



**THE INSTITUTE OF CHARTERED ACCOUNTANTS
OF NIGERIA**

PATHFINDER

NOVEMBER 2011 FOUNDATION EXAMINATION

Question Papers

Suggested Solutions

Plus

Examiners' Reports

FOUNDATION EXAMINATION - NOVEMBER 2011

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FOREWORD

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

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

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

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

NOTES

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

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
FOUNDATION EXAMINATION – NOVEMBER 2011
FUNDAMENTALS OF FINANCIAL ACCOUNTING
Time allowed – 3 hours

SECTION A: Attempt All Questions

PART I: MULTIPLE-CHOICE QUESTIONS (20 Marks)

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

- Which of the following brings a company into legal existence?
 - Memorandum of Association
 - Articles of Association
 - Companies and Allied Matters Act Cap C20 LFN 2004
 - Certificate of Incorporation
 - Corporate Affairs Commission
- Which of the following is a limitation of the money measurement concept?
 - An efficient management is not disclosed
 - There is no basis for comparison
 - Inter period comparison is impossible
 - It does not allow for choice of method
 - It does not allow for performance measurement
- Which of the following describes a Control Account?
 - Conglomerate of ledger system
 - Combined ledger system
 - Self balancing ledger system
 - Standardized ledger system
 - List of balances

Use the following information extracted from the books of a partnership to answer questions 4 and 5:

| | | |
|---------------------|--------------|-------------|
| Capital Account | (A) ₦160,000 | (B) ₦80,000 |
| Drawings Account | (A) ₦40,000 | (B) ₦24,000 |
| Interest on capital | 5% | |

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| | |
|-------------------------|----------------------------------|
| Interest on drawings | 10% |
| Net profit for the year | ₦120,000 |
| Profit sharing ratio: | (A) two-thirds and (B) one-third |

4. What is the profit to be shared by the partners for the year?
 - A. ₦104,000
 - B. ₦108,000
 - C. ₦114,400
 - D. ₦120,000
 - E. ₦126,000

5. What is A's share of profit?
 - A. ₦76,000
 - B. ₦76,200
 - C. ₦76,267
 - D. ₦76,300
 - E. ₦80,000

6. An expense be classified as revenue expenditure if it
 - A. Contributes to the operating income of the business
 - B. Adds to or reduces the capital of the business
 - C. Necessitates the injection of an additional capital
 - D. Adds to or improves the value of fixed assets
 - E. Necessitates calling a general meeting for shareholders' approval

7. The accounting concept that says every debit entry must have a corresponding credit entry is
 - A. Going concern
 - B. Duality concept
 - C. Historical cost concept
 - D. Money measurement concept
 - E. Consistency concept

8. Which of the following source documents is received from a supplier of goods in relation to goods returned by a customer?
 - A. Returned invoice
 - B. Return inward note
 - C. Credit note
 - D. Debit note
 - E. Return outward note

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9. Which of the following formulae determines the cost of raw materials consumed in a Manufacturing Account?
- A. Opening stock plus purchases less closing stock
 - B. Purchases plus closing stock less opening stock
 - C. Cost of raw materials available plus closing stock
 - D. Cost of raw materials available plus opening stock
 - E. Opening stock plus net purchases less closing stock
10. The collection of application packages used in the management of business finances and presentation of financial information is called
- A. SuperCalc
 - B. Peachtree
 - C. Spreadsheet
 - D. Microsoft Excel
 - E. Lotus 123
11. Which page opens up when Microsoft Excel is started on a micro computer?
- A. Worksheet
 - B. Template
 - C. Spreadsheet
 - D. Work book
 - E. Command sheet
12. The basis of apportioning discount allowed in the Departmental Account is the proportion of
- A. Sales
 - B. Purchases
 - C. Salesmen's commission
 - D. Purchasing manager's commission
 - E. Goods available
13. The fee paid by a new member on admission into a social club is known as
- A. Life membership fee
 - B. Annual subscription
 - C. Registration fee
 - D. Clubbing fee
 - E. Membership qualification fee

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14. In a business enterprise that has not kept proper books of accounts, what does an increase in capital at the end of the year over capital at the beginning of the year represent?
- A. Increase in capital
 - B. Decrease in capital
 - C. Under utilisation of resources
 - D. Inefficient management of capital
 - E. Improved operating performance
15. Which of the following does not belong to the group?
- A. Going concern concept
 - B. Realisation concept
 - C. Matching concept
 - D. Entity concept
 - E. Profitability concept
16. Which of the following errors would affect a Trial Balance?
- A. Error of commission
 - B. Error of original entry
 - C. Casting error
 - D. Error of omission
 - E. Error of principle
17. The first phase of recording financial transactions in the books of accounts is the
- A. Preparation of Trial Balance
 - B. Analysis of financial statements
 - C. Writing of source documents
 - D. Drawing of trading account
 - E. Wooing customers to buy goods
18. The part of the minimum rent in royalty **NOT** represented by the use of the rights in respect of a mine is known as
- A. Dead rent
 - B. Mine royalty
 - C. Minimum income
 - D. Short workings
 - E. Patent income

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19. A car with a cash price of ₦750,000 was acquired on hire purchase on 1 January 2010. The agreement required an initial deposit of ₦150,000 and three equal yearly instalments payable effective 31 December 2010. Interest of 15% is payable on the balance outstanding at the end of each year. How much interest is payable at the end of first year?
- A. ₦22,500
 - B. ₦45,000
 - C. ₦90,000
 - D. ₦112,500
 - E. ₦135,000
20. The basis of valuation of inventory is
- A. Lower of cost or net realisable value
 - B. Lower of cost and market value
 - C. Lower of cost and net realisable value
 - D. Lower of average cost and market value
 - E. Lower of average cost and net realisable value

PART II: SHORT-ANSWER QUESTIONS

(20 MARKS)

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

1. What is the element of the worksheet in the accounting package that allows for presentation of information in graphical form?
2. What is the built-in safety measure in any accounting spreadsheet package that allows for the reversals of most recent actions which returns the worksheet to its previous state?
3. What is the source document by which a bank reconciliation officer can identify an uncredited lodgement?
4. The art of recording all monetary transactions of an entity to ascertain the financial position is called.....
5. Apart from bank payment vouchers, what other source document can be used to record entries on the credit side of the bank cash book?

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6. What is the basis of valuing stock in a trading company?
7. By what means do you effect correction of contra entries in control accounts?
8. A collection of ledger balances is used in preparing.....
9. What is the major difference between the income statement of a partnership and that of a sole trader?
10. The gratuitous receipt from members and non-members of a not-for-profit organisation is called.....
11. The basis of apportioning discount received to departments that earned the income is on proportion of.....
12. Profit expressed as a percentage of selling price is known as.....
13. In the absence of a Sales Account, credit sales can be derived from.....
14. The effect of understating closing work-in-progress in a manufacturing account is that it.....

Use the following information to answer questions 15 and 16:

An extract from the books of Cabal Plc:

| | |
|------------------------------|---------|
| | ₦ |
| Trade debtors | 780,500 |
| Provision for doubtful debts | 79,800 |

15. Calculate the amount to be credited to Profit and Loss Account if the current provision for doubtful debts is 5%.
16. What is the trade debtors' balance to be shown in the balance sheet if 5% is the provision for doubtful debts?
17. The amount agreed to be paid by a tenant to a landlord for the use of his property for economic reasons is known as
18. The excess of current assets over current liabilities is referred to as.....
19. The computer software used by every user for a specific operation is called
20. Another name for Debtors Control Ledger Account is.....

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SECTION B: ATTEMPT ANY FOUR QUESTIONS

(60 Marks)

QUESTION 1

Write short notes on the contributions of the following bodies to the development of accounting:

- (a) African Accounting Council (AAC). (3 Marks)
 - (b) International Federation of Accountants (IFAC). (5 Marks)
 - (c) International Accounting Standards Committee (IASC). (7 Marks)
- (Total 15 marks)

QUESTION 2

- (a) Which Statement of Accounting Standard (SAS) is on Construction Contract? (1 Mark)
 - (b) Define "Construction Contracts" in accordance with the SAS cited above. (2 Marks)
 - (c) Write short notes on the different types of construction contract pricing. (12 Marks)
- (Total 15 marks)

QUESTION 3

The Balance Sheet of Paramount Youth Centre as at 31 December 2009 is shown as follows:

Balance Sheet as at 31 December 2009.

| | COST | DEP | NBV |
|--------------------------|---------------|---------------|---------------|
| | ₦'000 | ₦'000 | ₦'000 |
| Furniture and Fittings | 40,000 | 10,000 | 30,000 |
| Games Equipment | 20,000 | 7,200 | 12,800 |
| Motor van | <u>30,000</u> | <u>10,000</u> | <u>20,000</u> |
| | <u>90,000</u> | <u>27,200</u> | 62,800 |
| Current Assets: | | | |
| Cash at bank and at hand | | | <u>9,200</u> |
| | | | <u>72,000</u> |
| Financed by: | | | |
| Accumulated funds | | | <u>72,000</u> |

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The following transactions took place during the period 1 January 2010 to 31 December 2010:

| RECEIPTS | ₦'000 | PAYMENTS | ₦'000 |
|--|--------|----------------------------|-------|
| Subscriptions (10,000 members @ ₦1,600 each) | 16,000 | Electricity | 4,000 |
| Donations | 1,600 | Expenses for annual dinner | 6,200 |
| Sale of tickets for annual dinner | 10,800 | New games equipment | 3,200 |
| | | Cleaners' wages | 2,080 |
| | | Repairs and renewal | 1,660 |
| | | Motor van repairs | 2,520 |

Notes:

- i. An electricity bill of ₦900,000 was owed at 31 December 2010.
- ii. Depreciation should be calculated at 10% of cost of the assets.

You are required to prepare

- (a) The Receipts and Payments Account. (4 ½ Marks)
 - (b) The Income and Expenditure Account and Balance Sheet as at 31 December 2010. (10½ Marks)
- (Total 15 Marks)**

QUESTION 4

Segun and Sola went into partnership on 1 January 2009. The partnership agreement specifies that both partners should maintain Capital Accounts without Current Accounts.

