



**THE INSTITUTE OF CHARTERED ACCOUNTANTS  
OF NIGERIA**

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# **PATHFINDER**

**MAY 2014 FOUNDATION EXAMINATION**

**Question Papers**  
**Suggested Solutions**  
**Plus**  
**Examiners' Reports**

# PATHFINDER

## FOREWORD

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

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

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

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

### NOTES

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

# PATHFINDER

## TABLE OF CONTENTS

SUBJECT	PAGES
FUNDAMENTALS OF FINANCIAL ACCOUNTING	3- 31
ECONOMICS AND BUSINESS ENVIRONMENT	32 – 53
CORPORATE AND BUSINESS LAW	54 – 74

# PATHFINDER

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

FOUNDATION EXAMINATION - MAY 2014

FUNDAMENTALS OF FINANCIAL ACCOUNTING

Time Allowed: 3 hours

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

ATTEMPT ALL QUESTIONS IN THIS SECTION

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

1. The double entry rule is expressed as
  - A. Debit the receiver, credit the giver
  - B. Debit the giver, credit the receiver
  - C. Debit the receiver, credit the Bank/Cash account
  - D. Debit the Bank/Cash, account, credit the giver
  - E. Debit amount paid, credit amount received
2. According to IAS 2 on inventories, which of the following costs should be included in valuing the inventories of a manufacturing company?
  - A. Carriage inwards
  - B. Carriage outwards
  - C. General administrative overheads
  - D. Depreciation of land and building
  - E. Discount allowed
3. Which of the following is **NOT** a component of financial statements under IFRS?
  - A. Statement of financial position
  - B. Statement of profit or loss and other comprehensive income
  - C. Statement of changes in equity
  - D. Statement of affairs
  - E. Statement of cashflows

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4. The document which discloses the conditions that govern a company's relationship with third parties is called
- A. Articles of Association
  - B. Loan notes
  - C. Register of Members
  - D. Memorandum of Association
  - E. Memorandum of Understanding
5. Which of the following statements best defines unpresented cheques?
- A. Cheques issued by the account holder but yet to be presented to the beneficiaries
  - B. Cheques issued by the account holder but yet to be presented to the bank for payment.
  - C. Cheques issued in favour of the account holder but yet to be presented to him.
  - D. Cheques issued by the account holder but yet to be recorded in the books
  - E. Amount realised from trade receivables of the account holder but yet to be paid to their own banker
6. The closing inventories of a firm was overvalued by ~~₦~~300,000 due to over-cast error in one of the inventory valuation sheets. How would the correction of this affect the reported profit?
- A. Increase reported profit by ~~₦~~300,000
  - B. Reduce reported profit by ~~₦~~300,000
  - C. No effect on the reported profit
  - D. Increase reported profit by ~~₦~~600,000
  - E. Reduce reported profit by ~~₦~~600,000
7. Which of the following is **NOT** a feature of a control account?
- A. It is maintained by the financial controller
  - B. It is used to check arithmetical accuracy of the ledger to which it relates
  - C. The ledger to which it relates is known as self-financing
  - D. It contains the total of entries in individual accounts
  - E. The entries therein appear on the same side as they do in the individual accounts

## PATHFINDER

8. Where a specific trade receivable is written off as bad, the corresponding credit is expected to be in
- A. Purchases Account
  - B. Profit or Loss Account
  - C. Trade Payables Account
  - D. Sales Ledger Control Account
  - E. Discount Allowed Account

**Use the following information to answer questions 9 and 10:**

Opa Limited has the following capital structure:-

Ordinary share capital - 200,000 shares of 50k - ₦100,000

Share Premium Account - ₦150,000

The company made a rights issue of 1 for 5 at ₦1.50 which were fully subscribed.

9. Determine the value of the rights issue
- A. ₦40,000
  - B. ₦50,000
  - C. ₦60,000
  - D. ₦70,000
  - E. ₦75,000
10. What is the balance on the share premium account following the rights issue?
- A. ₦140,000
  - B. ₦150,000
  - C. ₦160,000
  - D. ₦190,000
  - E. ₦200,000
11. Aye Limited has a gross profit of 11% and its sales are ₦150,000. What is the cost of sales?
- A. ₦133,500
  - B. ₦142,500
  - C. ₦154,500
  - D. ₦160,000
  - E. ₦165,000

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12. What are the accounting entries on consignment for stolen or lost goods?
- A. Debit- Consignment Account  
Credit- Profit or Loss or Insurance Account, if insured
  - B. Debit-Profit or Loss or Insurance Accounts, if insured  
Credit-Consignment Account in the consignor's ledger
  - C. Debit-Cash Account  
Credit-Consignment Account
  - D. Debit-Goods in Transit Accounts  
Credit-Consignment Account in consignee's ledger
  - E. Debit-Consignment Accounts  
Credit- Insurance Accounts
13. The accounting entries for salary paid or payable to a partner are
- A. Debit Profit or Loss Appropriation Account  
Credit Partner's Current Account
  - B. Debit Partner's Current Account  
Credit Profit or Loss Account
  - C. Debit Partner's Current Account  
Credit Profit or Loss Account
  - D. Debit Partner's Capital Account  
Credit Profit or Loss Account
  - E. Debit Partner's Salary Account  
Credit Profit or Loss Appropriation Account
14. In partnership business, the account maintained to determine the profit or loss arising from the sale of assets on dissolution is called
- A. Revaluation Account
  - B. Asset Disposal Account
  - C. Profit or Loss Account
  - D. Receipt and Payment Account
  - E. Realisation Account

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15. A, B and C are in Partnership sharing profits in the ratio of 5:4:2 respectively. In the year ended 31 March 2013, C's share of profit was ₦180,000. What is A's share of profit for the year?

A. ₦360,000  
B. ₦400,000  
C. ₦450,000  
D. ₦550,000  
E. ₦600,000

16. The Partnership of X, Y, and Z made a net profit for the past five years as shown below:

Year	Profit (₦,000)
2009	30,000
2010	18,000
2011	9,000
2012	15,000
2013	21,000

The firm intends to admit V into the business and for this purpose has decided to fair value goodwill at 4 years purchase of the average super profits over the last 5 years on normal profit of ₦6,000,000 per annum.

What is the value of goodwill?

A. ₦42,400,000  
B. ₦46,400,000  
C. ₦49,200,000  
D. ₦50,400,000  
E. ₦62,200,000

17. Which of the following is **NOT** a word processing packages?

A. Wordstar  
B. Informix  
C. Msword Logo Script  
D. Display writer  
E. Professional writer



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18. Chuks and Bala are in partnership sharing profit or loss in ratio 2:1. If Bode is admitted as a new partner to take one-fifth as his share of profit or loss, while the old partners retain their old ratios, what should be the new profit or loss sharing ratio of the Partners?
- Chuks=8/15, Bala =4/15, Bode =1/5
  - Chuks=6/15,Bala=5/15, Bode=1/5
  - Chuks=7/15, Bala =6/15, Bode =1/5
  - Chuks=8/15, Bala=4/15, Bode=3/15
  - Chuks=8/15, Bala =9/15, Bode =3/15

Use the following information to answer questions 19 and 20:

An inexperienced bookkeeper employed by the firm of Smith and Jones has written up the current account of the partners as follows:

Current Account			
	₦		₦
Interest on Capital	5,600	Balance b/f	540
Commission	3,000	Drawings	12,400
Balance c/f	<u>21,740</u>	Share of Profit	<u>X</u>
	<u>30,340</u>		<u>30,340</u>

The balance brought forward was entered correctly and the other entries are all correct in amounts. However, the bookkeeper is not very sure of the difference between debit and credit entries.

19. What is the correct balance carried forward?
- A debit balance of ₦3,060
  - A debit balance of ₦13,060
  - A credit balance of ₦13,060
  - A debit balance of ₦14,140
  - A Credit balance of ₦14,140
20. What is the value of the item in the Current Account marked "X"?
- ₦8,700
  - ₦13,060
  - ₦15,700
  - ₦16,000
  - ₦17,400

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SECTION A:

PART II SHORT-ANSWER QUESTIONS

(20 Marks)

ATTEMPT ALL QUESTIONS IN THIS SECTION

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

1. The Companies and Allied Matters Act, CAP C20 LFN 2004 requires that the statutory books and records of a company to be kept at .....
2. Which concept connotes independence of judgement on the part of the Accountant preparing financial statements?
3. The responsibility for issuing reporting standards in Nigeria is that of .....
4. What is the cost of an asset or other amount substituted from costs, less its residual value?
5. A collection of ledger balances is used in preparing .....
6. A company purchased machinery for ₦900,000. The company's Accountant recorded the transaction in the company's books by debiting the Purchases Account instead of debiting a Non-Current Asset Account. Raise journal entries to correct the error.
7. During the preparation of your company's bank reconciliation statement as at 31 October, 2013, you discovered that the following items caused the difference between the cash book balance and bank statement balance:
  - i. Bank charges ₦3,502
  - ii. Uncredited lodgement ₦75,000
  - iii. Cheque of ₦85,500 paid in by the Company but dishonoured
  - iv. Amount of ₦225,000 incorrectly debited by the bank to the account

Which of the items above will be required for cash book adjustment?

8. Which memorandum book is used to record the particulars of non-current assets?
9. State the **TWO** major types of data that the computer master file is expected to hold in respect of each employee's salary records .....

## PATHFINDER

10. Realisation Account is to the vendor of a business, as.....is to the business buyer or acquirer.
11. State **TWO** methods of calculating the interim distribution payments in piecemeal realisation of partnership business assets on dissolution.
12. The process where two or more Partnerships combine to form a new Partnership is known as.....
13. The cost of direct materials, direct wages and direct expenses are the components of .....
14. In a not-for-profit organisation, the excess of expenditure over income is known as .....
15. For your organisation which is engaged in the production of industrial blocks, bricks and construction, where would you classify the remuneration of a forklift truck operator and the cost of steel girders?
16. Fidelis Textile Mills transfers manufactured products to the Sales Department at cost plus 20%. The following production costs were given to you:

	₦
Prime cost	25,000
Production overhead	8,000
Opening inventory of WIP	2,000
Closing inventory of WIP	3,000

Calculate the value of goods transferred to the Sales Department during the period.

17. In Container accounting, the difference between the cost and carrying amount of a container is known as .....
18. In accounting for Containers using container trading account method, the necessary accounting entries to record scrapped containers are .....
19. The guaranteed amount payable where the royalty calculated on the basis of actual production falls short of the estimated level is .....
20. What is the name of a periodic statement sent by a Consignee to a Consignor?

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## SECTION B: ATTEMPT ANY FOUR QUESTIONS IN THIS SECTION

(60 Marks)

### QUESTION 1

- a. Explain the term “inventories” as defined by International Accounting Standard (IAS 2). (5 Marks)
- b. List the costs which should be included when measuring the cost of inventories and identify any cost which should be excluded. (5 Marks)
- c. Explain why International Accounting Standard (IAS2) on inventories is not applicable to construction contracts. (5 Marks)

(Total 15 Marks)

### QUESTION 2

The bookkeeper of Jafola Ltd, having been unable to agree the trial balance as at 31 January 2013, raised a Suspense Account in which he entered the difference. Consequently, he prepared a draft Statement of Financial Position to reflect the amount in the Suspense Account.

