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.

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

FOUNDATION LEVEL EXAMINATIONS - MAY 2015

FINANCIAL ACCOUNTING

Time Allowed: 3 hours

SECTION A: 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 will NOT be included as financing activities in the statement of cash flows of a business entity?
   A. Proceeds from the issue of shares
   B. Cash dividend paid to shareholders
   C. Loan from the bank
   D. Proceeds from disposal of non-current assets
   E. Proceeds from issue of debentures

2. On 1 January 2013 a motor vehicle, with the expected useful life span of 5 years and residual value of ₦100,000, was acquired for ₦1,600,000. Using sum-of-the-years digit method, what is the second year depreciation provision of the motor vehicle?
   A. ₦400,000
   B. ₦426,000
   C. ₦530,000
   D. ₦540,000
   E. ₦600,000

3. A draft financial statements of DS Enterprises revealed that an amount of ₦10,000 expended on repairs of telephone was recorded as motor vehicle expenses. State the entries to reverse this error.
   A. Dr. Motor vehicle expenses account
Cr. Telephone expenses account
B. Dr. Telephone expenses account
      Cr. Suspense account
C. Dr. Motor vehicle account
      Cr. Suspense account
D. Dr. Telephone expenses account
      Cr. Motor vehicle expenses account
E. Dr. Suspense account
      Cr. Telephone expenses account

4. The source of data for the recording of sales day book of a business enterprise is
   A. Returns inward note
   B. Returns outward note
   C. Official receipt
   D. Payment voucher
   E. Invoice

5. A vehicle was purchased on 1 January 2011 at a cost of ₦2,000,000 and was depreciated at 25% on cost. It was sold on 31 December 2013 for ₦1,400,000. Full-year depreciation was charged in the years of purchase and disposal.

   Required:
   Determine the profit or loss on the disposal
   A. ₦500,000 profit
   B. ₦500,000 loss
   C. ₦900,000 profit
   D. ₦900,000 loss
   E. ₦1,150,000 profit

6. Which of the following is NOT correct in differentiating between sole trader and limited liability companies?
   A. A sole trader is fully and personally liable for any losses that the business might make
   B. Drawings would only appear in the financial statements of a sole trader
   C. Only companies have share capital
   D. A sole trader’s financial statements are private and never made available to any other equity holder
E. Companies financial statements are sent to shareholders and may be publicly filed

7. Which of these statements CANNOT be defined as income?
   A. Decrease in economic benefits during the accounting period
   B. Increase in economic benefits during the accounting period
   C. Decrease in liabilities
   D. Gains arising on the disposal of non-current assets
   E. Activities that enhance the net assets

8. Which of these books of account could be classified as a subsidiary book as well as a ledger?
   A. Sales day book
   B. Cash book
   C. General ledger
   D. Nominal ledger
   E. Personal ledger

9. Abalabi Ventures has a credit facility with a local trade supplier. An invoice for purchases has been credited to the suppliers account and wrongly debited to the sales account.

   **Which of the following journal entries will correct the error?**
   A. Dr. Sales account Cr. Supplier account
   B. Dr. Supplier account Cr. Sales account
   C. Dr. Purchases account Cr. Sales account
   D. Dr. Sales account Cr. Bank account
   E. Dr. Supplier account Cr. Cash account

10. Use the following information to answer questions 10 & 11.
    The accounting officer of a trading outfit wrongly debited the purchase of a non-current asset item to purchases account and credited it to the supplier's account.

   **Which of the following journal entries is appropriate to correct the error?**
   A. Dr. Supplier account Cr. Purchases account
   B. Dr. Purchases account Cr. Supplier account
   C. Dr. Non-current asset account Cr. Purchases account
   D. Dr. Purchases account Cr. Non-current asset account
   E. Dr. Supplier account Cr. Non-current asset account

11. The effect of the error on the financial statements, if not detected, would include the following EXCEPT
    A. The purchases in the financial statements will be overstated.
B. The inventory of the outfit will be understated
C. The profit of the outfit will be understated
D. The non-current assets account will be understated
E. The inventory will be overstated

12. Which of the following provides the origin of accounting information?
   A. Accounting books
   B. Source documents
   C. Ledger
   D. Cash book
   E. Subsidiary book

13. Which of the following errors does NOT affect the balancing of a trial balance?
   A. Error of principle
   B. Casting error
   C. Transposition error
   D. Duplication of entries
   E. Missing entries in the ledger

14. Which of the following is NOT an accounting concept?
   A. Information
   B. Historical cost
   C. Consistency
   D. Accrual
   E. Going concern

15. When recognising income under the accrual basis, which of the following statements is correct?
   A. Income is recognised when earned and cash is received
   B. Income is recognised only when it is not certain that cash will be received
   C. Income is recognised only when cash is received
   D. Income is recognised when earned and not necessarily when cash is received
   E. Accrued income is only recognised in the financial statements.

16. The following information relates to Pingway Enterprises as at 31 December 2013.

   Allowance for bad debts brought forward  \( £000 \) 9,750
Accounts receivable 129,250  
Bad debt to be written-off 9,250  

Allowances for bad debts should be adjusted to 5% of accounts receivable balance.

What amount of allowance for bad debts would be written-back in 2013 financial year?

A. ₦15,750  
B. ₦9,750  
C. ₦6,463  
D. ₦6,000  
E. ₦3,750

17. Where there is no partnership agreement, any capital contribution in excess of the agreed amount attracts

A. No interest  
B. Interest at the rate of 2 1/2% per annum  
C. Interest at the rate of 5% per annum  
D. Interest at the rate of 10% per annum  
E. Interest at the rate of 20% per annum

Use the following information to answer questions 18 and 19

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as per cash book</td>
<td>₦220,000</td>
</tr>
<tr>
<td>Dishonoured cheques</td>
<td>₦100,000</td>
</tr>
<tr>
<td>Bank charges</td>
<td>₦10,500</td>
</tr>
<tr>
<td>Uncredited cheques</td>
<td>₦70,000</td>
</tr>
</tbody>
</table>

18. The adjusted cash book balance is

A. ₦100,000  
B. ₦109,500  
C. ₦155,500  
D. ₦209,500  
E. ₦309,500

19. The balance as per bank statement is

A. ₦39,500  
B. ₦41,500  
C. ₦139,500
20. Which of the following assets can be classified as non-current in the financial statements of an entity?
   A. A tax refund due next year
   B. A motor vehicle held for resale
   C. A computer acquired for office use
   D. Cleaning products used to clean the office
   E. Closing inventories

SECTION B: ATTEMPT ANY FOUR OUT OF SIX QUESTIONS
(80 Marks)

QUESTION 1

a. The elements which are directly related to the measurement of profit are Income and Expenses.
   i. In line with the above statement, what is Income? (2 Marks)
   ii. List **TWO** characteristics each of Capital Income and Revenue Income. (4 Marks)

b. Babariga Trading Company has the following extracts from its financial records as at 31 January, 2014:

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction Description</th>
<th>Amount (£000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1</td>
<td>Cash in hand</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Cash at bank</td>
<td>150</td>
</tr>
<tr>
<td></td>
<td>Receivables</td>
<td>300</td>
</tr>
<tr>
<td></td>
<td>Inventory</td>
<td>100</td>
</tr>
<tr>
<td>Jan 2</td>
<td>Purchased goods for cash</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>Goods Bought from Faleye</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td>Bought shop fittings and paid by cheque</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td>Cash sales</td>
<td>129</td>
</tr>
<tr>
<td></td>
<td>Goods sold to Okonkwo</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Paid Faleye by cheque on account</td>
<td>400</td>
</tr>
<tr>
<td></td>
<td>Cash sales</td>
<td>350</td>
</tr>
<tr>
<td></td>
<td>Paid cash into bank</td>
<td>150</td>
</tr>
<tr>
<td></td>
<td>Bought goods from Faruk</td>
<td>140</td>
</tr>
<tr>
<td></td>
<td>Sold goods to Shola</td>
<td>150</td>
</tr>
<tr>
<td></td>
<td>Bought desk-top computer by cheque</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>Paid for stationery in cash</td>
<td>40</td>
</tr>
</tbody>
</table>
**Required:**
Use Journal entries to record the above balances and transactions in the books of Babariga Trading Company.  

(14 Marks)  
(Total 20 Marks)

**QUESTION 2**

The following is a list of balances extracted from the ledger of Salfo Enterprises:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory on 1 January 2013</td>
<td>N 30,600</td>
</tr>
<tr>
<td>Revenue</td>
<td>N 245,340</td>
</tr>
<tr>
<td>Purchases</td>
<td>N 160,200</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>N 52,110</td>
</tr>
<tr>
<td>Furniture and fittings</td>
<td>N 92,500</td>
</tr>
<tr>
<td>Office expenses</td>
<td>N 16,200</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>N 50,400</td>
</tr>
<tr>
<td>Trade payables</td>
<td>N 22,400</td>
</tr>
<tr>
<td>Cash in hand and at bank</td>
<td>N 6,230</td>
</tr>
<tr>
<td>Drawings</td>
<td>N 15,500</td>
</tr>
<tr>
<td>Capital</td>
<td>N 156,000</td>
</tr>
</tbody>
</table>

**Additional information:**

(i) Inventory on 31 December 2013     N 38,000  
(ii) Prepaid office expenses           N 2,300  
(iii) Accrued wages                    N 1,500  
(iv) Depreciation is to be charged on Furniture and Fittings at 10% per annum on cost.

**Required:**
Prepare the extended trial balance to include

a. Initial trial balance               (4 Marks)  
b. Adjustments                         (8 Marks)  
c. Adjusted trial balance              (8 Marks)  
(Total 20 Marks)
QUESTION 3

Mr. Ken Stevenson keeps single entry books of account. He had the following balances on 1 January, 2013:

\[
\begin{align*}
\text{₦} & \\
\text{Inventory} & 64,800 \\
\text{Payables} & 258,600 \\
\text{Prepaid insurance} & 7,500 \\
\text{Bank overdraft} & 21,000 \\
\text{Furniture} & 327,900 \\
\text{Motor vehicles} & 800,000 \\
\text{Receivables} & 458,500 \\
\text{Borrowings} & 650,000 \\
\end{align*}
\]

The following information is also extracted from his cash book in respect of the year ended 31 December, 2013:

\[
\begin{align*}
\text{DR} & \quad \text{₦} & \quad \text{CR} & \quad \text{₦} \\
\text{Revenue} & 279,500 & \text{Bank overdraft} & 21,000 \\
\text{Receipt from trade receivables} & 536,400 & \text{Payment to trade payable} & 284,000 \\
\text{} & & \text{Drawings} & 75,000 \\
\text{} & & \text{Miscellaneous expenses} & 43,800 \\
\text{} & & \text{Electricity} & 26,500 \\
\text{} & & \text{Salaries} & 150,000 \\
\text{} & & \text{Insurance} & 4,500 \\
\text{} & & \text{Purchases} & 87,300 \\
\text{} & & \text{Cash in hand c/d} & 123,800 \\
\end{align*}
\]

\[
\begin{align*}
\text{₦} & \quad \text{₦} \\
\text{815,900} & \quad 815,900 \\
\end{align*}
\]

He had the following balances on 31 December, 2013:

\[
\begin{align*}
\text{₦} \\
\text{Motor vehicles} & 800,000 \\
\text{Inventory} & 72,200 \\
\text{Furniture} & 327,900 \\
\text{Receivables} & 503,700 \\
\text{Payables} & 336,600 \\
\text{Borrowings} & 650,000 \\
\end{align*}
\]

**Additional information:**

(i) Interest on Borrowings to be accrued for at 5% per annum
Bad debts of ₦12,600 are to be written off while 5% allowance is to be made on the net receivables at 31 December, 2013.

Depreciation is to be charged on the non-current assets at the rate of 10% per annum.

You are required to prepare
a. Receivables control account (2 Marks)
b. Payables control account (2 Marks)
c. The opening capital (2 Marks)
d. Statement of Profit or Loss for the year ended 31 December, 2013 (8 Marks)
e. Statement of Financial Position as at 31 December, 2013 (6 Marks)

(Total 20 Marks)

QUESTION 4

a. The purpose of a trial balance is to prove the accuracy of the General Ledger accounts of a business. However, the "balancing" of the debit side and the credit side of a trial balance does not guarantee that there is no error in the General Ledger accounts.

Required:

i. State TWO uses of a trial balance to an entity. (2 Marks)

ii. State FOUR errors that may lead to difference in trial balance total figures. (2 Marks)

iii. State FOUR errors that may NOT affect the "balancing" of a trial balance. (2 Marks)

b. The following balances were extracted from the books of Omoba Enterprises as at 31 December, 2013:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated for depreciation</td>
<td>85,000</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>775,000</td>
</tr>
<tr>
<td>Accounts payables</td>
<td>585,000</td>
</tr>
<tr>
<td>Subscription</td>
<td>15,000</td>
</tr>
<tr>
<td>Rent and rates</td>
<td>130,000</td>
</tr>
<tr>
<td>Account receivables</td>
<td>475,000</td>
</tr>
<tr>
<td>Postage and stationery</td>
<td>125,000</td>
</tr>
<tr>
<td>Newspapers &amp; periodicals</td>
<td>40,000</td>
</tr>
<tr>
<td>Utility</td>
<td>35,000</td>
</tr>
<tr>
<td>Allowances for Bad debt</td>
<td>85,000</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>925,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>575,000</td>
</tr>
<tr>
<td>Audit fees</td>
<td>85,000</td>
</tr>
<tr>
<td>Revenue</td>
<td>2,500,000</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>800,000</td>
</tr>
</tbody>
</table>
Other income 82,000
Cash and bank balances 882,000
Capital 375,000

Required:
i. Use the information above to extract a trial balance of Omoba Enterprises at 31 December, 2013. (12 Marks)

ii. Use the information below to recompute the entity’s capital for the period under review:
   Drawings N250,000
   Profit for the period N315,000

(Total 20 Marks)

QUESTION 5

Success Sports Club had a membership strength of 140 members who paid annual subscription of N20,000 each for the year 2014. The receipts and payments account shows the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>31/12/2013</th>
<th>31/12/2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening cashbook balance</td>
<td>120,000</td>
<td></td>
</tr>
<tr>
<td>Subscription</td>
<td>2,900,000</td>
<td></td>
</tr>
<tr>
<td>Donations</td>
<td>500,000</td>
<td></td>
</tr>
<tr>
<td>Sale of games tickets</td>
<td>450,000</td>
<td>3,970,000</td>
</tr>
<tr>
<td>Cost of games</td>
<td>270,000</td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>Groundman’s wages</td>
<td>24,000</td>
<td></td>
</tr>
<tr>
<td>Cost of refreshment</td>
<td>49,000</td>
<td></td>
</tr>
<tr>
<td>Squash racquets</td>
<td>60,000</td>
<td></td>
</tr>
<tr>
<td>Hockey sticks</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td>Games trophies</td>
<td>120,000</td>
<td></td>
</tr>
<tr>
<td>Annual awards</td>
<td>1,000,000</td>
<td>(1,643,000)</td>
</tr>
<tr>
<td>Closing cash book balance</td>
<td>2,327,000</td>
<td></td>
</tr>
</tbody>
</table>

Additional information:

(i) Subscriptions outstanding 300,000 250,000
Subscriptions in advance 100,000 150,000
Sports equipment 400,000 -

(ii) Sports equipment are to be depreciated at 50% annually.
You are required to prepare
a. Subscriptions account (3 Marks)
b. Income and Expenditure Account for the year ended 31 December, 2014 (7 Marks)
c. Statement of Financial Position as at 31 December, 2014 (10 Marks)
(Total 20 Marks)

QUESTION 6
Financial data extracted from the books of Kandor Enterprises Limited for the year ended 31 December, 2014 are shown below:

\[
\begin{array}{lcl}
\text{N\text{\textcurrency}} 000 & \\
\text{Revenue} & 6,990 \\
\text{Decrease in receivables} & 177 \\
\text{Cost of sales} & 5,128 \\
\text{Increase in inventories} & 1,483 \\
\text{Increase in payables} & 613 \\
\text{Selling and distribution expenses} & 300 \\
\text{Administrative expenses} & 343 \\
\text{Loss on disposal of non-current assets} & 6 \\
\text{Depreciation charges for the year} & 62 \\
\text{Ordinary shares issued for cash} & 400 \\
\text{Purchase of property, plant and equipment} & 113 \\
\text{Income tax paid} & 198 \\
\text{Proceeds from disposal of non-current assets} & 3 \\
\text{Repayment of loan notes} & 10 \\
\text{Dividend paid} & 86 \\
\text{Interest paid on loan notes} & 191 \\
\text{Cash and cash equivalent at the beginning of the year} & (409)
\end{array}
\]

Prepare the Statement of Cash Flows for the year ended 31 December, 2014 using direct method showing:

a. Net cash flow from operating activities (5 Marks)
b. Net cash flow from investing activities (5 Marks)
c. Net cash flow from financing activities (5 Marks)
d. Cash and cash equivalents at the end of the year (5 Marks)
Show all workings (Total 20 Marks)
SECTION A

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

___Workings___
Q2. Sum-of-the-years digits $= \frac{n(n+1)}{2} = \frac{5(5+1)}{2} = 15$

\[ \therefore \text{Year digits } 1, 2, 3, 4, 5 \]

\[ \text{Digits } 5, 4, 3, 2, 1 = 15 \]

Second year depreciation $= \frac{4}{15} \times (\text{N}1,600,000 - \text{N}100,000)$

$= \text{N}400,000$

Q5.

<table>
<thead>
<tr>
<th>Motor vehicle Disposal Account</th>
<th>( \text{N}^\prime 000 )</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Vehicle</strong></td>
<td>2,000</td>
</tr>
<tr>
<td>Dep. B/f (500 x 3)</td>
<td>1,500</td>
</tr>
<tr>
<td><strong>Profit</strong></td>
<td>900</td>
</tr>
<tr>
<td>Sales Proceed</td>
<td>1,400</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,900</td>
</tr>
</tbody>
</table>

Q16. Total receivables at 13/12/2014

\[ \text{N}129,250 \]

Less bad debts written-off (31/12/2014)

\[ \text{N}9,250 \]

\[ \text{N}120,000 \]

Allowance at 31/05/2015 @ 5% $= 0.05 \times \text{N}120,000$

\[ = \text{N}6,000 \]

Reduction in allowance at 31/12/2014 $= \text{N}9,750 - \text{N}6,000$

\[ = \text{N}3,750 \]

Q18. Adjusted cash book balance

\[ \text{N}220,000 \]

Less dishonoured lodged cheque

\[ \text{N}(100,000) \]

Bank charges

\[ \text{N}(10,500) \]

\[ \text{N}109,500 \]

Q19. Adjusted cash book balance

\[ \text{N}109,500 \]

Less uncredited cheque

\[ \text{N}(70,000) \]

\[ \text{N}39,500 \]

EXAMINER’S REPORT

The questions test candidates’ basic knowledge on principles of accounting with both theory and simple computations.