Each partner will be entitled to salary of ₦240,000 per annum and interest of 10% on capital at the end of the year. Profits and losses are to be shared equally after salaries and interest on capital have been taken into account.

Sola introduced capital of ₦1,000,000 on 1 January 2009 and ₦200,000 on 1 January 2010. He withdrew ₦360,000 from the business in 2009 and ₦480,000 in 2010.

Segun introduced capital of ₦400,000 on 1 January 2009. He withdrew ₦105,000 from the business in 2009 and ₦161,200 in 2010. The partnership did not keep proper books of accounts in 2009 and 2010.

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However, the assets and liabilities of the partnership for the two years ended 31 December 2010 are as follows:

| | 2009 | 2010 |
|-------------------|---------|---------|
| | ₦ | ₦ |
| Motor vehicle | 300,000 | 409,000 |
| Plant & machinery | 566,000 | 566,000 |
| Stock | 570,000 | 584,000 |
| Debtors | 305,000 | 645,000 |
| Prepayments | 10,000 | 8,000 |
| Accrued Expenses | 16,000 | 22,000 |
| Creditors | 169,000 | 244,000 |
| Bank overdraft | 179,000 | 370,000 |

You are required to

Prepare in vertical format, the comparative Balance Sheets and Capital Accounts of the partners at the end of 2009 and 2010 based on the above information.

(15 marks)

QUESTION 5

On 1 July 2010, Union Conglomerate Ltd., issued 20,000 8% Debentures at ₦97.50. The security is redeemable in five years' time. The interest on the Debentures is payable bi-annually on 30 June and 31 December.

On 31 December 2010, the Company's year end date, the Debentures were quoted on the Nigerian Stock Exchange for ₦96.00. The company accountant has suggested each of the following as possible valuation basis for reporting the Debentures liability on the Balance Sheet as at 31 December 2010:

- (i) Face value of the Debentures.
- (ii) Face value of the Debenture plus interest payment for five years.
- (III) Market value on the Balance Sheet as at the year end.

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You are required to

- (a) Determine the face value of the Debentures and the proceeds accruing to the company. (2 marks)
 - (b) Determine the amount and explain the nature of the differences between the face value and the market value of the Debentures on 1 July, 2010. (4 marks)
 - (c) Distinguish between nominal and effective rate of interest. (3 marks)
 - (d) Determine the nominal interest payable on the Debentures for the year ended 31 December 2010. (2 marks)
 - (e) State arguments for or against each of the suggested alternatives for reporting the Debentures liability on the Balance Sheet as at 31 December 2010. (4 marks)
- (Total 15 Marks)**

QUESTION 6

The following transactions were recorded in the books of Fadep Enterprises:

- (i) On 1 October 2010, Fadep Enterprises sent goods worth ₦160,000 on consignment to Associate Enterprises and incurred expenses on transportation and loading of ₦4,800 and ₦1,200 respectively.
- (ii) On 7 October 2010, Associate Enterprises received the consignment and paid ₦80,000 into the bank account of Fadep Enterprises.
- (iii) On 31 October 2010, Associate Enterprises prepared and sent an Account Sales to Fadep Enterprises having made sales of ₦180,000. The remaining goods on hand were valued ₦16,000 at original cost.

It further revealed that Associate Enterprises had made deductions from its sales at 2.5% as commission and off-loading expenses of ₦2,000.
- (iv) On 5 November 2010, Associate Enterprises prepared another Account Sales which indicated that the remaining consignment was sold for ₦20,000.

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The amount owed on the goods sold was settled by Associate Enterprises by payment of cash into Fadep Enterprises' bank account.

You are required to

- (a) Prepare the journal entries with narration to record the above transactions in the books of Fadep Enterprises. (13 marks)
- (b) State **TWO** principal differences between goods on consignment and sale of goods. (2 Marks)
- (Total 15 marks)**

SOLUTIONS TO SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

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

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19. C

20. C

TUTORIALS (Q4, 5 and 19)

P & L Appropriation Account

| Q4 | ₹ | ₹ | ₹ | ₹ |
|------------------|--------------|----------------|---------------------|---------------------------|
| Int. on capital: | | | | |
| A | 8,000 | | Net Profit | 120,000 |
| B | <u>4,000</u> | 12,000 | Int. on drawings: A | 4,000 |
| Profit | | <u>114,400</u> | B | <u>2,400</u> <u>6,400</u> |
| | | <u>126,400</u> | | <u>126,400</u> |

Q5 Share of Profit:

A $\frac{2}{3} \times \text{₹}114,400$ ₹76,267

Q19.

| | |
|--------------------------|----------------|
| | ₹ |
| Cash Price | 750,000 |
| Less : Initial deposit | <u>150,000</u> |
| | <u>600,000</u> |
| Interest 15% x ₹ 600,000 | <u>90,000</u> |

EXAMINERS' REPORT

The questions cover all sections of the syllabus.

The questions were fairly understood by the candidates and performance was good.

Candidates should make adequate preparation for improved performance.

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PART II SHORT-ANSWER QUESTIONS

1. Chart
2. Undo command or control + Z
3. Bank Statement
4. Book-keeping
5. Cheque stub or e-payment mandate
6. Lower of cost and net realizable value
7. Journal proper
8. Trial balance
9. Profit & Loss appropriation account
10. Donation
11. Purchases
12. Profit Margin
13. Debtors Control Account
14. Overstates cost of goods manufactured or understates profit on manufacturing.
15. ₦40,775
16. ₦741,475
17. Royalty or tenancy fee
18. Working capital or net current assets
19. Application software
20. Sales Ledger Control Account

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TUTORIALS

15. $5\% \times \text{N}780,500 = \text{N}39,025$
P&L = $\text{N}79,800 - \text{N}39,025 = \text{N}40,775$ to be credited

16. $\text{N}780,500 - \text{N}39,025 = \text{N}741,475$

EXAMINERS' REPORT

The questions cover all the sections of the syllabus and they are unambiguous.

The questions were fairly attempted by the candidates and performance was fair.

The commonest pitfall was candidates' inability to differentiate between accounting terminologies that have similar uses.

Candidates need to prepare adequately to improve their performance in future examinations.

SECTION B

QUESTION 1

(a) African Accounting Council (AAC)

The African Accounting Council (AAC) was formed by 27 countries in June 1979.

AAC has contributed to the development of Accounting in the following ways:

- i. It has assisted in the establishment of bodies entrusted with accounting standardization in African Countries.
- ii. It has also assisted in carrying out studies in the field of Accounting with the aim of promoting the Accountancy profession generally.

(b) International Federation of Accountants (IFAC)

IFAC is a private sector body established in 1997 with over 100 professional bodies from around 80 different countries.

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IFAC has contributed and is still contributing to the development of Accounting Profession in the following ways:

- i. IFAC is working with International Accounting Standard Board (IASB) to ensure that accounting standards that meet the need of accounting stakeholders on a global best practices are published from time to time.
- ii. IFAC is coordinating the accounting profession by issuing and establishing international standards.
- iii. IFAC organises world congress of accountants which is held every five (5) years.

(c) International Accounting Standards Committee (IASC)

IASC was formed on 29th June 1973 as a result of agreement between accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom & Ireland, and United States of America. However, in April 2001, the International Accounting Standards Board (IASB) assumed the responsibilities of IASC. The body is contributing to the development of accounting profession in the following ways: it

- i. Develops high quality and globally acceptable accounting standards in the public interest.
- ii. Produces the use and application of the accounting standards.
- iii. Works actively with international accounting standards setters to bring about convergence of National Accounting Standards and IFRS to high quality solution.
- iv. Works generally for the improvement and harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements.
- v. Promotes globalisation of accounting information through the setting up of accounting standards.

EXAMINERS' REPORT

The question tests candidates' knowledge of some International Accounting bodies.

Majority of the candidates attempted the question but the performance was very poor.

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Candidates are advised to read relevant textbooks on international accounting, accounting theories, concepts and their applications.

QUESTION 2

- a. Statement of Accounting Standard (SAS 5).
- b. Construction contract is defined as the execution of building and civil engineering projects, mechanical and electrical engineering installations and other fabrications normally evidenced by a written agreement between the contractee and the contractor.

There are two types of construction contracts: short-term and long-term. Short-term construction contract refers to contract which is expected to be completed within twelve months. Long-term construction contract refers to a contract which is expected to take more than twelve months.

- c. There are four types of construction contract pricing namely:
 - i. **Fixed sum (lump sum) pricing.** This allows the contractor to undertake or agree to execute specific projects or work in consideration for a fixed sum. It excludes variations and escalations.
 - ii. **Cost plus a fixed rate pricing.** This allows for reimbursement of agreed costs incurred plus fixed fee or percentage uplift on the agreed cost incurred.
 - iii. **Re-measured pricing.** This allows final contract price to be determined by measurement of final quantities or appraisal of work done to date.
 - iv. **Variance pricing.** This contains one or more clauses regarding:
 - Price variation that allows for adjustment to base price
 - Work variation for additional work from the contractee and
 - Prolongation that takes care of additional cost resulting from delays not caused by the contractor.

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EXAMINERS' REPORT

The question tests candidates' understanding of the provisions of Statement of Accounting Standard (SAS 5) on Construction contract.

Few candidates attempted the question. They did not understand the provisions of the (SAS 5) and their performance was therefore very poor.

Candidates are advised to study the relevant Statements of Accounting Standards (SAS 1-9) as required by the syllabus.