On investigation, the following errors were discovered:

- i. The addition of the analysis column in the tabular purchase journal posted to goods purchased for resale account was found to be under-cast by ₦15,000, though the addition of the total column was correct.
- ii. Goods bought from a supplier amounting to ₦5,250 had been posted to the credit of his account as ₦55,000.
- iii. A dishonoured bill of exchange receivable for ₦200,000 returned by the Company's bank, had been credited to the bank account and debited to bills receivable account.
- iv. An item of ₦10,500 entered in the sales returns book was posted to the debit of the customer who returned the goods
- v. Sundry items of plant sold amounting to ₦300,000 was posted to the sales day book, the total of which had been posted to the credit of sales account.
- vi. A sum of ₦60,000 owed by a customer was omitted from the schedule of sundry receivables.

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- vii. Discounts amounting to ~~₦~~2,250 allowed to a customer was duly entered in his account but not posted to discounts allowed account.
- viii. An amount of ~~₦~~45,000 being tenement rates paid in advance in the previous year was not brought forward as a balance on the tenement rates account.

**You are required to:**

- a. Show the Suspense Account as raised by the book keeper with the adjusting entries. (5 Marks)
  - b. Explain the effect the above errors would have on the profit shown in the accounts (if not rectified) and on the total accounts. Assume the purchase and sales ledgers to be self-balancing. (10 Marks)
- (Total 15 Marks)**

### QUESTION 3

The information below relates to ABC Football Club in respect of the year ended 31 October 2013

	₦'000
Rent and rates	2,500
Stadium repairs and maintenance	4,500
Match takings	20,000
State government grant and aid	25,000
Wages and salaries	15,000
Payment of match bonus	5,000
Transfer fees of players who left the club	12,000
Match expenses	3,500
Transfer fees of new players bought	8,000
Fines and penalties paid to NFF	3,000
Cash and bank balances at the beginning of the period	8,700
Sales proceeds of memorabilia	900
Prize money for winning FA cup	3,500
Motor running expenses	500
Donations received	9,500
Administration expenses	2,000
Printing and stationeries	400
Communication	600
Honorarium	200

## PATHFINDER

The following information is also relevant:

- (i) Insurance premium owing ₦500,000
- (ii) The club is currently facing NFF disciplinary committee investigation for players and fans misconduct in respect of week 25 match between ABC and Kwara United. The club lawyers have stated in their last letter that it was highly probable that the club will be found liable, and based on past experience and the information gathered so far, the club could be fined up to ₦2,000,000 among other punishments.
- (iii) Depreciation has been accurately calculated at ₦150,000 in respect of the accounting period.
- (iv) Other match takings not yet remitted by the club's agent amounted to ₦2,600,000.

**You are required to:**

Prepare the Club's Statement of Income and Expenditure in vertical format for the year ended 31 October 2013. **(15 Marks)**

### QUESTION 4

Biggy and Smallie were in partnership, sharing profits and losses in ratio 2:1. They agreed to admit Fanny into the partnership from 1 January 2012. Fanny is to introduce ₦140,000 out of which ₦130,000 is to be his fixed capital. He is to receive a commission of ₦30,000 per annum in addition to a share of profit. The new profit sharing ratio is 2:2:1 to Biggy, Smallie and Fanny respectively. Other provisions of the Partnership Deed are:

- (i) Debit balance in current accounts at the beginning of the year is to attract 5% interest.
- (ii) Goodwill is valued at ₦150,000. No account for goodwill is to be retained in the partnership books.

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- (iii) Details of the existing partners fixed capital and current accounts for the purpose of the agreement are:

	Fixed Capital 31/12/2011	Current Account 31/12/2011
	N	N
Biggy	360,000	100,000
Smallie	240,000	60,000 (DR)

- (iv) The draft final accounts for the year ended 31 December 2012, before taking into account Fanny's commission and interest on Partners' current accounts revealed a profit of N347,000.
- (v) The drawings made by the Partners are:

	N
Biggy	95,000
Smallie	45,000
Fanny	73,900 (including commission)

**You are required to prepare:**

- a. Statement showing the sharing of profit for the year ended 31 December 2012.  
(5 Marks)
  - b. The Partners' capital and current accounts for the year ended 31 December 2012.  
(10 Marks)
- (Total 15 Marks)**

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## QUESTION 5

The following balances were extracted from the books of Gowell Limited as at 31 December 2012 after the preparation of the Trading account:

	₦'000
Share capital: Authorised, issued and fully paid:	
300 million ordinary shares of ₦1 each	300,000
Cash at bank and in hand	750
Inventories as at 31 December 2012	91,800
Trade receivables	28,657
Trade payable s	22,513
Gross profit from trading account- 31 December 2012	193,413
Revenue reserve as at 1/1/2012	50,000
Salaries and wages	42,645
Prepayments	900
Bad debts	750
Accrued expenses	789
Directors' current account	3,750
Finance cost	900
Rents and insurance	2,280
Sundry expenses	6,150
6% Loan notes	30,000
Electricity	1,965
Postages and telephones	1,200
Motor vehicle (cost ₦37.5 million)	22,500
Office fittings and equipment (cost ₦98.25 m)	63,525
Retained earnings as at 1 January 2012	33,450
Land and buildings	369,893

Additional Information:

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

Directors' fees	₦12,000,000
Audit fees	₦5,000,000
- (iii) ~~₦822,000~~ in respect of electricity consumed up to 31 December 2012 has not been posted to the ledger.



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- (iv) The Directors have recommended that ~~₦~~30,000,000 be transferred to revenue reserves.

**You are required to prepare:**

- (a) The Statements of Profit and Loss of Gowell Limited for the year ended 31 December 2012.
- (b) The statement of financial position as at 31 December 2012.

(Total 15 Marks)

## QUESTION 6

The following trial balance for the year ended 30 June 2013 was extracted from the books of Dapo Trading Enterprises which operates from the head office and two departments:

	DR	CR
	₦'000	₦'000
Capital on 1 July 2012		20,000
Drawings	4,000	
Inventories as at 1 July 2012- Department X	2,280	
Inventories as at 1 July 2012- Department Y	1,960	
Purchases/sales analysis- Department X	7,920	14,800
Purchases/sales analysis-Department Y	7,480	13,260
Inter-departmental transfer-X		500
Inter-departmental transfer-Y	500	
Returns inwards-Department X	700	
Returns inwards-Department Y	560	
Salaries and wages	3,300	
Advertisement and catalogues	1,740	
Dividends on shares in AB Limited		210
Shares in AB Limited	4,600	
Accounts receivables/payables	9,840	5,948
Carriage inwards	480	
Rent	3,660	
Sundry expenses	1,480	
Furniture & fittings	3,000	
Bank balances	1,368	
Provision for doubtful receivables 1 July 2012		150
	<u>54,868</u>	<u>54,868</u>

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Additional information:

- (i) Write off bad debts of ~~₦~~120,000 and increase the provision for doubtful receivables to 5% of the outstanding receivables.
- (ii) Depreciate furniture and fittings at 10% per annum
- (iii) Accrue ~~₦~~40,000 for sundry expenses owed at 30 June 2013
- (iv) The values of the inventories on hand on 30 June 2013 were Department X, ~~₦~~2,960,000, Department Y ~~₦~~1,700,000
- (v) Catalogue in hand was valued at ~~₦~~60,000
- (vi) Inter departmental transfers were made at cost
- (vii) All expenses are to be allocated between Department X and Y in the proportion of two thirds and one third respectively except for carriage inwards which is to be apportioned on the basis of purchases
- (viii) Dividend received is to be treated as Head Office income

**You are required to prepare:**

- (a) Departmental Statement of profit or loss showing Department X, Department Y and Head Office separately for the year ended 30 June 2013,
- (b) The Head office Statement of Financial Position as at that date.

**(Total 15 Marks)**

## SOLUTIONS TO SECTION A

### PART I - MULTIPLE-CHOICE QUESTIONS

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

# PATHFINDER

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

## Tutorials

Q9. Working  $\frac{200,000}{5} \times \text{N}1.5 = \text{N}60,000$

Q10. Share premium  $\frac{200,000}{5} \times 1 = 40,000$   
 Balance b/f  $\frac{150,000}{\text{N}190,000}$

	N	N
Q11. Sales revenue (100%)		150,000
Gross profit (11%)		<u>16,500</u>
Cost of sales 89%		<u>133,500</u>

Q15. A's share of profit =  $\frac{180,000}{2} \times 5$   
 = ~~N~~450,000

Q16. Total profit = ~~N~~93m  
 5 years average profit  $\frac{\text{N}93\text{m}}{5} = \text{N}18.6\text{m}$   
 4 years purchase of super profit =  $(\text{N}18.6 - \text{N}6\text{m}) \times 4$   
 = ~~N~~50.4m

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Q19.

## Current Account

	N'000		N'000
Drawings	12,400	Bal b/d	540
Bal c/d	14,400	Interest on capital	5,600
		Commission	3,000
		Share of profit	<u>17,400</u>
	<u>26,540</u>		<u>26,540</u>
		Bal b/d	14,140

## EXAMINERS' REPORT

The questions test candidates' knowledge of all sections of the syllabus. Candidates' performance was fairly good. The candidates' major pitfall was that they did not prepare adequately for the examination.

Candidates are advised to prepare well for future examinations.

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## PART II SHORT-ANSWER QUESTIONS

1. The registered office of the company
2. Objectivity
3. Financial Reporting Council of Nigeria
4. Depreciable Amount/Value
5. Trial Balance
6. Dr Non-current Assets Account - ~~₦~~900,000  
Cr. Purchases Account ~~₦~~900,000  
Being Purchase of machine wrongly debited into Purchases Account
7. (i) Bank charges ~~₦~~3,502  
(iii) Dishoured cheque ~~₦~~85,500
8. Non-current assets register
9. Historical data and transaction data
10. Purchase of business account or business acquisition account
11. Surplus capital method and assumed possible loss method
12. Amalgamation
13. Prime cost/Direct cost
14. Deficit
15. Direct cost
16. ~~₦~~38,400
17. Depreciation
18. Dr. Container Trading Account  
Cr. Container Inventory Account

# PATHFINDER

19. Minimum Rent/Minimum Royalty/Dead Rent

20. Account sales

## TUTORIAL

Q16. (~~₦~~35,000 – ~~₦~~3,000) @ 1.2 = ~~₦~~38,400

## EXAMINERS' REPORT

The questions adequately cover the syllabus.  
Candidates' performance was fair.

Candidates are advised to prepare well for the future examination.

## SECTION B

### QUESTION 1

- (a) Inventories are assets held for sale in the ordinary course of business in the process of production for such sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services.
- (b) Costs which should be included in the cost of inventories are cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.  
Costs which should be excluded from the cost of inventories are the costs of abnormal waste, storage costs (unless necessary in the production process before a further production stage) and administrative overheads that do not contribute to bringing inventories to their present location or condition.  
If production is abnormally low, unallocated fixed production overheads are also excluded from the cost of inventories.
- (c) Construction contracts are often long-term, as work may begin in one accounting period, but not end until a later period. If IAS 2 is applied to such contracts, it would be necessary at the end of each period to measure work in progress at the lower of cost and net realisable value. This would mean that none of the profit arising on a construction contract would be recognised until the contract has ended.

It is fairer to spread contract revenue, expenses and profit over the accounting periods in which the work is performed.

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The accounting treatment required by IAS II construction contracts achieves this aim.

## EXAMINERS' REPORT

The question tests candidates' knowledge of International Accounting Standards (IAS 2) as it relates to inventory, its costs application to construction contracts.

