THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

PATHFINDER

MAY 2013 FOUNDATION EXAMINATION

Question Papers

Suggested Solutions

Plus

Examiners' Reports

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.

TABLE OF CONTENTS

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

FOUNDATION – MAY 2013

FUNDAMENTALS OF FINANCIAL ACCOUNTING

Time Allowed: 3 hours

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

MULTIPLE-CHOICE QUESTIONS

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

1. Accounting may be viewed in several ways. Which of the following will **NOT** fairly define accounting?

   A. An activity performed by accountants and their surrogates
   B. A technique of management
   C. A discipline of study
   D. The process of identifying, measuring and communicating economic information to end-users
   E. A study of money and monetary policies in an Organisation for decision-making

2. The rules and regulations which apply to financial reporting may be collectively referred to as the "regulatory framework". In practice, most of these frameworks refer to

   A. Entities
   B. Stock markets
   C. Financial accounts
   D. Cash flow statements
   E. Fund statements

3. IFRS are developed and published by

   A. International Accounting Standards Committee
   B. International Accounting Standards Advisory Council
   C. International Accounting Standards Board
   D. International Accounting Standards Foundation
   E. International Accounting Reporting Standards Board

4. The process to reduce or eliminate variations in accounting practice and to introduce a degree of uniformity into financial reporting is

   A. Accounting Standards
   B. Accounting Concepts
   C. Accounting Manuals
   D. Accounting Statements
   E. Accounting Records

5. Depreciation charged on non-current assets is known to be

   A. The amount spent to buy non-current asset
   B. The salvage value of a non-current asset
   C. The part of the cost of non-current asset consumed during its period of use
   D. The amount of money spent in replacing non-current assets
   E. The part of the cost of non-current asset reserved to be consumed in future period

6. Given opening account receivables of ₦2,300,000, revenue of ₦9,600,000 and receipts from customers of ₦9,000,000, the closing account receivables balance should be

   A. ₦1,700,000
   B. ₦2,900,000
   C. ₦3,700,000
   D. ₦12,700,000
   E. ₦16,300,000

7. An alternative name for a revenue journal is

   A. Revenue invoice
   B. Revenue day book
   C. Daily sales record
   D. Revenue ledger
   E. Returns day book

8. Which of the following correctly describes the meaning of "purchases"?

   A. Items bought
   B. Goods bought on credit
   C. Goods bought for resale

D. Goods paid for
E. Goods returned by customers

9. The following information relates to Ablaze Limited for the year ended 31 December 2012

	₦
Prime cost	122,000
Factory/production overheads	185,000
Opening Work-in-progress	40,000
Factory cost of goods completed	300,000

What is the closing work-in progress?

A. ₦47,000
B. ₦56,000
C. ₦66,000
D. ₦80,000
E. ₦80,000

10. Which of the following is used to derive a sole trader's net profit for a period?

A. Closing net assets + drawings - capital introduced – opening net assets
B. Closing net assets – drawings+ capital introduced – opening net assets
C. Closing net assets – drawings – capital introduced – opening net assets
D. Closing net assets+ drawings +capital introduced – opening net assets
E. Closing net assets + drawings +capital introduced+ opening net assets

11. The following transactions relate to Mahmud's electricity expense ledger account for the year ended 30 June 2012:

	₦
Prepayment brought forward	550
Cash paid	5,400
Accrued carried forward	650

What amount should be charged to the Statement of Profit or Loss in the year ended 30 June 2012, for electricity?

A. ₦5,400
B. ₦5,500
C. ₦5,800
D. ₦6,600
E. ₦7,500

12. Which of the following should be classified as capital expenditure?
    - A. The annual depreciation of leasehold premises
    - B. Computer repairs and maintenance cost
    - C. Solicitors' fees in connection with the purchase of leasehold premises
    - D. The wages of the machine operators
    - E. The interest paid on Loan

13. The repairs of the personal vehicle of a partner's wife was wrongly treated as part of motor vehicle expenses of the partnership. Which of the following accounting entries is required to correct the error?

	Debit	Credit
A.	Partner's Drawings Account	Motor vehicle expenses account
B.	Motor vehicle expenses account	Partner's current account
C.	Motor vehicle expenses account	Partner's drawing account
D.	Motor vehicle expenses account	Partner's current account
E.	Partner's capital account	Motor vehicle expenses account

Use the following information to answer questions 14 and 15:

Bola, Emeka and Sule are partners, trading under the name, BES Enterprises. They share profits or losses in the ratio of 3:2:1 respectively. The partnership agreement provides for interest on capital at the rate of 8% per annum and for a salary of ₦80,000 per annum for Emeka.

In the year ended 30 April 2013, the partnership made a net profit of ₦840,000. The balances on the partners' capital accounts were ₦200,000, ₦150,000 and ₦120,000 for Bola, Emeka and Sule respectively. Sule made a drawing of ₦35,000 but the partnership does not charge interest on drawings. The partners' current account balances were ₦40,000, ₦60,000 and ₦50,000 respectively.

14. What is Bola's share of profit?
    - A. ₦300,200
    - B. ₦360,200
    - C. ₦361,000
    - D. ₦361,200
    - E. ₦362,100

15. How much will be the balance on Emeka's current account?

    A. ₦272,800
    B. ₦302,400
    C. ₦327,800
    D. ₦352,800
    E. ₦372,800

16. Which of the following accounts will **NOT** be kept by a partnership?

    A. Statement of Financial Position
    B. Current Account
    C. Realisation Account
    D. Statement of Profit or Loss and other comprehensive income.
    E. Income and Expenditure Account

17. A spreadsheet is most suitable for which of the following tasks?

    A. Posting of double-entry transactions in the general ledger
    B. Preparing a budget
    C. Preparing letters to sales agents
    D. Maintaining audit trail of transactions
    E. Making presentations during a training programme

18. If goods were invoiced by the Head Office to a branch for ₦86,400 at cost plus 25% mark-up, what was the cost of the goods?

    A. ₦64,800
    B. ₦69,120
    C. ₦86,400
    D. ₦103,680
    E. ₦108,000

19. Among the following listed items, highlight the one that is irrelevant when ascertaining the quantity of containers retained by the customers

    A. Charged out containers
    B. Returned containers
    C. Returnable containers
    D. Scrapped containers
    E. Opening containers with customers

20. The necessary accounting entry to record profit loading on goods sent to a branch by the Head office is

	DR	CR
A.	Branch Inventories Account	Branch Inventories Adjustment Account
B.	Branch Inventories Account	Goods sent to Branch Account
C	Goods sent to Branch Account	Branch Inventories Account
D.	Branch Inventories Adjustment Account	Branch Inventories Account
E.	Branch Inventories Account	Goods sent to Branch Account

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

SHORT-ANSWER QUESTIONS

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

1. The accounting basis maintained in recording transactions in Receipts and Payments account of Not-For-Profit Organisation is................................

2. The trial balance of a business shows a trade receivables balance of ₦90,000. Provision for doubtful debts is 5% of total receivables while provision for discount on receivables is 2%. The amount to show in the Financial Statements as net trade receivables would be..............................

3. What is the effect of over-stating closing inventory on net income?

4. During a financial year, a company's financial records reveal the following

Cash Revenue	₦100,000
Credit Revenue	₦500,000

   Trade receivables at the beginning and at the end of the year amounted to ₦30,000 and ₦44,000 respectively. Payments on account receivables during the year amounted to.........

5. A firm paid a rent ₦9 million to cover the eighteen months period ending 30 June 2013. How much rent should be charged to the Statement of Profit or Loss as rent expense for the year ended 31 December 2012?

6. A non-current asset with an original cost of ₦500,000 and accumulated depreciation of ₦400,000 was disposed of for ₦80,000. Calculate the profit or loss on disposal.

7. A detailed list of account balances extracted from the ledger at a particular date is……………………

8. A collection or pool of related data which is available for use by any number of application packages, including accounting packages, is called ……………………

9. The starting point for the preparation of final accounts from incomplete records is…………………………

10. Excess of expenditure over income in an Income and Expenditure Account of a Not-For-Profit Organisation is called ……………………………

11. A sole trader took some goods costing ₦1,000 from inventory for his own use. The normal selling price of the goods is ₦2,500. What are the double entry postings required?

12. What are the accounting entries to record cash purchase of a Non-Current Asset?

13. When a partner introduces a Non-Current asset into a partnership business, the accounting entries will be Debit ………………… and Credit ……………………

Use the information below to answer questions 14 and 15:

Taiwo, Hassan and Essien who have been in partnership business for many years decided to close the business on 30 April 2013. The partners shared profits or losses in the ratio of 2:2:1 respectively.
An extract from the books of the partnership on 30 April 2013 shows the following:

	₦'000
Carrying value of property, plant and equipment	600
Investment properties	200
Other investments measured at fair value	10
Inventories	120
Trade receivables	300
Taiwo took over the investment at the current market value of	250
Hassan took over a motor vehicle for	50
Other properties, plant and equipment realised	580
Discount given on account receivables	10
Discount received on account payables	2

14. Calculate the profit or loss on realisation attributable to the partnership.

15. What is Hassan's share of profit or loss?

16. A partner who does not contribute money into a partnership but allows his name to be used in the running of the business is called……………………

17. The portion of Called-up Share Capital which has been received from the subscribers to company's ordinary or preference shares is called……………

18. An integrated accounting software is one of the examples of ………………………

Use the following information to answer questions 19 and 20:

A head office sent goods at cost plus mark-up of 25% to the branch. The invoice price of the goods was ₦289,200. During the period, the branch returned ₦10,000 worth of goods to the Head office.

19. What is the value of goods that should be credited to branch account during the period?

20. State the account to be credited with goods returned to Head office by the branch and at what value?

SECTION B: ATTEMPT ANY FOUR QUESTIONS (60 Marks)

QUESTION 1

The Financial Reporting Council of Nigeria Act, 2011, replaced the Nigeria Accounting Standards Board Act, No 22 of 2003.

This new body is charged with the responsibility for developing and publishing Accounting and Financial Reporting Standards to be observed in the preparation of Financial Statements of public entities in Nigeria and for related matters.

a. State **FIVE** challenges of adopting International Financial Reporting Standards (IFRS) in Nigeria. (10 Marks)

b. Identify **FIVE** roles of the Financial Reporting Council of Nigeria. (5 Marks)

(Total 15 Marks)

QUESTION 2

a. Most Organisations require the services of an accountant.

State **FIVE** roles of an accountant in an Organisation. (5 Marks)

b. Yaro Chukwu Plc is a manufacturing company based in Ile-Ife. It commenced business in 2008 with five vehicles costing ₦650,000 each. The company depreciates its assets at 20% on cost, using straight line method by providing full depreciation in the year of purchase and none in the year of disposal. Another vehicle costing ₦900,000 was purchased in 2009 to replace the one sold in 2008 for ₦450,000, while the company still maintains its depreciation policy.

