THE INSTITUTE OF CHARTERED ACCOUNTANTS
OF NIGERIA

PATHFINDER

NOVEMBER 2012 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.

TABLE OF CONTENTS

SUBJECTS	PAGES
FINANCIAL ACCOUNTING	3 – 44
INFORMATION TECHNOLOGY	45 – 67
ADVANCED AUDIT AND ASSURANCE	68 – 90
MANAGEMENT ACCOUNTING	91 – 122

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
PROFESSIONAL EXAMINATION I - NOVEMBER 2012
FINANCIAL ACCOUNTING

Time allowed - 3 hours

SECTION A: Attempt All Questions

PART I: MULTIPLE-CHOICE QUESTIONS (20 Marks)

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

1. Which of the following statements regarding a limited liability company's Statement of Comprehensive Income is correct?

   A. Accounting Standards define the expenses which are reported under "Cost of Sales"
   B. "Depreciation" appears as a separate heading
   C. Interest payable is deducted from profit after taxation
   D. Exchange differences arising from translation of foreign operations are accounted for
   E. Other Comprehensive Income Statement does not report incomes and expenses not recognised in the income statement

2. In which of the following Statement of a bank are Impairment losses on loans and advances accounted for (debited)?

   A. Statement of Comprehensive Income
   B. Statement of Changes in Equity
   C. Statement of Income
   D. Statement of Financial Position
   E. Statement of Cash Flows

3. Which of the following is **EXCLUDED** from the four classes of financial assets?

   A. Measured at fair value through profit and loss
   B. Assets carried at historical cost
   C. Held-to-maturity securities
   D. Available- for- sale securities
   E. Loans and receivables

Use the following information to answer Questions 4 and 5:

The Chief Accountant of Manipon Limited extracted these figures from the financial statements of the company.

	₦
Receivables	5,000,000
Payables	3,000,000
Inventories	2,500,000
10% Loan Note	5,000,000
Cash	2,000,000
Dividend per share	1.50
Earnings per share	2.50
Market value per share	5.50
Nominal value per share	1.00

4. Calculate the Acid Test Ratio

A. 3.67:1
B. 3.50:1
C. 2.33:1
D. 2.23:1
E. 1.50:1

5. Calculate the Dividend Yield

A. 66.70%
B. 60.00%
C. 35.37%
D. 27.27%
E. 18.18%

6. Which of the following is **TRUE** about limited liability companies?

A. When a non-current asset is sold at a profit, it results in revaluation surplus
B. Events after the reporting period of a company which are non adjusting in nature are to be disclosed as notes to the financial statements.
C. The nominal value of shares of a company is a function of the market price of the share

D. The authorised share capital of a company is the total of nominal value of shares and loan stock
E. Retained earnings is a form of capital reserve of a company

7. Becon Limited acquired 60% interest in the ordinary shares of Consteng Limited on 1 January 2011.

The following are extracts of the financial statements of the two companies:

	Becon Limited	Consteng Limited
	₦'000	₦'000
Identifiable assets	40,800	9,960
Investment in Consteng Ltd	3,650	-
	44,450	9,960
Ordinary Shares	30,000	7,000
Identifiable Liabilities	14,450	2,960
	44,450	9,960

Fair value of identifiable assets of Consteng Limited amounted to ₦13,950,000.

Calculate the Goodwill/bargain purchase

A. ₦7,340,000
B. (₦3,650,000)
C. ₦3,350,000
D. (₦2,944,000)
E. ₦2,834,000

8. IFRS 3 (Business Combination) requires that the recognition of contingent consideration should be measured at date of acquisition using

A. Historical Cost
B. Net Present Value
C. Revaluation value
D. Fair value
E. Book value

9. An entity operates on a gross margin of 25%. The gross profit is ₦25,000,000, while the total operating expenses is ₦5,000,000. What is the net profit margin?

   A. 25%
   B. 24%
   C. 20%
   D. 15%
   E. 10%

10. In accordance with IAS 36 on impairment of assets, internal indicators of impairments **EXCLUDE**

    A. Physical damage affecting the asset
    B. Deterioration of the asset
    C. Evidence of obsolescence
    D. Adverse changes in the use to which the asset is put
    E. Rate of annual depreciation

11. In accordance with IAS 1 on presentation of financial statements, which of the following items should appear in the Statement of Changes in Equity?

    i. Amortisation of goodwill
    ii. Dividend paid
    iii. Revaluation surplus
    iv. Taxation
    v. Issue of share capital

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

12. Technical report writing is a special skill that accountants must possess. Which of the following is **NOT** a characteristic of a technical report?

    A. Factual
    B. Conciseness
    C. Economical
    D. Objectivity
    E. Proffers solution

13. According to IFRS 7 (Financial Instrument - Disclosure), the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge the obligation is called……………………..risk.

A. Related party
B. Liquidity
C. Current
D. Financial
E. Credit

14. For a non-current asset to be classified as "held for sale", it must satisfy the following conditions **EXCEPT**

A. Availability for immediate sale in its present form
B. Management is committed to sell
C. Actively marketed for sale at a price that is reasonable
D. Completion of sale within two years of its classification
E. Shareholders' approval, if required

15. According to IFRS 8 (Operating Segments), an operating segment is a component of an entity that does **NOT** engage in

A. Business activities which may earn revenues and incur expenses
B. Reviewing regularly the entity's decision by the chief operating decision maker
C. Making discrete financial information available for the operating segment
D. Reviewing post-employment benefit plans
E. Operating as part of an operating system

16. For an entity that applies IFRS 2 (Share-Based Payment), all cash settled share-based payment transactions of the entity shall measure the goods or services acquired and liability incurred at

A. Present value of future goods
B. Market value of liabilities
C. Net realisable value of all assets
D. Cost price of all goods and services
E. The fair value of liabilities

17. A Cedant, as contained in IFRS 4 (Insurance Contracts), is a policy holder who is

A. Due for sum assured
B. Represented by insurance broker
C. Under insurance contract
D. Under a re-insurance contract
E. Under both insurance and re-insurance contract

Use the following information to answer questions 18 and 19:

Minimax Limited owns 75% of the Ordinary Shares of Tyler Limited

The following was extracted from the Income Statement of Tyler Limited for the year ended 31 December 2011.

	₦'000	₦'000
Profit after tax		7,200
Dividends:		
Preference	1,600	
Ordinary	3,200	
		(4,800)
Retained earnings		2,400

18. Calculate the profit attributable to Non-controlling interest that will be shown in the Consolidated Income Statement of Minimax Limited for the year ended 31 December 2011.

