



**THE INSTITUTE OF CHARTERED ACCOUNTANTS  
OF NIGERIA**

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# **PATHFINDER**

**NOVEMBER 2012 FOUNDATION EXAMINATION**

**Question Papers**

**Suggested Solutions**

**Plus**

**Examiners' Reports**

# PATHFINDER

## FOREWORD

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

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

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

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

### NOTES

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

# PATHFINDER

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# PATHFINDER

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA  
FOUNDATION – NOVEMBER 2012  
FUNDAMENTALS OF FINANCIAL ACCOUNTING  
Time allowed – 3 hours

## SECTION A: Attempt All Questions

### PART I: MULTIPLE-CHOICE QUESTIONS (20 Marks)

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

1. Which of the following is **NOT** part of retained earnings?
  - A. Revenue reserve
  - B. Accumulated profits
  - C. Profits on exceptional activities
  - D. Undistributed profits
  - E. Unappropriated profits
  
2. Which of these is **NOT** a characteristic of bonus issue?
  - A. Increasing capital without diluting current shareholdings
  - B. Capitalising reserves, so that they cannot be paid as dividends
  - C. Not raising cash
  - D. Generating new shares
  - E. Could jeopardise payment of future dividend if profit declines
  
3. Which of the following will **NOT** be a content of the Statement of Financial Position of a company?
  - A. Non-current assets
  - B. Finance charge
  - C. Inventory
  - D. Payables
  - E. Loan notes
  
4. Which of the following is a liability account in the books of the lessor?
  - A. Short workings account
  - B. Royalty receivable account

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- C. Cash account
  - D. Lessee account
  - E. Statement of Profit or Loss
5. In a consignment agreement, which of these transactions does **NOT** require a double entry in the consignee's books?
- A. Goods sold by the consignee
  - B. Goods received from consignor
  - C. Consignee's expense
  - D. Consignee's commission
  - E. Cheque or draft sent to consignor
6. Returnable containers are charged out to the customers' accounts when containers are sent to them. The amount placed on each container for financial statement purposes after allowing for wear and tear is.....price.
- A. Charge-out
  - B. Return
  - C. Cost
  - D. Valuation
  - E. Replacement
7. Source of information for preparing Control Accounts **EXCLUDES**
- A. Purchases journal
  - B. Cash discount
  - C. Sales day book
  - D. Cash account
  - E. Opening Statement of Financial Position
8. Which of the following does **NOT** cause a discrepancy between cash book and bank statement balances?
- A. Direct credit found in the bank statement
  - B. Credit sales posted to the debit side of the cash book (bank column)
  - C. COT and other finance costs credited in the bank statement
  - D. The company's credit balance in the bank statement
  - E. Subscription paid by the bank on behalf of the company's Manager and debited in the bank statement

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9. Which of these may **NOT** lead to improvement in respect of Property, Plant and Equipment?
- A. Extension of economic life of the asset
  - B. Repairs and maintenance of asset
  - C. Increased quality of output
  - D. Faster production
  - E. Reduced operating

10. The following are opening balances in the ledger accounts of Doodle Limited:

	₦
Plant and equipment	80,000
Inventories	10,000
Trade receivables	18,000
Loan	20,000
Bank balance (credit)	15,000

What is the total asset value of the company?

- A. ₦90,000
  - B. ₦108,000
  - C. ₦123,000
  - D. ₦128,000
  - E. ₦143,000
11. Apple Foods Limited sells goods supplied by Gold Foods Plc at a fixed price calculated to give a gross profit margin of 50%. Apple Foods, being an agent, receives a commission of 12.5% of the gross sales made by it. During the period ending 31 October 2012, Apple Foods sold goods costing ₦184,000. The commission receivable by Apple Foods will be
- A. ₦4,600
  - B. ₦23,000
  - C. ₦46,000
  - D. ₦184,000
  - E. ₦368,000
12. Which of the following is **NOT** found in the Statement of Changes in Equity of a company?
- A. Dividend paid to equity shareholders
  - B. Proceeds from an issue of ordinary shares
  - C. Proposed dividend

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- D. Profit for the year
  - E. Share premium on fresh issue of shares
13. Which of the following statements is correct about the accounts of limited liability companies?
- A. Revaluation surplus on a non-current asset arising from disposal of the asset at a profit
  - B. Events after the reporting period requires that non-adjusting events should be disclosed in the notes to the financial statements
  - C. The authorised share capital consists of a company's nominal capital value of shares and loan notes raised by the company
  - D. Revaluation surplus on investment properties is debited to Income Statement.
  - E. Income is not an element of financial statements
14. Which of the following defines the net-worth of a company?
- A. Equity interest
  - B. Non-Current assets less Current assets
  - C. Non- Current assets and Current liabilities
  - D. Changes in the loan notes
  - E. Non-Current assets and intangible assets
15. If the opening capital is higher than the closing capital, the business has made
- A. Profit during the year
  - B. Profit during the year before changes in equity
  - C. Loss during the year after adjustment for Non-current assets
  - D. Loss during the year before adjustment for drawings
  - E. Profit during the year without adjustment for drawings
16. When duties to be carried out by each partner is of equal value but the capital contributed is unequal, it is
- A. Unreasonable to pay interest on the partners' capital out of profit
  - B. Reasonable to pay interest on the partners' current account out of profit
  - C. Reasonable to pay interest on the partners' loan account out of profit
  - D. Unreasonable to pay interest on the partners' current account out of profit

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E. Reasonable to pay interest on the partners' capital out of partnership profit

17. The following is given in relation to raw materials:

O = Opening Inventory

P = Purchases

R = Purchases returns

C = Carriage

E = Excise duties

I = Import duties

Z = Closing Inventory

The cost of raw materials available for use is

A. =  $O + P + C$

B. =  $O + P + E + C - Z$

C. =  $O + P + C + I - R$

D. =  $O + P + C + R - Z$

E. =  $O + P + C - R$

18. The effect of transferring manufactured goods at market value is that

A. Profit is made on goods manufactured

B. Unsold stock of finished goods is carried at a value above cost

C. It encourages manufacturing of goods rather than being purchased

D. It encourages manufacturers to have good planning

E. Cost of goods produced can be reduced in order to increase sales

19. The effect of omitting honorarium paid to the secretary from the Receipts and Payments Account of a social club is that it over-states the

A. Asset and understates Accumulated fund

B. Accumulated fund and understates the assets

C. Assets and understates the liabilities

D. Liabilities and understates Accumulated fund

E. Asset and overstates the Accumulated fund

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20. Which of the following should **NOT** be included in the Receipts and Payments Account of a Not-for-profit organisation?
- A. Annual subscription
  - B. Salaries and wages
  - C. General expenses
  - D. Provision for depreciation
  - E. Payment for the purchase of landed properties

### PART II: SHORT-ANSWER QUESTIONS

(20 MARKS)

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

1. The difference between the purchase consideration and the value of total tangible assets taken over is.....
2. The medium through which basic information (e.g. amount, date, description and authorization) regarding a transaction is recorded as it takes place is called.....
3. The fall in the value of an asset which does not result from use or age, but from change in technology, taste or fashion is called.....
4. An expenditure of revenue nature that will give benefit for a period longer than the accounting period in which it was incurred is known as.....
5. The document used to acknowledge the acceptance of the return of goods by the seller from the buyer is known as.....
6. In the absence of a Sales Day Book or Sales Account, credit sales can be computed from.....
7. An application package in which the accounting modules are integrated when data are entered in one module, all the other modules affected would be updated either automatically or by the user's command is called.....
8. Sanni and Ajayi are in partnership sharing profits or losses equally. If Kunle is admitted as a new partner to take one-fifth as his share, what is the new profit or loss sharing ratio?
9. In partnership dissolution, what are the necessary accounting entries to record an asset taken over by a partner?

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Use the following information to answer questions 10 and 11.

The balances extracted from the accounting records of Disney Social Club in respect of its subscriptions are as follows:

	₦
Balance b/f 1 January 2011	40,000
Balance b/f 1 January 2011	( 30,000)
Subscriptions received during the year	160,000
Balance c/f 31 December 2011	60,000
Balance c/f 31 December 2011	(10,000)

- Determine the amount of subscriptions to be included in the Income and Expenditure Account for the year ended 31 December 2011.
- How would the figure in bracket at 31 December 2011 be classified in the Statement of Financial Position?
- If cost of goods sold is ₦315,060 and profit margin is 25%, what is the turnover?
- When preparing a company's bank reconciliation statement at 31 October 2012, it was discovered that the following items caused the difference between the cash book balance and bank statement balance:
  - Bank charges ₦5,005
  - Cheque of ₦105,000 incorrectly debited by the bank to the account
  - Cheque paid in by the company but dishonoured amounted to ₦55,500
  - Uncredited lodgement ₦62,800

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

- The accounting concept which states that sales revenue should be recognised when goods and services have been received is known as.....
- In preparing a company's financial statements for the year ended 30 September 2012, it was discovered that the company's closing inventory was understated by ₦450,000. If the error remains uncorrected, the effect of this on the profits for 2012 and 2013 will be.....

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16. Where a not-for-profit organisation prepares the accounts using accruals basis of reporting, the statement showing the performance of the organisation is the.....
17. The offer of shares of a company to a group of selected persons is called.....
18. Where goods are invoiced by a head office to its branch at cost-plus, the Branch Inventory Adjustment Account is used to determine.....

Use the following information to answer questions 19 and 20:

Apollon Nigeria Limited			
Statement of Financial Position (Extract) as at 31 December 2011			
	Authorised	Issued	
	₦	₦	₦
Ordinary shares	200,000	160,000	
10% preference shares	<u>60,000</u>	<u>40,000</u>	
Share premium			20,000
Retained Earnings			26,000
Trade payables			60,000
Accruals			10,000
Inventories			20,000
Trade receivables			80,000
Bank			50,000

19. Calculate the company's equity?
20. If a 10% dividend is approved, what is the dividend payable to ordinary shareholders?

**SECTION B: ATTEMPT ANY FOUR QUESTIONS**

**(60 Marks)**

## QUESTION 1

Real Construction Company Plc. is a major construction company in Nigeria. It recognises revenue on construction contracts by reference to the stage of completion of the contract. However, in certain circumstances, revenue is only recognised to the extent that it does not exceed recoverable contract costs.

The company is half way through a contract to build a new overhead bridge at a contract price of ₦300 million.