You are required to prepare:

i. Motor vehicle account up to 31 December 2012 (4 Marks)

ii. Disposal of Assets Account (2 Marks)

iii. Provision for depreciation account up to 31 December 2012 (4 Marks)

(Total 15 Marks)

QUESTION 3

Mr. Pamona owns a corner shop in Lagos. On 30 December 2012, vandals looted his shop, stole all his inventories and cash of ₦75,000. Mr. Pamona was fully insured against theft and he has asked you to prepare his accounts to enable him estimate his insurance claim. Your investigation revealed the following:

i. Net assets on 1 January 2012:

	₦
Furniture and fittings:	
Cost	900,000
Accumulated depreciation	(400,000)
Carrying value	500,000
Inventories	2,700,000
Trade receivables	430,000
Prepayments (rates)	30,000
Cash in bank	2,140,000
Cash float in till	30,000
Trade payables	1,650,000

Accrued electricity	40,000

ii. Bank statements for nine months from 1 January 2012 show the following:

Receipts:	₦
Cash and cheques lodged	20,060,000
Investment income	182,000
	20,242,000
Payments:	
Trade payables	17,850,000
Rent (1 January – 31 December)	1,200,000
Electricity	155,000
Insurance – theft	45,000
- Life	107,000
Telephone	83,000
	19,440,000

iii. The following were paid in cash from the till:

	₦
Trade payables	2,400,000
Drawings (per month)	295,000

iv. Mr. Pamona's gross profit margin on sales has averaged 20% in recent years.

v. The furniture and fittings are now estimated to be worth only ₦200,000.

vi. A cheque for ₦52,000 in respect of the telephone bill for the quarter ended 30 September 2012 was not shown in the bank statements until 3 October 2012.

vii. Rates for the period, 1 April to 1 October, 2012, amounting to ₦75,000 were still outstanding.

viii. Trade receivables and payables were ₦270,000 and ₦1,900,000 respectively on 30 September 2012.

You are required to prepare Mr. Pamona's:

a. Statement of Profit or Loss for the nine-month period ended 30 September 2012. (10 Marks)

b. Statement of Financial Position as at that date. (5 Marks)

(Total 15 Marks)

QUESTION 4

The following balances were extracted from the accounting records of the partnership of David and Daniel as at 30 April 2013:

		Debit	Credit
		₦	₦
Partners' capital Account	- David		900,000
	- Daniel		600,000
Partners' current Account	- David		240,000
	- Daniel		120,000
Purchases and Revenue		2,960,000	6,890,000
Returns		30,000	45,000
Carriage inwards		9,000	
Carriage outwards		6,000	
Inventories – 1 May 2012		450,000	
Wages and salaries		600,000	
Insurance		25,000	
Advertising		18,000	
Rents and Rates		360,000	
Repairs		28,000	
Land at cost		1,200,000	
Plant and Equipment at cost		500,000	
Building at cost		1,800,000	
Motor vehicle at cost		420,000	
Machine at cost		570,000	
Investment at fair value		660,000	
Bad debts		12,000	
Provision for doubtful debts			30,000
Provision for depreciation	- Building		180,000
	- Plant &Equipment		75,000
	- Motor vehicle		68,000
	- Machine		70,000
Trade receivables and payables		540,000	600,000
Drawings - David		135,000	
- Daniel		120,000	
Discounts		15,000	18,000

Loans - Bank		640,000
- David		500,000
Cash and bank balances	518,000	
	10,976,000	10,976,000

The following notes are relevant to the accounts:

i. Inventories at 30 April 2013 are valued at ₦258,000

ii. The investments are measured at fair value through profit or loss. At 30 April 2013, the market value of the investment was ₦666,000

iii. The depreciation policy is as follows:
- Building, plant, equipment and machine at 10% per annum
- Motor vehicle at 20% on the carrying value

iv. Interest on capital and partners' loan is at 10% per annum

v. Provision for doubtful debts should be reduced to ₦28,000

vi. Other adjustments are:

	Accrued Expenses	**Prepaid Expenses**
	₦	**₦**
Rent and Rates	200,000	-
Insurance	6,000	-
Salaries	-	150,000
Advertising	-	2,000
Interest on bank loan	64,000	-

You are required to:

Prepare the Statement of Profit or Loss of the partnership for the year ended 30 April 2013, in a vertical format. **(15 Marks)**

QUESTION 5

Xeloz Limited offered to the public 1,000,000 ordinary shares of ₦1 each at ₦1.30 payable as follows:

On Application 30k; On Allotment 50k (premium inclusive); first call on shares 30k; second call on shares 20k. Applications were received for 1,420,000 shares and the directors decided to deal with the application on the following basis:

i. Applications for the first 600,000 shares were accepted in full.

ii. The next 800,000 applications were scaled down, so that for each two shares applied for, only one was allotted.

iii. Applications for 20,000 shares were rejected.

You are required to:

Prepare journal entries to record the above transactions in the books of Xeloz Limited. **(15 Marks)**

QUESTION 6

October Enterprises Limited has its Head office in Lokoja with branches in Ibiam and Imala. The following are the separate Statements of Financial Position of the Head office (HO) and branches as at 31 December 2012:

Lokoja

	₦		₦
Authorised & issued capital			
5,500,000 Ordinary shares of 50k each	2,750,000	Inventories	996,875
Payables	165,000	Receivables	1,168,750
Ibiam's current Account	10,725	Imala's current account	746,350
Retained earnings	302,500	Cast at bank	316,250
	3,228,225		3,228,225

Ibiam Branch

Payables	48,125	Inventories	96,390
Bank over draft	110,000	Receivables	48,120
Imala's current account	1,925	HO current account	15,540
			160,050
	160,050		

Imala Branch

Payables	138,875	Motor vehicles	562,925
HO current accounts	724,350	Inventories	143,000
		Receivables	89,375
		Ibiam's current account	6,050
		Cash at bank	61,875
	863,225		863,225

Additional information:

i. Ibiam's current account balance with HO was arrived at after debiting ₦2,750 cash remitted to Ibiam on 31 December which was received on 1 January the following year.

ii. Imala's current account balance with HO was arrived at after debiting ₦8,250 value of inventories returned to Imala on 31 December which was received in Imala on 1 January the following year.

iii. HO current account balance with Ibiam was arrived at after debiting ₦2,065 inventories returned to HO on 31 December and received in Lokoja on 5 January the following year.

iv. Imala's current account with Ibiam was arrived at after debiting ₦4,125 inventories sent to Imala on 31 December and received in Imala on 10 January the following year.

v. HO current account with Imala was arrived at after debiting ₦13,750 cash sent to Lokoja on 31 December and received in Lokoja on 12 January the following year.

You are required to prepare:

a. Current accounts (6 Marks)

b. Cash-in-transit account (1 Marks)

c. Inventories-in-transit account (3 Marks)

d. Aggregate Statement of Financial Position as at 31 December 2012, after incorporating the above transactions. (5Marks)

(Total 15 Marks)

SOLUTION TO SECTION A

PART 1 MULTIPLE CHOICE QUESTIONS

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

<u>Workings</u>

Q6. ₦2,300,000 + ₦9,600,00 – ₦9,000,000 = ₦2,900,000

		₦
Q9	Prime cost	122,000
	Factory overhead	<u>185,000</u>
		307,000

Add Opening WIP	40,000
	347,000
Less Closing WIP (bal figure)	47,000
Factory cost of goods completed	300,000

Q11	Balance b/f	550
	Expenses incurred cash	5,400
	Accrued c/f	650
		6,600

Workings for Questions 14 to 15

Q14 Profit or loss Appropriation		
	₦	₦
Profit for the year		840,000
Interest on capital at 8%:		
- Bola (₦200,000 x 8%)	16,000	
- Emeka (₦150,000 x 8%)	12,000	
- Sule (₦120,000 x 8%)	9,600	
Partner's salary – Emeka	80,000	
		(117,600)
Distributable profit		722,400
Share of profit:		
- Bola $^{3}/_{6}$ x 722,400	361,200	
- Emeka $^{2}/_{6}$ x 722,400	240,800	
- Sule $^{1}/_{6}$ x722,400	120,400	
		(722,400)
Q15		
Partner's Current Account		
	Emeka	Sule
	₦	₦
Balance b/f	40,000	50,000
Interest on capital	12,000	9,600
Salary	80,000	-
Share of profit	240,800	120,400
Drawing	-	(35,000)
Balance c/f	372,800	145,000

Q18 100 x 86,400 = ₦69,120

125

EXAMINERS' REPORT

The questions test candidates' understanding of all sections of the syllabus. The questions were attempted by all candidates.

The candidates' performance was good.

SHORT-ANSWER QUESTIONS

1. Cash Basis
2. ₦83,790
3. Net income is overstated
4. ₦486,000
5. ₦6,000,000
6. Loss on disposal – ₦20,000
7. Trial Balance
8. Database
9. Statement of Affairs
10. Deficit
11. Dr Drawing Account, Cr Purchases Account
12. Dr Non Current Assets, Cr Bank or Cash
13. Dr Non-Current Asset; Cr Partners' Capital account
14. ₦72,000
15. ₦28,800
16. Nominal Partner
17. Paid up share capital
18. Enterprise Resource Planning (ERP)
19. ₦231,360
20. Branch Inventory Account (₦10,000)

Tutorial Note

Q2. ₦90,000 x 0.95 = ₦85,500 x 0.98

= ₦83,790

Q4.

Credit sales	=	500,000	
Opening receivables	=		30,000
			530,000
Closing receivables			44,000
Payment			486,000

Q5. $\frac{12}{18}$ x ₦9,000,000 6,000,000

Q6. 500,000 – 400,000 – 8,000 = 20,000 Loss

Q14

	₦'000	₦'000
Bank – Amount realised:		
- Capital account - A (Properties)		250
- B (Vehicle)		50
- Other property, plant & Equipment		580
- Inventories		130
- Trade receivables (300 – 10)		290
- Discount received from payables		2
		1,302
Carrying values of assets realised:		
- Property, plant & Equipment	600	
- Investment properties	200	
- Other investments	10	
- Inventories	120	
- Trade receivables	300	
		(1,230)
		72

Q15

Realisation profit		
Share of realisation profit		
Taiwo (72 x $^{2}/_{5}$)	28.8	
Hassan (72 x $^{2}/_{5}$)	28.8	
Essien (72 x $^{1}/_{5}$)	14.4	(72)

Q19 25% mark-up = 20% margin
(100% - 20%) x ₦289,200 = ₦231,360

EXAMINERS' REPORT

The questions test candidates' understanding of all sections of the syllabus. The questions were attempted by all candidates.

Candidates' performance was fairly good.