Candidates’ performance was above average.
SECTION B

SOLUTION 1

a.  (i) Income is the increase in economic benefits in the form of any of the following:
   - Inflows
   - Increases of assets that lead to increases of equity other than contributions by the shareholders in their capacity as shareholder.
   - Decreases of liabilities that lead to increases of equity other than distributions to the shareholders in their capacity as shareholders.

   ➢ Characteristics of Capital Income
   - It is not earned frequently
   - It is derived from the sale of non-current assets such as property, plant and equipment and investments that are not held for sales in the ordinary course of business
   - The amount involved is very significant
   - It is normally presented as other income rather than income from operating activities or investment income

   ➢ Characteristics of Revenue Income
   - It is frequently earned
   - It is the major source of income of an entity
   - It is matched against revenue expenditure to determine profit or loss
   - It flows mainly from sales of goods or rendering of services engaged in by the entity in the ordinary course of business
   - It may also result from incomes received from investment such as dividend and interest

(b)

BABARIGA TRADING COMPANY
JOURNAL ENTRIES FOR THE PERIOD ENDED JANUARY 31, 2014

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash account</td>
<td>₦000</td>
<td></td>
</tr>
<tr>
<td>Bank account</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Trade receivables control account</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td></td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>Account</td>
<td>Debit</td>
<td>Credit</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>-------</td>
<td>--------</td>
</tr>
<tr>
<td>Inventory account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital account (Difference)</td>
<td>100</td>
<td>600</td>
</tr>
<tr>
<td>Being opening balances for the month of January 2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash account</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>Being cash purchases of 2/1/2014, now recorded</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables v Faley account</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Being the recording of shop fittings purchased by cheque on 9/1/2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shop fittings account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank account</td>
<td>27</td>
<td>27</td>
</tr>
<tr>
<td>Being the recording of shop fittings purchased by cheque on 9/1/2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue account</td>
<td>129</td>
<td>129</td>
</tr>
<tr>
<td>Being the recording of cash sales of 12/1/2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade receivables - Okonkwo account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue account</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Being the sale of goods on credit to Okonkwo on 15/1/2014, now recorded</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables v Faley account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank account</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>Being part payment to Faley by cheque on 16/1/2014 now recorded</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue account</td>
<td>350</td>
<td>350</td>
</tr>
<tr>
<td>Being the recording of cash sales of 17/1/2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash account</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td>Being the recording of cash paid into bank on 18/1/2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables v Faruk account</td>
<td>140</td>
<td>140</td>
</tr>
<tr>
<td>Being goods purchased from Faruk on 20/1/2014, now recorded</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade receivables v Shola account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue account</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td>Being the sale of goods on credit to Shola on 25/1/2014, now recorded</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office equipment account</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank account</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>Being the recording of cheque payment for purchase of desk-top computer on 28/1/2014</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
EXAMINER’S REPORT
The question tests candidates’ knowledge of definition of income and characteristics of capital and revenue incomes. Candidates’ ability to raise appropriate journal entries to record transactions in the books of a trading company is also examined.

About 75% of the candidates attempted the question and performance was below average.

Some candidates could not differentiate between journal entries and ledger postings, while some others did not include narration in their journal entries.

Candidates are advised to pay more attention to this vital basic principles of recording accounting transactions of entries.
### SOLUTION 2

**SALFO ENTERPRISES**  
**EXTENDED TRIAL BALANCE AS AT DECEMBER 31, 2013**

<table>
<thead>
<tr>
<th>DETAILS</th>
<th>CLOSING BALANCE</th>
<th>ADJUSTMENTS</th>
<th>REVISED CLOSING BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DR N</td>
<td>CR N</td>
<td>DR N</td>
</tr>
<tr>
<td>Opening inventory</td>
<td>30,600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td>245,340</td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>160,200</td>
<td></td>
<td>160,200</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>52,110</td>
<td></td>
<td>1,500</td>
</tr>
<tr>
<td>Furniture and fittings</td>
<td>92,500</td>
<td></td>
<td>92,500</td>
</tr>
<tr>
<td>Office expenses</td>
<td>16,200</td>
<td></td>
<td>2,300</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>50,400</td>
<td></td>
<td>50,400</td>
</tr>
<tr>
<td>Trade payables</td>
<td></td>
<td>22,400</td>
<td></td>
</tr>
<tr>
<td>Cash and bank balances</td>
<td>6,230</td>
<td></td>
<td>6,230</td>
</tr>
<tr>
<td>Drawings</td>
<td>15,500</td>
<td></td>
<td>15,500</td>
</tr>
<tr>
<td>Owners' equity</td>
<td></td>
<td></td>
<td>156,000</td>
</tr>
<tr>
<td>Closing inventory (Trading account)</td>
<td></td>
<td></td>
<td>38,000</td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
<td>38,000</td>
<td></td>
</tr>
<tr>
<td>Prepaid office expenses</td>
<td></td>
<td>2,300</td>
<td></td>
</tr>
<tr>
<td>Accrued wages</td>
<td></td>
<td>1,500</td>
<td></td>
</tr>
<tr>
<td>Depreciation - Furniture &amp; Fittings (Wk 1)</td>
<td>9,250</td>
<td></td>
<td>9,250</td>
</tr>
<tr>
<td>Accumulated depreciation - Furniture &amp; fittings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>423,740</td>
<td>423,740</td>
<td>51,050</td>
</tr>
</tbody>
</table>

### EXAMINER’S REPORT

The question tests candidates’ practical knowledge of preparation of extended trial balance from balances extracted from the ledger in columnar form.

About 80% of the candidates attempted the question and performance was average.
Some candidates chose to prepare individual trial balance separately for initial trial balance, adjustments and adjusted trial balance, thus ignoring examiners instruction to prepare “extended trial balance” which should have a six –column format.

Candidates at this level of the examination are expected to be well grounded in the preparation of trial balance, hence, they are advised to study principles of extracting trial balance and practice with relevant past examination questions.

SOLUTION 3

(a)

MR. KEN STEVENSON
Trade Receivables Control Account

<table>
<thead>
<tr>
<th></th>
<th>£</th>
<th></th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bal b/f</td>
<td>458,500</td>
<td>Receipt from trade receivables</td>
<td>536,400</td>
</tr>
<tr>
<td>Credit revenue (Difference)</td>
<td>581,600</td>
<td>Bad debt</td>
<td>12,600</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bal c/d</td>
<td>491,100</td>
</tr>
<tr>
<td></td>
<td>1,040,100</td>
<td></td>
<td>1,040,100</td>
</tr>
<tr>
<td>Bal b/d</td>
<td>491,100</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(b)

Trade Payables Control Account

<table>
<thead>
<tr>
<th></th>
<th>£</th>
<th></th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments to trade payables</td>
<td>284,000</td>
<td>Bal b/f</td>
<td>258,600</td>
</tr>
<tr>
<td>Bal c/d</td>
<td>336,600</td>
<td>Purchases (Difference)</td>
<td>362,000</td>
</tr>
<tr>
<td></td>
<td>620,600</td>
<td></td>
<td>620,600</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bal b/d</td>
<td>336,600</td>
</tr>
</tbody>
</table>

(c)

COMPUTATION OF OPENING CAPITAL

<table>
<thead>
<tr>
<th></th>
<th>£</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>800,000</td>
<td></td>
</tr>
<tr>
<td>Furniture</td>
<td>327,900</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>64,800</td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>458,500</td>
<td></td>
</tr>
</tbody>
</table>
Prepaid insurance 7,500

Less: Liabilities
Payables 258,600
Bank overdraft 21,000
Borrowings 650,000

Opening capital 729,100

| Revenue (Wk 1) | 861,100 |
| COST OF SALES: | 
| Opening inventory | 64,800 |
| Purchases (Wk 2) | 449,300 |
| Closing inventory | (72,200) |
| GROSS PROFIT | 419,200 |

| OPERATING EXPENSES: | 
| Insurance (Wk3) | 12,000 |
| Loan interest (Wk 4) | 32,500 |
| Increase in allowance for bad debt (Wk 5) | 24,555 |
| Miscellaneous | 43,800 |
| Electricity | 26,500 |
| Salaries | 150,000 |
| Bad debt | 12,600 |
| Depreciation: | 
| Motor vehicles | 80,000 |
| Furniture | 32,790 |

| NET PROFIT | 4,455 |

| NON-CURRENT ASSETS: | Cost | Depreciation | Carrying Amount |
| MR. KEN STEVENSON |

| STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2013 | |

| STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2013 | |

*FOUNDATION LEVEL EXAMINATIONS – MAY 2015*
Motor vehicles 800,000
Furniture 327,900

<table>
<thead>
<tr>
<th></th>
<th>₵</th>
<th>₵</th>
<th>₵</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor vehicles</td>
<td>800,000</td>
<td>80,000</td>
<td>720,000</td>
</tr>
<tr>
<td>Furniture</td>
<td>327,900</td>
<td>32,790</td>
<td>295,110</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,127,900</strong></td>
<td><strong>112,790</strong></td>
<td><strong>1,015,110</strong></td>
</tr>
</tbody>
</table>

**CURRENT ASSETS:**

<table>
<thead>
<tr>
<th>Asset</th>
<th>₵</th>
<th>₵</th>
<th>₵</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td></td>
<td></td>
<td>72,200</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>491,100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for bad debt (Wk 5)</td>
<td>(24,555)</td>
<td>466,545</td>
<td></td>
</tr>
<tr>
<td>Cash and bank balances</td>
<td>123,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>1,127,900</td>
<td>112,790</td>
<td>1,015,110</td>
</tr>
</tbody>
</table>

**EQUITY AND LIABILITIES:**

<table>
<thead>
<tr>
<th>Equity</th>
<th>₵</th>
<th>₵</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owners’ equity</td>
<td>729,100</td>
<td></td>
</tr>
<tr>
<td>Net profit</td>
<td>4,455</td>
<td>733,555</td>
</tr>
<tr>
<td>Drawings</td>
<td>(75,000)</td>
<td>658,555</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>1,677,655</td>
<td></td>
</tr>
</tbody>
</table>

**NON-CURRENT LIABILITIES:**

<table>
<thead>
<tr>
<th>Liability</th>
<th>₵</th>
</tr>
</thead>
<tbody>
<tr>
<td>5% Borrowings</td>
<td>650,000</td>
</tr>
</tbody>
</table>

**CURRENT LIABILITIES:**

<table>
<thead>
<tr>
<th>Liability</th>
<th>₵</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables</td>
<td>336,600</td>
</tr>
<tr>
<td>Accrued Borrowings interest (Wk 4)</td>
<td>32,500</td>
</tr>
<tr>
<td><strong>Total Equity and Liabilities</strong></td>
<td>1,677,655</td>
</tr>
</tbody>
</table>

**MR. KEN STEVENSON**

**WORKING NOTES**

Wk 1: Determination of revenue figure as per statement of profit or loss ₵

<table>
<thead>
<tr>
<th>Description</th>
<th>₵</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit revenue for the year</td>
<td>581,600</td>
</tr>
<tr>
<td>Cash revenue for the year</td>
<td>279,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>861,100</td>
</tr>
</tbody>
</table>

Wk 2: Determination of purchase figure as per statement of profit or loss ₵

<table>
<thead>
<tr>
<th>Description</th>
<th>₵</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit purchases for the year</td>
<td>362,000</td>
</tr>
<tr>
<td>Cash purchases for the year</td>
<td>87,300</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>449,300</td>
</tr>
</tbody>
</table>

Wk 3: Determination of insurance expenses for the year

Insurance Account
Wk 4: Calculation on accrued loan interest
Principal amount of Borrowings 650,000
Borrowings interest @ 5% 32,500

Wk 5: Calculation on increase in allowance for bad debt
Trade receivables balance @ year end 491,100
Allowance for bad debt @ 5% 24,555

EXAMINER’S REPORT

The question tests candidates’ knowledge of preparation of control accounts and financial statements from the financial records and cash book of a sole trader. About 90% of the candidates attempted the question and performance was average.

Some candidates could not make correct postings of entries to appropriate control accounts while some others could not differentiate between entries that should go into Statement of Financial Position and Statement of Profit or Loss.

Candidates are advised to pay more attention to the application of double entry principles and the classification of elements of Financial Statements to Capital and Revenue items.

SOLUTION 4

(a) i) The uses of trial balance include the following:
- Proving the arithmetical accuracy of all the ledger postings
- Showing ledger balances at a glance
- Revealing arithmetical errors whenever it fails to balance
- Facilitating the preparation of financial statements

ii) Errors that may lead to disagreement in trial balance total figures include
- Casting error
- Transposition error
- Wrong amount being transferred from ledger to the trial balance
- Omission of ledger balances in the trial balance
- Posting of transaction to the wrong side of either the ledger or the trial balance
iii) The following errors may not affect the balancing of a trial balance:
- Error of omission
- Error of original entry
- Error of principle
- Error of commission
- Complete reversal of entries
- Compensating error
(b) (i)

OMOBA ENTERPRISES
TRIAL BALANCE AS AT DECEMBER 31, 2013

<table>
<thead>
<tr>
<th>DETAILS</th>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated depreciation</td>
<td></td>
<td>85,000</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>775,000</td>
<td></td>
</tr>
<tr>
<td>Accounts payables</td>
<td></td>
<td>585,000</td>
</tr>
<tr>
<td>Subscription</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>Rent and rates</td>
<td>130,000</td>
<td></td>
</tr>
<tr>
<td>Account receivables</td>
<td>475,000</td>
<td></td>
</tr>
<tr>
<td>Postage and stationery</td>
<td>125,000</td>
<td></td>
</tr>
<tr>
<td>Newspaper and periodicals</td>
<td>40,000</td>
<td></td>
</tr>
<tr>
<td>Utility</td>
<td>35,000</td>
<td></td>
</tr>
<tr>
<td>Allowances for bad debt</td>
<td></td>
<td>85,000</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>925,000</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
<td>575,000</td>
</tr>
<tr>
<td>Audit fees</td>
<td>85,000</td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td>2,500,000</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>800,000</td>
<td></td>
</tr>
<tr>
<td>Other income</td>
<td>82,000</td>
<td></td>
</tr>
<tr>
<td>Cash and bank balances</td>
<td>882,000</td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td>4,287,000</td>
<td>375,000</td>
</tr>
</tbody>
</table>

(ii)

OMOBA ENTERPRISES
COMPUTATION OF CAPITAL AS AT DECEMBER 31, 2013

<table>
<thead>
<tr>
<th></th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital as per trial balance</td>
<td>375,000</td>
</tr>
<tr>
<td>Add: Profit for the period</td>
<td>315,000</td>
</tr>
<tr>
<td></td>
<td>690,000</td>
</tr>
<tr>
<td>Less: Drawings</td>
<td>250,000</td>
</tr>
<tr>
<td>Revised capital</td>
<td>440,000</td>
</tr>
</tbody>
</table>

EXAMINER’S REPORT

The question examines candidates’ knowledge of the uses and nature of errors that affect the trial balance and their ability to extract a trial balance from given balances.

About 70% of the candidates attempted the question and performance was above average.
The major pitfall of few candidates who failed in the question was their inability to differentiate between items that should be posted to the debit or credit side of the trial balance. A few other candidates used the ledger format for the trial balance.

Candidates are required to master the double entry principles and the formats for journals and ledgers.

SOLUTION 5

(a) SUCCESS SPORTS CLUB
SUBSCRIPTIONS ACCOUNT

<table>
<thead>
<tr>
<th></th>
<th>n</th>
<th></th>
<th>n</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bal b/d</td>
<td>300,000</td>
<td>Bal b/d</td>
<td>100,000</td>
</tr>
<tr>
<td>Income &amp; expenditure</td>
<td>2,800,000</td>
<td>Receipts &amp; payments</td>
<td>2,900,000</td>
</tr>
<tr>
<td>Bal c/d</td>
<td>150,000</td>
<td>Bal c/d</td>
<td>250,000</td>
</tr>
<tr>
<td></td>
<td>3,250,000</td>
<td></td>
<td>3,250,000</td>
</tr>
<tr>
<td>Bal b/d</td>
<td>250,000</td>
<td>Bal b/d</td>
<td>150,000</td>
</tr>
</tbody>
</table>

b) SUCCESS SPORTS CLUB
INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED
31 DECEMBER, 2014

<table>
<thead>
<tr>
<th></th>
<th>n</th>
<th></th>
<th>n</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscriptions</td>
<td>2,800,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donations</td>
<td>500,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of games tickets</td>
<td>450,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3,750,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of games</td>
<td>270,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guardsman’s wages</td>
<td>24,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refreshment</td>
<td>49,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Games prizes</td>
<td>120,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual awards</td>
<td>1,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>280,000</td>
<td>1,763,000</td>
<td></td>
</tr>
<tr>
<td>SURPLUS</td>
<td></td>
<td>1,987,000</td>
<td></td>
</tr>
</tbody>
</table>

(c) SUCCESS SPORTS CLUB
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER, 2014

<table>
<thead>
<tr>
<th></th>
<th>n</th>
<th></th>
<th>n</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>560,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sports equipment</td>
<td>560,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Less depreciation @ 50% 280,000 280,000
Subscription owing by members 250,000
Cash 2,327,000 2,857,000

Less:
Subscription received in advance 150,000 2,207,000

Represented by:
Accumulated fund 720,000
Surplus 1,987,000 2,707,000

WORKINGS
Statement of Affairs as at 1/1/2014

<table>
<thead>
<tr>
<th>Naira</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>400,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>120,000</td>
</tr>
<tr>
<td>Subscription owing</td>
<td>300,000</td>
</tr>
<tr>
<td></td>
<td>820,000</td>
</tr>
<tr>
<td>Less subscription received in advance</td>
<td>100,000</td>
</tr>
<tr>
<td>ACCUMULATED FUND</td>
<td>720,000</td>
</tr>
</tbody>
</table>

EXAMINER’S REPORT
The question examines candidates’ ability to prepare financial statements of a Not-for-profit organisation.

About 70% of the candidates attempted the question and performance was average. The commonest pitfalls of candidates were their inability to make distinction between capital and revenue expenditure and wrong posting of transaction, such as wrong posting of income to the debit side and expenditure to the credit side.

The distinction between capital and revenue item determines items of income and expenditure account and the Statement of Financial Position. Hence, candidates are advised to master these technicalities.