A. ₦3,000,000
B. ₦2,200,000
C. ₦1,800,000
D. ₦1,600,000
E. ₦600,000

19. Calculate the group's share of the profit for the year ended 31 December 2011.

A. ₦5,400,000
B. ₦4,200,000
C. ₦3,100,000
D. ₦2,400,000
E. ₦1,800,000

20. State the accounting entries required to eliminate unrealised profit on inventories in Group Accounts.

A. **Dr.** Consolidated Capital Reserve **Cr.** Inventories
B. **Dr.** Consolidated Income Statement/Reserves **Cr.** Closing Inventories
C. **Dr.** Inventories, **Cr.** Consolidated Capital Reserves
D. **Dr.** Closing Inventories Cr. Consolidated Reserves
E. **Dr.** Inventories, **Cr.** Consolidated Income Statement/Reserves

PART II: SHORT-ANSWER QUESTIONS (20 MARKS)

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

1. Obokun Limited is a shipping company with the following expenses for the year ended 30 September 2012.

	₦
Salaries of ship captain	450,000
Cost of loading goods into the ship	225,000
Insurance	290,000
Off-loading cost	184,000

Calculate the stevedore expenses of Obokun Limited.

2. In a consequential loss of profit, total claims amounted to ₦110 million, total sum insured was ₦180 million and annual turnover was ₦1.5 billion. The turnover during the period of interruption amounted to ₦225 million.

Compute the amount payable as insurance claim, assuming gross profit percentage is 20%.

3. The following is an extracts of Trade Payables and Accruals in the books of a bankrupt:

	₦
Amount due to landlord for rent	18,250
Contributions to pension fund	32,500
Trade payables	12,450
Debt due to State Internal Revenue Service payable within 12 months	35,300
	98,500

What portion of these liabilities should be treated as preferential?

4. When goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they should be recognised as......................

5. Information on financial performance of an entity is provided in an .... statement.

6. A set of objectives and principles in setting of accounting standards is called ....framework.

7. State the Two methods of Classifying expenses in accordance with the provision of IAS1.

8. What is the required minimum number of days that a credit facility should be deemed as "non-performing" for a commercial bank when interest or principal due is unpaid?

9. State the basis of accounting to be adopted in the general business aspect of insurance, where it is not possible to determine the underwriting results with reasonable certainty until the following accounting period.

10. In accordance with IFRS 10 on Consolidated Financial Statements, an investor controls an investee if, and only if certain conditions exist. State **TWO** of such conditions.

11. In accounting for lease, which method calculates finance charge as interest computed on the balance after deducting the instalmental payments and adding the interest due on cash price?

12. State the accounting entries necessary to set aside annuity instalment before transfer to sinking fund.

13. Platinum Oil & Gas Limited bought an oil well for ₦500 million. The well is estimated to contain 750 million barrels and it sold all the 700,000 barrels of oil extracted during the first year. There is no salvage value for the oil well.

    Calculate the depletion expense.

Use the following information to answer questions 14 and15:

On 1 January 2010, Jasper Plc., a company with subsidiaries acquired 40,000 shares from the 200,000 shares of ₦1 each in Kingsley Limited for ₦150,000. During the year ended 31 December 2011. Kingsley Limited earnings after tax was ₦50,000, out of which, ₦10,000 was paid as dividends.

14. Show the accounting entries required to account for the associates results by the Parent.

15. Using equity method, calculate the value of investment in the associate that should be disclosed in the Consolidated Statement of Financial Position.

16. Farouq Plc. acquired 80% of Olowo Limited's 105,000,000 ₦1 ordinary share capital on 1 January 2010. The parent paid ₦5.00 per share and accepted to pay additional ₦60,000,000 on 1 January 2011. The parent cost of capital is 12%.

    Calculate the total consideration that will arise from this transaction.

17. In accordance with IFRS 7 on Financial Instruments, financial assets are measured at either .... or...............................

18. The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities is called..

Use the following information to answer questions 19 and 20:

Abba Plc. acquired 75% of the shares in Bello Plc. for ₦68,000 on 1 January 2011 when, Bello Plc. had retained earnings of ₦15,000.

The market price of Bello Plc's shares before the date of acquisition was ₦1.60. Abba Plc. values non-controlling interest at fair value. Goodwill is not impaired.

The statement of financial position of Bello Plc. at 31 December 2011 is as follows:

	₦'000
Property, Plant & Equipment	50
Current Assets	35
	85
Ordinary share capital of ₦1.00 each	50

Retained earnings	<u>25</u>
	75
Current liabilities	<u>10</u>
	<u>85</u>

19. Calculate the amount of goodwill.

20. Calculate the amount of non-controlling interest.

SECTION B: ATTEMPT QUESTION 1 AND ANY OTHER THREE (60 Marks)

QUESTION 1

CASE STUDY

Gloria Plc. is a Nigerian Company listed on the Nigerian Stock Exchange and London Stock Exchange. It has a foreign subsidiary (Unique Plc.) which is a listed European Union Company in Central London. It has adopted IFRS since 2005 as directed by the European Union.

Gloria Plc. has also converted to IFRS because of its foreign subsidiary. It acquired 70% of the ordinary share capital of Unique Plc. for £12.6 million when the revenue reserve of the company was £320,000. Unique Plc has not revalued its assets or issued any shares since its acquisition.

Unique Plc. purchased raw material from Gloria Plc. and the material is a major input of the company. Management of Unique Plc. is worried about the constant fluctuation in the exchange rate of ₦ to £, which has been between ₦245 - ₦260 to £1.

The following are relevant exchange rates of ₦ to £ on various dates:

30 April/1 May 2011	₦250
1 November 2011	₦260
1 February 2012	₦245
30 April 2012	₦250
Average rate for year to 30 April 2012	<u>₦250</u>

Unique Plc. decided to stockpile the raw material whenever the exchange rate is at the minimum level of ₦245 to £1. On 1 February 2012, it purchased the raw material from Gloria Plc. worth £15,120,000 which translated to ₦3,704.4 million. The profit on selling price is 20% and 50% of the material was still in the Unique

Plc's inventory as at the end of the year. The full payment for the material was made when exchange rate was ₦250 to £1.

Raw material purchased is denominated in pound sterling by Unique Plc. Goodwill is tested for impairment annually. At 30 April 2012, the impairment loss on goodwill was £441,000. The loan to Unique Plc by Gloria Plc is interest-free and the balance on the loan in the books of Gloria Plc remained at ₦525million.

The following are the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2012 and Statement of Financial Position as at the same date.

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 April 2012

	Gloria Plc	Unique Plc
	₦'m	£'000
Revenue	21,000	14,910
Cost of Sales	(12,600)	(10,080)
Gross Profit	8,400	4,830
Operating expenses	(3,150)	(2,100)
Operating Profit	5,250	2,730
Interest received	420	-
Interest payable	-	(210)
Profit before taxation	5,670	2,520
Income tax	(2,100)	(945)
Profit for the year	3,570	1,575

Statement of Financial Position as at 30 April 2012

	Gloria Plc	Unique Plc
	₦'m	£'000
Non-Current Assets	31,185	15,330
Investment in Unique Plc	5,040	-
Loan to Unique	525	-
Current Assets	37,275	10,710
	74,025	26,040
Ordinary Shares ₦1/£1	6,300	3,360
Share Premium	5,250	2,100
Revenue Reserves	37,800	9,975
	49,350	15,435
Non-Current Liabilities	3,150	4,305
Current Liabilities	21,525	6,300
	74,025	26,040

The following additional information is relevant:

i. Intra-group transactions have not been eliminated and the goods were recorded at the ruling rate prevailing on 1 February 2012.

ii. The fair value of Unique Plc. net assets at the date of acquisition is regarded to be the same as the carrying value.

iii. The policy of the group is to value the non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's identifiable net assets.

iv. The Non-current Assets comprise property, plant and equipment. Current Assets include inventory: Gloria Plc. ₦20,150 million and Unique Plc. ₤5,510,000. Operating expenses include Distribution and Administrative Expenses.