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Progress report on this contract as at 1 April 2011 is as shown below:

	₤million
Cumulative sales revenue recognised	150
Cumulative cost of sales to date	112
Profit to date	38

The following information has been extracted from the accounting records as at 31 March 2012:

	₤ million
Total progress payment received for work certified as at 29 February 2012	180
Total costs incurred to date (excluding rectification costs below)	195
Rectification costs	17

Real Construction Company Plc. had received progress payments of 90% of the work certified as at 29 February 2012. The Company surveyor estimated that the value of the further work to be completed during March 2012 would be ~~₤~~20 million.

At 31 March 2012, the estimated costs of uncompleted contract was put at ~~₤~~45 million.

The rectification costs were the costs incurred in widening the pedestrian access roads to the bridge. This was as a result of an error by company's architect when he made his initial drawings.

The Company calculates the percentage of completion of its contracts as the proportion of value earned to date compared to the contract price.

All estimates can be taken as reliable.

## Required:

- Briefly explain the principles underlying each of the two methods of recognising revenue and describe the circumstances in which their uses are appropriate. (5 Marks)
  - Prepare extract of the financial statements for the contract for the year ended 31 March 2012. (10 Marks)
- (Total 15 Marks)

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## QUESTION 2

- a. Explain the term “Conceptual Framework” in relation to International Financial Reporting Standards (IFRS). (4 Marks)
- b. Define Assets and Liabilities (2 Marks)
- c. The International Accounting Standards Board’s framework for the preparation of financial statements requires that entities should comply with certain accounting concepts and underlying assumptions which include:
- i. Substance over form;
  - ii. Materiality;
  - iii. Comparability; and
  - iv. Going concern.

Explain briefly the meaning of these concepts (4 Marks)

- d. Discuss the information needs of the following users of a company’s financial statements:
- i. Lenders;
  - ii. Suppliers;
  - iii. Customers ;
  - iv. Employees; and
  - v. Government and its agencies.
- (5 Marks)

**(Total 15 Marks)**

## QUESTION 3

Josephine Limited has an Authorised share capital of 15,000,000 Ordinary Shares of ₦1 each and 2,000,000 5% Redeemable Preference Shares of ₦1 each. The Statement of Financial Position of the company as at 31 December 2010 is as follows:

**JOSEPHINE LIMITED**  
**Statement of Financial Position as at 31 December 2010**

Non-Current Assets (Net):	₦'000	₦'000
Plant and Machinery		4,000
Office Equipment		2,000
Furniture and Fittings		<u>1,500</u>
		7,500

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**Current Assets:**

Inventories	3,500	
Trade Receivables	1,000	
Investments	1,500	
Cash at Bank	<u>1,400</u>	<u>7,400</u>
		<u>14,900</u>

Equities and liabilities	Authorised	Issued and Fully Paid
	N'000	N'000
15,000,000 Ordinary Shares of N1 each	15,000	5,000
2,000,000 5% redeemable Preference Shares of N1 each	<u>2,000</u>	<u>2,000</u>
	<u>17,000</u>	7,000
Share premium		1,700
Retained earnings b/f		3,000
Retained earnings for the year		2,000
Trade payables		<u>1,200</u>
		<u>14,900</u>

The preference shares are redeemable at N1.10 per share and it was decided that they should be redeemed on 2 January 2011. In order to provide necessary funds for the redemption, the short-term investments were sold for N1,600,000.

**Required:**

Prepare journal entries and necessary ledger accounts to record the above transactions and the Statement of Financial Position after the transaction had been completed. (15 Marks)

**QUESTION 4**

On 1 January 2011, Mrs. Fehintola decided to invest her retirement benefit of N1,000,000 in the wholesale business of Fehintola Enterprises. She lodged the amount into the business bank account and paid for the following by cheque:

Motor Van	N600,000
Warehouse fittings	N340,000
Rent	N12,500

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Proper accounting records were not kept, but the financial position as at 31 December 2011, revealed the following:

Inventories of goods in the warehouse	₦150,000
Trade receivable	₦125,000
Cash at Bank	₦751,750
Trade payables for supplies	₦100,000
Accrued rent	₦15,000

The following were paid for by cheque:

Electricity bill at ₦2,500 per quarter up to 31 March 2012	
Suppliers	₦1,500,000
Personal expenses	₦150,000

On 31 December 2011, it was agreed that the Motor Van and Warehouse fittings should be valued at ₦560,000 and ₦320,000 respectively.

**You are required to prepare:**

- Bank Cash book (5 Marks)
  - Statement showing the retained earnings for the year ended 31 December 2011 (5 Marks)
  - Statement of Financial Position as at 31 December 2011 (5 Marks)
- (Total 15 Marks)**

## QUESTION 5

Taiwo and Kehinde entered into a Joint Venture to acquire packaging materials for table water production and to sell them to table water producers. They agreed to share joint venture profits or losses in ratio 3:2 respectively.

At the outset, Taiwo sent Kehinde a cheque of ₦200,000 for his participation in the venture. They sold all the goods and recorded the following cash transactions as follows:

	<u>Taiwo</u>	<u>Kehinde</u>
	₦	₦
Revenue	320,000	210,000
Traveling expenses	32,700	46,300

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Advertising	10,300	9,100
Stall rent	8,500	7,000
Wages of casual helper	4,800	-
Sundry expenses	5,900	2,900
Purchases	160,000	110,000

Settlement between the co-venturers took place by cheque.

**You are required to prepare:**

- a. Joint venture with Kehinde Account in the ledger of Taiwo (5 Marks)
  - b. Joint venture with Taiwo Account in the ledger of Kehinde (5 Marks)
  - c. Memorandum Joint venture Accounts. (5 Marks)
- (Total 15 Marks)**

## QUESTION 6

Maxwell acquired the rights to run a quarry from a parcel of land owned by Donald.

The agreement provided for:

- i. Payment of royalty of ₦40 per tonne of granite quarried;
- ii. A minimum payment of ₦2,000,000 per annum; and
- iii. The right to recoup (for short workings) is to be extinguished at the end of the third year.

During the first four years of the contract, the following quantities of granite were produced:

	Tonnes
2008	40,000
2009	48,000
2010	54,000
2011	56,000

Maxwell's accounting year ends on 31 December, and payment to Donald is made on 1 January following the year end.

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You are required to prepare:

- |   |           |
|---|-----------|
| a. The Royalty Account                    | (3 Marks) |
| b. Donald's Account                       | (7 Marks) |
| c. The Short Working Recoverable Account. | (5 Marks) |
| <b>(Total 15 Marks)</b>                   |           |

## SOLUTIONS TO SECTION A

### PART 1 MULTIPLE-CHOICE QUESTIONS

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

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## Tutorials

10	Total asset value	₹
	Plant and equipment	80,000
	Inventories	10,000
	Trade receivables	<u>18,000</u>
		<u>108,000</u>
11	Apple Foods Ltd	
	Cost of goods sold	184,000
	Profit margin – 50%	<u>184,000</u>
	Sales value	<u>368,000</u>
	Commission 12.5% of sales	
	₹368,000 x 12.5%	46,000

## EXAMINERS' REPORT

The questions test candidates' knowledge of all sections of the syllabus. The questions were attempted by all candidates and performance was good.

## PART II-SHORT-ANSWER

1. Goodwill or purchase bargain
2. Transaction Processing System
3. Obsolescence
4. Capital Expenditure
5. Credit Note
6. Credit Sales Invoices
7. Enterprise Resource Planning
8. 2:2:1 or  $\frac{2}{5}$   $\frac{2}{5}$  and  $\frac{1}{5}$
9. Dr. Partner's Capital Account. Cr. Realisation Account
10. ₹200,000
11. Current liabilities or subscriptions in advance
12. ₹420,080
13. A and C

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14. Realization concept
15. Understated & overstated Profit respectively
16. Income and Expenditure
17. Private Placement
18. Branch gross profit/Loss
19. ₦206,000
20. ₦16,000

## TUTORIALS

### Subscription Account

NO 10	₦		₦
Bal b/d	40,000	Bal c/d	30,000
Income & Exp.	200,000	Receipts	& 160,000
Bal c/d	<u>10,000</u>	Payment	<u>60,000</u>
	<u>250,000</u>	Bal c/d	<u>250,000</u>
Bal b/d	60,000	Bal b/d	10,000

NO 12    25% Margin =  $33\frac{1}{3}\%$  mark-up  
 $(\frac{1}{3} \times \text{₦}315,060) + \text{₦}315,060$   
 = ₦420,080

NO 19    Equity shareholder fund  
           = Ordinary shares + share premium  
           = 160,000 + 46,000  
           = ₦206,000

NO 20    10% dividend to ordinary shareholders  
 160,000 + 10% = ₦16,000

## EXAMINERS' REPORT

The questions test candidates' knowledge of all sections of the syllabus and were attempted by all the candidates and the performance was average.

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Candidates' commonest pitfalls were poor knowledge of information technology and basic accounting principles.

Candidates are advised to cover all sections of the syllabus effectively.

## SECTION B

### QUESTION 1

**Real Construction Company PLC.**

- (a) Accounting for construction contracts in accordance with IAS II is dependent upon whether the outcome of a contract can be measured reliably. A contract can be measured reliably when:
- (i) It is probable that the economic benefits associated with the contract will flow to the entity; and
  - (ii) The contract costs can be identified and measured reliably.

In the case of a fixed price contract, the following must also be measured reliably:

- (i) Total contract revenue;
- (ii) Contract costs to completion; and
- (iii) Stage of contract completion as at reporting date.

Where a contract can be measured reliably, revenue is recognized by reference to the stage of completion. This is an application of the concept of accruals. Where a contract cannot be measured reliably, revenue is recognized only to the extent that contract costs incurred are recoverable. This is an application of the concept of prudence.

- (b) **Income Statement for Real Construction Company Plc. for the year ended 31 March 2012**

	<del>₤</del> M
Revenue (W3)	70
Cost of sales (W3)	<u>(81)</u>
Gross loss (W3)	<u>(11)</u>

**Statement of Financial Position of Real Construction Company Plc. for the year ended 31 March 2012.**

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Current Assets: Amounts recoverable on construction contract (W4) ₦59'm

## Workings

The outcome of this contract can be estimated reliably, and therefore incomes are recognised by reference to the stage of completion.