SOLUTION 6
KANDOR ENTERPRISES LIMITED
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2014

CASH FLOW FROM OPERATING ACTIVITIES:
Receipts from customers (Wk 1)  7,167
Payments of suppliers (Wk 2)  (5,998)
Payment for other operating expenses (Wk 3)  (575)
Income tax paid  (198)
Net cash flow provided by operating activities  396

CASH FLOW FROM INVESTING ACTIVITIES:
Payments for purchase of non-current assets  (113)
Proceeds from disposal on non-current assets  3
Net cash flow used for investing activities  (110)

CASH FLOW FROM FINANCING ACTIVITIES:
Issue of shares  400
Repayment of loan notes  (10)
Dividend paid  (86)
Interest paid on loan notes  (191)
Net cash flow provided by financing activities  113
Net increase in cash and cash equivalents  399
Cash and cash equivalents at the beginning of the year  (409)
Cash and cash equivalents at the end of the year  (10)

KANDOR ENTERPRISES LIMITED
WORKING NOTES

Wk 1: Determination of total receipts from customers  ₤’000
Revenue for the year  6,990
Add: Decrease in trade receivables  177
7,167

Wk 2: Determination of payment to suppliers  ₤’000
Cost of sales as per account  5,128
Add: Increase in inventories  1,483
6,611
Total purchases for the year (Wk 2)  (613)
Increase in trade payables  5,998

Wk 3: Cash paid for other expenses  ₤’000
Selling and distribution expenses  300
Administration expenses 343
Loss on sale of non-current assets (6)
Depreciation charged for the year (62)

EXAMINER’S REPORT

The question examines candidates’ knowledge of IAS 7 in relation to its application for the preparation of the Statement of Cash Flows, using the direct method.

Only about 35 percent of the candidates attempted the question and about 75% of them scored just average of the marks allotted.

The pitfalls identified among the candidates’ were their inability to use the correct classification or format and their inability to calculate cash received from customers and cash paid to suppliers, employees and for other expenses.

Candidates are advised to study and master the requirements of IAS 7 for presentation of the statement of cash flow using the direct method or the indirect method as may be required by the examiners.
1. Which of the following is NOT a costing method?
   A. Batch costing
   B. Operation costing
   C. Job costing
   D. Standard costing
   E. Service costing

2. Which of the following is NOT a component of working capital cycle?
   A. Debtors
   B. Finished goods
   C. Work-in-progress
   D. Raw materials
   E. Overdraft

Use the following data to answer questions 3 and 4.

Break-even point = 6,000 units
Fixed cost = ₦6,000
Sales = 9,000 units at ₦9/unit
3. The variable cost per unit is
   A. ₦8.00
   B. ₦7.50
   C. ₦6.25
   D. ₦5.50
   E. ₦5.00

4. What is the total profit?
   A. ₦1,500
   B. ₦1,875
   C. ₦3,000
   D. ₦3,500
   E. ₦4,150

5. The document required by the purchase department to enable it place an order for replenishment of stock is
   A. Purchase order
   B. Store requisition
   C. Proforma invoice
   D. Waybill
   E. Material usage note

6. The following data relate to work in the Assembly Department of XYZ factory.

<table>
<thead>
<tr>
<th>Normal working day</th>
<th>8 hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic rate of pay per hour</td>
<td>₦10</td>
</tr>
<tr>
<td>Standard time allowed to produce 1 kg</td>
<td>2 minutes</td>
</tr>
</tbody>
</table>

   Premium bonus payable at the basic rate is 60% of the time saved. If one employee produces 360kgs, what is his gross pay for the day?
   A. ₦80
   B. ₦100
   C. ₦104
   D. ₦124
   E. ₦180
7. A budget whose preparation starts from the scratch is known as
   A. Rolling budget
   B. Flexible budget
   C. Zero-based budget
   D. Activity-based budget
   E. Fixed budget

8. The difference between actual and budgeted production volume multiplied by the standard absorption rate per unit is known as
   A. Fixed overhead capacity variance
   B. Fixed overhead efficiency variance
   C. Fixed overhead volume variance
   D. Fixed overhead total variance
   E. Fixed overhead expenditure variance

9. Which of the following factors may NOT lead to labour turnover in an organisation?
   A. Unsatisfactory working condition
   B. Mid-month salaries
   C. Low wages
   D. Lack of amenities
   E. Lack of job security

10. Which of the following factors may NOT contribute to a good cost accounting information for management use?
    A. Timeliness
    B. Relevance
    C. Accuracy
    D. Efficiency
    E. Clarity
11. Which of the following is NOT a feature of a good coding system?
   A. Uniqueness
   B. Brevity
   C. Mnemonic
   D. Indexing
   E. Non-ambiguity

12. In measuring budget performance, an item of cost is said to have favourable variance when
   A. Actual costs of operation is higher than budgeted costs
   B. Budgeted costs of operation is less than actual costs
   C. Actual costs of operation is less than budgeted costs
   D. Budgeted costs of operation is equal to actual costs
   E. Budgeted costs of operation is not available

13. Decision Support System (DSS) provides non-routine decision making for
   A. Senior Management
   B. Middle Management
   C. Executive Programmer
   D. Desk Officer
   E. System Analyst

14. A transaction processing technique with severe time limitation is called
   A. Time Sharing Processing
   B. Distributed Processing
   C. Real Time Processing
   D. Multi tasking
   E. Multi processing

15. Real Time Processing Technique is characterised by
   A. High turn-around time
   B. Low turn-around time
   C. Medium turn-around time
   D. Very high turn-around time
   E. Very little turn-around time

16. Processed data or information from a computer system is called
   A. Input-output
   B. Hardcopy
   C. Softcopy
17. A major consideration for an upgrade of a microcomputer system is an increase in storage capacity because of the following EXCEPT
A. Inadequate space to store files
B. Inadequate space to install new programs
C. Lack of secure place to backup important files
D. Inability to download large files from the internet
E. Inability to log-on to internet

18. Identify the odd ONE among the following devices
A. Joystick
B. Touch Screen
C. Dot-matrix
D. Light pen
E. Mouse

19. A device that combines the capabilities of a scanner, printer, fax and copying machine is called
A. Output device
B. Facsimile transmission machine
C. Multifunctional device
D. MICR
E. Dumb terminal

20. Data transmission phenomenon where data is transferred regularly with clock signal is called
A. Asynchronous data transfer
B. Simplex data transfer
C. Duplex data transfer
D. Synchronous data transfer
E. Regular data transfer
SECTION B: ANSWER ANY FOUR OUT OF SIX QUESTIONS

QUESTION 1

WHYME LIMITED is engaged in the manufacturing and sales of fast moving consumer products. The following data are projections for a period of six months.

<table>
<thead>
<tr>
<th></th>
<th>Jan.</th>
<th>Feb.</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>N9,600</td>
<td>N15,800</td>
<td>N16,000</td>
<td>N17,600</td>
<td>N14,800</td>
<td>N14,200</td>
</tr>
<tr>
<td>Purchases</td>
<td>N5,400</td>
<td>N12,000</td>
<td>N10,000</td>
<td>N11,000</td>
<td>N11,200</td>
<td>N9,800</td>
</tr>
<tr>
<td>Salaries (Gross)</td>
<td>N1,650</td>
<td>N1,760</td>
<td>N1,760</td>
<td>N1,789</td>
<td>N1,842</td>
<td>N1,800</td>
</tr>
<tr>
<td>Staff Salaries Deductions</td>
<td>78</td>
<td>82</td>
<td>90</td>
<td>89</td>
<td>92</td>
<td>85</td>
</tr>
<tr>
<td>Overheads</td>
<td>N1,650</td>
<td>N1,920</td>
<td>N2,100</td>
<td>N2,400</td>
<td>N1,860</td>
<td>N1,720</td>
</tr>
</tbody>
</table>

Other additional information are as follows:

i. Sales are 25% on cash basis, 55% is collected in the month following sales and the balance in the third month.

ii. All purchases are on 30 days credit while 20% of overheads will be paid in the same month and the balance in the following month.

iii. Salaries will be paid net in the same month while the statutory deductions will be remitted on the tenth day of the following month.

iv. A N10million loan application to the company's bank will be released in March to finance the purchase of a new asset costing N12million in the same month. The repayment of the loan will be spread equally over four months starting from April. (Ignore interest on the loan).

v. An old asset will be disposed off in the month of April for N1.5million.

vi. Cash balance as at the end of February will be N6.5million out of which N2.5million will be put in a short-term investment with the bank in March at an interest rate of 2% monthly to be credited at the beginning of the month following the investment.

You are required to prepare the cash budget for the period of March to May. (Ignore taxation).

(20 Marks)

QUESTION 2

MAPUTO NIGERIA LIMITED manufactures its product through three processes.
The following data relates to Process 2 and Process 3 for the month of October. 100,000 units at N10 each were transferred from Process 1 to Process 2.

<table>
<thead>
<tr>
<th>PROCESS COSTS</th>
<th>Process 2</th>
<th>Process 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Materials</td>
<td>100,000</td>
<td>114,000</td>
</tr>
<tr>
<td>Direct Labour</td>
<td>135,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Variable Expenses</td>
<td>30,000</td>
<td>53,500</td>
</tr>
<tr>
<td>Production Overhead</td>
<td>250,000</td>
<td>200,000</td>
</tr>
<tr>
<td>Normal Output</td>
<td>90%</td>
<td>80%</td>
</tr>
<tr>
<td>Actual Output (Units)</td>
<td>85,000</td>
<td>70,000</td>
</tr>
<tr>
<td>Scrap value of loss</td>
<td>N3 per unit</td>
<td>N2 per unit</td>
</tr>
</tbody>
</table>

You are required to prepare:

a. Process 2 and Process 3 accounts (16 Marks)
b. Normal loss account (2 Marks)
c. Abnormal gain account (2 Marks)

(Total 20 Marks)

QUESTION 3

Tripple Company Limited manufactures MOP Heads for use in its various offices across the country. The Cost Accountant has the following costs per unit produced.

<table>
<thead>
<tr>
<th></th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct materials</td>
<td>15</td>
</tr>
<tr>
<td>Direct labour</td>
<td>60</td>
</tr>
<tr>
<td>Manufacturing overhead</td>
<td>72</td>
</tr>
<tr>
<td></td>
<td>147</td>
</tr>
</tbody>
</table>
A nearby company, Dusters Nigeria Enterprises, has offered to sell 10,000 units of these MOP Heads to Tripple Company Limited for ₦135 per unit. If Tripple Company Limited accepts the offer, some of the facilities presently in use to manufacture MOP Heads could be rented out to a third party at an annual rent of ₦195,000. In addition, ₦18 per unit of the fixed overhead cost applied to the production of MOP Heads would be totally eliminated. The Cost Accountant has also established that 75% of the overhead is fixed.

You are required to:

a. Advise the Chief Executive Officer of Tripple Company Limited whether the company should accept the offer of Dusters Nigeria Enterprises or not.  
   (15 Marks)

b. State FIVE other qualitative factors that the Chief Executive Officer of Tripple Company Limited should consider in making a decision in (a) above.  
   (5 Marks)

   (Total 20 Marks)

QUESTION 4

You have been approached by Iyabo, a fresh university graduate of Accounting, who is keenly interested in developing a career in Information Technology, because of many opportunities and prospects available in the field.

You are required to:

a. Describe briefly each of the following job opportunities to your client.
   i. System Analyst,  
      (2 Marks)
   ii. Webmaster,  
      (2 Marks)
   iii. Database Administrator,  
      (2 Marks)
   iv. Programmer,  
      (2 Marks)
   v. Network Manager, and  
      (2 Marks)
   vi. Computer Support Specialist.  
      (2 Marks)

b. State FIVE Change Management Controls.  
   (5 Marks)

c. State THREE jobs that a computer support specialist can perform.  
   (3 Marks)

   (Total 20 Marks)

QUESTION 5

Undoubtedly, Information Technology (IT) plays an important role in Management Information System but the technology must be employed with care and discretion. In view of this statement, you are required to:
a. Define Information Technology.  

(2 Marks)

b. State and explain SIX areas where IT can be applied to support Management Information Systems.  

(12 Marks)

c. List SIX uses of internet.  

(6 Marks)  

(Total 20 Marks)

QUESTION 6

As a valuable resource of an organisation, information should be controlled, secured and protected from unauthorised disclosure and destruction.

In the light of the above statement, you are required to explain briefly each of the following:

a. Information System Controls

b. Data Encryption

c. Biometric Identification Devices

d. Firewall  

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

EXAMINER’S REPORT

The questions test a wide range of the sections of the syllabus.

Virtually all the candidates attempted this section of the paper. Performance was good as more than half of the candidates scored 50% or above.

Tutorials
3. \[ \text{BEP} = \frac{\text{Fixed Cost}}{\text{Contribution/Unit}} \]
\[
\begin{align*}
6000 & = 6000 \\
1 & = x \\
6000 \times x & = 6000 \\
x & = \frac{N6,000}{6,000} \\
& = N1.00
\end{align*}
\]

\[\text{Selling price/unit } 9 \]
\[\text{less Variable Cost/unit } 8 \]
\[\text{Contribution/unit } 1 \]

4. Total Profit
\[\text{Sales value 9000 units @ N9 each } 81,000 \]
\[\text{Less variable cost 9000 units x N8 } 72,000 \]
\[\text{9,000} \]
\[\text{Less fixed cost } 6,000 \]
\[\text{Total Profit } 3,000 \]

7. Standard time allowed = \[\frac{360}{60} \times 2 = 12 \text{ hours}\]
\[\text{Time allowed } 12 \text{ hours}\]
\[\text{Time taken } 8 \text{ hours} \]
\[\text{4 hours}\]

Gross pay
\[\text{Time worked x Rate/ hour } N 80.00 \]
\[\text{Basic 8 hours x N10 } 80.00 \]
\[\text{Bonus 60% of 4 hours x N10 } 24.00 \]
\[\text{Gross pay: } 104.00 \]
## SOLUTION 1

### WHYME LIMITED

**CASH BUDGET FOR THREE MONTHS ENDING MAY YEAR XXX**

<table>
<thead>
<tr>
<th></th>
<th>March</th>
<th>April</th>
<th>May</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N'000</td>
<td>N'000</td>
<td>N'000</td>
</tr>
<tr>
<td><strong>INFLOWS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Collections</td>
<td>14,610</td>
<td>16,360</td>
<td>16,580</td>
</tr>
<tr>
<td>Loan</td>
<td>10,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fixed Asset Disposal</td>
<td>-</td>
<td>1,500</td>
<td>-</td>
</tr>
<tr>
<td>Investment Income</td>
<td>50</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td><strong>(A)</strong></td>
<td>24,610</td>
<td>17,910</td>
<td>16,630</td>
</tr>
<tr>
<td><strong>OUT FLOWS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>12,000</td>
<td>10,000</td>
<td>11,000</td>
</tr>
<tr>
<td>Salaries</td>
<td>1,670</td>
<td>1,700</td>
<td>1,750</td>
</tr>
<tr>
<td>Salaries Deductions</td>
<td>82</td>
<td>90</td>
<td>89</td>
</tr>
<tr>
<td>Overheads</td>
<td>1,956</td>
<td>2,160</td>
<td>2,292</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>12,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Loan Repayment</td>
<td>-</td>
<td>2,500</td>
<td>2,500</td>
</tr>
<tr>
<td>Investment</td>
<td>2,500</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>(B)</strong></td>
<td>30,208</td>
<td>16,450</td>
<td>17,631</td>
</tr>
<tr>
<td>Balance B/F</td>
<td>6,500</td>
<td>902</td>
<td>2,362</td>
</tr>
<tr>
<td><strong>Net cashflow</strong></td>
<td><strong>(A-B)</strong></td>
<td>1,460</td>
<td>1,001</td>
</tr>
<tr>
<td><strong>Balance c/f</strong></td>
<td>902</td>
<td>2,362</td>
<td>1,361</td>
</tr>
</tbody>
</table>

### Workings

<table>
<thead>
<tr>
<th></th>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N'000</td>
<td>N'000</td>
<td>N'000</td>
<td>N'000</td>
<td>N'000</td>
</tr>
<tr>
<td>Sales Collections</td>
<td>9,600</td>
<td>15,800</td>
<td>16,000</td>
<td>17,600</td>
<td>14,800</td>
</tr>
<tr>
<td>25%</td>
<td></td>
<td>4,000</td>
<td>4,400</td>
<td>3,700</td>
<td></td>
</tr>
<tr>
<td>55%</td>
<td></td>
<td>8,690</td>
<td>8,800</td>
<td>9,680</td>
<td></td>
</tr>
<tr>
<td>20%</td>
<td></td>
<td>1,920</td>
<td>3,160</td>
<td>3,200</td>
<td></td>
</tr>
<tr>
<td><strong>(Total)</strong></td>
<td>14,610</td>
<td>16,360</td>
<td>16,580</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overheads</td>
<td>1,650</td>
<td>1,920</td>
<td>2,100</td>
<td>2,400</td>
<td>1,860</td>
</tr>
<tr>
<td>20%</td>
<td></td>
<td>420</td>
<td>480</td>
<td>372</td>
<td></td>
</tr>
<tr>
<td>80%</td>
<td></td>
<td>1,536</td>
<td>1,680</td>
<td>1,920</td>
<td></td>
</tr>
<tr>
<td><strong>(Total)</strong></td>
<td>1,956</td>
<td>2,160</td>
<td>2,292</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### EXAMINER’S REPORT

The question tests candidates’ ability to prepare a monthly Cash Budget.
Above 75% of the candidates attempted this question. Performance was good as about 60% of the candidates who attempted the question scored 50% of the marks or above.

Common pitfalls exhibited by candidates who did not do well include:

(i) Use of wrong formats
(ii) Instructed timing of inflow and outflow was not respected in many instances
(iii) Juxtaposition of the inflow and outflow by a number of candidates.

It is recommended that candidates should:

(i) Master the standard format of preparing a Cash Budget
(ii) Understand and obey instructions
(iii) Revisit the topic and practise past questions using ICAN Pathfinder and Study Texts.