You are the Consultant to Gloria Plc, and the Management has requested that you should provide professional services that would assist the company in taking the right decisions.

Required:

a. State the requirements of IFRS 3 (Business Combinations) in relation to the calculation of goodwill. (2 Marks)

b. In view of the fact that Gloria Plc still plans to issue shares/loan notes through Nigerian Stock Exchange. State **FOUR** of the current listing requirements for subsequent listing of securities (in respect of companies whose securities are already listed on the Nigerian Stock Exchange). (2 Marks)

c. Calculate Inventory turnover and two other liquidity ratios for Gloria Plc. and Unique Plc. which will enable you advise management on its decision to stockpile raw materials for Unique Plc. (3 Marks)

d. Prepare Consolidated Statement of Profit or Loss and other Comprehensive Income for the year ended 30 April 2012 in accordance with IFRS. (8 Marks)

(Total 15 marks)

QUESTION 2

IAS 7 (Statement of Cash Flow) states that additional information may be relevant to users in understanding the financial position and liquidity of an entity.

(a) State **FOUR** advantages of cash flow accounting. (4 Marks)

(b) Highlight **THREE** of the disclosures which are required by the Standard (with comments) by the management of the entity when preparing the Statement of Cash Flow. (3 Marks)

(c) Hassan Limited's Statement of Profit or Loss for the year ended 31 December 2011 and Statement of Financial Position as at 31 December 2010 and 2011 are as follows:

HASSAN LIMITED
Statement of Profit or Loss for the year ended 31 December 2011

	₦'m	₦'m
Revenue		360
Raw Materials consumed	35	
Staff costs	47	
Depreciation	59	
Loss on disposal of non-current assets	9	
		150
Operating profit before interest and tax		210
Interest payable		14
Profit before tax		196
Taxation		62
		134

HASSAN LIMITED
Statement of Financial Position as at 31 December 2011

	2011	2010
	₦'m	₦'m
Non Current Assets (cost)	798	780
Depreciation	(159)	(112)
	639	668
Current Assets:		
Inventory	12	10
Trade receivable	38	29
Bank	24	28

	74	67
Total Assets	713	735
Equity and liabilities:		
Share capital	180	170
Share premium	18	12
Retained earnings	358	257
	556	439
Non-current liabilities		
Long -term loans	100	250
Current liabilities:		
Trade payables	6	3
Taxation	51	43
	57	46
Total equity and liabilities	713	735

Dividend paid was ₦33million.

During the year, the company paid ₦45million for a new piece of machinery.

Required:

Prepare a Statement of Cash Flows for Hassan Limited for the year ended 31 December 2011, in accordance with the requirements of IAS 7, using the indirect method.

(8 Marks)
(Total 15 Marks)

QUESTION 3

Legon Limited issued 12% ₦250,000,000 Loan Note at ₦102 on I January 2007. It is the company's policy to maintain a Sinking Fund set up to redeem the Loan Note on 2 January 2012. The sum to be appropriated out of the income statements must be such that when invested annually at a compound interest of 15% per annum, will amount to ₦300,000,000 at the date of redemption of the Loan Notes. Interest is paid on 28 February and 31 August every year.

On 2 January 2012, the Loan Note was fully redeemed at ₦110. On the redemption, date the Sinking Fund Investment was disposed for ₦292,000,000.

You are required to prepare:

a.	Sinking Fund Account	(4 Marks)
b.	Sinking Fund Investment Account	(4 Marks)
c.	12% Loan Note Account	(4 Marks)
d.	Sinking Fund Investment Disposal Account	(3 Marks)
		(Total 15 Marks)

Note: Show all necessary workings and figures to the nearest thousand naira.

QUESTION 4

Alphani Plc. owns 85% of the ordinary share capital of Bettami Plc for many years. The shares were bought for ₦765 million and Bettami Plc. Reserves at the time of purchase amounted ₦60million.

On 31 March 2012, Alphani Plc. sold 120 million of Bettami Plc shares for ₦480million. The only entry made in respect of this transaction was the receipt of the cash, which was credited to the "investment in subsidiary" account. No dividend was paid by either entity during the period.

The summarised financial statements of the companies are as follows:

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED TO 30 JUNE 2012

	ALPHANI PLC	BETTAMI PLC
	₦'m	₦'m
Profit before tax	390	180
Income tax expenses	(120)	(60)
Profit for the year	270	120
Other comprehensive income that will not be reclassified to income statement net of tax	60	30
	330	150

STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2012

	ALPHANI PLC	BETTAMI PLC
NON-CURRENT ASSETS:	₦ 'm	₦ 'm
Property, Plant & Equipment	1,605	534
Investment in Bettami Plc	285	-
CURRENT ASSETS:		
Inventories	960	570
Trade Receivables	750	525
Cash and Bank	240	267
	3840	1896
EQUITY INTEREST		
Share Capital: ₦1 ordinary shares	1,500	600
Reserves	930	510
	2,430	1,110
CURRENT LIABITIES:		
Trade Payables	885	513
Income Tax	240	180
Provisions	285	93
	3,840	1,896

There was no Impairment loss in the group during the year.

Assume that the gain as calculated in the parent's separate financial statement will be subject to companies' income tax at a rate of 30%, and that profit and other comprehensive income accrue evenly throughout the year.

Alphani Plc. group policy is to measure non-controlling interest at fair value at the date of acquisition.

The fair value of the non-controlling interest in Bettami Plc. was ₦135million at the date of acquisition.

