THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

PATHFINDER

MAY 2013 PROFESSIONAL EXAMINATION I

Question Papers

Suggested Solutions

Plus

Examiners' Reports

FOREWORD

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

(i) Candidates preparing to write future examinations of the Institute of Chartered Accountants of Nigeria (ICAN).

(ii) Unsuccessful candidates in the identification of those areas in which they lost marks and need to improve their knowledge and presentation.

(iii) Lecturers and students interested in acquisition of knowledge in the relevant subjects contained herein, and

(iv) The profession in improving pre-examinations and screening processes, and so the professional performance of candidates.

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

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

NOTES

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

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

PROFESSIONAL EXAMINATION I - MAY 2013

INFORMATION TECHNOLOGY

Time Allowed: 3 hours

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

ATTEMPT ALL QUESTIONS

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

1. The following are examples of Optical Disk Technology **EXCEPT**

   A. Disk Cartridges
   B. Compact Disk Read-Only Memory
   C. Digital Video Disk
   D. Digital Versatile Disk
   E. Optical Character Reader

2. Which of the following is used by the LaserJet printer for printing of a hardcopy?

   A. Ink
   B. Cartridge
   C. Ribbon
   D. Toner
   E. Disk

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

   A. Speed
   B. Accuracy
   C. Control
   D. Precision
   E. Security

4. A PDA (Personal Digital Assistant) is an example of .... computers.

   A. Desktop
   B. Floor –Standing
   C. Notebook
   D. Handheld
   E. Mini

5. A telecommunication hardware device that routes incoming data from any one of many input ports to a specific output port that will take the data towards its intended destination is known as

   A. Switch
   B. Hub
   C. Router
   D. Gateway
   E. Bridge

6. Which of the following is **NOT** a data processing method?

   A. Batch processing
   B. On-line processing
   C. Direct processing
   D. Distributed processing
   E. Multiprogramming

7. A software that supports the processes used to track and organise its contacts with its current and prospective customers is known as

   A. Supply Chain Management Software
   B. Customer Relationship Management Software
   C. Asset Management Software
   D. Human Resources Management Software
   E. Distribution and Logistics Software

8. All the following are advantages of a Client-Server network **EXCEPT**

   A. Resources and data security are controlled through the server
   B. Any or all elements can be replaced individually as needs arise
   C. New technology can be easily integrated into the system
   D. Server can be accessed remotely and across multiple platforms
   E. It is not expensive

9. Streams of raw facts representing events occurring in an organisation before they are organised and arranged into a useful form is called

   A. Byte
   B. Data
   C. Database
   D. File
   E. Information

10. Which of the following is a System Software?

   A. Medical System Software
   B. Educational System Software
   C. Operating System Software
   D. Databases System Software
   E. Business System Software

11. Which of the following is **NOT** a type of network?

   A. Client- server network
   B. Network computing
   C. Wireless remote administration
   D. Local Area Network
   E. Remotely controlled system

12. Benefits that can be quantified reasonably are called

   A. Intangible benefits
   B. Tangible benefits
   C. Current benefits
   D. Operational benefits
   E. Reasonable benefits

13. The following are forms of Data Integrity **EXCEPT**

   A. Domain Integrity
   B. Entity Integrity
   C. Referential Integrity
   D. Relationship Integrity
   E. User-defined integrity

14. The following are information processing controls **EXCEPT**

A. Run Control Totals
B. Computer Matching
C. Reasonableness Check
D. Consistency Check
E. Hardware Check

15. The proactive IT risk management involves the following processes **EXCEPT**

A. Security Modelling
B. Virtual Simulation
C. Business Impact Analysis
D. Mitigation Planning and Change Assurance
E. Evaluation Planning

16. Which of the following is **NOT** a COBIT component?

A. Management Guideline
B. Framework
C. Control Objectives
D. Acceptable Residual Risk
E. Audit Guidelines

17. The following are **TRUE** of key drivers for GPRS **EXCEPT**

A. Potential revenue increase
B. Retention of current subscribers
C. Ease of adapting application
D. Gaining new subscribers who require mobile data service
E. Cost increase due to inefficient use of network resources

18. A successful website exhibits the following features **EXCEPT**

A. Information design
B. Graphics design
C. Web browser
D. User friendliness and accessibility
E. Web content

19. The following are computer crimes **EXCEPT**

    A. Impersonation
    B. Computer viruses
    C. Spoofing
    D. Spooling
    E. Scavenging

20. Unicode, ASCII, EBCDIC are examples of

    A. Two Schemes
    B. Binary Coding Schemes
    C. Decimal Coding Schemes
    D. Binary Systems
    E. Decimal Systems

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

ATTEMPT ALL QUESTIONS

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

1. A computer device that allows users to issue commands or make choices by moving a cursor on the display screen is called...

2. An information system that imitates the decision making ability of human experts is called...

3. A software that creates text-based documents such as reports and letters is called....................................... software.

4. A computer that processes both analog and digital data is called .... computer.

5. A set of equipment and facilities that share common communication media such as cables and MODEM in order to provide services is known as...........................

6. An information system that performs the recording and processing of daily routine transactions generated through the occurrence of business activities is..

7. Physical transfer of data from source to destination is known as......................

8. The ability to detect the presence of errors caused by noise or other impairments during transmission from the transmitter to the receiver is called...

9. The major types of system softwares are........................, utility software and language processors.

10. The type of operating system designed to be used on a 'stand-alone' PC is called..

11. The document used to support the training of users and provide them with a reference guide during system operation is called.......................... manual.

12. Parallel running which is a form of changeover is a task performed during ....stage in Systems Development Life Cycle (SDLC).

13. An activity in IT Risk Assessment is to identify the vulnerabilities and.................

14. The process of determining mitigation strategies is called................................

15. In IT environment, business managers are authorised to accept risk on behalf of...

16. The consistency and accuracy of the saved data is referred to as......................

17. Electronic retailing of products and services directly to individual consumers is known as..................................

18. The system of sending and receiving messages by computer is called..................

19. In Cloud Computing, presenting a set of computing resources so that they can all be accessed in ways that are not restricted is known as........................

20. The technology that allows an electronic device to exchange data wirelessly using radio waves is referred to as...

SECTION B: ATTEMPT QUESTION ONE AND ANY OTHER THREE QUESTIONS
(60 Marks)

QUESTION 1

CASE STUDY

An Agro-Allied Business Venture that specialises in Feed production decided to computerise the processes involved in feed production in order to meet the requirements of its teeming customers. At the beginning, the computer system performed well and the customers were satisfied with the services they received from the organisation.

Demand for feeds started to increase by leaps and bounds, the turnover of the organisation also grew to match with the increased demand. This brought huge profits.

Some of the distributors made allegations of uncredited payments after they had examined their monthly statements of accounts.

At the same time, the management alleged that some distributors did not make good their accounts within the specified credit periods. The company management then decided to minimise or prevent leakages in the finances of the organisation by upgrading its accounting system. A computer security consultant was invited to carry out a comprehensive investigation and provide an alternative system that will improve on the existing system.

You are required to:

a. Identify **TWO** challenges that could have led to leakages in the finances of the organisation. (4 Marks)

b. List and explain **THREE** ways of resolving the above challenges. (6 Marks)

c. Enumerate **FIVE** other IT challenges not associated with the leakages in the finances of the organisation. (5 Marks)
(Total 15 Marks)

QUESTION 2

A major component of the computer system is the input device.

You are required to:

a. Explain Direct Input devices and give **THREE** examples. (5 Marks)

b. Explain Indirect Input devices and give **THREE** examples. (5 Marks)

c. Explain what is meant by an I/O device for microcomputers and give **TWO** examples. (3 Marks)

d. State **TWO** examples of equipment that use the magnetic strip technology.

(2 Marks)
(Total 15 Marks)

QUESTION 3

Ezek-Mike Limited in Abuja is worried about the security of her computer systems and data files. The company seeks your advice on what to do.

You are required to:

a. Explain the term “Authentication”. (2 Marks)

b. Describe any **THREE** password syntax rules that end-users may use to create passwords. (6 Marks)

c. i. What is an Anti-Virus Software? (2 Marks)

ii. List any **FIVE** methods to identify malware using Anti-Virus Software?
(5 Marks)
(Total 15 Marks)

QUESTION 4

In any business, there is need to have a good relationship with customers to be able to retain customers’ loyalty:

You are required to:

a. List and explain **FOUR** types of Customer Relationship Management (CRM) processes. (12 Marks)

b. Explain the use of Sales Force Automation (SFA) System. (3 Marks)

(Total 15 Marks)

QUESTION 5

a. Explain the following terms:

i. Windows
ii. Worksheet in an electronic spreadsheet
iii. Workbook
iv. Cell (8 Marks)

b. i. List **FOUR** operations performed on the worksheet. (4 Marks)

ii. State any **THREE** basic operations performed on the windows.3 Marks)

(Total 15 Marks)

QUESTION 6

a. Define IT Risk Assessment. (3 Marks)

b. Enumerate **FIVE** activities that will be involved in assessing identified IT risks. (5 Marks)

c. List **FIVE** benefits to be derived in assessing identified IT risks. (5 Marks)

d. Enumerate **TWO** ways of dealing with identified IT risks. (2 Marks)

(Total 15 Marks)

SOLUTIONS TO SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

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

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

EXAMINERS' REPORT

This group of questions tests candidates' general knowledge of the entire syllabus.

The questions cover almost every aspect of the syllabus.

The solutions are multiple options in nature and the performance was good as over 60% of the candidates scored over 50% of the allocated marks.

Most of the questions were well understood by the candidates.

PART II SHORT-ANSWER QUESTIONS

1. Pointing Device /Mouse

2. Expert System/Artificial Intelligence

3. Word processing
4. Hybrid
5. Communication Network
6. Transaction Processing Systems (TPS)
7. Data Transmission
8. Error Detection
9. Operating System
10. Single –user 0. S
11. User/ Operation
12. Implementation
13. Threats
14. Control Analysis
15. Organisation
16. Data Integrity
17. Business-To- Customer (B2C)
18. E-mail
19. Virtualisation
20. Wireless Fidelity (Wifi)/WIMAX/GPRS/EDGE

EXAMINERS' REPORT

This group of questions tests candidates' general knowledge of the entire syllabus. The questions cover almost every aspect of the syllabus. The expected solutions are single technical terms or short technical phrases. Performance was poor as less than 40% of the candidates scored over 50% of the allocated marks.

The major pitfall was the candidates' inability to give the necessary technical terms required by the questions. The candidates are advised to prepare very well for future examinations.

SOLUTIONS TO SECTION B

QUESTION 1

a. **Challenges that could have led to leakages in the finances of the organisation include:**

(i) Vulnerability of the computer system used
(ii) Increase in volume of transactions
(iii) Inappropriate accounting package/software
(iv) Inadequate data capturing system
(v) Poor control system
(vi) Insincerity of staff

b. **Some of the ways of resolving the above challenges include:**

(i) Provision of appropriate security measures in the computer system. Examples of these are measures to ensure data validity, authentication and non-repudiation. Introduction of these measures will bring data integrity and system reliability.

(ii) Upgrading of the systems (hardware and software) or providing a more robust accounting system. This is an attempt to expand the capacity of the existing Information Technology System to cope with the growing volume of work in the organisation.

(iii) Segregation of duties/rotation of staff: These can be used to address the challenge of insincerity of staff. It means that a transaction would not be concluded by a single staff. There will be segregation of job to allow more people to be involved in the processing. Staff will also be moved from one aspect of a job to another, on a rotational basis.

(iv) Effective and adequate (physical and logical) control measures should be put in place.

This is to ensure that adequate and effective controls are introduced to detect and correct any anomalies. It includes the use of exception report, error detection control and parity check.

(v) Provision of more data entry points: More data entry points could also be introduced to ease congestion and to address the issue of increase in transactions.

(vi) A robust and effective accounting package should be used. The package should also be updated and customised to meet peculiar needs of the organisation.

(c) **Other information technology challenges not associated with leakages in the finances of the organisation are:**

(i) Virus attack
(ii) System malfunctioning
(iii) Computer - related crimes e.g Hacking, Scavenging, Impersonation eavesdropping.
(iv) Non-committed staff
(v) Natural disaster
(vi) Network shutdown

EXAMINERS' REPORT

This question is a case study and it tests candidates knowledge on the challenges that may emanate from an accounting information system being used by an organization that led to leakages in its finances and methods of resolving such leakages.

Most candidates did not have a clear understanding of the question as they could not properly identify the challenges and hence could not proffer the expected solutions to the leakages in the finances of the organization.

The performance was poor as less than 40% of the candidates scored above 50% of the allocated mark.

The major pitfall was that most candidates were using residual knowledge to answer the question.

The candidates are advised to read a Case Study question properly, in order to better identify what the examiners expect, before attempting to answer it.

QUESTION 2

(a) Direct input devices are devices that accept data in machine readable form i.e interface with the computer system without any intermediary. Examples include:

(i) Keyboard
(ii) Mouse
(iii) Light pen
(iv) Joy stick
(v) WebCam
(vi) Touch Screen
(vii) Scanner

(b) Indirect input devices are devices that accept data into the computer system through the help of intermediate devices. Examples include:

(i) Barcode Reader
(ii) Optical Mark Reader
(iii) Punch Card machine
(iv) Optical Character Reader
(v) Magnetic Ink Character Reader

(c) Input–Output (I/O) device is a device that is used for both input and output of data into and from the computer system respectively. Examples are:

- (i) Visual Display Unit (VDU)
- (ii) Touch Screen
- (iii) Certain Storage devices e.g flash, tape, Disk (read-write)
- (iv) Web Cam

(d) **Examples of Magnetic Stripe Technology include:**

- (i) ATM Card
- (ii) Debit Card
- (iii) Credit Card
- (iv) Point of Sales (POS).

EXAMINERS' REPORT

This question tests candidates knowledge in identifying and defining direct and indirect input devices of microcomputers. It also tests candidates knowledge in recognizing some devices that can serve as both input and output.

The question was attempted and well understood by most candidates. Performance was good as over 60% of the candidates scored over 50% of the allocated mark.

The major pitfall was that many candidates could not identify I/O devices as those which can be used both for data input and output of results.
The candidates are advised to read widely in preparing for future examinations.

QUESTION 3

(a) Authentication is the process of providing one's identity to a computer facility or any process by which one verifies that someone is who he claims to be.

(b) **Password syntax rules should:**

- (i) not be less than six characters in length
- (ii) contain a combination of alphanumeric and special characters.
- (iii) be changed regularly
- (iv) not be particularly identifiable with the user
- (v) be easily remembered.

(c) (i) Anti-Virus Software is a computer software used to identify, prevent and remove computer virus as well as any other types of harmful computer software called malware.

(ii) Methods of identifying malware are:

- Signature Based Detection
- White Washing
- Malicious Activity Detection
- Henristics-Based Detection
- File Analysis
- File Emulation

EXAMINERS' REPORT

This question requires candidates to explain the term authentication and to know the use of Antivirus Software as well as methods of identifying malware using Antivirus Software.

About 80% of the candidates attempted this question and the performance was good as over 50% of the candidates that attempted it scored over 50% of the allocated mark.

The major pitfall was that many candidates stated the methods of identifying malware attack instead of the methods of detecting malware with the use of Antivirus Software.

The candidates are advised to read widely for future examinations.

QUESTION 4

(a) Types of Customer Relationship Management (CRM) processes include:

(i) Operational CRM provides support to front office business processes e.g sales, marketing and service staff. Customer contact histories are made from interactions with customers and so staff can retrieve customer information as required.