### (W1) Expected Profit

	₦'m
Contract price	300
Costs to date	(195)
Estimated costs to completion	<u>(45)</u>
Expected Profit	<u>60</u>

**Note that rectification costs are not taken into account at this stage because they are expensed in the period in which they are incurred rather than spread across duration of the contract**

### (W2) Stage of completion

$$\frac{\text{Sales value to date}}{\text{Contract price}} = \frac{\text{₦220} \times 100}{\text{₦300}} = 73.3\%$$

\*Sales value to date ₦'m

Work certified to 29 February 2012  $\frac{(100 \times 180)}{90} = 200$

Work completed in March 2012 20

220

### W3 Income Statement

	<u>Cumulative</u>	Taken Previously	Current Year
	₦'m	₦'m	₦'m
Revenue (work certified)	220	(150)	70
Cost of sales	<u>176</u>	<u>(112)</u>	<u>(64)</u>
Profit (73.3% x 60 (W1))	44	(38)	6

Rectification costs must be recognized in the year incurred and therefore the current year figures calculated are amended as follows:

	₦'m
Revenue	70
Cost of sales (64 + 17)	<u>(81)</u>
Loss	<u>(11)</u>

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(W4) Gross amount due to or from customers

	₹'m
Costs to date	212
Profit to date (W3)	44
Progress billing	(180)
Rectification costs	<u>(17)</u>
Due from customer	<u>59</u>

## EXAMINERS' REPORT

The question tests candidates' understanding of the principles of contract accounting. Few candidates attempted the question and performance was poor.

Candidates' commonest pitfall was their inability to apply basic principles of contract accounting as provided for in IAS 11.

Candidates are advised to update their knowledge on the relevant standards.

## QUESTION 2

- (a)(i) Conceptual framework is a constitution, a coherent system of interrelated objectives and fundamentals that can lead to consistent standards and prescribes the nature, functions and limits of financial accounting and financial statements.
- (ii) It enables certain critical issues to be addressed.
- (iii) It also facilitates the development of accounting standards and Generally Accepted Accounting Practice (GAAP.) In accordance with the principles and underlying assumptions of the concepts.
- (iv) It also promotes consistency in the application of accounting principles and policies. Without conceptual framework there will not be a common definition of the elements of financial statements (asset, liabilities, income and expenses). For example, in line with the framework for preparation and presentation of financial statements gives a precise definition of assets and liabilities and no expenditure on these could be recognized unless such expenditure meets the definition of the framework.
- (b) **Assets**  
Assets are resources controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity

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## **Liabilities**

Liabilities are present obligations of the entity arising from past events, the settlement of which, are expected to result in an outflow from the entity of resources embodying economic benefit.

### **(c)(i) Substance over form**

Substance over form refers to the impact which a transaction or event has on the reporting entity, and this determines the accounting treatment. Substance over form indicates that transactions and events should be reported in the financial statement in accordance with their economic reality or their commercial intent. In applying the substance over form, IFRS framework requires the entity to adopt the statement of financial position liability method.

This is done by looking at the impact of the event or transaction on assets or liabilities on the reporting date.

### **(ii) Materiality**

An item is considered material if its inclusion, omission or misstatement will have a fundamental effect on the financial statements as a whole and affect the economic decision of the user. The requirement of the framework, is that items which are material in nature to an entity should be accorded separate recognition, presentation and disclosure, while those that are immaterial (small and separate unimportant) should be aggregated or added up.

### **(iii) Comparability**

This implies that the financial statements of a given year should have relative figure of the past period or periods. This helps to evaluate the performance of the entity and trend analysis over time. It also helps to assess the comparability on consistent application of accounting policies over time.

### **(iv) Going Concern**

The going concern concept assumes that the entity will be in operational existence in the foreseeable future time, and that it has no intention to scale down its operation significantly. Except otherwise stated, financial statements are usually prepared on the going concern concept.

# PATHFINDER

If, however, the entity can no longer continue as a going concern, then, subsequent financial statement should be prepared on a break-up basis that is, the assets should be stated at fair value less cost to point of sales (net realizable value) rather than at cost less accumulated depreciation.

(d) (i) **Lenders**

The lenders are concerned with the ability of the company to pay the finance cost on the borrowed fund and pay the loan when due. They are also interested in the availability of assets to secure loans.

(ii) **Suppliers**

The suppliers are interested in information that indicates that their debts can be paid by the entity and that the entity will continue as a going concern in order to ensure continued patronage.

(iii) **Customers**

The customers are interested in information relating to the entity's continued existence, especially for those that depend on the entity to meet their daily needs.

(iv) **Employees**

The employees are concerned with their job security and the company's ability to be profitable, in order to guarantee the payment of their salaries in the future.

(v) **Government and their agencies**

Government and their agencies are interested in information relating to taxes, regulations, resource allocation and evaluation of government policies on businesses.

## EXAMINERS' REPORT

The question tests candidates' knowledge of the provisions of IFRS/IASB and their application. Most candidates attempted the question and performance was average. Candidates' commonest pitfall was the display of inadequate knowledge of process involved in setting Accounting Standards.

Candidates are advised to read relevant accounting journals in order to be familiar with current development in accounting.

# PATHFINDER

## QUESTION 3

### JOSEPHINE LIMITED JOURNAL ENTRIES

	DR	CR
	R'000	R'000
(a) 5% Preference Share Capital Account	2,000	
Preference Share Redemption Account		2,000
Being nominal value of preference shares due for redemption, transferred to redemption account.		
	200	
(b) Share Premium Account		
Preference Share Redemption Account		200
Being transfer of premium payable on redemption of preference shares to redemption account.		
	1,600	
(c) Bank account		
Short term deposit		1,500
Income Statement		100
Being utilization of short-term deposit		
(d) Redemption account	2,200	
Bank account		2,200
Being payment of amount due on redemption of redeemable preference share		
(e) General Reserve Account	2,000	
Capital Redemption Reserve Fund Account		2,000
Being shortfall in the nominal value of the preference shares redeemed.		

# PATHFINDER

## JOSEPHINE LIMITED LEDGERS ACCOUNTS

### (a) 5% Redeemable Preference share Account

	N'000		N'000
Preference share			
Redemption	<u>2,000</u>	Bal b/f	<u>2,000</u>

### (b) Share Premium Account

	N'000		N'000
Preference Share redemption	200	Bal b/f	1,700
Bal c/d	<u>1,500</u>		
	<u>1,700</u>		<u>1,700</u>

### (c) Redemption Account

	N'000		N'000
Bank	2,200	5% Redeemable preference shares	2,000
		Share premium	<u>200</u>
	<u>2,200</u>		<u>2,200</u>

### (d) Bank Account

	N'000		N'000
Bal b/f	1,400	Redemption	2,200
Short term Investments	1,600	Bal c/d	<u>800</u>
	<u>3,000</u>		<u>3,000</u>
Bal b/d	800		

### (e) Retained earnings Account

	N'000		N'000
		Bal b/f	3,000
CRRF Account	2,000		
Bal c/d	<u>1,000</u>		
	<u>3,000</u>	Bal b/d	<u>1,000</u>

### (f) Income Statement

	N'000		N'000
		Bal b/f	2,000
Bal c/d	<u>2,100</u>	Profit on sale of Investment	<u>100</u>
	<u>2,100</u>		<u>2,100</u>

# PATHFINDER

Bal b/d 2,100

(g) Short-Term Investment

	₦'000		₦'000
Bal c/d	1,500	Bank	1,600
Income statement	<u>100</u>		
	<u>1,600</u>		<u>1,600</u>

(h) Capital redemption reserve fund

	₦'000		₦'000
Bal c/d	<u>2,000</u>	General reserve Bal c/d	<u>2,000</u> 2,000

**JOSEPHINE LIMITED**

**REVISED STATEMENT OF FINANCIAL POSITION AS AT 2 JANUARY 2011**

<u>Non-Current Assets:</u>	₦'000	₦'000
Plant and Machinery		4,000
Office equipment		2,000
Furniture & Fittings		<u>1,500</u>
		7,500
<u>Current Assets</u>		
Inventories	3,500	
Sundry Receivables	1,000	
Bank	<u>800</u>	
	5,300	
<u>Current Liabilities</u>		
Trade payables	<u>(1,200)</u>	
		<u>4,100</u>
		<u>11,600</u>

<b>EQUITY &amp; LIABILITIES</b>	<b>AUTHORIZED</b>	<b>ISSUED &amp; FULLY PAID</b>
	₦'000	₦'000
15,000,000 Ordinary shares of ₦1 each	<u>15,000</u>	5,000
Share Premium		1,500
Retained earnings b/f		1,000
Retained earnings for the year		2,100
Capital redemption reserve fund		<u>2,000</u>
		<u>11,600</u>

# PATHFINDER

## EXAMINERS' REPORT

The question tests candidates' knowledge of journal entries, posting to ledger accounts and redemption of Preference Shares. Few candidates attempted the question and performance was poor.

Candidates' commonest pitfall was the posting of journal entries to wrong accounts.

Candidates are advised to pay more attention to the raising of journal entries and should cover all sections of the syllabus.

## QUESTION 4

### FEHINTOLA ENTERPRISES

	Bank Cash Book	
	<b>₦</b>	<b>₦</b>
Capital	1,000,000	Motor van
Receipts from customers (Difference)	<u>2,366,750</u>	Warehouse fittings
		Rent
		Electricity (₦2,500 x 5)
		12,500
		Payment to creditors
		1,500,000
		Drawings
		150,000
		Bal c/d
		<u>751,750</u>
Bal b/d	<u>751,750</u>	<u>3,366,750</u>

## (b) INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

	<b>₦</b>	<b>₦</b>
Revenue (W 1)		2,491,750
<u>COST OF SALES:</u>		
Purchases (W 2)	1,600,000	
Closing inventory	<u>(150,000)</u>	<u>(1,450,000)</u>
Gross profit		1,041,750
 <u>OPERATING EXPENSES:</u>		
Rent (W 3)	27,500	
Electricity (W 4)	10,000	

# PATHFINDER

Depreciation (W5)	<u>60,000</u>	<u>(97,500)</u>
		<u>944,250</u>

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

<u>NON-CURRENT ASSETS:</u>	<u>COST</u>	<u>DEP</u>	<u>CARRYING</u>
	<u>₹</u>	<u>₹</u>	<u>AMOUNT</u>
			<u>₹</u>
Motor van	600,000	(40,000)	560,000
Warehouse fittings	<u>340,000</u>	<u>(20,000)</u>	<u>320,000</u>
	<u>940,000</u>	<u>(60,000)</u>	880,000
 <u>CURRENT ASSETS:</u>			
Inventories		150,000	
Trade receivables		125,000	
Prepayment (W 4)		2,500	
Cash at bank		<u>751,750</u>	
		1,029,250	
 <u>CURRENT LIABILITIES:</u>			
Trade payables	100,000		
Accruals	<u>15,000</u>	<u>(115,000)</u>	
NET CURRENT ASSETS			<u>914,250</u>
NET ASSETS			<u>1,794,250</u>
 <u>Equity:</u>			
Capital			1,000,000
Retained earnings			<u>944,250</u>
			1,944,250
Drawings			<u>(150,000)</u>
			<u>1,794,250</u>