QUESTION 1

a. The main challenges of adopting International Financial Reporting Standards (IFRS) in Nigeria include:

i. Shortage of people with the required skills and experience to help companies with the transition to International Financial Reporting Standards (IFRS)
ii. Companies underestimation of the difficulty relating to transition to International Financial Reporting Standards (IFRS)
iii. The computer applications/software used in Nigeria are not compliant with International Financial Reporting Standards (IFRS)
iv. There is general resistance to change because people are already used to a particular system of preparing financial reports,
v. Taxpayers and tax administrators are uncertain of the implications of International Financial Reporting Standards (IFRS)
vi. There is also a general misconception that International Financial Reporting Standards (IFRS) is a finance function

b. The roles of the Financial Reporting Council of Nigeria as specified in the Financial Reporting Council of Nigeria Act, 2011 include:

i. Developing and publishing accounting and financial reporting standards to be observed in the preparation of financial statements of public interest entities.

ii. Reviewing, promoting and enforcing compliance with the accounting and financial reporting standards adopted by the council.

iii. Receiving notices of non-compliance with approved standards from preparers, users, other third parties or auditors of financial statements.

iv. Receiving copies of annual reports and financial statements of public interest entities from preparers within 60 days of the approval of the Board.

v. Advising the Federal Government on matters relating to accounting and financial reporting standards.

vi. Maintaining a register of professional accountants and other professionals engaged in the financial reporting process.

vii. Monitoring compliance with the reporting requirements specified n the adopted code of corporate governance.

viii. Promoting compliance with the adopted standards issued by the International Federation of Accountants (IFAC) and International Accounting Standards Board (IASB).

ix. Monitoring and promoting education, research and training in the fields of accounting, auditing, financial and corporate governance.

x. Conducting practice reviews of registered professionals.

xi. Reviewing financial statements and reports of public interest entities.

xii. Enforcing compliance with the Act of the Financial Reporting Council of Nigeria (FRCN) and the rules of the council of FRCN on registered professionals and the affected public interest entities.

xiii. Establishing such systems, schemes or engaging in any relevant activity either alone or in conjunction with any other organisation or agency, whether local or international, for the discharge of its functions.

xiv. Receiving copies of all qualified reports together with detailed explanations for such qualification from auditors of the financial statements within a period of 30 days from the date of such qualification. Such reports shall not be announced to the public until all accounts issues relating to the reports are resolved by the council.

xv. Adopting and keeping up-to-date accounting and financial reporting standards and ensuring consistency between standards issued and the International Financial Reporting Standards (IFRS).

xvi. Specifying, in the accounting and financial reporting standards, the minimum requirements for recognition, measurement, presentation and disclosure in annual financial statements, group annual financial statements or other financial reports which every public interest entities shall comply with in the preparation of financial statements and reports.

xvii. Developing or adopting and keeping up-to-date auditing standards issued by relevant professional bodies and ensuring consistency between the standards issued and the auditing standards and pronouncements of the International Auditing and Assurance Standards Board.

xviii. Performing such other roles, which in the opinion of the Board are necessary or expedient to ensure the efficient performance of the functions of the council.

EXAMINERS' REPORT

The question tests candidates' understanding of the framework of International Financial Reporting Standards and Financial Reporting Council of Nigeria.

Many candidates attempted the question and performance was poor. Most candidates could not differentiate between the challenges and history of IFRS.

Candidates are advised to be current with new developments relating to accounting practice.

QUESTION 2

a. The roles of an accountant in an organisation include:

i. Preparation and presentation of timely and accurate financial/accounting reports to management

ii. Identification of areas of inefficiency and wastage of resources

iii. Treasury functions – Raising finance, cash management, etc

iv. Setting up effective system of internal and accounting controls

v. Preparation of feasibility reports – these reports assist management in assessing the viability/profitability or otherwise of proposed capital expenditure such as the opening of a new factory or branch.

vi. Investigation of the performance/operations of competing business organisations to assist management in policy formulation.

vii. Investigation of fraud within the organisation.

viii. Assisting the organisation to avoid rather than evade tax by using his knowledge of the tax laws.

b.

Yaro Chukwu PLC

i. **Motor Vehicle Account**

		₦'000		₦'000
2008	Bank	3,250	Disposal	650
			Bal c/d	2,600
		3,250		3,250
2009	Bal b/d	2,600	Bank c/d	3,500
	Bank	900		
		3,500		3,500
2010	Bal b/d	3,500	Bal b/d	3,500
2011	Bal b/d	3,500	Bal b/d	3,500
2012	Bal b/d	3,500	Bal b/d	3,500
2013	Bal b/d	3,500		

ii. **Disposal Account**

		₦'000		₦'000
2008	Motor Vehicle	650	Bank	450
			Income statement	200
		650		650

Provision for Depreciation Account

		₦'000			₦'000
2008	Bal c/d	520	2008	Income statement	520
2009	Bal c/d	1,220	2009	Bal b/d	520
				Income statement	700
		1,920			1,920
2010	Bal c/d	1,920	2010	Bal b/d	1,220
				Income statement	700
		1,920			1,920
2011	Bal c/d	2,260	2011	Bal b/d	1,920
				Income statement	700
		2,260			2,620
2012	Bal c/d	3,320	2012	Bal c/d	2,620
				Income statement	700
		3,320			3,320

Note

1. Calculation of provision for depreciation on disposed assets.

   The asset was bought for ₦650,000 in 2008
   No provision for depreciation in the year of disposal

EXAMINERS' REPORT

The question tests candidates' understanding of the role of an accountant and accounting for non-current assets.

Most candidates attempted the question and performance was poor.
Commonest pitfall of the candidates was their inability to calculate the correct figures to be posted into the ledgers.

Candidates are advised to read widely and cover the syllabus adequately for better performance in future examinations.

QUESTION 3

MR. PAMONA
INCOME STATEMENT FOR THE PERIOD ENDED 30 SEPTEMBER, 2012

	₦	₦
Revenue (Wk 4)		25,000,000
Opening inventory	2,700,000	
Purchases (Wk 5)	20,500,000	
	23,200,000	
Closing inventory	(3,200,000)	
		(20,000,000)
GROSS PROFIT (Wk 6)		5,000,000
OPERATION EXPENSES:		
Depreciation – Furniture and fittings (Wk 7)	300,000	
Telephone (Wk 8)	135,000	
Rates (Wk 9)	105,000	
Electricity (Wk 10)	115,000	
Rent (Wk 11)	900,000	
Insurance	45,000	(1,600,000)
NET PROFIT		3,400,000

MR. PAMONA
STATEMENT OF INANCIAL POSITION AS AT 30 SEPTEMBER, 2012

	COST	DEP	NBV
NON-CURRENT ASSETS	₦	₦	₦
Furniture and fittings	900,000	(700,000)	200,000
CURRENT ASSETS:			
Inventories		3,200,000	
Trade receivables		270,000	
Prepayment - Rent (Wk 11)		300,000	
Cash in bank (Wk 3)		2,890,000	
Cash in hand		75,000	
		6,735,000	
CURRENT LIABILITIES:			
Trade payables	1,900,000		
Accrual-Rates	75,000	(1,975,000)	
NET CURRENT ASSETS			4,760,000
NET ASSETS			4,960,000
FINANCED BY:			
Capital (Wk 1)			4,140,000
Additional capital (Investment income)			182,000
Net profit			3,400,000

	7,722,000
	(2,762,000)
Drawings (Wk 11)	4,960,000

WORKING NOTES

Wk 1: Determination of opening capital

	COST	DEV.	NBV
NON-CURRENT ASSETS:	₦	₦	₦
Furniture and fittings	900,000	(400,000)	500,000
CURRENT ASSETS:			
Inventories		2,700,000	
Trade receivables		430,000	
Prepayments – Rates		30,000	
Cash in bank		2,140,000	
Cash in hand		30,000	
		5,330,000	
CURRENT LIABILIIES			
Trade payables	1,650,000		
Accrual – Electricity	40,000	(1,690,000)	
NET CURRENT ASSETS			3,640,000
NET ASSETS			4,140,000
FINANCED BY:			
Capital (Difference)			4,140,000

Wk 2: Determination of total receipts from customers

Cash a/c

	₦		₦
Bal b/f	30,000	Bank	20,060,000
Receipts from customers (Difference)	25,160,000	Trade payables	2,400,000
		Drawings (N295,000 x 9)	2,655,000
		Bal c/d	75,000
	25,190,000		25,190,000
Bal b/d	75,000		

Wk 3: Determination of bank a/c closing balance

	₦
Bal b/f	2,140,000
Total lodgements into bank	20,242,000
	22,382,000
Total payments during the period	(19,440,000)
Balance as per bank statement	2,942,000
Less: Unpresented cheque – Telephone bill	52,000
	2,890,000

Wk 4: Determination of sales figures for the period

Sales ledger control a/c

	₦		₦
Bal b/f	430,000	Receipts for customers (Wk 2)	25,160,000
Sales (Difference)	25,000,000	Bal c/d	270,000
	25,430,000		25,430,000
Bal b/d	270,000		

Wk 5: Determination of purchases figures for the period

Purchases ledger control a/c

	₦		₦
Bank	17,850,000	Bal b/f	1,650,000
Cash	2,400,000	Purchases (Difference)	20,500,000
Bal c/d	1,900,000		
	22,150,000		22,150,000
		Bal b/d	1,900,000

Wk 6: Determination of gross profit for the period

	₦
Sales (Wk 4)	25,000,000
Gross profit margin @ 20%	5,000,000

Wk 7: Calculation of depreciation on furniture and fittings for the period

	₦
Book value of furniture and fittings @ beginning	500,000
Book value of furniture and fittings @ end	(200,000)
	300,000

Wk 8: Determination of telephone bill expenses for the period

	₦
Amount paid during the period	83,000
Unpresented cheques	52,000
	135,000

Wk 9: Determination of rate expenses for the period

Rate a/c

	₦		₦
Prepaid b/f	30,000	Income statement (Difference)	105,000
Accrued c /f	75,000	Purchases (Difference)	
	105,000		105,000
		Accrued b/f	75,000

Wk 10: Determination of electricity for the period

Electricity a/c

	₦		₦
Bank	155,000	Accrued b/f	40,000
		Income Statement (Difference)	115,000

155,000	155,000

Wk 11: Apportionment of rent payment

Rent paid during the years		1,200,000
Apportioned as follows:		
Rent expenses for the period	(₦1,200,000/12 x 9)	900,000
Prepaid rent	(₦1,200,000/12 x 3)	300,000
		1,200,000

Wk 12: Determination of total drawings for the period

Drawing a/c

	₦		₦
Cash	2,655,000	Bal b/d	2,762,000
Bank (Insurance – Life)	107,000		
	2,762,000		2,762,000
Balance b/f	2,762,000		

EXAMINERS' REPORT

The question tests candidates' understanding of accounting for Incomplete Records. Few candidates attempted the question and performance was poor.

Candidates' commonest pitfall was their inability to prepare the necessary control accounts required for the purpose of deriving figures to be included in the Financial Statements.

Candidates are advised not to ignore any section of the syllabus while preparing for examinations.

QUESTION 4

DAVID AND DANIEL
STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 30 APRIL, 2013

	₦'000	₦'000
Revenue		6,890
Returns Inwards		(30)
		6,860
Decrease in provision (30 – 28)	2	
Discounts received	18	
		20

		6,880
Cost of Sales		
Opening inventories	450	
Purchases	2,960	
Returns outwards	(45)	
Carriage inwards	9	
Cost of goods available for sale	3,374	
Closing inventories	(258)	
Cost of sales		(3,116)
Gross profit		3,764
Operating expenses		
Carriage outwards	6	
Wages & salaries (600 – 150)	450	
Insurance (25 + 6)	31	
Advertising (18 – 2)	16	
Rent and rates (360 + 200)	560	
Repairs	28	
Bad debt	12	
Discount allowed	15	
Provision for depreciation - Building	180	
- Plant & Equipment	50	
- Machine	57	
- Motor vehicle	70.4	
		(1,475.4)
Operating profit before interest		2,288.6
Finance cost		
Interest on bank loan	(64)	
Interest on partner's loan	(50)	
Increase in fair value of investment	6	
		(108)
Profit for the year		2,180.6

NOTE: As there is no agreement on how profit/loss will be shared between the partners, the profit has to be shared equally between them.