You are required to prepare the:

a. Statement of Profit or Loss and Comprehensive Income and Statement of Changes in Equity of Alphani Plc for the year ended 30 June 2012. (4 Marks)

b. Consolidated Statement of Profit or Loss and Comprehensive Income of Alphani Plc. for the same period. (4 Marks)

c. Consolidated Statement of Financial Position as at 30 June 2012. (7 Marks)

(Total 15 Marks)

QUESTION 5

Unit Trust and Investment Trust are forms of group financial intermediaries.

a. What is a Unit Trust? (1½ Marks)

b. The following balances were extracted from the books of Wazibix Trust Limited, a financial trust organisation, as at 31 December 2011:

	₦'000
Trust Fund as at 1 January 2011	10,200
Investments at cost (Market value ₦9,000,000)	7,500
Management expenses	2,000
Brokerage and commission	600
Sundry expenses	500
Printing and stationery	400
Income from investment	4,250
Equalisation	16,500
Companies Income tax	1,000
Reserves as at 1 January 2011 (included in Trust Fund brought down)	3,000
Amount vested on creation of unit	5,000
Capital gains tax on disposal	300

You are given the following additional information:

i. The equalisation income is to be amortised over a 5-year period.

ii. The total amount vested on creation of units were as follows:

Securities	₦4,250,000
Cash	₦750,000

iii. On 30 November 2011, the investments were sold and realised ₦8,500,000. The market value of the investment on the day of disposal stood at ₦10,000,000. No entry had been made in the books to reflect this transaction.

iv. The Fund Manager has been instructed to increase the Reserve Account to ₦4,000,000.

You are required to prepare the Trust Fund:

i. Income account and (6½ Marks)

ii. Capital account for the year ended 31 December 2011 (7 Marks)

(Total 15 Marks)

QUESTION 6

a. Bankruptcy law is **NOT** meant to ridicule the bankrupt. In the light of this statement, state **TWO** purposes of bankruptcy law. (2 Marks)

b. An undischarged bankrupt may suffer from some legal disabilities. State **THREE** of them. (3 Marks)

c. State any **FOUR** duties of trustees under bankruptcy which could be carried out with the permission of the Committee of Inspection. (4 Marks)

d. On 1 January 2000, Yakowa commenced business with ₦672,000. For years 2007 to 2011, profits were ₦80,000, ₦64,000, ₦36,000, ₦28,000 and ₦8,000 respectively. His average annual drawing was ₦44,000.

A receiving order was made against him on 31 December 2011, when his position was as follows:

	₦'000
Unsecured creditors	400
Mortgage Freehold Factory	80
Trade payables (partly secured)	240
(Security: Life Policy estimated at ₦80,000)	
Amount payable in respect of salaries and wages (preferential)	9.6
Bills receivable, discounted and expected to rank	64
Freehold factory (cost ₦800,000)	
Estimated to realise	400
Trade receivables: Good	120
Doubtful (Estimated to realise ₦12,000)	40
Bad	100
Furniture & Fittings (Estimated to realise ₦7,000)	16

Plant and Machinery (Estimated to realise ₦40,000)	160
Trade inventories (Estimated to realise ₦111,000)	160
Cash -in- hand	1.6

Required:

Prepare a Statement of Affairs and Deficiency Account in statutory form.

(6 Marks)

(Total 15 Marks)

SOLUTIONS TO SECTION A

PART 1 - MULTIPLE CHOICE QUESTIONS

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

TUTORIALS:

(4) $\frac{₦5\text{ m} + ₦2\text{m}}{₦3\text{m}}$ = 2.33:1

(5) $\frac{₦1.50}{₦5.50} \times \frac{100}{1}$ = 27.27%

(7) ₦3,650,000 – (60% x ₦10,990,000) = (₦2,944,000)

(9) $\frac{₦20\text{m}}{₦100\text{m}} \times \frac{100}{1}$ = 20 %

(18) = 25% x (₦7,200,000 – ₦1,600,000) + (₦1,600,000 x 100%)

= ₦3,000,000

(19) = ₦7,200,000 – ₦3,000,000

= ₦4,200,000

EXAMINERS' REPORT

The questions test candidates understanding of various aspect of the syllabus with emphasis on International Financial Reporting Standards (IFRS)

Candidates' performance was below average.

Majority of the candidates could not pick the correct options in questions that reflect the provisions of IFRS.

It is important for candidates to note that with the adoption of IFRS in Nigeria, majority of financial accounting questions would be based on the Standards, hence they are advised to acquaint themselves with the provisions of the Standards.

PART II SECTION A

SHORT ANSWER QUESTIONS

1. ₦409,000
2. ₦66 million
3. ₦67,800
4. Expenses
5. Income
6. Conceptual
7. (i) Classification according to functions
   (ii) Classification according to nature
8. 90 days
9. Deferred Accounting or deferred annual basis
10. i. Power over the investee company
    ii. The ability to use its power over the investee to affect the amount of the investors returns.
    iii. Exposure or rights to variable returns from its involvement with the investee
11. Actuarial method
12. Dr. profit or loss account/income statement

    Cr sinking fund account
13. ₦466,667
14. Dr. investment in associate account ₦10,000

    Cr. Consolidated Income Statement ₦10,000
15. ₦158,000
16. ₦ 473,571,429
17. Fair value or amortized cost
18. Control
19. Positive goodwill = ₦23,000
20. ₦22,500

TUTORIALS

1. ₦225,000 + ₦184,000 = ₦409,000
2. ₦180m x ₦110m/(20% x ₦1,500m) = ₦66 million
3. ₦32,500 + ₦35,300 = ₦67,800
13. ₦500m/₦750m x 700,000 barrels = ₦466,667 ≈ 467,000
15.

Cost of Investment in Associate	₦150,000
Add:	
Post acquired reserves	8,000
Value of Investment in Associate	158,000

16.

	₦
Immediate payment (80% x 105,000,000) x 5	420,000,000
Par value of differed consideration = 60m x $(1.12)^{-1}$	53,571,429
	473,571,429

19.

	₦
Cost of Investment in subsidiary	68,000
Add: Non controlling Interest (NCI) fair value 25%	
(50,000 shares x ₦1.60)	20,000
	88,000
Less: Subsidiary net asset @ Date of Acquisition	
(₦50,000 + ₦15,000)	65,000
	23,000

20. NCI = ₦20,000 + 25% (₦25,000 – ₦15,000)
 = ₦20,000 + ₦2,5000
 = ₦22,500

EXAMINERS' REPORT

The questions cover the syllabus adequately but candidates' performance was below average.

Majority of the candidates could not correctly attempt computational questions that require application of basic accounting principles and standards. It was also clear that candidates were yet to farmiliarise themselves with requirement of International Financial Reporting Standards (IFRS).

Candidates are advised to ensure that they pay attention to practical applications of accounting principles and standards, particularly as they relates to solving short-answer questions.

SOLUTION TO SECTION B

QUESTION 1

CASE STUDY – GLORIA PLC

1(a) Requirements of IFRS 3 (Business Combination) on the recognition and measurement of goodwill

The acquirer shall recognized goodwill as at the acquisition date as the difference between (a) and (b) below:

(a) The aggregate of:

(i) The consideration transferred, measured in accordance with IFRS 3 which generally requires acquisition date fair value,
(ii) The amount of any non-controlling interest in the acquiree, measured in accordance with IFRS 3; and
(iii) In a business combination achieved in stages, the acquisition date fair-value of the acquirer's previously held equity interest in the acquiree.

(b) The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3.

NOTE: If the difference between (a) and (b) above is negative, the resultant gain is recognized as bargain purchase in the Statement of Profit or Loss.