### WORKING NOTES

W1: Determination of sales figure for the year  
Sales Ledger Control a/c

	<u>₹</u>		<u>₹</u>
Sales (Difference)	<u>2,491,750</u>	Bank	2,366,750
	<u>2,491,750</u>	Bal c/d	<u>125,000</u>
Bal b/d	125,000		<u>2,491,750</u>

# PATHFINDER

W2: Determination of purchases figure for the year

Purchases Ledger Control a/c

	N		N
Bank	1,500,000	Purchases (Difference)	<u>1,600,000</u>
Bal c/d	100,000		/
	<u>1,600,000</u>	Bal b/d	<u>1,600,000</u>
			100,000

W3: Determination of rent expenses for the year

Rent a/c

	N		N
Bank	12,500	Income statement (Difference)	<u>27,500</u>
Accrued c/d	15,000		/
	<u>27,500</u>	Accrued b/d	<u>27,500</u>
			15,000

W4: Apportionment of electricity payment

Total amount paid for electricity N  
12,500

**Apportioned as follows:**

Electricity expenses for the year (N2,500 x 4)	10,000
Prepaid electricity (N12,500 – N10,000)	<u>2,500</u>
	<u>12,500</u>

W5: Calculation of depreciation for the year

	Motor Van	Warehouse Fittings	TOTAL
	N	N	N
Purchase Cost	600,000	340,000	940,000
Book value @ end	<u>(560,000)</u>	<u>(320,000)</u>	<u>(880,000)</u>
Depreciation for the year	<u>40,000</u>	<u>20,000</u>	<u>60,000</u>

## EXAMINERS' REPORT

The question tests candidates' knowledge of incomplete records. Many candidates attempted the question and the performance was good.

Candidates' commonest pitfall was their inability to compute depreciation.

# PATHFINDER

Candidates are advised to learn how to compute depreciation.

## QUESTION 5

(a) Joint Venture with Kehinde Account  
In the ledger of Taiwo

	₦		₦
Bank- Transfer to Kehinde	200,000	Bank	320,000
Advertising	10,300	(sales)	
Traveling expenses	32,700	Bank	181,700
Stall rent/toll	8,500		
Wages	4,800		
Sundry expenses	5,900		
Purchases	160,000		
Statement of Profit or Loss	<u>79,500</u>		
	<u>501,700</u>		<u>501,700</u>

(b) Joint Venture with Taiwo Account  
In the ledger of Kehinde

	₦		₦
Bank- Traveling expenses	46,300	Bank-Transfer from	
Advertising	9,100	Taiwo	200,000
Stall rent/toll	7,000	Sales	210,000
Sundry expenses	2,900		
Purchases	110,000		
Statement of Profit or Loss	53,000		
Bank	<u>181,700</u>		
	<u>410,000</u>		<u>410,000</u>

### MEMORANDUM JOINT VENTURE ACCOUNT

	₦		₦
Travelling expenses	79,000	Sales	530,000
Advertising	19,400		
Stall rent/tolls	15,500		
Wages	4,800		
Sundry expenses	8,800		
Purchases	270,000		
Share of profit:	79,500		
Taiwo	<u>53,000</u>		
Kehinde	<u>530,000</u>		<u>530,000</u>

# PATHFINDER

## EXAMINERS' REPORT

The question tests candidates' knowledge on preparation of joint venture account.

Many candidates attempted the question and the performance was very good.

### QUESTION 6

(a) **MAXWELL BOOKS OF ACCOUNT**  
Royalties Payable Account

		₦			₦
31/12/08	Donald	<u>1,600,000</u>	31/12/08	Operating A/C	<u>1,600,000</u>
31/12/09	Donald	<u>1,920,000</u>	31/12/09	Operating A/C	<u>1,920,000</u>
31/12/10	Donald	<u>2,160,000</u>	31/12/10	Operating A/C	<u>2,160,000</u>
31/12/11	Donald	<u>2,240,000</u>	31/12/11	Operating A/C	<u>2,240,000</u>

(b) Donald's Account

		₦			₦
31/12/08	Bal c/d	<u>2,000,000</u>	31/12/08	Royalty Payable	1,600,000
		<u>2,000,000</u>	"	Short workings	400,000
					<u>2,000,000</u>
1/12/09	Bank	2,000,000	1/1/09	Bal b/d	2,000,000
31/12/09	Bal c/d	<u>2,000,000</u>	31/12/09	Royalties payable	1,920,000
		<u>4,000,000</u>	31/12/09	Short workings	80,000
					<u>4,000,000</u>
1/1/10	Bank	2,000,000	1/1/10	Bal b/d	2,000,000
31/12/10	Short workings	160,000	31/12/10	Royalties payable	2,160,000
"	Bal c/d	<u>2,000,000</u>			
		<u>4,160,000</u>			<u>4,160,000</u>
1/1/11	Bank	2,000,000	7/1/11	Bal b/d	2,000,000
31/12/11	Short workings	80,000	31/12/11	Royalties payable	2,240,000
31/12/11	Bal c/d	<u>2,160,000</u>			
		<u>4,240,000</u>			<u>4,240,000</u>

Short Workings Recoverable Account

		₦			₦
31/12/08	Donald	<u>400,000</u>	31/12/08	Balance c/d	<u>400,000</u>

# PATHFINDER

1/1/09	Bal b/d	400,000	31/12/09	Balance c/d	480,000
	31/12/09				
	Donald	<u>80,000</u>			
		<u>480,000</u>			<u>480,000</u>
1/1/10	Bal b/d	480,000	3/12/10	Donald	160,000
			"	Income Statement	240,000
			"	Bal c/d	<u>80,000</u>
		<u>480,000</u>			<u>480,000</u>
1/1/11	Bal b/d	<u>80,000</u>	31/12/11	Donald	<u>80,000</u>

## EXAMINERS' REPORT

The question tests candidates' knowledge of royalty account. Many candidates attempted the question and performance was poor.

Candidates' commonest pitfall was their inability to identify correctly the account to be debited or credited.

Candidates are advised to cover all sections of the syllabus effectively in order to improve their performance.

# PATHFINDER

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

**Time allowed - 3 hours**

**SECTION A: Attempt All Questions**

**PART I: MULTIPLE-CHOICE QUESTIONS (20 Marks)**

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

1. Which of the following events will shift the butter/guns production possibilities frontier outward?
  - A. A new and superior method of producing butter
  - B. An increase in the production of guns
  - C. A reduction in the production of butter
  - D. A decrease in the resources devoted to the production of investment goods
  - E. An increase in the production of butter
  
2. Normative statements in Economics are
  - A. The result of the scientific method
  - B. Derived by the deductive method
  - C. Related to macroeconomics
  - D. Based upon subjective values or opinions
  - E. Based on careful observations
  
3. If two goods are complements
  - A. They are consumed independently
  - B. An increase in the price of one will lead to an increase in the demand for the other

## PATHFINDER

- C. A decrease in the price of one will lead to an increase in the demand for the other
  - D. They are consumed in the ratio of 50:50
  - E. They are necessarily inferior goods
4. The multiple by which the commercial banking system can expand the supply of money is equal to the reciprocal of
- A. The marginal propensity to save
  - B. The reserve ratio
  - C. Its excess reserves
  - D. The monetary base
  - E. Its actual reserves
5. Which of the following items may **NOT** be included in calculating National Income via the income method?
- A. Income from labour
  - B. Profits of companies
  - C. Rents and interest
  - D. Net income from abroad
  - E. Government expenditure on goods and services
6. Cooperative societies, insurance firms and bureau-de-change in Nigeria are
- A. Run by the Central Bank of Nigeria
  - B. Part of the banking system
  - C. Part of the capital market
  - D. In the money market
  - E. Referred to as non-bank financial institutions
7. Which of the following would be a credit item in Nigeria's Balance of Payments?
- A. A two-week vacation trip to Dubai by a Nigerian
  - B. A Nigerian firm hires a Ghanaian citizen
  - C. A Nigerian company sells computer accessories to a company in Togo
  - D. The Nigerian government lends money to the Gambian government
  - E. A Nigerian student buys an Accounting textbook from a UK publisher
8. The following are different types of mergers **EXCEPT**
- A. Conglomerate merger

## PATHFINDER

- B. Lateral merger
  - C. Vertical merger
  - D. Consolidation merger
  - E. Horizontal Merger
9. When the economy is operating at full employment, increased spending will result in
- A. Trotting inflation
  - B. Running inflation
  - C. Ratchet inflation
  - D. Demand-pull inflation
  - E. Cost-push inflation
10. Two of the features of monopolistic competition are
- A. Many firms, different products
  - B. Many firms, identical products
  - C. Few firms, several products
  - D. Few firms, identical products
  - E. Numerous firms, one product
11. Marginal Revenue Product (MRP) equals
- A. Marginal revenue times the product's price
  - B. Marginal revenue times marginal product
  - C. Marginal product times the product's price
  - D. Marginal cost times the product's price
  - E. Marginal product times marginal revenue
12. Microeconomics is the branch of economics that focuses on
- A. National economic activity
  - B. Individual decision makers and markets
  - C. Inflation and unemployment
  - D. Deficit spending
  - E. Economic institutions
13. An individual's moral beliefs about what is right or wrong, good or bad, which provides guide for his/her behaviour is called
- A. Ethics

# PATHFINDER

- B. Principles
- C. Policies
- D. Ethos
- E. Values

14. Which of the following is **NOT** an individual stressor?
- A. Job design
  - B. Role ambiguity
  - C. Role overload
  - D. Physical condition of work environment
  - E. Organisational politics
15. Which of the following best describes Program Evaluation and Review Technique (PERT)?
- A. A time-event network analysis system in which the various events in a project are identified with a planned time established for each
  - B. A technique for determining time and relationships between events using a chart
  - C. A technique for formulating plans for a given future period in numerical terms
  - D. A technique for dividing enterprise activities into packages composed of goals, activities and needed resources and calculating the cost for each package from base zero
  - E. A programming technique for determining relationships between activities and associated costs.
16. A budget which indicates the goods and services an organisation expects to consume in a budget period is called
- A. A master budget
  - B. An engineering cost budget
  - C. Expenses budget
  - D. An operating budget
  - E. A discretionary cost budget
17. The capability to influence others that come from having attributes that make someone a role model for other people is
- A. Referent power