SOLUTION 2

MAPUTO NIGERIA LIMITED
PROCESS 2 ACCOUNTS

<table>
<thead>
<tr>
<th>a)i</th>
<th>Units</th>
<th>Cost/unit</th>
<th>Amount</th>
<th>Units</th>
<th>Cost/unit</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer from Proc. 1</td>
<td>100,000</td>
<td>10.00</td>
<td>1,000,000</td>
<td>Normal loss</td>
<td>10,000</td>
<td>3.00</td>
</tr>
<tr>
<td>Direct Material</td>
<td>100,000</td>
<td>85,000</td>
<td>Transfer to pro 3</td>
<td>Abnormal Loss</td>
<td>5,000</td>
<td>16.50</td>
</tr>
<tr>
<td>Variable expenses</td>
<td>1,350,000</td>
<td>30,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production o/h</td>
<td>250,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

100,000 1,515,000

PROCESS 3 ACCOUNTS

<table>
<thead>
<tr>
<th>a)ii</th>
<th>Units</th>
<th>Cost/unit</th>
<th>Amount</th>
<th>Units</th>
<th>Cost/unit</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer from Proc. 2</td>
<td>1,402,500</td>
<td>16.50</td>
<td>87,000</td>
<td>Finished goods</td>
<td>70,000</td>
<td>27.00</td>
</tr>
<tr>
<td>Direct Material</td>
<td>114,000</td>
<td>Normal loss</td>
<td>17,000</td>
<td>2.00</td>
<td>34,000</td>
<td></td>
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<tr>
<td>Variable expenses</td>
<td>53,500</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Labour</td>
<td>100,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Production o/d</td>
<td>200,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Abnormal Gain</td>
<td>2,000</td>
<td>27.00</td>
<td>54,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

87,000 1,924,000

(b)

NORMAL LOSS ACCOUNT

<table>
<thead>
<tr>
<th>Units</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proc. 2 Account</td>
<td>10,000</td>
</tr>
<tr>
<td>Proc account 3</td>
<td>17,000</td>
</tr>
<tr>
<td></td>
<td>64,000</td>
</tr>
</tbody>
</table>
(c) ABNORMAL LOSS ACCOUNT

<table>
<thead>
<tr>
<th>Proc. 2 Account</th>
<th>5,000</th>
<th>16.50</th>
<th>82,500</th>
<th>Scrap Value</th>
<th>5,000</th>
<th>3.00</th>
<th>15,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Statement</td>
<td>5,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>67,500</td>
</tr>
</tbody>
</table>

\[82,500\]

(c) ABNORMAL GAIN ACCOUNT

<table>
<thead>
<tr>
<th>Unit</th>
<th>Cost/unit</th>
<th>Amount</th>
<th>Unit</th>
<th>Cost/unit</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Statement</td>
<td>54,000</td>
<td></td>
<td>Process 3 Account</td>
<td>2,000</td>
<td>27</td>
</tr>
</tbody>
</table>

\[54,000\]

Workings - Process 2

Normal Loss Computation:

Normal Output = \[\frac{90}{100}\] x 100,000 = 90,000 units

Normal Loss = 100,000 \(\bar{\text{I}}\) 90,000 = 10,000 units

Abnormal Loss = Expected \(\bar{\text{I}}\) Actual output

= 90,000 \(\bar{\text{I}}\) 85,000 = 5,000 units

Cost of output = Total Cost \(\bar{\text{I}}\) Cost of Normal Loss

\[\text{Expected output} = \frac{\text{N}1,515,000 \bar{\text{I}} \text{N}30,000}{90,000} = \text{N}16.50\]

Process 3: Workings

Normal output = \[\frac{80}{100}\] x 85,000 = 68,000 units

Normal loss = 85,000 \(\bar{\text{I}}\) 68,000 = 17,000 units

Abnormal gain = Actual output \(\bar{\text{I}}\) Expected output

= 70,000-68,000 = 2,000 units
EXAMINER’S REPORT

This question tests candidates’ ability to prepare Process Costing Accounts and their peculiarities.

Above 75% of the candidates attempted this question.
Performance was below average. About 40% of the candidates who attempted the question scored 50% or above.

Common pitfalls include:

(i) Wrong format
(ii) Candidates showed shallow understanding of the peculiarities of Process Costing.

It is recommended that candidates should:

(i) Develop interest in Process Costing
(ii) Consult different texts on Process Costing including the ICAN Study Texts.

SOLUTION 3

(a)

TRIPPLE COMPANY LIMITED
CALCULATION OF SAVING OR DEFICIT FROM MAKING 10,000 UNITS OF MOP HEADS

<table>
<thead>
<tr>
<th></th>
<th>₦000</th>
<th>₦000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplier offer - 10,000 units at ₦135/units</td>
<td>1,350</td>
<td></td>
</tr>
<tr>
<td>Less Relevant costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Material - ₦15 x 10,000 units</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td>Labour - ₦60 x 10,000 units</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Variable 25% x ₦72 x 10,000</td>
<td>180</td>
<td></td>
</tr>
<tr>
<td>Opportunity cost of rentage</td>
<td>195</td>
<td></td>
</tr>
<tr>
<td>Fixed cost elimination ₦18 x 10,000 units</td>
<td>180</td>
<td>1,305</td>
</tr>
</tbody>
</table>

Cost of output \( = \frac{\text{Total cost} \div \text{Normal loss}}{\text{Expected output}} \) = \( \frac{₦1,870,000 - ₦34,000}{68,000} \) = ₦27.00
Decision:

I advise the Management of Tripple Company Limited to manufacture the product (MOP Heads)

(b) Other qualitative factors to be considered by the Management of Triple Company Ltd in taking above decision are:

i. Availability of raw materials at affordable prices
ii. Quality of the product to be supplied
iii. Reliability of the supplier or contractor
iv. Rate of inflation in the economy as it affects company’s production costs
v. Machine breakdown
vi. Prices from other competitors
vii. Labour unrest due to demand for wage increase
viii. Political instability in the country
ix. The ability to utilise available production capacity
x. Availability of cash
xi. The possible adverse effect of revealing trade secrets

EXAMINER’S REPORT

The question tests candidates understanding of Marginal Costing technique with respect to decision making.

The question was less popular among the candidates as only about 45% of them attempted the question.

Performance was below average. About 40% of the candidates who attempted the question scored 50% or above of the marks.

Recurring and popular shortcomings among the candidates include:

i) Inability to differentiate between qualitative and quantitative factors in decision making.

ii) Inability to separate costs into their fixed and variable components

iii) Inability to recognise relevant and irrelevant costs for decision making.
iv) Candidates confused the requirement for “State “with that of “describe”.

For improved performance in future, it is recommended that Candidates should
(i) Improve on the quality of preparation.
(ii) Consider improved understanding of the fundamentals, principles and concepts of marginal Costing with respect to decision making.
(iii) Adopt an acceptable format.
(iv) Read good quality texts including the ICAN Study Texts.

SOLUTION 4

(a) Description of the Job opportunities

System Analyst: A System Analyst would work with other people within an organisation to evaluate their information needs and thereafter design computer software and hardware to meet those needs and finally implement the information system.

Webmaster: This is one of the newest and highest demanded activities in IT environment. A webmaster would be involved in designing, creating, monitoring and evaluating corporate websites. Webmaster combines technical internet skills with design and layout expertise.

Database Administrator: This person is responsible for structuring, coordinating, linking and maintaining internal database. He is also involved with selecting and monitoring external databases including internet databases.
**Programmer**: Programmer works closely with a system analyst to either create new software or revise existing programs. You are expected as a programmer to be efficient in the use of programming languages to carry out your duty.

**Network Manager**: A Network Manager ensures that existing information and communication systems are operating effectively and that new communication systems are implemented as needed. He is also responsible for ensuring computer security and individual privacy.

**Computer Support Specialists**: These include technical writers, computer trainers, Computer technicians and help desk specialists.

(b) Change Management Controls include:

i. All change requests should be documented and follow a standard format that clearly identifies the nature of the change and the reason for the request.

ii. All changes should be approved by appropriate levels of management.

iii. Changes should be thoroughly tested prior to implementation.

iv. All documentation of program instructions, systems description, backup and disaster recovery plans should be updated to reflect authorised change to the system.

v. Emergency changes or deviations from standard operating policies must be documented and subjected to a formal review.

vi. Backup plans for reverting to previous configurations should be developed in case approved changes need to be interrupted or abandoned.

vii. User rights and privileges need to be carefully monitored during the change process to ensure that proper segregation of duties is maintained.

(c) Jobs of a Computer Support Specialist include:

(i) Technical writing which involves writing how information systems and programs work.

(ii) Computer training which involves the teaching of application software and also instructing users on how to use the organisation information systems.

(ii) The installation of hardware and software.

(iii) Provision of telephone support for end-users within the organisation.
The question tests candidates’ ability to:

(i) Explain the different job opportunities available to a number of IT Professionals.
(ii) Identify and state controls for change management.
(iii) State the jobs of a computer support specialist.

The question was very popular among many candidates as about 90% of them attempted it.
Performance was below average as about 45% of those who attempted the question scored 50% or above of the allocated mark.

Common shortcomings include:
(i) Part (b) was not understood at all.
(ii) In part (a), few candidates discussed the activity rather than the person.
(iii) Inability to differentiate between Webmaster and Network Manager

For improved performance in future, it is recommended that candidates should:
(i) Improve on their examination techniques
(ii) Expand their reading to include a wide variety of texts, particularly the ICAN Study Text.
(iii) Relate answers to the number of marks allocated to the question.
(iv) Place more emphasis on the quality of answers provided rather than volume.

SOLUTION 5

(a) Information Technology (IT) refers to computer hardware, software and communication networks. It describes the application of computer systems and telecommunications equipment to store, retrieve, transmit and manipulate data. The term is typically associated with Computer systems and computer networks.

(b) Areas where IT can be applied to support MIS include:
   i. As a tool for support
   ii. For automating
   iii. For embedding
   iv. For processing Business Data
   v. For communicating
   vi. For Networking
vii. For Electronic Data Interchange

Explanation of the above areas:

i. **Tool for support**: It can be considered as a tool for support in the areas of calculations, word processing, producing spreadsheet, diagrams and tables. It can enhance task performance.

ii. **For Automating**: It can be employed to do things faster and more fundamentally and to automate many routines, clerical and information intensive organisational tasks and processes e.g payroll, invoice production, etc.

iii. **For embedding**: This refers to the programming of organisational procedures, rules and controls into the IT. It thus aligns the existing technologies with the embedded business processor to achieve more effective control.

iv. **For processing Business Data**: This can be defined as the activity that translates description and measurements of activities, events and objects into usable information. The informing capability of IT flows on the actual operations and processes through which work is produced.

v. **For communicating**: A huge and ever increasing range of possibilities exists. This includes faxes, e-mails, voicemail, mobile telephones, videos, electronic displays, video conferencing, local and national worldwide network for transmitting and receiving all types of information.

vi. **For Networking**: Networks are communication systems which link together computers, storage devices, word processors, printers, telephone system and other electronic devices. Networks also allow users to share resources such as disks, printers and files.

vii. **For Electronic Data Interchange**: This is computer-to-computer data interchange and so is a form of electronic mail. It replaces traditional paper based communication via orders, invoices and so on. It is widely used in retailing businesses.

(c) Uses of Internet Include:

- Information dissemination and browsing
- Email
- Transaction processing
- File transfer
- Newsgroup
- Marketing/Commerce
- Entertainment/Music
- Recruitment and job search
• Education and Research activities
• Games
• Training
• Advertisement
• Social Media network
• Capital Market price movement

EXAMINER’S REPORT

The question is in three parts testing candidates understanding of the:

(i) Definition of Information Technology
(ii) Application of Information Technology to Management Information System.
(iii) Uses of Internet

The question is popular among the candidates with almost 100% attempt. Performance was very good. About 70% of the candidates scored 50% or above of the allocated mark.

Common pitfall among the candidates with poor performance was incorrect and inadequate definition of IT.

For improved performance in future, it is recommended that candidates should:

i) Improve on studies and preparation
ii) Read and understand the requirements of a question before attempting it.
iii) Show interest in the use of ICAN Study Texts.

SOLUTION 6

6 a. Information System Controls

Information system controls are measures put in place to safeguard information assets from natural disasters, man-made disasters, and/or illegal and unauthorised access as well as to ensure that information systems are working according to the design objectives.

Examples include:

- Provision of security policy,
- Provision of fire detection mechanism e.g Halon detector
- Insurance cover
- Use of user ID, Password, Biometric Measures
Information system controls are both manual and automated and consist of both general controls and application controls.

General controls govern the design, security and use of computer programs and the security of data files in general throughout the organisations information technology infrastructure.

Application controls are specific controls unique to each computerised application such as payroll or order processing.

b. **Data Encryption**

Encryption involves the coding of data into a form that is not understandable to the casual reader. Data can be encrypted (converted into a coded language) using an encryption key in the software.

Encryption is more commonly used to protect data that is being communicated across a network. It provides protection against the risk of hacking. Thus encryption involves converting data into a coded form for transmission with an encryption key in the software, and decoding at the other end with another key. Any one hacking into the data transmission will be unable to make sense of any data that is encrypted.

Example of encryption is sending an individual’s bank details across the internet. Also an individual buying goods or services from a supplier’s website may be required to submit credit-card details.

Also the on-line shipping system should provide for the encryption of the sender’s details (using a "public key" in the software for encryption of the message) and the decryption of the message at the seller’s end (using a "Private key" for the decryption).

c. **Biometric Identification Devices**

Biometrics refers to metrics (quantitative measures e.g numbers) related to human characteristics. Biometrics authentication (or realistic authentication) is used in computer science as a form of identification and access control. It is also used to identify individuals in groups that are under surveillance.

Biometric identifiers are the distinctive, measurable characteristics used to label and describe individuals. Electronic devices known as Biometric Identification Devices are designed to read and/or scan these human features.

**Types of biometric devices**

- **Face scanner:** Biometric face scanners identify a person by taking measurements of the person’s face. For example, the distance between the person’s chin, eye, nose and
These types of scanners can be very secure assuming they are smart enough to distinguish between the picture of a person and the real person.

- **Hand scanner:** Like the fingerprint, the palm of a human being's hand is also unique. A biometric hand scanner will identify the person by the palm of his hand.

- **Finger scanner:** A biometric finger scanner identifies the person by his fingerprint.

- **Retina or iris scanner:** A biometric retina or iris scanner identifies a person by scanning the iris or retina of his eyes. These scanners are more secure biometric authentication schemes when compared to the other devices because there is no known way to duplicate the retina or iris.

- **Voice scanner:** A voice analysis scanner will mathematically break down a person's voice to identify them. These scanners can help improve security but some less sophisticated scanners can be bypassed using a tape recording.

d. **Firewall:** Firewall is either a software or a hardware device (between the user's computer and modem). Computer users might have both. The purpose of a firewall is to detect and prevent any attempt to gain unauthorised entry through the internet into a user's computer or intranet system.

A firewall acts as a Gateway and it

- will block suspicious messages from the internet, and prevent them from entering the user's computer, and

- may provide an on-screen report to the user whenever it has blocked a message, so that the user is aware of the existence of the messages.

In spite of the preventive measures that are taken, there is a very high risk that computers attached to the internet will suffer from unauthorised access. An organisation would be well advised to carry out regular tests on its computers, to search for items that have been introduced without authority and illegally, and to get rid of them.

Firewalls are necessary for computers with internet access because

- they are continually exposed to corrupt messages and unauthorised access for as long as they are connected to the internet (which may be 24 hours a day) and;

- the volume of suspicious messages circulating the internet is immense.

**EXAMINER’S REPORT**
The question tests candidates’ understanding of the security measures for transmitted data and the computer environment.

Candidates showed a great interest in this question. About 70% of the Candidates attempted it. Performance was average as about half of the candidates who attempted the question scored 50% or above of the allocated mark.

Common pitfalls exhibited by candidates include:

i) Length of presentation without substance instead of a brief answer with quality points.
ii) Display of poor examination techniques
iii) Standard of communication was not good enough.

For improved performance in future, it is recommended that candidates should:

i) Read wide and varied texts.
ii) Take time to understand the requirements of the question before answering.
SECTION A: MULTIPLE-CHOICE QUESTIONS

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

1. The present value of \( \text{₦} \)A to be paid in \( t \) years in the future (assuming 5% continuous interest rate) is \( P(A, t) = Ae^{0.05t} \)
   How long will it take \( \text{₦}500 \) to appreciate to \( \text{₦}10,000 \)?
   A. 5.99 years
   B. 26.00 years
   C. 52.00 years
   D. 59.91 years
   E. 599.10 years

2. A firm produced 300 units of a commodity at a total cost of \( \text{₦}680 \) and 700 units of the same commodity at a total cost of \( \text{₦}1,060 \). If it is known that the cost relation is a straight line, derive the equation of this line.
   A. \( y = -0.95x + 395 \)
   B. \( y = 1.05x - 415.79 \)
   C. \( y = 0.95x + 395 \)
   D. \( y = 9.5x + 395 \)
   E. \( y = 1.05x + 419.75 \)

3. The total cost function for SUNNY Enterprises is \( c(x) = x^3 + 13x^2 + 40x \), where \( x \) is the number of units produced (in hundreds).
   At what production level does the average production cost equal to zero?
   A. 0, 500, 800
   B. 500, 800
   C. 0, 400, 900
   D. 400
   E. 400, 900

4. A business venture is considered as worthwhile when the
A. Present value of revenue is positive
B. Present value of the cost is positive
C. Net present value is positive
D. Net present value is equal to zero
E. Internal rate of return is positive

5. ABC Plc announced at its AGM in March 2014 that its production function for the year 2013 was \( Q = 5L^{0.4}K^{0.6} \), where \( Q \) is the output level, \( L \) is the labour input and \( K \) is the capital input. Therefore the marginal productivity functions for both \( L \) and \( K \) are respectively given as
   A. \( 2L^{0.4}K^{0.6}, 3L^{0.4}K^{1.6} \)
   B. \( 2L^{0.6}K^{0.4}, 3L^{0.4}K^{0.4} \)
   C. \( 2L^{1.4}K^{0.4}, 3L^{0.6}K^{1.4} \)
   D. \( 2L^{-0.6}K^{0.6}, 3L^{0.4}K^{-0.6} \)
   E. \( 2L^{-0.6}K^{0.6}, 3L^{0.4}K^{0.4} \)

6. In its efforts to reposition the fortune of the firm, the Board of Directors of AJE Enterprise Limited targeted a profit function of \( \pi = 16 - q^2 - 10. \) The firm’s profit maximising output level is obtained as
   A. \( \frac{2}{5} \)
   B. \( \frac{8}{5} \)
   C. \( 8 \)
   D. \( 10 \)
   E. \( 16 \)

7. If an event can occur \( m \) times and another event can occur \( n \) times, then both events can occur together in
   A. \( m + n \) times
   B. \( m - n \) times
   C. \( mn \) times
   D. \( \frac{m}{n} \) times
   E. \( \frac{n}{m} \) times

8. The following tree diagram shows the scenario with two cashiers (A and B) at a bank where \( M \) represents mutilated notes and \( N \) new notes.

![Tree Diagram](image-url)
If a customer received mutilated notes, what is the probability that she was paid by cashier A?