QUESTION 3

| PARAMOUNT YOUTH CENTRE | | |
|---|---------------|---------------|
| RECEIPTS AND PAYMENTS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2010 | | |
| | ₤'000 | ₤'000 |
| Balance b/f | | 9,200 |
| Receipts for the year: | | |
| Subscription | 16,000 | |
| Donations | 1,600 | |
| Sale of Tickets for annual dinner | <u>10,800</u> | <u>28,400</u> |
| | | 37,600 |
| Less: Payments: | | |
| Electricity | 4,000 | |
| Expenses for annual dinner | 6,200 | |
| New games equipment | 3,200 | |
| Cleaner's wages | 2,080 | |
| Repairs and renewals | 1,660 | |
| Motor van repairs | <u>2,520</u> | <u>19,660</u> |
| | | <u>17,940</u> |

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INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2010

| | N'000 | N'000 |
|-----------------------------------|---------------|---------------|
| INCOME: | | |
| Subscriptions | 16,000 | |
| Donations | 1,600 | |
| Sale of Tickets | <u>10,800</u> | 28,400 |
| Less Expenses | | |
| | 4,900 | |
| Electricity (4,000,000 + 900,000) | | |
| Annual expenses | 6,200 | |
| Cleaner's wages | 2,080 | |
| Repairs and renewals | 1,660 | |
| Motor van repairs | 2,520 | |
| Depreciation: | | |
| Furniture and fittings (W) | 4,000 | |
| Games equipment (W) | 2,320 | |
| Motor Van (W) | <u>3,000</u> | <u>26,680</u> |
| Surplus | | <u>1,720</u> |

BALANCE SHEET AS AT 31/12/2010

FIXED ASSETS

| | COST N'000 | DEP N'000 | NBV N'000 |
|-----------------------------|---------------|---------------|---------------|
| Furniture and Fittings | 40,000 | 14,000 | 26,000 |
| Games and Equipment | 23,200 | 9,520 | 13,680 |
| Motor Van | <u>30,000</u> | <u>13,000</u> | <u>17,000</u> |
| | <u>93,200</u> | <u>36,520</u> | 56,680 |
| Current Assets: | | | |
| Cash and Bank Balance | | 17,940 | |
| Current liabilities: | | | |
| Accruals (electricity) | | (900) | <u>17,040</u> |
| | | | <u>73,720</u> |
| FINANCED BY: | | | |
| Accumulated Fund | | 72,000 | |
| Add: Surplus | | <u>1,720</u> | <u>73,720</u> |

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Workings:

Computations of Depreciation:

Furniture and Fittings = 0.1 @ 40,000,000 = 4,000,000

Game Equipment = $(\text{₦}20,000,000 + \text{₦}3,200,000) \times 0.1 = \text{₦}2,320,000$

Motor Van = $\text{₦}30,000,000 @ 0.1 = \text{₦}3,000,000$

EXAMINERS' REPORT

The question tests the ability of candidates to prepare Receipts and Payments Account, Income and Expenditure Account and Balance Sheet.

Almost all the candidates attempted the question and the performance was good. However, some of the candidates forgot that the naira currency in the question was in millions. In addition, some candidates' misconstrued Income and Expenditure Account as Receipts and Payments Account.

Candidates are advised to read, understand and interpret questions appropriately and note their specific requirements before attempting them.

QUESTION 4

SEGUN AND SOLA BALANCE SHEET AS AT 31 DECEMBER

| | 2010 | | 2009 | |
|-------------------|----------------|------------------|----------------|------------------|
| | ₦ | ₦ | ₦ | ₦ |
| Motor Vehicle | | 409,000 | | 300,000 |
| Plant & Equipment | | 566,000 | | 566,000 |
| Stock | | 584,000 | | 570,000 |
| Debtors | | 645,000 | | 305,000 |
| Prepayments | | <u>8,000</u> | | <u>10,000</u> |
| | | 2,212,000 | | 1,751,000 |
| Less: | | | | |
| Creditors | 244,000 | | 169,000 | |
| Accrued Exp. | 22,000 | | 16,000 | |
| Bank overdraft | <u>370,000</u> | | <u>179,000</u> | |
| | | <u>636,000</u> | | <u>364,000</u> |
| | | <u>1,576,000</u> | | <u>1,387,000</u> |
| Capital | | 1,576,000 | | 1,387,000 |

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| | CAPITAL ACCOUNTS | | |
|------------------|-------------------------|------------------|------------------|
| | SOLA | SEGUN | TOTAL |
| | ₦ | ₦ | ₦ |
| Bank | 1,000,000 | 400,000 | 1,400,000 |
| Salaries | 240,000 | 240,000 | 480,000 |
| Capital | 100,000 | 40,000 | 140,000 |
| Net Loss | (84,000) | (84,000) | (168,000) |
| Drawings | <u>(360,000)</u> | <u>(105,000)</u> | <u>(465,000)</u> |
| Balance 31/12/09 | <u>896,000</u> | <u>491,000</u> | <u>1,387,000</u> |
| | | | |
| Balance 1/1/2010 | 896,000 | 491,000 | 1,387,000 |
| Bank | 200,000 | - | 200,000 |
| Salaries | 240,000 | 240,000 | 480,000 |
| Int. on cap | 109,600 | 49,100 | 158,700 |
| Net Loss | (4250) | (4,250) | (8,500) |
| Drawings | <u>(480,000)</u> | <u>(161,200)</u> | <u>(641,200)</u> |
| | <u>961,350</u> | <u>614,650</u> | <u>1,576,000</u> |

WORKINGS AND NOTES

(i) The Balance Sheets are prepared before the Capital Accounts, hence the capital in the Balance sheets are balancing figures.

(ii) Net loss in Capital Accounts in the balancing figure in the total column which is shared equally between the partners.

(iii) Interest on capital for 2009

Segun 10% @ ₦1,000,000 = ₦100,000

Sola 10% @ ₦400,000 = ₦40,000

(iv) Interest on capital for 2010

Segun 10% @ (₦896,000 + ₦200,000) = ₦109,600

Sola 10% @ ₦491,000 = ₦49,100

EXAMINERS' REPORT

The question tests candidates' understanding of the concepts of Partnership Account and comparative Balance Sheet in vertical format.

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Majority of the candidates attempted the question and performance was good. However, some candidates could neither provide the solution in a vertical format nor prepare the comparative Balance Sheets.

Candidates should be exposed to modern presentation format of financial statements.

QUESTION 5

- (a) The face value of the debentures

$$₦100 \times 20,000 = ₦2,000,000$$

The amount accrued to the company as proceeds =

$$₦97.5 \times 20,000 = ₦1,950,000$$

- (b) The difference between the face value and the market value of the debentures is ₦50,000. This is as a result of discount allowed on the issue on the debentures. Discount on debentures attracts investors.
- (c) Nominal interest rate is the rate based specifically on the face value of the loan capital. In case of Union Conglomerate Ltd., the nominal interest rate on the debentures is 8% per annum on ₦2,000,000.

The effective interest is the rate based on the market value. This is the actual value collected on issue which can be at par, discount or premium. For Union Conglomerate Ltd., the effective interest rate will be 8% of ₦1,950,000

- (d) The nominal interest payable

$$\begin{aligned} & ₦2,000,000 \times 8\% \times 6 \text{ months} \div 12 \text{ months} \\ & = \quad \quad \quad ₦80,000 \end{aligned}$$

- (e) i. The face value of ₦2,000,000 will be the most appropriate valuation to be disclosed in the Balance Sheet. The management may be interested in the quoted market value or the proceeds, but for the sake of outside investors who would only be interested in the company having good reputations devoid of trading losses, it is advisable that the face value be adopted.

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- ii. Disclosing the debentures' liability at face value plus interest payment for five years may seem proper in the eyes of external investors and credit institutions, but principally, it would be wrong to credit debentures' account with both the face value and the interest payments. An interest payment on debentures is a revenue item which is debited to the Profit and Loss Account.
- iii. Disclosing debentures' liability at market value on the Balance Sheet will amount to disclosure at replacement value. The market value should be disclosed.

EXAMINERS' REPORT

This question tests candidates' knowledge of valuation and presentation of debentures.

Few candidates attempted the question and the performance was poor.

Candidates are advised to study the relevant areas of the syllabus in order to improve on their performance in future examinations.

QUESTION 6

(a)

JOURNALS

| 2010 | PARTICULARS | DR. ₹ | CR. ₹ |
|-----------|---|----------|----------|
| 1 October | Consignment account Goods sent on Consignment Account Being invoice value of goods sent on Consignment to Associate Enterprises. | 160,000 | 160,000 |
| | Consignment Account Cash Account Being transport expenses incurred on goods sent on consignment to Associate Enterprises | 4,800 | 4,800 |
| | Consignment Account Cash Account Being loading expenses incurred on goods sent on consignment to Associate Enterprises. | 1,200 | 1,200 |

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| | | | |
|------------|---|---------|---------|
| 7 October | Bank Account Associate Enterprises Account Being advance payment received from Associate Enterprises on goods sent on consignment to it | 80,000 | |
| | | | 80,000 |
| 31 October | Associate Enterprises Account Consignment Account Being value of goods sold by Associate Enterprises on this date | 180,000 | 180,000 |
| | Consignment Account Associate Enterprises Account Being 2.5% commission due to Associate Enterprises in respect of sale of goods on consignment sold (2.5% X ₱180,000) | 4,500 | 4,500 |
| | Consignment Account Associate Enterprises Account Being off-loading expenses incurred by Associate Enterprises in respect of goods on consignment received from Fadep Enterprises | 2,000 | 2,000 |
| | Bank Account Associate Enterprises Being balance due and received in respect of first batch of goods on consignment sold by Associate Enterprises | 93,500 | 93,500 |
| | Consignment Account Profit and Loss Account Being profit made on the first batch of goods on consignment sold by Associate Enterprises | 23,500 | 23,500 |
| 5 November | Associate Enterprises Account Consignment Account Being amount realised in respect of the remaining goods on consignment | 20,000 | 20,000 |
| | Consignment Account | 500 | |

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| | | |
|--|--------|--------|
| Associate Enterprises Account | 500 | |
| Being 2.5% commission due to Associate Enterprises in respect of goods on consignment sold by Associate Enterprises (2.5% X ₱20,000) | | |
| Bank Account | 19,500 | |
| Associate Enterprises Account | | 19,500 |
| Being final settlement from Associate Enterprises in respect of the remaining goods on consignment. | | |
| Consignment Account | 3,500 | |
| Profit and Loss Account | | 3,500 |
| Being profit made on the remaining goods on consignment sold by Associate Enterprises | | |

- (b) The two principal differences between goods on consignment and sale of goods are
- i. When goods are consigned to an agent, the legal ownership of the goods remains with the principal (that is the consignor). In contrast, when goods are sold to a third party, the legal ownership of the goods passes to the buyer.
 - ii. Goods on consignment are returnable if they cannot be sold to a third party. While on the other hand, goods sold are not returnable except for some special reasons, such as damages or non-compliance with the specification.