1(b) <u>Current listing requirements for subsequent listing of securities (for companies already listed)</u>

(i) Application on standard form: It can only be made for securities with a minimum market offering value of ₦5,000,000 or 25% of the authorized share capital or as the Council may determine from time to time.

(ii) A formal application in the form issued by Council signed by sponsoring dealing members of the Exchange and accompanied by a non-refundable application processing fee and listing charges.

(iii) One copy of the approved prospectus.

(iv) A certified copy of all resolutions of the Board and general meeting appraising and authorizing the issue of all securities and relevant prospectus.

(v) A certified copy of every letter, report, statement of financial position, valuation, vending agreement and other contracts or any other document which is extracted or referred to in the prospectus.

(vi) A certified copy of the written consent by any expert for inclusion in the prospectus.

(vii) A letter from the issuing house, or in the absence of an issuing house, from the underwriters, one must be a sponsoring dealing member of the exchange, showing their satisfaction.

(viii) A certified copy of the underwriting agreement.

(ix) In the case of loan issue, a copy of the Trust Deed or any other document securing or constituting the loan capital.

(x) A certified copy of the resolution(s) of the company in the general meeting authorizing the issue of all the securities for which listing is sought.

1(c) **Liquidity Ratios**

(i) **Current Ratio**

	Global Plc	Unique Ltd.
	₦'m	£'000
Current Assets (CA)	37,225	10,710
Current Liabilities (CL)	21,525	6,300
	1.73:1	1.70:1

(ii) **Quick/Acid Test**

Current Assets – Inventory	37,275 – 20,150	10,710 – 5510
Current Liabilities	21,525	6,300
	17,125	5,200
	21,525	6,300
	= 0.80:1	0.83:1

(iii) **Inventory Turnover**

Cost of Sales	12,600	10,080
Inventory	20,150	5,510
	= 0.63 times	= 1.83 times

1(d) **Consolidated Statement of Profit or Loss and Other Comprehensive Income for The year ended 30 April 2012**

	₦'m
Revenue (21,000 + 3,727.5 -3,704.4)	21,023.10
Cost of Sales (12600 + 2,520 – 3,704.4 + 370.440(w3)	11,786.04
Gross Profit	9,237.06
Operating Expenses (3,150 + 525(w2) + 110.250	(3,785.25)
Interest received	420.00
Finance cost/interest payable	(52.50)
Exchange gain (w.5)	75.60
Profit before tax	5,894.91
Income tax (2100 + 236.25 (w2)	(2,336.25)
Profit/Comprehensive Income	3,558,66
PROFIT ATTRIBUTABLE TO:	

Shareholders of parent	3,473.61
Controlling Interest 30% x (393.75 - 110.25)	85.05
	3,558.66

WORKINGS:

1. **Structure** Gloria Plc
   70% ↓
   Unique Plc
   NCI = (100% – 70%) = 30%

2. **Translation of Statement of Profit or Loss and Other Comprehensive Income**

	£'000	Rate	₦'m
Revenue	14,910		3,727.50
		250	
Cost of Sales	(10,050)		(2,520.00)
		250	
Gross Profit	4,830		1,207.50
Operating expenses	(2,100)		
		250	(525,000)
Profit from operations	2,730		
			682,500
Interest payable	(210)	250	
			52,500
Profit before taxation	2,520		
			630,000
Income tax	(945)	250	
			(236,250)
Profit/comprehensive income for the year	1,575		393,750

3. **Provision for unrealized profit on sales by parent to subsidiary**

Purchase of raw material	₦'m
(3,704.4 million x 20% x 50%)	370.44

4.

Goodwill	£'000	£'000	
Consideration transferred		12,600.00	
Non- Controlling interest (30% x 15.435)		4,630.50	
		17,250.50	
Less: fair value of Net acquisition			
Share capital	3,360.00		
Share premium	2,100.00		
Revenue reserve	9,925.00	15,435.00	
		1,795.50	
Impairment Losses		441.00	
		1,354.50	
Translation of Goodwill from (£ to ₦)			
	£'000	Rate	₦m
Consideration + NCI	17,230.50	250	4,307,625
Less fair value of Net asset acquired	15,435.00	250	(3,858,750)
Goodwill before impairment			448,875
Impairment	441.0	250	(110,250)
Goodwill as at 30 April 2012			338,625

5. **Exchange difference in Statement of profit or loss:** **₦'m**

Purchase of goods from Global
(£15,120,000 x (250 - 245))

∴Exchange gain 75.6

NOTE: Exchange gain calculated above is treated in statement of profit or loss because it arose from conversion of currency and not translation.

EXAMINERS' REPORT

The questions test candidates' knowledge of the following:

(a) **International Financial Reporting Standard (IFRS 3) on Business Combination**

(b) Ratio analysis;
(c) Translation and conversion of foreign currencies; and
(d) Stock Exchange listing requirements.

Being a compulsory question almost all the candidates attempted the question and performance was poor.

The commonest pitfalls were:

(a) Majority of the candidates were translating information in Statement of Financial Position instead of Statement of Profit or Loss and Other Comprehensive Income.

(b) Most of the candidates stated calculation of goodwill using Statement of Accounting Standard (SAS) requirements instead of addressing the question which specifically required computations based on IFRS 3 (business Combination),

(c) Candidates could also not list correctly the requirements for subsequently listing of securities on the Nigerian Stock Exchange (NSE); and

(d) Few of the candidates that were able to prepare the Statement of Profit or Loss were unable to correctly calculate impairment losses and exchange gain.

In view of the above lapses candidates are advised to pay more attention to various aspects of the syllabus. Also, they should update their practical knowledge of accounting by ensuring that they review regularly, the financial accounting journals issued by the Institute as well as those of other foreign professional accounting institutions for better performance.

QUESTION 2

(a) The advantages of cash flow accounting are as follows:

i. Survival in business depends on the ability to generate cash. Cash flow accounting directs attention towards this critical issue.
ii. Cash flow is more comprehensive than "profit" which is dependent on accounting conventions and concepts.
iii. Creditors (long and short–term) are more interested in an entity's ability to pay debts than in its profitability. Whereas "profits" might

indicate that cash is likely to be available, cash flow accounting is more direct with its message,

iv. Cash flow reporting provides a better means of comparing the results of different companies than traditional profit reporting.

v. Cashflow reporting satisfies the needs of all users in the following ways:
   - For management: it provides the sort of information on which decisions should be taken (in management accounting, 'relevant costs' to a decision are future cash flows); traditional profit accounting does not help with decision-making.
   - For shareholders and auditors: Cashflow accounting can provide a satisfactory basis for stewardship accounting.
   - Creditors and employees: The information needs of creditors and employees will be better served by cashflow accounting.

vi. Cashflow forecasts are easier to prepare, and more useful, than profit forecasts.

vii. They can, in some respects, be 'audited' more easily than accounts based on the accruals concept.

viii. The accruals concept is confusing, and cash flows are more easily understood.

ix. Cashflow accounting should be retrospective, and also forecast for the future. This is of great value to all users of accounting information.

x. Forecasts can subsequently be monitored by the publication of variance statements which compare actual cash flows against the forecast.