It eliminates the need for staff obtaining information individually. Operational CRM processes customer data for a variety of purposes:

- Managing costs
- Enterprise Marketing Automation
- Sales Force Automation
- Sales Management System

(ii) Analytical CRM- analyses customers' data for a variety of purposes and generally makes heavy use of data for:

- Designing & executing targeted marketing campaigns

- Designing and executing campaigns, e.g customer acquisition, Cross-selling, Up-selling, Switch-sellng.
- Analysing customer behaviour to make decisions relating to products and services

- Management information system (e.g financial forecasting and customer profitability analysis)

(iii) Sales Intelligence CRM- This is similar to Analytical CRM, but is intended as a more direct sales tool. Features include alerts sent to sales staff
regarding:

- Cross-selling /Up-selling /Switch-selling opportunities.
- Customer drift
- Sales performance
- Customer trends
- Customer margins
- Alignment

(iv) Campaign Management- This combines elements of Operational and Analytical CRM and its functions include:

- Targeting groups formed from the client base according to selected criteria

- Sending campaign-related material, to selected recipients

- Tracking, storing and analysing campaign statistics including tracking responses and analysing trends

(v) Collaborative CRM- This covers aspects of a company's dealings with customers that are handled by various departments within a company such as sales, technical support and marketing.

Staff from different departments can share information collected when interacting with customers. Collaborate CRM's ultimate goal is to use information collected by all departments to improve the quality of services provided by the company.

(vi) Consumer Relationship CRM- This covers aspects of a company's dealing with customers handled by the Consumer Affairs and Customer Relations Contact Centres within a company.

Representatives handle in-bound contacts from anonymous consumers and customers.

Early warnings can be issued regarding product issues and current consumer sentiments can be tracked.

(b) **USE OF SALES FORCE AUTOMATION (SFA)**

Systems Sales Force Automation are information systems used in marketing and management that help automate some sales and sales force management functions. They

- help sales staff to increase their productivity by focusing sales efforts on the most profitable customers and those who are good candidates for sales and services.
- are frequently combined with a Marketing Information System.

EXAMINERS' REPORT

The question tests candidates' understanding of the Customer Relationship Management processes in a business environment. Only few candidates attempted this question.

The performance was poor as less than 40% of the candidates scored above 50% of the allocated mark.

The major pitfall was that the candidates displayed lack of adequate preparation for the examination. Students are advised to always depend on technical details for such common questions.

QUESTION 5

(a) (i) Windows is a graphical user interface which is object –oriented that allows users to interact with electronic devices.

(ii) Worksheet is the rectangular grid of rows and columns, the columns identified by letters and the rows identified by numbers.

(iii) Workbook is a collection of related worksheets.

(iv) Cell is the intersection of a row and a column i.e it is a place where data values can be entered.

(b) (i) **Operations performed on the worksheet include:**

- Renaming a worksheet
- Sorting
- Inserting a worksheet
- Arithmetic Operations
- Deleting a worksheet
- Logic operations

(ii) **Basic operations performed on windows include:**

- Opening Icons
- Highlighting Icons
- Dragging Icons
- Menu pull down

EXAMINERS' REPORT

This question tests candidates' understanding of some terminologies on electronic spreadsheet, particularly the operations performed on the worksheet and the windows.

Almost all the candidates attempted this question and the performance was good as over 60% of those who attempted the question scored over 50% of the allocated mark.

The pitfall was that many candidates took the operations on windows as the same as those performed on the worksheets. Operations on windows are distinctly different from operations on worksheets.

Students are advised to note the above major difference between the operations performed on windows and worksheet.

QUESTION 6

(a) IT Risk Assessment is a method of identifying vulnerabilities and threats to information systems and assessing the possible damage to determine where to implement security safeguards.

(b) **Activities involved in assessing identified risks include:**

- Identifying assets and values
- Identifying the vulnerabilities
- Identifying the threats
- Analyse risk qualitatively
- Analyse risk quantitatively
- Selecting and implementing alternative measures

(c) **Benefits to derive in Assessing identified IT risks include the following:**

- It ensures that security is cost effective
- It ensures that security is relevant
- It ensures that security is timely and promptly
- It ensures that security is responsive to threats
- It provides a cost/benefit comparison
- It integrates the security program objectives with the company's business objectives and requirements.
- It provides an economic balance between the impact of the threats and the cost of the counter measures.

(d) **Ways of dealing with identified IT risks include the following:**

- Mitigation
- Transference
- Acceptance
- Avoidance
- Elimination

EXAMINERS' REPORT

The question tests candidates' understanding of IT Risk Assessment by requesting for the explanation of IT Risk Assessment, the activities involved and the identification of IT risks.

Many candidates attempted this question but they showed very poor understanding which resulted in very poor performance.

Less than 40% of the candidates scored over 50% of the allocated mark.
Candidates are advised to read widely.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

PROFESSIONAL EXAMINATION I - MAY 2013

MANAGEMENT ACCOUNTING

Time Allowed: 3 hours

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

ATTEMPT ALL QUESTIONS

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

1. The application of cost measures to expected activity levels to forecast future costs is known as Cost

   A. Prediction
   B. Analysis
   C. Benefit Analysis
   D. Measurement
   E. Reduction

2. Which of the following is **NOT** a method that can be used to separate a mixed cost into its fixed and variable elements?

   A. High and Low method
   B. Regression Analysis method
   C. Scattered graph
   D. Least Squares method
   E. Learning Curve

3. The constant effort to eliminate waste, reduce response time, simplify the design of both products and processes, and improve quality and customer service is called

   A. Continuous improvement
   B. Value for money
   C. Process design
   D. Product design
   E. Process review

4. The overall recognition of the importance of cost relationship among the activities in the value chain and the process of managing those cost relationships to a firm's advantage are called

   A. Cost Control Analysis
   B. Strategic Cost Management
   C. Cost Reduction Analysis
   D. Value Chain Analysis
   E. Strategic Management Control

5. The budgeted sales information for Zubair Ltd. for the quarter ended March, 2012 is as follows:

	January	**February**	**March**
Budget sales	₦450,000	₦600,000	₦720,000

   Company's policy on Sales and receivables is as follows:
   Cash sales - 40% of sales
   Receivables Receipt:
   Month of sales - 60% of credit sales
   Month following sales - 39% of credit sales
   Balance - Bad debt

   What is the total receipt for March 2012?

   A. ₦270,000
   B. ₦288,000
   C. ₦547,000
   D. ₦687,600
   E. ₦720,000

6. When preparing a sales budget, the quantity to be sold equals

   A. Production Quantity + Opening Stock – Closing Stock
   B. Production Quantity – Opening Stock + Closing Stock
   C. Production Quantity – Opening Stock – Closing Stock
   D. Production Quantity + Opening Stock + Closing Stock
   E. Production Quantity – Opening Stock

7. A computer-based planning model, which assumes certainty by using single-point estimates, is known as .... model.

   A. Probabilistic
   B. Optimisation
   C. Simulation
   D. Deterministic
   E. Decision Package

8. A budgetary approach which incorporates continuous improvement is known as

   A Activity-based budgeting
   B. Kaizen budgeting
   C. Flexible budgeting
   D. Rolling budgeting
   E. Zero-based budgeting

Use the information below to answer questions 9 and 10.

Sandah has two projects which he intends to embark on. The data below relate to the two projects:

Project A		Project B	
Prob.	Profit	Prob.	Profit
	₦		₦
0.8	10,000	0.1	(4,000)
0.2	12,000	0.2	10,000
		0.6	17,000
		0.1	16,000

9. What is the expected value of returns for project A?
   A. ₦2,400
   B. ₦5,200
   C. ₦5,600
   D. ₦8,000
   E. ₦10,400

10. What is the expected value of returns for project B?

A. ₦(400)
B. ₦400
C. ₦11,000
D. ₦11,600
E. ₦13,400

11. Risk adjusted discount rates for a company can be determined using

A. Net Present Value
B. Internal Rate of Returns
C. Capital Rationing
D. Capital Asset Pricing Model
E. Accounting Rate of Returns

12. The sales demands of product Kumah and their corresponding probabilities are as follows:

20,000 units	0.3
40,000 units	0.4
100,000 units	0.2
200,000 units	0.1

Selling price per unit is ₦20 while variable cost is ₦6. What is the total contribution of the product?

A. ₦62,000
B. ₦372,000
C. ₦434,000
D. ₦868,000
E. ₦1,240,000

13. Environmental cost management can be classified severally **EXCEPT** environmental ………………… costs.

A. prevention
B. assumption
C. Evaluation

D. internal factor
E. external factor

14. Which of the following is **NOT** a method of transfer pricing?

A. Member-based transfer
B. Economic-based transfer
C. Full cost transfer
D. Marginal cost transfer
E. Negotiated transfer

15. Another name for tear-down analysis is

A. Reverse engineering
B. Value engineering
C. Value analysis
D. Functional analysis
E. Value chain analysis

16. Just-In-Time (JIT) seeks to achieve the following goals **EXCEPT**

A. Elimination of non-value added activities
B. Zero inventory
C. 100% on time delivery service
D. Defined batch sizes
E. Zero defect

17. The Markov Chain Analysis can be used under following circumstances **EXCEPT**

A. Brand switching behaviour
B. Market share analysis
C. Aggregate scheduling
D. Bad debts predictions
E. Dividend analysis

18. Which of the following is the formula for determining learning curve effect?

Note that symbols bear their usual meanings.

A. $y = Qh$
B. $y = a + bx$
C. $y = ax^b$
D. $y = x^b$
E. $y = a + bx + u$

Use the following data to answer questions 19 and 20:

Mangoli Limited provides you with the following details:

	Output Units (x)	Input Cost (₦) (y)
High level	6,000	36,000
Low level	4,000	26,000

19. What is the total fixed cost?

A. ₦6,000
B. ₦7,500
C. ₦9,000
D. ₦11,000
E. ₦13,000

20. What is the total cost function?

A. $y = 6{,}000 + 5x$
B. $y = 7{,}500 + 8x$
C. $y = 9{,}000 + 5x$
D. $y = 11{,}000 + 6x$
E. $y = 13{,}000 + 10x$

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

ATTEMPT ALL QUESTIONS

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

1. Those firms that have some discretion over setting the selling price of their products or services are described as ……………………

2. The conventional measure of the dispersion of a probability distribution is ……………………

3. The investor that prefers the riskier of investments with identical expected values is called …………………

4. The period of time from initial expenditure on Research and Development on a product to the time at which support to customers is withdrawn is called……………

5. The research conducted by management from past experience shows a probability distribution on planned sales of products A and B as follows:

Product A		Product B	
Quantity	Probability	Quantity	Probability
10,000	0.2	15,000	0.3
20,000	0.5	18,000	0.3
30,000	0.3	27,000	0.4

Expected profit margin is as follows:

A = ₦11.80
B = ₦12.00

What is the total profit?

6. A financial plan which shows a schedule of expected cash receipts and cash disbursements in a given period is known as …………………

7. The process of making long-term planning decisions for investments is known as ....

8. A computer-based system of inventory planning and control that schedules the timing of material deliveries to coincide with production requirements to meet demand is known as ....

9. A technique for determining what would happen in a decision analysis if a key prediction or assumption is varied or altered, is known as ....

10. The flow of all goods, services and information into and out of an Organisation is termed ....

11. A product costing system that assigns only the unit-level spending for direct costs as the cost of products is known as ....

12. A transfer pricing method in which products and services prices are mutually agreed by divisional managers is called ....

13. The tool for examining and forecasting the behavioural attitude of customers from the standpoint of their loyalty to one brand and their switching patterns to other brands is referred to as ....

14. The decision tool, under risk employed, used to duplicate the future appearance and characteristics of a real life system, is called ....

Use the following data to answer questions 15 and 16:

Richie & Company uses 50,000 units of materials each month. The cost of placing an order is ₦45 and holding cost per unit of inventory is ₦1.50 per annum per unit.

15. What is the Economic Order Quantity?

16. Determine the total relevant costs.

17. A document which expresses in qualitative and financial terms of a business plan for a defined period is called ....

18. A measure of operating capacity based on one hundred per cent (100%) efficiency with no interruption for maintenance or other factors is called ....

19. A part, segment or sub-unit of an Organisation whose manager is accountable for a specified set of activities is ....

20. A budgetary approach that explicitly incorporates continuous improvement during the budget period into the resultant budget numbers is ....

SECTION B: ATTEMPT QUESTION ONE AND ANY OTHER THREE QUESTIONS 60 Marks)

QUESTION 1 – CASE STUDY

BRISTOLE LIMITED

The Managing Director of Bristole Limited attended a seminar where one of the issues discussed at the seminar is "The challenges of Traditional Budgeting System." One of the facilitators of the seminar quoted profusely from Management Accounting by Terry Lucey (1997) that "Traditional Budgeting lacks flexibility and does not encourage efficiency or economy. Too often, an increase in spending on input is automatically assumed to imply an increase in the provision of the services' output."

The Managing Director had requested the company's Management Accountant to appraise the statement in the context of the theme of the seminar as well as explain approaches to surmount these challenges using the 2013 budget information stated below:

The 2013 budget data are as follows:

	₦
Sales (100%)	11,000,000
Cost of sales:	
Variable cost	(7,400,000)
Fixed cost	(2,400,000)
Net profit	1,200,000

A forecast by the marketing department indicates a reduction in production and sales potential in 2013 by 10%. The sales information on which the fixed costs is built on is further illustrated as follows:

Company Products	A	B
Quantities produced/sold	60,000	80,000
Unit selling price	₦50	₦100
Unit variable costs	₦30	₦70

Both products are stored in similar storage facility with A and B expected to spend 2 weeks and 6 weeks respectively. The fixed costs element from this storage activity is 50% of budgeted fixed costs.

You are required to

a. Evaluate the statement in the context of the theme of the seminar. (5 Marks)

b. Explain approaches open to the company to surmount the aforementioned challenges using the 2013 budget information. (10 Marks)

(Total 15 Marks)

QUESTION 2

Eaglet Prop Plc. has the following information in the first quarter of 2013:

	Product I	Product II	Product III
Sales unit in (000s)	225	376	190
	₦	₦	₦
Selling price per unit	11.00	10.50	8.00
Variable cost per unit	5.80	6.00	5.20
Attributable fixed cost	275,000	337,000	296,000

General fixed costs, which are apportioned to products as a percentage of sales, are budgeted at ₦1,668,000.

You are required to

a. Calculate the budgeted profit of Eaglet Prop Plc. for each of the products. (3 Marks)

b. Calculate the budgeted profit on the assumption that product III is discontinued with no effect on sales of the other products. (4 Marks)

c. Calculate the extra sales required to cover the additional cost where additional advertising expenditure of ₦80,000 is incurred. (2 Marks)

d. Calculate the increase in sales volume of product II that is necessary in order to compensate for the effect of profit of a 10% reduction in the selling price of the product. Assume product III is discontinued. (6 Marks)

(Total 15 Marks)

QUESTION 3

Carex Nursing Home, which is linked to a large hospital, has been examining its budgetary control procedures with particular reference to overhead costs.

The level of activity in the facility is measured by the number of patients treated in the budget period. For the current year, the budget stands at 10,000 patients and this is expected to be met.

From January to June 2012, 5,600 patients were treated. The actual variable overhead costs incurred during this six-month period are as follows:

Expenses	₦
Salaries & wages	79,500
Maintenance	35,000
Printing & Stationery	65,000
Miscellaneous	10,000
Total	189,500

The hospital accountant believes that the variable overhead costs will be incurred at the same rate during the second half year (July – December 2012).