A. 0.54  
B. 0.55  
C. 0.56  
D. 0.59  
E. 0.61

9. A sales manager of a manufacturing company is to predict the sales of some products for given expenditures on advertising using a simple linear regression analysis. In the fitted regression equation, the sales and advertising expenditure are respectively ____________ and ________________ variables.

A. independent, dependent  
B. dependent, independent  
C. fixed, dependent  
D. dependent, fixed  
E. nominal, categorical

10. The following values are computed from a set of bivariate data relating the price and age of 12 selected cars from a car dealer shop as \( \sum d_i = 0 \), \( \sum d_i^2 = 416 \), where \( d_i \) is the difference between ranks of price and age of cars.

The computed Spearman's rank correlation coefficient between the price and age of the car is

A. -0.4545  
B. -0.3535  
C. 0.0000  
D. 0.3535  
E. 0.4545
11. The following methods are used to measure the trend of a time series EXCEPT
   A. semi-average
   B. moving average
   C. free-hand
   D. deseasonalisation
   E. least squares

12. The amount of time during which a path of activities could be delayed without affecting the overall project duration is called
   A. independent float
   B. total float
   C. free float
   D. excess time float
   E. average time float

13. The acronym EOQ in inventory control system stands for
   A. Economic Order Quantity
   B. Economic Optimal Quantity
   C. Equilibrium Optimal Quantity
   D. Economic Ordering Quality
   E. Equilibrium Ordering Quality
14. Given the respective first, second and third quartiles of a set of observations as: 16.25, 20.45 and 28.75
   The measure of quartile deviation is
   A. 6.23
   B. 6.24
   C. 6.25
   D. 6.26
   E. 6.27

15. A cumulative frequency curve is also known as
   A. Lorenz curve
   B. Cumulative frequency graph
   C. Ogive
   D. Cumulative frequency line
   E. Frequency polygon

16. The algebraic sum of the deviations of a set of numbers from their mean is
   A. The mean of the numbers
   B. The modal number
   C. The median of the numbers
   D. Zero
   E. One

17. The following are properties of standard deviation EXCEPT
   A. The greater the spread of the data, the larger the value of the standard deviation
   B. The value of standard deviation equals zero seems unlikely except when all observations take the same value
   C. Standard deviation takes into account all items in the data set
   D. Standard deviation cannot be used for further statistical analysis
   E. Standard deviation is not influenced by the size and unit of measurement
18. The locus of the mid-points of the tops of the rectangles in the constructed histogram by a straight line is known as

A. Ogive  
B. frequency polygon  
C. component bar chart  
D. pictogram  
E. histogram

19. Deseasonalisation of business data is a process of separating two components of a time series which are

A. Trend and cyclical variation  
B. Irregular and cyclical variation  
C. Trend and seasonal variation  
D. Cyclical and seasonal variation  
E. Seasonal and irregular variations

20. If the weekly wages of 5 employees at XYZ company are N10,000, N8,500, N7,500, N6,000 and N5,200, the inter-quartile range for the weekly wages is

A. N3,450  
B. N3,650  
C. N3,850  
D. N4,050  
E. N4,250
SECTION B: ATTEMPT ANY FOUR OUT OF SIX QUESTIONS (80 Marks)

QUESTION 1

The table below shows average daily sales of Rice Krispies in the month of August 2014 in Flavour Restaurant:

<p>| | | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
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<tbody>
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<td>18</td>
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<td>18</td>
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<td>22</td>
<td>44</td>
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<td>32</td>
<td>46</td>
<td>52</td>
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<td>29</td>
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<tr>
<td>10</td>
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<td>21</td>
<td>19</td>
<td>12</td>
<td>48</td>
<td>32</td>
</tr>
</tbody>
</table>

You are required to

a. Use tally method to prepare a frequency table starting from 1 ÷ 10, 11 ÷ 20, etc.

     (8 Marks)

b. Compute:

    (i) The median

    (ii) The mode

     (Total 20 Marks)

QUESTION 2

A research was conducted to know the average monthly household expenditure on mobile phones in DETOTAR Estate.

The research shows the average monthly household expenditure to be ₦5,200. Assume that the monthly household expenditure on mobile phones in the Estate is normally distributed with a standard deviation of ₦1,800. Determine the probability of a randomly selected household in DETOTAR Estate if the monthly expenditure on mobile phone is

a. more than ₦8,700

     (5 Marks)

b. between ₦2,600 and ₦9,000

     (6 Marks)
c. between ₦7,600 and ₦10,200  
(6 Marks)  
d. less than ₦8,800  
(3 Marks)  
(Total 20 Marks)

QUESTION 3

a. A producer wishes to determine the equilibrium price and quantity of his goods in the market. He estimated the market demand and supply functions as follows:
Demand: \( p - q^2 = 64 + q \)
Supply: \( 2p - 10q^2 = 328 - 45q \)
where \( P \) is the price in thousands of naira and \( q \) is quantity in thousands of units, calculate the equilibrium price and quantity for the producer.  
(15 Marks)

b. Mr. Taiwo invested a certain amount of money \( P \), at an annual interest rate \( r \), for a period of 3 years. The future value of this investment is given by
\[ S = P \left(1 + \frac{r}{100}\right)^3 \]
Express \( r \) in terms of \( S \) and \( P \)  
(5 Marks)  
(Total 20 Marks)

QUESTION 4

The management of a bank observed that the disruption of the bank ATM services was due to age of the machines. Data on the ATM failure are as contained in the table below:

<table>
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<th>Year after replacement</th>
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<th>2</th>
<th>3</th>
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<tbody>
<tr>
<td>Cumulative % of failures</td>
<td>30</td>
<td>75</td>
<td>100</td>
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</table>

It was further observed that 1,000 units of these machines are in use nationwide and they can be replaced collectively for ₦5million per machine. If replaced individually they cost ₦30million per machine.

a. You are required to calculate the
   i. average machine life  
   (2 Marks)  
   ii. average number of replacements per year  
   (2 Marks)  
   iii. cost of individual replacement per year  
   (2 Marks)  
   iv. cost of mass replacement at the end of the year  
   (12 Marks)

b. determine the best replacement strategy  
(2 Marks)  
(Total 20 Marks)
QUESTION 5

a. The probability that business A succeeds is 0.65 while the probability that business B succeeds is 0.75. If the successes of the two events are independent, obtain the probability that
   i. either business A or business B or both businesses succeed (4 Marks)
   ii. only one of the businesses succeeds (3 Marks)
   iii. none of the two businesses succeed (3 Marks)

b. The following data give the distribution by age of licensed automobile drivers in a city in year 2011.

<table>
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<tr>
<th>Age</th>
<th>Number of Drivers (in thousands)</th>
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<td>56 - 61</td>
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Determine the lower and upper quartiles of the age of the drivers. (10 Marks)

(Total 20 Marks)

QUESTION 6

A manufacturer determines that the firm’s Marginal Cost (MC) and Marginal Revenue (MR) functions are

\[ MC = C'(x) = 100 - 0.1x \]
\[ MR = R'(x) = 100 + 0.1x \]

You are required to find the
a. Change in revenue that results when the sales level increases from 20 to 30 units. (5 Marks)

b. Revenue resulting from the sale of 30 units (5 Marks)
c. Cost of producing 30 units if the fixed cost (at \( x = 0 \) units) is \( \text{N}400 \). (5 Marks)

d. Total profit when 30 units of the product are sold. (5 Marks)

(Total 20 Marks)
**Formulae**

**PROBABILITY**

A ∪ B = A or B  \hspace{0.5cm} A ∩ B = A and B (overlap).

P(B |A) = probability of B, given A

**Rules of Addition**

If A and B are mutually exclusive:  \hspace{0.5cm} P(A ∪ B) = P(A) + P(B)

If A and B are not mutually exclusive:  \hspace{0.5cm} P(A ∪ B) = P(A) + P(B) - P(A ∩ B)

**Rules for Multiplication**

If A and B are independent:  \hspace{0.5cm} P(A ∩ B) = P(A) * P(B)

If A and B are not independent:  \hspace{0.5cm} P(A ∩ B) = P(A) * P(B |A)

E( ) = Σ (probability * payoff)

**Quadratic Equations**

If \(a + b + c = 0\) is the general quadratic equation, the two solutions (roots) are given by:

\[ x = -\frac{b \pm \sqrt{b^2 - 4ac}}{2a} \]

**DESCRIPTIVE STATISTICS**

Arithmetic Mean

\[ \bar{x} = \frac{\sum x}{\sum f} \]  \hspace{0.5cm} (frequency distribution)

Standard Deviation

\[ SD = \sqrt{\frac{\sum (x - \bar{x})^2}{\sum f}} \]  \hspace{0.5cm} (frequency distribution)

**INDEX NUMBERS**

Price relative = 100 * \(\frac{\sum \text{Price}}{\sum \text{Base Price}}\) \hspace{0.5cm} Quantity relative = 100 * \(\frac{\sum \text{Quantity}}{\sum \text{Base Quantity}}\)

Price:

\[ \frac{\sum \text{Current Price} \times \sum \text{Base Price}}{\sum \text{Base Price}} \times 100 \]

Quantity:

\[ \frac{\sum \text{Current Quantity} \times \sum \text{Base Quantity}}{\sum \text{Base Quantity}} \times 100 \]

**TIME SERIES:**

Additive Model \hspace{0.5cm} Series = Trend + Seasonal + Random

Multiplicative Model \hspace{0.5cm} Series = Trend * Seasonal * Random

**LINEAR REGRESSION AND CORRELATION**

The linear regression equation of Y on X is given by:
\[ Y = a + bX \] or \[ - = - \]

Where
\[ = \frac{\left( \right)}{\left( \right)} = \frac{\Sigma \Sigma \Sigma}{\Sigma X \Sigma X^2} \]

and
\[ = - \]

or solve
\[ \sum = na + \sum \]
\[ \sum = a \sum + \sum \]

Coefficient of Correlation
\[ = \frac{\left( \right)}{\left( \right)} = \frac{\Sigma \Sigma \Sigma}{\Sigma X \Sigma X^2 \Sigma \Sigma Y^2} \]

\[ R \text{ (rank)} = 1 - \frac{\sum}{\sum} \]

**FINANCIAL MATHEMATICS**

**Compound Interest (Values and Sums)**
Future Value \( S \), of a sum of \( X \), invested for \( n \) periods, compounded at \( r\% \) interest
\[ S = 1 + n \]

**Annuity**
Present value of an annuity of \( N1 \) per annum receivable or payable for \( n \) years, commencing in one year, discounted at \( r\% \) per annum
\[ PV = - 1 - \frac{1}{n} \]

**Perpetuity**
Present value of \( N1 \) per annum, payable or receivable in perpetuity, commencing in one year, discounted at \( r\% \) per annum.
\[ PV = - \]
### Annuity Table

Present value of an annuity of 1 i.e. \[ 1 - (1 + r)^n \]

Where \( r \) = discount rate

\( n \) = number of periods

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<td>0·4984</td>
<td>0·4985</td>
<td>0·4985</td>
<td>0·4986</td>
<td>0·4986</td>
<td>0·4986</td>
</tr>
<tr>
<td>3·0</td>
<td>0·4987</td>
<td>0·4987</td>
<td>0·4987</td>
<td>0·4988</td>
<td>0·4988</td>
<td>0·4989</td>
<td>0·4989</td>
<td>0·4989</td>
<td>0·4990</td>
<td>0·4990</td>
</tr>
</tbody>
</table>
MCQ

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

Workings

1. $10000 \times 500e^{0.05t}$
\[ e^{0.05t} = 20 \]
\[
\log e = 0.05t \\
\therefore t = \frac{100}{0.05} = 59.91
\]

2. \( y \) \( f(x) \), \( y = \text{cost} \), \( x = \text{no of units} \).

\((y, x)\) (300, 680) and (700, 1060)

Slope = \[ \frac{y}{x} \] = \[ \frac{3}{2} \] = \[ \frac{2}{13} + 40 \]

\( y = -x + c \) i.e. \( y = 0.95x + c \)

\[ 680 = -300 + c \]
\[ c = 395 \]
\[ \therefore y = 0.95x + 395 \]

3. Average cost \[ = \frac{3}{2} \]

\[ = 2 - 13 + 40 \]

Set this to zero

i.e. \[ 2 - 13 + 40 = 0 \]

\((x \neq 5, x \neq 8) = 0 \)

\( x = 5 \) or \( 8 \) i.e. 500 0r 800 units

4. \[ \frac{\partial Q}{\partial L} = 2L^{-0.6}K^{0.6}, \quad \frac{\partial Q}{\partial K} = 3L^{0.4}K^{-0.4} \]

i.e. \[ 2L^{-0.6}K^{0.6}, \quad 3L^{0.4}K^{-0.4} \]
6. \[
\frac{d \pi}{dQ} = 16 - \frac{8}{5}q = 0
\]
i.e. \(80 - 8q = 0\) \(q = 10\)

8.

\[
\begin{align*}
M & : 0.16 \\
& : 0.84 \\
A & : 0.52 \\
B & : 0.48 \\
& : 0.14 \\
& : 0.86 \\
N & : AM + BM = 0.52 \times 0.16 + 0.48 \times 0.14 = 0.832 + 0.0672 = 0.1504
\end{align*}
\]

\[
\therefore P(\frac{A}{M}) = \frac{P(A \cap M)}{P(M)} = \frac{0.832}{0.1504} = 0.55
\]

10. \[
R = 1 - \frac{6 \sum di^2}{n(n^2 - 1)} = 1 - \frac{6(416)}{12(12^2 - 1)} = 1 - \frac{2496}{1716} = \approx 0.4545
\]
14. \( Q_1 = 16.25 \)
\[ Q_2 = 20.45 \]
\[ Q_3 = 28.75 \]

\[ \therefore \text{ Quartile deviation } = \frac{Q_3 - Q_1}{2} \]
\[ = \frac{28.75 - 16.25}{2} \]
\[ = \frac{12.50}{2} \]
\[ = 6.25 \]

20. Arrange in ascending order \( \text{N}5,200; \text{N}6,000; \text{N}7,500; \text{N}8,500; \text{N}10,000 \)

\( q_1 \) position: \( \frac{1}{4}(n + 1)^{th} \) term

i.e. \( 1.5^{th} \) term = \( \frac{5,200 + 6,000}{2} \)
\[ q_1 = \text{N}5,600 \]

\( q_3 \) position = \( \frac{3}{4}(n + 1)^{th} \) term

i.e. \( 4.5^{th} \) term = \( \frac{8,500 + 10,000}{2} \)
\[ q_3 = \text{N}9,250 \]

\[ \therefore \text{ Inter-quartile range is } q_3 - q_1 \]
\[ = \text{N}(9,250 - 5,600) \]
\[ = \text{N}3,650 \]

EXAMINER’S REPORT
The questions test candidates’ understanding of concepts, principles and theories in quantitative techniques and their application in business.

All candidates attempted the questions and performance was average.

Candidates are advised to cover the syllabus adequately for better performance in future ICAN examinations.
SECTION B

SOLUTION 1

a. Preparation of frequency table using tally method with range (1 – 10, 11 – 20, etc)

<table>
<thead>
<tr>
<th>CLASS INTERVAL</th>
<th>TALLY</th>
<th>FREQUENCY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 10</td>
<td>III</td>
<td>4</td>
</tr>
<tr>
<td>11 – 20</td>
<td>I II I II II II I I I I I</td>
<td>21</td>
</tr>
<tr>
<td>21 – 30</td>
<td>I I I I I I I I</td>
<td>14</td>
</tr>
<tr>
<td>31 – 40</td>
<td>I I</td>
<td>10</td>
</tr>
<tr>
<td>41 – 50</td>
<td>I I I</td>
<td>6</td>
</tr>
<tr>
<td>51 – 60</td>
<td>II</td>
<td>2</td>
</tr>
<tr>
<td>61 – 70</td>
<td>I</td>
<td>1</td>
</tr>
<tr>
<td>71 – 80</td>
<td>II</td>
<td>2</td>
</tr>
</tbody>
</table>

b (i)

<table>
<thead>
<tr>
<th>CLASS INTERVAL</th>
<th>CLASS BOUNDARY</th>
<th>f</th>
<th>Cf</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 10</td>
<td>0.5 – 10.5</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>11 – 20</td>
<td>10.5 – 20.5</td>
<td>21</td>
<td>25</td>
</tr>
<tr>
<td>21 – 30</td>
<td>20.5 – 30.5</td>
<td>14</td>
<td>39</td>
</tr>
<tr>
<td>31 – 40</td>
<td>30.5 – 40.5</td>
<td>10</td>
<td>49</td>
</tr>
<tr>
<td>41 – 50</td>
<td>40.5 – 50.5</td>
<td>6</td>
<td>55</td>
</tr>
<tr>
<td>51 – 60</td>
<td>50.5 – 60.5</td>
<td>2</td>
<td>57</td>
</tr>
<tr>
<td>61 – 70</td>
<td>60.5 – 70.5</td>
<td>1</td>
<td>58</td>
</tr>
<tr>
<td>71 – 80</td>
<td>70.5 – 80.5</td>
<td>2</td>
<td>60</td>
</tr>
</tbody>
</table>

\[ \sum = 60 \]

The median is given by

\[ - \text{TH member} \]

\[ = - \text{TH member} = 30^{\text{TH}} \text{ member} \]

The median = +

where,
= Lower class boundary of the median class, = 20.5

\( c_{bm} \) = Cumulative frequency before the median class = 25

= Frequency of the median class = 14

\( c \) = The class size = 10

\( \sum = 30 \)

\[ \text{Median} = 20.5 + \frac{10}{30} \]

\[ \text{Median} = 24.07 \]

b (ii) The mode is given by

\[ + \frac{\Delta}{\Delta} \]

where,

\( b \) = Lower class boundary of the modal class,

\( \Delta_1 \) = The difference between the frequency of the modal class and the frequency of the next lower class

\[ = f_m - 21 \bar{1} 4 = 17 \]

\( \Delta_2 \) = The difference between the frequency of the modal class and the frequency of the next higher class

\[ = f_m - 21 \bar{1} 1 = 7 \]

\( c \) = The class size

\[ = 10 \]

\[ \text{Mode} = 10.5 + \frac{10}{708} 10 = 10.5 + (0.708) 10 \]

\[ = 10.5 + 7.08 \]

\[ \text{Mode} = 17.58 \]

**EXAMINER’S REPORT**
The question tests candidates’ skills in

(i) the use of tally method in the preparation of frequency table; and
(ii) the computation of the median and mode measures of scatter in a given data distribution.

About 80% of the candidates attempted the question and performance was fair.

The major pitfall was candidates’ inability to come to terms with the appropriate formulae for computing the medium and mode of data distribution involving class intervals.