DAVID AND DANIEL
WORKING NOTES

Wk 1: Determination of decrease in provision for doubtful debts	**₦**
Provision for doubtful debts @ beginning	30,000
Provision for doubtful debts @ end	(28,000)
	2,000

Wk 2: Calculation of depreciation on building, plant, equipment and machine

	Building	Plant	Equipment & Machine
	₦	₦	₦
Assets @ cost	1,800,000	500,000	570,000
Depreciation @ 10%	180,000	50,000	57,000

Wk 3: Calculation of depreciation on motor vehicles

Motor vehicles @ cost	420,000
Accumulated depreciation @ beginning	(68,000)
Carrying value	352,000
Depreciation @ 20%	70,000

Wk 4: Calculation of loan interest

Principal amount of loan from David	500,000
Interest on loan @10%	50,000

Wk 5: Determination of rent and rates expenses for the year

Rent and rates as per a/c	360,000
Accrued rent and rates	200,000
	560,000

Wk 6: Determination of insurance expenses for the year

Insurance as per a/c	25,000
Accrued insurance	6,000
	31,000

Wk 7: Determination of wages and salaries expenses for the year

Wages and salaries as per a/c	600,000
Prepaid salaries	(150,000)
	450,000

Wk 8: Determination of advertising expenses for the year

Advertising as per a/c	18,000
Prepared advertising	(2,000)
	16,000

EXAMINERS' REPORT

The question tests candidates' understanding of the preparation of income statement of a partnership.

Many candidates attempted the question and performance was good.

QUESTION 5

JOURNAL	**DR ₦'000**	**CR ₦'000**
Cash Book	426	
Application & Allotment account		426
Amount received on 1,420,000 Ordinary shares @ 30k on application		
Application & Allotment account	500	
Ordinary shares account		500
Amount expected on 1000,000 Ordinary shares @ 30k on Application and 20k on allotment		
Application & allotment account	300	
Share Premium account		300
Amount expected on 1,000,000 ordinary shares @ 30k in respect of share premium		
First call account	300	
Second call account	200	
Ordinary shares account		500
Amount expected on 1,000,000 Ordinary shares @ 30k First call and 20k second call		
Cash book	380	
Application & allotment account		380
Amount received on allotment of 1,000,000 shares		
Cash book	300	
First call account		300
Amount received at first call on 1,000,000 ordinary shares at 30k each		

Cash book	200	
Second call account		200
Amount received at second call on 1000,000 ordinary shares at 20k each		
Application & allotment	6	
Cash book		6
Amount refunded to the subscribers on oversubscribed and rejected 20,000 shares at 30k each		

Tutorial Notes

Cash received on Application		Shares allotted	Cash retained	Cash c/f to allotment	Cash refund
			₦'000	₦'000	₦'000
30k x 6000,000 shares	= ₦180,000	600,000	180		
30k x 800,000	= ₦240,000	2 : 1	120	120	
30k x 20,000	= ₦6,000	None	-	-	6
			300	120	6

		₦'000
(ii)	Amount expected on allotment 50k x 1,000,000	500
	Less: Amount carried forward from Application	120
		380

(iii) First call 30k x 1,000,000 = ₦300,000
(iv) Second call 20k x 1,000,000 = ₦200,000
(v) Share premium (₦1.30 – ₦1) x 1,000,000 = ₦300,000

EXAMINERS' REPORT

The question tests candidates' knowledge of raising journal entries in recording the issue of shares.

Few candidates attempted the question and performance was poor.

Commonest pitfall of the candidates was their preparation of ledger accounts instead of the required journal entries.

Candidates are advised to prepare effectively for the examinations by practicing past questions and reading widely. They are also advised to read, understand, and note the requirements of the question before attempting it.

QUESTION 6

OCTOBER ENTERPRISES LIMITED

IN THE HEAD OFFICE BOOKS

Imala Branch Current Account

	₦		₦
Balance c/d	15,540	Balance b/d	10,725
		Inventories in transit	2,065
		Cash in transit	2,750
	15,540		15,540
		Balance b/d	15,540

Ibiam Branch Current Account

	₦		₦
Balance b/d	746,350	Cash in transit	13,750
		Inventories in transit	8,250
		Balance c/d	724,350
	746,350		746,350
Balance b/d	746,350		

Cash in Transit Account

Imala's Current Account	2,750	Balance c/d	16,500
Ibiam's Current Account	13,750		
	16,500		16,500
Balance b/d	16,500		

Inventories in Transit Account

Imala's Current Account	2,065	Balance c/d	10,315
Ibiam's Current Account	8,250		
	10,315		
Balance b/d	10,315		10,315

In the Imala Branch Book

Ibiam's Current Account

	₦		₦
Balance c/d	6,050	Balance b/d	1,925
		Inventories in transit	4,125
	6,050		6,050
		Balance b/d	6,050

Inventories-in-Transit Account

	₦		₦
Ibiam Current	4,125		

HO Current Account

	₦		₦
Balance b/d	15,540		

In the Ibiam Branch Books
HO Current Account

	₦		₦
		Balance b/d	724,700

Imala's Current Account

	₦		₦
Balance b/d	6,050		

October Enterprises Ltd
Statement of Financial Position as at 31 December 2011

	₦		₦
Authorised and issued		Non-current assets	
Shares		Motor Vehicle	562,925
5,500,000 Ordinary shares of 50k each	2,750,000	Current Assets	
Income statement	302,500	Inventories	1,236,265
		Inventories in transit	14,440
Payables	352,000	Receivables	1,306,245
Bank overdraft (Ibiam)	110,000	Cash at bank	378,125
		Cash in transit	16,500
	3,514, 500		3,514, 500

Notes:

	Inventories	Inventories In transit	Receivables	Cash at In transit	Cash in	Payables
	₦	₦	₦	₦	₦	₦
HO	996,875	10,315	1,168,750	316,250	16,500	165,000
Ibiam	96,390	4,125	48,120	-	-	48,125
Imala	143,000	-	89,375	61,875	-	138,875
	1,236,265	14,440	1,306,245	378,125	16,500	352,000

EXAMINERS' REPORT

The question tests candidates' understanding of branch accounting.

Very few candidates attempted the question and performance was poor.

Candidates' commonest pitfall was their inability to prepare separate ledger in the books of the Head Office and individual branch offices.

Candidates should be able to apply theoretical knowledge to practical situations.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

FOUNDATION EXAMINATION - MAY 2013

ECONOMICS AND BUSINESS ENVIRONMENT

Time Allowed: 3 hours

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

MULTIPLE-CHOICE QUESTIONS

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

1. Which of the following describes the membership of North American Free Trade Agreement (NAFTA)?

   A. United States of America, Canada and Mexico
   B. United States of America, Brazil, Mexico and Uruguay
   C. United States of America, Brazil and Uruguay
   D. United States of America, Uruguay and Canada
   E. United States of America, Australia and New Zealand

2. A ten percent increase in the price of a normal commodity is capable of

   A. Raising the revenue by the same margin when demand is price elastic
   B. Raising the revenue when demand is perfectly elastic
   C. Lowering revenue when demand is unitarily price elastic
   D. Lowering revenue by the same margin when demand is price elastic
   E. Lowering revenue when demand is price elastic

3. Who of the following economists is noted to have provided a workable solution to the great economic depression of the 1930s?

   A. Adam Smith
   B. John Maynard Keynes

C. David Ricardo
D. Richard Musgrave
E. Michael P. Todaro

4. Trade creation occurs if

A. International trade is established between two or more countries
B. Diversion of trade occurs
C. Production moves from a high-cost producer to a low-cost producer within an economic integration
D. World trade is increased
E. There exists a free trade area

5. Globalisation means

A. Increased trade flow among friendly countries
B. Coming together of many countries
C. Flow of goods and services among countries
D. Trade among developing countries
E. Process by which the whole world becomes a single market

6. Which of the following industries most closely approximates perfectly competitive market in Nigeria?

A. Automobile
B. Newspapers
C. Beverages
D. Sachet water
E. Textile

7. As a measure of value, money provides

A. Its holder with perfect liquidity
B. A common denominator for determining the value of goods/services
C. A medium for exchanging final output
D. A mechanism for allocating resources and distributing output
E. A basis to determine inflation

8. The reasoning process of making general statements from particular observations is referred to as

   A. Modelling
   B. Induction
   C. Deduction

   D. Theory
   E. Explanation

9. The basis of consumer surplus according to Alfred Marshal is the law of

   A. Diminishing marginal productivity
   B. Increasing returns to scale
   C. Variable proportions
   D. Diminishing marginal utility
   E. Decreasing returns to scale

10. Economic growth may **NOT** bring about economic development if

   A. Rural-Urban migration is not checked
   B. High tax rate is not relaxed
   C. Population grows faster than GNP
   D. Employment grows slowly
   E. Exports increase at a relatively slow rate

11. The following are the merits of flexible exchange rate **EXCEPT**

   A. Automatic adjustment mechanism
   B. No need for foreign exchange reserves
   C. Autonomy of economic policies
   D. Removal of the problem of international liquidity
   E. Government intervention in the system

12. The rent earned by the owner of a factor of production which is temporarily fixed in supply is called

   A. Economic rent
   B. Quasi- rent
   C. Monopoly rent
   D. Factor rent

E. Location rent

13. Which of the following is the correct definition of quality?

    A. The ability of a product to efficiently do what it is supposed to do and satisfy customers' expectations
    B. The ability of a product to reliably do what it is supposed to do and satisfy customers' expectation
    C. The ability of a product to reliably do what it is supposed to do
    D. The ability of a product to efficiently do what it is supposed to do
    E. The ability of a product to satisfy customer expectation

14. The software that enables a user to navigate the internet is called

    A. Search Engine
    B. World Wide Web
    C. Cookies
    D. Web Browser
    E. Web Serve

15. The process of helping less experienced employees achieve improved job performance through formal and informal activities by middle and senior level managers is

    A. Teaching
    B. Coaching
    C. Training
    D. Development
    E. Mentoring

16. Henry Mintzberg's managerial roles include the following **EXCEPT**

    A. Liaison
    B. Disseminator
    C. Controller
    D. Resource allocator

E. Figurehead

17. The concept that describes the translation of a new idea into a new product, process or method of production is

A. Innovation
B. Creativity

C. Improvement
D. Modification
E. Invention

18. A job design method for improving efficiency by reducing the number of tasks a single person must perform is job

A. Specification
B. Enlargement
C. Simplification
D. Enrichment
E. Design

19. Marketing activities that involve face-to-face communication between a company's representative and the customer is

A. Sales Promotion
B. Publicity
C. Personal Selling
D. Advertisement
E. Public Relations

20. The computer based information system that collects, organises and stores data and makes them available to managers in the form of information for decision making is

A. Operations Information System
B. Process Control System
C. Transactions Processing System
D. Management Information System
E. Executive Information System

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

SHORT-ANSWER QUESTIONS

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

1. A situation in which a country does **NOT** engage in foreign trade is called ....

2. A system where a big bank has a number of branches in different parts of the country and even many branches within a cosmopolitan city is called ....