Fixed overheads budgeted for the whole year are as follows:

Expenses	₦
Supervision	300,000
Depreciation	197,500
Miscellaneous	150,000
	647,500

You are required to

a. Present an overhead budget for the period of July – December 2012. You are to show each expense, but should not separate individual months. What is the total overheads cost for each patient that would be incorporated into any statistics? (8 Marks)

b. Examine how well the Organisation exercises control over its overheads, given that the Organisation actually treated 6,400 patients during the July – December 2012 period. The actual variable overheads were ₦206,000 and the fixed overheads were ₦380,000. (7 Marks)

(Total 15 Marks)

QUESTION 4

Akinbo Dagbolu Limited has created a new division with four investment opportunities. The firm's cost of capital is 20%.

The following additional information is available:

Opportunity	Income	Investment
	₦	₦
A	131,000	750,000
B	162,000	600,000
C	151,000	500,000
D	148,000	700,000

Required:

a. Calculate the Return On Investment for each project. (6 Marks)

b. Assume you are the Division Manager and you are being evaluated based on Return On Investment (ROI), select the investment opportunities you would accept where the projects are mutually exclusive. Calculate the associated ROI for the division. (2 Marks)

c. If, on the other hand, you were evaluated on Residual Income (RI) basis, identify the investments you would accept. Calculate the Residual Income for the division? (5 Marks)

d. Assume you are the Chairman of Akinbo Dagbolu Limited, identify which project you would want the division to accept. State the performance measure you would use to encourage this action. (2 Marks)

(Total 15 Marks)

QUESTION 5

The following probability estimates have been prepared for a proposed project:

Years	**Items**	**Probability**	**Amount (₦)**
0	Initial Outlay	1	800,000
1 – 5	Running Cost	0.40	500,000
		0.20	600,000
		0.40	700,000
	Revenue	0.15	800,000
		0.40	1,000,000
		0.25	1,100,000
		0.20	1,200,000

The company's cost of capital is 10%.

You are required to:

a. Calculate the Expected Net Present Value using the following tag numbers:

Set	Revenue	Running Cost
1	35	70
2	22	52
3	68	90

(13 Marks)

b. Explain any **FOUR** merits of the Deterministic Simulation Model. (2 Marks)

(Total 15 Marks)

QUESTION 6

Explain the following in the light of current developments in Management Accounting:

a.	Material Requirement Planning	(3 Marks)
b.	Throughput Accounting	(3 Marks)
c.	Bottleneck	(3 Marks)
d.	Backflush Accounting	(3 Marks)
e.	Strategic Management Accounting	(3 Marks)
		(Total 15 Marks)

SOLUTIONS TO SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

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

19. A

20. A

MULTIPLE-CHOICE QUESTION WORKINGS

Question 5

	JAN	FEB	MAR
	₦	₦	₦
Sales	450,000	600,000	720,000
Cash sales (40%)	180,000	240,000	288,000
Credit Sales (60%)	270,000	360,000	432,000
Receipt from Debtors:			
60% month	162,000	216,000	259,200
39% Next month	-	105,300	140,400
CASH SALES			288,000
			687,600

Question 9

PROJECT A

Probability	Profit	EV
	₦	₦
0.8	10,000	8,000
0.2	12,000	2,400
		10,400

Question 10

PROJECT B

Probability	Profit	EV
	₦	₦
0.1	(4,000)	(400)
0.2	10,000	2,000
0.6	17,000	10,200
0.1	16,000	1,600
		13,400

Question 12

Data (Units)	Prob.	EV
20,000	0.3	6,000
40,000	0.4	16,000
100,000	0.2	20,000
200,000	0.1	20,000
		62,000
Sales 62,000@ ₦20		1,240,000
Cost 62,000 @ N6		372,000
Total Contribution		868,000

Question 19

	OUTPUT UNITS x	INPUT COST ₦ y
High Level	6,000	36,000
Low Level	4,000	26,000
	2,000	10,000

Variable Cost Per Unit = $\frac{₦10,000}{2,000}$ = ₦5 = b

.: Total Fixed Cost = y= a +bx

36,000 = a+5 (6,000)

a = 36,000 -30,000

= ₦6,000

Question 20

Total Cost Function is y= 6,000 + 5x

EXAMINERS' REPORT

The questions covered a substantial area of the syllabus. Candidates generally understood the questions and performance was above average. Candidates are advised to adequately cover the syllabus to improve performance.

PART II SHORT-ANSWER QUESTIONS

1. Price leaders /price setters
2. Standard Deviation
3. Risk Taker
4. Product's Life Cycle
5. ₦496,200
6. Cash Budget
7. Capacity Budgeting
8. Materials Requirement Planning (MRP) System
9. Sensitivity Analysis
10. Supply Chain
11. Throughput Costing
12. Negotiated Transfer Pricing Method
13. Marker Chain Analysis
14. Simulation
15. 6,000 units
16. ₦9,000
17. Budget
18. Ideal Standard
19. Responsibility Centre
20. Kaizen Budgeting

WORKINGS

Question 5

A			B		
10,000 x 0.2	=	2,000	15,000 x 0.3	=	4,500
20,000 x 0.5	=	10,000	18,000 x 0.3	=	5,400
30,000 x 0.3	=	9,000	27,000 x 0.4	=	10,800
		21,000			20,700
Profit Margin		₦11.80			₦12.00
Total=₦(21,000 x 11.80)	=	₦247,800	Total = ₦(20,700 x12.00)	=	₦248,400
Grand Total	=	₦496,200			

Question 15

$$EOQ = \sqrt{\frac{2 \; x \; 50{,}000 \; x \; 12 \; x \; 45}{1.50}}$$

$$= \sqrt{\frac{54{,}000{,}000}{1.50}}$$

= 6,000 units

Question 16

Total Ordering Cost = $\frac{D}{Q}$ x C_o = $\frac{600{,}000}{6{,}000} \; x \; 45$

= ₦4,500

Total Holding Cost = $\frac{Q}{2}$ x Cc = $\frac{6{,}000}{2}$ x 1.5 = 4,500

∴ Total Relevant Costs = ₦(4,500 + 4,500)

= ₦9,000

EXAMINERS' REPORT

The questions had a good spread of the syllabus. Candidates' understanding was above average and performance was good.

SOLUTIONS TO SECTION B

QUESTION 1

BRISTOLE LIMITED

(a) ''Traditional Budgeting lacks flexibility and does not encourage efficiency or economy." This statement actually sums up the limitations of traditional budgeting otherwise referred to as conventional budgeting.

Traditional budgeting concentrates on expenditures by budget centres under conventional cost headings normally regarded as line item budgets as there is a line for each expenditure item.

The challenges that are prevalent with traditional budgeting include the following:

(i) It fails to deal with fast changing environment and consequently becomes out-of-date before the start of the budget period.

(ii) It focuses more on the achievement of short-term financial targets rather than things that create values for the business.

(iii) It is based on business functions and encourages incremental philosophy of adding percentages by rule of thumb, resulting in padding or budget slacks.

(iv) It considers all budget information fixed for activities without relating the driving effect of such activity to the budget.

As a result of the failure of the traditional budgeting approach, modern techniques of budgeting are now in vogue to address the problems of traditional budgeting technique.

(b) The approaches needed to be adopted by the Company to surmount the problems of the traditional budgeting technique include the following:

(i) Activity-Based Budgeting is a method of budgeting based on an activity framework and utilizes cost driver information in the budget setting and variance feedback processes. This approach encourages relevant performance measures as well as promoting continuous improvement.

(ii) The flexible budgeting technique is a budgeting technique which ensures that budgets are designed to change in accordance with changing levels of activities by analyzing budgets costs into variable and fixed elements. This technique is useful for all purposes.

(iii) The Zero-Based Budgeting (ZBB) approach is a budgeting approach that requires each cost element in a budget to be justified from on set, rather than a dwell on the traditional incremental budgeting system.

Using the 2013 budget information, the company budget under the traditional budgeting method is as follows:

	A	B	TOTAL
Quantity Produced/Sold	60,000	80,000	–
Sales	₦3,000,000	₦8,000,000	₦11,000,000
Variable Cost	₦1,800,000	₦5,600,000	7,400,000
Fixed Cost (Rule of thumb)	₦1,200,000	₦1,200,000	2,400,000
Net profit	–	₦1,200,000	₦1,200,000

The budgeted profit statement incorporating the modern techniques of Activity- Based Budgeting, Flexible Budgeting and Zero-Based Budgeting method, will be as follows:

	100%			90%		
	A	B	Total	A	B	Total
	₦	₦	₦	₦	₦	₦
Sales	3,000,000	8,000,000	11,000,000	2,700,000	7,200,000	9,900,000
Less						
Variable Cost	1,800,000	5,600,000	7,400,000	1,620,000	5,040,000	6,660,000
Contribution	1,200,000	2,400,000	3,600,000	1,080,000	2,160,000	3,240,000
Fixed Costs	840,000	1,560,000	2,400,000	840,000	1,560,000	2,400,000
Net Profit	360,000	840,000	1,200,000	240,000	600,000	840,000

The profit statement, drawn up under the conventional budgeting technique depicts a fixed structure which did not take account of the changing scenario that the business can be forced to operate under 90% level of activity. Hence it did not make room for this change.

Also, the impact of the storage activity on the fixed cost was not reflected. The resultant effect is that product A is portrayed as unprofitable. Reflecting the modern techniques of budgeting with the flexed level of activity, management decision can be improved as both products can be retained by Management even at 90% operational level.

It is advisable to adopt the modern techniques of budgeting to address the hiccups associated with traditional budgeting techniques.

Workings

PRODUCT	A	B	TOTAL
Quantity sold	60,000	80,000	
Number of weeks per product	2 weeks	6 weeks	
Total weeks	120,000	480,000	600,000

50% of Budgeted Fixed Cost = ½ x 2,400,000 = ₦1,200,000

Apportionment of fixed cost using storage facility as cost driver is calculated as follows:

A = $\frac{120,000}{600,000} \times \frac{1,200,000}{1}$ = ₦240,000

B = $\frac{480,000}{600,000} \times \frac{1,200,000}{1}$ = ₦960,000

Fixed Costs	A	B
	₦	₦
Unapportioned	600,000	600,000
Apportioned	240,000	960,000
	840,000	1,560,000

EXAMINERS' REPORT

The question tests candidates' understanding of Traditional Budgeting Technique and modern approaches to Budgeting.

Candidates are required to discuss the limitations of the Traditional Budgeting Technique and the modern budgeting technique that takes care of those limitations. They are also expected to prepare a simple budget using both the Traditional Approach and the modern technique of budgeting.

Performance was very poor. Less than 20% of the candidates scored about 40% of the allocated mark while others scored less than 30%.

The main pitfall is candidate's lack of understanding of the limitations of the traditional budgeting technique and the modern approaches to budgeting. Candidates are advised to familiarize themselves with modern approach to budgeting for future examination.

QUESTION 2

	PRODUCT I	PRODUCT II	PRODUCT III
	₦'000	₦'000	₦'000
Sales	2,475	3,948	1,520
Contribution	1,170	1,692	532
Attributable Fixed Costs	(275)	(337)	(296)
General Fixed Costs	(520)	(829)	(319)
	(795)	(1,166)	(615)
Profit	375	526	(83)
Profit per unit	₦1.60	₦1.40	₦0.04

(b) If Product III is discontinued it is assumed that variable costs and attributable fixed costs are avoidable. It is also assumed that general fixed costs are common and avoidable to all products and will remain unchanged if Product III is discontinued. However, it is possible that some general fixed costs may be avoidable in the longer term.

The revised profit if Product III is discontinued is calculated as follows:

	₦'000
Contribution of products I and II	2,862
Attributable fixed costs (275 + 337)	(612)
General fixed costs	(1,668)
Profit	582

Profit will decline by ₦236,000 if Product III is discontinued because Eaglet Prop Plc. will no longer earn a contribution of ₦236,000 towards general fixed costs.

(c) Extra sales of 15,385 units (i.e ₦80,000 additional fixed costs÷ ₦5.20 contribution) will be required to cover the additional advertising expenditure.

It is assumed that existing fixed costs will remain unchanged. It is, however, not necessary to incur the extra advertising cost since it will not increase the sales of the company.

(d) The revised contribution per unit will be ₦3.45 (i.e ₦9.45−₦6).

$\therefore$ Required sales $= \frac{₦1,692,000}{₦3.45}$
$= 490,435$ units

There will be an increase of 30.4% over the budgeted sales of 376,000 units.

Note: General Fixed Costs are allocated to products at 21% of total sales Revenue i.e $\frac{₦1,668}{₦7,943} = 21\%$

EXAMINERS' REPORT

This question tests candidates' knowledge of the preparation of Income Statements for products under Profit Volume Analysis.

Candidates are expected to compute the contribution of each product, determine the profit or loss on product basis and assess the effect of discontinuing a product line on the overall company's profitability and the achievement of a target sales volume.

About 60% of the candidates showed a poor understanding of the concept. Those who had a fair understanding were unable to determine the expected sales volume required in part (d) of the question. Their major pitfall was the inability to apply the relevant formulae in solving the problem.

Candidates are advised to ensure proper understanding of Fundamental Management Accounting principles in order to adequately tackle questions.

QUESTION 3

(a) The rate per patient for the variable overheads on the basis of experience during January –June are as follows:

Expense	Amount for 5,600 patients	Amount/ Patient
	₦	₦
Salaries &Wages	79,500	14.20
Maintenance	35,000	6.25
Printing & Stationery	65,000	11.61
Miscellaneous	10,000	1.79
	189,500	33.85

Since the expected level of activity in the full year is 10,000, the expected level of activity for July- December is 4,400 (i.e10,000 – 5,600). Thus, the budget for July– December will be as follows:

Variable cost		₦
Salaries & wages	(4,400 x 14.20)	62,480
Maintenance	(4,400 x 6.25)	27,500
Printing /Stationery	(4,400 x 11.61)	51,084
Miscellaneous	(4,400 x 1.79)	7,876
Total variable overhead		148,940
Fixed Cost:		
Supervision	6/12 (300,000)	150,000
Depreciation	6/12 (197,500)	98,750
Miscellaneous	6/12 (150,000)	75,000
Total fixed cost		323,750
Total overhead Budget (Jan- Dec)		472,690
Total Budgeted overhead/patient		₦107.43

(b) For July-December 2012, the actual activity was 6,400 patients. For a valid comparison with the actual outcome, the budget will need to be revised to reflect this activity as follows:

	₦	₦	₦
Variable Cost	206,000	216,640 (Note 1)	10,640 F
Fixed Cost	380,000	323,750 (Note 2)	56,250 A
	586,000	540,390	45,610 A

The company is able to control its variable costs per patient, however the company could not control its fixed costs, as a result of the number of patients attended to.
This led to a total adverse variance of ₦45,610.

Note 1

Variable cost: 6,400 units @ ₦33.85 = ₦216,640

Note 2: Fixed cost: as computed in the budget above.

EXAMINERS' REPORT

The question tests candidates' understanding of overhead budget separated into its variable and fixed components.
Candidates are required to compute overhead budget and compare with the actual overhead budget to determine how effective the management's control of overhead is.

About 40% of the candidates attempted the question. Performance was very poor as about 90% of them scored below average. The major pitfall is the inability of the candidates to separate overhead budget into its variable and fixed components.

Candidates are advised to prepare very well for future examinations by working as many as possible questions on overhead and overhead absorption recovery technique.