(b) **Disclosure requirements of IAS - 7**

i. Restrictions on the use of access to any part of cash equivalents.

ii. The amount of undrawn borrowing facilities which are available.

iii. Cash flows which increased operating capacity compared to cash flows which merely maintained operating capacity.

iv. The amount of undrawn borrowing facilities that may be available for future operating activities, and to settle capital commitments, indicating any restrictions on the use of these facilities.

v. The aggregate amounts of the cash flows from each of operating, investing and financing activities, related to interest in joint ventures reported using proportionate consolidation.

vi. The aggregate amount of the cash flows that represent increases in operating capacity, separately from those cash flows that are required to maintain operating capacity.

vii. The amount of the cash flows arising from the operating, investing and financing activities of each reportable segment (see IFRS 8 Operating Segments).

viii. The amount of significant cash and cash equivalents balances held by the entity that are not available for use by the group.

HASSAN LTD.

c. **Statement of Cash Flow for the year Ended 31/12/11**

	₦'m	₦'m
Cash Flows from Operating Activities		
Profit before taxation		196
Adjustments		
Add: Interest Payables		14
Loss on disposal of Assets		9
Depreciation		59
Changes in Working Capital		
Increase in Inventory (12 - 10)		(2)
Increase in Trade Receivables (38 - 29)		(9)
Increase in Trade Payables (6 - 3)		3
		270
Tax Paid (43 + 62 – 51)		(54)
Net Cash Flow form Operating Activities		216
Cash Flow Investing Activities		
Purchase of Machinery	(45)	
Proceeds from Disposal of Non-Current Assets (15-9)	6	
Net Cash in -Flow from Investing Activities		(39)
Cash Flow from Financing Activities		
Interest Paid	(14)	
Issue of Shares (198-182)	16	
Redemption of Long- Term Loans (250 -100)	(150)	
Dividend Paid	(33)	
Net cash out flow from financing activities		(181)
Increase/(Decrease) in Cash and Cash Equivalent		(4)
Cash and Cash Equivalent at the Beginning		28

Cash and Cash Equivalent at the End	24

WORKINGS:

	ACCUMULATED DEPRECIATION			
		₦'m		₦'m
1	Disposal	12	1/1/2011 Bal b/d	112
	31/12/2011 Bal c/d	159	Profit or loss	59
		171		171
	Current Asset of disposal	15		
	Net loss reported	9		
	Proceeds of disposals	6		

	NON-CURRENT ASSET ACCOUNT			
		₦'m		₦'m
2	Bal c/d 1/1/2011	668	Disposal (NBV)	15
	Additions (Banks)	45	Depreciation	59
			Bal c/d 31/12/2011	639
		713		713

EXAMINERS' REPORT

The question tests candidates' understanding of the advantages of cashflow accounting, disclosure requirements under IAS 7 (statement of cash flow) and preparation of cash flow statements, using the indirect method.

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

Candidates' commonest pitfalls were their inability to highlight the disclosure requirements under IAS 7 and their inability to correctly prepare the cashflow statement using the indirect method.

Candidates are advised to pay more attention to various aspects of syllabus and the application of International Financial Reporting Standards (IFRS) which comprise IFRS, IAS, IFRIC and SIC.

QUESTION 3

(a) Sinking Fund Account

$$\frac{300{,}000{,}000 \times 15\%}{(1.15)^5 - 1}$$

= ₦44,495,000

Note: Round up to the nearest thousand

Sinking Fund Account

	₦		₦
Bal c/d	44,495,000	31/12/07 Inc. statement App.	44,495,000
31/12/08Bal c/d	95,664,000	1/1/08 Bal b/d	44,495,000
		Sinking fund Int. @ 15%	6,674,000
		Inc. statement App.	44,495,000
	95,664,000		95,664,000
31/12/09 Bal c/d	154,509,000	1/1/09 Bal b/d	95,664,000
		SFI @ 15%	14,350,000
		Inc. Stat. Appr.	44,495,000
	154,509,000		154,509,000
31/12/10 Bal c/d	222,180,000	1/1/2010 Bal b/d	154,509,000
		SFI @ 15%	23,176,000
		Inc. Stat. Appr.	44,495,000
	222,180,000		222,180,000
Redemption a/c:- Premium		1/1/2011 Bal b/d	222,180,000
		SFI @ 15%	33,327,000
$\frac{250{,}000{,}000}{110}$ (110 – 100)	25,000,000	Inc. Stat. Appr.	44,493,000
Redemption a/c: Accrued Interest			
$^4/_{12}$x12%x 250,000,000	10,000,000		
Disposal loss (300,000,000 – 292,000,000)	8,000,000		
Bal c/d to Gen Reserve	257,000,000		
	300,000,000		300,000,000

(b) **Sinking fund investment account**

		₦		₦
31/12/07 Bank		44,495,000	Bal c/d	44,495,000
1/1/08	Bal b/d	44,495,000	31/12/08 Bal c/d	95,664,000
31/12/08 sf.		6,674,000		
Bank		44,495,000		
		95,664,000		95,664,000
1/1/09 Bal b/d		95,664,000	31/12/09 Bal c/d	154,509,000
31/12/09 sf.		14,350,000		
Bank		44,495,000		
		154,509,000		154,509,000
1/1/10 bal b/d		154,509,000	31/12/10 Bal c/d	222,180,000
31/12/10 sf.		23,176,000		
Bank		44,495,000		
		222,180,000		222,180,000
1/1/11 Bal b/d		222,180,000	Bal. w/o to Disposal Account	300,000,000
31/12/11 sf		33,327,000		
Bank		44,493,000		
		300,000,000		300,000,000

(c) **12% Loan Notes Account**

		₦			₦
1/1/07	Premium on loan note	5,000	1/1/07	Bank	255,000
31/12/07	Bal c/d	250,000			
		255,000			**255,000**
31/12/08	Bal c/d	**250,000**	1/1/08	Bal b/d	**250,000**
31/12/09	Bal c/d	**250,000**	1/1/09	Bal b/d	**250,000**
31/12/10	Bal c/d	**250,000**	1/1/10	Bal b/d	**250,000**
31/12/11	Bal c/d	**250,000**	1/1/11	Bal b/d	**250,000**

(d) Sinking Fund Investment Disposal Account

	₦		₦
Sinking Fund Investment	300,000,000	31/12/11 Bank	292,000,000
		Loss on disposal of sinking fund	8,000,000
	300,000,000		300,000,000

EXAMINERS' REPORT

The question tests candidates' knowledge of Sinking Fund Accounting.

Few candidates attempted the question and performance was poor.

Candidates common pitfalls were their inability to correctly identify the sinking fund formula, failure to round up all figures to the nearest thousand naira as required. And incorrect posting of the required entries into the appropriate accounts.