EXAMINERS' REPORT

The question tests candidates' understanding of basic concepts and practice of journal entries, consignment and sale of goods.

Many candidates attempted the question and performance was good. However, some of them showed shallow understanding of journal entries.

Candidates should spend more time in studying the basic concepts of fundamentals of financial accounting when preparing for examinations at this level.

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
FOUNDATION EXAMINATION – NOVEMBER 2011
ECONOMICS AND BUSINESS ENVIRONMENT
Time allowed – 3 hours

SECTION A: Attempt All Questions

PART I: MULTIPLE-CHOICE QUESTIONS

(20 Marks)

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

1. Which of the following is **NOT** a feature of a centrally planned economy?
 - A. State ownership of land
 - B. Priorities in agricultural production set by farmers
 - C. State direction and ownership of the economy
 - D. Limited operation of the market mechanism
 - E. Priorities in production set by the planners

2. Suppose the demand for “recharge cards” remains constant while its supply increases, the economic analysis of the ‘recharge card’ market would predict that at the new equilibrium,
 - A. Quantity will fall
 - B. Quantity will decrease while equilibrium price will increase
 - C. Price and quantity will both rise
 - D. Price will be constant while equilibrium quantity will fall
 - E. Quantity will increase while equilibrium price will fall

3. A baker produces 70,000 loaves of bread yearly by making use of the following inputs: 7 ovens, 120 baking pans, 80 workers and 70 bags of flour. Suppose the baker decides to increase all inputs by 50% and as a result, the output of bread increases by 10,000 loaves a year, we can infer that the production is characterised by
 - A. Diminishing Marginal Returns
 - B. Diseconomies of Scale
 - C. Economies of Scale
 - D. Decreasing Returns to Scale
 - E. Constant Returns to Scale

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4. When a perfectly competitive firm is at equilibrium in the long run, and $P=AC=MC$, it is correct to assert that
- A. Economic Profit is positive but Abnormal Profit is zero
 - B. Normal Profit is positive but Abnormal Profit is zero
 - C. Both Normal and Economic Profits are zero
 - D. Accounting Profit is positive while Normal Profit is zero
 - E. Normal Profit and Accounting Profit are negative

Questions 5 and 6 depend on the following estimated model of a closed economy:

$Y = C + I$; $C = a + bY$; and $I = d + eY$ where $a = \text{₦}130$ million; autonomous investment (d) = 140 million, $MPC = b = 0.2$ and $e = 0.4$.

5. In this economy, the equilibrium GDP(Y) is
- A. ₦500.00 million
 - B. ₦562.50 million
 - C. ₦652.50 million
 - D. ₦675.00 million
 - E. ₦1,124.50 million
6. If autonomous consumption (a), and autonomous investment (d) in the economy are reduced by 50%, the equilibrium income will become
- A. ₦300.75 million
 - B. ₦337.50 million
 - C. ₦380.50 million
 - D. ₦381.50 million
 - E. ₦562.25 million
7. Which of the following is **NOT** a characteristic of money?
- A. Acceptability
 - B. Comparability
 - C. Divisibility
 - D. Durability
 - E. Homogeneity

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8. The multiple by which the commercial banking system can expand the supply of money is equal to the reciprocal of the
- A. Actual Reserve
 - B. Reserve Ratio
 - C. Liquidity Ratio
 - D. Excess Reserve
 - E. Demand Deposit
9. Which **ONE** of the following is **NOT** a goal of National Economic Empowerment and Development Strategy (NEEDS)?
- A. Wealth creation
 - B. Employment generation
 - C. Poverty reduction
 - D. Value reorientation
 - E. Promoting public sector employment.
10. The case for protection is based on the following combinations of arguments **EXCEPT**
- A. Infant industry, industrial development, and technologies diffusion
 - B. Employment generation, income distribution and strategic trade policy
 - C. Anti-dumping, national security and employment generation
 - D. Comparative cost advantage, absolute production advantage and domestic price ratio
 - E. Income distribution, strategic trade policy and infant industry argument
11. The relaxation of all forms of trade restrictions on free flow of goods and services in and out of a country is referred to as trade
- A. Removal
 - B. Subsidy
 - C. Devaluation
 - D. Liberalisation
 - E. Revaluation
12. Which **ONE** of the following considerations is **NOT** a force that drives Globalisation?
- A. Consolidation of liberal capitalism following the collapse of the Soviet Union
 - B. Cross border flow of trade, finance and labour

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- C. Rise of Information and Communication Technology
 - D. The marginalisation of LDCs in trade and FDI flows
 - E. Technological innovations on developed countries and cheap labour in LDCs.
13. Programmed decisions are
- A. Decisions made in response to predicable opportunities and threats
 - B. Decisions based on one's past experience and information at hand
 - C. Routine, virtually automatic decisions that follow established rules and guidelines
 - D. Decisions based on one's evaluation of the importance of information at hand
 - E. Decisions on the series of programmes that are expected to be executed in the future
14. In a market, the barrier to entry is highly relaxed.
- A. Monopoly
 - B. Monopolistically competitive
 - C. Oligopoly
 - D. Perfect
 - E. Labour
15. An organisation's written document which contains how it intends to achieve its marketing objectives is known as
- A. Marketing Proposal
 - B. Marketing Plan
 - C. Marketing Audit
 - D. Marketing Strategy
 - E. Marketing Programme
16. The Administrative Management School was pioneered by
- A. Frederick Taylor
 - B. Henri Fayol
 - C. Elton Mayo
 - D. Peter Drucker
 - E. Douglas McGregor
17. Which of the following computer software packages is designed primarily for presentation purposes?
- A. Microsoft Power Point
 - B. Microsoft Project

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- C. Microsoft FrontPage
- D. Microsoft Word
- E. Microsoft Excel

18. The following are subsets of an organisation's external environment **EXCEPT**:

- A. Suppliers
- B. Customers
- C. Marketers
- D. Contractors
- E. Competitors

19. Which **ONE** of the following is the first step in the decision making process?

- A. Generation of alternatives
- B. Selection of an alternative
- C. Identification of decision criteria
- D. Identification of the problem
- E. Analysis of the environment.

20. The following are Work-Related Stressors **EXCEPT**

- A. Task demand.
- B. Physical demand.
- C. Role demand.
- D. Consumption demand.
- E. Interpersonal demand.

PART II SHORT-ANSWER QUESTIONS

(20 MARKS)

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

1. Assume a student has ₦1,000 to spend on any of three goods/services; economics textbook (₦600), calculator (₦900) and internet access fees (₦1,000) ranked in order of preference, the opportunity cost of the choice is
2. If the Cross Elasticity of demand between two commodities is negative, it implies that the two commodities are
3. Output Elasticity of an input can be expressed as a ratio of average product to

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4. The supply curve of a competitive firm is the rising segment of curve above the minimum point of Average Variable Cost (AVC) curve.
5. If Marginal Propensity to Save is 0.25 for a closed economic model, the sum of government expenditure multiplier and tax multiplier is
6. The possible error of double counting that may arise when intermediate goods and services are included in GDP can be solved by adopting the
7. The average number of times a unit of money is spent during the year on final goods and services is known as
8. The motive for holding money that does not depend directly on the level of income is referred to as
9. The simultaneous occurrence of high inflation and high unemployment in an economy is known as
10. An exchange rate determined in the Foreign Exchange Market without the intervention of the Central Bank of Nigeria is known as
11. A situation in which a country's receipts on current and capital accounts exceed its payments (ignoring transactions on the official settlement accounts) is known as
12. A condition for exchange rate devaluation to be successful is that the sum of elasticities of exports and imports should be
13. An inventory system in which minimum inventory is kept on the premises and other needed inputs are delivered when needed right on time for production is known as
14. The type of communication that takes place among employees on the same organisational level is known as communication.
15. The asset available to an organisation which is difficult to imitate and enables it to have sustainable competitive advantage is referred to as
16. Websites used in searching for information on the World Wide Web are referred to as

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17. The term used in describing workforce that is heterogeneous in terms of gender, race, ethnicity, etc. is referred to as
18. Hierarchical arrangement of offices where one level of jobs is subject to control by the next higher level is a major feature of
19. The process whereby representatives of the Trade Union and the Management of an organisation meet to negotiate the terms of employment contract is known as
20. The type of change that is designed and implemented in an orderly and timely fashion in anticipation of future event is known as

SECTION B - ATTEMPT ANY FOUR QUESTIONS

(60 MARKS)

QUESTION 1

- (a) Explain the term "Business Environment". (3 Marks)
- (b) Explain **FOUR** ways in which the knowledge of Economics is useful in business decision making. (12 Marks)

(Total 15 Marks)

QUESTION 2

- (a) Distinguish between trade creation and trade diversion. (4 Marks)
- (b) Explain **FOUR** economic integration challenges faced by ECOWAS. (8 Marks)
- (c) Recommend any **THREE** appropriate policy measures to surmount the challenges in (b) above. (3 Marks)

(Total 15 Marks)

QUESTION 3

- (a) Outline any **SIX** determinants of demand for yoghurt. (6 Marks)
- (b) State and explain **THREE** factors that can cause a change in the supply of cement in Nigeria. (9 Marks)

(Total 15 Marks)

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QUESTION 4

- (a) Explain the term “Trade Policy”. (5 Marks)
- (b) State and explain any **TWO** policy instruments that can be used to stimulate trade relations among nations. (10 Marks)
- (Total 15 Marks)**

QUESTION 5

- (a) Define “Environmental Scanning” and explain its major components. (3 Marks)
- (b) Outline the process of environmental scanning. (8 Marks)
- (c) Suggest **TWO** ways in which the internet can be useful in environmental scanning. (4 Marks)
- (Total 15 Marks)**

QUESTION 6

- (a) What is Total Quality Management (TQM)? (1 Mark)
- (b) Explain any **FOUR** significant elements of TQM. (8 Marks)
- (c) Suppose the structural equations in an open economy are given as follows:

$$C = 50 + bY_d$$

$$Y_d = Y - T$$

$$T = 50 + tY$$

$$I = 100$$

$$G = 50$$

$$X = 10$$

$$b = 0.8$$

$$t = 0.20$$

and $M = 5 + 0.1Y$

You are required to find:

- (i) National Income at Equilibrium. (3 Marks)
- (ii) Foreign Trade Multiplier. (3 Marks)
- (Total 15 Marks)**

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SOLUTIONS TO SECTION A

PART I - MULTIPLE CHOICE QUESTIONS

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

EXAMINERS' REPORT

The questions test candidates' knowledge of principles and theories in economics and business environment. The questions cover the syllabus adequately. Performance was above average.