QUESTION 4

(a) Computation of Return on Investment (ROI)

Project	A	₦131,000/₦750,000 x 100 = 17%
	B	₦162,000/₦600,000 x 100 = 27%
	C	₦151,000/₦500,000 x 100 = 30%
	D	₦148,000/₦700,000 x 100 = 21%

(b) Project C will be selected because it has the highest ROI of 30%

(c) Since the cost of capital is 20%, only Projects B, C and D would be accepted while Project A, with a lower ROI of 17%, will result in negative residual income and thereby rejected. Residual Income for the division is ₦101,000 as computed below:

	₦
Total Returns (₦162,000 + ₦151,000 + ₦148,000)	461,000
Less Imputed Cost (₦600,000 +500,000 + 700,000)20%	360,000
	101,000

(d) Projects B, C and D and Residual Income approach are preferred.

EXAMINERS' REPORT

The question tests candidates' understanding of Divisional Investment Appraisal using Return on Investment and Residual Income techniques. Candidates are expected to compute Returns on Investment and Residual Incomes of projects and recommend those to be accepted.

More than 90% of the candidates attempted the question and performance was very good. About 80% of those who attempted the question scored more than 50% of the marks allocated.

Candidates are advised to continue to master this aspect of the syllabus being one of the key areas of the syllabus.

QUESTION 5

(a) The expected NPV of the three sets are

Set	ENPV (₦)
1	337,300
2	716,400
3	716,400
	1,770,100

Average ENPV = $\frac{1,770,100}{3}$

= ₦590,033.33

Therefore, the project is viable, since it has a positive ENPV.

(b) The merits of the Deterministic Simulation Model are as follows:

(i) It looks at risk from a new angle, thus recognizing that the component aspect of an investment can all vary from what is expected.

(ii) It seeks to provide the decision-maker with more than just a good or no good conclusion that aims to bring in all the "may bes" and "ifs".

(iii) It helps in determining how much factor would need to change so as to make the project break-even.

(iv) It assists in presenting the decision-maker with a report that justifies the acceptance of a project.

(v) It simplifies forecasting future occurrences.

Workings

(a) Calculation of Expected Net Present Value

SET 1

Years	Items	NCF (₦)	DCF@ 10%	PV (₦)
0	Initial Outlay	(800,000)	1.000	(800,000)
1-5	Revenue	1,000,000	3.791	3,791,000
1-5	Running Costs	(700,000)	3.791	(2,653,700)
			NPV	337,300

SET 2

Years	Items	NCF (₦)	DCF@ 10%	PV (₦)
0	Initial Outlay	(800,000)	1.000	(800,000)
1-5	Revenue	1,000,000	3.791	3,791,000
1-5	Running Costs	(600,000)	3.791	(2,274,600)
			NPV	716,400

SET 3

Years	Items	NCF (₦)	DCF@ 10%	PV (₦)
0	Initial Outlay	(800,000)	1.000	(800,000)
1-5	Revenue	1,000,000	3.791	4,170,100
1-5	Running Costs	(700,000)	3.791	(2,653,700)
			NPV	716,400

(2) Allocation of tag numbers to revenue and running costs.

(i)

Revenue ₦	Probability	Cum. Probability	Range	Selected Range
800,000	0.15	0.15	00-14	
1,000,000	0.40	0.55	15-54	Sets 1 & 2
1,100,000	0.25	0.80	55-79	Set 3
1,200,000	0.20	1.00	80-99	

(ii)

Running Costs ₦	Probability	Cum. Probability	Range	Selected Range
500,000	0.4	0.4	00-39	
600,000	0.2	0.6	40-59	Set 2
700,000	0.4	1.0	60-99	Set 1&3

EXAMINERS' REPORT

The question tests candidates' understanding of simulation using tag numbers to calculate the Expected Net Present Value (NPV) of three sets of projects.
Candidates are required to calculate the Net Present Value of Projects in Part A and to give four merits of Deterministic Simulation Model in part B.

About 40% of the candidates attempted the question. Performance was very poor as over 90% of those who attempted the question scored below average. The candidates' failure to apply the tag correctly in determining the correct revenue and running cost of the project for discounting purposes was their major pitfall.

Candidates are advised to prepare adequately for future examinations by studying all aspects of the syllabus.

QUESTION 6

(a) **Material Requirement Planning**

This is a computerised information, planning and control system which has the objective of maintaining a smooth production flow. It is really an operational management tool that assists managers in scheduling production in each stage of a complex manufacturing process.

(b) **Throughput Accounting (TA)**

This is a system of performance measurement and costing which traces costs to throughput time. It is a method of performance measurement which relates production and other costs to throughput.

It is a principle-based and simplified management accounting approach that provides managers with decision support information for enterprise probability improvement. TA is relatively new in Management Accounting. It is an approach that identifies factors that limit an organisation from reaching its goal, and then focuses on simple measures that drive behaviour in key areas towards reaching organisational goals.

(c) **Bottleneck**

This is an activity that places a restriction on a production line or factory. It is an activity within an organisation which has a lower capacity than preceding or subsequent activities, thereby limiting throughput.

Bottlenecks often the cause of a build-up of work in process and of idle time. In budgeting, the budget of the bottlenecks or constraints is prepared first before other budgets.

(d) **Backflush Accounting**

Backflush Accounting is a cost accounting system which focuses on the output of an organisation and then works backwards to attribute costs to stock and cost of sales.

This system records the transaction only at the termination of the production and sales cycle. The emphasis is to measure cost at the beginning and at the end with greater emphasis on the end or outputs. Back flushing is usually employed in parallel with JIT, thus there is no work-in-progress to consider, nor does work-in-progress materially fluctuate.

(e) **Strategic Management Accounting**

Strategic Management Accounting is a variant of Management Accounting that places emphasis on information which relates to factors external to the firm, as well as non-financial information and internally generated information. Strategic Management Accounting differs from the Traditional Management Accounting because it places emphasis on

- The relative cost position
- The ways in which a company may secure a sustainable cost advantage
- Costs of differentiation i.e what makes their product different and hence more attractive.

EXAMINERS' REPORT

The question tests candidates' understanding of current concepts in Management Accounting. Candidates are expected to explain Material Requirement Planning, Throughput Accounting, Bottleneck, Backflush Accounting and Strategic Management Accounting.

About 60% of the candidates attempted the question. Performance was very poor as less than 50% of those who attempted the question scored below 50%. The major pitfall was candidates' lack of understanding of modern terminologies in Management Accounting.

Candidates are advised to familiarize themselves with modern concepts in Management Accounting for future examination.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

PROFESSIONAL EXAMINATION I – MAY 2013

FINANCIAL ACCOUNTING

Time Allowed: 3 hours

SECTION A: PART I ATTEMPT ALL QUESTIONS

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/statements:

1. Which of the following qualitative characteristics of Financial Statements is **NOT** an integral part of each other?

   A. Materiality with Relevance
   B. Fair value with Reliability
   C. Prudence with Reliability
   D. Timeliness with Relevance
   E. Consistency with Relevance

2. On what basis would the lessee recognise a leased asset in the Statement of Financial Position?

   A. Right of ownership
   B. Right to receive rental payment
   C. Right to use the asset
   D. Right to defer payments
   E. On signing a contract agreement

3. Which of the following would be recognised on both the Statement of Changes in Equity and the Statement of Other Comprehensive Income?

   A. Prior period adjustment
   B. Premium on issue of shares
   C. Increase in fair value of available for sale financial asset
   D. Dividend declared
   E. Provision for company income tax

4. Which of the following investments qualify to be classified as held-to-maturity financial assets?

   (i) Redeemable preference shares
   (ii) Corporate bond
   (iii) Trade receivables
   (iv) Ordinary share capital

   A. i and ii
   B. i and iii
   C. ii and iii
   D. ii and iv
   E. iii and iv

5. The retained earnings of Merrygo Plc are:

	2012	2011
	₦'m	₦'m
Balance at beginning of the year	2,750	550
Balance at end of the year	4,583	2,750

It was later discovered that impairment losses of ₦368million relating to 2011 were not recorded in the books. The income tax rate was 25%.

The restated retained earnings at the end of the two years were:

	2012	2011
	₦'m	₦'m
A.	4,171	2,338
B.	4,215	2,382
C.	4,307	2,474
D.	4,857	3,024
E.	5,133	3,300

6. Which of the following has the responsibility of preparing Statement of Affairs under the Bankruptcy Act?

   A. The Creditors
   B. The Official Receiver
   C. The Court

D. The Liquidator
E. The Debtor

Use the following information to answer questions 7 and 8

Mr. Eze makes regular investments in the units of Homely Mutual Funds. He invested a fixed amount of ₦300million per month for two months.

The unit price of Homely Mutual Funds for the months were:

Month	Unit Price
1	₦6,000
2	₦4,000

7. Calculate the total units purchased for the two months

A. 600,000
B. 300,000
C. 125,000
D. 75,000
E. 50,000

8. Calculate the average price per unit

A. ₦7,000
B. ₦6,800
C. ₦6,000
D. ₦5,000
E. ₦4,800

9. A Pension Fund Administrator and a Custodian shall **NOT**

A. Ensure that Pension Fund is managed and held in accordance with the provisions of the Act
B. Take reasonable care to ensure that the management and safe keeping of the Fund is carried out
C. Transfer at its discretion, the retirement saving account of an employee
D. Report to the Commission if the employer is in default in remittance of any contribution

E. Report to the Commission any unusual occurrence with respect to the Pension Fund

10. Which of the following is **NOT** categorized under general insurance business?

A. Fire insurance
B. Health insurance
C. Motor vehicle insurance
D. Engineering insurance
E. Bond, credit guarantee and suretyship insurance

11. Under IFRS 9, Financial Assets classified as available-for-sale securities are measured for disclosure purposes at

A. Fair value through profit or loss
B. Amortised cost
C. Fair value through equity
D. Fair value through other comprehensive income
E. Realisable value through profit or loss

12. According to IAS 1-Presentation of Financial Statements, where should dividends paid during the year be disclosed?

A. Statement of Changes in Equity
B. Statement of Comprehensive Income
C. Statement of Financial Position
D. Statement of Value Added
E. Notes to the accounts

13. The following bodies have representatives in the Governing Board of the Financial Reporting Council of Nigeria **EXCEPT**

A. Nigeria Deposit Insurance Corporation
B. Federal Inland Revenue Service
C. Nigerian Stock Exchange
D. Chartered Institute of Management of Nigeria
E. Pension Commission of Nigeria

14. The following are extracted from the notes to the accounts of Moore Commercial Bank Plc

Loans and advances:		₦'million
Performing		400
Non-performing -	Substandard	90
	Doubtful	150
	Lost	40

Calculate the amount of provision for bad debts.

A. ₦340m
B. ₦280m
C. ₦128m
D. ₦79m
E. ₦68m

15. Holdme Plc acquired 160,000 and 40,000 shares of the issued equity shares of Giveme Limited and Loadme Limited respectively. Also, Giveme Limited had earlier acquired 140,000 shares of Loadme Limited.

Statement of Financial Position – Extracts

Share capital:	Giveme Ltd	Loadme Ltd
	₦	₦
Ordinary shares of 50 kobo each fully paid	100,000	100,000
Retained earnings	36,400	22,500

What is the total interest of Holdme Plc in Loadme Limited?

A. 180%
B. 100%
C. 90%
D. 76%
E. 75%

Use the following information to answer questions 16 and 17:

Baba sold a new tricycle to Wally on hire purchase basis under the following terms:

Cash price	₦350,000
Initial deposit	₦125,000
Yearly instalment	₦93,750
Hire period	4 years

16. Calculate the hire purchase price of the tricycle

    A. ₦568,750
    B. ₦525,000
    C. ₦500,000
    D. ₦475,000
    E. ₦375,000

17. Compute the hire purchase interest to be charged to Statement of Profit or Loss in year two using sum of the digits method

    A. ₦47,250
    B. ₦45,000
    C. ₦42,750
    D. ₦30,000
    E. ₦22,500

18. Which of the following is **NOT** an expense incurred in a voyage?

    A. Depletion cost
    B. Address commission
    C. Stevedoring
    D. Captains portage bill
    E. Wharfages

19. The financial position of an entity is available from an examination of the Statement of Financial Position and includes the following **EXCEPT**

    A. The economic resources controlled by an entity
    B. The generation and use of cash
    C. The financial structure
    D. Liquidity and solvency
    E. Capacity to adapt to changes

20. Which of the following Statements is **NOT** true of Financial Reporting Council of Nigeria?

    A. The Financial Reporting Council of Nigeria is responsible for enforcement of standards in Nigeria
    B. Professionals in Nigeria must register with the Council
    C. One of the functions of the Council is to develop and publish Accounting and Financial Reporting Standards
    D. A Directorate on Corporate Governance cannot be established by the Council
    E. The Governing Board of Financial Reporting Council of Nigeria is more in number than former Nigerian Accounting Standards Board (NASB)

SECTION A: PART II ATTEMPT ALL QUESTIONS

SHORT-ANSWER QUESTIONS (20 Marks)

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

1. An employee's benefit scheme in which the employer retains the investment actuarial risk of the plan is called..

2. Fast Delivery Limited, a construction company, was awarded a two-year contract at a fixed price of ₦374million. The contract cost for the first year was:

Material	₦187m
Labour	₦56m
Attributable overheads	₦38m

   Cost to completion is estimated at ₦120million. Profit is recognised based on the percentage of cost to date to total cost to completion.

   Calculate the loss to be recognised for the year.

3. The following information relates to Company XYZ Ltd.

Cost of plant and machinery	₦100m
Depreciation on cost per annum	₦20m
Capital allowance on the asset per annum	₦50m

Assume a company income tax rate of 25%.

Calculate the deferred tax liability that would have arisen on the plant and equipment at 31 December 2012.

Use the following information to answer questions 4 and 5:

Imperial Plc granted share options to its employees with fair value of ₦40m. The options vest in three years time. The Monte Carlos model was used to value the option and these estimates were made.

- Granting date: 1 January 2009; estimate of employees leaving the entity during the vesting period was 5%
- January 2010: revision of estimate of employees leaving was 6%
- Before vesting period in December 2011, actual employees that left was 5%

What would be the expense charged to Statement of Profit or Loss during:

4. The year ended 31 December 2009?

5. The year ended 31 December 2010?

6. State the formula for calculating dividend yield.

7. In shipping organisations, the term used in describing loading and off-loading of cargoes is referred to as..

8. What is the full meaning of the acronym "IFRIC" as it relates to International Financial Reporting Standards?

Use the following information to answer questions 9 and 10:

An extract from the Statement of Financial Position and the Liquidator's Final Accounts of a company in liquidation are detailed below:

Statement of Financial Position – Extract

	₦
Capital and liabilities	
240,000 Ordinary shares of ₦1 each fully paid	240,000
160,000 Ordinary shares of ₦1 each 50kobo paid	80,000
Trade payables	48,000
Assets	
Cash/Bank balance	40,000

Liquidator's Final Account

	₦		₦
Cash at bank	40,000	Trade payables	48,000
Calls on shareholders	51,200	Fully paid ordinary shares	43,200
	₦91,200		₦91,200

9. Determine the loss per share.

10. What is the final or ultimate deficiency?

11. According to NAICOM guidelines, all insurance broking firms are required to show............................. account in the Financial Statements which must have a nil balance.

12. The Pension Act (2004) stipulates that no person shall be entitled to make withdrawals from his retirement savings account before he attains a specific age. State the minimum age required.