3. The power of consumers to determine the allocation of different goods and services in the market is termed ....

4. Economies of scale occur when cost per unit of output is ....

5. The shut-down output of a loss minimizing competitive firm is obtained at a point where price equals ....

6. The extra amount of consumption that takes place as a result of a small increase in income is known as ....

7. A tax levied on imported goods, usually with the intention of raising the price of imports and thereby discouraging their purchases is known as ....

8. ECOWAS is a very good example of a regional integration arrangement known as ....

9. A firm which fixes low price for its product with the intention to drive out rivals or prevent new firms from entering the market is said to engage in ....

10. The policies and instruments employed by a country to regulate its money supply is known as ....

11. The major function of the price system in a market economy is ....

12. The concentration of firms producing similar products for the same market in a geographical area is called ....

13. The strategy where a business sells uniform products or services throughout the world is known as ....

14. Plans that are developed to achieve a set of goals that are unlikely to be repeated in the future are called ....

15. The activities undertaken to attract, develop and maintain an effective workforce within an organisation is known as ....

16. A leader who influences his/her followers by articulating an appealing vision, communicating high performance expectations and by his/her behaviour, sets an example for his/her followers to imitate is referred to as ....

17. The skills that a manager needs to understand the relationships between the sub-units of an organisation to see the organisation as a whole is termed ....

18. A private network accessible only by a company and its partners is known as ....

19. The process of developing and implementing decisions that determine the long run performance of an organisation is known as ....

20. The power of a manager to demote a subordinate is an example of .... power.

SECTION B ATTEMPT ANY FOUR QUESTIONS (60 Marks)

QUESTION 1

a. What is a market? (3 Marks)

b. Compare and contrast monopoly and monopsony markets (12 Marks)

(Total 15 Marks)

QUESTION 2

a. What is free trade? (3 Marks)

b. Explain **FOUR** arguments for and **TWO** arguments against trade restriction. (12 Marks)

(Total 15 Marks)

QUESTION 3

a. Define and explain "monetary policy". (3 Marks)

b. Identify **SIX** instruments of credit control available to the Central Bank of Nigeria. (6 Marks)

c. Explain any **THREE** of the instruments listed in (b) above in controlling credit in Nigeria. (6 Marks)

(Total 15 Marks)

QUESTION 4

The production function is given as: $Q = A L^{\alpha} K^{\beta}$.

You are required to:

a. Explain "Production Function" (3 Marks)
b. Identify the variables of the production function (2 Marks)

c. Determine the marginal product of each factor input (3 Marks)

d. Find the average product of each factor input (3 Marks)

e. Compute the marginal rate of technical substitution between K and L (4 Marks)

(Total 15 Marks)

QUESTION 5

You have just been instructed by your employer to forecast the company's sales for the next five years.

a. Explain any **FIVE** forecasting techniques. (10 Marks)

b. State **THREE** advantages and **TWO** disadvantages of qualitative forecasting methods. (5 Marks)

(Total 15 Marks)

QUESTION 6

You are a member of a committee assigned to draft a Mission Statement for your organization.

Required:

a. What is a Mission Statement? (3 Marks)

b. Explain **FOUR** elements to be considered in formulating a mission statement. (8 Marks)

c. Distinguish between efficiency and effectiveness in relation to managerial and organisational performance. (4 Marks)

(Total 15 Marks)

SOLUTIONS TO SECTION A

PART 1 MULTIPLE-CHOICE QUESTIONS

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

EXAMINERS' REPORT

The questions test candidates' knowledge of concepts from various sections of the syllabus. Candidates attempted over 95% of the questions. About 60% of the candidates scored more than half of the marks allocated.

Candidates are encouraged to pay attention to every section of the syllabus as concentrating on a few sections may not enhance their performance.

PART II SHORT ANSWER QUESTIONS

1. Autarky/Closed economy
2. Branch banking
3. Consumer sovereignty
4. Falling or declining
5. Average variable cost (AVC)
6. Marginal propensity to consume (MPC)
7. Tariff
8. Customs Union
9. Predatory pricing or price war
10. Monetary policy
11. Efficient allocation of economic resources
12. Localisation
13. Global Strategy
14. Single – use plans
15. Human resource management (HRM)
16. Charismatic or Inspirational leader
17. Conceptual skill
18. Extranet
19. Strategic management
20. Coercive

EXAMINERS' REPORT

The questions test candidates' knowledge of concepts, principles and theories in the syllabus. Candidates attempted almost all the questions. About 45% of the candidates scored 50% of the marks allocated.

Candidates are advised to devote more effort to prepare for future examination.

SOLUTIONS TO SECTION B

QUESTION 1

a. A market is any medium or arrangement through which buyers and sellers are brought in contact for the purpose of business transactions. In other words, a market is a network of arrangement that facilitates exchange (buying and selling of goods/services). It could be a physical location (e.g. Alaba market in Lagos) or visual location (e.g. internet, intranet, surface mail, telephone, telegraphic messages, etc).

b. Monopoly and monopsony markets

Similarities

i. Monopoly and monopsony are market structures that are characterised by one seller (monopoly) and one buyer (monopsony) of a particular commodity or service.

ii. In both markets, there is virtual absence of rivalry.

iii. They are both protected from competition by legal or natural barriers.

iv. Legally, both market structures have sufficient control over supply (monopoly) or purchase (monopsony) of a commodity or service and are thus in a position to influence the price.

Dissimilarities

i. Monopoly is a market with only one seller/producer and many buyers while monopsony is a market with only one buyer and numerous sellers/producers.

ii. In case of monopoly, the seller can influence or determine the price or quantity sold of the product/service but not both while price is determined by the buyer in the case of monopsony.

iii. In monopoly, the product/service has no close substitute but this is not the case in monopsony market.

iv. In monopoly market, consumers' choice is restricted while producers' choice to sell product is limited under monopsony market.

v. In a monopoly market, the seller can create artificial scarcity that can lead to price hike for the product/service and consumer exploitation. On the contrary, producers' exploitation is possible in monopsony market because prices are almost certain to be lowered since a monopsonist is strategically placed to influence price.

EXAMINERS' REPORT

The question tests candidates' understanding of the concepts of market and market structures. In particular, the question required the candidates to provide a definition of market and a comparative analysis (similarities and dissimilarities) of monopoly and monopsony market structures. The question was quite popular among the candidates as about 90% of them attempted it but ironically, this attempt only translated into poor performance.

Candidates demonstrated inadequate knowledge of the concept of market which they situated in a spatial context (e.g. Sabo market). No candidate alluded to the concept of market in its visual context. Worse still, most of the candidates were unable to clearly compare and contrast monopoly and monopsony market structures.

Candidates are advised to prepare more adequately for future examination.

QUESTION 2

a. Free trade simply means trading between nations without any artificial barriers like import duties, tariffs, import quota etc.

Most countries today have developed trade restrictive policies to ensure development of their territorial zones as well as their regions.

Arguments are therefore raised for trade restrictive policy as being more effective and pivotal for economic development rather than a free trade policy.

b. Arguments for trade restriction include:

i. **To Protect:** This is the protection of infant industries. Infant industries need to be protected against international competition by imposing high tariffs on goods coming from rival foreign companies thereby discouraging their importation as well as making them expensive in the domestic market.

ii. **To raise revenue:** Imposition of trade restrictive instruments serves as a source of government revenue. Moderate tariffs are however advocated to boost the country's revenue base.

iii. **To generate increased employment**: Imposition of tariffs would lead to increase in domestic employment. The need to increase the output of products manufactured domestically will lead to increase in the level of employment.

iv. **To prevent dumping:** Trade restrictions can be used to prevent the dumping of foreign goods in our domestic market. Dumping aims at selling goods in foreign markets at ridiculously low prices therefore driving out any competition and giving the foreign company a monopoly power. High tariffs imposed would make these goods more expensive and therefore less attractive.

v. T**o correct unfavourable balance of payments**: In order to increase visible and invisible exports over imports, it is necessary to restrict imports.

vi. **To diversify the economy**: Developing countries like Nigeria are characterised by the production of primary product. Most countries in this category have a monocultural economy and need to diversify such economies for strategic reasons. Tariffs and other trade restrictive instruments may therefore be used to diversify the economy. For instance, restricting trade to agricultural sector and enabling diversification into the manufacturing sector.

vii. **To reduce inflation:** Exports can be restricted to avoid escalation of general prices at the home market especially with regards to consumable food items like yam, garri, plantain, etc.

Arguments against trade restriction

i. **Restriction to economic growth**: It has been argued that trade barriers restrict the flow of capital and inhibit economic growth.

ii. **Discourage innovation and efficiency**: Trade barriers insulate inefficient producers from competition and, as a consequence, discourage innovation that contributes to future growth. Such a protectionist measure can force economic activity towards a less efficient or low quality producer.

iii. **Trade restriction limits world output.**

EXAMINERS' REPORT

The question tests candidates' understanding of the concept of free trade and required them to advance arguments for and against trade restriction.

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

The observed pitfall in the candidates' answers was their inability to provide full answers to part (b) of the question. While some candidates advanced fewer than the required four arguments for trade restriction, some did not provide any answers. It was, therefore, taken that such candidates did not fully understand the requirements of the question, a situation that impacted negatively on their performance. Candidates are, therefore, advised to answer questions fully in future examinations to prevent loss of marks.

QUESTION 3

a. Monetary policy refers to various tools deliberately put together by monetary authority to control/regulate the supply of money and credit conditions in order to achieve and/or maintain macroeconomic goals in an economy.

b. The instruments or tools of credit control open to Central Bank of Nigeria are:

  i. Open Market Operations (OMO)
  ii. Cash Reserve Requirements
  iii. Discount Rate/Bank Rate
  iv. Credit Ceilings
  v. Selective Credit Control
  vi. Moral Suasion
  vii. Special Deposits

viii. Stabilization Securities

c.i. **Open Market Operations (OMO):** This is a deliberate policy of the CBN aimed at influencing the cash base and lending power of commercial banks and the rest of the financial system. When the aim is to reduce the money supply, the CBN sells treasury bills in the open market. The commercial banks and other financial institutions have an obligation to buy these securities. Thus their (financial institutions) liquid assets are reduced and as such they have less money to lend. Conversely, the CBN buys securities (treasury bills etc) from the public if it wishes to increase the money supply. Doing so will increase the liquid assets of financial institutions and their ability to lend to the public.

ii. **Cash Reserve Requirements:** There are two types - Cash reserve ratio and liquidity ratio. The former is the ratio of commercial and other banks' cash deposits with CBN to total demand, savings and time deposit liabilities.
The latter (liquidity ratio) is the total deposits to be kept in specified liquid assets such as vault cash, balances with other banks etc.

