long-term finance for public limited companies. The holder of debentures is considered as a creditor to the company and gets returns (interest) on his debentures.

(iii) Bank Loans and Advances

A public limited company can obtain loans and overdrafts from banks if it has assets that can meet the collateral requirements for borrowing.

(iv) Retained Earnings

The public limited company may retain the profits made for financing projects instead of distributing them among the shareholders in the form of dividend.

(v) Equipment Leasing

A Plc may also be involved in the leasing of equipment so as to raise capital.

(vi) Hire Purchase

The company can buy factor inputs and make payments instalmentally over a period of time.

(vii) Grant Finance

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Companies may be able to obtain grants from governments or international agencies. Usually, grants are awarded only in specific circumstances.

## EXAMINERS' REPORT

This question tests candidates' understanding of Public Limited Company (Plc) as a business entity and requires candidates to identify and explain six sources of finance available to it.

Candidates' attempt in part "a" of the question was good while it was just fair in part "b". About 40% of the candidates were unable to give six clearly distinct sources of finance to Plc. Quite a number of them gave overlapping or repeated sources. These developments marred the candidate's overall performance in the question.

Candidates are advised to read widely to deepen their knowledge of economic concepts and their applications.

## QUESTION 4

- (a) To calculate the opportunity cost of producing a unit of pepper in terms of vegetable (OC<sub>pv</sub>);

$$\text{OC}_{pv} = \frac{\text{Output of vegetable}}{\text{Output of pepper}}$$

Similarly, to obtain the opportunity cost of producing vegetable in terms of pepper (OC<sub>vp</sub>);

$$\text{OC}_{vp} = \frac{\text{Output of pepper}}{\text{Output of vegetable}}$$

The unit of pepper that has to be forgone for every unit of vegetable produced (i.e. opportunity cost) is shown as:

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Countries	Pepper (bags)	Vegetable (bags)
Nigeria	$25 \div 30$ Veg.) 0.83	$(30 \div 25$ Pep) 1.20
Ghana	$(15 \div 20$ Veg.) 0.75	$(20 \div 15$ Pep) 1.33

- (b) Nigeria has absolute advantage in the production of vegetable. A unit of input can produce a greater number of bags of vegetables in Nigeria than in Ghana.

NB. A country has absolute advantage in production of a product if its output per unit of input is greater than that of other producing countries.

- (c) Ghana should specialize in the production of pepper. This is because Ghana has the lower opportunity cost in pepper production and so should specialize in production of pepper. (0.75 vegetables rather than 0.83 vegetables in Nigeria).

## EXAMINERS' REPORT

### QUESTION 4

This question tests candidates' understanding of the concept and application of the theory of comparative advantage in international trade.

Candidates' performance was below average as they misinterpreted section "b" of the question and also failed to respond adequately to section "a" of the question. The quantitative ability of most of the candidates was low. Section "a" which requires calculation proved tasking for most of the candidates who attempted the question as they performed poorly in it. Many candidates could not correctly distinguish between the absolute and comparative theories of trade.

Candidates are advised to familiarize themselves with these theories and their applications.

### QUESTION 5

The relevant skills needed are:

- (a) Technical skills: This is the ability to apply specialized procedures, techniques and knowledge required to get the job done. Technical skills may be the ability of an accountant to apply equipment/material purchase procedures, of an

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engineer to use an equipment, or of a sales person to persuade a consumer to buy.

Technical skills are most important for lower level managers because they supervise workers who carry out a variety of operations.

- (b) **Interpersonal skills:** This is the ability of the manager to understand the people he/she works with, to be sensitive to their needs and aspirations and to get along satisfactorily with subordinates. Interpersonal skills makes it possible for subordinates to trust and cooperate with managers to get the work done.

Interpersonal skills are required of all managers irrespective of his/her level in the hierarchy of the organization.

- (c) **Communication Skills:** Managers need to be able to explain the goals and targets to be achieved to subordinates. He also needs to be able to give clear instructions to subordinates and to listen to their viewpoints. All of these require that managers have the ability to express themselves concisely to convey to subordinates precisely what is required to be done.

Interpersonal and communication skills are often referred to as human skills, human relations skills or people skills. Since all managers work with and through people to achieve goals, all managers are expected to possess these skills to perform their functions effectively.

- (d) **Conceptual skills:** This refers to the ability of the manager to see the organization as a whole, to understand how the different parts of the organization relate to each other as well as the external environment. Under conditions of globalization, conceptual skills enable managers to see the implication for their organization of changes occurring in their local, national and international environment.