## PATHFINDER

- B. Expert power
  - C. Reward power
  - D. Coercive power
  - E. Legitimate power
18. Decision-making conditions in which managers face unpredictable external conditions or lack the information needed to establish the probability of certain events is called
- A. Risk
  - B. Certainty
  - C. Uncertainty
  - D. Ambiguity
  - E. Obscurity
19. Which of the following best describes social responsibility?
- A. The organisation's consideration of the impact of its actions on the society
  - B. The ability of an organisation to relate its operations and policies to the social environment in ways that are mutually beneficial to the organisation and the society
  - C. An organisation's commitment to meeting the needs of host communities other than their roles as employers and producers
  - D. An organisation's commitment to fulfilling all economic obligations to the society
  - E. An organisation's commitment to fulfilling its obligations to the government
20. A situation in which the whole is greater than the sum of its parts is called
- A. System
  - B. Synergy
  - C. Shared value
  - D. Strategy
  - E. Structure

# PATHFINDER

## PART II: SHORT-ANSWER QUESTIONS

(20 MARKS)

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

1. The largest component of GDP is.....
2. A variable whose value is determined by some other variable(s) in a model is called.....
3. The minimum amount of reserves that banks must hold in proportion to checkable deposits is called.....
4. If the behavioural equations for a market model are:  $Q_d=36-4p$  (demand) and  $Q_s = -12+12p$  (supply), the equilibrium quantity is.....
5. The ratio between induced investment and an initial change in consumption expenditure is referred to as.....
6. The channel through which monetary policy works by affecting the amount of loans made by banks to firms is called.....
7. The Guardian of September 9, 2012 reported that certain groups of people are out of work because “they lack the education, skills and experience to get a job and keep it”. Such groups of people are called.....
8. The long run.....curve describes the minimum cost of producing each output level when the firm is able to adjust all inputs optimally.
9. Recurring upswings and downswings in an economy’s real GDP over time are called.....
10. The fundamental canon of taxation is.....
11. A market consisting of a monopsonist and a monopolist is called.....
12. The removal of controls over economic activities that have been imposed by the government or some other regulators is referred to as.....
13. A system that is not sealed off from its environment which is subject to the intrusion of environmental influences is known as.....

# PATHFINDER

14. The practice of working at a much slower pace than a person is capable is called.....
15. Sites that create a digital online environment where people with similar interests can share interest photos, videos, communicate with like-minded people and receive interest-related information is called.....
16. The work undertaken in order to keep or restore every facility in a firm is known as.....
17. Any form of human expression that can be put into a tangible medium such as text, CD or the Web is known as.....
18. The action taken by one union to support another in a strike by not showing up for work can be referred to as.....
19. The set of activities a firm engages in to create final products from raw inputs is known as.....
20. The concept that describes the stages most products pass through from the time of introduction to withdrawal from the market is referred to as.....

## SECTION B: ATTEMPT ANY FOUR QUESTIONS

(60 Marks)

### QUESTION 1

- a. Give **FOUR** reasons why work study techniques are utilised in production process of an organisation. (4 Marks)
  - b. Outline **SIX** reasons why **Quality circle** is beneficial in the production process of a firm. (3 Marks)
  - c. Explain Henri Fayol's Principles of Management. (8 Marks)
- (Total 15 Marks)**

### QUESTION 2

- a. What is **currency redesigning**? (3 Marks)

# PATHFINDER

- b. Explain **FOUR** factors that can militate against currency redesigning in a developing country like Nigeria. (12 Marks)  
(Total 15 Marks)

## QUESTION 3

A recruitment exercise to fill the vacant position of an Internal Auditor is about to be concluded in your organisation. Your General Manager is seeking information on the key steps to be taken to select the appropriate candidate among the long list of applicants.

### Required:

- a. What is **selection**? (3 Marks)
- b. Outline and explain the various steps involved in a standard selection process in hiring an Internal Auditor. (12 Marks)  
(Total 15 Marks)

## QUESTION 4

The recent state of Inflation in Nigeria calls for the need on the part of Nigerian workers to agitate for wage increase while at the same time government is having the aim of reducing the cost of governance or reducing wage bills. This development necessitated the call for negotiation between the employers of labour and labour unions.

### Required:

- a. Explain issues that could determine the relative bargaining power of each of the parties in the negotiation. (6 Marks)
- b. Distinguish between Collective Bargaining and Collective Agreement. (9 Marks)  
(Total 15 Marks)

## QUESTION 5

- a. Distinguish between Commercialisation and Privatisation. (3 Marks)

# PATHFINDER

- b. Discuss **FOUR** possible economic benefits of the proposed privatisation of Power Holding Company of Nigeria (PHCN) by the government. (12 Marks)  
(Total 15 Marks)

## QUESTION 6

- a. What is Budget Deficit? (3 Marks)
- b. Explain **FOUR** ways government can finance its budget deficit. (12 Marks)  
(Total 15 Marks)

## SOLUTIONS TO SECTION A

### PART I - MULTIPLE - CHOICE QUESTIONS

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

# PATHFINDER

17. A
18. C
19. A
20. B

## EXAMINERS' REPORT

The questions test candidates' understanding of concepts and principles of Economic & Business Environment. Candidates showed adequate understanding of the questions and their performance was good.

## PART II – SHORT-ANSWER QUESTIONS

1. Consumption
2. Dependent variable
3. Reserve requirement
4. 24
5. The accelerator coefficient
6. Credit channel
7. Structurally unemployed
8. Average Cost
9. Business cycles
10. Ability to pay
11. Bilateral monopoly
12. Deregulation
13. Open system
14. Soldiering
15. Blog
16. Maintenance
17. Data/message

# PATHFINDER

18. Solidarity
19. Value chain/production
20. Product life cycle.

## Tutorial – Question 4.

Market Equilibrium:  $Q_d = Q_s$   
where:

$$Q_d = 36 - 4p \quad \dots (i)$$

$$Q_s = -12 + 12p \quad \dots (ii)$$

At Equilibrium,  $Q_d = Q_s$

$$\Rightarrow 36 - 4p = -12 + 12p$$

$$\text{or } 16p = 48$$

$$\text{i.e. } p = 3.$$

Substituting for  $p$  in equation (i) and equation (ii) gives

$$Q_d = Q_s = 24 \text{ as the equilibrium quantity}$$

## EXAMINERS' REPORT

The questions cover the syllabus adequately. Candidates understood the requirements of the questions and their performance was good.

## SECTION B:

### QUESTION 1

- (a) The reasons why work study techniques are utilized in production include the following:
- (i) To improve working methods. Work study makes it possible to determine and install the best method of carrying out operations and processes in the organisation.
  - (ii) To achieve cost savings and efficiency.
  - (iii) To identify and eliminate non-productive tasks.
  - (iv) To determine work standards in terms of time, quality, output or process.
  - (v) To generate data useful in stating job description and job specification.
  - (vi) To improve the productivity of workers.
  - (vii) To reduce fatigue at work.

## PATHFINDER

- (b) Quality circles are beneficial in the production process of a firm due to the following reasons:
- (i) By identifying and solving work-related problems, it helps to improve productivity.
  - (ii) It helps to eliminate waste in the production process.
  - (iii) Employee participation in solving production problems enhances their motivation and commitment.
  - (iv) It helps to generate innovative ideas in solving production problems.
  - (v) High quality solutions are generated through quality circle.
  - (vi) **Unity of Direction:-** Those operations within an organization that have the same objectives should be directed by only one manager using one plan.
  - (vii) **Subordination of individual interest for the common good:-** In any undertaking, the interest of employees should not take precedence over the interest of an organization as a whole.
  - (viii) **Remuneration:-** Compensation for work done should be fair to both employees and employers.
  - (ix) **Centralisation:-** Managers should retain final responsibility while they should delegate enough authority to subordinates to do their jobs properly.
  - (x) **Scalar chain:-** The line of authority in an organization runs in order of rank from top management to the lowest level of the enterprise.
  - (xi) **Order:-** People should be in jobs or positions they are most suited for.
  - (xii) Managers should be friendly and fair to their subordinates.
  - (xiii) **Stability of tenure of personnel:-** A high employee turnover rate undermines the effective functioning of the organization.
  - (xiv) **Initiative:-** Subordinates should be given the freedom to conceive and carry out their plans, even though some mistakes may result.

# PATHFINDER

- (xv) **Esprit-de-Corps:-** Promoting team spirit will give the organization a sense of unity.
- (c) **Henri Fayol's Principles of Management are:**
- (i) **Division of Labour:-** The more people specialize, the more efficiently they can perform their work.
  - (ii) **Authority and Responsibility:-** Formal and informal authority give managers right to command, a necessity for getting things done.
  - (iii) **Discipline:-** Members of an organization must respect the rules and agreements that govern the organisation.
  - (iv) **Unity of Command:-** Each employee must receive instructions from only one person.

## EXAMINERS'REPORT

The question tests the candidates' understanding of work study techniques, benefits of quality circle and Henri Fayol's Principles of MANAGEMENT.

About 60% of the candidates attempted the question and performance was average.

The major pitfalls were:

- Candidates misconstrued functions of Management to mean the 14 general principles of Management.
- Candidates wrongly gave motivation and training as reasons why work study techniques are utilized in production process and the benefits of quality circle.

Candidates are advised to adequately cover the syllabus.

## QUESTION 2

- (a) Currency redesigning refers to the process of changing the composition and features of a country's currency for economic and security reasons.
- (b) Factors that can militate against currency redesigning in a developing country like Nigeria include:

# PATHFINDER

- (i) **Nature of the economy**  
If an economy is cash-based such that majority of economic transactions are carried out using cash, as is the case in Nigeria, the attempt to convert the paper currency into coins may be resisted due to the implications on economic agents' cash-based transactions.
- (ii) **Inflationary effects**  
The fear of the possibility that the introduction of redesigned currency may lead to inflation may compel people to resist the policy. If the resistance is strong, the policy may be rescinded.
- (iii) **The level of public awareness or enlightenment**  
The possibility of people not buying into the measure due to lack of awareness of its merits may also militate against its introduction.
- (iv) **Cost of the redesign**  
  
In redesigning currency, the cost of such policy may be huge and therefore expensive on the economy. This may generate public outcry against the measure.
- (v) **Timing of the policy**  
  
The time of the introduction of the policy may also affect the policy unfavourably. The likelihood that the policy will meet people's resistance will be higher if it is introduced when an economy is faced with more serious economic challenges.
- (vi) **Perception of the people about the policy**  
  
If the people doubt the sincerity and truthfulness of government about the intention of the currency redesigning, the people may resist the introduction of the measure.

## EXAMINERS' REPORT

The question tests candidates' understanding of the concept of currency redesigning and the factors that can militate against the policy in a developing economy. The question was popular as more than 90% of the candidates who sat for the examination attempted it. The candidates demonstrated good understanding of the question as more than 70% of them passed.