The higher the cash reserve requirement, the less the funds available for credit expansion and the lower the reserve requirement, the more funds banks have for credit expansion.

iii. **Discount Rate/Bank Rate:** This is the rate at which the Central Bank of Nigeria lends money to other financial institutions. If the objective of Central Bank of Nigeria is to reduce money supply, then it will increase the bank rate, an action which will force other financial institutions to raise their interest rates thereby lowering the zeal to borrow by the public. However, should Central Bank of Nigeria prefer to increase the money supply, the appropriate measure would be to reduce the bank rate. As such, other financial institutions will reduce their lending rate.

iv. **Credit Ceilings:** By this instrument, the Central Bank of Nigeria fixes/pegs the total credit that can be channelled to the domestic economy or to some selected sectors of the economy by financial institutions, most especially the commercial and merchant banks. If the Central Bank of Nigeria raises the ceilings, increased lending operations will be undertaken and the money supply will increase. However, if the apex bank reduces the ceilings, the amount of credit that goes into the economy falls.

v. **Selective Credit Control:** The apex bank can equally direct the commercial banks and others to either grant credit to some selected/key sectors e.g.

agricultural sector at a lower interest rate or direct them to grant a particular proportion of aggregate loans to the sector(s).

vi. **Moral Suasion:** Sometimes, the apex bank can resolve to appealing to the banking community to specifically tow certain line or pursue certain goals. The targeted financial institutions are advised on what to do or not to do about certain policy goal(s). However, whether there is compliance or not, no sanctions are imposed on any of the erring members.

vii. **Special Deposits:** This weapon is sometimes used by the Central Bank of Nigeria as a direct control measure to regulate money supply. In order to reduce money supply, the Central Bank of Nigeria can instruct financial institutions to keep a special deposit with it. It can also decide to release part or all of the held special deposits in an attempt to increase money supply.

viii. **Stabilisation Securities:** As a strategy to mop up excess liquidity, the Central Bank of Nigeria may inform the banks of its intention to debit their accounts through the issuance of stabilization securities. In fact, stabilization securities are I.O.U.'s forcefully issued to banks by Central Bank of Nigeria which does not engage in retail lending in order to withdraw money from circulation.

EXAMINERS' REPORT

The question tests candidates' knowledge of (a) monetary policy, (b) tools of credit control available to Central Bank of Nigeria and (c) how these tools are used to control credit in Nigeria.

About 85% of the candidates attempted the question and their performance in parts (a) and (b) was good and only fair in part (c). As a matter of fact, most of the candidates who attempted the question were unable to evaluate the effectiveness of these tools for controlling credit in Nigeria.

Candidates should, therefore, pay particular attention to these instruments of credit control not as ends by themselves but as means to some ends.

QUESTION 4

a. A production function is a mathematical relation between factor inputs and output. It is purely a technological relationship between quantities of various inputs used and the maximum output of commodity that can be produced during a given period of time.

b. The variables of the production function:

$Q = AL^{\propto} K^{\beta}$

are: Q = output

L = labour input

K = capital input

c. Given $Q = AL^{\propto} K^{\beta}$

i. The marginal product Λ of $L(MP_L)$ is

$$MP_L = \frac{\partial Q}{\partial L} = \propto AL^{\propto-1}K^{\beta}$$

ii. The marginal product of capital (MP_K) is

$$MP_K = \frac{\partial Q}{\partial K} = \beta AL^{\propto} K^{\beta-1}$$

d. Given $Q = AL^{\propto} K^{\beta}$

i. The average product of $L(AP_L)$ is

$$AP_L = \frac{Q}{L} = \frac{AL^{\propto} K^{\beta}}{L} = AL^{\propto-1} K^{\beta}$$

ii. The average product of K (AP_K) is

$$AP_K = \frac{Q}{K} = \frac{AL^{\propto}K^{\beta}}{K} = AL^{\propto}K^{\beta-1}$$

e. The marginal rate of technical substitution between K and L is given by the ratio of the marginal product functions as either:

i. $$\frac{MP_k}{MP_L} = \frac{\beta AL^{\propto}K^{\beta-1}}{\propto AL^{\propto-1}K^{\beta}} = \frac{\beta}{\propto} \cdot \frac{L}{K}$$

OR

ii. $$\frac{MP_L}{MP_k} = \frac{\propto AL^{\propto-1}K^{\beta}}{\beta AL^{\propto}K^{\beta-1}} = \frac{\propto}{\beta}\ \frac{K}{L}$$

EXAMINERS' REPORT

The question tests candidates' understanding of the concept of production function as a mathematical relation between output and factor inputs and of the related marginal and average input functions.

About 48% of the candidates attempted the question presumably because it involves some mathematical manipulation and their performance was good.

QUESTION 5

Forecasting techniques that are available include:

a.i. **Time Series Analysis/Trend Analysis**: This is a forecasting technique that involves fitting a trendline or a mathematical equation on a set of historical data covering a period of time. On the basis of the trend observed, a projection is made into the future. Forecast is made on the basis of the observed trend.

ii. **Regression Model:** This is a quantitative forecasting technique which predicts the value of one variable on the basis of known values of other variables. Regression model seeks to determine the mathematical/statistical relationship between one variable (Y) and other variables (X_1 , $X_{2.....}$) which affect it (Y). Using the regression equation so obtained, it is possible to forecast future value of Y.

iii. **Econometric Model:** This quantitative forecasting method uses a set of regression equations to simulate segments of the economy. For example, predicting revenue as a result of improvement in the quality of product.

iv. **Economic Indicator**: This is also a quantitative forecasting method which uses one or more economic variables to predict a future state of affairs. For example, using changes in the country's per capita income to predict a company's revenue.

v. **Jury of opinion:** This is a qualitative forecasting technique which combines and averages the prediction of individual experts. For example, polling a company's marketing executives to predict the level of sales for a future period.

vi. **Sales force composition:** This qualitative forecasting method combines estimates of future sales from field sales force. These estimates are combined or averaged to obtain a company's sales forecast.

vii. **Customer Evaluation/Users Expectation**: This qualitative technique combines established customers' expected purchases. For example, breweries can be surveyed to determine the quantity of grains they intend to purchase in a given period. A forecast is then based on the survey results.

viii. **Delphi Techniques:** This is a form of jury of opinion technique which involves giving independent, objective and anonymous forecasts by experts based on their knowledge and experience. The result of the independent forecasts is compiled and fed back to the panel members. The information so received is used by the experts to review their forecasts. The process continues until there is convergence of opinion. The final result is used as the company's forecast.

b. **Advantages of qualitative forecasting techniques include:**

i. They are relatively easy to use because they do not require complex calculations.

ii. They are useful in making short-term forecasts.

iii. Forecast results using qualitative forecasting techniques can be obtained relatively faster than quantitative forecasting techniques.

iv. They are based on the experience of people in or outside the organisation.

Disadvanges of qualitative techniques include:

i. They may not be reliable because they are based on subjective judgements.

ii. Accuracy of forecasts declines as the forecasting period increases. Thus, they are not suitable for making long term forecasts.

iii. Their effectiveness declines as the complexity of the situation increases. The larger the number of factors or variables involved in the situation, the less effective the qualitative forecasting technique.

iv. They are based on individual perception and hence may lack objectivity.

EXAMINERS' REPORT

The question tests candidates' knowledge of various sales forecasting techniques as well as the advantages and disadvantages of qualitative forecasting techniques. About 40% of the candidates attempted the question and performance was poor.

Most of the candidates did not show adequate knowledge of what was required in the question. This shows that candidates did not cover the syllabus adequately.

Candidates are advised to cover every aspect of the syllabus for future examination.

QUESTION 6

a. A mission statement is a statement of an organisation's purpose. It is a statement of the organisation's reason for existence and describes the organisation's values and aspirations.

b. The elements of a mission statement are:

i. **Customers:** The content of a mission statement often focuses on the customers the company wants to serve.

ii. **Markets:** The mission statement also identifies the markets the firm competes in.

iii. **Concern for survival, growth and profitability:** The mission statement also concerns itself with the firm's commitment to growth, financial stability and how to survive in the midst of competition.

iv. **Technology:** The mission statement states the technology the organisation wants to use or aspires to use to serve the market.

v. **Philosophy:** The mission statement states the firm's beliefs, values, and the ethical standards that it subscribes to.

vi. **Product or services:** The mission statement describes the nature of products or services used to satisfy customers.

vii. **Concern for employees:** The mission statement spells out the values that the organisation places on its employees.

viii. **Self Concept:** The mission statement indicates the unique character or what sets the organisation apart from others.

c. **Efficiency:** This means "doing things right". Efficiency refers to getting the most output from the least amount of inputs. Efficiency is the achievement of ends with the least amount of resources.

Effectiveness: means "doing the right things". Effectiveness is the degree or extent to which the organisation achieves a stated goal.

EXAMINERS' REPORT

The question tests candidates' knowledge of the meaning of Mission Statement and the elements to be taken into account in drafting it for an organization. The third part of the question requires candidates to distinguish between efficiency and effectiveness in an organizational context.

Over 90% of the candidates attempted the question. In the first and second parts of the question, candidates' performance was below average, but performance was well above average in the third part.

Most of the candidates wrongly believed that a Mission Statement had to do with the goals of the organization rather than the purpose or reason for its existence. Due to this misconception, they could not identify the elements to be considered in drafting a Mission Statement.

Candidates are advised to be familiar with concepts like this which feature prominently in company annual reports.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

FOUNDATION – MAY 2013

CORPORATE AND BUSINESS LAW

Time Allowed: 3 hours

SECTION A: PART I MULTIPLE-CHOICE QUESTIONS (20 Marks)

ATTEMPT ALL QUESTIONS

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

1. Which of the following is a source of Nigerian law?

   A. Resolution of the National Assembly
   B. Pronouncement of the Governor of a State
   C. Judicial precedent
   D. The recommendation of a Panel set up by the Federal Government
   E. Opinion of the Senate President

2. An amendment of any provision of Chapter IV of the 1999 Constitution relating to fundamental human rights requires approval by a resolution of not less than

A. One-third of the Houses of Assembly of the States of the Federation
B. Two-thirds of the Houses of Assembly of the States of the Federation
C. Three-quarters of the Houses of Assembly of the States of the Federation
D. Half of the Houses of Assembly of the States of the Federation
E. All the 36 Houses of Assembly in Nigeria

3. Which of the following is **NOT** an advantage of incorporation?

A. Perpetual succession
B. Property right
C. Limited Liability
D. Separate personality
E. Merger

4. The supreme statute that is binding on all authorities in the Federal Republic of Nigeria is

A. The Interpretation Act
B. The Economic and Financial Crimes Commission Act
C. The Independent Corrupt Practices Act
D. The Constitution of the Federal Republic of Nigeria
E. The National Assembly Service Commission Act

5. The principle of law that states that a master will be liable for any tort committed by his servant in the course of the servant's employment is known as

A. Occupiers' liability
B. Volenti non fit injuria
C. Negligence
D. Strict Liability

E. Vicarious Liability

6. An auctioneer's request for a bid is regarded as an

A. Offer
B. Invitation to treat
C. Acceptance
D. Implied contract
E. Express contract

7. An agreement obtained under a threat to seize goods would be set aside by the court for

A. Mistake
B. Misrepresentation
C. Undue influence
D. Breach of influence
E. Duress

8. Any act or statement which clearly shows the intention of the principal to adopt the action taken on his behalf by the agent is known as

A. Ratification
B. Estoppel
C. Necessity
D. Consensus
E. Novation

9. The English Partnership Act (1890) is still applicable in

A. Lagos State
B. Oyo State
C. Osun State
D. Ondo State
E. Sokoto State

10. How many days are required for a financial institution to report to the Economic and Financial Crimes Commission the transfer of funds in excess of ₦10 million by an individual?