Managers are effective to the extent that they are able to recognize, understand and explain the complex factors that affect the performance of their organizations. Conceptual skills increase in importance as managers' rise through the management hierarchy.

- (e) **Analytical/Diagnostic skills:-** Organizations are generally confronted with a variety of problems. In most cases, the nature of these problems are not clear, neither are their causes known. Diagnostic/analytical skills are the ability of the manager to identify the core problems facing the organization, clarify the nature

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of the problems, determine their possible causes, generate possible solutions, evaluate them and select the most feasible solution.

## EXAMINERS' REPORT

The question tests candidates' knowledge of the skills that managers need to perform their duties effectively. Candidates are required to identify and explain five of such skills.

About 80% of candidates attempted the question. However, as straightforward as the question seems to be, most of the candidates did not understand the concept of managerial skills as distinct from managerial functions or qualities of a manager.

Hence, rather than explain the skills needed by managers, most of the candidates concentrated on discussing managerial functions or qualities of a manager. Performance was average.

Candidates are advised to read questions carefully to understand precisely what is required.

## QUESTION 6

### (a) Herzberg's Two-factor Theory

The theory offers some insight into the relationship between motivation and job satisfaction. Herzberg observed that those factors that led to satisfaction were fundamentally different from those that led to dissatisfaction. Those factors, the absence of which would create dissatisfaction with the job and organization were labeled hygiene factor while those factors which could motivate the individual to improve his/her work performance were called motivators.

The hygiene factors are:

- (i) Salary
- (ii) Working conditions
- (iii) Job security
- (iv) Level and quality of supervision
- (v) Company policies and administrative procedures
- (vi) Interpersonal relationship at work

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The motivators are:

- (i) Recognition
- (ii) Sense of achievement
- (iii) Responsibility
- (iv) Nature of the work itself
- (v) Growth
- (vi) Advancement

Herzberg theorized that increase in hygiene factors would not lead to motivation and job satisfaction. Rather, such increase may lead to less dissatisfaction. On the other hand, increase in motivators would lead to motivation to improve work performance and job satisfaction.

## Adams Equity Theory of Motivation

This theory focuses on individual perception of how fairly they are treated compared with others. According to the equity theory, if people perceive that their compensation, given their contribution or effort, is equal to what others receive for similar contribution, they will believe that their treatment is fair and equitable. As a result, they would be satisfied with their job.

If, on the other hand, they perceive that their compensation, given their contribution, is less than what relevant other co-workers receive for similar amount of contributions, they would have a sense of inequity in the system. Consequently, they would be dissatisfied. They may either reduce the level of their contribution in an effort to bring about equity, distort their perceptions, or leave the organization.

Adams equity theory may be represented as follows:

$$\frac{O_1}{I_1} = \frac{O_2}{I_2}$$

$O_1$  = Outcome/reward of person 1  
 $I_1$  = Inputs of person 1  
 $O_2$  = Outcome/reward of a relevant other person 2  
 $I_2$  = Inputs of relevant person 2.

When  $\frac{O_1}{I_1} = \frac{O_2}{I_2}$  the worker would perceive equity and experience

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$I_1 = I_2$  , job satisfaction

But when  $\frac{O_1}{I_1} < \frac{O_2}{I_2}$  worker would perceive inequity, experience dissatisfaction and would take action to bring about equality of the ratios.

## EXAMINERS' REPORT

The question tests candidates' knowledge of Herzberg's Two-factor theory and Stacy Adams Equity Theory of Motivation.

Only about 25% of the candidates attempted the question. This may be due to some confusion arising from attributing equity theory to Adams Smith in the question instead of Stacy Adams. Nevertheless, the candidates that attempted the question were not misled by the error. Indeed, only one candidate discussed division of labour, a concept popularly associated with Adam Smith.

Candidates' knowledge of the theories was shallow. Some discussed Theory X and Y instead of Two-factor theory. Their discussion of equity theory was based on residual knowledge or guess work. Performance was poor.

These theories of motivation are available in good textbooks for candidates to study. Candidates are advised to study harder.