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PART II – SHORT-ANSWER QUESTIONS

1. Calculator or Internet Access
2. Complement
3. Marginal Product (MP)
4. Marginal Cost (MC)
5. 1.0 \longrightarrow

$$\begin{aligned} \text{Government Multiplier} &= \frac{1}{1-c} \\ \text{Tax Multiplier} &= \frac{-c}{1-c} \\ 1-c &= 0.25 \\ c &= 0.75 \\ \therefore \text{G Multiplier} &= \frac{1}{0.25} = 4 \\ \text{Tax Multiplier} &= -3 \\ \therefore \text{GMT} + \text{TM} &= 4 + (-3) \\ &= 1 \end{aligned}$$
6. Value-Added Approach
7. Velocity of money in circulation
8. Speculative Motive
9. Stagflation
10. Floating/flexible exchange rate
11. Balance of payments surplus/favourable balance of payment
12. Greater than 1 (>1)
13. Just-in-Time Inventory System
14. Lateral/Horizontal
15. Human Capital
16. Web Search Engines (such as Yahoo, Google and MSN)

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17. Workforce diversity
18. Bureaucracy
19. Collective Bargaining
20. Planned Change

EXAMINERS' REPORT

The questions test candidates' knowledge of various principles and concepts in the syllabus. The questions are clear and straightforward, requiring candidates to supply concepts and perform simple calculations.

Performance was below average. Many of the candidates could not perform the simple calculations or use the correct concepts to complete statements.

Candidates are advised to learn how to use correct concepts in economics and business environment analysis.

SECTION B

QUESTION 1

- (a) Business environment includes both micro and macro environments of business. The micro environments are the environments internal to the business. They are also called the controllable environment parameters. The internal environment includes 4 Ps of Marketing-price, product, promotion and place; human and material resources and machinery available in the organisation.

Business environment also refers to the macro environments which include a set of factors that are external to a business organisation but which influence the operations of the organisation. It includes the overall economic, social/cultural, political, legal, technological and security arrangements in a country where a business organization operates. Both internal and external environments affect the business environment and must be scanned to take advantage of the opportunities and avert threats.

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- (b) The following are some of the ways the knowledge of economics is useful in business decision-making:
- (i) Economics helps in clarifying concepts (e.g. profit, cost, inflation, GDP, market) used in business analysis which enables decision makers to avoid conceptual pitfalls. It gives a clear understanding of concepts used in business analysis.
 - (ii) Economics assists in building analytical models which help to recognise the structure of managerial problems, eliminate the minor details that might obstruct decision-making and help to concentrate on the main issues.
 - (iii) The application of relevant economic theory and models provides consistency in business analysis and helps in arriving at right or correct conclusions. The application of economic principles to the problems of business not only guides, assists and streamlines the process of decision-making but it also contributes a great deal to the validity of the decisions.
 - (iv) It provides the necessary theoretical and methodological platforms for inventing, developing and analysing courses of action in business decision analysis and in selecting a particular course of action from the alternatives.
 - (v) Knowledge of Economics is useful in business decision-making because it enhances the analytical capabilities of business analysts and operators.

EXAMINERS' REPORT

The question tests candidates' understanding of the concept of business environment and the use to which the knowledge of economics can be put in business decision-making.

This was a popular question with the candidates as majority of them attempted it and performance was above average. Candidates showed understanding of the first part of the question, whilst showing a shallow understanding of the requirements of part (b) of the question.

PATHFINDER

To ensure better performance in the future, a thorough and in-depth preparation by candidates based on contemporary literature and knowledge is *sine qua non* to successful performance of candidates in the dynamic field of economics and business.

QUESTION 2

- (a) Distinction between trade creation and trade diversion

Economic integration may pave way for either trade creation or trade diversion. Trade creation results when the impact of abolition of intra-trade barriers leads to increased trading between/among member countries.

On the other hand, trade diversion occurs when the abolition of internal barriers on trade flow among member states results in making members to change or divert from external low cost supply sources to internal high cost supply sources.

- (b) Integration challenges faced by ECOWAS include:

- (i) Distortions in market transactions

Almost all countries in ECOWAS are characterized by a lot of distortions in market transactions. Their market systems fail to provide reliable guides to profitable investment and specialization required for successful economic integration thus limiting the expected benefits from such arrangement.

- (ii) Inadequate infrastructural facilities

Inadequate communication, transportation and institutional facilities limit the beneficial effects of integration. These make intra union trade physically difficult, costly and time-consuming.

- (iii) Problem of product similarity

The countries in ECOWAS produce similar products which may not be needed by other members within the community.

- (iv) Different monetary units

The inability of the member countries within the community to adopt single monetary unit is a problem confronting ECOWAS.

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(v) Problem of policy harmonization

Economic integration in ECOWAS is facing the defiance of policy harmonisation which may result in socio-political problems for member countries. Many members will have to surrender their sovereignty in some cases for the purpose of harmonizing certain policies for the benefit of all.

(vi) Problem of dominance

There is the challenge of dominance especially if there is polarisation of development in countries with relatively high per capita income or large domestic markets among member countries.

(vii) Loyalty to colonial masters.

Most members of the community remain loyal to their colonial masters with which they engage in trade relationship on a large scale. The implication is that there will be lower tendency to trade with other countries.

(c) Policy measures to surmount challenges

- (i) Economic restructuring and diversification
- (ii) Proper harmonization of monetary units
- (iii) Removal of restrictions on factor mobility
- (iv) Removal of distortions in market transactions
- (v) Provision of adequate infrastructural facilities.

EXAMINERS' REPORT

The question tests candidates' understanding of the concepts and issues of trade creation, trade diversion, economic integration, problems facing ECOWAS as an integrated bloc and what should be done to surmount the problems.

The performance of the candidates was fair as they, to a large extent, showed a good understanding of the question. The candidates' performance would have been considerably better but for their poor attempt at part (c) and their poor communication skills.

PATHFINDER

Candidates should know that it is not just sufficient to identify problems facing societies, but they should also go the extra mile at proffering appropriate solutions to such problems. It is also pertinent for candidates to improve their communication skills.

QUESTION 3

- (a) Determinants of demand for yoghurt are:
- (i) price of yoghurt
 - (ii) prices of other substitutes such as beverages/ice cream brands
 - (iii) income of the consumers
 - (iv) taste and preference of the consumers
 - (v) population of children and younger generation who are likely to take yoghurt
 - (vi) weather conditions
 - (vii) advertisement and other sales promotions
 - (viii) current medical/health conditions of consumers
 - (ix) frequency of social engagements such as birthdays, festivals, etc
- (b) Factors that can cause a change (shift) in the supply of cement in Nigeria include the following:
- (i) Cost of production

The higher the cost of production (e.g. wages, materials and energy), the lower the quantity of cement that can be produced with the limited available resources.
 - (ii) Change in technology

Improvement in the technique of production due to, for example, the introduction of new technology can shift the cement production function outwards.
 - (iii) Natural Events

Changes in natural events can affect the supply of cement. For instance, severe weather conditions can affect mining and extractive activities. The recent heavy rains and flooding in the Sagamu area of South Western Nigeria adversely affected the operation of WAPCO in Sagamu as workers could not go to work.

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- (iv) Changes in government policies

Favourable government policies such as subsidies, grants, tax reliefs and tax holidays serve as incentives to increase production and supply of cement and unfavourable government policies serve the opposite purpose.

EXAMINERS' REPORT

The question tests candidates' understanding of the concepts and determinants of demand and supply.

This seemingly simple and direct question was, on the average, poorly attempted by the candidates. While candidates demonstrated a good understanding of part (a) of the question, they showed a wobbled understanding of part (b). Overall, the performance of the candidates in the question was below average.

The poor performance of the candidates had to do with their inability to distinguish between the concepts of movement along and shift of a supply function. Whereas a movement along the supply curve is induced by variation in the supply price, all things being equal, the shift of the supply function is induced by variation in any determinant of supply other than its price.

Candidates are advised to read questions carefully and ensure adequate understanding of their requirements before rushing to attempt them.

QUESTION 4

- (a) Trade policy is the deliberate action of the government to manage, control and dictate the direction and magnitude of changes in the cost and volume of trade between a country and the rest of the world. It is, as such, the aggregate rules and regulations that define the trade relationship between a country and the rest of the world. It is also known as commercial policy.
- (b) Policy instruments that can be used to stimulate trade relations among nations include the following:
- (i) Tariffs

Tariffs are duties imposed on Imports. Tariff is a policy instrument that is used to control the volume of Imports. If the government wants Imports to increase, the tariffs will be reduced and if otherwise, tariffs will be increased.

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(ii) Quantitative control

This involves the restriction or relaxation of embargoes, outright bans or quotas on imported goods. The government can use quotas and embargoes to control the volume and direction of trade.

(iii) Exchange rate control

The government may deliberately manipulate the exchange rate under both fixed and managed exchange rate system. Under this arrangement, the government can devalue its currency to promote exports and discourage imports.

EXAMINERS' REPORT

The question tests candidates' understanding of the concept of trade policy and the policy instruments that can be used to stimulate trade relations among countries.

The question was not adequately understood by the candidates who attempted it, hence their poor performance. Majority of the candidates demonstrated inadequate understanding of the concept of trade policy and of the policy instruments that can be used to stimulate trade relations among countries. Such a poor understanding can be traced to inadequate preparation for the examination since the concepts that are tested are within the scope of the syllabus for the course.

Candidates are, therefore, advised to prepare adequately for their examination and ensure that no area of the syllabus is left untouched while studying for examinations as there is no short cut to success in the knowledge industry.

QUESTION 5

- (a) Environmental Scanning is the process of monitoring the changes that are occurring in the external environment in which the organisation operates in order to identify opportunities and threats to its survival and growth as well as to maintain its competitive advantage. It involves directed and undirected screening of a large amount of information to detect emerging trends in the environment that have implication for the operation of the organisation.