Few candidates attempted the question and performance was poor. Candidates' commonest pitfall was their inability to identify the costs to be included or excluded in inventories.

They are advised to pay more attention to the requirement of the International Financial Reporting Standards.

## QUESTION 2

### JAFOLA LIMITED SUSPENSE ACCOUNT

	₦		₦
Difference in trial balance	151,000	Goods purchased for resale (i)	15,000
Customer's account (iv)	21,000	Supplier's account (ii)	49,750
		Sundry receivables (vi)	60,000
		Discounts allowed (vii)	2,250
		Rates (viii)	<u>45,000</u>
	<u>172,000</u>		<u>172,000</u>

### EFFECT ON

	TOTAL ACCOUNTS	PROFIT OR LOSS ACCOUNTS
i.	No effect	Profit will be overstated by ₦15,000
ii.	Trade payables account will be overstated by ₦49,790	No effect
iii.	Trade receivables account will be understated by ₦200,000	No effect
iv.	Trade receivables will be overstated by ₦21,000	No effect
v.	No effect	Sales and profit will be overstated by ₦300,000
vi.	No effect	No effect
vii.	No effect	Profit will be overstated by ₦2,250
viii.	No effect	Profit will be overstated by ₦45,000

# PATHFINDER

## Tutorial Notes:

- (iii) To correct this entry, debit customer and credit bills receivables. The situation arising from the customer's default may require provision for bad debts.
- (iv) To rectify this entry, debit sales and credit plant. Depreciation and profit or loss on sales of asset will be written off the carrying value of the plant sold to reduce it to NIL.

The above corrections will reduce the profit by ₦362,250 made up as follows:

	<del>₦</del>	
(i)	15,000	Profit overstated by ₦15,000
(v)	300,000	Sales & profit overstated by ₦300,000
(vii)	2,250	Profit overstated by ₦2,250
(viii)	<u>45,000</u>	Profit overstated by ₦45,000
	<u>362,250</u>	

## EXAMINERS' REPORT

The question tests candidates' knowledge of journal entries to correct accounting errors and its effect on business profit.

Majority of the candidates attempted the question and performance was poor. Candidates' major pitfalls were their poor understanding on how to raise journal entries and identify the effects of the errors on business profit.

Candidates are advised to have a good understanding of double entry principles and correction of errors.



# PATHFINDER

## QUESTION 3

### ABC FOOTBALL CLUB INCOME AND EXPENDITURE FOR THE YEAR ENDED 31 OCTOBER, 2013

INCOME:	N'000	N'000
Match takings (Wk 1)		22,600
State government grant and aid		25,000
Transfer fees received		12,000
Sales of memorabilia		900
Prize money for winning FA cup		3,500
Donation		<u>9,500</u>
		73,500
 <b>EXPENDITURES:</b>		
Insurance	500	
Depreciation	150	
Rent and rates	2,500	
Repairs and maintenance - Stadium	4,500	
Wages and salaries	15,000	
Match bonus	5,000	
Match expenses	3,500	
Transfer fees on new players purchased	8,000	
Fines and penalties (Wk 2)	5,000	
Motor running expenses	500	
Administration expenses	2,000	
Printing and stationeries	400	
Communication	600	
Honorarium	<u>200</u>	<u>(47,850)</u>
<b>SURPLUS OF INCOME OVER EXPENDITURE</b>		 <u>25,650</u>

### ABC FOOTBALL CLUB

#### WORKING NOTES

**Wk 1: Determination of match takings as per income and expenditure a/c**

	N'000
Match takings as per a/c	20,000
Other match takings not yet remitted	<u>2,600</u>
	<u>22,600</u>

**Wk 2: Determination of match takings as per income and expenditure a/c**

Fines and penalties as per a/c	3,000
Provision for additional fines and penalties	<u>2,000</u>
	<u>5,000</u>

# PATHFINDER

## EXAMINERS' REPORT

The question tests candidates' knowledge of the preparation of not-for-profit organisation's statement of income and expenditure in vertical format.

Majority of the candidates attempted the question and their performance was fairly good, however, few candidates did not prepare their solution in vertical format as required.

Candidates are advised to adhere strictly to examiners' instructions.

## QUESTION 4

(a) **BIGGY, SMALLIE AND FANNY**  
**STATEMENT OF PROFIT SHARING FOR THE YEAR ENDED 31 DECEMBER 2012**

	₦
<b>NET PROFIT FOR THE YEAR</b>	347,000
Interest on current a/c DR bal – Smallie (Wk 2)	<u>3,000</u>
	350,000
Commission – Fanny	<u>(30,000)</u>
Distributable profit	<u>320,000</u>
<u>Distributed as follows:</u>	
Biggy	128,000
Smallie	128,000
Fanny	<u>64,000</u>
	<u>320,000</u>

(b)i **BIGGY, SMALLIE AND FANNY PARTNERS' CURRENT ACCOUNT AS AT 31 DECEMBER 2012**

	Biggy	Smallie	Fanny		Biggy	Smallie	Fanny
	₦	₦	₦		₦	₦	₦
Bal b/f	-	60,000	-	Bal b/f	100,000	-	-
Interest on current a/c Dr. Balance	-	3,000	-	Bank	-	-	10,000
Drawings	95,000	45,000	43,900	Commission	-	-	30,000
Commission paid	-	-	30,000	Balance of profit	<u>128,000</u>	<u>128,000</u>	<u>64,000</u>
Ba/ c/d	<u>133,000</u>	<u>20,000</u>	<u>30,100</u>				
	<u>228,000</u>	<u>128,000</u>	<u>104,000</u>		<u>228,000</u>	<u>128,000</u>	<u>104,000</u>
				Bal b/d	133,000	20,000	30,100

# PATHFINDER

## ii. BIGGY, SMALLIE AND FANNY PARTNERS' CAPITAL ACCOUNTS AS AT 31 DECEMBER 2012

	Biggy	Smallie	Fanny		Biggy	Smallie	Fanny
	₦	₦	₦		₦	₦	₦
Goodwill (w/off)	60,000	60,000	30,000	Bal b/f	360,000	240,000	-
Bal c/d	400,000	230,000	100,000	Bank	-	-	130,000
				Goodwill	<u>100,000</u>	<u>50,000</u>	<u>-</u>
	<u>460,000</u>	<u>290,000</u>	<u>130,000</u>		<u>460,000</u>	<u>290,000</u>	<u>130,000</u>
				Bal b/d	400,000	230,000	100,000

### BIGGY, SMALLIE AND FANNY

#### WORKING NOTES

##### Wk 1: Apportionment of goodwill

	₦		₦
Capital a/c – Biggy	100,000	Capital a/c - Biggy	60,000
Capital a/c – Smallie	<u>50,000</u>	Capital a/c - Smallie	60,000
		Capital a/c - Fanny	<u>30,000</u>
	<u>150,000</u>		150,000

##### Wk 2: Calculation of interest on DR balance on partner's current account

	₦
Debit balance as per Smallie current a/c	<u>60,000</u>
Interest @ 5%	<u>3,000</u>

#### EXAMINERS' REPORT

The question tests candidates' knowledge of partnership accounts with emphasis on admission of partners, distribution of profits, partners' current and capital accounts.

About half of the candidates attempted the question and performance was fairly good. Candidates' commonest pitfall was their inability to interpret the question correctly.

Candidates are advised to prepare well for future examinations of the Institute.

# PATHFINDER

## QUESTION 5

### GOWELL LIMITED

#### STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2012

	N'000	N'000
Gross profit for the year		193,413.00
<b>OPERATING EXPENSES:</b>		
Depreciation – Office fittings and equipment (Wk 1)	14,737.50	
Depreciation – Motor vehicles (Wk 2)	7,500.00	
Directors' fees	12,000.00	
Audit fees	5,000.00	
Electricity (Wk 3)	2,787.00	
Salaries and wages	42,645.00	
Bad debts	750.00	
Finance cost	900.00	
Rents and insurance	2,280.00	
Loan interest (Wk 3)	1,800.00	
Sundry expenses	6,150.00	
Postages and telephone	<u>1,200.00</u>	(97,749.50)
<b>NET PROFIT FOR THE YEAR</b>		95,663.50
Transfer to revenue reserves		(30,000.00)
<b>RETAINED EARNINGS FOR THE YEAR</b>		65,663.50
Retained earnings b/f		<u>33,450.00</u>
<b>RETAINED EARNINGS C/F</b>		<u>99,113.50</u>

### GOWELL LIMITED

#### STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	COST N'000	DEP N'000	CARRYING VALUE N'000
<b>NON-CURRENT ASSETS:</b>			
Land and buildings	369,893.00	-	369,893.00
Motor vehicles	37,500.00	(22,500.00)	15,000.00
Office fittings and equipment	<u>98,250.00</u>	<u>(49,462.50)</u>	<u>48,787.50</u>
	<u>505,643.00</u>	<u>71,962.50</u>	433,680.50
<b>CURRENT ASSETS:</b>			
Inventories		91,800.00	
Trade receivables		28,657.00	
Prepayments		900.00	
Cash and bank balances		<u>750.00</u>	
			<u>122,107.00</u>
<b>TOTAL ASSETS</b>			<u>555,787.50</u>

# PATHFINDER

<b><u>EQUITY AND LIABILITIES:</u></b>			
<b><u>EQUITY:</u></b>			
<b><u>AUTHORISED SHARE CAPITAL:</u></b>			
300 Million ordinary shares of ₦1 each			<u>300,000.00</u>
<b><u>ISSUED SHARE CAPITAL:</u></b>			
300 Million ordinary shares of ₦1 each			<u>300,000.00</u>
<b><u>RESERVES</u></b>			
Retained earnings			99,113.50
Revenue Reserves			<u>80,000.00</u>
			479,113.50
<b><u>NON-CURRENT LIABILITIES</u></b>			
6% Loan notes			<u>30,000.00</u>
<b><u>CURRENT LIABILITIES:</u></b>			
Trade payables		22,513.00	
Accrued directors' fees		12,000.00	
Accrued audit fees		5,000.00	
Accrued electricity		822.00	
Accrued loan interest (Wk 3)		1,800.00	
Other accrued expenses		789.00	
Directors' current account		<u>3,750.00</u>	<u>46,674.00</u>
<b>TOTAL EQUITY AND LIABILITIES</b>			<u>555,787.50</u>

## GOWELL LIMITED

### WORKING NOTES

#### WK 1: Calculation of depreciation on office fittings and equipment

₦'000

Office fittings and equipment @ cost	<u>98,250.00</u>
Depreciation @ 15%	<u>14,737.50</u>

#### WK 2: Calculation of depreciation on motor vehicles

Motor vehicles @ cost	<u>35,500.00</u>
Depreciation @ 20%	<u>7,500.00</u>

#### WK 3: Calculation of loan interest

Principal amount of loan notes	<u>30,000.00</u>
Loan interest @ 6%	<u>1,800.00</u>

### EXAMINERS' REPORT

The question tests candidates' knowledge of accounts of companies.

Most of the candidates attempted the question and performance was good. Candidates commonest pitfall was their inability to correctly prepare final accounts of companies.

# PATHFINDER

Candidates are advised to prepare well for future examinations of the institute.