A. 5
B. 6
C. 7
D. 10
E. 30

11. The person charged with the duty of administering a debtor's estate in a bankruptcy proceeding is known as the

A. Liquidator
B. Official Receiver
C. Registrar of the Supreme Court
D. Auctioneer
E. Executor

12. Which court has exclusive jurisdiction on matters pertaining to the taxation of limited liability companies?

A. High Court of a State
B. High Court of the Federal Capital Territory
C. Federal High Court
D. Court of Appeal
E. Supreme Court

13. A statement made by a party to a contract but with a request to the other party to verify the truth of the statement is

A. Binding on the other party
B. A term of the contract
C. Not a term of the contract
D. A condition of the contract
E. A misrepresentation

14. Which of the following principles is **NOT** applicable to life assurance?

A. Insurable interest

B. Assignment
C. Utmost good faith
D. No premium no cover
E. Subrogation

15. The maximum number of days for which the name of a company that is proposed to be registered shall be reserved by the Corporate Affairs Commission is

A. 30
B. 45
C. 60
D. 75
E. 90

16. Within how many months must a company that refuses to register a transfer of any shares send the notice of the refusal to the transferee?

A. One
B. Two
C. Three
D. Four
E. Five

17. How many mode(s) of winding up of a company exist?

A. One
B. Two
C. Three
D. Four
E. Five

18. Which of the following does **NOT** lead to dissolution of a partnership?

A. Bankruptcy of a partner
B. Death of a partner
C. A partner causing his shares of the partnership to be charged for his separate debt
D. Unlimited duration
E. The happening of any event which makes the business of the firm to be unlawful

19. Which of the following is **NOT** recognised by law as a negotiable instrument?

A. Bill of exchange
B. Cheque
C. Promissory note
D. I.O.U
E. Dividend warrants

20. Which of the following **CANNOT** be made a bankrupt?

A. A company
B. A Nigerian
C. A partnership
D. A foreigner who lives in Nigeria
E. A foreigner who has a place of business in Nigeria

SECTION A: PART II SHORT-ANSWER QUESTIONS (20 Marks)

ATTEMPT ALL QUESTIONS

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

1. The cut-off date for Statutes of General Application is ……………………

2. The principle of law on which a judicial decision is based is known as …………………

3. A civil wrong involving a breach of duty fixed by the law and redressable primarily by action for damages is called ……………………

4. Any qualification or amendment of the terms of an offer will constitute a …………………

5. The legal expression used to describe all personal property rights which can only be claimed or enforced by action and not by taking physical possession is known as ………………………

6. The parties to an agency relationship are agent and …………………………

7. A shareholder has no insurable interest in the ……………. of the company.

8. A company that must **NOT** have share capital is …………………..

9. Within what period must a company limited by shares file a return on allotment of shares with the Corporate Affairs Commission for registration?

10. The process of transferring a bill from one person to another in such manner as to constitute the transferee the holder of the bill is called …………………………

11. The liability that occurs where the damage to the plaintiff occurred without intention or negligence on the defendant's part is called ………………….

12. A transaction in which the person in possession of goods has an option to buy the goods or terminate the relationship and return the goods to the owner at any time is called ……………………

13. In a partnership, where there is no agreement on sharing of profits, how do the partners share the profit?

14. The relationship that is created as a result of the representation by the principal which leads a third party reasonably to believe that an agency relationship exists is known as agency by ……………………

15. The only type of insurance that is **NOT** a contract of indemnity is ………………….

16. The trustees of a property settled in a Will are appointed by the ………………..

17. A company can issue classes of shares only if authorised by its ………………..

18. A company that can appoint or remove all or majority of the directors of another company at its sole discretion is ....

19. The person to whom a bill is endorsed is called the ....

20. Which court has the power to order the discharge of a bankrupt?

SECTION B: ATTEMPT ANY FOUR QUESTIONS (60 Marks)

QUESTION 1

a. Explain **FIVE** characteristics of the Constitution of the Federal Republic of Nigeria. (10 Marks)

b. Explain the term "tort of negligence" and state the **THREE** prerequisites for the tort. (5 Marks)

(Total 15 Marks)

QUESTION 2

Adariri, a mentally-ill person, attended the wedding anniversary of his friend at a hotel in Aba last June. It is a fact that between May and July every year, he is always in a sound mental condition.

Ikena, who also was at the event, took advantage of the free alcoholic drinks provided at the party and was drunk. When Adariri realised that Ikena could no longer control himself, Adariri took Ikena home in Ikena's new Toyota Prado Sports Utility Vehicle. During the trip, Ikena discussed with, and agreed to sell his Toyota Prado to, Adariri for the sum of ₦5 million. When Adariri visited Ikena's home to pay for the vehicle the third day after the party, Ikena refused to sell the car to Adariri on the grounds that he was drunk when he entered into the contract and Adariri, being a lunatic, could not enter into a valid contract.

You are required to advise Adariri and Ikena on the validity of the agreement.

(15 Marks)

QUESTION 3

a. Explain **THREE** of the provisions declared void by the Hire Purchase Act in any hire purchase agreement. (6 Marks)

b. Maria, a famous national hero, was involved in an accident recently during which her brand new Lexus Jeep was damaged beyond repairs. The accident was caused by the recklessness of the driver of Bogus Company Limited. Since the Jeep was insured under a comprehensive insurance by Absolve Insurance Plc, the insurance company processed Maria's claim and gave her a brand new Lexus Jeep.

Thereafter, Chief Generous, a philanthropist, decided to give Maria a brand new Lexus Jeep to replace her damaged Jeep in view of her previous services to the country.

Absolve Insurance Plc wrote a letter to Maria requesting her to return the Lexus Jeep gift she received from Chief Generous since it has subrogation right over the Jeep. Maria has refused to return the Lexus Jeep.

You are required to advise Maria and Absolve Insurance Plc on the subrogation right of the insurance company to the Lexus Jeep given to Maria by Chief Generous. (9 Marks)

(Total 15 Marks)

QUESTION 4

a. Hassan, a young businessman engaged in the manufacturing of "Healthy Energy Drink", has recently contacted you for the incorporation of a company to be known as Healthy Energy Limited.

You are required to:

State **FIVE** incorporation documents required to be submitted by the company, indicating the purpose of each document. (10 Marks)

b. Harddin Limited has informed you of its intention to invite the public to acquire its securities and to deposit money with it for a fixed period payable at call.

You are required to:

Explain **TWO** conditions that Harddin Limited must fulfil to achieve its posed plan. (5 Marks)

(Total 15 Marks)

QUESTION 5

Chief Ogongo, the Chairman of the recently incorporated Fortune Finance Limited, has requested your advice on the appointment of auditors of the company, particularly on the following issues:

a. How will the first auditors of the company be appointed? (3 Marks)

b. How would the existing auditors of the company, desirous of re-election at the next Annual General Meeting, and without objection, be re-appointed? (6 Marks)

c. What happens if, at an Annual General Meeting, no auditors were appointed or re-appointed? (3 Marks)

d. What should be done where there is a casual vacancy in the offices of the auditors? (3 Marks)

You are required to advise Chief Ogongo on points (a) to (d) above.

(Total 15 Marks)

QUESTION 6

a. Explain **THREE** reasons for which a creditor shall be entitled to present a bankruptcy petition against a debtor. (6 Marks)

b. Biodun and Johanna are twins of twenty-one years of age. By the Will of their deceased father that came into effect ten years ago, the trustees were directed to invest a sum of ₦5 million and apply the income to the education of Biodun and Johanna. These beneficiaries have directed that the trustees pay the ₦5 million over to them.

You are required to:

Explain the duty of the trustees in relation to the directive of Biodun and Johanna. (4 Marks)

c. Dr. Aminu recently transferred the sum of US$11,000 to his account in Business Bank Plc, Lagos from his bank in the United States. He also informed his stockbroker of his intention to transfer his shares in some Nigerian companies listed on the New York Stock Exchange to his C.S.C.S. account with the stockbroker in Nigeria. The shares are valued at US$20,000.

You are required to:

Explain the reporting duty of Business Bank Plc and the stockbroker.

(5 Marks)

(Total 15 Marks)

SOLUTIONS TO SECTION A

PART 1 MULTIPLE-CHOICE QUESTIONS

1. C
2. B
3. E
4. D
5. E
6. B
7. E

8. A
9. E
10. C
11. B
12. C
13. C
14. E
15. C
16. B
17. C
18. D
19. D
20. A

EXAMINERS' REPORT

The questions test the totality of candidates' knowledge, covering the entire syllabus.

Performance was poor.

The commonest pitfall was the inability or difficulty of candidates to see through the identical choices available to make the right choice.

Candidates are enjoined to read more widely.

SHORT-ANSWER QUESTIONS

1. January 1, 1900
2. *Ratio decidendi*
3. Tort
4. Counter-offer
5. Chose in action

6. Principal
7. Assets/ Property
8. Company Limited by guarantee
9. One month/ 30 days
10. Negotiation
11. Strict liability
12. Hire purchase
13. Equally
14. Estoppel
15. Life assurance
16. Testator/ Testatrix
17. Article of Association
18. Holding/ Parent company
19. Indorsee
20. The Federal High court

EXAMINERS' REPORT

The questions test the general principles of commercial and business law, covering the entire syllabus.

Performance was generally poor.

The commonest pitfall was their apparent inadequate understanding of the principles.

Candidates are advised to take preparation for the examinations more seriously.

SOLUTIONS TO SECTION B

QUESTION 1

a. The characteristics of the Constitution of the Federal Republic of Nigeria are as follows:

i. **Supremacy**: The Constitution is supreme. It is the fundamental law of the country; the grundnorm from which every other law derives its authority and validity. Therefore, any other statute or law that contradicts it is null, void and of no effect to the extent of the inconsistency.
In addition, no part of Nigeria shall be governed except in accordance with the provisions of the Constitution.

ii. **Separation of powers**: The Constitution separates the powers of government into judicial powers to be exercised by the courts set up by the Constitution, executive powers to be exercised by the President and Governors as well as the members of their cabinets and other authorities or agencies constituted by the National and States Assemblies respectively, and legislative powers to be exercised by the National and States Assembles. The purpose is to ensure checks and balances in governance.

iii. **Written form:** The Constitution is written and rigid in that it is not easy to amend it. Some key provisions of the Constitution require a special majority to amend them.

iv. **Rule of Law:** The Constitution provides for governance according to Law and not according to the whims of those in government. The principle has two aspects, namely, *"Nemo judex in causa sua"* – one cannot be a judge of his own cause; and *"Audi alteram partem"* – nobody shall be condemned without hearing."

v. **Federalism:** The Constitution is a Federal Constitution that divides the powers of government between the Federal Government and the State Governments. The Federal Government has exclusive powers to legislate on matters on the exclusive legislative list. Both the Federal and State Governments may legislate on matters on the concurrent legislative list, provided that where both laws on the same matter conflict, the Federal (Act) prevails over the State's (Law).

vi. **Fundamental Rights:** The Constitution entrenches fundamental rights, which include right to life, right to the dignity of the human person, right to personal liberty and right to fair hearing. The Constitution protects the rights of the citizen from arbitrary violation.

b. The tort of 'negligence' may be defined as a breach of duty of care which results into damage or injury to the plaintiff, and may not be desired by the defendant/claimant.