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(b) The process of environmental scanning includes the following:

(i) Gathering information on the general environment

Information on social, demographic, economic, technological, political and legal environment can be gathered from secondary sources. Examples of the secondary sources of information are the Federal Bureau of Statistics, Central Bank of Nigeria, newspapers, journals etc.

(ii) Gathering information on the Task Environment, that is, competitors, customers, suppliers etc: This can be done using primary sources of data

such as report of the sales force on the activities of competitors, market research carried out by consultants, commissioned studies by experts on specific areas of concern to the organisation. Information may also be gathered using secondary sources like trade journals, newspapers etc.

(iii) Analysis of data generated in order to obtain meaningful relationships and trends.

(iv) Interpretation of the results of data analysis in terms of implication for the operation of the organisation.

(v) Taking advantage of opportunities and averting threats.

(c) The internet can be used in environmental scanning in the following ways:

(i) Using the internet, information can be obtained on a variety of relevant subjects from virtually every part of the world. Government documents, published statistics, journal articles and other relevant materials can be accessed cheaply for the purpose of environmental scanning.

(ii) Web portals and blogs can be created on the organisation's websites to collect data on relevant variables affecting the organisation's performance.

(iii) Data can be collected quickly and cheaply on consumer preferences, competitors activities, public perceptions of the organisation etc through questionnaires sent via e-mails.

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- (iv) The activities, programmes and policies of relevant organisations/institutions can be monitored through their websites for the purpose of environmental scanning.

EXAMINERS' REPORT

The question tests candidates' understanding of the concept of environmental scanning, the forms it can take and the process by which an organisation can effect environmental scanning.

Even though the three parts of the question are clear and straightforward, majority of the candidates could not define the concept adequately. They could not also explain its component parts and the process involved in environmental scanning. Some candidates were, however, able to explain how the internet could be useful in environmental scanning.

The major pitfall of candidates was their assumption that environmental scanning process is the same as decision making process. Few candidates attempted the question and performance was poor. It would appear that majority of the candidates did not prepare adequately for the examination, particularly the business environment section of the syllabus.

Obviously, candidates cannot perform well if they avoid a major section of the syllabus. Candidates are, therefore, advised to cover the entire syllabus.

QUESTION 6

(a) Total Quality Management (TQM)

TQM is a philosophy that is driven by continual improvement and responding to consumer needs and expectations.

It requires that every functional activity of the organisation is geared towards continuously improving the quality of goods and services of the organisation.

(b) The significant elements of TQM are as follows:

- (i) Employee empowerment: TQM requires organisation-wide participation in quality improvement. Workers must be trained, involved and empowered to make sure that things are done right.

PATHFINDER

- (ii) Focus on Customers: TQM practitioners find out what consumers want in the product and/or services of the organisation, what gap exists between consumers' expectation and what the organisation provides and plans to close the gap.
 - (iii) Benchmarking: This refers to the process whereby the organisation finds out how others do things better than it does and it tries to imitate and improve on them.
 - (iv) Continuous improvement: TQM relies on continuous improvement to produce long-term results. Continuous improvement is the implementation of small incremental improvements in all areas of the organisation on an on-going basis.
 - (v) TQM seeks to find ways to measure quality: Devising appropriate measure of quality performance is relatively easy in manufacturing companies where quality can be measured by criteria such as defects per thousand parts. In service industries, where quality is more difficult to measure, TQM continuously strives to find better measures of quality.
 - (vi) Identification of defects and tracing them to source: TQM preaches the need for managers to identify defects in the work process and trace them to their sources, find out why they occur and make necessary corrections.
 - (vii) Introduction of "Just-in-time" inventory system: Parts are supplied to the organisation when they are needed. Defective parts are also returned to suppliers at the right time.
- (c) (i) The national income model of an open economy is:

$$Y = C + I + G + X - M \quad (1)$$
$$\text{where } C = 50 + bY_d \quad (2)$$
$$Y_d = Y - T \quad (3)$$
$$T = 50 + tY \quad (4)$$
$$I = 100 \quad (5)$$
$$G = 50 \quad (6)$$
$$X = 10 \quad (7)$$
$$b = 0.8 \quad (8)$$
$$t = 0.2 \quad (9)$$
$$M = 5 + 0.1Y \quad (10)$$

PATHFINDER

Substituting (2) to (10) into (1), we have

$$\begin{aligned}
 Y &= 50 + bY_d + 100 + 50 + 10 - (5 + 0.1Y) \\
 &= 210 + 0.8(Y-T) - 5 - 0.1Y \\
 &= 205 + 0.8Y - 0.8T - 0.1Y \\
 &= 205 + 0.8Y - 0.8(50 + tY) - 0.1Y \\
 &= 165 + 0.8Y - 0.8(0.2)Y - 0.1Y \\
 &= 165 + 0.8Y - 0.16Y - 0.1Y \\
 &= 165 + 0.8Y - 0.26Y \\
 &= 165 + 0.54Y
 \end{aligned}$$

$$\begin{aligned}
 \rightarrow Y - 0.54Y &= 165 \\
 \text{that is } 0.46Y &= 165 \\
 \text{that is } Y &= \frac{165}{0.46} = 358.70
 \end{aligned}$$

∴ The national income at equilibrium is

$$Y = 358.70$$

(ii) The foreign trade multiplier

$$\begin{aligned}
 \frac{dy}{dN_x} &= \frac{1}{1-b+bt+M} \\
 &= \frac{1}{1-0.8+0.2(0.8)+40.87} \\
 &= \frac{1}{41.23} \\
 &= \underline{0.024}
 \end{aligned}$$

EXAMINERS' REPORT

This question tests candidates' understanding of Total Quality Management (TQM) and their ability to identify the significant elements of the tool. The third part of the question tests candidates' ability to find the National Income at equilibrium and Foreign Trade Multiplier given a set of structural equations in an open economy.

PATHFINDER

Total Quality Management is a familiar and current topic in management. In spite of this, majority of the candidates who attempted the question displayed inadequate knowledge of the tool and could not identify its elements. With regard to the third part of the question, most of the candidates could not make the necessary substitutions and work through the mathematical process to arrive at the answer.

The common pitfalls of candidates included confusing the elements of TQM with the functions of management i.e. – planning, organising, coordinating and controlling. The other was their inability to make necessary substitution and apply the mathematical process correctly.

Less than fifty percent of the candidates attempted this question, and the performance was below average. Considering the small number of candidates who attempted the question, it is clear that they did not cover this section of the syllabus well.

Candidates are advised to cover the entire syllabus to achieve success in the examination.

PATHFINDER

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
FOUNDATION EXAMINATION - NOVEMBER 2011
CORPORATE AND BUSINESS LAW
Time allowed - 3 hours

SECTION A: Attempt All Questions

PART I: MULTIPLE-CHOICE QUESTIONS

(20 Marks)

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

3. In a contract of insurance, the party that pays the premium in return for the insurers' promise of indemnity is the
- A. Insurance company
 - B. Insurer
 - C. Contractor
 - D. Insured
 - E. Third party
4. After payment of the insured's claim, the substitution of the insurer to all the insured's rights is called
- A. Indemnity
 - B. Act policy
 - C. Subrogation
 - D. Insurable interest
 - E. Claim note
3. An example of a contract of utmost good faith is a contract of
- A. Hire purchase
 - B. Hompanies
 - C. Sale of goods
 - D. Insurance
 - E. Accountants

PATHFINDER

4. The minimum number of general partner(s) in a valid limited partnership is
- A. Two
 - B. Three
 - C. One
 - D. Four
 - E. Five
5. Which of the following constitutes the material facts of a case and the decision of the court thereon?
- A. *Res judicata*
 - B. *Ratio decidendi*
 - C. *Ratione soli*
 - D. *Obiter dictum*
 - E. *Judicial precedent*
6. The parties in a partnership arrangement must agree on all of the following **EXCEPT**
- A. Profit sharing
 - B. Business management
 - C. Capital contribution
 - D. Dissolution
 - E. Pension reform
7. A financial institution has the duty to report to the Economic and Financial Crimes Commission (EFCC) within seven days of lodgement by an individual of an amount exceeding
- A. ₦100,000,000
 - B. ₦10,000,000
 - C. ₦5,000,000
 - D. ₦2,500,000
 - E. ₦1,000,000
8. A qualified acceptance of a Bill may occur in any of the following ways **EXCEPT** by
- A. Conditional acceptance
 - B. Partial acceptance
 - C. Restriction of payment to a place
 - D. Signature
 - E. Stipulation time of payment

PATHFINDER

9. The type of company that limits its membership to fifty, excluding past and present employees who have acquired shares by virtue of their employment in it, is called
- A. Unlimited company
 - B. Public company
 - C. Private company
 - D. Company limited by guarantee
 - E. Chartered company
10. The period between two Annual General Meetings must not exceed
- A. 18 months
 - B. 15 months
 - C. 13 months
 - D. 12 months
 - E. 6 months
11. An individual shall **NOT** be a director of a company if he is
- A. More than 19 years of age
 - B. Of sound mind
 - C. A discharged bankrupt
 - D. Less than 18 years of age
 - E. Of voting age
12. All of the following are foreign sources of Nigerian Law **EXCEPT**
- A. Customary Law
 - B. International Law
 - C. Statutes of General Application
 - D. Common Law
 - E. Principles of equity
13. The remedy that is always available in a breach of contract is
- A. Injunction
 - B. Restriction
 - C. Damages
 - D. Specific performance
 - E. *Quantum meruit*

PATHFINDER

14. Where the parties to a contract have carried out their obligations, the contract is said to be discharged by
- A. Breach
 - B. Frustration
 - C. Performance
 - D. Liability
 - E. Obligations
15. A contract that ought to be in writing but is not,
- A. Illegal
 - B. Void
 - C. Unenforceable
 - D. Unduly influenced
 - E. A deed
16. A written document by which a person called the Testator signifies his/her wishes on the distribution of his/her estate after his/her death is called
- A. Assignment
 - B. Will
 - C. Mortgage
 - D. Lease
 - E. Devolution
17. The fact that a person can neither claim right nor suffer obligation under a contract to which he is not a party, is explained by the principle of
- A. Offer
 - B. Acceptance
 - C. Consideration
 - D. Intention to create legal relation
 - E. Privity of contract.
18. The pain of punishment is central in
- A. Civil liability
 - B. Vicarious liability
 - C. Criminal liability
 - D. Contract liability
 - E. Consideration

PATHFINDER

19. A direct and intentional application of either harmful or offensive physical force to harm a person is
- A. Trespass
 - B. Assault
 - C. Damage
 - D. Battery
 - E. Insult
20. The highest Court in Nigeria is the
- A. Judicial Council
 - B. State Court of Appeal
 - C. Federal Court of Appeal
 - D. Court of Arbitration
 - E. Supreme Court.