## QUESTION 6

### DAPO TRADING ENTERPRISES

#### STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 30 JUNE 2013

	DEPT. X		DEPT. Y		HEAD OFFICE	
	N'000	N'000	N'000	N'000	N'000	N'000
Revenue		14,800		13,260		28,060
Returns inwards		(700)		(560)		(1,260)
		14,100		12,700		26,800
<b><u>COST OF SALES</u></b>						
Opening inventories	2,280		1,960		4,240	
Purchases	7,920		7,480		15,400	
Carriage inwards (Wk 1)	247		233		480	
	10,447		9,673		20,120	
Inter-departmental transfer	(500)		500		-	
	9,947		10,173		20,120	
Closing inventories	(2,960)		(1,700)		(4,660)	
		(6,987)		(8,473)		(15,460)
<b>GROSS PROFIT</b>		7,113		4,227		11,340
Investment income		-		-		210
		7,113		4,227		11,550

<b><u>OPERATING EXPENSES:</u></b>						
Salaries and wages	2,200		1,100		3,300	
Bad debts written off	80		40		120	
Increase in provision for doubtful receivables	224		112		336	
Depreciation – Furniture and fittings	200		100		300	
Sundry expenses	1,013		507		1,520	
Advertisement and catalogues	1,120		560		1,680	
Rent	2,440		1,220		3,660	
		(7,277)		(3,639)		(10,916)
<b>Profit (loss) for the year</b>		(164)		588		634

# PATHFINDER

## DAPO TRADING ENTERPRISES STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

	N'000 COST	N'000 DEP	N'000 CARRYING VALUE
<b>NON-CURRENT ASSETS:</b>			
Furniture and fittings	<u>3,000</u>	<u>(300)</u>	2,700
Investment			<u>4,600</u>
			7,300
<b>CURRENT ASSETS:</b>			
Inventories		4,660	
Catalogue in hand		60	
Sundry receivables	9,840		
Bad debts	<u>(120)</u>		
	9,720		
Provision for doubtful receivables (Wk 4)	<u>(486)</u>	9,234	
Bank balances		<u>1,368</u>	<u>15,322</u>
<b>TOTAL ASSETS</b>			<u>22,622</u>
<b>EQUITY AND LIABILITIES:</b>			
Owners' equity			20,000
Net profit			<u>634</u>
			20,634
Drawings			<u>(4,000)</u>
			16,634
<b>CURRENT LIABILITIES:</b>			
Sundry payables		5,948	
Accrued sundry expenses		<u>40</u>	<u>5,988</u>
<b>TOTAL EQUITY AND LIABILITIES</b>			<u>22,622</u>

## DAPO TRADING ENTERPRISES WORKING NOTES

### Wk 1: Apportionment of carriage inwards

	DEPT. X	DEPT. Y	TOTAL
	N'000	N'000	N'000
Purchases as per a/c	<u>7,920</u>	<u>7,480</u>	<u>15,400</u>

Basis of apportionment = Department purchases/Total purchases x Carriage inwards to be apportioned

Apportioned carriage inwards	7,920/15,400 x 480	7,480/15,400 x 480
	<u>247</u>	<u>233</u>

# PATHFINDER

## EXAMINERS' REPORT

The question tests candidates' knowledge of departmental accounts. The candidates' commonest pitfall was the poor presentation of answers to the question. Candidates are advised to master the preparation and presentation of departmental accounts in the required standard format.



# PATHFINDER

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

FOUNDATION EXAMINATION – MAY 2014

ECONOMICS AND BUSINESS ENVIRONMENT

Time Allowed: 3 hours

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

ATTEMPT ALL QUESTIONS IN THIS SECTION

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

1. Which of the following is a consumer?
  - A. A newspaper vendor
  - B. A performing artist
  - C. A movie audience
  - D. A food hawker
  - E. A household
2. What is (X-M) in the GDP formula  $GDP = C + I + G + X - M$ ?
  - A. Imports and Exports
  - B. Imports or Exports
  - C. Net Exports
  - D. Net Imports
  - E. Gross Exports
3. An analytical framework used to portray functional relationships among economic variables is called
  - A. A model
  - B. A theory
  - C. A function
  - D. An equation
  - E. A concept

## PATHFINDER

4. David Ricardo developed the theory of comparative advantage in
  - A. 1772
  - B. 1776
  - C. 1817
  - D. 1823
  - E. 1825
5. In the year 2006, the per capita income and population of Nigeria were put at \$66.66 and 180 million, respectively. What was the country's GNP in Naira that year if the exchange rate was ₦150/\$1.00?
  - A. ₦12 million
  - B. ₦1.8 billion
  - C. ₦12 billion
  - D. ₦1.8 trillion
  - E. ₦18 trillion
6. In an economy with full employment, which of the following policies would be most suitable for controlling inflation?
  - A. Import controls
  - B. Increasing exports
  - C. Increasing personal tax allowances
  - D. Increasing wages
  - E. Increasing tax rates
7. Which of the following is considered the most effective tool by which the Central Bank of Nigeria can control the activities of commercial banks?
  - A. Open Market Operation
  - B. Reserve Requirements
  - C. Bank Rate
  - D. Directives
  - E. Special Deposits
8. In competitive markets, transactions are guided only by
  - A. Prices of the goods and services only
  - B. Willingness and ability to pay for goods and services

## PATHFINDER

- C. Entrepreneurial decisions
  - D. Prices of the goods and services and the preferences of the economic agents
  - E. Government controls
9. Adam Smith said that Division of Labour was limited by
- A. Kind of products/services traded
  - B. Extent or size of the market
  - C. Kind of markets in operation (e.g. monopoly, duopoly)
  - D. Technology
  - E. Government policy
10. The highest order of economic integration is
- A. Economic Community
  - B. Economic Union
  - C. Common Market
  - D. Customs Union
  - E. European Union
11. Which of the following is **NOT** a necessary quality of money?
- A. Homogeneity
  - B. Portability
  - C. Acceptability
  - D. Divisibility
  - E. Pocketability
12. Which one of the following is **NOT** a macroeconomic policy objective?
- A. Full employment in the economy
  - B. Price stability
  - C. Economic growth
  - D. Balance of payment equilibrium
  - E. Industrialization
13. A system that interacts with its external environment is called
- A. Closed system
  - B. Entropy

## PATHFINDER

- C. Open system
  - D. Synergy
  - E. Subsystem
14. Managers may seek to raise ethical standards in their organisations by adopting all but **ONE** of the following strategies
- A. Develop an ethical code to guide the behaviour of all employees
  - B. Train all employees on ethical behaviour expected of them
  - C. Punish all those who violate the ethical codes while rewarding other who adhere to them
  - D. Set performance targets that are achievable
  - E. Install Close Circuit Television (CCTV) cameras in all offices
15. The type of expense budget that shows material and labour costs of each item produced including estimated overhead costs is
- A. Financial budget
  - B. Operating budget
  - C. Engineered cost budget
  - D. Discretionary cost budget
  - E. Profit budget
16. Which of the following is **NOT** a common time management trap that can affect the effectiveness of a manager at work?
- A. Delayed decision
  - B. Uncontrolled telephone calls
  - C. Scheduled visitors
  - D. Failure to delegate
  - E. Waiting for people
17. The department that performs tasks that reflect the organisation's primary goal and mission is
- A. Staff department
  - B. Functional department
  - C. Line department
  - D. Core department
  - E. Primary department

## PATHFINDER

18. The visual display of positions in the organisation as well as lines of authority is
- A. Organisational structure
  - B. Organisational pyramid
  - C. Organisational chart
  - D. Organisational graph
  - E. Organisational network
19. Which of the following is a distinctive attribute of transformational leaders?
- A. They determine what subordinates need to do to achieve objectives
  - B. They assist employees to gain self-confidence so that they can achieve their objectives
  - C. They inspire employees to pursue organisational or team goals over and above self interest
  - D. They have ability to influence people towards the attainment of organisational goals
  - E. They put enormous pressure on employees to achieve exceptional goals
20. Which of the following is **NOT** a benefit of using word processing software?
- A. Easy detection of spelling and grammatical errors
  - B. Ease of editing and merging of documents
  - C. Ease of producing many copies of a given document
  - D. Ease of processing large volume of data
  - E. Ease of presentation of information via multimedia projectors

### SECTION A: PART II

### SHORT-ANSWER QUESTIONS

(20 Marks)

#### ATTEMPT ALL QUESTIONS IN THIS SECTION

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

1. Man-made durable items used in the production process are referred to as .....
2. The first national rolling plan in Nigeria covered the period from .....to .....

## PATHFINDER

3. The credit worthiness of a country is often assessed by the volume of its .....
4. Multilateral Investment Guarantee Agency (MIGA) is a member of which International Organisation?
5. The speed at which money changes hand is referred to as .....
6. If a fall in the price of a commodity leads to a reduction in the quantity demanded, the commodity in question is a .....
7. The sum of interest payments and repayment of principal on external public and publicly guaranteed debt is called .....
8. Economic costs include accounting costs plus .....
9. The licence granted a firm to operate in a given part of an industry for a specific length of time is called .....
10.  $GNP = NNP + \dots\dots\dots$
11. A resource is scarce if the demand for it exceeds supply at ..... price
12. The concentration of industries in a particular area is known as .....
13. The management function that enables an organisation to cope with uncertainty by formulating courses of action that will enable it achieve specific result is .....
14. A product that a consumer buys frequently, immediately and with a minimum of comparison and buying effort is .....
15. A diagram which maps possible decisions and their possible consequences that is used to create a plan to reach a goal is known as .....
16. When a manager is so busy that he/she gets to a state of emotional, mental and even physical exhaustion, he/she is said to experience.....
17. The process for defining and achieving an organisation's long term objectives is known as .....

## PATHFINDER

- SECTION B:                      ATTEMPT ANY FOUR QUESTIONS                      (60 Marks)**

a. What is meant by a cashless economy? (3 Marks)

b. Explain any **FOUR** benefits derivable from the cashless policy of the Central Bank of Nigeria. (12 Marks)

**(Total 15 Marks)**

The following table shows the short-run Average Cost (AC) of a perfectly competitive firm whose per unit price is ₦62.00 and a fixed cost of ₦40.00.

**Required:**

- ### QUESTION 3

Distinguish between any **THREE** of the following pairs of concepts.

- a. Depreciation and Devaluation of a currency.

# PATHFINDER

- b. Spot and Forward markets of foreign exchange.
  - c. Free Trade Area and Customs Union.
  - d. Balance of trade and Balance of payments.
  - e. Accommodating and Autonomous transactions of the balance of payments.
- (Total 15 Marks)**

## QUESTION 4

- a. What is monopoly? (3 Marks)
  - b. Explain any **FOUR** reasons why the then Power Holding Company of Nigeria (PHCN) lost its monopoly power. (12 Marks)
- (Total 15 Marks)**

## QUESTION 5

- a. State and explain briefly any **FIVE** roles managers play in an organisation according to Mintzberg. (7½ Marks)
  - b. State and explain briefly **FIVE** of Henri Fayol's principles of management. (7½ Marks)
- (Total 15 Marks)**

## QUESTION 6

- a. Identify and explain any **FIVE** requirements needed for an effective control system. (10 Marks)
  - b. Suggest **FIVE** reasons to justify the belief that Human Resources Managers should undertake Human Resources Planning in their organisation. (5 Marks)
- (Total 15 Marks)**



# PATHFINDER

## SOLUTIONS TO SECTION A

### PART I - MULTIPLE CHOICE QUESTIONS

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

### EXAMINERS' REPORT

The questions test candidates' knowledge of concepts and principles in Economics and Business Environment.

Candidates' performance was good.