## QUESTION 3

# PATHFINDER

- (a) **Selection:** This is the process embarked upon by an organisation in deciding who to choose from a pool of applicants that possess the requisite qualifications required to perform a job satisfactorily.
- (b) Steps involved in the selection process include:
- (i) **Short Listing:** This involves the screening of the various applications with the aim of determining the candidates to invite for interview.
  - (ii) **Application Blank:** At this stage, those candidates considered qualified to participate in the selection exercise are requested to complete application forms.
  - (iii) **Tests:** At this stage, applicants are made to attend to some tests which may include intelligence test, aptitude tests, performance tests, etc.
  - (iv) **Interview:** Here, all applicants who have passed the tests are made to take part in face-to-face/oral interview.
  - (v) **Reference checks:** During this stage, reference checks or background investigation is conducted on selected applicants.
  - (vi) **Health Checks:** This is a stage of medical examination.
  - (vii) **Selection:** At this stage, the decision on the candidate that is best suited for the job is made.
  - (viii) **Management approval:** Management considers and ratifies the selection decision.
  - (ix) **Offer of Employment/Job offer:** A formal letter of 'Offer of Employment' is issued to the successful Internal Auditor.

## EXAMINERS' REPORT

The question tests candidates' knowledge of selection and its processes. About 80% of the candidates attempted the question and performance was fair.

# PATHFINDER

Some candidates could not satisfactorily define selection and only a few correctly identified and explained the stages involved in the selection process of an Internal Auditor.

Candidates are advised to familiarize themselves with relevant texts.

## QUESTION 4

- (a) Factors that could determine the relative bargaining power of each of the parties in negotiation – Employer of Labour and Labour Union.
- (i) The generalized economic situation of the country: The bargaining power of employers of Labour is usually high when the economy is in recession or depression while those of labour union will be low. When the economy is in a boom, the bargaining power of labour union is usually high while those of employers of labour will be low.
  - (ii) The rate of unemployment: The bargaining power of the employers is very high when the rate of unemployment is high. The bargaining power of labour union is usually high when unemployment rate is low.
  - (iii) Technical skill: The bargaining power of labour union is high when the technical skill possessed by members of the union is high, while their bargaining power is usually low when the technical skill possessed by members of the union is low.
  - (iv) Ability to pay: When the ability of the employer to pay is high, the bargaining power of the employer is low. The reverse is the case when the ability to pay is low.
  - (v) Educational background, communication skills, persuasive ability and ability to dialogue: The bargaining power of labour union is high when their educational background, communication skills, persuasive ability and ability to dialogue is higher and vice versa when labour union members are of low educational background.
  - (vi) The Degree of solidarity: When the degree or extent of solidarity among the members of the trade union is high, their bargaining power is also high; the reverse is the case when the degree of solidarity is low.

## PATHFINDER

- (vii) **Ease of worker substitutability:** Where the ease with which workers can be replaced or substituted by other workers is high, the bargaining power of the labour union will be low. The reverse is the case if the ease of workers substitutability is low.
- (b) **Collective bargaining** is the process of negotiating the wages and other conditions of work between employers and trade unions. It enables the conditions of employment that would apply in a stated organisation for a stated period of time to be voluntarily agreed upon between the parties (the trade union and the employer). Thus, rather than each individual negotiating with his/her employer or the employer alone determining the conditions of employment, trade unions negotiate with employers on behalf of their members to determine the conditions of employment.

Collective agreement is the end result or outcome of collective bargaining. Collective agreement is a document which contains the terms that have been agreed upon between the trade union and the employer. Collective agreement must be signed by the parties to the agreement if it is to be binding on both parties. The components of collective agreement are procedural agreement and substantive agreement. Procedural agreement sets out the agreed responsibilities and duties of management and the union; the steps through which the parties can make joint decision and the procedure to be followed in the event of disputes. Substantive agreement deals with the substance of employer-employee relation in terms of wages and salaries, hours of work, holiday entitlements, pension etc.

### EXAMINERS' REPORT

The question tests candidates' knowledge of the determinants of the relative bargaining power of parties involved in collective bargaining. The second part of the question test candidates' understanding of the difference between collective bargaining and collective agreement. About 60% of the candidates attempted the question and performance was poor.

Candidates showed lack of understanding of the question. Majority of them were confused by the mention of inflation in the question and therefore proceeded to discuss the role of inflation in trade disputes. Some saw inflation as the reason for agitation for wage increases. Majority simply lacked knowledge of the concepts of collective bargaining and collective agreements.

Candidates are advised to cover the syllabus and be familiar with basic concepts. They are also advised to read questions critically before attempting them.

### QUESTION 5

## PATHFINDER

- (a) **Commercialisation** can be defined as the reorganization of commercial enterprises, wholly or partially owned by the government in which such enterprises shall operate as profit-making ventures without subvention and interference from the government.

**Privatization**, on the other hand, can be defined as the economic restructuring that involves the transfer of ownership interest and control from an enterprise hitherto public to private individuals, institutions and/or associations.

In other words, the government still retains its ownership of business ventures which are driven by profit motives under commercialization programmes whereas privatization involves the complete transfer of the ownership of such business to private individuals and institutions.

- (b) Possible benefits of the proposed privatization of **PHCN**

- (i) It will reduce the drain on government budget. This is because the government will not give subvention again to PHCN. Rather, the government will receive revenue from the sale of the company.
- (ii) Privatisation of PHCN is expected to enhance competition and bring about less government control in the power sector. This implies that bureaucracy and favouritism will be jettisoned in the appointment of qualified personnel to run the business.
- (iii) The privatization of PHCN will increase the quality of service delivery and improve the supply of electricity.
- (iv) The exercise will also lead to improvement in the employees' conditions of service in the privatized company which will now be driven by profit motive. This will facilitate the review of workers' salaries and wages in tune with what operates in the corporate sector in ways that can boost workers' morale and productivity.
- (v) Privatization of PHCN will stimulate domestic investment and further create employment opportunities in the power sector.

# PATHFINDER

## EXAMINERS' REPORT

The question tests the candidates' understanding of the concepts of Commercialization and Privatization of public enterprises. About 80% of the candidates attempted the question and performance was good.

### QUESTION 6

- (a) Budget deficit is when government total revenue is less than government expenditure. Thus, the budget deficit is the excess of government expenditures over government receipts (income).
- (b) **Ways by which government can finance its budget deficit**
- (i) **Taxation**  
This is the traditional source of income to the government. Government can finance its deficit through increase in tax rates thereby generating more revenue.
- (ii) **Internal Borrowing**  
Government can borrow from the Money and Capital Markets through the issue of such instruments like treasury bills and certificates as well as development bonds.
- (iii) **External borrowing**  
Government can borrow money from international financial institutions (e.g. IMF, IFC, Paris Club, AfDB, London Club, etc). Also, government may seek financial assistance from friendly countries in form of financial aids.
- (iv) **Printing Money**  
The Central Bank can simply credit its government account with the required amount of money to finance the deficit. This money is made-up by printing new currency to meet the budget deficit obligation.
- (v) **Withdrawal from External Reserves**  
The government can meet the shortfall in revenue from its external reserves. The government should use this approach as a last resort.
- (vi) **Sales of Assets**  
Government can also sell off some of its assets and properties to meet the shortfalls in revenue. This may also be a measure of last resort if all the other avenues of raising funds have failed or are insufficient.

# PATHFINDER

## EXAMINERS' REPORT

The question tests the candidates' understanding of the concept of budget deficit and the ways to finance government budget deficit. About 90% of the candidates attempted the question and performance was good.

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA  
FOUNDATION - NOVEMBER 2012  
CORPORATE AND BUSINESS LAW**

Time allowed - 3 hours

### SECTION A: Attempt All Questions

**PART I: MULTIPLE-CHOICE QUESTIONS (20 Marks)**

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

1. Which of the following is **NOT** a Nigerian statute?
  - A. Equity
  - B. Decree
  - C. Act of Parliament
  - D. Edict
  - E. Bye-law

2. The major aim of civil law is to

# PATHFINDER

- A. Punish the wrongdoer
  - B. Compensate the victim
  - C. Put both parties on record
  - D. Comply with the provisions of appropriate legislation
  - E. Ensure amicable settlement of disputes
3. Which of the following is **NOT** a condition for “fitness for purpose” required by the Sale of Goods Act?
- A. The buyer must have made known to the seller the particular purpose for which the goods are required.
  - B. The buyer must have bought the same type of goods from the seller before.
  - C. The buyer must have relied on the skill and judgement of the seller.
  - D. The goods must be the type which is ordinarily sold by the seller.
  - E. The goods must not have been sold under a patent or other trade name
4. Which of the following does **NOT** fall under general insurance business in Nigeria?
- A. Health insurance business
  - B. General accident insurance business
  - C. Fire insurance business
  - D. Engineering insurance business
  - E. Motor vehicle insurance business
5. Which of the following is the major difference between inferior and superior courts?
- A. Inferior courts are presided over by lay men
  - B. Superior courts are presided over by learned men
  - C. Inferior courts handle important matters
  - D. Superior courts handle Federal cases
  - E. Inferior courts have limited jurisdiction whereas superior courts generally have unlimited jurisdiction.
6. Which of the following is **NOT** a type of torts?
- A. Wrongs to the person
  - B. Wrongs to reputation
  - C. Wrongs to property

## PATHFINDER

- D. Injury to persons
  - E. Wrongs to government
7. Which of the following is **NOT** a situation where an offer may be terminated before acceptance?
- A. Where the offer is rejected by the offeree outright or by way of a counter offer.
  - B. When the offer does not bear the signature of the offeror
  - C. When the conditions attached to the offer remain unfulfilled
  - D. When the offer is revoked by the offeror, or the offeree makes acceptance impossible
  - E. When sufficient time has elapsed since the date of the offer to justify the inference that the offeree did not wish to accept it.
8. Which of the following contracts needs **NOT** be in writing?
- A. Contracts for the sale or disposition of land
  - B. Contracts for carriage of goods within the same town
  - C. Contracts to take a mortgage on a property
  - D. Contracts of guarantee
  - E. Moneylenders' contracts
9. An order which the court grants to restrain a breach of contract is called
- A. Interim order
  - B. Interlocutory order
  - C. Injunction
  - D. Enforcement order
  - E. A sanction.
10. Which of the following is **NOT** a condition for a valid ratification under agency law?
- A. The professed principal must be in existence at the time of the contract
  - B. The contract must be professedly made on behalf of an identified or identifiable principal
  - C. The principal must have enough money to finance the transaction
  - D. The professed principal must have had full knowledge of all the material facts of the contract at the time of ratification
  - E. Ratification must be made within a reasonable time
11. Which of the following is a description of existing goods?