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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA  
FOUNDATION EXAMINATION - MAY 2012  
CORPORATE AND BUSINESS LAW  
Time Allowed - 3 hours

SECTION A: Attempt All Questions

PART I: MULTIPLE-CHOICE QUESTIONS (20 Marks)

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

1. Which problem of common law was equity developed to solve?
  - A. Age
  - B. Weight
  - C. Power
  - D. Harshness
  - E. Hegemony

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2. Which of the following is a tort that requires no proof?
  - A. Negligence
  - B. Battery
  - C. Assault
  - D. Mistake
  - E. Nuisance
  
3. Which of the following categories of persons has limited contractual capacity?
  - A. Nursing mothers
  - B. Foreigners
  - C. Minors
  - D. Retired legislators
  - E. Ex-convicts
  
4. Which of the following is absent in a domestic agreement?
  - A. Capacity to contract
  - B. Intention to create legal relations
  - C. Consideration
  
  - D. Undue influence
  - E. Duress
  
5. Which of the following is NOT an illegal contract at common law?
  - A. A contract to commit a crime or tort
  - B. An agreement to solicit for prostitutes
  - C. A contract to obstruct the administration of justice
  - D. A contract to supply local goods to a foreign country
  - E. A contract with an alien enemy during the war
  
6. Which of the following is NOT a hirer's obligation?
  - A. To take delivery of the goods
  - B. To take proper care of the goods
  - C. Not to part with the possession of the goods
  - D. To report to the owner every week
  - E. To return the goods to the owner when the agreement is terminated

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7. A bank may be excused from the obligation to pay a customer's cheque EXCEPT when
- A. There is an unsigned alteration on the cheque
  - B. The cheque is stale
  - C. The drawer's death comes to the notice of the bank
  - D. The bank does not have enough cash
  - E. There is an effective countermand
8. In which of the following shall an un-discharged bankrupt NOT engage?
- A. Travel outside the country
  - B. Attend shareholders' meeting of a company
  - C. Enjoy public amenities
  - D. Contest in an election for an elective office
  - E. Contribute to a public debate
9. Election petition cases must originally be filed before
- A. A High Court Judge
  - B. The Justices of Court of Appeal
  - C. The Justices of the Supreme Court
  - D. The Election Petition Tribunal
  - E. A Notary Public
10. Civil liabilities include
- A. Suspended sentences
  - B. Payment of fines
  - C. Payment of damages
  - D. Short-term imprisonment
  - E. Long-term imprisonment
11. Mistake could render a contract void if it was made before the contract was
- A. Concluded
  - B. Frustrated
  - C. Registered
  - D. Paid for
  - E. Registered with the government
12. Where a party to a contract was forced to consent to the terms of a contract, such a contract is said to be

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- A. Novel
  - B. Fraudulent
  - C. Binding
  - D. Actionable per se
  - E. Voidable
13. An agency relationship is one involving
- A. A single party
  - B. Two parties
  - C. Three parties
  - D. Four parties
  - E. Five parties
14. In an agreement for sale of goods, the risk remains with the seller until the
- F. Sale is completed
  - B. Goods are inspected to the satisfaction of the buyer
  - C. Final payment is made by the buyer
  - D. Cost, insurance and freight are paid for
  - E. Bill of lading is signed by the seller
15. A hire purchase relationship is one between a
- A. Hiree and a hirer
  - B. Hiree and a bank
  - C. Seller and a servant
  - D. Master and a servant
  - E. Bailor and a bailee
16. A Contract of insurance can be described as one of
- A. *Uberrimae fidei*
  - B. *Non est factum*
  - C. *Volenti non fit injuria*
  - D. *Ultra vires*

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E. *Actionable per se*

17. The membership of a general partnership is usually from
- A. Two to twenty persons
  - B. Two to twenty-five persons
  - C. One to thirty persons
  - D. One to twenty-five persons
  - E. Three to twenty-five persons
18. The duty of an auditor of a company is to
- A. Examine the books of accounts of a company and express his opinion thereon
  - B. Verify the financial statements on payment of salaries and allowances
  - C. Verify the financial statements on monthly imprests and express reservation
  - D. Verify the financial aspects of contracts to be awarded by the company
  - E. Verify the financial aspects of contracts already awarded by the company
19. The documents that are used in commercial and financial transactions to secure payment of money are
- A. ATM Cards
  - B. Bills of Lading
  - C. Payment Vouchers
  - D. Negotiable Instruments
  - E. Credit Cards
20. The proceedings whereby the State takes over the possession of the property of a debtor and distributes them among persons whom the debtor owes money is known as
- A. Bankruptcy
  - B. Matrimonial causes proceedings
  - C. Lifting the veil proceedings
  - D. Garnishee proceedings
  - E. Binding over proceedings