13. State one example of admissible assets under the Insurance Act, 2003.

Use the following information to answer questions 14 and 15:

A Ltd acquired 30% of the voting shares of B Ltd on 1 January 2012 for ₦20million.

A Ltd had a significant influence over B Ltd. The retained earnings of B Ltd was ₦30milllion at the date of acquisition and ₦42million on 31 December 2012.

14. What is the carrying value of the investment in B Ltd in the group financial statement as at 31 December 2012?

15. What is the post acquisition reserve due to A Ltd?

16. A debit balance in the receiver's receipt and payment account during the process of winding up of a company represents..

17. An equipment was bought under the terms of hire purchase agreement with an initial deposit of ₦100,000 followed by six annual instalments of ₦25,000. What is the hire purchase price?

18. An entity has the following transactions in relation to inventory for the year ended 31 March 2013:

1/4/2012	Opening inventory Nil
1/5/2012	Bought 500 units @ ₦300 per unit
31/12/2012	Bought 10,000 units @ ₦500 per unit
28/2/2013	Bought 2,000 units @ ₦800 per unit
20/3/2013	Sold 8,000 units @ ₦1,500 per unit

What is the value of closing inventory at the end of 31 March 2013 to be recorded in the statement of financial position using FIFO method?

Use the following information to answer questions 19 and 20:

Abacus Limited has just developed a computerised accounting system. Extracts from the cost schedule are given below:

	₦'000
Hardware cost	300,000
Data transmission cost	50,000
Networking cost	60,000
Electricity cost	10,000
Installation cost	40,000
Consumable cost	5,000
Rentage	8,000

19. Calculate the one-off cost of developing the computerised accounting system.

20. What is the total on-going cost of the new system?

SECTION B: ATTEMPT QUESTION ONE AND ANY THREE QUESTIONS
(60 Marks)

QUESTION 1

CASE STUDY

Alhaji Burka has been operating as a sole trader for many years. He also has a small poultry farm which provides mainly for his domestic needs. He believes that his business operations have been very efficient based on the available cash in hand and at bank.

Alhaji Burka has three sons – Aminu, Sani and Bala. Aminu and Sani had their education in United Kingdom and are yet to return to Nigeria. Mallam Bala who is the youngest son of Alhaji Burka recently graduated with Bachelors degree in Business Administration from Yobe State University. He was quickly drafted into the management of his father's business in January 2005 as a manager.

Mallam Bala enhanced the fortune of the business within a very short period and so was able to convince his father that the sole trade business be converted into a limited liability company in 2007. The company progressed, and by 2009 met all the requirements for listing at the Nigerian Stock Exchange as Burka-Bala Plc. The small poultry farm was expanded to include cattle rearing and agricultural produce. Mallam Bala is happy with the success of the expanded farm. However, he was very worried about the appropriate value to be placed on the farm produce so as to be able to include them in the Financial Statements. He decided to share his worries with his father who is the Chairman of Burka-Bala Plc. They agreed to engage a Financial Consultant for guidance.

The Financial Consultant's report contained the following advice:

i. That an experienced Chartered Accountant be engaged immediately to head the accounts unit.

ii. That the expanded farm be incorporated as a wholly-owned subsidiary of Burka-Bala Plc.

iii. That the company's risk be spread through the purchase of financial instruments.

The Financial Consultant's advice were fully implemented and the subsidiary company Burka-Bala Farms Limited was registered on 30 June 2010. The new head of accounts unit ensured that proper Financial Statements were prepared for the years ended 31 December 2010 and 2011. At the Annual General Meeting (AGM) to consider the 2011 accounts, the shareholders were informed that the company will comply with the relevant IFRS in the presentation of the financial statements for the year ended 31 December 2012.

The following trial balance was extracted from the company's books at 31 December 2012:

	₦'000	₦'000
Revenue		855,000
Purchases	503,600	
Distribution costs	31,950	
Administrative expenses	104,400	
Finance costs	1,020	
		18,250
Investment income		
Leased property at cost	125,000	
Plant and equipment at cost	98,800	
Accumulated amortisation/depreciation at 1/1/2012:		
Leased property		35,000
Plant and equipment		28,800
Financial instruments	40,500	
Inventory at 1/1/2012	85,075	
Trade receivables	72,400	
Trade payables		62,550
Bank		5,175
Share premium		8,400
Equity shares of 50kobo each		115,000
Retained earnings at 1/1/2012		55,600
Investment in subsidiary	131,030	
6% Convertible Loan Notes		10,000
	1,193,775	1,193,775

The following notes are relevant:

i. Revenue includes goods sold and despatched from 15 December 2012, on a 30-day right of return basis. Their selling price was ₦3.6million and they were sold at a gross profit margin of 20%. Burka-Bala Plc is uncertain as to whether any of these goods will be returned within the 30-day period.

ii. The directors decided to revalue the leased property in line with recent increases in market values. On 1 September 2012, an independent surveyor valued the leased property at ₦99million, which the directors have accepted. The leased property was amortised over an original life of 25 years which has not changed. Burka-Bala Plc does not make a transfer to retained earnings in respect of excess amortisation.

iii. The plant and equipment is depreciated at 15% per annum using the reducing balance method and all depreciation and amortisation are charged to cost of sales. No depreciation or amortisation has yet been charged on any non-current asset for the year ended 31 December 2012.

iv. The financial instruments are investments in equities of public companies and had a fair value of N39.7million on 31 December 2012. There were no purchases or disposals of any of these investments during the year. Burka-Bala Plc has not made the election in accordance with IFRS 9 on Financial Instruments. The company adopts this standard when accounting for its financial assets.

v. On 20 November 2012, Burka-Bala Plc's share price stood at ₦2.20 per share. On this date, a dividend that was calculated to give a dividend yield of 5% was paid by the company. The dividend paid was included as part of administrative expenses figure shown in the trial balance.

vi. The inventory on Burka-Bala Plc's premises at 31 December 2012, after stock taking was valued at cost of ₦106million and a provision for income tax for the year then ended of ₦86.75million is required.

vii. During the year, the company issued twenty million shares at a premium of 10kobo per share. The conversion rate for the loan note is ₦100 loan notes for three ordinary shares of 50kobo. The current market price per share is ₦2.54.

At the Christmas party organised by the company, the chairman of the company Alhaji Burka reminded the accountant on the need to present IFRS compliant Financial Statements at the forthcoming AGM fixed for March 2013.

You are required to:

a. Prepare the Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2012. (4 Marks)

b. Prepare the Statement of Changes in Equity for the same period. (4 Marks)

c. Explain the term financial assets and state the **FOUR** classes of financial assets identified in IFRS 9 and how each is valued or measured. (3 Marks)

d. Calculate the following ratios

(i) Basic Earnings per share
(ii) Diluted or Adjusted Earnings per share
(iii) P/E ratio (2 Marks)

e. What is biological assets? State any **THREE** conditions to be met before a biological asset or agricultural produce can be recognised in the books of accounts. (2 Marks)

(Total 15 Marks)

QUESTION 2

Bajonger Limited got into financial difficulties. On 31 March 2011, a Receiver was appointed by the loan notes holders who had floating charge on the assets of the company and a Liquidator was later appointed on 31 August 2011.

On the date of the Receiver's appointment, the trial balance of the company was as follows:

	₦'000	₦'000
Plant and Machinery	325,000	
Mortgage Loan		15,000
Inventories	146,600	
Bank overdraft		38,500
Account receivables	122,400	
Account payables		193,000
Profit or loss	123,500	
10% Loan Notes		120,000
Loan notes interest accrued to 31 March 2011		6,000
Capital reserve		5,000
5% preference shares of ₦1 each fully paid		30,000
250,000 ordinary shares of ₦1 each fully paid		250,000
100,000 ordinary shares of ₦1 each (60k paid up)		60,000
	717,500	717,500

Additional information **(figures in thousands):**

i. The mortgage loan that was secured on a fixed plant with a book value of ₦38,000 was realised for ₦22,500.

ii. The Account Payable include:

	₦
Income Tax (2009-₦48,000; 2010-₦36,400)	84,400
PAYE deduction (January to March 2011)	9,600
Loan for payment of salaries	18,700
Pension Fund contribution (12 months to March 2011)	3,800

iii. The bank overdraft was secured by the personal guarantees of the directors of the company for ₦20,000. The directors duly pledged their obligations to the bank.

iv. The Receiver realised the remaining plant and machinery for ₦246,500. The expenses and remuneration of the Receiver were ₦9,250 and ₦16,920 respectively. On 31 August, he made all his obligatory payments and transferred to the Liquidator the balance of cash in hand.

v. The Liquidator realised the inventories for ₦76,330 and collected ₦108,930 from the receivables. His expenses and remuneration were ₦15,850 and ₦24,740 respectively.

vi. The preference shareholders were entitled to be paid at a premium of 10kobo per share before the ordinary shareholders.

You are required to:

Prepare the Receipts and Payments Account showing the order in which payments should be made to:

a. The Receiver (7½Marks)

b. The Liquidator (7½Marks)

(Total 15 Marks)

QUESTION 3

The draft Statement of Financial Position of Ezekilem Plc and Abdullahi Plc on 30 June 2012 were as follows:

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

	Ezekilem Plc	Abdullahi Plc
	₦'000	₦'000
Assets:		
Non Current Assets:		
Property, Plant and Equipment	100,000	80,000
40,000 ordinary shares in Abdullahi at cost	60,000	-
	160,000	80,000
Current Assets:		
Inventory	6,000	16,000
Owed by Ezekilem Plc	-	20,000
Receivables	32,000	14,000
Cash	4,000	-
	42,000	50,000
Total Assets	202,000	130,000

Equity and Liabilities:		
Equity (ordinary shares @ ₦1)	90,000	50,000
Revaluation surplus	24,000	10,000
Retained earnings	52,000	56,000
	166,000	116,000
Current Liabilities:		
Owed to Abdullahi Plc	16,000	-
Trade payables	20,000	14,000
	36,000	14,000
Total equity and liabilities	202,000	130,000

Additional information:

i. Ezekilem Plc acquired its investment in Abdullahi Plc on 1 July 2011, when the retained earnings of Abdullahi Plc stood at ₦12,000,000.

ii. The agreed consideration was ₦60,000,000 at the date of acquisition and a further ₦20,000,000 on 1 July 2013, Ezekilem Plc's cost of capital is 7%.

iii. Abdullahi Plc has an internally developed brand name – TOLX – which was valued at ₦10,000,000 at the date of acquisition.

iv. There have been no changes in the capital or revaluation surplus of Abdullahi Plc since the date its shares were purchased.

v. At 30 June 2012, Abdullahi had invoiced Ezekilem Plc for goods to the value of ₦4,000,0000 and Ezekilem Plc had sent payment in full but this had not been received by Abdullahi Plc.

vi. There is no impairment of goodwill.

vii. It is the group's policy to value non-controlling interest at full fair value.

viii. At the acquisition date, the non-controlling interest was valued at ₦18,000,000.

You are required to:

a. Define impairment loss in accordance with IAS 36 on Impairment of Assets. (2 Marks)

b. Explain any **THREE** sources of external information which an entity may consider in assessing whether there is any indication that an asset may be impaired. (3 Marks)

c. Prepare an extract of consolidated Statement of Financial position of Ezekilem Plc for the year ended 30 June 2012, showing the assets side only. (10 Marks)

(Total 15 Marks)

QUESTION 4

Ajalon Construction Company has many construction contract jobs in Nigeria. The details below relate to two contract sites captioned ABJ 441 and LAG 514 which are ongoing as at 31 December 2012.

	ABJ 441	LAG 514
	₦'000	₦'000
Materials sent to site	310,600	72,300
Site direct wages	188,900	54,500
Site direct expenses	55,400	31,400
Plant at site 1 Jan. 2012	605,000	380,000
Site overhead	41,350	26,250
Professional charges	50,460	30,620
Subcontract cost	28,650	29,500
Penalties	10,700	12,000
Cash received to date	1,350,000	-
Contract price	2,000,000	-
Materials transferred to LAG 514	15,600	-
Materials returned to store	28,440	30,150
Cost of work not certified	36,000	43,200
Site insurance expenses	7,350	5,140
Hire of special plant	5.040	-
Work-in-progress 1 Jan. 2012	480,820	-
Plant at site 31 Dec. 2012	421,600	265,300
Further cost to completion:		
Material	56,250	Not known
Direct wages	31,420	Not known

Site overhead	17,500	Not known
Plant at completion	264,900	Not known

i. Head office overhead attributed to contract site is charged at 20% of direct wages.

ii. There is a retention policy of 10% on all contracts.

iii. Profit included in work-in-progress amounted to ₦105,900,000.

You are required to:

a. Prepare for ABJ441 the contract and contractee's accounts as at 31 December 2012. Also, show the value of work-in-progress to be disclosed in Statement of Financial Position. (14 Marks)

b. State the **TWO** methods of recognising profit in long-term construction contracts. (1 Mark)

(Total 15 Marks)

QUESTION 5

a. The first task a beginner performs in Peachtree is creating a company because without a company, no transaction data can be entered.

You are required to highlight procedures for creating a new company from the default page of Peachtree package. (6 Marks)

b An important aspect of the International Accounting Standards Board's Framework required for the preparation and presentation of Financial Statements is that transactions should be recorded on the basis of their substance over their form.

Explain why it is important that a Financial Statement should reflect the substance of the underlying transactions and describe the features that may indicate that the substance of a transaction may be different from its legal form. (4 Marks)

c. Mr. Charles has just won a lottery of ₦10 million from Lagos Lotto Club and took a life annuity of ₦950,000, to guarantee a fixed annual income, on 31 December 2010. He decided to terminate the contract with the insurance company on 1 January 2013. The actuarial valuation for his annuity was as follows:

	₦
31/12/2010	9,250,000
31/12/2011	8,100,000
31/12/2012	6,850,000

The withholding tax rate is 10%.

You are required to prepare:

i. Annuity Suspense Account (2½ Marks)

ii. Annuity Payable Account (2½ Marks)

(Total 15 Marks)

QUESTION 6

a. IAS 26-Accounting and Reporting by Retirement Benefit Plan and IAS 19 - Employee Benefits deal with employee benefits but there are differences between the two standards.

i. Highlight the main differences between IAS 26 and IAS 19. (2 Marks)

ii. What is Defined Benefit Plan? (1 Mark)

iii. What is Defined Contribution Plan? (1 Mark)

iv. Explain Actuarial Present Value of promised retirement benefit. (1 Mark)

b. The Board of Directors of Kenny Limited, a small company, decided on 30 April 2012 to introduce a contributory pension scheme for its staff. The Staff Pension Fund was contracted by a Trust Deed which provided for the payment of Pensions from 1 July 2012.

The following contributions are to be part of the Fund:

i. 7½% of staff monthly salaries are to be deducted and paid to the trustees every month.

ii. The company's contribution to the Trust Fund are:

- Five annual instalments of ₦800,000 per annum to cover the pension liability in respect of past services, the first instalments to be paid on 1 July 2012.

- A sum equal to thrice the members' contributions is to be made at the same time members' contribution is paid over.

  The Trustees received the first contribution on 1 July 2012. Members' contribution amounting to ₦120,000 for six-month period ended 31 December 2012, was received together with the monthly contributions due from the company as at when due. Trustees purchased the following investments:

Investment	Interest days	Stamp duty & brokerage
2 July 2012: 4% ₦120,000 Enugu State Stock @ 88 Cum div.	1 June & 1 December	₦3,120
2 July 2012: 3% ₦120,000 Sokoto State Stock @ 69 Ex div.	1 July & 1 December	₦2,520

The trustees resolved to make appropriate interest apportionment on all investments held and to accrue for all interest due.