Candidates are advised to pay adequate attention to miscellaneous and specialized accounts sections of the syllabus for better performance in future examinations.

QUESTION 4

(a)(i) ALPHANI PLC

Statement of Profit or Loss and Other Comprehensive Incomes for the year ended 30 June 2012

	₦'m
Operating Profit	390
Profit on disposal of shares (W1)	210
Profit before tax	600
Income tax	(120)
Profit for the year	480
Other Comprehensive Income	60
	540

(ii) Statement of Changes in Equity for the year ended 30 June 2012

	Share Capital	Retained Earning	Total
	₦'m	₦'m	₦'m
Balance b/f (opening Balance)	1,500	660	2,160
Profit for the year	-	480	480
Balance c/d	1,500	1,140	2,640

(b) (i) **ALPHANI PLC GROUP**

Consolidated Statement of Profit or Loss and Other Comprehensive Incomes for the year ended 30 June 2012

	₦'m
Profit Before Tax (390 + 180)	570
Income tax Expenses (120 + 60)	(180)
Profit for the year	390
Other Comprehensive Income (60 + 30)	90
Total Comprehensive Income Attributable to	**480**
Non Controlling Interest (W2)	30
Members of the parent (480 – 30)	450
	480

(c) **ALPHANI GROUP PLC**

Consolidated Statement of Financial Position as at 30 June 2012

NON-CURRENT ASSETS:	₦'m
Property Plant and Eqpt (1605 + 534)	2,139
Goodwill (W3)	240
	2,379
CURRENT ASSETS:	
Inventories (960 + 570)	1,530
Trade Receivables (750 + 525)	1,275
Cash and Bank (240 + 267)	507
	3,312

	5,691

EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

Share Capital @ N1 ordinary shares	1,500
Reserves (W4)	1,432.5
	2,932.5
Non Controlling Interest (W5)	472.5
	3,405
CURRENT LIABILITIES:	
Trade Payables (885 + 513)	1,398
Income Tax payables (240 + 180 + 90 (W1)	510
Provisions (285 + 93)	378
	2,286
	5,691

Workings:

1. Gain on disposal of shares in parent's separate financial statement:-

	₦'m
Fair value of consideration received	480
Less: Original cost of shares (765 x 20%/85%)	(180)
Parent gain	300
Less tax on parent's gain (30%)	(90)
	210

2. NON-CONTROLING INTEREST (NCI)

Profit for the year:				
Disposal Periods	=	$^{9}/_{12}$ x 120m x 15% =	13.5	
Post-Disposal Periods	=	$^{3}/_{12}$ x 120m x 35% =	10.5	24m
Other Comprehensive Income				
Pre-disposal periods	=	$^{9}/_{12}$ x 30m x 15% =	3.375	
Post - disposal periods	=	3/12 x 120m x 35% =	2.625	6m
				30m

3. GOODWILL

	₦'m
Consideration Transferred (285 + 480)	765
Non-Controlling Int. (@ fair value)	135
Less:	

Fair value of indentifiable net assets @ acquisition:		
Share capital	600	
Pre acquisition reserve	60	(660)
		240

4. RESERVES

	Alphani	Bettami 85%	Bettami 65%
	₦'m	₦'m	₦'m
Per question @ disposal date	930	-	510
510 - (150 x $^3/_{12}$)		472.50	
Adj. to parent equity on disposal (W4i)	217.5		
Tax on parent gain (W1)	(90)		
Reserve @ acquisition (W3)/date disposal		(60)	472.5
		412.5	37.5

Groups' share of post acquisition reserve:		
Bettami – 85% (412.5 x 85%)	=	350.63
Bettami – 65% (37.5 x 65%)	=	24.37
		1,432.50

4(i) ADJUSTMENT TO PARENT EQUITY ON DISPSOAL OF SHARES IN GROUP FINANCIAL STATEMENT

		₦'m
Fair value on consideration received		480.00
Increase in NCI in Net Asset and Goodwill @ Disposal	(196.8 x 20%/15%)	(262.50)
		217.50

5 NON CONTROLLING INTEREST TRANSFERRED TO W4

	₦'m
NCI @ acquisition	135.00
NCI share of post acquisition reserve:	
Bettami (412.5 x 15%)	61.88
Bettami (37.5 x 35%)	13.12
Increase in NCI (w4i) (214.5 + 48)	262.50
	472.50

EXAMINERS' REPORT

The question tests the candidates' ability to prepare Consolidated Financial Statements.

Few of the candidates attempted the question and their performance was below average

Candidates' commonest pitfalls were their inability to correctly prepare consolidated financial statements using the IFRS requirements and compute the goodwill and non controlling interest.

Candidates should note that IFRS is a basic requirement for financial reporting in Nigeria as from January 2012 and as such, they should be abreast of its requirements.

QUESTION 5

(a) **A Unit Trust** is financial intermediates whose main duty is to pool other investible resources of various subscribers, particularly the small investors and invest their fund in a wide range of securities.

Wazibix Trust Limited

(b) (i) Income Account for the year ended 31 December 2011

Income	**₦'000**	**₦'000**
Investment Income		4,250
Equalization (16,500 ÷ 5 yrs)		3,300
		7,550
Expenses		
Management Expenses	2,000	
Brokerage and Commissions	600	
Printing and Stationary	400	
Sundry Expenses	500	(3,500)
Profit Before Tax		4,050
Income Tax		(1000)
Profit After Tax		3,050
Appropriation		
Reserves (4,000 – 3,000)		(1,000)
		2,050

ii. **Capital Account as at 31 December 2011**

	₦'000	₦'000	₦'000
Trust Fund Balance b/f			10,200
Add:			
Unauthorised Equalization (₦16,500 – ₦ 3,300)		13,200	
Increase in reserves		1,000	
Amount Vested in Creation			
- Securities	4,250		
- Cash	750	5,000	
Profit or Loss on Disposal			
- Sales Proceed	8,500		
- Cost of Sales	(7,500)		
	1,000		
Increase in Market Value (₦10m – ₦ 9m)	1,000		
Total Profit	2,000		
Less Capital Gains Tax	(300)	1,700	20,900
			31,100

EXAMINERS' REPORT

The question tests candidates' knowledge of Unit Trust and the preparation of Unit Trust income and capital account. Few candidates attempted the question and performance was poor.

Commonest pitfalls were their inability to define unit trust and correctly post the items to income and capital account.

Candidates are advised not to neglect any area of miscellaneous accounts in their preparation for financial accounting paper.

QUESTION 6

(a) **Purposes of bankruptcy law are mainly:**

- (i) To inquire into the reason(s) for the bankruptcy;
- (ii) To secure a fair distribution of the bankrupts property among his creditors; and
- (iii) To free the bankrupt from his debts

(b) **Legal disabilities of a bankrupt**

(i) He cannot vote or be voted for;

(ii) He cannot be appointed as a trustee;

(iii) He cannot join in the formation of a company or a partnership;

(iv) He cannot act as a director of a registered company or take part in the management of such a company; and

(v) He cannot be a Chairman or a member of any government parastatal.