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## PART II: SHORT ANSWER QUESTIONS

(20 MARKS)

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

1. State the official name of a law which is made by the National Assembly and signed by the President.
2. The tort that makes a master liable for the wrong of his servant is called.....
3. State the term of a contract which is fundamental and goes to the root of the contract.
4. The type of mistake which the parties to a contract make when they are mistaken about different things is referred to as.....
5. The type of agency which is created in an emergency without the opportunity to contact the principal and get his instruction is called.....
6. The type of goods which is to be grown, manufactured, identified and agreed upon or acquired by the seller after making the contract for the sale of the goods is known as.....
7. State the type of goods to which the Hire Purchase Act 2004 is applicable irrespective of the amount involved.
8. State the principle of law which has been formulated to do equity between two or more insurers where one of them has fully settled the claim of the insured in respect of which both or all of them are liable.
9. The meeting which a new company may hold within eighteen months after its incorporation is known as.....
10. State the type of resolution that is required in order to effect a compulsory winding-up of a company by the Federal High Court.
11. What must a partner do by himself in order to dissolve the partnership in which he is a partner?

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12. Apart from certainty of words and certainty of subject matter, state the other certainty which is required for the creation of a trust.
13. The Constitution being used in Nigeria at present as amended, came into force in.....
14. One of the essential ingredients of the tort of negligence is the existence of a.....
15. Withdrawal of an offer before it is accepted is also known as.....of the offer
16. *Non est factum* means.....
17. A party to a contract who claims damages on the basis of work done or as much as he deserves, is said to be claiming on .....
18. The fact that a company cannot die connotes that it has.....
19. In order to manage the properties of a deceased person who died intestate, the personal representatives should apply for .....from the Probate Registrar.
20. A trustee must not favour the interest of one beneficiary against the other. This is called the trustee's duty of.....

SECTION B: ATTEMPT ANY FOUR QUESTIONS

(60 Marks)

QUESTION 1

- (a) Ngozi and Kolade are promoters of a new company. You are required to advise them on the following:

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- (i) FIVE items they must include in the Memorandum of Association; (5 Marks)
- and
- (ii) FIVE documents of incorporation to be filed. (5 Marks)
- (b) Halidu holds one million shares in Realshares Nigeria Plc. Zaidi, his son, has just returned from University of Basel because he could not pay school fees. Halidu is cash-strapped and wants to know whether he could transfer his shares to someone else to raise money to pay the fees.

Required:

Advise Halidu, stating the statutory conditions by which he could transfer his shares.

(5 Marks)

(Total 15 Marks)

## QUESTION 2

- (a) The Central Bank of Nigeria is created by statute to superintend monetary affairs. Explain FIVE functions of the Bank. (10 Marks)
- (b) Mr. Chris died without leaving a Will. His dependants have approached you to advise them on the steps to take in running his estate. Advise them. (3 Marks)
- (c) An Official Receiver is usually appointed by the court to take over the management of the property of a debtor. You are required to state TWO powers of an Official Receiver. (2 Marks)

(Total 15 Marks)

## QUESTION 3

- (a) Nigerian law is rich both in respect to source and contents. You are required to list any FIVE sources of Nigerian Law. (5 Marks)
- (b) Every human being has rights which are fundamental and which he enjoys because he is a person. In Nigeria, the fundamental human rights are guaranteed under the Nigerian Constitution. You are required to state any FIVE



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fundamental human rights guaranteed by Chapter IV of the Nigerian Constitution. (5 Marks)

- (c) The law of tort deals with civil liabilities of wrongdoers. There are many heads of liability under the law. One of the heads of liability is the tort of vicarious liability. You are required to explain the tort of vicarious liability.

(5 Marks)

(Total 15 Marks)

### QUESTION 4

- (a) Samuel, aged 16, is the son of Chief Luke Umeh, a multi-billionaire. Two weeks ago, Samuel drove his father's 2011 model Jeep vehicle to a car exhibition.

At the exhibition, he saw a year 2012 model of the same Jeep and entered into a contract with the manufacturers to buy two of the latest Jeep.

The two Jeeps were delivered to Samuel and he drives them to his secondary school to impress his school mates.

The manufacturers of the Jeep, Manny Auto Engineering Limited, requested for payment for the Jeeps but Samuel refused to pay, claiming that he is an infant. The manufacturers are insisting on full payment for the vehicles by Chief Umeh.