The trustees paid pension of ₦100,000 and incurred sundry expenses of ₦8,000 during the six months period ended 31 December 2012.

You are required to:

i. Write up the Investment Accounts as they will appear in the Trustees' books. (6 Marks)

ii. Write up the Trustees' bank account. (2 Marks)

iii. Prepare the Trust Fund Revenue Account. (2 Marks)

(Total 15 Marks)

SOLUTIONS TO SECTION A

PART I **MULTIPLE-CHOICE QUESTIONS**

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

Tutorials

Q5

	₦'m	₦'m
Retained profit 2011		2,750
Less: Impairment Loss	368	
Tax saved (25%)	(92)	(276)
Restated balance 2011		2474

Profit for 2012 (4583 – 2750)	1833	
Retained profit 2012		4307

Q7

Month	unit price ₦	quantity
1	6,000	50,000
2	4,000	75,000
		125,000

Q8 Average price = $\frac{\text{Total value}}{\text{Total quantity}}$

= $\frac{\text{₦}600{,}000{,}000}{125{,}000}$

= ₦4,800

Q14.

Performing – ₦400 @ 1%	₦4m
Substandard ₦90m @ 10%	₦9m
Doubtful ₦150 @ 50%	₦75m
Lost ₦40m @ 100%	₦40m
	₦128m

Q15. Holdme in Giveme Ltd. $\frac{160{,}000}{200{,}000}$ = 80%

Holdme in loadme Ltd. $\frac{40{,}000}{200{,}000}$ = 20%

Giveme Ltd. in loadme Ltd. $\frac{140{,}000}{200{,}000}$ = 70%

Total interest = 80% of 70% + 20% = 76%

Q16. (₦93,750 x 4) + ₦125,000 = ₦500,000

Q17. 3/10 x ₦150,000 = ₦45,000

EXAMINERS' REPORT

The questions test all sections of the syllabus. Candidates' performance was above average. However, candidates are advised to ensure that they cover the syllabus adequately in order to improve on their performance in future.

PART II SHORT-ANSWER QUESTIONS

1. Defined benefit plan
2. ₦27m loss
3. ₦7.5m
4. ₦12.67m
5. ₦12.4m
6. Dividend yield = $\frac{\text{Gross Div. Per share}}{\text{Mkt. value per share}}$ OR $\frac{\text{DPS}}{\text{MPS}} \times \frac{100}{1}$
7. Stevedore or stevedoring
8. International Financial Reporting Interpretation Committee
9. Loss per share = 82k
10. ₦328,000
11. Client
12. 50 years
13. Cash and bank balances
    Quoted and unquoted shares in the name of insurance company
    Prepaid reinsurance cost
    Deferred acquisition cost
14. ₦23.6m
15. ₦3.6m
16. Cash balance handed over to the liquidator
17. ₦250,000

18. ₦2,850,000

19. ₦400,000

20. ₦73,000

TUTORIALS

Q2 374m – (187m + 56m + 38m + 120m) = ₦27m loss

		₦m
Q3	Carrying value	80
	Tax written down value	(50)
		30

Deferred tax = 25% x 30 = ₦7.5m

Q4. (₦40m x 95% x $^1/_3$) = ₦12.67m

Q5. (40m x 94% x $^2/_3$ – ₦12.67m) = ₦12.4m

Q9. Loss per share:

		₦
Creditors (48,000 – 40,000 cash)	=	8,000
Fully paid ordinary share	=	240,000
Partly paid ordinary share	=	80,000
		328,000
	=	₦328,000 / 400,000
	=	82 kobo

Q10. Ultimate Deficiency

Fully paid ordinary shares (240,000 – 43,200) = 196,800
Party paid ordinary shares (80,000 + 51,200) = 131,200
328,000

OR

400,000 shares x 82 kobo = ₦328,000

Q14.

	₦'m
Add cost of Inv.	20
Share of post acquisition	
Profit 30% (₦42 – 30)	3.6
	₦23.6

Q15. 30% (₦42m – ₦30m) = ₦3.6m

Q17. ₦100,000 + ₦25,000 x 6 = ₦250,000

Q18. (2500 units x ₦500) + (2,000 x ₦800)
₦2,850,000

Q19. ₦300,000 + ₦60,000 + ₦40,000
₦400,000

Q20 ₦50,000 + ₦10,000 + ₦8,000 + ₦5,000
₦73,000

EXAMINERS' REPORT

The questions cover all sections of the syllabus and candidates performance was below average. Candidates' commonest pitfall was their inability to correctly answer computational questions.

Candidates are advised to ensure that they pay more attention to accounting principles which are applied in accounting computations.

SOLUTIONS TO SECTION B

QUESTION 1

CASE STUDY

a. **Burka-Bala Plc**
Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2012.

	Notes	₦'000
Revenue	(wi)	851,400
Cost of sales	(wii)	(495,532)
Gross profit		355,868
Distribution cost		(31,950)
Administrative expenses	(wiii)	(79,100)
Profit from operations		244,818
Investment income		18,250
Finance cost		(1,020)

Fair value loss on financial instrument (40,500 – 39,700)		(800)
Profit before tax	261,248	
Income tax expenses	(86,750)	
Profit for the year	174,498	
Other comprehensive income:		
Fair value gain on leasehold property	12,333	
Total comprehensive income for the year	₦186,831	

Working Notes:

i. Revenue ₦855,000 – ₦3,600 value of returnable goods = ₦851,400

ii. Cost of sales: Opening inventory 85,075
Purchases 503,600
Depreciation Plant & Equip (0.15 of ₦98,800 – ₦28,800) 10,500
Amortization leased property (₦3,833 + ₦4/208 of ₦99,000) 5,237
Closing inventory (₦106,000 + 0.8 of ₦3,600) (note iv) (108,880)
₦495,532

iii. Admin expenses: ₦10,400 less ₦25,300 dividend = ₦79,1000
Dividend = ₦115,00 x 2 x ₦2.2 x ₦0.05

	₦
iv. Closing inventory: As per question	106,000
Sales return at cost (80% of 3,600)	2,880
	108,880

b. **Statement of changes in Equity for the year ended 31 December 2012**

	Share Capital	Share Premium	Revaluation Surplus	Retained Earnings	Total
	₦'000	₦'000	₦'000	₦'000	₦'000
Balance as at 1/1/2012	105,000	6,400	-	55,600	167,000
Issue of shares	10,000	2,000	-	-	12,000
Profit for the year	-	-	-	174,498	174,498
Fair value gain	-	-	12,333	-	12,333
Realised during the year	-	-	(237)	237	-
Dividend paid	-	-	-	(25,300)	(25,300)
Balance 31/12/2012	115,000	8,400	12,096	205,035	340,531

	₦'000	₦'000
i. Revaluation of leased property		
Cost as at 1/1/2012		125,000
Accumulated depreciation as at 1/1/2012	35,000	
For the eight months to 1/9/2012:		

8/12 of 125,000 ÷ 25 years	3,333	38,333
		86,667
Value of leased property		99,000
		(12,333)

c (i) A financial asset is any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

(ii) The classes of financial assess and how each is valued are as follows:

Classification	Measurement
• Financial assets at fair value through profit or loss	Fair value through income statement
• Held-to-maturity investments	Amortised cost
• Loans and receivables	Amortised cost
• Available-for-sale	Fair value through other comprehensive income

d. i. Basic Earnings per share:

$$EPS = \frac{\text{Profit for the year}}{\text{No of ordinary shares issued}} \times \frac{100}{1}$$

$$= \frac{₦174{,}498{,}000}{230{,}000{,}000 \text{ shares}} \times \frac{100}{1} = \underline{75.87 \text{ kobo}}$$

ii. Diluted Earnings per share:

Conversion of loan note = $\frac{₦10{,}000{,}000}{100}$ x 3shares = 300,000 Shares

$$EPS = \frac{₦174{,}498{,}000 + \text{Interest of } ₦600{,}000}{230{,}000{,}000 + 300{,}000 \text{ shares}} \times 100 = \underline{76 \text{ kobo}}$$

iii. P/E ratio = $\frac{\text{Market Price Per Share}}{\text{EPS}}$

$$= \frac{₦2.54}{₦0.7587} = \underline{3.35 \text{ Times}}$$

e (i) Biological Asset is defined as a living animal or plant. Entities are required to recognise biological assets or agricultural produce when and only when, all of the following conditions are met:

e (ii) The entity controls the asset as a result of past events;

- It is probable that future economic benefits associated with the asset will flow to the entity; and
- The fair value or cost of the asset can be measured reliably.

EXAMINERS' REPORT

The question tests candidates' ability to prepare IFRS compliant Financial Statements. It also tests candidates' knowledge of financial assets and its classification and measurement as well as accounting ratios and biological assets.

Majority of the candidates attempted the question and performance was poor. Candidates' commonest pitfalls are:

- **Poor presentation of Financial Statement**
- **Inability to treat items as required by IFRS recommendation**
- **Inability of candidates to correctly define biological and financial assets**

Candidates are advised to study properly the newly introduced IFRS requirements, and also ensure that they cover the syllabus adequately for better performance in future.

QUESTION 2

(a) **RECEIVER'S RECEIPTS AND PAYMENTS ACCOUNTS**

Receipts	**₦'000**	**Payments**	**₦'000**
Surplus on fixed assets (₦22,500 – ₦15,000)	7,500	Receivers Expenses	9,250
		Receiver's Remuneration	16,920
Remaining Plant and Machinery	246,500	Pref. Creditors (W.I.)	80,100
		10% Loan Notes	120,000
		Accrued Loan Notes Interest to 31 March 2011	6,000
		Accrued loan int. (w2)	5,000

		Cash balance to liquidator	16,730
	254,000		254,000

(b) **LIQUIDATORS RECEIPTS AND PAYMENTS ACCOUNT**

Receipts	**₦'000**	**Payments**	**₦'000**
Cash balance from receiver	16,730	Liquidators expenses	15,850
Inventories	76,330	Liquidators Remuneration	24,740
Receivables	108,930	Unsecured creditors (W.I.)	151,400
Call on partly paid ord. Shares (W3)	35,143	Pref. share capital (₦30,000 x ₦1.10)	33,000
		Refund to fully paid ord. Shareholders (W.3)	12,143
	237,133		237,133

Working Notes:

W1: Analysis of Creditors:

	Preferential ₦'000	Unsecured ₦'000
Account payable – others (₦193,000 – ₦116,500)	-	76,500
Income Tax	48,000	36,400
PAYE Deduction	9,600	-
Loan for salaries	18,700	-
Pension fund contribution	3,800	-
Directors guarantee	-	20,000
Bank overdraft (₦38,500 – ₦20,000)	-	18,500
	80,100	151,400

W2: Accrued Loan Interest

Interest – April to August = 10% x ₦120,000 x $^{5}/_{12}$ = ₦5,000

W3: Call on partly paid up ordinary shares.

	₦'000
Cash in Liquidators hand after	
Discharging unsecured creditors	10,000
5% pref. Share capital (₦30,000 x ₦1.10)	(33,000)
Ordinary share capital (250,000 +	(310,000)

60,000)	
Total deficiency	(333,000)

Deficiency per ord. Share = Total deficiency / Nominal value of ord. Shares

= ₦333,000 / 350,000 = ₦0.951428571

Call on partly paid ord. Shares = (0.951428571 – 0.60) x 100,000 = ₦35143

Refund on fully paid ord. Shares = (1-0.951428571) x 250,000 shares = ₦12,145

EXAMINERS' REPORT

This question tests principles of liquidation/winding up of companies and candidates were required to prepare receiver's and liquidator's receipt and payment accounts.

Majority of the candidates attempted the question and performance was average.

Some of the pitfalls of the candidates are as follows:

- **Inability to distinguish between items that should be treated in receivers and liquidators accounts.**
- **Inability to recognize differences between preferential, secured and unsecured payable.**
- **Inability to correctly reflect the order of payments to creditors despite the fact that this was clearly stated in the question.**

Candidates are advised to pay more attention to all sections of the syllabus in order to improve on their performance in future.

QUESTION 3

(a) An impairment loss is the amount by which the carrying amount of an asset or a cash generating unit exceeds its recoverable amount.

(b) The following external sources of information may indicate that an asset is impaired.

(i) There are observable indications that the assets value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.

(ii) Significant changes with an adverse effect on the entity have taken place during the period or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated.

(iii) The carrying amount of the net asset of the entity is more than its market capitalization.

(iv) The carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statement of the investee's net asset, including associated goodwill, or the dividend exceeds the total comprehensive income of the subsidiary, joint venture or associates in the period the dividend is declared.

(v) Market interest rate or other market rate of return on investment have increased during the period and those increases are likely to affect the discount rate used in calculating the asset value in use and decrease the assets recoverable amount materially.

c. **EZEKILEM PLC GROUP**
EXTRACT OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	₦'000
Assets	
Non-Current Assets	
Property, Plant and Equipment (100,000 + 80,000)	180,000
Goodwill (WK)	13,468
Intangible-brand name (WK1)	10,000
	203,468
Current Assets	
Inventory (6,000 + 16,000)	22,000
Receivables (32,000 + 14,000)	46,000

Cash (4,000 + 0 + 4,000)	8,000
	76,000
Total Assets	279,468

Workings

i. Goodwill

	₦'000	₦'000
Consideration transferred		77,468
Fair value of NCI		18,000
Net Asset acquired as represented by:		95,468
Ordinary share capital	50,000	
Revaluation surplus on acquisition	10,000	
Retained earnings on acquisition	12,000	
Intangible assets (brand name) (wk 1)	10,000	(82,000)
		13,468

Note

The deferred consideration has been discounted at 7% for 2 years (1st July 2011 – 1st July 2013).

EXAMINERS' REPORT

The question tests candidates' knowledge on Impairment of Assets (IAS 36) and preparation of Consolidated Statement of Financial Position.

Most candidates attempted the question and performance was above average. However, few of the candidates could not correctly define impairment of assets in accordance with IAS 36 while others found it difficult to correctly state sources of external information that could give an indication that an asset is impaired.

Candidates should realise that provisions of IFRS would feature regularly in Financial Accounting paper hence they are advised to pay more attention to this area of the syllabus.