PART II SHORT ANSWER QUESTIONS

(20 MARKS)

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

1. Where an endorser signs the Bill and expressly states to whom or to whose order the Bill is now payable, the endorsement is referred to as
2. What is the type of negotiable instrument that becomes payable on demand as part of the relationship between a banker and a customer?
3. The bailment of goods in pursuance of an agreement under which the property in the goods will or may pass to the buyer is
4. Within how many days must the copy of note or memorandum be delivered or sent to the hirer?
5. Which clause in the memorandum states that the liability of its members is limited by shares or guarantee or unlimited as the case may be?
6. When does a subscriber of a Memorandum of Association become a shareholder of the company?
7. The part of issued capital which has been paid up by the shareholders is

PATHFINDER

8. Which act of a company is required to validate a pre-incorporation contract?
9. A company that limits its liability by what members undertake to contribute to its capital is called
10. The apex bank in Nigeria that issues Monetary Policy circulars is
11. The maker of a Will is called
12. Appeal lies from the Court of Appeal to
13. The Nigerian Constitution is based on the type of legal system that is called
14. Any supplementary clause attached or referring to a Will with the object of adding or cancelling or altering the provisions of the Will is a
15. Who is usually appointed for the purpose of getting in and distributing the assets of a bankrupt?
16. In order to avoid being declared bankrupt, a debtor may assign substantially all his assets to a trustee by executing what is known as
17. Supervening impossibility or illegality of the performance of an obligation is a form of discharge of contract by
18. Goods identified and agreed upon at the time of contract of sale is
19. Property will not pass in unascertained goods until the goods are
20. A term in a contract that gives the party who is not at fault the right to repudiate is a.....

SECTION B - ATTEMPT ANY FOUR QUESTIONS

(60 MARKS)

QUESTION 1

Yomi, the son of a school proprietor, often visited his father's office to spend some hours. Although never given authority to do so, he sometimes assisted in accepting payments from and issued receipts to students, and always handed over the money to the Bursar.

PATHFINDER

However, he failed to account for the payment he received from Kola, a student, whom the school eventually declared as still owing. The school proprietor argued that Yomi had no authority to collect money from students on behalf of the school.

- (a) Outline the legal positions of Yomi, Kola and the school. (5 Marks)
 - (b) Explain the doctrine of binding precedent and state **TWO** instances when the Court of Appeal will **NOT** be bound by its own previous decisions. (4 Marks)
 - (c) Explain the principle of vicarious liability and state **TWO** relationships upon which it is dependent. (4 Marks)
 - (d) Define (i) Intestacy and (ii) Trust. (2 Marks)
- (Total 15 Marks)**

QUESTION 2

- (a) Distinguish between an offer and an invitation to treat. (2 Marks)
 - (b) On 1st of May, Adam saw a car in a local garage with a price tag of ₦300,000. When he went in to buy it, the garage owner, Bala, laughed and said that the tag must have been wrongly labelled as the actual price of the car was ₦800,000. However, in the circumstances, he said he would split the difference and let Adam have it for ₦550,000. Adam asked for time to think about the offer and Bala said he could have three days. Two days later, Adam found out that his friend Chibuzor had bought the car from Bala for ₦700,000. Adam has decided to sue Bala for breach of contract. Advise Adam. (5 Marks)
 - (c) State briefly the elements of a valid contract. (3 Marks)
 - (d) Define “Deferred Debts” in bankruptcy proceedings and give any **THREE** examples. (5 Marks)
- (Total 15 Marks)**

QUESTION 3

- (a) Explain **THREE** classifications of goods under the Sale of Goods Act. (6 Marks)
 - (b) Define “hire purchase agreement” and explain **THREE** of its essential features. (7 Marks)
 - (c) Explain the **TWO** main parties to an Insurance Contract. (2 Marks)
- (Total 15 Marks)**

PATHFINDER

QUESTION 4

- (a) Explain the legal principle(s) established in the case of Salomon Vs Salomon Co. Limited (1897). (2 Marks)
- (b) State **FOUR** circumstances when the veil of incorporation of a company may be lifted under the statute. (4 Marks)
- (c) Enumerate **FOUR** types of names which are prohibited for the purpose of incorporation. (4 Marks)
- (d) State **FIVE** statutory terms of a Partnership Agreement as contained in Sections 24 and 25 of the Partnership Act 1890. (5 Marks)

(Total 15 Marks)

QUESTION 5

- (a) "It is not necessary for any two or more persons who intend to enter into a partnership to enter into any formal agreement. Where, however, they decide to do so, such agreements must have certain minimum contents".

State any **SIX** of these minimum contents. (6 Marks)

- (b) Femi and Solape entered into an agreement to contribute equal amounts to buy books. They purchased the books and shared them between themselves for sale. Subsequent to the initial purchase, however, Femi purchased books alone. Solape demanded that she shared equally with Femi the profit made from the sale of the books which Femi bought subsequently. Femi refused on the ground that Solape had not contributed towards the purchase of the books. Solape threatened to institute a court action for one half of the profit made on the sale of the books on the ground that she and Femi entered into a partnership agreement. It was discovered that the written agreement between Femi and Solape was for sharing of the books purchased and not for sharing of the profit.

You are required to advise the parties.

(9 Marks)

(Total 15 Marks)

PATHFINDER

QUESTION 6

- (a) State **FOUR** characteristics of a negotiable instrument. (4 Marks)
- (b) Mr. Eddie is a customer of Perfect Bank Limited. He issued a cheque for the sum of ₦20,000 to Mr. Jossy. At the time of issuing the cheque his account was in credit to the tune of ₦150,000. The cheque was dishonoured by the bank. Mr. Eddie wants to sue the bank.
- You are required to advise Mr. Eddie** (5 Marks)
- (c) Enumerate **THREE** ways by which a Will may be revoked. (3 Marks)
- (d) State the parties to a Bill of Exchange. (3 Marks)
- (Total 15 Marks)**

SOLUTIONS TO SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

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

PATHFINDER

17. E
18. C
19. D
20. E

EXAMINERS' REPORT

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

PART II SHORT-ANSWER QUESTIONS

1. Special endorsement
2. cheque
3. hire purchase/conditional sale
4. 14 days
5. limited liability clause
6. date of incorporation of the company
7. paid-up capital
8. ratification
9. a company limited by guarantee
10. Central Bank of Nigeria (CBN)
11. testator/textatrix
12. the Supreme Court
13. federal system
14. codicil

PATHFINDER

15. Trustee in Bankruptcy
16. Deed of arrangement
17. frustration
18. ascertained goods or specific goods
19. ascertained
20. condition

EXAMINERS' REPORT

The questions cover the entire syllabus and candidates' performance was very good.

SOLUTIONS TO SECTION B

QUESTION 1

- (a) The issue in this question is the operation of the principle of agency by estoppel. The rule is that agency by estoppel arises when someone by his word or action creates an impression before a third party that a particular person is his agent and the third party relies on that impression, such a person is estopped from denying his supposed agent's authority because it is inequitable for him to do so.

Therefore, Yomi is an agent of the school by estoppel, and the school will be bound by his action as well as estopped from denying the fact of holding him out.

- (b) The doctrine (judicial precedent) refers to the fact that within the hierarchical structure of the Nigerian courts, the decision of a higher court will be binding on a lower court.

The Court of Appeal could depart from its previous decisions where

- (i) there is a conflict between two previous decisions of the court, in which circumstances the latter court must decide which decision to follow and, as a corollary, which to overrule.

PATHFINDER

- (ii) a previous decision of the Court of Appeal has been overruled, either expressly or implicitly by the Supreme Court.
 - (iii) a previous decision has been given *per incuriam*, or in other words, that previous decision was taken in ignorance of some authority that would have led to a different conclusion.
- (c) Vicarious liability means that one person is liable for the torts of another. It should be noted that it is not a tort in its own right. It is in effect a principle which is used to impose strict liability on a person who does not have primary liability, i.e is not at fault.

The relationships that serve as examples include

- (i) Employer/employee relationship;
 - (ii) Principal/agent relationship;
 - (iii) In exceptional situations, in the employer/independent contractor relationship;
- (d) (i) Intestacy
- This is a situation where a person dies without leaving a will. Accordingly, the properties he leaves behind will devolve upon or pass to those who are entitled by law to inherit them upon his death.
- (ii) Trust
- This is an arrangement by which property is transferred to one or more person(s) called trustee(s) to be held for the benefit of some other person(s) called the beneficiaries (i.e *Cestui Qui Trust*).

EXAMINERS' REPORT

The question tests candidates' knowledge of Agency by Estoppel, Judicial precedent, Intestacy and trust. Candidates' performance was generally satisfactory.

PATHFINDER

QUESTION 2

- (a) An offer is an expression of willingness to be bound on terms that are capable of being accepted. The person who makes the offer is known as the offeror and the person to whom it is made is called the offeree.

An invitation to treat is made to the public to make offers which the person issuing the invitation to treat may accept or reject as he chooses. *Carlil v Carbolic Smokeball Co.* The person extending the invitation is merely indicating that he is willing to enter into negotiations but is not bound to accept any offers made to him. Examples are display of goods in a shop or self service shop auction sale, invitation to tender, offer for sale or subscription for shares.

- (b) The legal issue here is whether the display of the car with price tag constitutes an offer or invitation to offer.

Essentially, the original price tag on the car was no more than an invitation to treat, an indication that the owner was willing to enter into negotiations to sell it.