Required:

Advise the following parties on the implications of their actions:

- (i) The manufacturers;
- (ii) Samuel; and
- (iii) Chief Luke Umeh

(10 Marks)

- (b) For a contract to be binding on all the parties to it, it must not be tainted by any vitiating element. Undue influence is one of such vitiating elements.

Required:

Explain briefly undue influence as a vitiating element in a contract. (5 Marks)

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(Total 15 Marks)

## QUESTION 5

- (a) Stella works as a sales girl for Kampus Multipurpose Stores (KMS), operated by Lucas on the University Campus.

Recently, Lucas discovered that whenever he was not around, Stella would pack Lucas' wares off the shelves and display her own wares on the shelves. Thus, Stella used her employer's time, resources and facilities to sell her own wares in place of her employer's.

The financial books of KMS were audited last month and the audit revealed that on some occasions, Stella sold her employer's wares at a higher rate than that recommended and she pocketed the difference.

Required:

Advise the following parties on the legal implications of their actions:

- (i) KMS (5 Marks)  
(ii) Stella (6 Marks)

- (b) A hire purchase agreement and a sale agreement are similar but not identical.

Required:

State any TWO differences between a hire purchase agreement and a sale agreement. (4 Marks)

(Total 15 Marks)

## QUESTION 6

- (a) Xeyoze Limited was incorporated by the Corporate Affairs Commission on February 1, 2010. On March 1, 2011, the company bid for a contract to rehabilitate one of the nation's oil refineries. This contract attracted scores of bidders because it was seen as a very lucrative one.

A rival bidder objected to the competence of Xeyoze Limited to bid for the contract on the ground that an investigation at the Corporate Affairs Commission revealed that the company has not filed its annual returns.

Required:

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Advise Xeyoze Limited on the following:

- (i) The importance of filing annual returns. (2 Marks)
  - (ii) The period within which the annual returns must be filed. (2 Marks)
  - (iii) The consequences of failure to file annual returns. (2 Marks)
  - (iv) Whether it is optional to file the annual returns or not (2 Marks)
  - (v) What is your advice if the contract was bid for on October 1, 2010? (3 Marks)
- (b) Directors of companies are placed in special and unique positions. Their status imposes certain duties on them, and these include fiduciary duties.

Required:

Explain any TWO fiduciary duties of a company director. (4 Marks)  
(Total 15 Marks)

## SECTION A

### PART 1: MULTIPLE - CHOICE QUESTION

- 1. D
- 2. B
- 3. C
- 4. B
- 5. D
- 6. D
- 7. D
- 8. D
- 9. D
- 10. C
- 11. A
- 12. E

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- 13. C
- 14. A
- 15. E
- 16. A
- 17. A
- 18. A
- 19. D
- 20. A

## EXAMINER'S COMMENTS

The questions fairly cover the entire syllabus. Candidates' performance was good.

## PART II- SHORT ANSWER QUESTIONS

- 1. Act of the National Assembly
- 2. Vicarious liability
- 3. Condition
- 4. Mutual mistake
- 5. Agency of necessity
- 6. Future goods
- 7. Motor vehicles
- 8. Subrogation
- 9. Annual General Meeting (AGM)
- 10. Special resolution
- 11. Give notice to the other partner(s)
- 12. Certainty of object

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13. 1999
14. Duty of care
15. Revocation
16. This is not my deed
17. *Quantum meruit*
18. Perpetual succession
19. Letters of Administration
20. Impartiality or good faith

## EXAMINER'S COMMENTS

The questions test all areas of the syllabus. Performance of candidates was above 50% of the mark allocated.

## SECTION B

### SOLUTION 1

- (a) (i) Five items which promoters of a company must include in the Memorandum of Association are:
- The name of the company;
  - The object or business clause;
  - The address of the registered office which must be in Nigeria;
  - That the company is a private or public company as the case may be;
  - The names of the subscribers and the number of shares taken by each, written against his name;
  - The restriction, if any, on the powers of the company;

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- The amount of the authorized share capital of the company; not being less than ₱10,000 in the case of a private company and ₱500,000 in the case of a public company;
  