# PATHFINDER

## PART II – SHORT-ANSWER QUESTIONS

1. Physical Capital
2. 1990, 1992
3. Foreign reserves
4. The World Bank Group
5. Velocity of money
6. Giffen good
7. Debt service
8. Implicit costs
9. Franchise
10. Depreciation
11. Zero
12. Localization
13. Planning
14. Convenience product
15. Decision tree
16. Burnout
17. Strategy formulation
18. Downsizing
19. Country Club Management
20. Cookies

# PATHFINDER

## EXAMINERS' REPORT

The questions test candidates' understanding of various concepts, principles and theories in the syllabus.

Candidates' performance was average.

## SECTION B

### QUESTION 1

- (a) A cashless economy is an economy where the use of physical cash is minimized (not eliminated) and the use of electronic-based transactions (payments for goods, services, transfers, etc) are strongly encouraged.
- (b) The following are benefits derivable from the cashless policy of the Central Bank of Nigeria:
  - (i) Reduction in the high cost associated with handling volume of cash from the Central Bank of Nigeria to other banks; from banks to bank customers, etc.
  - (ii) Increased convenience of transactions for economic agents, e.g. traders.
  - (iii) Reduction in the risk of cash – related crimes.
  - (iv) It enhances the effectiveness of monetary policies in managing inflation and driving economic growth.
  - (v) It discourages the informal economy –high cash usage results in a lot of money outside the formal economy thus limiting the performance of the economy productivity.
  - (vi) Create a trail of transaction which discourages corruption, leakages and money laundering, amongst other cash related fraudulent activities.
  - (vii) It encourages greater financial inclusion, increased tax collection and ultimately increased economic development – reduced revenue leakages.

## EXAMINERS' REPORT

The question tests candidates' understanding of the cashless policy of the Central Bank of Nigeria and the likely benefits to be derived from the implementation of the policy in Nigeria.

About 90% of the candidates attempted the question and their performance was good.

# PATHFINDER

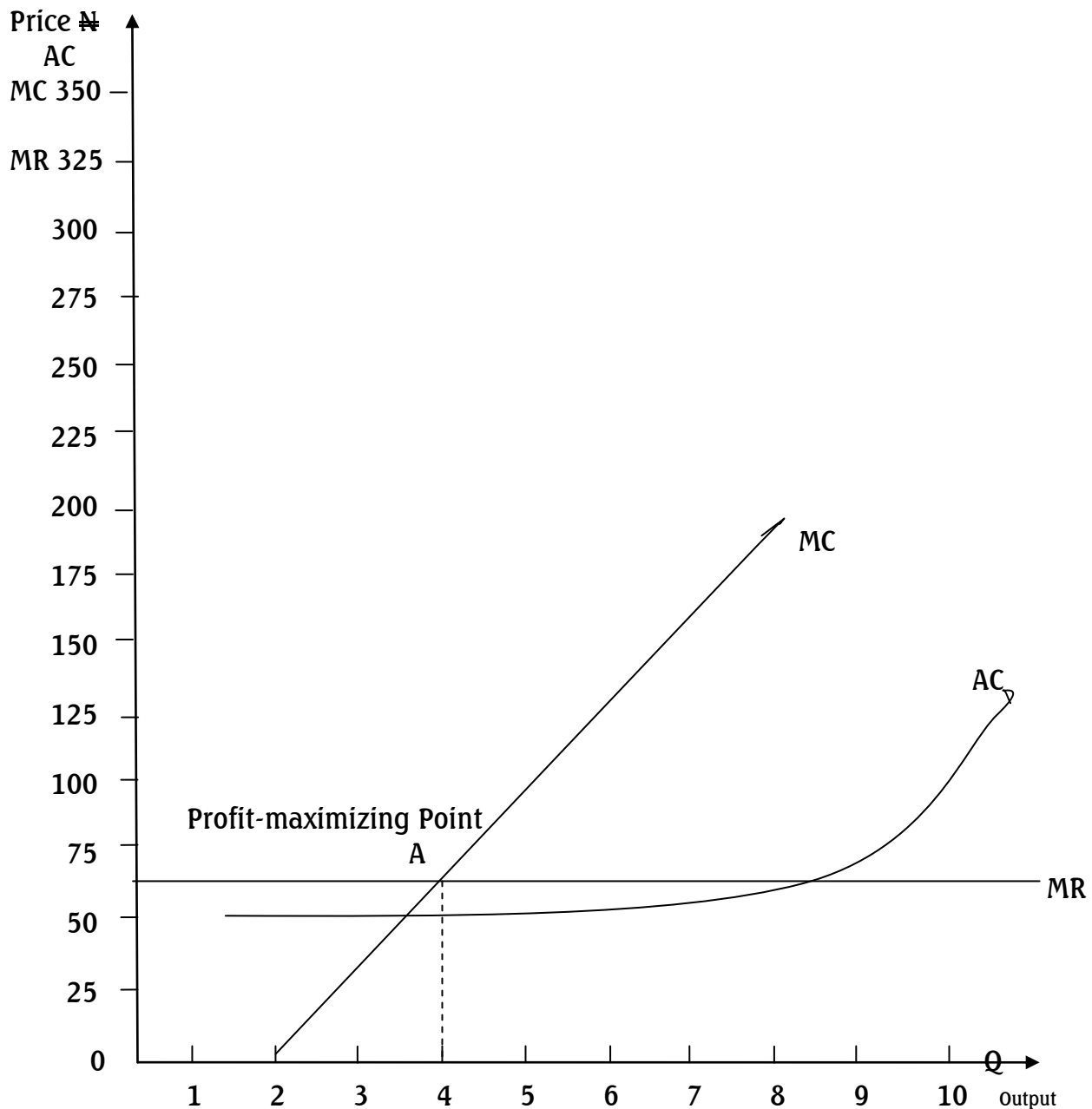
## QUESTION 2

- (a) The following schedule gives the costs and revenue at various levels of output for the firm.

Q	AC ₦	TC ₦	TR ₦	TFC ₦	TVC ₦	AVC ₦	MC ₦	MR ₦
1	45	45	62	40	5	5	-	62
2	24	48	124	40	8	4	3	62
3	30	90	186	40	50	16.7	42	62
4	38	152	248	40	112	28	62	62
5	50	250	315	40	210	42	98	62
6	66	396	372	40	356	59.3	146	62
7	91	637	434	40	597	85.3	241	62
8	120	960	496	40	920	115	323	62
9	131	1,179	558	40	1,139	126.6	219	62
10	150	1,500	620	40	1,460	146	321	62

# PATHFINDER

(b) Diagram



Profit is maximized at the output level where  $MC = MR$  which is  $Q = 4$  units as shown in the graph above.

(c) The abnormal profit at the profit-maximizing output (4 units) is

$$\begin{aligned}
 &= (MR - AC) Q \\
 &= \text{₹}(62 - 38) 4 \\
 &= \text{₹}96
 \end{aligned}$$

# PATHFINDER

## EXAMINERS' REPORT

The question tests candidates' understanding of the theory of the firm and computation skills on cost, revenue and profit relations.

About 30% of the candidates attempted the question and performance was poor.

Candidates were unable to do the required calculations/computations and plot simple graphs from given cost and output information due to lack of adequate preparation and shallow understanding of the relevant cost relations.

Candidates should, therefore, apply themselves robustly by reading widely and adequately preparing for examinations.

## QUESTION 3

### (a) Depreciation and Devaluation of a currency

- (i) Depreciation of currency is the lowering in value of the currency determined by the forces of demand and supply (market) of the currency. If demand for the currency exceeds supply, the value appreciates, conversely, if the supply of the currency is in excess of the demand, the value would depreciate.
- (b) Currency devaluation is a deliberate reduction in the value of a currency. It is a deliberate effort of the government to reduce the value of a given currency relative to some other currencies.

### (b) Spot and forward Market for Foreign Exchange

A spot market for foreign exchange exhibits an immediate market price of a particular currency – on the spot price of the currency or foreign exchange rate. On the other hand, a forward market for foreign exchange exhibits a future market price that is, a post-determined price of the exchange rate for the currency in question.

### (c) Free Trade Area and Customs Union

A free trade area is a form of economic integration comprising of countries that come together to trade freely (without tariffs), they however charge different tariffs rates to non-members of the area. A Customs Union is an

## PATHFINDER

economic integration of countries that come together to trade freely and charge a common external tariff to all non-members.

(d) **Balance of trade and Balance of payments**

The balance of trade is the difference between a country's exports and imports of goods, while a country's balance of payments shows all the payments a nation receives from foreign countries and all the payments it makes to them. The balance of payments includes, the balance of trade, the balance on current account, the balance on capital account and official reserves.

(e) **Accommodating and autonomous transactions of the balance of payments**

Accommodating transactions are the transactions which correct balance of payments disequilibrium. They are compensating short-term capital transactions which are meant to correct disequilibrium in the autonomous items of the balance of payments.

Autonomous transactions of the balance of payments are those transactions that are motivated by profit considerations. Their values are determined independently of the economy's balance of payments.

### EXAMINERS' REPORT

The question tests candidates' understanding of some basic concepts in international trade.

About 52% of the candidates attempted the question and performance was below average.

The major pitfall was the misinterpretation of some of the concepts by candidates. For example, many candidates misinterpreted "Free Trade Area" to mean "Free Trade Zone", "currency depreciation" as "Depreciation of assets", "Customs Union" as "customs agents", etc.

Candidates are advised to study economic concepts more intimately as these concepts are the necessary vocabularies for more effective applications of the knowledge acquired in the discipline.

# PATHFINDER

## QUESTION 4

- (a) Monopoly is a market situation where there is just one producer of a good or service for which no close substitutes exist.
- (b) Power Holding Company of Nigeria (PHCN) lost its monopoly powers for the following reasons:

(i) **Inefficiency:** Power Holding Company of Nigeria (PHCN) is known to be inefficient in the use of productive resources which resulted in reduced capacity to generate sufficient electricity to meet the electricity demand in the country. The incentive towards efficiency was weakened by the lack of adequate and modern facilities, lack of staff commitment to work, mismanagement, corruption, etc. Given that electricity supply is critical for industrial and economic development, the need for greater amount of electricity supply beyond what Power Holding Company of Nigeria could possibly cope with has necessitated the public outcry for the monopoly status conferred on it by law to be reviewed.

(ii) **Consumers' exploitation:** The supply of electricity by Power Holding Company of Nigeria was characterized by exploitative pricing policy as various charges (e.g. meter maintenance charges, fixed cost charges, etc) were imposed on consumers with impunity. Electricity bills were unrelated to electricity consumption. While the quantity and quality of electricity supply decreased, the tariffs consistently increased. It became obvious that Power Holding Company of Nigeria alone lacked the capacity to meet the electricity supply needs of the country, hence the need to break its monopoly.

(iii) **Compromise in the quality of electricity supply**

The decreasing quality in the supply of electricity in the country can be traced to the monopoly status enjoyed by Power Holding Company of Nigeria. One way to improve on this quality, therefore, was to break such monopoly through the institution of competition in the power sector which the present privatization policy of government and the opening up of the sector for more electricity producers represent.

(iv) **Derailment of the industrial vision of the country**

The inadequate supply (in quantity and quality) of electricity as an industrial factor input is constraining industrial production and limiting the scope for industrial output and employment as it is forcing



# PATHFINDER

industrial enterprises to leave the country to other countries. The realization that modern industrial economy is driven by electricity has forced the Nigerian government to have a re-think on the monopoly status conferred on Power Holding Company of Nigeria by law.