The **THREE** pre-requisites of the tort of negligence are that:

i. The defendant owed the plaintiff a duty of care (Donoghoue v. Stevenson 1932);
ii. The defendant is in breach of that duty; and
iii. Damage or injury was suffered by the plaintiff as a result of the breach.

EXAMINERS' REPORT

Part (a) tests candidates' knowledge of the characteristics of the Nigerian Constitution while part (b) requires candidates to explain the tort of negligence and its prerequisites.

Candidates understood the question very well and performance was good.

QUESTION 2

This question requires the consideration of capacity of persons to enter into a contract, and of the validity of a contract entered into by a mentally-ill person during his lucid interval on the one part and a drunkard on the other part.
Contracts entered into by a mentally-ill person, can be divided into two categories, i.e., contracts for necessaries and contracts for other things. In contracts for necessaries, a mentally-ill person is bound by the contract and must pay a reasonable price. Where the goods are not necessaries, the mentally-ill person will be bound, unless he can show that he did not understand what he was doing, and the other contracting party was aware of his incapacity.

However, any contract entered into by a mentally-ill person during a lucid interval (period of sanity) is binding on him. Where he establishes the fact that he was a lunatic at the time he concluded the contract, and the other party was aware of his condition, the effect is to make the contract voidable at the option of the mentally-ill person, and not void as was decided in the case of BROWN V. JODWELL.

The principles above also apply to a person in a state of drunkenness if he enters into a contract with another person when he is in the state of intoxication, provided he was not aware of that fact and could show that he did not understand what he was doing. That contract is voidable at the drunkard's option, but he can ratify the contract when the intoxication wears off.

In the case at hand, Adariri, though a mentally-ill person, could validly enter into a binding contract between May and July during his lucid interval. Since he entered into the contract in June, the contract is valid and binding. However, Ikena could not enter into a binding contract during the period that he was drunk, since he was not in a good mental state. In addition, since Adariri was aware that Ikena was drunk when he entered into the contract to buy Ikena's vehicle, such a contract is not binding on Ikena.

In view of the fact that Ikena decided after the effect of the drink wore off that he would not sell the car, the contract is not binding on him. This is because the contract is voidable at his option, and he decided not to ratify it.
Consequently, Adariri is advised that he cannot enforce the contract to buy Ikena's car. Also, Ikena is advised that, since he decided not to ratify the contract, Adariri cannot force him to sell his vehicle to him.

EXAMINERS' REPORT

The question tests candidates' knowledge of the capacity of a lunatic and drunkard to enter into a valid contract; and the legal effect of such contracts entered into in their lucid intervals.

The commonest pitfall was in the mis-application of the law to the case study by some candidates and their inability to support their answers with decided cases. Performance was however fairly good. Candidates are enjoined to study more and master the application of legal principles to real life cases.

QUESTION 3

a. By Section 3 of the Hire Purchase Act, LFN 2004, the following provisions are rendered void in any hire purchase agreement:

i. Any provision which tends to restrict the hirer's right to terminate the contract or impose on the hirer, additional liability for such termination;
ii. Any provision imposing on the hirer the use of a particular insurer, repairer or any other person not nominated by the hirer;
iii. Any provision which seeks to exclude the liability of the owner against any forcible entry into the hirer's premises for the purpose of repossessing the hired goods;
iv. Any provision which treats as agent of the hirer any person acting for or on behalf of the owner or seller in connection with the formation or conclusion of a hire purchase or credit sale agreement; and
v. Any provision which relieves the owner or seller from liability for acts or default of any person acting on his behalf in connection with the formation or conclusion of a hire purchase contract.

b. This question requires the consideration of the doctrine of subrogation and the circumstances to which subrogation is not applicable. Subrogation is a term used in insurance contracts, and is an amplification of the principle of indemnity which is to the effect that an insured cannot be indemnified beyond the loss actually suffered. Thus an insured cannot make a profit from a loss suffered. If he claims from an insurer, he cannot claim from another beyond the actual loss suffered. Also, an insurer will be entitled to be indemnified by other insurer(s) who have insured the same risk, thereby reducing the loss sustained. Once the insurer has settled the claim of the insured, the insurer shall be subrogated to all rights of the insured in respect of the loss in question. The doctrine is not applicable to life assurance.

However, subrogation doctrine is not applicable to gifts made to an insured by well-wishers following the sustenance of a loss. Applying the above principle to the facts of the case, Maria, the insured, is entitled to be indemnified by Absolve Insurance Plc by virtue of the comprehensive insurance. Maria is also entitled to receive and keep the gift of the Lexus Jeep from Chief Generous, since Chief Generous did not cause the accident that led to the damage of Maria's jeep.

However, any amount or indemnity received by Maria from the tort feasor, Bogus Company Ltd, must be given to Absolve Insurance Plc by virtue of the subrogation doctrine.

EXAMINERS' REPORT

Part (a) tests candidates' knowledge of the provisions in any hire purchase contract rendered void by the Hire Purchase Act; while part (b) tests the principle of subrogation in insurance contracts.

The question was not well understood by candidates, and this affected them negatively in their answers. This was their commonest pitfall.
Performance was poor.

Candidates should read more of this area of the syllabus and stop their preference for certain topics to the exclusion of others.

QUESTION 4

a. Section 35 (2) of the Companies and Allied Matters Act provides that the following documents shall be submitted to the Corporate Affairs Commission (CAC) before a company could be incorporated:

i. The Memorandum of Association and Articles of Association: The Memorandum is to regulate the company's businesses, capital, country of domicile and the nature of the liability of the members. The Articles regulates the company's internal affairs and enables members to ascertain their rights and liabilities in relation to the company.

ii. The address of the registered office of the company and the head office if different from the registered office: This is to inform the CAC and the public of the company's address for contact and correspondence as well as the place where the statutory documents of the company are kept.

iii. A statement in the prescribed form containing the list and particulars, together with the consent to serve of the persons who are the first directors of the company: The purpose is to disclose the particulars of those who have agreed to be the directors of the company, and to know if they satisfy the age requirement.

iv. A statement of the authorized share capital signed by at least one director: This is to know the capital base of the company and to compare it with the capital stated in the memorandum of association.

v. Statutory declaration in the prescribed form by a legal practitioner that the requirements of the Act for the registration of a company have been complied with: This declaration is to ensure that first level scrutiny of the documents of incorporation has been done by a legal practitioner who is familiar with the requirements of the Act.

vi. Any other document required by the CAC to satisfy the requirements of any law relating to the formation of a company: This is to ensure that any other document that may be required in the future under any other law is submitted to the CAC before registration.

b. Harddin Limited is a private limited company, and is prohibited from inviting the public to subscribe to its shares or deposit money with it for a fixed period or payable at call. To achieve the above, Section 67 (1) of the Investments and Securities Act requires Harddin to:

i. Register as a public company, whether quoted or unquoted on the stock exchange; or

ii. Register as a bank or statutory body established by, or pursuant to an Act of the National Assembly, empowered to accept deposits and savings from the public or issue its own securities, promissory notes, bills of exchange and other instruments.

EXAMINERS' REPORT

The question tests candidates' knowledge of the documents which must be submitted by a proposed company before incorporation. Part (b) requires candidates to state the conditions which must be fulfilled before a company could

invite the public to subscribe to its shares or assume the status of a banking institution by accepting deposits.

Candidates understood part (a) well and performance was good. However, part (b) was not well understood. Candidates will need to study more in order to be proficient in answering questions.

QUESTION 5

The question requires the consideration of the various ways by which auditors of a company may be appointed as provided by section 357 of the Companies and Allied Matters Act (CAMA, 2004).

a. Section 357(5) provides that the first auditors of a company may be appointed by the directors at any time before the company is entitled to commence business, and the auditors so appointed shall hold office until the conclusion of the next Annual General Meeting, or if the directors fail to exercise their powers under this sub section, the company may in a general meeting convened for that purpose appoint the first auditors.

b. Section 357(2) of CAMA provides that at any Annual General Meeting, a retiring auditor, however appointed, shall be re-appointed without any resolution being passed unless:
   - He is not qualified for re-appointment, or
   - A resolution has been passed at that meeting appointing another person, or
   - He has given the company notice in writing of his unwillingness to be re-appointed.

c. Where at an Annual General Meeting, no auditors are appointed, the directors may appoint a person to fill the vacancy as provided in section 357(3) of CAMA.

d. The directors are authorized by section 357(6) of CAMA to fill any casual vacancy in the office of auditor but while any such vacancy continues, the surviving or continuing auditor(s), if any, may act.

EXAMINERS' REPORT

The question tests candidates' knowledge on the provisions of the law as it relates to the appointment of auditors of a company.

Most candidates demonstrated a clear understanding of the question except part (b) where they wrongly stated that the position could never be vacant.

Performance was generally good.

QUESTION 6

a. By section 7 of the Bankruptcy Act (2004) a creditor shall be entitled to present a bankruptcy petition against a debtor if:

   i. The debt owed by the debtor to the petitioning creditor is not less than ₦2000;
   ii. The debt is a liquidated sum, payable either immediately or at some certain future time;
   iii. The act of bankruptcy that forms the basis of the petition has occurred within three months before the presentation of the petition; and

   iv. The debtor is ordinarily resident in Nigeria, or has resided ordinarily or had a dwelling-house or place of business in Nigeria, or carried on business in Nigeria within a year before the date of the presentation of the petition.

b. The issue here is whether or not Biodun and Johanna, being twenty-one years of age, are entitled to have the trustees vest the trust property in them.

   The applicable rule is as stated in the case of *Saunders v. Vautie.* It is to the effect that a beneficiary who is absolutely entitled to the trust property and is *sui juris*, that is, of full age and capacity, can request the trustees to vest the property in him even if the trust instrument contains a contrary provision. Thus the trustees must follow the directive of Biodun and Johanna.

c. The transfers involved in this hypothetical case are US $11,000 in cash and US $20,000 in securities, each of which is more than the statutory maximum of US $10,000 allowed without evoking the reporting obligation under section 2(1) of the Money Laundering (Prohibition) Act, 2011.

Section 2(1) of the Act provides that "a transfer to or from a foreign country of funds or securities by a person or body corporate… of a sum exceeding US$10,000 or its equivalent shall be reported to the Central Bank of Nigeria, Securities and Exchange Commission or the Economic and Financial Crimes Commission in writing within 7 days from the date of the transaction.

EXAMINERS' REPORT

This question tests candidates' knowledge of the reasons for which a bankruptcy petition could be presented; duty of a trustee where the beneficiary is *sui juris;* and the reporting duty of a bank as it relates to money laundering.

Candidates' understanding and performance was poor.

The commonest pitfall was their failure to concentrate on the specific requirements of the question.