  - That the liability of the members is limited to the amount unpaid, if any, on their shares.
- (a) ii. Five documents of incorporation to be filed by the promoters are:
1. The Memorandum and Articles of Association;
  2. The Notice of the Registered office of the company;
  3. The List and Particulars of Directors in the prescribed form together with their consent to serve.
  4. Statement of the Authorized Share Capital signed by at least one director
  5. Return on Allotment of Share Capital
  6. Statutory Declaration of Compliance with the provisions of the Companies and Allied Matters Act (CAMA) signed by a Legal practitioner on the prescribed form;
  7. Particulars of the Secretary, where he is mentioned in the Articles of Association;
  8. Any other document required by the Commission to satisfy the requirement of any law relating to the formation of a company
- (b) A shareholder has a right to transfer his shares to whoever he wishes, unless the Articles of Association imposes restrictions on the shareholders as stated in section 22(2) of CAMA which provides that every private company shall by its Articles restrict the transfer of shares.

The transfer must be done through a properly executed instrument of transfer signed by the shareholder, and sent to the company with the share certificate.

In the instant case, Halidu could transfer his shares to any person in order to raise money to pay his son's fees, because a share is a chose in action which is easily transferable.

The statutory conditions upon which Halidu could transfer his shares are:

- The shares must have been registered in the transferor's name;

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- a proper instrument of transfer must first be delivered to the company before the transfer can be registered;
- The shares may be freely transferred subject to any restrictions contained in the Articles;
- The company reserves the right to refuse the transfer on grounds of lien; or that shares are not fully paid-up.

### EXAMINER'S COMMENTS

The question tests candidates' understanding of company incorporation documents and transfer of shares.

Candidates understood the questions well, and performance was generally good.

### SOLUTION 2

Some of the functions of the Central Bank of Nigeria (CBN) include:

- Issue and distribution of Nigerian currency: Section 15 of the CBN Act gives the CBN the sole right of issuing currency notes, bank notes or coins or any document or tokens which are likely to pass as legal tender.
- Management of Nigeria's external reserves: Section 24 of the Banks and Other Financial Institutions Act (BOFIA) 2004 provides that the CBN shall at all times maintain a reserve of external assets consisting of all or any of the following- Gold Coin or Bullion, balances at any bank outside Nigeria, treasury bills etc.
- Banker and Financial Adviser to the Federal Government of Nigeria: Section 3(1) of BOFIA provides that the Bank shall be entrusted with the Federal Government's banking and foreign exchange transactions in Nigeria and abroad. The CBN shall receive and disburse Federal Government's monies and keep account thereof.
- Promotion of monetary stability: This is done by developing and formulating economic policies geared towards maintaining the stability of the Naira against other leading foreign currencies.
- Banking supervision and examination over commercial and other banks: Ensuring high standards of conduct and management throughout the banking

# PATHFINDER

system and to promote and maintain adequate and reasonable banking services for the public.

(vi) Lender of last resort: The Central Bank of Nigeria is the lender of last resort to the commercial banks. The commercial banks are required to keep and maintain certain amount of statutory deposit with the CBN in order to stabilise the flow of cash in the economy.

(b) Where a person dies without leaving a Will, he is said to have died intestate. In order to administer the estate of the deceased, the dependants must apply to the Probate Registry of the High Court of the State where the assets of the deceased are situated, for the grant of Letters of Administration.

The following categories of persons may apply for the Letters of Administration:

- (i) The surviving spouse of the deceased person;
- (ii) Children of the deceased person who are of full capacity;
- (iii) The parents of the deceased person i.e. the father and mother of the deceased person;
- (iv) Next of kin.

However, the maximum number of persons that could be granted Letters of Administration at any given time is four (4).

(c) The powers of an Official Receiver are:

- (i) To investigate the conduct of the debtor and report to the court stating whether there is a reason to believe that the debtor has committed any act which constitutes an offence under the Bankruptcy Act of 2004;
- (ii) To conduct public examination of the debtor;
- (iii) Pending the appointment of a trustee in bankruptcy, the Official Receiver must perform the duties of a trustee in bankruptcy and the manager of the properties of the debtor;
- (iv) To use the assets available to generate funds where it is in the interest of the creditors to do so.



# PATHFINDER

The question tests candidates' knowledge of the functions of the Central Bank of Nigeria, Intestacy, and Bankruptcy Law.

The question was well understood and candidates' performance was good.