## EXAMINERS' REPORT

The question tests candidates' understanding of monopoly market and the disadvantages of monopoly as they play out in the Power Holding Company of Nigeria (PHCN).

About 92% of the candidates attempted the question. Their performance in part (a) of the question was good while it was average in part (b).

Many candidates were unable to articulate views why the PHCN lost out on its monopoly status in Nigeria as have been shown above.

## QUESTION 5

(a) Mintzberg's managerial roles are grouped into:

(i) **Interpersonal Roles**

Managers interact with people inside and outside their work units. Interpersonal roles pertain to relationships with others by performing the following:

- **Figurehead role:** In this role, the manager performs ceremonial and symbolic duties such as signing legal documents, receiving important visitors, attending occasions on behalf of the organisation or the department.
- **Leadership role:** The leadership role encompasses relationships with subordinates including training, motivating, counselling and disciplining.
- **Liaison role:** The liaison role pertains to the maintenance of links with other departments or organisations through meetings, e-mails and phone calls.

# PATHFINDER

## (ii) Informational Roles

Managers receive and transmit information to people inside and outside the organisation by way of:

- **Monitoring role:** The manager constantly seeks and receives information by scanning the environment. This means he/she reads newspapers, periodicals and reports, listens to news on radio/television and maintains personal contact with relevant elements in the environment to gather information for decision making.
- **Disseminator role:** Here, the manager transmits information to organisational members through memos, e-mails and reports and making phone calls. Managers also transmit information at staff meetings, teleconferences etc.
- **Spokesperson role:** Here, the manager transmits information to outsiders through speeches, reports, memos etc.

## (iii) Decisional Roles:

The four decisional roles are:

- **Entrepreneurial role**  
A manager engages in entrepreneurial role by taking initiative for project improvement and bringing about changes in the organisation.
- **Disturbance Handler Role**  
The disturbance handler role involves resolving conflicts among subordinates, taking corrective action during disputes and dealing with any crisis situation when it occurs.
- **Resource Allocator Role**  
The resource allocator role pertains to decisions about how to allocate resources (people, time, equipment, money, information, etc) in order to achieve the desired objectives.

# PATHFINDER

- **The Negotiator Role**

The negotiator role is that in which the manager represents the organisation or department during negotiations with labour unions, users of the organisation's products and services, vendors, creditors, etc.

(b) **Henri Fayol's Principles of Management**

- (i) **Division of work:** This leads to specialization of technical and managerial work and which results in higher productivity.
- (ii) **Authority and Responsibility:** Authority is the right to give orders and the power to exact obedience. This should be commensurate with responsibility which is the amount of work and resources placed at the disposal of the manager.
- (iii) **Discipline:** an outward mark of respect and obedience for the rules and objectives of the organisation in accordance with formal agreement between the firm and its employees.
- (iv) **Unity of command:** This is the principle of one worker reporting to one supervisor. This will eliminate conflict and confusion. Workers should receive orders from and be responsible to only one supervisor at any given time.
- (v) **Unity of direction:** Members of an organisation should work together towards the same objective.
- (vi) **Subordination of individual interest to the general interest:** The interest of individual or groups of employees should not prevail over that of the organisation.
- (vii) **Remuneration** should be fair to both the employee and the firm.
- (viii) **Centralization** depends on the size of the company and the quality of management.
- (ix) **Scalar chain:** The line of authority must be arranged in hierarchical manner dictated by the principle of unity of command linking all managers of the organisation from the top to bottom.
- (x) **Order:** The right man in the right position, a place for everyone and everyone in his place.

## PATHFINDER

- (xi) **Equity:** A combination of kindness and justice towards employees.
- (xii) **Stability of tenure of personnel:** Employees need to be given time to settle on their jobs and there must not be fear or threat of dismissal.
- (xiii) **Initiative within limit of authority:** All categories of staff should be encouraged to show initiative within the limit of their authority.
- (xiv) **Espírit de corps:** There is need to encourage team-work and interpersonal relationship.

### EXAMINERS' REPORT

The question tests candidates' knowledge of Mintzberg's managerial roles and Henri Fayol's principles of administrative management.

Over 80% of the candidates attempted the question. On the whole, performance was average.

Some candidates interpreted Mintzberg's managerial roles as functions of management and lost marks in the process.

Candidates are advised to pay attention to fundamental concepts as they provide the foundation upon which further knowledge is built.

### QUESTION 6

- (a) The requirements for an effective control system include the following:
  - (i) **Control system tailored to plans and positions:** The foundation of effective control is a plan as well as the positions that implement the plans and control processes. For the control system to be effective, it must be closely aligned to plans and positions.
  - (ii) **Control system tailored to individual managers:** Individual managers are the ones who monitor the execution of plans and take decisions to apply the needed controls. However, managers have different levels of skills, experiences, expertise, drive, motivation, etc. For controls to be effective, they must be tailored to suit the characteristics of the individual managers who are expected to apply them.

## PATHFINDER

- (iii) **Control system that points up exceptions at critical points:** For a control system to be effective, it must be such that is sensitive to and points up exceptions that require actions by the manager. The exception (or red flag) draws attention or signals the need to take action to ensure that the plan is on course.
  - (iv) **Flexibility of the control system:** In the process of executing plans, managers often encounter disturbances or conditions that were not anticipated. When such unexpected changes occur, plans are accordingly adjusted or modified to fit the new conditions. Similarly, controls must be flexible so that they can be adjusted to fit new conditions and still remain effective.
  - (v) **Existence of standards for control:** Effective control systems must have standards against which actual performance is compared in order to take corrective actions. Such standards must be objective, clear and measurable.
  - (vi) **Suitability of control system for the existing organisational culture:** For a control system to be effective, it must be suitable for the norms, values and practices prevalent in the organisation. Lack of fit of the control system with the existing organisational culture will result in its ineffectiveness.
- (b) Benefits of human resource planning include:
- (i) **Anticipation of the human resource required for the achievement of organisation goals:** With human resources planning, the organisation can determine the number and quality of human resources it needs to achieve its strategic goals.
  - (ii) **Attraction and retention of the right human resource:** Human resource planning helps in attracting and retaining the number of people with the appropriate skills, expertise and competencies required by the organisation.
  - (iii) **Human resource forecasting:** With human resource planning, it is possible to anticipate the problems of potential surplus or deficit in manning the organisation.

## PATHFINDER

- (iv) **Anticipation of the organisation's skill needs:** With human resource planning, the organisation can anticipate the skill gaps and take proactive steps to fill them through a well thought-out training and development programmes.
  - (i) **Aids succession management:** With human resource planning, proactive decisions can be made for smooth succession in the organisation.
  - (ii) **Better utilization of people:** Human resource planning helps to improve the utilisation of people through the introduction of more flexible system of work.
  - (iii) **Reduction of labour turnover rate:** A well thought-out human resource plan can help reduce the incidence of labour turnover rate.
  - (iv) **Improved competitiveness:** Human resource planning helps the organisation to realise their strategic goals and improved competitiveness.

### EXAMINERS' REPORT

The question tests candidates' knowledge of the requirements for an effective control system as well as the reasons why Human Resource Managers undertake human resource planning.

Over 60% of the candidates attempted the question. Performance was poor.

Many candidates could not provide the requirements for an effective control system. Instead, some discussed problem solving process. With respect to the second part of the question, most of the candidates confused the reasons why Human Resource

Managers undertake human resource planning with the roles of Human Resource Manager.

Candidates are advised to read questions carefully and focus on what is required.

# PATHFINDER

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

FOUNDATION EXAMINATION - MAY 2014

CORPORATE AND BUSINESS LAW

Time Allowed: 3 hours

SECTION A: PART I

MULTIPLE-CHOICE QUESTIONS

(20 Marks)

ATTEMPT ALL QUESTIONS IN THIS SECTION

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

1. When a lower court differentiates between the judgement of a higher court and the case at hand in deciding a matter, the lower court is said to be
  - A. Appraising
  - B. Reviewing
  - C. Distinguishing
  - D. Assessing
  - E. Evaluating
2. Chapter 2 of the 1999 Constitution of the Federal Republic of Nigeria is described as non-justiceable because
  - A. It is against public policy
  - B. The court cannot adjudicate on it
  - C. It is not recognised by the court
  - D. The National Assembly is yet to approve it
  - E. It is against equity and fairness
3. Tort of negligence can be described as
  - A. Duty of care + Breach + Damages
  - B. Duty of care + Mistake + Nuisance
  - C. Defamation + Damages + Duty
  - D. Nuisance + Breach + Mistake
  - E. Misrepresentation + Duty + Breach

## PATHFINDER

4. The elements of an enforceable e-contract consist of the following **EXCEPT**
  - A. Offer
  - B. Acceptance
  - C. Computer
  - D. Consideration
  - E. Capacity to contract
5. The term of a contract that goes to the root of the agreement and can render the contract unenforceable if breached is
  - A. Warranty
  - B. Mistake
  - C. Misrepresentation
  - D. Condition
  - E. Undue influence
6. An e-contract can be facilitated using any of the following **EXCEPT**
  - A. An ipad
  - B. A Smart telephone set
  - C. A desk top computer set
  - D. A laptop computer set
  - E. An electric typewriter
7. An agent has apparent authority to bind
  - A. The third party
  - B. The principal
  - C. The whole country
  - D. The whole wide world
  - E. Himself
8. The rule in sale of goods contract that a non-owner cannot validly pass good title is often expressed in Latin as
  - A. *Quic quid platantur solo solo cedit*
  - B. *Volenti non fit injuria*
  - C. *Nemo dat quod non habet*
  - D. *Ex dolo mala non oritur actio*
  - E. *Caveat emptor*



## PATHFINDER

9. An agreement to buy goods and subsequently pay for it by instalments on the term that ownership will pass when the final instalment is paid is
- A. A credit sale
  - B. A hire purchase
  - C. A conditional sale
  - D. An outright sale
  - E. A provisional sale
10. The only type of contractual arrangement in which one party pays premium periodically to the other party is a
- A. Contract of lottery
  - B. Landlord – tenant contract
  - C. Contract between Estate Agents and Tenants
  - D. Contract of insurance
  - E. Non- insurable contract
11. Under the common law, the veil of incorporation will **NOT** be lifted where the company
- A. Has been formed for fraudulent or illegal purposes
  - B. Operates as agent of shareholders
  - C. Trades with alien enemies
  - D. Engages in acts that are detrimental to public interest
  - E. Engages in completely *ultra vires* activities
12. Which of the following is **NOT** a ground for winding up of a company?
- A. Fraudulent trading
  - B. Resolution by members to wind up
  - C. Reduction of membership below minimum number
  - D. Court Order
  - E. Possibility of abuse of limited liability system
13. The persons proposing to form a company are required to prepare and present documents to the Corporate Affairs Commission for registration. Which of the following documents states the objects of the proposed company?
- A. Statutory declaration of compliance sworn to by a legal practitioner
  - B. Statement of the authorised or minimum share capital