QUESTION 4

a (i) **AJALON CONSTRUCTION COMPANY**

CONTRACT ABJ 441 ACCOUNT AS AT 31 DECEMBER 2012

	₦'000		₦'000
W.I.P b/f	480,820	Materials transferred	15,600
Material sent to site	310,600	Materials returned to store	28,440
Site direct wages	188,900	Plant at site 31 December 2012	421,600
Site direct expenses	55,400	W.I.P c/f	1,611,512
Plant at site 1 Jan	605,000		
Site overhead	41,350		
Professional charges	50,460		
Sub contract cost	28,650		
Penalties	10,700		
Site insurance expenses	7,350		
Hire of special plant	5,040		
Head office overhead	37,780		
Profit for the year	255,102		
	₦2,077,152		₦2,077,152
W.I.P b/f	1,611,512		
Plant at site b/f	421,600		

ii. **Contractee's Account AS AT DECEMBER 2001**

	₦'000		₦'000
Value of certificate	1,500,000	Cash Received	1,350,000
		Retention	150,000
	1,500,000		1,500,000

iii. VALUATION OF W.I.P. FOR DISCLOSURE

	₦'000
W.I.P per account	1,611,512
Less:	
Progress payment cash received	1,350,000
	261,512

Workings Notes:

1. Determination of estimated total contract profit:

	₦'000	₦'000
Contract price		2,000,000
Deduct:		
i. Cost or Expenditure to date:		

Total resources input	1,822,050	
Less: Unused resources:		
Materials transferred	(15,600)	
Materials returned to store	(28,440)	
Plant at site 31 December 2012	(480,820)	
Profit included in W.I.P	(105,900)	
	1,191,290	

ii. Add: further cost to completion:		
Material	56,250	
Direct wages	31,420	
Site overhead	17,500	
Head office overhead	6,284	
Depreciation (480,820 – 264,900)	215,920	
Estimated total contract cost		(1,518,664)
Estimated total contract profit		₦481,336

2. Determination of profit recognised to date

$$\frac{\text{Value of certificate}}{\text{Contract price}} \times \text{Estimated contract profit}$$

Value of certificate = ₦1,350,000 ÷ 0.9 = ₦1,500,000

$$= \frac{₦1,500,000}{₦2,000,000} \times \frac{₦481,336}{1} = ₦361,002$$

3. Profit recognised in the year:

	₦
Profit recognised to date	361,002
Less: profit previously recognised	(105,900)
	255,102

(b) The two methods of recognizing profit in long-term construction contracts are:

i. Percentage of completion method
ii. Completed contract method

EXAMINERS' REPORT

The question tests candidates' understanding of the preparation of Contract Account, valuation of work in progress and profit recognition in contract accounts.

Majority of the candidates attempted the question and were able to make correct postings in the Contract Accounts, however, most of the candidates did not understand how to calculate the work in progress correctly. Contractee Accounts could not be correctly prepared by some candidates that attempted the question, hence performance was below average.

Candidates are advised to ensure that they cover the syllabus for better performance in future.

QUESTION 5

(a) Procedure for creating a new company from the default page of Peachtree.

i. Left-click on create a new company.
ii. Create a new company window appears, then left-click on next.
iii. Enter your company information window appears, then complete the information required and left-click on next.
iv. Select a method to create your company window appears, then select the desired method and left-click on next.
v. Select a business type window appears, then select the business type and left-click on next.
vi. Choose a posting method window appears, then select the desired posting method and left-click on next.
vii. Choose an accounting period structure window appears, then select the accounting period and left-click on next.
viii. Choose the first period of your fiscal year window appears, then select the first period of your fiscal year and left-click on next.
ix. You are ready to create your company window appears, left-click on finish and the company's date files will be created.

b. Substance over form

This requires that transactions and other events should be accounted for and presented in accordance with their economic substance and financial reality, and not merely with their legal form.
In many situations, the substance of a transaction is the same as its legal form, particularly where such transactions are complete (e.g. in leases, revenue, business combination, taxes, financial instruments and/or hire purchase etc).

c (i) **Annuity Suspense Account**

	₦'000		₦'000
31/12/10 Annuity payable	950	31/12/10 Charles	10,000
Bal c/d	9,250	31/12/10 Income Statement	200
	10,200		10,200
31/12/11 Annuity payable	950	1/1/11 Bal b/d	9,250
Income statement	200		
Bal c/d	8,100		
	9,250		9,250
31/12/12 Annuity payable	950	1/1/12 Bal b/d	8,100
Income statement	300		
Bal c/d	6,850		
	8,100		8,100

(ii) Annuity Payable Account

	₦'000		₦'000
31/12/10 Cash	855	31/12/10 Annuity suspense	950
31/12/10 WHT	95		
	950		950
31/12/11 Cash	855	31/12/11 Annuity suspense	950
31/12/11 WHT	95		
	950		950
31/12/12 Cash	855	31/12/12 Annuity suspense	950
31/12/12 WHT	95		
	950		950

EXAMINERS' REPORT

This is a three part question. Part (a) of the question tests the candidates' knowledge of how to use Peachtree Accounting Packages while Part (b) tests candidates understanding of the concept of substance over legal form of a transaction. Also, part (c) was on preparation of Annuity Accounts.

Few of the candidates attempted the question and performance was poor. Some of the pitfalls noted are as follows:

- **Inability of candidates to highlight steps required for creating a new company from the default page of Peachtree Accounting Package.**

- **Lack of knowledge of the concept of substance over legal form.**

- **Inability to generate correct figures to be posted into the various Annuity Accounts.**

Candidates are advised to cover the syllabus particularly the areas relating to Information Technology and miscellaneous accounts for better performance in future.

QUESTION 6

(a)(i) The differences between 1AS 26 - Accounting and Reporting by Retirement Benefit Plan and IAS 19 - Employee Benefits are:

- IAS 26 addresses the financial reporting considerations for the benefit plan itself as the reporting entity while IAS 19 deals with employees' accounting for the cost of such benefits as they are earned by the employees
- These standards are thus somewhat related, but there will not be any direct inter-relationship between the amounts reported in benefit plan financial statements and amounts reported under IAS 19 by employees.
- IAS 26 differs from IAS 19, Employee Benefits, in allowing a choice of measurement based either on current salary levels or projected salary levels. IAS 19 requires an actuarial valuation to be based on the latter, whereas IAS 26 requires valuation based on present value of promised retirement benefits.

(ii) Defined Benefit Plan (DBP)

Defined benefit plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formular usually based on employees' earnings and/or years of service.

(iii) Defined Contribution Plan (DCP)
Defined contribution plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by contributions to a fund together with investment earnings thereon.

(iv) Actuarial present value of promised retirement benefits: This is the present value of the expected payments by a retirement benefit plan to existing and past employees attributable to the service already rendered.

b(i) **Investment in 4% Enugu State Stock Account**

Date		Units	Income	Value	Date		Units	Income	Value
			₦	₦				₦	₦
2/7/12	Bank (W1)	120,000	400	108,320	1/12/12	Bank-Int	-	2,400	-
31/12/12	Income Statement	-	2,400	-	31/12	Accrued Interest (Dec)	-	400	-
					31/12/12	Bal c/d	120,000	-	108,320
		120,000	2,800	108,320			120,000	2,800	108,320

Investment in 3% Sokoto State Stock Account

Date		Units	Income	Value	Date		Units	Income	Value
			₦	₦				₦	₦
2/7/12	Bank	120,000		85,320	2/7/12	Capital Accrued Interest (Dec)	-	1,500	-
31/12/12	Income	-	-	1,500	31/12/12	Accrued Interest (Dec)	-	300	-
31/12/12	Income Statement		1,800		31/12/12	Bal c/d	120,000	-	86,820
		120,000	1,800	108,320			120,000	1,800	86,820

Workings

1. Purchase of 4% Enugu State Stock – Com Div

	₦
Cash paid 120,000 at 88	105,600
Brokerage	3,120
	108,720
Cum-Div interest (1/06/12 – 30/06/12	
x $^1/_{12}$ x 4% x ₦120,000	(400)
	108,320

2. Interest on 4% Enugu State
Stock on 1/12/12 = ₦120,000 x 4% x $^6/_{12}$ = ₦2,400

3. Accrued interest – 1/1/12 – 31/12/12
= 120,000 x 4% x $^1/_{12}$ = ₦400

4. Purchase of 3% Sokoto State Stock – Com Div

Cash paid 120,000 at 69	82,800
Brokerage	2,520
	85,320

5. Accrued interest – 1/1/12 – 31/12/12
= ₦120,000 x 3% x 1/12 = ₦300

(ii) **Trustees Bank Account**

	₦		₦
1/7/12 Pension Fund	800,000	Investments	
31/12 Pension Fund		4% Enugu	108,720
- Employees	120,000	3% Sokoto	85,320
- Employees	360,000	Pension funds	
Investment Income		- Expenses	8,000
- Enugu	2,400	- Pension paid	100,000
-		Balance c/d	980,000
-	1,282,400		1,282,400
-			

iii. **Trust Fund Revenue Account for six month period ended 31/12/12.**

Interest income (2,400 + 1,800)	4,200
Sundry Expenses	8,000
Loss	3,800

EXAMINERS' REPORT

This is a two part question. Part (a) tests the candidates' understanding of the differences between IAS 26 and IAS 19 on retirement benefit and employee benefit plan. While part (b) of the question required candidates to prepare Investment Account and Trustee Bank Account.

The performance of the few candidates that attempted the question was very poor. Majority of the candidates that attempted the question could not prepare the Investment Accounts while other could not highlight the differences between IAS 26 and IAS 19.

Candidates are advised not to neglect any area of the syllabus while preparing for the Institute examinations.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

PROFESSIONAL EXAMINATION I – MAY 2013

ADVANCED AUDIT AND ASSURANCE

Time Allowed: 3 hours

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

MULTIPLE-CHOICE QUESTIONS

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

1. The audit engagement partner is responsible for

   A. Audit engagement assignments at the end of each month
   B. All the audit engagements of the firm
   C. The first audit engagement of each month
   D. Each audit engagement assigned to the firm
   E. Each audit engagement assigned to him

2. The following are advantages of joint audit **EXCEPT**

   A. It improves the auditor's skill
   B. Audit risk may be minimised
   C. Audit fees are shared in agreed ratios
   D. It allows for exchange of ideas and techniques
   E. Liability for negligence of each firm is jointly shared

3. The need for effective corporate governance is mostly pronounced in

   A. Joint venture business
   B. Public service
   C. Sole proprietorship business
   D. Public Limited company
   E. Limited liability company

4. Which of these may **NOT** be considered a feature of the professional ethics of the Institute of Chartered Accountants of Nigeria?

   A. Confidentiality
   B. Nationalism
   C. Independence
   D. Conformity with standards
   E. Designatory letters

5. Which of the following documents is **NOT** generated in the audit of a public limited company?

   A. Management Letter
   B. Directors' Letter
   C. Engagement Letter
   D. Management Representation Letter
   E. Letter of Weakness

6. Assigning an audit team that is appropriately experienced and qualified for a particular audit is the responsibility of

   A. Audit Manager
   B. Senior Partner
   C. Principal Partner
   D. Engagement Partner
   E. Managing Partner

7. Corporate governance established in public limited companies may ensure all the following **EXCEPT**

   A. Transparency and accountability in running the entities
   B. Effective and efficient operation of internal control
   C. Compliance with statutory laws of the country
   D. Profitability and liquidity of the company
   E. Ensuring rights and priviledges of the shareholders

8. Which of the following documents is **NOT** necessarily useful when carrying out the audit of public sector organisations?

   A. Treasury Circulars
   B. Financial Regulations
   C. Constitution of the Federal Republic of Nigeria
   D. Articles of Association
   E. Audit Act of 1956

9. The report of the Auditor-General for the Federation is received by.................Committee which has constitutional power to invite any person indicted to come for public hearing

   A. Audit Alarm
   B. Audit
   C. Public Accounts
   D. Ad-hoc
   E. Joint Assembly

10. The reporting accountant normally writes a letter to support the mentioning of his name in the prospectus. This letter is known as Letter of

    A. Support
    B. Confirmation
    C. Comfort
    D. Consent
    E. Representation

11. In appraisal of expectation gap, performance gap is caused by all of the following **EXCEPT**

    A. Inadequate technical skills
    B. Unreasonable audit budget
    C. Wrong perception of auditor's opinion by the user of financial statements
    D. Insufficient audit evidence obtained
    E. Outdated knowledge

12. Which of the following reports was **NOT** used in the development of Combined Code of Corporate Governance?

    A. Turnball report
    B. Cadbury report
    C. Maxfield report
    D. Hempel report
    E. Greenbury report

13. Which of the following statutory laws is **NOT** relevant to a quoted Nigerian bank?

    A. Central Bank of Nigeria Act
    B. Companies and Allied Matters Act
    C. Nigerian Stock Exchange rules and regulations
    D. Banks and Other Financial Institutions Act
    E. Financial Memoranda Act

14. Internal control is ineffective when computer department personnel

    A. Participate in the installation of the computer system
    B. Originate changes in master files
    C. Provide physical security for program files
    D. Design documentation for computerised systems
    E. Participate in computer software acquisition decision

15. Sarbanes-Oxley Act (2000) requires that audit working papers should be retained by the auditor for at least

    A. 10 years
    B. 7 years
    C. 5 years
    D. 4 years
    E. 3 years

16. The Computer Assisted Audit Technique that the auditor would employ to best advantage when auditing a data based management system is

A. A purpose-written program
B. Utility program
C. Embedded audit facility
D. Package program
E. Test data

17. The key audit objectives of a client's payroll include the following **EXCEPT** to

A. Test the accuracy of compensation earned under profit-sharing or bonus plans
B. Determine unrecorded liabilities
C. Determine the reasons for significant fluctuations in salaries, wages and commissions
D. Obtain an understanding of the internal control over payroll
E. Determine pension liabilities by reference to authorised pension plans and supporting records

18. In an IT-based system, the auditor should document the system control using systems

A. Monitoring charts
B. Control charts
C. Flow charts
D. Algorithm charts
E. Processing charts

19. The primary functions of the Board of Directors in Corporate Governance do **NOT** include

A. Selecting, evaluating and/or replacing the Chief Executive Officer
B. Reviewing and approving the major strategies of the organisation
C. Preparing and approving the financial statements and other policies of the organisation
D. Advising management on significant issues facing the organisation
E. Overseeing processes for evaluating the adequacy of enterprise risk management and compliance

20. The auditor will not be liable for client's losses **EXCEPT** where

   A. He conducted the audit with due diligence
   B. The client's losses were not caused by misstated financial statements
   C. The statute of limitation had expired
   D. The client's loss is not substantial
   E. The client knew of the financial misstatements

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

SHORT-ANSWER QUESTIONS

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

1. A company switching to IFRS for the first time may have to .... additional assets and liabilities in order to make the financial statements IFRS compliant.

2. The users of audited financial statements expect auditors to use their professional experience and technical skills in carrying out audits. Where the performance falls short of this, there is .... gap.

3. An assignment in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users is called ....

4. Computer audit programs and files that are permanently integrated within the client's computerized accounting application and used by auditors for performing audit tests are known as ....

5. Whenever going concern problem is identified, the Auditing Guidelines state that the auditor should qualify the audit report with .... opinion.

6. In relation to computer system, a code involving an access restriction control mechanism to prevent unauthorised access to information is called ....

7. When an asset falls in value and this fall is not because of normal consumption (i.e. due to depreciation and amortisation) this reduction is referred to as ....

8. IAS 31 recognises that a .... is a contractual arrangement when two or more parties come together and form an economic activity in which both or all parties have joint control.

9. Any contract that gives rise to both financial asset of one entity and financial liability or equity instrument of another entity is a ....

10. The aggregate of short-term, highly liquid investments which are readily convertible into known amount of cash without any insignificant risk of changes in value in cash flow statement is referred to as ....

11. A network that connects computer and peripheral equipment within a local area such as single building or a small cluster of buildings for intra-company use is ....

12. The portion of auditor's working paper containing the detailed accounts from the general ledger making up the line item total in the working trial balance is called ....

13. The possibility that the auditor will draw an invalid conclusion from his compliance and substantive tests is known as ....

14. The deposit which an Insurance company is required to maintain with the Central Bank of Nigeria at all times and which is not available for use by the Insurance Company except in limited circumstances as may be approved by the National Insurance Commission is called ....

15. A present obligation of an enterprise arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits is known as a ....

16. ISA 240 deals with the guidelines on how the auditor is to handle the possibility of the .... of fraud and error.

17. A situation where an auditor or person faces a decision that affects the welfare of others and/or exhibits inappropriate behaviour is called ethical ....

18. The application of compliance or substantive procedure to less than 100% of the items within a class of particular transactions is called ....