The price tag did not constitute an offer, therefore, Adam could not insist on Bala selling the car to him at ₦300,000. It was actually up to Adam to make an offer for the car, which Bala could have accepted or rejected.

Bala then offered to sell the car to Adam for ₦550,000 which Adam could have accepted, thus forming a binding contract. Adam did not accept the offer immediately, and Bala agreed to keep the offer open, which could have been binding only if Adam had given Bala consideration for it. Where no consideration was given, the offer could be revoked at anytime before acceptance, and it would no longer be open for acceptance by the offeree. For the revocation to be effective, notice of it must be received by the offeree, although he could get the notice through a reliable third party and not necessarily directly from the offeror.

In this case, Adam did not provide any consideration for Bala's promise to keep the offer of the car open for a further three days. It was, therefore, open to Bala to revoke the offer at any time before Adam could accept it. This he did by selling the car to Chibuzor, and Adam learnt of this fact from Chibuzor, a reliable source, prior to his purported acceptance.

PATHFINDER

Adam, therefore, has no right in contract law against Bala.

- (c) The elements of a valid contract are
- (i) Offer;
 - (ii) Acceptance;
 - (iii) Consideration; and
 - (iv) Intention to create legal relations
- (d) Preferred Debts in bankruptcy proceedings are debts which can only be paid after all debts proved in bankruptcy have been paid in full.

Examples of such debts are

- (i) An advance of money to a person engaged or about to be engaged in business at a rate of interest varying with the profit;
- (ii) An amount due to the vendor of the goodwill of a business under a contract whereby the vendor is to receive from the purchaser, a portion of the profit by way of annuity or otherwise;
- (iii) Loans by spouses to each other for the purchase of business or trade; and
- (iv) Interest exceeding 5% under a money-lending contract.

EXAMINERS' REPORT

The question tests candidates' understanding of law of contracts and its application in offer and acceptance as well as knowledge of "Deferred Debts" in bankruptcy proceedings.

Candidates' performance was very good.

QUESTION 3

- (a) Under the Sale of Goods Act, goods are classified as
- (i) Specific or ascertained goods – Those goods identified and agreed upon at the time of the contract.

PATHFINDER

- (ii) Unascertained goods – These are goods that answer a particular description e.g. sale of Samsung Television. They also include sale of part of a whole, e.g. sale of 10 bags of cement out of 100 bags in Bimpe’s warehouse.
 - (iii) Future goods – These are goods to be manufactured or acquired by the seller after the making of the contract of sale.
 - (iv) Existing goods – are goods that are in existence and could be seen at the time of the contract of sale.
- (b) Under Section 20 of the Hire Purchase Act, hire purchase agreement is defined as – “the bailment of goods in pursuance of an agreement under which the bailee may buy the goods or under which the property in the goods will or may pass to the bailee”.

The features are as follows:

- (i) It is a contract: A hire purchase agreement is first and foremost a contract between the owner of the goods and the hirer. As such, it must necessarily satisfy the rules regarding the creation of enforceable rights and assumption of obligations.
 - (ii) It is a bailment: The relationship between the owner of the goods and the hirer is that of a bailor and bailee.
 - (iii) Passing of property: The object of a hire purchase agreement is to ensure that the property in the goods bailed or hired remains in the owner and in such a way that the hirer will be unable to pass a good title to a third party during the continuance of the bailment.
 - (iv) Right to determine agreement: The hirer enjoys the inalienable right to terminate the agreement or hiring by returning the goods to the owner.
 - (v) Option to purchase: In the alternative, the hirer may not terminate the agreement and return the goods but elect to purchase the same.
- (c) The two main parties to an insurance contract are
- (i) The Insurer: This is the company that insured the subject matter in consideration of premium.

PATHFINDER

- (ii) The insured: This is the beneficiary of the insurance policy in consideration of the premium paid.

EXAMINERS' REPORT

The question tests candidates' knowledge of Sale of Goods Act, Hire Purchase Contracts and Insurance contracts.

Candidates' performance was generally good.

QUESTION 4

- (a) The case of Salomon V Salomon Co. Ltd. (1897) established that at incorporation, a company becomes a distinct legal personality from its members.
- (b) The veil of incorporation may be lifted under the following circumstances:
 - (i) Under Section 93 of the Companies and Allied Matters Act Cap C.20 LFN 2004, where the minimum number of membership is reduced to below two and business is carried on for more than six months.
 - (ii) Under Section 246 (3), where the number of directors is reduced to below two and the business is operated for more than sixty days.
 - (iii) Under Section 316, where an investigator is appointed to look into the affairs of the company.
 - (iv) Under Sections 337 and 338, for the purpose of financial statements of holding and subsidiary companies.
 - (v) Under Section 385, where dividends are paid out of capital and every director who knowingly pays the dividends or who is party to the payment will be severally and jointly liable.
 - (vi) Under Section 506, where during winding-up, it is discovered that the company has been used to engage in reckless or fraudulent trading.
 - (vii) Under Section 631, where the name of the company has been mis-described or written illegally on bills of exchange, promissory notes, endorsements or cheques.

PATHFINDER

- (c) Types of names prohibited for the purpose of incorporating a company include the following:
- (i) Names that are identical with names of companies in existence or closely resemble such names as to cause deceit.
 - (ii) A name that contains the words “Chamber of Commerce” unless it is a company limited by guarantee.
 - (iii) A name which in the opinion of the Corporate Affairs Commission, is capable of misleading as to the nature or extent of its activities or is undesirable, offensive or contrary to public policy.
 - (iv) A name that violates any existing trade mark or business names registered in Nigeria, unless consent of the owner of the trade mark or business names has been obtained.
- (d) The statutory terms in a Partnership Agreement as contained in Sections 24 and 25 of the Partnership Act 1890 are as follows:
- (i) All the partners are entitled to share equally in the capital and profits of the business, and must contribute equally towards the losses whether of capital or otherwise sustained by the firm.
 - (ii) The firm must indemnify every partner in respect of payments made and personal liabilities incurred by him
 - in the ordinary and proper conduct of the business of the firm; or
 - In or about anything necessarily done for the preservation of the business or property of the firm.
 - (iii) A partner making, for the purpose of the partnership, any actual payment or advance beyond the amount of capital which he has agreed to subscribe, is entitled to interest at the rate of 5% per annum from the date of the payment or advance.
 - (iv) A partner is not entitled, before the ascertainment of profits, to interest on the capital subscribed by him.
 - (v) Every partner may take part in the management of the partnership business.

PATHFINDER

- (vi) No partner shall be entitled to remuneration for acting in the partnership business.
- (vii) No person may be introduced as a partner without the consent of all existing partners.
- (viii) Any difference arising as to ordinary matters connected with the partnership business may be decided by a majority of the partners, but no change may be made in the nature.
- (ix) The partnership books are to be kept in the place of business of the partnership (or the principal place) and partners can inspect and copy them.
- (x) No majority of the partners can expel any partner unless a power to do so has been conferred by express agreement between the partners.

EXAMINERS' REPORT

The question tests candidates' understanding of the principles of legal entity of a company, lifting the veil of incorporation, disallowable company names and partnership agreement.

Majority of the candidates attempted the question.

Candidates' performance was generally above average but most of them did not have adequate knowledge of the statutory terms of a partnership agreement. Candidates are advised to be familiar with the relevant statutory provisions.

QUESTION 5

- (a) The Partnership Act stipulates the following minimum contents of a partnership agreement:
 - (i) Commencement date and duration;
 - (ii) Nature/objects of the business;
 - (iii) Place of business;
 - (iv) Firm's name;
 - (v) Capital contribution;
 - (vi) Profit sharing ratio;
 - (vii) Termination/dissolution;

PATHFINDER

- (viii) Retirement;
 - (ix) Arbitration;
- (b) The legal issue is whether the arrangement between the parties is one of partnership.

Section 1 of Partnership Act requires that the relationship must involve the carrying on of the business in common with a view to making and sharing profit, a mere relationship is not enough.

Section 45 defines business to include trade, occupation or profession for profit. Merely rationing business in common will not amount to partnership. Profit motive is required.

Here, since the express agreement between Femi and Solape was exclusively for sharing the books purchased and not the profit, it is not a partnership. Consequently, Solape is not entitled to share one half of the profit made by Femi on the books bought and sold by him.

EXAMINERS' REPORT

The two-part question tests candidates' knowledge and application of contents in partnership agreement.

Candidates' performance was good.

QUESTION 6

- (a) The characteristics of a negotiable instrument are as follows:
- (i) It is transferable by mere delivery or payable to bearer or by delivery coupled with endorsement of payment to order;
 - (ii) It is not necessary for the transferee to give notice to the debtor as in the case of other choses in action;
 - (iii) Consideration is presumed to have been given for the instrument, though the law still stresses the essence of giving value for the instrument.
 - (iv) Full legal title to it passes to the transferee, who in consequence could sue in his own name for the right conferred by it.
 - (v) It is negotiable. That is, title to the instrument passes to the transferee free from all equities provided he takes it bona fide and for value.

PATHFINDER

- (b) The issue in this case is the duty of the banker to the customer.

The banker is under a duty to honour the customer's cheque.

The circumstances when a banker may dishonour a customer's cheque include

- when there is no fund in the account of the customer, or
- if the customer dies and the banker receives notice of the death, or
- if an order is placed on the account by the court, or if the customer becomes insane.

In this case, none of these instances has occurred. Therefore, the bank will be liable to pay damages if Mr. Eddie presses his claim in court.

- (c) A Will may be revoked by

- (i) the subsequent marriage of a testator;
- (ii) making a later Will;
- (iii) making of a Codicil;
- (iv) destruction with the intention of revoking it (*animus revocando*) by the testator or some person and by his direction.

- (d) The parties to a bill of exchange are

- (i) the drawer: The person that gave the order to pay and signed;
- (ii) the drawee: The acceptor of the bill with the obligation to pay the sum on the bill; and
- (iii) the payee: The person that receives payment on the bill.

EXAMINERS' REPORT

The question tests candidates' knowledge of negotiable instruments, banker/customer relationship, characteristics of a Will and Bill of Exchange.

Performance was below average. The major pitfall was the inability of the candidates to distinguish between the characteristics of cheques and those of negotiable instruments.

Candidates are advised to read the topic more extensively.