Candidates are advised to get used to these formulae and their application as demonstrated in the above suggested solution to the question.

SOLUTION 2

a. \[ = 1.94 \]

Required probability (shaded area) is \[ 0.5 - 0.4738 = 0.026 \]

b. \[ = 1.4445 \]

\[ = 2.111 \]

Required probability (shaded area) is \[ 0.4251 + 0.4826 = 0.908 \]
c. \[ n = 1.333 \]
\[ n = 2.778 \]
Required probability (shaded area) is
\[ 0.4973 - 0.4082 = 0.089 \]

d. \[ n = 2.0 \]
Required probability (shaded area) is
\[ 0.4772 + 0.5000 = 0.9772 \]

EXAMINER’S REPORT

The question tests candidates’ ability to apply probability analysis to normally distributed data.

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

Candidates’ commonest pitfall in answering the question included wrong application of relevant formulae, inability to properly identify the area of the normal curve applicable to the question and premature approximation which affected further addition and or table reading.

Candidates’ are advised to pay attention to these noted pitfalls so as to guide against them in future examinations.

SOLUTION 3

Demand: \[ P = 5 - q + 64 \]

Supply: \[ P = 5 - q + 164 \]
At equilibrium, Demand = Supply

Thus

\[ + - q + 64 = 5 \]
\[ q - 164 \]

\[ \therefore 4q + 29q + 228 = 0 \]
\[ 4q - 48q + 19q - 228 = 0 \]
\[ 4q(q - 12) + 19(q - 12) = 0 \]
\[ (4q + 19)(q - 12) = 0 \]

\[ \therefore (4q + 19) = 0 \quad \text{or} \quad (q - 12) = 0 \]

\[ \Rightarrow 4q = -19 \quad \text{or} \quad q = 12 \]

i.e. \( q = -\frac{19}{4} \) or \( q = 12 \)

Since \( q > 0 \) (non-negative); hence, \( q = 12 \)

ALITER

\[ 4q + 29q + 228 = 0 \]
\[ q = \pm \sqrt{\frac{-228}{29}} \]

\[ a = 4, \quad b = 29, \quad c = -228 \]

\[ \therefore q = \pm \sqrt{\frac{-228}{29}} \]
\[ = \pm \sqrt{-4.75} \]

\[ = 12 \quad \text{or} \quad -4.75 \]

i.e. \( q = 12 \) since \( q \) cannot be negative.

Substituting \( q = 12 \) in either function,

\[ P = 5(12)(45) - 164 \]
\[ = 720 - 270 - 164 \]
\[ = 286 \]
Therefore, the equilibrium price is N286,000 while the equilibrium quantity is 12,000 units.

3b.

\[
S = P \ 1 \quad \frac{3}{3}
\]

i.e.

\[
- \quad = \quad 1 \quad \frac{3}{3}
\]

\[
- \quad \frac{1}{3} = \quad \quad 1
\]

\[
- \quad \frac{1}{3} - 1 = \quad
\]

\[
\quad = \quad - \quad \frac{1}{3} - 1
\]

\[
r = 100 \quad - \quad \frac{1}{3} - 1
\]

EXAMINER’S REPORT

The question tests candidates’ ability to compute the equilibrium price and quantity (demanded, supplied) of a product in a competitive market setting from specified demand and supply functions.

About 70% of the candidates attempted the question and performance was good.

SOLUTION 4

Calculation of percentage of failure

<table>
<thead>
<tr>
<th>Year (x)</th>
<th>Percentage</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>30</td>
<td>0.30</td>
</tr>
<tr>
<td>2</td>
<td>(75 - 30) = 45</td>
<td>0.45</td>
</tr>
<tr>
<td>3</td>
<td>(100 - 75) = 25</td>
<td>0.25</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>1.00</td>
</tr>
</tbody>
</table>
a (i) Average machine life

<table>
<thead>
<tr>
<th>Year (x)</th>
<th>Percentage failure</th>
<th>Probabilities (p)</th>
<th>P(X)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>30</td>
<td>0.30</td>
<td>0.30</td>
</tr>
<tr>
<td>2</td>
<td>45</td>
<td>0.45</td>
<td>0.90</td>
</tr>
<tr>
<td>3</td>
<td>25</td>
<td>0.25</td>
<td>0.75</td>
</tr>
<tr>
<td>100</td>
<td>1.00</td>
<td></td>
<td>1.95</td>
</tr>
</tbody>
</table>

Average machine life = \( \sum \frac{(\text{P(X)})}{\text{P}} \)

where \( p \) = Probability and \( x \) = Month

Average machine life = \( \sum \frac{(\text{P(X)})}{\text{P}} \) = 1.95 years

a (ii) Average number of replacement per year

Average number of replacement per year = \( \frac{\text{Average machine life}}{\text{P(X)}} \)

= \( \frac{1.95}{1.00} \) = 513 units

a (iii) Cost of individual replacement at the end of the year

Cost of individual replacement at the end of the year = (Average number of replacement per year x Cost of individual replacement)

i.e. 513 units x 30 million = 15,390 million

a (iv) Cost of mass replacement at the end of the year

Let \( N \) represent the number of machines replaced at the end of the year

The different values of \( N \) can then are calculated as:

= Number of machines at the beginning of the year = 1,000 units

= Number of machines at the end of the year 1

= (1000 x 0.30) = 300 units
= Number of machines at the end of the year 2
= . + . = (1000 x 0.45) + (1000 x 0.30)
= 540 units

= Number of machines at the end of the year 3
= . + . + .
= (1000 x 0.25) + (300 x 0.45) + (540 x 0.30)
= 547 units
The total cost of group replacement is therefore:

<table>
<thead>
<tr>
<th>End of Year</th>
<th>Total Cost of Group Replacement (₦) in million</th>
<th>Average Cost per Year (₦) in million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(300 x 30) + (1000 x 5) = 14,000</td>
<td>14,000</td>
</tr>
<tr>
<td>2</td>
<td>{(300 + 540) x 30} + (1000 x 5) = 30,200</td>
<td>15,100</td>
</tr>
<tr>
<td>3</td>
<td>(300 + 540 + 547) x 30 + (1000 x 5) = 46,610</td>
<td>15,537</td>
</tr>
</tbody>
</table>

Since the lowest average cost of ₦14,000 million is obtained in the first year of mass replacement, it is optimal to have a mass replacement at the end of year one.

The best replacement strategy is the mass replacement since the cost of mass replacement (that is ₦14,000 million relatively lower than the cost of individual replacement (that is ₦15,390 million)

EXAMINER’S REPORT

The question tests candidates’ understanding of concept and simple applications of the concept in replacement theory/analysis.

About 40% of the candidates attempted the question and performance was poor.

Candidates demonstrated shallow knowledge/understanding of the question. They were unable to compute the appropriate probabilities and the associated cumulative probabilities that are required in the solution to the problem.

Candidates are advised to be more conversant with the probability measures, their computations and applications as demonstrated in the suggested solution above.
**SOLUTION 5**

a. (i)  \( P(A) = 0.65, \quad P(A') = 0.35 \)

\[
P(B) = 0.75, \quad P(B') = 0.25
\]

\[
P(A \cup B) = P(A) + P(B) - P(A \cap B)
\]

\[
= 0.65 + 0.75 - (0.65 \times 0.75)
\]

\[
= 0.9125
\]

(ii)  \( P(A \cap B') + P(A' \cap B) = P(A)P(B') + P(A')P(B) \)

\[
= (0.65 \times 0.25) + (0.35 \times 0.75)
\]

\[
= 0.425
\]

(iii)  \( P(A' \cap B') = P(A')P(B') \)

\[
= (0.35 \times 0.25)
\]

\[
= 0.0875
\]

b.

<table>
<thead>
<tr>
<th>Age</th>
<th>f</th>
<th>cf</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.5</td>
<td>19.5</td>
<td>5</td>
</tr>
<tr>
<td>19.5</td>
<td>25.5</td>
<td>5</td>
</tr>
<tr>
<td>25.5</td>
<td>31.5</td>
<td>53</td>
</tr>
<tr>
<td>31.5</td>
<td>37.5</td>
<td>124</td>
</tr>
<tr>
<td>37.5</td>
<td>43.5</td>
<td>205</td>
</tr>
<tr>
<td>43.5</td>
<td>49.5</td>
<td>382</td>
</tr>
<tr>
<td>49.5</td>
<td>55.5</td>
<td>468</td>
</tr>
<tr>
<td>55.5</td>
<td>61.5</td>
<td>540</td>
</tr>
</tbody>
</table>

Lower quartile is

\[
= \frac{N}{4} + \frac{1}{2}
\]

i.e.

\[
= \frac{606}{4} + \frac{1}{2}
\]
here,  \( - = 151.5 \)
\[ = 124, \quad = 53, \quad = 25.5 \]
\[ = 31.5 \div 25.5 = 6 \]
\[ \therefore = 25.5 + \frac{6}{4} \]
\[ = 25.5 + 4.77 \]
\[ = 30.27 \]

Upper quartile is
\[ \frac{3N}{4} \]
\[ i.e. \quad = + \frac{3}{4} \]

here,  \( - = 3(151.5) = 454.5 \)
\[ = 382, \quad = 86, \quad = 37.5 \]
\[ = 43.5 \div 37.5 = 6 \]
\[ \therefore = 37.5 + \frac{6}{4} \]
\[ = 37.5 + 5.06 \]
\[ = 42.56 \]

EXAMINER’S REPORT

The question tests candidates’ understanding of probability and measures of partition of data distribution.

About 95% of the candidates attempted the question and performance was fair.

Some candidates were unable to apply the appropriate probability formulae (additive and multiplicative rules) as well as to calculate the lower and upper quartiles and the relevant class intervals. Some candidates also used graphical analysis which was not required.

Candidates are advised to note these pitfalls and guide against them in future examinations.

SOLUTION 6

a. As the sales level increase from \( x = 20 \) to \( x = 30 \) units, the revenue changes by the amount
b. If we assume that the revenue from the sales of $x = 0$ units, then the revenue resulting from the sale of $x = 30$ units can be viewed as the change in revenue that results when sales increase from $x = 0$ to $x = 30$.

This change is given by

$$\int_{0}^{30} MR\,dx = \int_{0}^{30} (100 + 0.1x)\,dx$$

$$= \left[100x + 0.05x^2\right]_{0}^{30}$$

$$= 3,045 - 0$$

$$= 3,045$$

Therefore, the revenue received from selling 30 units is ₦3,045

c. As the production level increases from $x = 0$ unit to $x = 30$ units, the cost changes by an amount given as follows:

$$\int_{0}^{30} MC\,dx = \int_{0}^{30} (100 - 0.1)\,dx$$

$$= \left[100x + 0.05x^2\right]_{0}^{30}$$

$$= 3,000 - 45$$

$$= 2,955$$

Thus, the total cost for manufacturing 30 units of the product will be the fixed cost plus the added cost as the production increase from $x = 0$ units to $x = 30$ units. Thus, the cost will be

$$₦(400 + 2,955) = ₦3,355$$

d. The total profit when 30 units are sold is

$$\pi = \frac{\text{Total revenue}}{\text{Total Cost}}$$
where \( \pi \) = Profit

Thus, \( \pi = \mathbb{N} (3,045 - 3,355) \)
\[ = \mathbb{N} 310 \]

Therefore, at maximum output level (\( x = 30 \))

One firm is not covering cost.

EXAMINER’S REPORT

The question tests candidates’ knowledge of cost, revenue and profit functions in business analysis. It also tests the ability of candidates to use integral calculus to compute Total Cost (TC) and Total Revenue (TR) from Marginal Cost (MC) and Marginal Revenue (MR) functions, respectively.

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

The major pitfall was candidates’ inability to link the solution of the question to the use of integral calculus for deriving TC and TR from MC and MR functions respectively.

Candidates are advised to read widely and understand the requirements of the question as done in the suggested solution above.
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

FOUNDATION LEVEL EXAMINATIONS - MAY 2015

BUSINESS AND FINANCE

Time Allowed: 3 hours

SECTION A: 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 management function which ensures that things happen in accordance with established policies and practices is called
   A. Organising
   B. Coordinating
   C. Controlling
   D. Planning
   E. Motivating

2. The channelling of funds from one economic unit to the other is known as
   A. Financial market
   B. Financial intervention
   C. Financial restructuring
   D. Financial intermediation
   E. Money market intervention

3. The purpose of analysing an organisation’s strategic position is
   A. To understand the operational and corporate requirements of an organisation
   B. To understand the strategic position of the organisation in terms of its strategic capability
   C. To understand and allocate available resources
   D. To understand the strategic position of the organisation in terms of its external environment, capabilities and expectations
   E. To evaluate the resources required to translate strategy into action
4. Which of the following is a cashflow calculation item?
   
   A. Depreciation of fixed assets  
   B. Loss on disposal of fixed assets  
   C. Profit on disposal of investments  
   D. Surplus on revaluation of fixed assets  
   E. Proceeds from disposal of fixed assets

5. Which of the following ethical theories expresses the view that human conduct should be based exclusively on self interest?
   
   A. Normative ethics  
   B. Applied ethics  
   C. Ethical egoism  
   D. Ethics of duty  
   E. Virtue ethics

6. Which of the following theories has assumptions that are closely related to Maslow’s higher-level needs?
   
   A. Theory X  
   B. Theory Y  
   C. Theory Z  
   D. Theory XY  
   E. Theory XYZ

7. Which of the following is a key instrument in changing organisational culture?
   
   A. Training  
   B. Team membership  
   C. MBO Strategy  
   D. Problem analysis  
   E. Growth
8. Which type of communication is Grapevine?
   A. Formal
   B. Informal
   C. External
   D. Formal and Informal
   E. Internal and External

9. An organisation's mission can be defined as
   A. The overriding purpose in line with the values or expectations of stakeholders
   B. The organisation's business plan
   C. The overriding purpose in line with the values or expectations of its owners
   D. The desired future state of the organisation
   E. The current state of the organisation

10. The following are required to incorporate a limited liability company EXCEPT
    A. Memorandum of Association
    B. Articles of Association
    C. Statement of authorised share capital
    D. Location of the registered office
    E. Source of finance

11. Which of the following is regarded as an alternative to shareholders' wealth maximisation?
    A. Long term stability
    B. Long term growth
    C. Corporate wealth maximisation
    D. Share price maximisation
    E. Cost minimisation
12. The most appropriate terminology that describes those who have interest in an organisation is
   A. Customers
   B. Shareholders
   C. Stakeholders
   D. Management
   E. Owners

13. **ONE** of the primary objectives of strategic planning is to achieve
   A. Business strategy
   B. A sustainable competitive advantage
   C. Purpose of production
   D. An aspiration
   E. Business idea

14. Meeting the social and psychological needs of employees in the fulfilment of organisational goals can be referred to as
   A. Motivating
   B. Controlling
   C. Organising
   D. Planning
   E. Coordinating

15. Which of the following sources of finance available to businesses is the most frequently used for short-term finance?
   A. Bank borrowing
   B. Rights issues
   C. New share issues
   D. Retained earnings
   E. Trade credit
16. Aggregating prospective buyers into groups is called
   A. Market categorisation
   B. Market mix
   C. Market segmentation
   D. Market modelling
   E. BCG matrix analysis

17. The decision rule for the acceptance of investment using Net Present Value (NPV) method is, accept if the
   A. NPV ≥ 0
   B. NPV > 0
   C. NPV < 0
   D. NPV ≤ 0
   E. NPV = 0

18. Which of these is NOT a financial instrument traded in the money market?
   A. Treasury Bills
   B. Call money
   C. Development stock
   D. Stabilization securities
   E. Bill Finance scheme

19. A leadership style in which the leader has the authority to withhold or give reward and punishment is referred to as é é é é é é . style
   A. Democratic leadership
   B. Participative leadership
   C. Contingency leadership
   D. Autocratic leadership
   E. Laissez faire leadership

20. The process of transmission of information from one person, group or organisation to another is called
   A. Decoding
   B. Communication
   C. Globalization
   D. Presentation
   E. Translation

SECTION B: ATTEMPT ANY FOUR OUT OF SIX QUESTIONS
(80 Marks)
QUESTION 1

a. State FIVE features of each of the following:
   i. Memorandum of Association  (5 Marks)
   ii. Articles of Association  (5 Marks)
   iii. Public Sector Entity  (5 Marks)

b. Identify FIVE advantages of a partnership business.  (5 Marks)
   (Total 20 Marks)

QUESTION 2

Businesses do not operate in a vacuum. There is a combination of internal and external factors that affect how businesses function.

State and explain any FOUR external environmental factors that affect a business.  (20 Marks)

QUESTION 3

In every country, governments have important roles to play in order to achieve desired economic goals.

Required:
   a. State FIVE reasons for the increasing role of Government in the Nigerian Financial System.  (10 Marks)

   b. State FIVE mechanisms for government intervention in the financial system.  (10 Marks)
   (Total 20 Marks)

QUESTION 4

In evaluating capital investment projects, relevant inflows and outflows expected to be generated and used by the proposed capital investment must be determined prior to the commencement of the project.
Required:

a. List and explain **FOUR** major cashflow items to be included in a capital investment project. (8 Marks)

b. i. Explain the payback period technique of investment appraisal. (4 Marks)
ii. State **TWO** advantages and **TWO** disadvantages of payback period. (8 Marks)

(Total 20 Marks)

QUESTION 5

Abraham Maslow proposes that human beings are motivated by multiple needs which are arranged in a hierarchical order.

a. List and explain the **FIVE** general types of human needs in ascending order. (15 Marks)

b. Write briefly on the following:
   i. Hygiene factors
   ii. Motivators (5 Marks)

(Total 20 Marks)

QUESTION 6

a. Describe the Boston Consulting Group (BCG) matrix. (4 Marks)

b. Explain the product-market strategy that might be chosen for products in each quadrant of the matrix. (12 Marks)

c. List **TWO** weaknesses of the BCG matrix as a model for strategic analysis. (4 Marks)

(Total 20 Marks)
MCQ

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

EXAMINER’S REPORT

The questions test all aspects of the syllabus. Over 60% of all candidates did well in this section. The major pitfall was inadequate knowledge of the concept and principles involved in some of the questions.

Candidates are advised to study hard by reading basic textbooks in Management and Finance as well as the ICAN Pathfinders.

They are also advised to always cover the entire syllabus when preparing for the examination.
SOLUTION 1

a. (i) Features of Memorandum of Association

The memorandum of Association regulates the external activities of the company. It contains the following:

- The name of the company.
- The names and addresses of the shareholders.
- The number of share held by each shareholder.
- The location of the registered office.
- The objectives of the company.
- The type of contracts the company can enter into.
- The names and addresses of the first directors
- A statement on whether liability of the members is limited by shares or guarantee.
- A statement on whether the company is private or public.