19. Where a client imposes a significant restriction on the scope of the audit, the auditor should give ………………… opinion on the financial statements.

20. The procedure that involves computation of ratios, studying of trends and the use of statistical formulae to obtain audit evidence is known as ………………….

SECTION B: ATTEMPT QUESTION ONE AND ANY OTHER THREE QUESTIONS (60 Marks)

QUESTION 1

CASE STUDY

BELONEY LIMITED

In the course of the audit of Beloney Limited for 2012, areas of exceptions were discovered where vital documents were removed from the Information Technology (IT) department. There were also obvious duplication of duties in some units in the department. These weakened the internal control system and made the work of verification of some audit evidence fairly difficult.
However, with a lot of assumptions, the auditors were able to conclude the exercise and issued a qualified audit report.

In addition, Beloney Limited is currently engaged in an expansion program which necessitated some essential expenses in the 2012 accounts. The company also developed an additional product named "LIQUID" the same year.

You are required to:

a. Identify **TEN** mitigating controls that may address or monitor a lack of segregation of duties in the IT department. (10 Marks)

b. Present the basic information you expect to see in the sub business plan leading to the expansion programme. (5 Marks)

(Total 15 Marks)

QUESTION 2

Oil and Gas Limited is a company involved in the upstream petroleum activities in the Vanguard Delta. The restiveness of the youth in this area of operation was a result of environmental degradation of the region. Your firm has just been appointed as the auditor of the company. During preliminary planning stage of the audit, you realised that the environmental issues could have impact on the financial statements.

You are required to:

a. Present **EIGHT** steps you would include in the audit process in order to highlight environmental issues that may be apparent in the client's business. (8 Marks)

b. Explain **SEVEN** major social issues that an auditor will be concerned with in a company's social policy report. (7 Marks)

(Total 15 Marks)

QUESTION 3

The Federal Government of Nigeria recently received a team of foreign investors to invest in the on-going privatisation of the Banana Holding Company of Nigeria (BHCN), a major electricity supplier.

One of the investors, Pandora Plc, is interested in a subsidiary of BHCN and wants to be sure of the financial position presented and requests for a medium sized audit firm to carry out the investigation.

You are required to:

a. Compare your role as a statutory Auditor with that of a Due Diligence Assurance provider. (8 Marks)

b. Identify the steps involved in carrying out a due diligence assignment. (3 Marks)

c. Assess the extent to which the application of auditing standards and guidelines can be relevant to assurance engagements and audit assignments. (4 Marks)

(Total 15 Marks)

QUESTION 4

a. Analyse and evaluate any **FOUR** fundamental principles of ethical standards as provided in the Institute of Chartered Accountants of Nigeria's Code of Professional Conduct for Accountants. (4 Marks)

b. Outline the penalties for a member's unethical behaviour. (4 Marks)

c. Outline the powers available to the Institute to enforce the ethical standards. (7 Marks)

(Total 15 Marks)

QUESTION 5

Your firm has been invited to carry out the audit of a multi-billion dollars old people's home project in Lome Togo. The project is financed solely by donations from non-governmental organisations (NGO) in that country.

a. What steps would you take in the assessment of the system of internal control as it affects the local operations? (8 Marks)

b. Identify the contents of an audit report assuming that there are no reasons to qualify the report. (7 Marks)

(Total 15 Marks)

QUESTION 6

In connection with accountancy and audit, an expert or specialist is a firm or person that possesses special skills in a profession other than accountancy.

You are required to:

c. Assess the audit significance of evidence from experts. (2 Marks)

b. Identify **FIVE** items on which evidence from experts may be required and justify the need to consult an expert on each item. (10 Marks)

c. Identify **THREE** factors to be considered before placing reliance on the report of a specialist. (3 Marks)

(Total 15 Marks)

SOLUTIONS TO SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

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

EXAMINERS' REPORT

The questions test almost all aspects of the syllabus.

Most candidates understood the questions and performance was good.

PATHFINDER

PART II **SHORT-ANSWER QUESTIONS**

1. Recognize/Derecognize/Measure/Reclassify/Revalue
2. Performance
3. Assurance Engagement
4. Integrated/Embedded Audit Facilities
5. Subject to
6. Password
7. Impairment
8. Joint Venture
9. Financial Instrument
10. Cash and Cash Equivalent
11. Local Area Network (LAN)
12. Lead Schedule
13. Audit Risk
14. Statutory Deposit
15. Liability
16. Occurrence
17. Dilemma
18. Audit Sampling
19. Disclaimer
20. Analytical Review

EXAMINERS' REPORT

The questions test most aspects of the syllabus.
Most candidates did not understand the questions and performance was average.

The commonest pitfall of the candidates was lack of indepth understanding of the requirements of the questions.

Candidates are advised to prepare adequately for the examinations.

SOLUTIONS TO SECTION B

QUESTION 1

(a) The mitigating controls that may address or monitor the lack of segregation of duties include:

- Use of password by each operator
- Provision of a log book for all activities in the IT Department
- Restriction of access to IT Department
- Approval limits for transactions, and changes in systems
- Serialisation of documents to ensure that none is missing
- Rotation of staff within the IT Department
- Evidence that there is acknowledgement of work performed by each staff
- Lines of responsibility should be clearly identified
- The unit in charge of custody of records and documents should be separated from other units in the IT Department
- Policy statements/directives by management for IT Department should be in place
- Supervisory controls should be put in place
- Alteration controls in respect of transactions should be instituted by management
- Programmer access to production objects is limited to read-only by using in-built system security features.
- Operations personnel are restricted to an initial program and/or an initial menu thereby restricting processing options.
- Limited capabilities and attention-key-handling are set to prevent MIS and end-user personnel from modifying their initial program and/or an initial menu.
- Object descriptions, which include date of last change, are compared periodically to approved program change forms
- Production source code is maintained off-line

b. The basic information include:

- Cash flow projections
- Income statement projection
- Capital project cost
- Source of financing

- Marketing strategies
- Technical personnel and technology requirements
- Source of equipment and software
- Seeking approval from Regulatory Agency
- Legality - is the product within the objects of the Memorandum and Articles of Association of the company?
- Assumptions and risk analysis undertaken for the expansion

EXAMINERS' REPORT

The question is in two parts.

Part (a) tests candidates' knowledge and understanding of controls needed in an IT Department where there is no segregation of duties; while part (b) tests for information expected to be found in a business plan.

Candidates lacked good understanding of both parts of the question and performance was poor.

Candidates are enjoined to prepare well for the examinations.

QUESTION 2

a. Steps in the audit process which will highlight environmental issues are as follows:

   i. Review of environmental impact analysis report.
   ii. Evaluation of possible risk of misstatements in the financial statements.
   iii. Controls which are in place to identify risk should be looked into.
   iv. Obtain an understanding of the control environment operations, particularly its environmental issues.
   v. Obtain written representation from management on any environmental matters.
   vi. Obtain evidence from environmental experts where necessary.
   vii. Seek corroborative evidence of any statements by management.

viii. Consider minutes of directors, board committees or environmental officers meetings.

ix. Review compliance with laws, regulations and standards.

x. Review contingencies and ensure adequate disclosure.

xi. Include environmental issues in the review of the appropriateness of going concern.

xii. Use professional judgment to consider whether the evidence in relation to environmental matters is sufficiently persuasive.

xiii. Prepare a checklist of guidelines and standards to be complied with.

b. The auditor will need to know what the company has been doing or intends to do in respect of its social policy. The auditor should consider the following:

i. Verify whether human rights are not violated.

ii. Consider restiveness of stakeholders.

iii. Look into the health, safety and environmental policy and procedures.

iv. Assess and report on environmental performance of the company.

v. Look into the corporate social responsibility performance of the company.

vi. Look into the economic empowerment of members of host community by the company.

vii. Access the development of host community.

viii. Access charitable donations made by the company.

ix. Verify that child labour is not practised by the company.

EXAMINERS' REPORT

The question is in two parts.

Part (a) tests candidates understanding of the audit process in an environmentally affected community while part (b) tests the social issues that concern an auditor in a company's corporate social responsibility.

About 35% of the candidates attempted the question and demonstrated little understanding of it resulting in poor performance.

Candidates need to improve their knowledge and understanding in all the areas of the syllabus.

QUESTION 3

a. The roles of a statutory auditor as compared with that of a due diligence assurance provider are as follows:

   i. The scope of service of a statutory auditor is defined by statute while that of due diligence provider is limited to client's terms of reference.

   ii. The report content of due diligence assignment is determined by terms of the engagement but that of a statutory auditor is dependent on statute and guidelines.

   iii. In statutory financial statements, assumptions for reports requiring adjustments to be made are those scheduled as accounting principles in CAMA CAP 20 LFN 2004 while it may be totally invalid for acquisition reports for due diligence.

   iv. Materiality is interpreted in accordance with aim of reporting on truth and fairness for statutory audits while materiality is based on the clients outlook and future relevance in due diligence exercise.

   v. Due diligence report is addressed to directors of client company, while that of statutory audit is addressed to shareholders.

   vii. Acceptability of the information and records provided by management is dependent on independent verification and supporting evidence in a statutory audit environment. On the other hand, the information provided for due diligence is accepted on its facial value unless it is seen as clearly unreliable.

b. Steps involved in carrying out a due diligence engagement include:

   i. Obtain letter of appointment

   ii. Obtain terms of reference

   iii. Plan for the assignment/engagement

   iv. Gather evidence/information

   v. Analyse evidence and information gathered

   vi. Write report

N.B. Candidates are advised to list the steps in the above order.

c. The extent to which the application of auditing standards and guidelines can be relevant to assurance engagement and audit assignment.

AUDIT ASSIGNMENT	ASSURANCE ENGAGEMENT
Auditors are guided by standards and guidelines.	May apply understanding and knowledge of auditing standards and guidelines in approaching the assignment at hand.
Auditor must form an opinion whether the financial statements presented show a true and fair view as at a particular date.	Write report on specific assignment given by client.

EXAMINERS' REPORT

The question tests candidates' knowledge and understanding of the differences and similarities in the role of statutory auditor and a due diligence service provider. About 40% of the candidates attempted the question and they demonstrated poor understanding of the requirements of the question and performance was poor.

Commonest pitfalls of the candidates include:-

i. **Inability to differentiate the functions of a statutory auditor with that of a due diligence provider.**

ii. **Inability to state the steps required in carrying out a due diligence engagement.**

Candidates are advised to cover the syllabus adequately before registering for the examinations.

QUESTION 4

(a) The ethical standards as contained in the ICAN Code of Professional Conduct for members are fundamental principles and statements. These principles are drawn from the duties owed by all members of the profession. They are framed in broad and general terms and constitute basic advice on professional behaviour. These principles are:

i. Behave with integrity in all professional and business relationships. Integrity implies not only honesty but fair dealing and truthfulness.

ii. Strive for objectivity in all professional and business judgments. Objectivity is the state of mind which has regard to all considerations relevant to the task at hand.

iii. An accountant should not accept work which is beyond his or her competence unless he or she receives advice and assistance that will enable the work to be performed competently.

iv. An accountant should carry out professional work with due skill, care and diligence expeditiously with proper regard for the technical and professional standards.

v. An accountant should be courteous and considerate towards all with whom he comes into contact during the course of performing his work.

vi. Independence: The concept of auditor's independence is an attitude of the auditor's integrity and professional approach to his work. In essence, the auditor should not be involved in any relationship with his client which may cast doubts in the minds of users of the financial statements. Therefore, the auditor should not only be independent of his clients at all times, he must be seen to be independent.

vii. Confidentiality: A member in practice acting in a professional capacity, will have unrestricted access to so much information of a private nature. Therefore, it is essential that he treats such information as available to him for the purpose of carrying out the professional duties for which he has been engaged. Consequently, to disclose such information about a client's affairs would be a breach of professional confidence, which could have serious legal and professional consequences.

b. An erring member may be taken to the Institute's Disciplinary Committee and if found guilty will be sanctions.
The penalties include:
   i. Suspension for a period of time.

   ii. Warning, which may be published in the National Dailies.

iii. Withdrawal of ICAN certificate and removal of member's name from the register.
iv. Payment of fines.
v. Payment of costs associated with the investigation.

c. The powers are derived from the Institute of Chartered Accountants of Nigeria Act No 15 of 1965.
The powers available to the Institute to enforce the ethical standards are

i. The powers are conferred on the Accountants Disciplinary Tribunal, and the Tribunal is independent of the Council.

ii. The Investigating Panel considers complaints against the conduct of members, and is empowered to initiate disciplinary action by referring appropriate cases to the Disciplinary Tribunal.

iii. Where a complaint is against the conduct of a firm having more than one partner, the complaint shall be deemed to have been made against each and every member who was partner in the said firm at the material time for the purposes of this statement.

iv. Any failure to follow the guidance in fundamental principles or in the statements shall also be taken into account by the Committee of the Institute responsible for regulating the work of members and member firms.

EXAMINERS' REPORT

The question tests ethical standards as contained in ICAN's Code of Professional Conduct for Accountants.

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

QUESTION 5

a. Steps that should be taken in assessing the system of internal control as it affects the local operations of the NGO include:-

   i. Ascertain and record the system of internal control in place

   ii. Assess the effectiveness of the system of internal control using evaluation questionnaires (ICEQ) Internal Control Evaluation Questionnaires

   iii. Carry out a walk through test

   iv. Review the work of the Internal Auditor, if any

   v. Carry out compliance tests

   vi. Observe some of the controls in operation with a view to assessing their level of reliability.

b. Contents of an audit report include:

   i. Title or Heading of Report
   ii. Addressee
   iii. Introduction – Identification of financial statements
   iv. Respective responsibilities of Directors and Auditors
   v. Scope of work done
   vi. Reference to standards e.g. ISAs
   vii. Basis of opinion
   viii. Opinion
   ix. Auditors name(s), signature and date
   x. Location

N.B.: Candidates are advised to list the steps in the above order.

EXAMINERS' REPORT

The question tests candidates knowledge of internal control, and the contents of an audit report.

About 90% of the candidates attempted the question but most of them did not understand the question and performance was poor.

The major shortcoming of the candidates was their inability to understand the requirements of the question.

Candidates are enjoined to cover all aspects of the syllabus adequately before entering for examinations.

QUESTION 6

(a) In practice, the auditor may obtain evidence from professionals in other fields which may be relevant in assisting the auditor to form an opinion on the true and fair view of an enterprise's financial statements.

(b) Evidence from experts or specialists may be required in the following areas which the auditor has no expertise:-

- (i) Legal interpretations of statutes, regulations and agreements;
- (ii) Valuation of assets including freehold and leasehold buildings, plant and machinery, works of arts and antiques;
- (iii) Measurement of work done on long-term contracts;
- (iv) Actuarial valuation of the general reserves of a life assurance company
- (v) Legal opinion on the outcome of disputes;
- (vi) Geological determination of mineral reserves;
- (vii) Valuation of specialised assets; e.g. jewelleries and precious stones

(c) Before placing reliance on the report of a specialist or expert, the auditor is advised to take into consideration the following factors:

- (i) The materiality of the issues in question relative to the financial statements;
- (ii) The availability of alternative audit evidence
- (iii) The nature and complexity of the issue in question;
- (iv) The qualifications and experience of the expert

(v) The cost of obtaining the evidence relative to the benefit to be derived from the evidence.
(vi) Independence of the expert to the client.

EXAMINERS' REPORT

The question tests candidates' knowledge of the services of experts in relation to the work of an auditor.

More than 90% of the candidates attempted the question and performance was good.