## SOLUTION 3

1a. Sources of Nigerian law are:

- (i) Nigerian legislation, including subsidiary or delegated legislation;
- (ii) Customary law including Islamic law;
- (iii) Judicial precedent;
- (iv) Treaties, International obligations and Conventions;
- (v) Received English law comprising
  - the common law
  - the doctrines of equity
  - Statutes of General Application in force in England on January 1, 1900

(b) The fundamental human rights guaranteed by Chapter IV of the Nigerian 1999 Constitution are:-

- (i) Right to life;
- (ii) Right to dignity of human persons;
- (iii) Right to personal liberty;
- (iv) Right to fair hearing;
- (v) Right to privacy and family life;
- (vi) Right to freedom of thought, conscience and religion;
- (vii) Right to freedom of expression and the press;
- (viii) Right to peaceful assembly and association;
- (ix) Right to freedom of movement, except under legal or consequential restraint.
- (x) Right to freedom from discrimination on account of race, colour, sex, religion or ethnicity ;
- (xi) Right to acquire and own immovable property anywhere in Nigeria;
- (xii) Right to vote or be voted for except under legal restraint.

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- (c) The tort of vicarious liability simply means that one person will be held accountable for the wrong committed by another person.

Thus, the person being held accountable is not the wrongdoer.

However, the rule is that, there must be a relationship between the wrongdoer and the person being held liable for the wrong committed by the wrongdoer. This could be master-servant; parent-child or master-apprentice relationship.

In a master-servant relationship, the wrong must have been committed while the servant was carrying on the assignment he was employed to do. He must be acting within the scope of his employment.

### EXAMINER'S REPORT

The question tests candidates' knowledge of sources of Nigerian law, Fundamental Human Rights as contained in the Constitution, and Law of tort.

Nearly all candidates attempted the questions and performance was very good.

### SOLUTION 4

- (a.) This question tests candidates' understanding of capacity of minors to enter into a legally binding contract.

The position of the law is that generally, minors lack the capacity to enter into a contract that will be legally binding on them.

However, contracts for necessities would bind a minor.

Necessaries are goods suitable to the condition in life of the minor or other persons concerned and to his actual requirements at the time of sale and delivery.

The decision in the case of Nash Vs Inman (1908), is authority for the above position of law.

In this instance, Samuel is a minor.

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Thus, two units of year 2012 model of Jeep are not necessities. They are luxury goods.

Advice

- (i) The manufacturer who entered into a contract with Samuel, a minor, for the sale of luxury goods cannot enforce payment for the Jeep vehicles against Samuel or Chief Luke Umeh.

The contract is binding on the manufacturer but not on Samuel.

The manufacturer can only claim for return of the Jeep vehicles through an order for restitution.

- (ii) Samuel, a minor is not bound by the contract. The contract is voidable at his option. It was valid when it was made but it could be terminated by him at anytime before he becomes an adult.

- (iii) Chief Luke Umeh cannot be held liable for the price of the Jeep vehicles which his son, Samuel bought. He would have been held liable if his son had entered into a contract for necessary goods.

- (b) Undue influence is one of the elements that could vitiate a contract.

Undue influence occurs in instances where a party to a contract uses his influence over the other party to the contract to persuade him or them to enter into the contract.

Undue influence may be presumed where there is a pre-existing relationship between the two parties to a contract as a result of which one places trust in the other.

It is for the dominant party to prove that the other party had independent advice.

The contract between the parties must be manifestly disadvantageous to the other party who placed trust in the other.

Contracts entered into under undue influence, may be set aside or its terms modified by the courts so as to mitigate the disadvantage.

The case of Royal Bank of Scotland Vs Etridge (2001) is authority for the above position of the law.

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## EXAMINER'S REPORT

The questions test candidates' knowledge of application of the principles guiding minor's legal capacity to enter into contracts and the effects of vitiating elements of undue influence in a contract.

Most candidates exhibited shallow knowledge of these topics, and performance was generally poor.

Candidates are advised to familiarize themselves with this area of the syllabus.

## SOLUTION 5

- (a) This question deals with the law of agency, especially the duties of an agent to his principal.

Among other duties, an agent owes his principal duty to avoid conflict of interests, duty not to make secret profits, and duty of utmost good faith.

In this instance, Stella, the agent had-breached her duty of good faith, duty not to make secret profits and duty not to allow her personal interest conflict with those of her principal.

The action of Stella in packing her principal's wares off the shelves and replacing them with her own wares indicates that her own personal interest is allowed to conflict with the interest of her principal.

The act of Stella in using her principal's time, resources and facilities to sell her own wares in place of her principal's wares was done in bad faith, i.e. mala fide.