(ii) Features of Articles of Association. It regulates

- The internal relation of the company
- The rights of shareholders
- How meetings are convened
- Appointments renewal of directors and other officers
- Power and duties of directors
- Process of liquidation of the company
- Declaration and payment of dividend
- Provision for audit and accounting services
- Capitalization of profits
- Alteration of a company’s capital and transfer as well as transmission of shares

(iii) Features of Public Sector Entity:

- It is owned by the government
- It is created by an Act of Parliament
- It is managed by board of directors appointed by the government
- It renders essential services
- It is not established for profit
- It requires huge capital outlay
- Accounting standard is guided by IPSAS (International Public Sector Accounting Standard)
- It is largely funded by the government
- It is accountable to and do report to the government
- The employees are members of public service

B. The benefits of partnership include:
- Shared management and pooled knowledge
- Attraction of more financial resources
- Continuity in comparison with the sole proprietorship
- Division of labour
- Sharing of risks and losses
- Opportunities for a limited partner
- Availability of leisure time
- It is easier to form when compared to limited liability company
- More borrowing capacity compared to sole proprietorship
- Less government regulations compared to limited liability company
- The affairs of partnership business is private compared to limited liability company

EXAMINER’S REPORT

The question tests the concepts involved in the formation of Limited Liability companies and forms of business organizations.

About 60% of candidates who attempted the question passed.

On Part (a) of the question, the major pitfall of candidates was the inability to distinguish between Memorandum and Articles of Association. The candidates also confused the features of Public Sector Entity with that of Public Limited Company.

In Part (b), candidates could not specifically differentiate between advantages and disadvantages of each of the different types of businesses.

Candidates should pay attention to details in studying the different types of businesses. They should also endeavour to understand and be able to recognise the features of specific concepts.

SOLUTION 2

The following are external environment factors that affect a business:
I. Political factors
II. Economic factors
III. Social/Cultural factors
IV. Technological factors
V. Foreign/International factors
VI. Ecological/Environmental factors
VII. Legal factors

Explanation of the factors:

I. **Political Factors**: The political factors have a major effect on the level of opportunities and threats that abound in a business environment. Business is concerned with the stability of politics, the attitude and actions of those who operate the apparatus of government, (whether the government is democratic, military or dictatorial), frequency in change of government (either through coup d’etat or by revolution), existence of indigenization decree, the constitutional framework, derivation principle, and division of legislative power between various tiers of government.

II. **Economic Factors**: Business owners and managers will be more willing to trade or invest in an economy, if they feel that they stand a chance of getting high returns on their investment. This willingness to take risk is influenced by the economic system of the country, policies of government, fiscal policies, national income competition, government control of or participation in business, interest rate, inflation rate and foreign exchange rate.

III. **Socio-Cultural Factors**: The Socio-Cultural factors affect how people live and behave, why they live and behave as they do. Thus, socio-cultural factors affect behaviour. This behaviour affects the spending pattern, the social values, life style, religious relations and tolerance, civil harmony and security, etc. The manager cannot afford to take the social and cultural factors for granted.

IV. **Technological Factors**: The level of technology in a country or an industry will largely determine the product and services produced, the equipment to use and how the organization’s operations are managed. Business should be concerned with the emphasis on technological development, technology transfer, Research and Development efforts, skill acquisition, communication system, infrastructural and managerial technology, technological devices like computer engineering, lasers, cloning, satellite, networks, fiber optics, electronic money transfer and internet.

V. **Foreign/International Factors**: Organizations are no longer restricted by their national boundaries. As they expand, there may be need to move to other countries to do business.
The business environment of a foreign country is different from that of the home country of the company. The social, legal, political, economic, technological environment of another country differs from the home environment.

VI. **Ecological Factors**: These factors cover the trends in the supply and cost of natural resources (such as raw materials availability or scarcity) and the problems of environmental deterioration and pollution control. The combined effects of those elements not only create threats which the business must avoid but also present opportunities which the business must be ready to tap.

VII. **Legal Factors**: In carrying out the legal environmental analysis and identification of issues that can be relevant in legal environment, one should consider the following variables:

- Legal framework relating to contract, criminal laws, torts, fraud and misrepresentation
- Law relating to business registration and requirements
- Employment laws, minimum wage laws
- Laws relating to welfare and safety at work
- Company laws
- Laws relating to total quality control measures
- Tax laws

**EXAMINER’S REPORT**

The question tests candidates’ knowledge of the external environment of business. About 60% of those who attempted the question performed well.

The major pitfall was the inability of the candidates to determine what factors were in the external environment. Another pitfall was the candidates’ confusion of the internal environmental factors with the external environmental factors. Most of the candidates also thought that external factors in the environment are limited to political, economical, social/cultural and technological (PEST).

Candidates are advised to have a clear understanding of environment of business – macro (External) and micro (Internal) variables or factors.

**SOLUTION 3**
a. Reasons for the increasing role of government in the Nigerian financial system include:
   a. To maintain monetary stability in the economy
   b. To ensure general growth and development of the economy
   c. To maintain a balance or healthy competition locally and internationally
   d. To encourage private sector contribution to the economy
   e. To encourage foreign investment into the economy
   f. The need to borrow to finance budget deficits or meet emergencies
   g. To create avenue for more employment generation in the economy
   h. To protect members of the public against indecency and fraudulent practices
   i. The need to divert loanable fund to the real sectors of the economy in line with the long term development goals of the government.

b. Mechanisms for government intervention in the financial system can be categorized into two:
   i. The use of monetary policy, and
   ii. The use of fiscal policy

i) The use of monetary policy mechanisms include:
   1. Open Market Operations: The sale and purchase of government treasury bills and certificates in order to control the supply of money.
   2. Changes in cash reserve rate
   3. Changes in monetary policy rate (MPR). The MPR affects the general interest rate in the economy
   4. Changes in liquidity ratio
   5. Changes in margin requirement
   6. The use of moral suasion
   7. The use of prudential guidelines
   8. The use of stabilization securities
   9. Recapitalization of the banking system

ii) Fiscal Policy mechanisms:
   These include:
   1. The issue of bonds and other government securities
   2. Changes in tax rates of financial institutions which could affect their scale of operations
   3. The use of government expenditure
   4. The use of incomes and pricing policy guidelines
   5. Nationalization of some industries

EXAMINER’S REPORT

The question tests the role of government in the financial system and the mechanisms for intervention.

About 45% of candidates who attempted the question performed well.

The commonest pitfall of those who did not do well was their inability to identify the mechanisms for government intervention in the financial system.

Some of the candidates confused fiscal policy with monetary policy instruments.

Candidates are advised to make use of the relevant materials including the Pathfinder.

SOLUTION 4

a. Major cash flow items to be included in a capital investment project appraisal include the following:
   i. Initial capital outlay which is the relevant cash outlay at time zero
   ii. Additional capital outlay: This represent additional cash invested depending on the planned investment of the company
   iii. Operating cash outlay/inflows: This relates to cash sales (revenue) and receivable (debtors) and payment to suppliers and employees (payable) in respect of the daily operation of the company
   iv. After tax based cash flows: Taxes must be fully reflected in all capital investment appraisals.
   v. Terminal cash flows: This represents the after tax non-operating cash flows which occur at the final year of a project, usually attributable to the liquidation of a project.
vi. Cash flows that will arise as a direct consequence of the capital investment decision.

vii. Incremental cash flows or cash flows based in the opportunity cost: These are cash flows realizable solely because of the capital investment decision at hand.

b.(i) Payback Period Investment Appraisal Technique

This is the method of investment appraisal based solely on cash flows and not profit. The payback period shows the number of years over which the investment would be recouped and measures how fast the investor can recover his/her initial investment. It is a measure of liquidity and it ignores all other cash flows after the payback period.

The payback period pays attention to the shortness of the project, the shorter the period of recovery of initial investment, the more acceptable the project.

For uniform cash inflows, the payback period is calculated as follows:

\[ \text{Payback Period} = \frac{\text{Initial Capital Investment}}{\text{Annual net cash flows}} \]

**Decision Rule:**

The decision rule for accepting or rejecting a project is by establishing a maximum acceptable payback period.

The project is accepted if the expected payback period is less than the maximum acceptable payback period.

The project is rejected if the project period payback is greater than the acceptable payback period.

In respect of multiple projects, the project with the least payback period is accepted.

b. (ii) Advantages and Disadvantages of Payback period

**Advantages**

a) It is simple to calculate and understand

b) It least exposes the company to the problem of uncertainty/risks since it focuses on shortness of project payback of the initial outlay.

c) Payback period is universally used especially by SMES.

d) It is a fast screening technique especially for the companies that have liquidity problems.

e) It uses cash flows and not accounting profits.
Disadvantages
a. It does not take into account cash flows earned after the payback period.
b. It does not take into account time value of money.
c. It gives high emphasis on liquidity and ignores profitability.
d. It ignores the timing of the cash flows during the payback period.

EXAMINER’S REPORT
The question tests Capital Budgeting Investment Technique with particular emphasis on payback period.

About 40% of candidates who attempted the question performed well.

The major pitfall of the candidates who did not do well was their inability to understand the major cash-flow items included in the capital investment appraisal.

Candidates are advised to pay more attention to all the important concepts and principles involved in investment appraisal techniques.

SOLUTION 5

a. Stages in Abraham Maslow hierarchy of needs in ascending order of importance.
   1. Physiological needs
   2. Safety needs
   3. Belongingness/social needs
   4. Esteem needs
   5. Self-actualization needs

Explanations

1. **Physiological Needs**: These are the primary and basic needs for human survival. They include shelter, food, water, air and clothing. In relation to organizations, the needs constitute adequate heat, air and salary. For Maslow, these needs are primary because they must be satisfied to ensure existence before higher order needs can be sought.

2. **Safety Needs**: These needs are the second group of the primary needs and they are concerned with the need to operate in an environment that is physically and psychologically safe. It is the desire for freedom from physical harm and danger, and loss of job and property. In organisations, they relate to need for safe job that is free from physical assault and health hazards and which equally guarantee stable job and security.
3. **Belongingness/Social Needs**: These needs are first of the secondary needs. Maslow proposes that after satisfying security needs people then aim at being loved and accepted by others. Social needs entail being part of a group where one is not alienated. In organization, employees desire and value friendly co-workers as it is often seen as part of conducive working climate. Formation of work groups somewhat stem from the urge to meet these needs.

4. **Esteem Needs**: These needs have to do with the need for reputable self-image and self-worth. It is the need to gain other person’s attention, admiration and recognition for achievements and success. In organisations, employees often desire recognition for higher performance. This can be done through prize giving ceremonies, reserved parking spots or plaques honoring the “employee of the month.”

5. **Self Actualization Needs**: These are needs for self-fulfilment and they are the highest need among the secondary needs. These needs are classified as open-ended as they represent the need to become more and more what one is and all that one can really be. In an organisation, workers that may be termed achievers and high fliers would cherish careers that provide them opportunity to become what they can possibly be by fully actualizing their potentials. Managers are often advised to encourage subordinates through effective delegations and work design that allow creativity.

b. Brief explanation of Hygiene Factors and Motivators

i. **Hygiene Factors**: This is one of Herzberg two factor theories. These factors relate to the presence or absence of job dissatisfaction.

   Dissatisfying factors include:
   - Working conditions
   - Company policies and administration
   - Supervisor’s attitudes
   - Relationship with peers/co-workers
   - Pay/salary
   - Security

   Weak hygiene factors in an organisation usually lead to dissatisfaction among workers, but their presence does not guarantee job satisfaction. The managerial implication is to ensure that hygiene factors are provided in work place.
ii. Motivators: These are high-level needs which possess the power to influence or
determine job satisfaction. They include:

- Achievement
- Recognition
- Work itself
- Responsibility
- Advancement
- Growth

Motivators should be fused into work design to elicit greater performance and achievement from
employees.

EXAMINER’S REPORT

The question tests candidates’ knowledge of Maslow hierarchy of needs theory and the
Herzberg’s two factors theory of motivation.

More than 50% of the candidates attempted the question. Out of these, more than 50%
scored 50% or above of the total mark allocated to the question.

The commonest pitfall was that the candidates did not understand the ascending order
arrangement. The Herzberg theory of motivation was confused with McGregor Theories
of X and Y.

Candidates’ are advised to study more on motivation theories and to differentiate them
from other related theories.

QUESTION 6

a. The Boston Consulting Group (BCG) matrix is a model by which businesses are
classified in relation to market growth and relative market share.

The strategy of each business is determined on the basis of the following factors:

(i) The growth rate of its market
(ii) The market share it enjoys

The matrix can be depicted by the following quadrant:

```
          High
          High  Low
```
b. The product-market strategy that might be chosen for each business in the quadrants of the matrix.

(i) **Stars**
Stars operate in a high growth market and are dominant. They require heavy cash spending to keep up with the growth rate in the market. These also guarantee high cash flows but the heavy cash investment required to maintain their position in the growing market could affect their performance.

The product market strategy may include advertising, sales promotion and price control to maintain market growth.

(ii) **Question marks (Problem children)**
These are businesses that operate in a high growth market but have low relative shares of the market. They create opportunity for long-term growth and profit.

The product market strategy may involve harvesting, divestment and liquidation.

(iii) **Cash cow**
These are businesses that have high market share in mature, low growth market. They generate heavy cash flows but low profitability. Because growth is low, and market conditions are more stable, they lack opportunities for future expansion.

The appropriate product strategy is consolidation or stability to generate cash flow for other business(es).

(iv) **Dogs**
These are businesses with low market share and low market growth. They have weak competitive position in the market and offer few and no benefits to the company.
The product market strategy is divestment and liquidation because it is not appropriate to invest in a business with bleak future.

c. Limitations of Bosting Consulting Group matrix
   a) It neglects the effects of synergies between business units.
   b) High market share is not the only success factor.
   c) Market growth is not the only indicator for attractiveness of a market.
   d) The problem of getting data on the market share and market growth.
   e) There is no clear definition of what constitutes a market.
   f) A high market share does not necessarily lead to profitability all the time.
   g) A business with a low market share can be profitable too.
   h) The model neglects small companies that have fast growth market shares.

EXAMINER’S REPORT

The question tests candidates’ knowledge and understanding of business strategy particularly Boston Consulting Group Matrix.

About 95% of those who attempted the question passed, scored 50% or more of the mark allocated to the question.

The commonest pitfall of candidates’ that did not do well was their inability to state the weakness of BCG Matrix.

Candidates should get themselves familiar with the application of BCG Matrix to business.
1. Nigerian Laws, apart from customary law, are greatly influenced by
   A. English Law
   B. English Decree
   C. English Edicts
   D. English Orientals
   E. English Courts

2. Another name for judicial precedent is
   A. Stared decision
   B. Starred judgement
   C. *Stare decisis*
   D. *Stare courtis*
   E. *Stare verdictum*

3. *Prima facie*, the issuance of a Certificate of Incorporation to a company means that the company has complied with the requirements of the
   A. Companies and Allied Matters Act
   B. Company registration
   C. Ministry of Trade
   D. Secretary of Companies
   E. Directors of the company
4. The appointment of a director of a company at a general meeting is by
   A. Extra-ordinary resolution
   B. Ordinary resolution
   C. Special resolution
   D. Business resolution
   E. Director resolution

5. Within what period after incorporation is a public company required to hold its Statutory Meeting?
   A. 1 month
   B. 3 months
   C. 6 months
   D. 12 months
   E. 18 months

6. The remedies for breach of fiduciary duties by a company director include the following EXCEPT
   A. Accounting to the company for any gain made
   B. Injunction
   C. Action for negligence
   D. Imprisonment
   E. Removal from office

7. The court that has original jurisdiction to entertain a suit on matters relating to insolvency is
   A. State High Court
   B. Federal High Court
   C. National Industrial Court
   D. Customary Court of Appeal
   E. Sharia Court of Appeal
8. The following are the major characteristics of a floating charge **EXCEPT**, it is
   A. Not attached to any particular asset or assets of the company
   B. Attached to a particular asset or assets of the company
   C. Ambulatory and shifting in nature
   D. Equitable in nature
   E. A form of company security

9. Law, ethics and ethical codes are more acceptable in
   A. Customary Law
   B. English Law
   C. Nigerian Legislation
   D. Judicial Precedent
   E. Common Law

10. The following encompasses Nigerian basic laws on theft, fraud and deception, **EXCEPT**
    A. Criminal Code
    B. Penal Code
    C. Corrupt Practices and Other Related Offences Act
    D. Economic and Financial Crimes Commission Act
    E. Bankruptcy Act

11. In relation to a negotiable instrument, a crime is committed by the drawer of the instrument if **ONE** of the following situations occurs:
    A. The instrument is not dated
    B. The instrument is not signed
    C. There is insufficient funds in the account to cover the value of the instrument
    D. The instrument is stale
    E. The instrument is stolen by a third party
12. Electronic facts are now admissible in Nigeria by virtue of the
   A. Evidence Act
   B. Recommendations from the National Conference
   C. Amendment to the 1999 Constitution of the Federal Republic of Nigeria
   D. The efforts of forensic experts
   E. The efforts and testimonies of computer expert witnesses in court

13. The basic laws relating to money laundering in Nigeria have the following attributes **EXCEPT**
   A. Codification
   B. Certainty of the law
   C. Penal provisions for sanctions
   D. Enacted by legislation
   E. Written in local languages

14. An e-contract validly entered into is said to be
   A. Enforceable
   B. Unenforceable
   C. Void ab initio
   D. Alien to the law
   E. Voidable

15. An agency relationship involves the
   A. Agent alone
   B. Principal alone
   C. Third party alone
   D. Agent, principal and the third party
   E. Third party and the principal
16. The principle of law that makes a master to be liable for the tort of his servant is referred to as
   A. Vicarious liability
   B. Master’s liability
   C. Tortious liability
   D. Joint liability
   E. Vexatious liability

17. Under the Sale of Goods Act, goods that are yet to be manufactured are called
   A. Existing goods
   B. Specific goods
   C. Ascertained goods
   D. Future goods
   E. Unascertained goods

18. The consideration in a contract of insurance is
   A. Subrogation
   B. Premium
   C. Assignment
   D. Policy
   E. Money

19. The person on whom a Bill of Exchange is drawn is called
   A. Drawer
   B. Payee
   C. Drawee
   D. Payer
   E. Holder

20. An equitable obligation which imposes a duty on a person to hold property for the benefit of others is called
   A. Equity
   B. Trust
   C. Agency
   D. Hire purchase
   E. Administration

SECTION B: ATTEMPT ANY FOUR OUT OF SIX QUESTIONS (80 Marks)
QUESTION 1

a. The parties to a civil action differ from the parties to a criminal action.  