## PATHFINDER

- A. Goods that existed before the contract of sale
  - B. Goods which the manufacturers had agreed to produce for the seller
  - C. Goods that the buyer had identified in the market
  - D. Goods owned or possessed by the seller at the time of sale
  - E. Goods which the government has classified as marketable
12. Which of the following is **NOT** a duty of the hirer?
- A. To accept delivery of the goods
  - B. To ensure that he gives a weekly report to the seller
  - C. To take reasonable care of the goods
  - D. To pay the instalments when due
  - E. To redeliver the goods to the owner or his agent, upon the termination of the hire purchase contract.
13. Which of the following is the meaning of re-insurance?
- A. The insurer insures the insurer's assets
  - B. The insurer's registration with the office of the Commissioner for Insurance
  - C. A reinsurance, effected by an insurer, on the same risk which was before insured, to indemnify the insurer
  - D. A new insurance with the government of the Federation
  - E. The insurer's insurance with a foreign insurer.
14. The Memorandum of Association of a company limited by shares must contain all the following **EXCEPT**
- C. The marital status of the subscribers
  - D. The name of the company with "Limited" as the last word
  - C. That the registered office of the company will be situating in Nigeria
  - D. The objects of the company
  - E. That the liability of the members is limited.
15. An act of a company which is considered as *ultra vires* is that which is not authorized by **ONE** of the following
- A. Subjects clause
  - B. Directors clause

## PATHFINDER

- C. Authorization clause
  - D. Shareholder's clause
  - E. Objects clause
16. Which of the following information is **NOT** among the particulars required for the registration of a partnership?
- A. The firm's name
  - B. The general nature of the business
  - C. The full name of each partner
  - D. The details of each partner's bank account
  - E. The principal place of business
17. Which of the following is **NOT** a negotiable instrument?
- A. Credit card
  - B. Dividend warrants
  - C. Treasury bills
  - D. Traveller's cheques
  - E. Bearer bonds.
18. Which of the following circumstances will **NOT** terminate the banker's authority to honour a customer's cheque?
- A. Notice of lunacy of the customer
  - B. Notice of presentation of a bankruptcy petition against the customer
  - C. Notice of an accident in which the customer is involved
  - D. Assignment of the balance in his account by the customer
  - E. Where the customer's credit balance in the bank is insufficient to cover the cheque
19. An undischarged bankrupt is **NOT** legally incapacitated to do **ONE** of the following
- A. To marry a wife
  - B. To be elected into an elective office
  - C. To be appointed to or to act in the office of a Justice of Peace
  - D. To be appointed as a trustee of a trust estate
  - E. To be admitted to serve on a governing board of a statutory institution
20. A director is not entitled to remuneration unless it is authorized by which of the following documents?
- A. The memorandum of association

## PATHFINDER

- B. The directors' manual
- C. The company's handbook
- D. The articles of association
- E. The shareholders' book

### PART II: SHORT-ANSWER QUESTIONS

(20 MARKS)

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

1. The cardinal rules of interpretation are literal rule, *Ejusdem generis* rule and .....
2. A tort which is committed against a person's reputation is called.....
3. An advertisement of auction sale and request for bids is an example of.....
4. State any **TWO** organs of government as contained in the Nigerian Constitution.
5. The person who has been sued in civil law is called.....
6. State the term of a contract which is minor or which is ancillary to a major term.
7. Which type of agency is created in an emergency without the opportunity to contact the principal and get his instruction?
8. State the type of principal involved in a situation where the agent has revealed his identity to the third party right from the inception of the transaction between them.
9. What is the legal maxim for the right of an unpaid seller of goods to retake and retain possession of the goods which are still on the way to the buyer?
10. Goods which may be subject matter of a contract of sale of goods may be either existing goods or.....
11. State the type of goods to which the Hire Purchase Act is applicable irrespective of the amount involved.

# PATHFINDER

12. Which type of fact in insurance law is of such a nature that it may influence a prudent insurer in determining whether or not he will accept the risk and if so at what premium and on what conditions?
13. What principle states that once a member of a company has fully paid for his shares, he cannot generally be made liable for the indebtedness of the company again?
14. What is the minimum authorised Share Capital of a Private Limited Liability Company as prescribed by Companies and Allied Matters Act LFN 2004?
15. Name the incorporation document which a legal practitioner must swear to in order to effect the registration or incorporation of a company.
16. When a shareholder dies, what is the legal term by which his shares are vested in another person?
17. Which type of partnership may have more than twenty members?
18. State the type of acceptance of a bill of exchange in which the bill is accepted "subject to the shipping vessel arriving from South Africa".
19. What is the minimum number of persons who must attest a will as witness(es)?
20. State any **TWO** certainties required for the creation of a valid trust.

## SECTION B: ATTEMPT ANY FOUR QUESTIONS

(60 Marks)

### QUESTION 1

- a. State **SEVEN** maxims of Equity (7 Marks)
- b. Under the Nigerian legal system, there are special courts created by statute to adjudicate on specific matters. State the courts that are created by law to handle the following matters:
  - i. Labour matters;
  - ii. Offences committed by infants;
  - iii. Election petitions (3 Marks)

# PATHFINDER

- c. Johanna and Florence live together in the same house. During a hot argument over a domestic matter, Johanna called Florence a thief. Florence wants to sue Johanna for libel. Advise them. (5 Marks)  
(Total 15 Marks)

## QUESTION 2

- a. Dickson is an illiterate. He entered into an agreement with Continental Bakery Limited to supply bags of flour at ₦15.00 per bag. Unknown to him, the written agreement, which he thumb-printed, read ₦10.00 per bag. He had supplied 1000 bags for which the company wants to pay the price in the written contract. Advise Dickson in the circumstances. (5 Marks)
- b. Johnson is 16 years old. He served as an apprentice barber at Okay Salon for two years. He paid the apprenticeship premium for only one year. Okay Salon wants to sue for the balance. Advise the parties. (4 Marks)
- c. Explain briefly **THREE** remedies for breach of contract. (6 Marks)  
(Total 15 Marks)

## QUESTION 3

Angela sells fresh fish and made an offer to Mike at a party. Mike undertook to let Angela know his mind by post, since Angela could be reached only by post.

On 2 March, Mike posted an acceptance letter to Angela which got to Angela the day after Angela had sold her fresh fish to Andrew on 5 March.

Mike wants to sue Angela for breach of contract.

### Required:

- a. Advise Angela as to whether or not she was bound to Mike by contract. (5 Marks)
- b. Does Mike have a valid case against Angela? Give reasons for your answer. (3 Marks)
- c. Is Andrew liable to Mike? State the reason for your answer. (2 Marks)

# PATHFINDER

- d. Explain briefly **TWO** differences between an “offer” and an “invitation to treat”. (5 Marks)  
(Total 15 Marks)

## QUESTION 4

- a. Chief Newton is responsible for the university education of Onome who then decides to insure Chief Newton’s life with Maxim Assurance Plc. The policy became effective on 2 March, but unknown to Onome and Maxim Plc, Chief Newton had died back in the village on the 28 February.

### Required:

Advise Onome as to whether or not she can sustain a claim under the policy, giving reasons for your advice. (10 Marks)

- b. Musa, an insurance agent employed by Baloon Insurance Limited, assisted Uche to complete an insurance policy proposal form.

### Required:

- i. Explain briefly whose agent Musa is in this situation (2 Marks)
- ii. Explain what is meant by “material fact” in relation to insurance contracts? (3 Marks)  
(Total 15 Marks)

## QUESTION 5

Lewis Adey, as company secretary, sends a notice of meeting dated 2 March to members for an Annual General Meeting scheduled for 30 March. The notices were sent out by Lewis on 12 March.

### Required:

- a. Comment on the validity of the notice. (7 Marks)

## PATHFINDER

- b. Explain **TWO** situations in which a general meeting of a company shall be deemed duly called notwithstanding that it is called by a shorter notice. (4 Marks)
- c. Explain briefly **TWO** businesses which a notice for a company's annual general meeting must specify. (4 Marks)
- (Total 15 Marks)

### QUESTION 6

- a. The objects of a company are contained in its incorporation document. Explain **FIVE** circumstances when a company may alter its businesses. (5 Marks)
- b. The shares of a company represent the unit of ownership in the company. State the difference between "transfer" and "transmission" of shares. (4 Marks)
- c. There are different ways by which a company may be wound-up. State **THREE** reasons why a company may be wound-up voluntarily. (6 Marks)
- (Total 15 Marks)

### SECTION A

#### PART 1: MULTIPLE-CHOICE QUESTIONS

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

# PATHFINDER

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

## EXAMINERS' REPORT

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

## PART 11 – SHORT ANSWER QUESTIONS

1. Mischief Rule/Golden Rule
2. Defamation
3. Invitation to treat
4. Legislature, Executive, Judiciary
5. Defendant
6. Warranty
7. Agency of necessity
8. Disclosed principal or named/identified principal
9. *Stoppage in transitu*
10. Future goods

# PATHFINDER

11. Motor Vehicles
12. Material fact
13. Limited liability
14. ₦10,000.00 (ten thousand naira)
15. Statutory declaration of compliance
16. Transmission of shares
17. Accounting firms; Law firms and Co-operative Societies
18. Conditional Acceptance
19. 2 (two)
20. Certainty of words, certainty of object, certainty of subject matter

## EXAMINERS' REPORT

The questions reasonably cover the syllabus and candidates' performance was generally good.

## SECTION B

### QUESTION 1

- (a) The maxims of Equity include the following:
- (i) Equity acts in personam
  - (ii) Equity does not suffer a wrong to be without a remedy
  - (iii) Equity follows the law
  - (iv) Equity looks at the intent rather than the form
  - (v) Equity looks on that as done which ought to be done
  - (vi) Equity imputes an intent to fulfill an obligation
  - (vii) Delay defeats equity
  - (viii) He who comes to equity must come with clean hands
  - (ix) He who seeks equity must do equity
  - (x) Where the equities are equal, the first in time prevails
  - (xi) Equality in equity
  - (xii) Where equities are equal, the law prevails

## PATHFINDER

- (b) Under the Nigerian legal system, special courts are established to adjudicate over special matters. For example:
- (i) Labour matters are adjudicated upon by the National Industrial Court.
  - (ii) Offences committed by infants are adjudicated upon by the Juvenile Court.
  - (iii) Election petition cases are handled by the Election Petitions Tribunal.
- (c) The issue involved in the case of Johanna and Florence is the tort of Defamation of character.

Defamation is the publishing of a statement which tends to lower a person in the estimation of right-thinking members of the society. Defamation may be either a libel, if the statement is published in a permanent form (e.g. in writing), or slander, if in spoken words.