## PATHFINDER

- C. The Memorandum of Association
  - D. The Articles of Association
  - E. Written consent of the first directors
14. Under the Companies and Allied Matters Act, the contents of a notice of meeting must specify the following **EXCEPT** the
- A. Place
  - B. Date
  - C. Time
  - D. General nature of business
  - E. Remuneration of members
15. A partner in a trading firm has the following implied authority **EXCEPT**
- A. Borrowing money on the firm's credit
  - B. Pledging the firm's goods and assets as security
  - C. Admission of a new partner
  - D. Drawing, accepting, transferring or endorsing negotiable instruments in the name of the partnership
  - E. Instructing a solicitor to recover debts owed to the firm
16. A limited partner must
- A. Take part in the management of the partnership business
  - B. Not take part in the management of the partnership business
  - C. Have the power to bind the partnership firm
  - D. Have power to sign cheques and other documents
  - E. Have power to introduce a new general partner
17. A Banker may make disclosure of its customer's account in the following circumstances **EXCEPT** where
- A. The banker is lawfully compelled to do so
  - B. Public duty warrants it
  - C. The customer's creditor demands it
  - D. It is in the banker's interest to disclose it
  - E. The customer makes express or implied request for it

## PATHFINDER

18. A bill can be discharged in any of the following ways **EXCEPT** by
- A. Payment in due course
  - B. Physical destruction of the bill
  - C. Acceptor becoming holder of the bill
  - D. Renunciation
  - E. Cancellation
19. A Will may be revoked by
- A. A Codicil
  - B. Death of the testator
  - C. Insanity of the testator
  - D. Bankruptcy of the testator
  - E. Accidental destruction
20. The court that has original jurisdiction to entertain a suit on bankruptcy is
- A. State High Court
  - B. Sharia Court of Appeal
  - C. National Industrial Court
  - D. Customary Court of Appeal
  - E. Federal High Court

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

**ATTEMPT ALL QUESTIONS IN THIS SECTION**

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

1. Laws made by the National Assembly are known as .....
2. The supreme law of the country is .....
3. A non-civil wrong against the state is known as .....
4. The ordinary term of a contract which entitles the aggrieved party to sue only for damages and not rescission of the agreement is a .....
5. The remedy or an order by a court ordering a party who breached an agreement to perform his obligations under the contract is known as .....

## PATHFINDER

6. In law of contract, the rule that a person who is not a party to a contract cannot sue on the transaction is known as .....
7. An agent in whose possession goods are put with an implied authority to sell them is a .....
8. In Sale of Goods law, goods which have been produced by the seller are known as .....
9. In hire purchase transaction, the hirer is put in possession of goods on payment of the consideration known as.....
10. An insurer cannot carry on life insurance business if its share capital is less than.....
11. The officer of a company who formally examines and verifies the financial books of the company is the .....
12. Company securities which public limited companies issue to raise capital for their operations are mainly shares and .....
13. The type of winding up of a company that is ordered by the court is known as ..... winding up
14. The officer of a company saddled with the responsibility of rendering proper returns and giving notification to the Corporate Affairs Commission under the Companies and Allied Matters Act is the .....
15. The liability of partners in a firm to third parties is .....
16. What is the effect of the death of a partner on the partnership?
17. The type of crossing by which a cheque can only be deposited and collected through the bank account of the person whose name is written on it is a .....
18. A bonafide transferee of a negotiable instrument takes it free from equities if he has given valuable ..... for it.
19. Bankruptcy petition by a group of creditors who acts together against a common debtor who is known to be insolvent is a .....
20. A person who holds the legal title to a property for the benefit of another is a .....

# PATHFINDER

**SECTION B:**

**ATTEMPT ANY FOUR QUESTIONS**

**(60 Marks)**

## **QUESTION 1**

- a. "Fundamental rights" are provided for in the 1999 Constitution of the Federal Republic of Nigeria.

You are required to State any **FOUR** Fundamental rights contained in the Constitution. (4 Marks)

- b. Jones Plastic Packaging Company Limited has its head office in Lagos. The company suspected that one of its accounting staff, Mrs. Kabuki, was responsible for the economic losses suffered by the company in recent months.

On Monday, when Mrs. Kabuki resumed at the factory, she was detained at the security gate for eight hours without questioning. Thereafter, she was summarily dismissed. She had protested that she had no information about what led to her dismissal. The only official communication from the company to her in the last six months was the letter of dismissal from employment.

Mrs. Kabuki is aggrieved and wants to seek legal redress.

**Required:**

Advise Mrs. Kabuki on her Fundamental rights under the 1999 Constitution of the Federal Republic of Nigeria. (6 Marks)

- c. Ojoge is a driver with Ozaro Bottling Company. At the close of work on Tuesday, while still putting on the branded overall jacket of Ozaro Bottling Company and walking down the street to his house, a motorcyclist, Olu, splashed rain water on Ojoge.

Ojoge beat up Olu thoroughly and fractured his arm. While attempting to flee from the scene to avoid being lynched by an angry mob, his overall jacket dropped and the mob used the jacket to locate Ojoge's place of work.

Based on the fact that Ojoge works with Ozaro Bottling Company, Olu is considering seeking legal redress against Ozaro Bottling Company for the act of Ojoge.

**Required:**

Advise Olu on his rights under the law.

(5 Marks)

(Total 15 Marks)

# PATHFINDER

## QUESTION 2

- a. Mr. Loverboy Hubby and Mrs. Devoted Hubby were happily married until Mr. Hubby met Miss Girlie. The desire of Mr. Hubby to follow Miss Girlie led to separation between him and his wife, and Mr. Hubby moved out of the family house to Miss Girlie's residence.

Mr. Hubby intends to divorce Mrs. Hubby. As part of arrangement for the divorce, they met and Mr. Hubby gave her a written statement that, in consideration of Mrs. Hubby paying the mortgage on the family house which was in the name of her husband, he would transfer the house into her sole ownership. Mrs. Hubby paid the mortgage and asked for the transfer of the house, but Mr. Hubby refused, claiming that the agreement is not binding on him.

Advise Mrs. Devoted Hubby.

(10 Marks)

- b. Contractual obligations and rights arising from a contract can be discharged in various ways.

**You are required to:**

State **FIVE** ways by which a contract may be discharged.

(5 Marks)

(Total 15 Marks)

## QUESTION 3

- a. In commercial transactions, goods and services are offered and sold.  
Explain briefly **TWO** classes of goods under the Sale of Goods Act. (5 Marks)
- b. In hire purchase agreements, goods are delivered to the hirer who pays some money to the owner of goods as deposit.  
Explain briefly **TWO** characteristics of a hire purchase transaction. (5 Marks)
- c. Steven insured his five-storey building with ABC Insurance Company Limited and paid the premium for the building.  
Steven had been told by his engineers that the building is weak and may collapse in no distant future, but Steven did not disclose this to his insurers, thinking it was immaterial.  
A year after the policy was issued, the building collapsed and the insurance company has refused to indemnify Steven on the ground of non-disclosure of a material fact.

# PATHFINDER

**Required:**

State the relevant law and advise the parties.

(5 Marks)  
(Total 15 Marks)

## QUESTION 4

- a. “Every company must, by law, have a Secretary. A company may also serve as a Secretary to another company. However, a sole director may not be the Secretary of a company. The Company Secretary is the Chief Administrative Officer of the company”.

**Required:**

State **FIVE** duties of a Company Secretary.

(5 Marks)

- b. At common law, a Secretary was regarded as a mere servant who should do what he was told to do and could **NOT** bind the company in any way. This notion has since been corrected by the Companies and Allied Matters Act CAP C20 LFN 2004.

**Required:**

State **FIVE** persons qualified to be appointed as Company Secretary of a public company under the Companies and Allied Matters Act.

(5 Marks)

- c. Partnership contract is based on confidence, good faith, and trust between the partners.

**Required:**

Explain **TWO** circumstances in which a non-partner could benefit from the profits of a partnership.

(5 Marks)

(Total 15 Marks)

## QUESTION 5

- a. Jossy is a cabinet maker based on Victoria Island, Lagos, where he has a lucrative business. Jossy is proposing to expand his business and wants to invite James to form a Limited Liability Company, using the name Jossy James Limited.

# PATHFINDER

**You are required to:**

- i. State **FIVE** documents that must be filed for the incorporation of the company; and (5 Marks)
  - ii. Advise the parties on whether the proposed name, Jossy James Limited is appropriate and, state **FOUR** prohibited or restricted company names. (5 Marks)
- b. State **FIVE** advantages of a Limited Liability Company over a Partnership (5 Marks)
- (Total 15 Marks)**

## QUESTION 6

- a. "A Negotiable Instrument must express clarity in the instruction on the instrument without any ambiguity".
- Explain **TWO** characteristics of a Negotiable Instrument. (4 Marks)
- b. The relationship between the banker and his customer is said to be the relationship between a debtor and a creditor.

**You are required to:**

- State **FIVE** duties of a banker to its customer. (5 Marks)
- c. A testator that has made a Will can only revoke it under certain circumstances.
- Explain **THREE** ways by which a Will may be revoked. (6 Marks)
- (Total 15 Marks)**

## SOLUTIONS TO SECTION A

### PART 1

### MULTIPLE-CHOICE QUESTIONS

1. C
2. B
3. A
4. C
5. D



## PATHFINDER

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

### EXAMINERS' REPORT

The questions in this part test candidates' knowledge of the salient principles of Corporate and Business Law, and cover essentially the entire syllabus.

Candidates' performance was good, as more than 70% of them scored 50% and above of the allocated marks.

### SHORT-ANSWER QUESTIONS

1. Acts
2. The Constitution
3. Crime
4. Warranty
5. Specific Performance
6. Privity of Contract
7. Factor Agent

# PATHFINDER

8. Existing Goods
9. Instalment
10. 2 Billion Naira
11. Auditor
12. Debenture/Corporate Bonds/Loan Notes
13. Compulsory
14. Company Secretary
15. Joint/Joint and Several
16. Dissolution
17. Special Crossing
18. Consideration
19. Creditors Petition
20. Trustee

## EXAMINERS' REPORT

In this part, the questions test candidates' understanding of the elements of Business Law. The questions cover the entire gamut of the syllabus.

Candidates had good understanding of the questions, as more than 75% of them scored above 50% of the allocated marks.

## SOLUTIONS TO SECTION B

### QUESTION 1

- a. The fundamental rights provided for under the Constitution of the Federal Republic of Nigeria, 1999 are:
  - (i) Right to life
  - (ii) Right to dignity of human person
  - (iii) Right to personal liberty
  - (iv) Right to fair hearing
  - (v) Right to private and family life
  - (vi) Right to freedom of religion
  - (vii) Right to freedom of expression and the press
  - (viii) Right to peaceful assembly and association
  - (ix) Right to freedom of movement

## PATHFINDER

- (x) Right to freedom from discrimination
  - (xi) Right to acquire and own immovable property in Nigeria
- b. The case relates to the fundamental rights guaranteed under the Constitution of the Federal Republic of Nigeria, 1999.

The specific rights to be discussed here are:

- (i) Right to freedom of movement, and
- (ii) Right to fair hearing.

The wrongful detention of Mrs Kabuki at the gate house for eight hours amounted to a violation of her right to freedom of movement.

The termination of Mrs. Kabuki's employment with the company was a form of punishment. She has a right to know the charges against her and to make a defence prior to the punishment by the company. Failure on the part of the company to hear from her amounted to a violation of her right to fair hearing.

Mrs. Kabuki can maintain an action against the company successfully on the ground that her fundamental rights have been violated.

- c. This question borders on the principle of vicarious liability in the law of torts. Vicarious liability connotes that a master will be liable for the wrongful acts or omission of his servants, provided the wrong was committed while the servant was acting in the course of his employment.
- In this instance, Ojoge's wrongful act was committed outside the working hours. It was also not within the scope of his employment to beat people up. He was employed as a driver. The company is not liable to Olu for Ojoge's wrongful act.