You are required to state:

i. The parties to a civil action in the High Court;  
   (2 Marks)

ii. The parties to a criminal action in the High Court; and  
   (2 Marks)

iii. SIX Superior Courts of Record.  
   (6 Marks)

b. Negligence is a tort.  

You are required to explain briefly any TWO defences that are available to a defendant in an action for negligence.  
   (4 Marks)

c. An insolvent person cannot properly manage his personal affairs.  

Required:

i. Explain briefly the term “Insolvency”  
   (2 Marks)

ii. State FOUR consequences of Insolvency  
   (4 Marks)

(Total 20 Marks)

QUESTION 2

a. A partnership and a company are similar in some respects, but they are different in many ways.  

Required:

Explain any THREE differences between a partnership and a company.  
   (6 Marks)

b. In relation to a company’s securities, EXPLAIN the term “debenture”  
   (4 Marks)

c. Joe, a Pharmacist, is a director in Wuzup Pharmaceutical Company Limited. Last month, an investigation by police detectives revealed that Joe had been stealing drugs from the company’s store and selling them in his own private pharmacy. The board of Wuzup Pharmaceutical Company Limited was unaware that Joe owned and operated a private pharmacy.

It was also discovered that Joe had been accepting bribes from suppliers of chemicals to Wuzup Pharmaceutical Company Limited.

In view of these findings, the company has invited you to advise it on the duties of a company director.
Required:

i. State any **FOUR** duties of a company director. (4 Marks)

ii. Comment briefly on the legal implications of Joe’s actions in relation to his duties as a director in Wuzup Pharmaceutical Company Limited. (6 Marks)

(Total 20 Marks)

**QUESTION 3**

a. X, Y and Z formed a partnership in 2007 and contributed N400,000, N300,000 and N200,000 respectively. In the course of managing the firm, Y paid the electricity bills of the firm to keep the business of the partnership going, and wants to be reimbursed. X intends to introduce a friend to join the partnership.

**Required:**
What are the positions of the law in the situations above? (10 Marks)

b. The Companies and Allied Matters Act requires limited liability companies to have at least two directors.

**Required:**
Explain any **TWO** qualifications that a person must possess to be eligible for appointment as a director of a company. (5 Marks)

c. Mr. A, a shareholder of Zee Limited, desires to transfer his shares in the company to Mr. B.

**Required:**
State and explain any **TWO** requirements of the Companies and Allied Matters Act that must be met for the transfer of Mr. A’s shares to Mr. B to be effective. (5 Marks)

(Total 20 Marks)

**QUESTION 4**

a. Bribery is an offence against the government and the public.

**Required:**
State any **FOUR** statutes that contain provisions against bribery in Nigeria. (4 Marks)

b. A person’s conduct may be an offence or a civil wrong.

**Required:**
State and explain any THREE main distinctions between an offence and a civil wrong. (6 Marks)

c. Common Law regards some contracts as void.
   **Required:**
   State and explain any TWO contracts that are void at Common Law. (6 Marks)

d. Upon incorporation of a company, the company assumes a different personality, distinct and separate from its owners.
   **Required:**
   List any FOUR other consequences of incorporation. (4 Marks)

(Total 20 Marks)

**QUESTION 5**

a. Assignment is ONE of the principles in a contract of insurance.
   **Required:**
   i. Define the concept of assignment in relation to insurance contract. (3 Marks)
   ii. State the THREE types of assignment that are possible under an insurance contract. (3 Marks)
   iii. “Insurance contracts are contracts *uberrimae fidei*”. **EXPLAIN** this doctrine, and state any ONE major duty the doctrine imposes on the parties to an insurance contract. (4 Marks)

b. A contract can be affected by vitiating factors of which misrepresentation is an example.
   **Required:**
   i. What is misrepresentation? State any ONE type of misrepresentation. (2 Marks)
   ii. State any TWO effects of misrepresentation on contracts. (2 Marks)

c. A negotiable instrument is a written promise to pay money.
   **Required:**
   Explain THREE characteristics of a negotiable instrument. (6 Marks)

(Total 20 Marks)
QUESTION 6

a. Bills of Exchange are used in several ways, including for payment of debts and provision of credits.

Required:
Explain briefly any TWO types of Bills of Exchange. (5 Marks)

b. There are different types of special agents.

Required:
Explain who a "del credere" agent is. (4 Marks)

c. State any TWO duties of a hirer. (4 Marks)

d. Enumerate any TWO duties of a Personal Representative. (4 Marks)

e. State any THREE instances in which an employee may be entitled to redundancy benefits. (3 Marks)

(Total 20 Marks)
MCQ SOLUTIONS

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

Examiner’s Report

The questions achieved a good spread over the syllabus, and candidates’ performance was good.

SOLUTION 1

a. (i) The parties to a civil action in the High Court are the Plaintiff/Claimant and the Defendant.
(ii) The parties to a criminal action in the High Court are the State and the Accused/Defendant.

(iii) The Superior Courts of Record are the
- Supreme Court;
- Court of Appeal;
- Federal High Court;
- High Court;
- Sharia Court of Appeal;
- Customary Court;
- National Industrial Court; and
- High Court of the Federal Capital Territory.

(a) The defendant can raise the following defences in an action for negligence:

(i) That the injury was caused by an inevitable accident;

(ii) That the plaintiff willingly assumed the risk of injury (*Volenti non-fit injuria*), despite his knowledge of the consequence of his action. Therefore, the defendant is not liable;

(iii) That there was contributory negligence showing that the plaintiff contributed to the injury he had suffered. This means that the plaintiff could have avoided the accident if he did not take a particular action;

(iv) *Novus actus intervenes*, which entitles the defendant to show that the intervening act of a claimant or that of a third party sets in between the wrongful act of the defendant, thereby breaking the chain of causation. Consequently, the defendant should not be liable for the injury to the plaintiff;

(b) An insolvent person is one who cannot meet his financial obligations to his creditors as at when due. In essence, he is a debtor to some people who are his creditors. The liability of the person exceeds his assets.

(ii) The consequences of insolvency include the following:
- Insolvency exposes the person to bankruptcy petition by his creditors. The creditors have the right to commence an action against the insolvent person;
- It exposes the insolvent person to the possibility of being sued by creditors to recover their money;
- The person adjudged to be insolvent may not need to pay tax on the forgiven debt or the portion of it counted as income;
- When the bankruptcy petition is concluded, the assets of the bankrupt person will be transferred to his trustee-in-bankruptcy; and
- The insolvent person is subject to embarrassment and harassment by his creditors.

Examiner’s Report

The questions test candidates’ basic knowledge on civil and criminal proceedings, negligence and Insolvency.

Candidates’ performance was very good.

SOLUTION 2

(a) The differences between a partnership and a company include the following:

(i) A company has a separate personality once it is incorporated, but registration of a partnership under the registration of business names provisions does not confer a separate personality on the partnership;

(ii) No specific formality is required for the formation of a partnership. It may be formed orally, but a company could only be incorporated formally upon the filing of all necessary incorporation documents;

(iii) Except in the case of certain professionals, it is illegal to form a partnership of more than 20 persons. There is no such maximum membership in the case of a public Company. However, the membership of a private company is limited to fifty, excluding members/employees or former members/employees who have ceased to be employees of the company;

(iv) Except for the limited partners in a limited partnership, the liability of the partners is unlimited, whereas the liability of the members of a limited liability company is limited to the value of shares held by them; and

(v) A company has perpetual succession, and continues to exist notwithstanding change in its membership brought by death or retirement; whereas a partnership is brought to an end by the death or retirement of a partner.

(b) Debenture refers to a document that acknowledges and contains the terms of corporate indebtedness.
It is in many ways similar to a share, but the fundamental difference between them is that the holder of a debenture is not a member of a company but its creditor.

Debentures may be perpetual, redeemable, convertible, secured or naked. In addition, conditions are usually prescribed for the realization of the debt.

(c) (i) The duties of a company director are:
- To exercise his power in good faith and for proper purpose;
- Not to allow his personal interest to be in conflict with his duty to the company;
- Not to make secret profit;
- To always act in the interest of the company;
- Not to fetter his discretion to vote in a particular way;
- Of care and skill;
- To render accounts; and
- To disclose interest in a contract with the company;

(ii) A director must not allow his personal interest to conflict with his duties as a director. A director is also prohibited from making secret profit in his relationship with the company.

The director is under a duty not to compete with the company and must disclose his interest in any contract with the company to the Board, independently of himself.

The legal implication of Joe’s action is that he has breached his fiduciary duties to the company and, must account to the company the secret profits made from the fraudulent transactions. In addition, the company could remove him as a director by an ordinary resolution.

Examiner’s Report

The questions test candidates’ understanding of partnership, debenture and company directors’ duties.

Candidates’ performance was very good.

SOLUTION 3
The principle of law on any payment made on behalf of a partnership business is that the firm must indemnify the paying partner for the payment and other expenses incurred by him in:

(a) The ordinary and proper conduct of the business of the firm; or

(b) About anything necessarily done for the preservation of the business or property of the firm.

Therefore, \( \text{Partner X} \) that paid the electricity bills of the firm to keep the business of the partnership going is entitled to be reimbursed for the payment of the electricity bills made in the furtherance of the business of the firm.

On the introduction of a new partner to the firm, the principle of law is that no person may be introduced as a partner in the firm without the consent of all the existing partners.

Consequently, \( X \) could bring his friend as a partner in the firm only on the condition that all the existing partners (\( Y \) and \( Z \)) gave their consent to the move.

b. A person could only be appointed as a director of a company if he satisfies the underlisted qualifications:

(i) Legal capacity: Section 257 of the Companies and Allied Matters Act provides that a person to be appointed as a director must not be an infant (below the age of 18 years), and must be mentally stable. He must not be a lunatic or a person of unsound mind.

(ii) A person to be appointed a director must not be a bankrupt or be involved in any arrangement or composition with his creditors. This is to ensure that a person to be entrusted with the responsibility of managing a company must not be a person certified to be financially reckless or unable to manage his affairs.

(iv) If the Articles of Association of a company requires that no person should be appointed a director unless he has shares in the company, any person proposed for appointment must be a shareholder before he could be so appointed.

c. The requirements for successful transfer of shares by the shareholders of Zee Limited are as follows:

(i) An instrument of transfer must be prepared and executed by the parties. The instrument is a formal agreement evidencing the transfer of shares between the shareholders prepared and signed by the parties involved in the transfer;
(ii) The company (ZEE Limited) must register the instrument of transfer. This is necessary for proper documentation and to comply with the requirements of the Companies and Allied Matters Act;

(iii) A duly executed instrument of transfer must be presented to the company. The Companies and Allied Matters Act makes this presentation mandatory for proper record keeping; and

(iv) The instrument of transfer must cover one class of shares only. In other words, the agreement in respect of the transfer must be for one category of shares. For example, the agreement cannot be for the transfer of ordinary shares and preference shares together.

Examiner’s Report

The questions test candidates’ knowledge of partnership law, company directors’ duties and transfer of company shares.

The candidates that attempted the question were less than 40%, and performance was poor.

Candidates’ major pitfall was the display of shallow knowledge of the topics. Candidates are advised to pay more attention to these areas of the syllabus.

SOLUTION 4

(a) (i) Bribery is an offence that could be prosecuted by only or on behalf of the government. The statutes that contain provisions against bribery in Nigeria are as follows:

- Criminal Code;
- Penal Code;
- Corrupt Practices and Other Related Offences Act;
- Economic and Financial Crime Commission Act;
- National Agency for Food and Drug Administration and Control Act (NAFDAC ACT); and
- Money Laundering (Prohibition) Act.

(ii) A person’s conduct may be an offence and a civil wrong. The main distinctions between an offence and a civil wrong are:
• An offence is a wrong against the State. Therefore, it is the State that prosecutes the wrongdoer. On the other hand, for a civil wrong, it is the aggrieved that goes to court to seek redress against the defendant;

• In criminal cases, the standard of proof is beyond all reasonable doubts, whereas in civil cases, the standard of proof is on preponderance of the evidence adduced before the court or the balance of probabilities;

• The ultimate objective of a criminal trial is to punish the culprit in form of a fine, or term of imprisonment, or both. On the other hand, in civil proceedings, the main objective is to compensate the injured party;

• In criminal cases, the sentence pronounced on the accused person/defendant takes an immediate effect, whereas, in all civil actions, the parties must take steps to execute the judgment;

• The procedure in a criminal trial is fundamentally different from the procedure in a civil matter;

• In a criminal matter or case, the State could unilaterally terminate the proceedings by entening null prosequi, whereas parties in civil cases must mutually agree to settle out of court; and

• There is no time limit within which an accused could be prosecuted for an offence, whereas, an action for a civil wrong must be commenced within the time specified by the Limitation Act.

i. Contracts that are void at Common Law are of three categories, namely:

   (i) Contracts to oust the jurisdiction of the court; These are agreements which purport to deprive the parties of their rights of recourse to court for the settlement of any dispute;

   (ii) Contracts in restraint of trade: This is an agreement in which a party covenants to restrict his future liberty to conduct his trade, business or vocation;

   (iii) Contract contrary to public policy: Acts that are contrary to public policy include sexual immorality and slavery. It follows that the court will not allow a prostitute to sue for her fee, or enforce an agreement that somebody should not marry, or that the person must marry into a particular ethnic group, religion or nationality; and

   (iv) Illegal Contracts: All contracts classified by law as illegal are void ab-initio.

(c) Upon incorporation, a company becomes a different personality, distinct and separate from its members. Other consequences of incorporation are:

i. The company's right to own properties;

ii. Perpetual succession;
iii. Limitation of the members' liability to their unpaid shareholding/contribution
iv. The power to borrow money in the company's own name and secure the repayment with its property;
v. The right to sue and be sued in corporate name;
vi. Transferability of shares; and
vii. The power to enter into contracts in its own name and under own seal.

Examiner’s Report

The questions test candidates’ knowledge of criminal law, void contracts and consequences of company incorporation.

Candidates’ performance was above average

SOLUTION 5

(a) (i) Assignment is the transfer of rights and, in some cases, duties acquired under the contract of insurance from the Assignor to another person known as the Assignee.

(ii) The three types of Assignment that are possible under insurance contract are:

   • Assignment of the subject-matter of the contract;
   • Assignment of the benefit of the contract; and
   • Assignment of the contract itself.

(iii) insurance contracts are contracts uberimae fidei, meaning that the contracts of insurance are of absolute good faith among the parties to them.

   The insurer and the person who is applying for an Insurance have a duty to deal honestly and openly with each other in the negotiation that leads to the formation of the contract.

   The duties imposed on the parties to the contract of insurance under this doctrine are:

   • The duty not to misrepresent any matter relating to the contract. This implies that the parties must give information that are factually true; and
   • The duty to give all relevant information that will enable the parties to make up their minds whether or not to enter into the contract.
A misrepresentation is an untrue statement of fact that induces one of the parties to the contract to enter into an agreement.

A misrepresentation can be divided into:
- Innocent misrepresentation; and
- Fraudulent misrepresentation

The effects of misrepresentation on a contract are:
- The offended party may void the contract;
- The party that was misled by the misrepresentation to enter into the contract may rescind the agreement;
- The party that was misled by the misrepresentation may sue for damages and allow the contract to stand; and
- The offended party may ask the court to expunge the terms that are misrepresented in the agreement.

c. The characteristics of a negotiable instrument are:
- It is transferable by mere delivery if payable to bearer, or by delivery coupled with endorsement if payable to order;
- It is not necessary for the transferee to give notice to the debtor as in the case of other choses in action;
- Consideration which is something valuable in the eye of the law is presumed to have been given for the instrument;
- Full legal title to it passes to the transferee who, in consequence, can sue in his own name for the rights conferred by it; and
- It is transferable by delivery, with or without endorsement and according to the circumstances, the title passes to the transferee.

Examiner’s Report

The question tests candidates’ knowledge of assignment in insurance contract, misrepresentation in law of contract and negotiable instruments.

40% of the candidates attempted the question, and performance was good.
a) Types of Bills of Exchange are:

(i) **Inland Bill**: This is a bill either drawn or payable within Nigeria.

(ii) **Incomplete or Inchoate Bill**: This is a bill lacking in some material particular. There is a *prima facie* authority to the holder of such a bill to fill in the omission within a reasonable time;

(iii) **Accommodation Bill**: This is a bill signed by an accommodation party who is a person that has not received value for the purpose of lending his name;

(iv) **Foreign Bill**: This is a bill drawn outside Nigeria or outside the Nigerian territory;

(v) **Order Bill**: This is a bill drawn payable to a specified person, e.g, ‘pay John or order’. Such a bill could be negotiated by endorsement and subsequent delivery; and

(v) **Bearer Bill**: This is a bill payable to a specified person or bearer e.g ‘pay to the bearer’. It could be negotiated or transferred by delivery.

(a) A *del credere* agent is a mercantile agent who, in consideration of an extra commission, guarantees his principal that the third party with whom he contracts on behalf of the principal shall pay the sum due under the contract. The liability of a *del eredere* agent does not cover a situation where the third party refuses to take delivery. He is a surety that is liable to his principal if the buyer fails to pay.

(b) The duties of a hirer are as follows:

(i) Duty to accept the goods, subject-matter of the transaction;

(ii) Duty to take reasonable care of the goods;

(iii) Duty to pay instalments as at when due;

(iv) Duty to redeliver the goods to the owner at the agreed time if he does not exercise the option to purchase same; and

(v) Duty to inform the owner of the location of the goods.

(c) The duties of a Personal Representative include the duty to:

(i) Bury the deceased;

(ii) Prove the Will and get probate or obtain letters of administration;

(iii) Take inventory of the property of the deceased;

(iv) Pay legacies and distribute property to those entitled; and

(v) Pay justifiable debts and other liabilities of the deceased in order of priority.

(d) Redundancy benefits may be payable to an employee in any of the following instances:
(i) Where the number of employees is more than the available jobs, and the employer has agreed to the payment with the employees’ trade union;

(ii) The employer has ceased or intends to cease to carry on the business for which the employee was employed;

(iii) The employer has ceased, or intends to cease to carry on the business in the place where the employee was employed; and

(iv) If there is provision for redundancy payment to employee in the conditions of service and the prescribed conditions are satisfied.

Examiner’s Report

The questions test candidates’ understanding of Bill of Exchange, Hire Purchase contracts, Administration of Estates and Employment Law.

About 80% of the candidates attempted the question and performance was just average.

Candidates’ major pitfall was their deficient knowledge of Law of Trusts. Administration of Estates and Employment Contract.

Candidates are advised to study these areas of the syllabus very well.