The selling of her principal's wares at higher rates than the recommended rates and pocketing the difference amounts to making secret profits.

### ADVICE:

- (i) KMS, Stella's principal is entitled to the secret profits made by Stella. KMS can ask that Stella renders proper account and pays back the secret profits.

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KMS has the right to terminate the agency relationship with Stella.

- (ii) Stella is liable to render account of the secret profits made by her to her principal, having breached her duty of good faith. Her agency may be terminated.
- (b) Differences between a hire purchase agreement and a sale agreement are as follows:
- (i) Option to purchase is available under hire purchase, whereas that option is not available in a sale agreement, because a sale agreement is final.
  - (ii) Property does not pass in a hire purchase agreement immediately, and it will not pass until the stipulated time when all conditions are satisfied. However, in a sale agreement, property passes immediately the agreement is concluded; whether payment has been made or not.
  - (iii) The hirer is entitled to return the goods at any time and thereby determine the contract and he is not liable to pay further instalments. In a sale agreement however, the buyer is under obligation to pay fully, the purchase price.
  - (iv) Hire purchase agreement must be in writing, a sale agreement need not be in writing.
  - (v) Whereas the parties in a hire purchase agreement are the owner and the hirer; on the other hand, the parties to a sale agreement are the buyer and the seller.
  - (vi) Under a hire purchase agreement, the hirer cannot transfer valid title to a third party, but in a sale agreement, the buyer can transfer valid title to a third party.

## EXAMINER'S REPORT

The question tests candidates' understanding of the Law of Agency and the differences between a hire purchase and a sale agreement.

Candidates clearly understood the question and performance was good.

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## SOLUTION 6

The law is that annual returns shall be filed with the Corporate Affairs Commission (CAC) within forty-two days after the annual general meeting for the year. (See Section 374 of the Companies and Allied Matters Act (CAMA)).

Section 370 of CAMA also stipulates that every company shall, at least, once every year, make and deliver to the CAC an annual return.

The annual return must address matters such as address of the registered office of the company; authorized share capital of the company; the issued share capital; the total paid-up capital; particulars of directors and secretary, among other matters.

A company need not file any return in the year of its incorporation. Section 370 of CAMA.

Failure on the part of a company to file a return shall attract a penalty under section 378(1) of CAMA. The company and every director or officer of the company who is in default shall be guilty of an offence and liable to a fine of ₦1,000 in the case of a public company and ₦100 in the case of a private company. In this instance, investigations at the CAC revealed that Xeyoze Limited has not filed its annual return for 2010.

## ADVICE

- (i) Filing of the annual returns has the advantage of the CAC having correct and updated information about a company. It is also a source of information to shareholders and other interested parties to know the financial position of the company. It makes a company to be free from criminal record of being convicted for crime associated with refusal to file annual returns and of making the directors and other officers of the company free from criminal liability.
- (ii) Annual returns must be filed annually. It must be filed within forty-two days after the annual general meeting of the company for the year (S. 374 CAMA). However, a newly incorporated company need not file annual returns in the first year of its incorporation. (S.370 CAMA).

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(iii) Consequences of failure to file annual returns is penalty of ₦1,000 in the case of a public company and ₦100 in the case of a private company. Every director or officer of the company in default shall be guilty of the offence as well, and be fined appropriately.

(iv) It is mandatory to file the annual returns. It is not optional. (S.370 CAMA)

(v) If Xeyoze Limited bid for the contract on October 1, 2010, that would have been eight months after its incorporation, the non filing of annual returns would not have been an issue, since filing it within eight months was premature.

Consequently, Xeyoze Limited would not be disqualified from the bid because it failed to file its annual return.

(b) The fiduciary duties of a company director include the following:-

- (i) Duty not to exceed powers
- (ii) Duty to account
- (iii) Duty to use power for proper purpose
- (iv) Duty to avoid conflict of interest
- (v) Duty not to fetter discretion
- (vi) Duty to protect the interest of members and employees generally.

### EXAMINER'S REPORT

The question tests candidates' understanding of the procedure for filing Annual Returns with the Corporate Affairs Commission (CAC) and fiduciary duties of company directors.

Most candidates could not properly apply the laws guiding the filing of Annual Returns with the Corporate Affairs Commission (CAC) to a practical situation, because they appeared not to know the laws relating to the subject-matter.

Very few candidates attempted this question and their performance was generally poor.

Candidates are advised to read more widely on the filing of Annual Returns, when preparing for an examination.

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