Olu is advised to sue Ojoge personally.

### EXAMINERS' REPORT

The question tests candidates' understanding of the fundamental rights as enshrined in the Constitution; and the application of the law of torts as it relates to vicarious liability.

It was well attempted by the candidates and their performance in parts (a) and (b) was very good, while part (c) was fair.

Candidates' commonest pitfall in (c) was their lack of appreciation of the application of vicarious liability in the law of torts.

# PATHFINDER

Candidates are advised to read more on vicarious liability.

## QUESTION 2

- a. To constitute a contract, parties must intend expressly or impliedly that their agreement should give rise to legally enforceable obligation. The intention to enter legal relation is one of the essentials in the formation of a contract. The general rule is that domestic agreements are not legally binding. However, where one of the parties in a domestic agreement has furnished consideration or the parties are not in harmony at the time of the agreement, the court will enforce the agreement as legally binding. *Merrit V. Merrit* (1970).

In this case, Mrs. Hubby has furnished consideration by paying the mortgage. In addition, the parties to the domestic agreements under consideration are not in harmony. They have separated and are not living together. Mrs. Hubby can seek redress in court and on the basis of the above position, can enforce the contract.

- b. Contract may be discharged in the following ways:
- (i) By Agreements of the parties
  - (ii) By Performance
  - (iii) By Breach
  - (iv) By Frustration
  - (v) By Order of the Court
  - (vi) By Part-Performance
  - (vii) By Illegality
  - (viii) By Death of a Party
  - (ix) Completion of the Project

## EXAMINERS' REPORT

The question tests candidates' understanding of intention to create legal relations in the law of contract; while part (b) is on the circumstances in which a contract may be discharged.

Candidates understood well the question and attempted it. Overall performance was very good.

# PATHFINDER

## QUESTION 3

- a. The classes of goods under the Sale of Goods Act are:
- (i) **Existing goods:** These are goods that have been manufactured, grown or produced and owned by the seller at the time of the contract.
  - (ii) **Future goods:** These are goods which are to be grown, manufactured, identified and agreed upon or acquired by the seller after the making of the contract.
  - (iii) **Specific goods:** These are existing goods which have been identified and agreed upon at the time the contract was made e.g. two tons of maize in Ikeja XYZ warehouse.
  - (iv) **Ascertained goods:** These are goods which the buyer has identified and agreed to buy from the seller. They are more or less the same with specific goods.
  - (v) **Unascertained goods:** These are goods which are sold by description but not identified or agreed upon at the time of the contract e.g. two tons of maize. The distinguishing feature of this class of goods is that property and risk do not pass immediately.
- b. The characteristics of hire purchase transaction are:
- (i) It is a contract between owner of goods and the hirer which is required to be in writing and to include certain statutory provisions.
  - (ii) The relationship between the parties is that of a bailor and a bailee, but the bailment rules are modified.
  - (iii) The property does not pass when the agreement takes effect and it will not pass until the stipulated time and until all conditions are satisfied e.g. payment of the last instalment and exercise of option to purchase.
  - (iv) The hirer has the right to return the goods at any time and thereby terminate the contract, thereafter, he is not liable to pay further instalments.
  - (v) The hirer enjoys the option to purchase the goods if he so desires by satisfying the agreed considerations.

## PATHFINDER

- c. Contract of insurance is a contract of utmost good faith (*uberamae fidei*). Good faith forbids either party from concealing what he privately knows to draw the other party to the bargain. The burden is more on the insured who is deemed to know everything.

Steve knew that his house was weak but he did not disclose it. Thus, this non-disclosure of material fact goes to the root of the contract and he is not entitled to be indemnified by the insurance company.

If he goes to court against the insurance company, his action is likely to fail. The ABC Insurance company may decline to indemnify Steve on the ground of non-disclosure, arguing that Steve did not manifest good faith by concealing a material fact which he knew, conscious that if it was disclosed it would have influenced their decision to insure the house.

### EXAMINERS' REPORT

The question tests candidates' knowledge of the types of goods under the Sale of Goods Act, 1893, the characteristics of a hire purchase transaction and the effect of non-disclosure in a contract of insurance.

Candidates showed good understanding of the question and performance was very goods.

### QUESTION 4

- a. The duties of the Company Secretary are prescribed under Section 298 of the Companies and Allied Matters Act, CAP C20 LFN 2004 (CAMA) and they include the following:
- (i) Attending the meetings of the company, the board of directors and its committees, rendering all necessary secretarial services in respect of the meeting and advising on compliance of the meetings with applicable rules and regulations.
  - (ii) Maintaining the registers and other records required to be maintained by the company under this Act.
  - (iii) Rendering proper returns and giving notification to the Corporate Affairs Commission as required under this Act.
  - (iv) Carrying out such administrative and other secretarial duties as directed by the directors, or the company.

## PATHFINDER

- (v) Handling all correspondence with members and clients of the company.
  - (vi) Keeping the books of the company e.g. the company's legal seal; register; register of members.
  - (vii) Keeping/handling the certificate of transfers.
- b. It shall be the duty of a director to take all reasonable steps to ensure that the Secretary of the company is a person who appears to him to have the requisite knowledge and experience to discharge the functions of a Secretary of a company, and in the case of a public company he shall have any of the following qualifications by virtue of Sec 295 of CAMA:
- (i) A member of the Chartered Institute of Secretaries and Administrators.
  - (ii) A legal practitioner within the meaning of the Legal Practitioners Act 1975.
  - (iii) A member of the Institute of Chartered Accountants of Nigeria or such other bodies of Accountants as are established from time to time by an Act.
  - (iv) Any person who has held the office of the Secretary of public company for at least three years of the five years immediately preceding his appointment in a public company.
  - (v) A body corporate or firm consisting of members each of whom is qualified under paragraphs (i) (ii) (iii) and (iv) of the section. (Sec 295 of CAMA).
- c. The Partnership Act, 1890 also stipulates that in the following situations, a person may receive part of the profits, of an undertaking without being a partner.
- (i) If a creditor receives payments by instalment out of the profits of a business without more, provided that he is not a partner e.g. Debenture-holder of a company.
  - (ii) If an employee or agent is given a share of the profits of a company e.g. as in productivity motivation schemes.
  - (iii) If the widow or child of a deceased partner is given an annuity out of the profits of a partnership.
  - (iv) If the seller of a business receives payment for his goodwill in the form of an annuity or periodic-payments out of a firm's profit, but this alone shall not make him a partner.

# PATHFINDER

## EXAMINERS' REPORT

The question in parts (a) and (b) tests the understanding of candidates of the duties and qualifications of a Company Secretary under the Companies and Allied Matters Act; while part (c) is on rights and privileges of a partner in a partnership. Candidates performed well in parts (a) and (b), while performance was poor in part (c). Some of them did not attempt part (c) at all.

The commonest pitfall was their inability to understand the requirements of the question in part (c).

Candidates are enjoined to take more interest in studying this part/aspect of the syllabus.

## QUESTION 5

- a.(i) The documents needed for the incorporation of Jossy James Limited are:
- The Memorandum of Association
  - The Articles of Association
  - Notice of the Registered Office of the company
  - The list and Particulars of Directors together with their consent to serve
  - Statement of Authorised Share Capital
  - Statutory Declaration of compliance with the provisions of the Act
  - Return on allotment of shares
  - Particulars of the Secretary
  - Any other documents required by the Corporate Affairs Commission (CAC)
- (ii) The proposed company can use the name Jossy-James Limited because the proposed name does not fall under prohibited names or restricted names that require the consent of the CAC. Such prohibited names are a name:
- (iii)
- That is identical with that by which a company in existence is already registered.
  - That contains the words “Chambers of Commerce“, except it is a company limited by guarantee.
  - Which the CAC regards as misleading as to the nature and extent of the company’s activities.



## PATHFINDER

- Which in the opinion of the CAC would violate any existing trade mark of a business

The restricted names are a name that:

- Includes the word Federal, National, Regional, State Government.
- Contains the word municipal or chartered.
- Contains the word “co-operative” or the words “Building Society” except with the permission of the Corporate Affairs Commission

(b) The advantages of a limited liability company over partnership are:

- Legal Personality:** A limited liability company is a separate and distinct legal entity from its members, whereas, a partnership is not.
- Limited Liability:** An individual shareholder, unlike a general partner, cannot be held liable for the debts of the company beyond the amount unpaid (if any) on his shares,
- Perpetual Succession:** A limited liability company has perpetual succession, while the death of a partner automatically terminates the partnership.
- Transferability of shares:** The shares of a limited liability company are generally freely transferable, whereas a new partner could only be admitted by unanimous consent of the partners.
- Corporate Litigation:** A limited liability company has the capacity to sue and be sued in its own name, while a partnership must be sued in the names of the partners.
- Property:** Since a company is separate from its members, it may own property in its own right, but properties in partnership belong to the partners.
- Borrowing Powers:** With the incorporation of a company, its ability or the opportunities to borrow is enhanced, whereas, partners borrow monies in their own names.
- Corporate Governance:** Management in a limited liability company, may be separate from the owners, whereas partners manage a partnership.

### EXAMINERS' REPORT

The question tests candidates' knowledge of the documents required for the incorporation of a company; company names prohibited or restricted from incorporation and the advantages of a limited liability company over partnership. Candidates were quite familiar with this question and therefore showed a good understanding of same, and thus performed very well.

# PATHFINDER

## QUESTION 6

- a. Negotiable instruments are choses in action whose proprietary and legal rights are transferred free from equities by mere delivery.

The major characteristics of negotiable instruments are:

- (i) It is an instrument in writing and generally imports a document of a formal kind.
  - (ii) It is a contract: Every negotiable instrument is a document embodying a contract of promise in writing to secure the payment of money or delivery of security for money.
  - (iii) It is negotiable: It is negotiable rather than assignable. It is transferable by delivery.
  - (iv) The transferee can sue on the instrument in his own name. It is a basis for the transferee to institute a legal action.
  - (v) A bonafide transferee of a negotiable instrument takes it free from equities if he has given valuable consideration for it.
- b. The duties of a banker to its customers are:
- (i) Duty to honour customers' cheques.
  - (ii) Duty to act as collecting banker.
  - (iii) Duty to keep the customer's affairs secret.
  - (iv) Duty to exercise care, skill and diligence.
  - (v) Duty to honour court orders in respect of a customer's account
  - (vi) Duty to act as a bank of the customer
  - (vii) Duty to pay only upon the customer's instruction
  - (viii) Duty not to manipulate the customer's account
  - (ix) Duty to correctly inform the customer on a regular basis of the state of his account.
- c. The following are the ways by which a Will may be revoked.
- (i) By a subsequent Will: Where the testator makes another Will, the previous Will stands revoked.
  - (ii) A codicil which is supplemental to a Will has the capacity to revoke the provision of the existing Will.
  - (iii) By destruction: Where the testator wilfully and intentionally destroyed his existing Will, the Will stands revoked.
  - (iv) A Will is revoked automatically by a subsequent marriage under the Act.

# PATHFINDER

## EXAMINERS' REPORT

The three-part question tests candidates' knowledge of the characteristics of a negotiable instrument, duties of a banker to its customers and ways by which a Will may be revoked.

Candidates performed poorly in part (a) while their performance in parts (b) and (c) was good.

Their commonest pitfall was their apparent lack of interest in the topic under reference.

Candidates are encouraged to ensure adequate coverage of the entire syllabus, during the course of their preparations for future examinations.