Johanna called Florence a thief during a hot argument over a domestic matter. These were spoken words which did not involve a third party. Johanna's action therefore did not amount to a libel since it was not written or published in a permanent form. Thus, Florence cannot successfully sue Johanna for libel.

### EXAMINERS' COMMENTS

The question tests candidates' knowledge of the Maxims of Equity, Court System and the tort of determination.

Candidates understood the questions deeply and performance was good.

### QUESTION 2

- (a) The case in question involves an illiterate, who thought he entered into an agreement for a thing, only to discover later that the terms of the document he signed were different from what he agreed to.

Generally, if a contract has been reduced into writing, then the written contract, *prima facie*, represents the terms of the contract which the court would enforce.

## PATHFINDER

Also, as a general rule, oral evidence cannot vary or override a written contract.

However, the law (Illiterates Protection Act) accords an illiterate person a special protection based on certain conditions.

Where an illiterate has signed or thumb-printed a contract document, the writer must also have read over and explained the contents to the illiterate person as well as indicated on the document that the illiterate person signed or thumb-printed the document after it was explained him and he seemed perfectly to have understood the contents. In addition, Continental Bakery Limited, a party to the contract, ought not to have been the writer of the document.

Generally, a person is bound by the contents of a document signed by him whether he has read it or not. However, where he is induced by deceit, fraud or misrepresentation to sign a contract which he contemplated, he is allowed under the law to deny the validity of the contract by pleading non est factum (i.e. it is not his deed) – *Foster v. Mackinnon* (1869).

In the particular case given, Dickson the illiterate negotiated with Continental Bakery for ₦15.00 per bag. By error or fraud, when the contract was written by Continental Bakery Limited, ₦10.00 per bag was inserted. Dickson did not realise that when he thumb-printed the agreement and went ahead to supply the goods.

Since there was no evidence that the contract document was read over and interpreted to Dickson after it was drawn by Continental Bakery Limited, but before Dickson thumb-printed, Dickson would successfully claim protection under the Illiterates Protection Act; moreover, when Continental Bakery Limited is the other party to the contract.

Dickson can also plead non est factum in the circumstance.

Thus, Dickson will succeed in claiming ₦15.00 per bag which he actually contracted for instead of ₦10.00 inserted into the contract.

- (b) At the age of 16, Johnson is an infant. The Law is that an infant is not bound by a contract entered into by him unless it is for necessities, or a beneficial contract of service.

An infant is bound by contracts for necessities (*Peter V. Fleming*, 1840) and beneficial contracts of service; i.e. contracts of apprenticeship or one which

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on the whole is for his benefit (*De Francesco V. Barnun* 1840). However, he is required to pay a reasonable price only.

Johnson is involved in a contract of apprenticeship which is a beneficial contract for which he is liable as an infant. Okay Salon can therefore successfully sue Johnson for the balance, or outstanding apprenticeship premium.

- (c) A breach of contract occurs where one party repudiates his obligation, or fails to perform his part of the contract, or acts in a way that disables him from performing his part of the contract.

Generally, a breach of contract will attract remedies in favour of the injured party. The remedies for breach of contract are:

- (i) Damages:

This is a common Law remedy which compensates the person whose legal right has been infringed by the party in breach. It seeks to put the party whose right has been infringed in the same position as if the contract had been performed, as far as financial compensation could, provided the damage is not too remote (*Hadley v. Bazendale*, 1854). Damages for breach are compensatory and not intended to punish the defendant.

- (ii) Rescission:

Rescission is an equitable remedy and is available in a number of circumstances. For example, it is available to a party injured by breach of a vital stipulation in the contract e.g. a condition. Secondly, it is available to a party injured by the misrepresentation of the other. Thirdly, it is available where a contract is vitiated by mistake.

- (iii) Specific Performance:

This is an equitable remedy. It is an order issued by the court compelling the defendant to perform his obligation under the contract.

- (iv) Injunction:

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An injunction is also an equitable remedy. It is an order by the court restraining a person from committing a breach of a contract.

(v) **Quantum Meruit Compensation:**

A party can claim on a quantum meruit (“as much as he deserves”) in a variety of circumstances; for example, where work is done in partial performance of a contract which is severable or divisible, or where work is done under a contract discharged by the default of the defendant, or where work is done under a void contract.

## EXAMINERS’ REPORT

The question tests candidates’ knowledge of legal protection of illiterates, contracts that are binding on Infants and remedies for breach of contracts.

The questions were well-attempted and candidates’ performance was good.

## QUESTION 3

This question raises the issue of when acceptance of an offer communicated by post, takes effect.

The position of the law is that, where the post is envisaged as the means of communication, acceptance takes effect from the moment the letter of acceptance is posted, provided it is properly addressed and stamped (Household Fire Insurance Co. Vs Grant (1879)).

Accordingly, since Mike posted his letter of acceptance on 2 March, a contract came into being between Mike and Angela on that date, even if the letter had been lost in the post.

- (a) The advise to Angela, is that, she had become bound in contract to Mike for the supply of fresh fish as at 2 March. She is therefore liable for breach of contract.
- (b) The understanding of the parties was that acceptance must be by post, since Angela could be reached only by post. Since Mike posted his acceptance letter before Angela sold the fresh fish, Mike therefore has a valid case against Angela.

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- (c) Based on the principle of privity of contract, Andrew is not liable to Mike for buying the fresh fish from Angela, as he is entirely a stranger to the transaction between Mike and Angela.
- (d) Differences between an offer and invitation to treat include the following:
- i. An offer is a definite promise or undertaking made by one party to another with the intention that as soon as the other party to whom it is addressed accepts, it shall become binding on the party making the promise or undertaking. Invitation to treat is a mere request to the other party to make an offer.
  - ii. The acceptance of an offer binds the offeror in contract, whereas the reaction to an invitation to treat leaves the contract still at negotiation stage.
  - iii. An offer is definite and unequivocal, whereas an invitation to treat, being a preliminary move, is not definite but open to equivocation.

## EXAMINERS' REPORT

The question tests candidates' knowledge of the law on acceptance by post, as well as the distinction between an offer and an invitation to treat.

This is an area of the Law of Contract in which students are well-grounded. Candidates' performance was very good.

## QUESTION 4

- a. This question raises the issue of the effect of common mistake on a contract of insurance.

The position of the law is that, common mistake by contracting parties in respect of the subject-matter of a contract renders the contract void.

In the present case, Onome has sufficient insurable interest in the life of Chief Makinde who pays her school fees.

However, because of the death of Chief Makinde before 2 March when the contract of insurance was entered into, the subject-matter of the policy had failed, thus rendering the contract a nullity.

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The contract therefore is void; and as a result, there is nothing upon which Onome could base a claim.

- b. The Insurance Act provides that an insurance agent who assists an applicant to complete an application or proposal form for insurance shall be deemed an agent of the applicant.
- (i) Therefore, in this situation, Musa is an agent of Uche and not of his employer, Baloon Insurance Ltd.
- (ii) Material facts in relation to insurance contracts are all facts material to the risk in the particular insurance contract, and which would influence the judgment of a prudent insurer to accept or reject the risk, and in fixing the amount of premium. Non-disclosure by the applicant of any material fact renders the insurance contract voidable at the instance of the insurer.

## EXAMINERS' REPORT

The question tests candidates' understanding of common mistake, meaning of insurance agents and material fact in insurance contracts.

A few candidates attempted the question and their performance was below average.

Major pitfall of candidates was their very shallow knowledge of the topic.

Candidates are advised to study harder for future examinations.

## QUESTION 5

- (a) This question relates to the annual general meeting of companies and the length of notice required by statute for summoning it.

The Companies and Allied Matters Act Cap C20 Laws of the Federation of Nigeria 2004 provides that the notice required for all types of companies' general meetings shall be twenty-one days from the date the notice is sent.

In the present case, although the notice was dated 2 March, it is invalid with respect to the meeting scheduled for 30 March, because the relevant date for computation of time is the date the notice is sent which, in this case, is 12 March. The notice is therefore for 19 days, which is two days short of the period required by the Act.

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(b) A company's general meeting shall be deemed duly called notwithstanding that it is called by a shorter notice when:

- (i) It is called as the Annual General Meeting by all members entitled to attend and to vote at such meeting.
- (ii) It is called as any other meeting by a majority of members who together hold not less than 95% of the nominal value of the company's shares with rights to attend and vote (Section 217, Companies and Allied Matters Act).

(c) The two businesses which a notice of the Annual General Meeting of a company may specify are:

(i) Ordinary Business:

The items that fall within the ordinary business as specified by Section 214 of the Companies and Allied Matters Act are:

- Consideration of the financial statements of the company
- Declaration of dividend
- Election of directors in place of those retiring
- Appointment of auditors
- Election of members of the audit committee

(ii) Special Business

This is for the consideration of other items apart from those listed above under ordinary business. Such items include:

- Change of name of the company
- Alteration of the memorandum and articles of association of the company
- Change of the share capital of the company, etc

## EXAMINERS' REPORT

The question tests candidates' knowledge of the rules guiding notices and businesses of companies at general meetings. A few candidates attempted the question and their performance was poor.

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The commonest pitfall was their inadequate understanding of the question.

Candidates' performance was generally below average, probably as a result of inadequate preparation for the exam.

Candidates should study harder in future.

## QUESTION 6

(a) A company may alter its businesses for any of the following reasons:

- (i) To carry on its business more economically or more efficiently.
- (ii) To enlarge or change the local area of its operation
- (iii) To attain its main purpose by new or improved means
- (iv) To carry on some businesses to complement the business of the company
- (v) To restrict or abandon any of the businesses specified in the memorandum of association
- (vi) To sell or dispose of the whole or any part of the undertaking of the company
- (vii) To amalgamate with any other company or body or persons

(b) Transfer and transmission of shares are different things in company law.

Transfer of shares occurs by the voluntary act of the shareholder, either by sale or gift.

Transmission of shares occurs by the operation of law, e.g. on the death or bankruptcy of a shareholder.

(c) A company may be wound-up voluntary for the following reasons:

- (i) When the period, if any, fixed for its duration by the articles of association expires:
- (ii) The event, if any, occurs on the occurrence of which the articles provide that the company is to be dissolved.
- (iii) If the company resolves by special resolution that it be wound-up voluntarily
- (iv) If the company passes an ordinary resolution that it cannot by reason of its liabilities continue in business, and that it is advisable to wind up.

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- (v) If by the introduction of new policies by the Government, the business of the company becomes illegal.

## EXAMINERS' REPORT

The question tests candidates' knowledge of the rules guiding alteration of business clause, share transfer and transmission as well as winding up of companies under the Companies and Allied Matters Act.

Candidates displayed good understanding of the question and performance was very good.