(c) **YAKOWA**

Statement of Affairs as at 31 December 2011

Gross Amount	Amount Expected to rank				Amount expected to realize
₦'000	**₦'000**	**₦'000**	**₦'000**		**₦'000**
400	Unsecured	-	400	Debtors:	
	Trade Payables			- Good	120
	Fully secured			- Doubtful	12
	Trade Payables			- Bad	-
80	Mortgage	80		- Inventories	111
	Less: Freehold			- Cash	1.6
	Factory (400)			Plant & Mach	40
	Surplus (320)			Furniture & Fittings	7
	Partly Secured				291.6
240	Trade Payables	240		Add: Surplus	320
	Less: Life Policy	(80)		Less: Pref.	611.6
	Expected to Rank		160	Creditors	9.6
64	Bills Receivable		64		602.0
	Preferential			Deficiency	22.0
96	Trade Payables	9.6			
			624.0		624.0

Deficiency Account

	₦'000		₦'000
Capital	672	Drawing (44 x 5)	220
Profits	216	Loss on freehold fact	400

Life policy	80	Bills receivable	64
Balance as per		Loss on P & M	120
Statement of Affairs	22	Bad Debts – Loss in debtors	100
		(40,000 – 12,000)	28
		Loss on furn. & fittings	9
		Loss on inventories	49
	990		990

c. The trustee may, with the permission of the committee of inspection, do all or any of the following:

(i) Carry on the business of the bankrupt so far as may be necessary for the beneficial winding up of the business;
(ii) Bring, institute or defend any action or other legal proceedings relating to the property of the bankrupt;
(iii) Employ a legal practitioner or other agent to take any proceedings or do any business, which may be sanctioned by the Committee of Inspection.
(iv) Accept as consideration for the sale of any property of the bankrupt, a sum of money payable at a future time, subject to such stipulations as to security and otherwise as the committee of inspection may deemed fit;
(v) Mortgage or pledge any part of the property of the bankrupt for the purpose of raising money for the payment of his debt,
(vi) Refer any dispute to arbitration, or compromise any debts, claims and liabilities, whether present or Future, certain or contingent, liquidated or unliquidated, subsisting or suppose to subsist between the bankrupt, and any other person who may have incurred any liabilities to the bankrupt.
(vii) Make such compromise or other arrangement as may be thought expedient with creditors or persons claiming to be creditors in respect of any debts provable under the bankruptcy.
(viii) Make such compromise or other arrangement as may be thought expedient with respect to any claim arising out of or incidental to the property of the bankrupt, made or capable of jerry made on the trustee on any person or by the trustee on any person.,
(ix) Divide in its existing form amongst the creditors, according to its estimated value, any property, which from its peculiar nature or other special circumstances cannot be readily or advantageously sold.,

(x) Appoint the bankrupt himself to superintend the management of the property or to carry on the trade of the bankrupt for the benefit of the creditors., and

(xi) Make such allowance from time to time, as he may think just to the bankrupt out of his property for the support of the bankrupt and his family, or in consideration of his services if he is engaged in winding up of his estate.

EXAMINERS' REPORT

The question tests the candidates' knowledge of Laws relating to bankruptcy. Many candidates attempted the questions and performance was average.

The common pit fall is that most candidates did not know the Statutory format for the preparation of Statement of Affairs and Deficiency Account. Candidates are advised to ensure effective coverage of the syllabus.

PATHFINDER

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
PROFESSIONAL EXAMINATION I - NOVEMBER 2012
INFORMATION TECHNOLOGY

Time allowed - 3 hours

SECTION A: Attempt All Questions

PART I: MULTIPLE-CHOICE QUESTIONS (20 Marks)

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

1. The following are examples of communication networks **EXCEPT**
   A. Telephone network
   B. The computer network
   C. Internet
   D. Television broadcast network
   E. Network provider.

2. Which of the following is **NOT** a communication network component?
   A. Communication protocols
   B. Communications processor
   C. Communications channel
   D. Communications control
   E. Terminals.

3. The various applications of the three major types of network **EXCLUDE**
   A. Client/server network
   B. Network computing
   C. Wireless remote administration
   D. Metropolitan area network
   E. Remote system.

4. Magnetic disk, as an example of secondary storage media, is called..........access storage.

   A. Sequential
   B. Sequential and direct
   C. Direct
   D. Data
   E. Read and write.

5. The computers that recognise data as continuous measurement of a physical property are called...........computers

   A. Hybrid
   B. Analog
   C. Digital
   D. Special purpose
   E. General purpose.

6. Stored data that is being used by the current program in the computer is kept in the

   A. Primary memory
   B. Secondary memory
   C. Magnetic disk
   D. Floppy disk
   E. Flexible disk.

7. An arrangement in which computing resources and data are kept away in large data centres and presented to users as services is called

   A. Data services
   B. Outsourcing
   C. Teleworking
   D. Electronic data processing
   E. Cloud computing.

8. It is **NOT** true that computer forensic involves

   A. Data extraction
   B. Data recovery
   C. Data gathering of computer system and peripherals
   D. Investigation of computer personnel
   E. Investigation of computer believed to be involved in cybercrime.

9. Forensic investigation as a process does **NOT** involve the .... of digital evidence

   A. Identification
   B. Presentation
   C. Preservation

D. Analysis
E. Design.

10. Browsing the World-Wide Web with unknown identity is called surfing

A. Unknowingly
B. Anonymously
C. On the net
D. The net
E. The net unknowingly.

11. One of the most important aspect of precision of data is known as

A. Availability
B. Identification
C. Preservation
D. Reliability
E. Regularization.

12. A collection of attributes that describes an entity is called

A. Field
B. Record
C. File
D. Character
E. Data item.

13. A better information technology tool for providing people with more convenient access to improved and quality government information and services is known as

A. E-Government
B. E-Banking
C. Short message service
D. E-mail
E. Public Information

14. The information technology that aims at reducing the burdens on businesses, providing non-stop access to information and enables digital communication by the use of the internet is called

A. G2C
B. G2B

C. B2B
D. B2C
E. G2G.

15. Fifth generation computers are able to perform tasks with............intervention.

A. Human
B. Much human
C. Much more human
D. Little or no human
E. Very much human.

16. In second generation computing, transistors replaced

A. Bar copy
B. Relay copy
C. Micro processors
D. Micro chips
E. Vacuum tubes.

17. A monitor is the prevalent output device that produces.............copy.

A. Hard
B. Soft
C. Clean
D. Fine
E. Clear.

18. Which of the following is a hardware device?

A. Operating system (OS or O/S)
B. Utility software
C. Router
D. Disk defragmenters
E. Disk checkers.

19. A network covering a small physical area (i.e. home, office or small group of buildings) is referred to as

A. Wide Area Network (WAN)
B. Metropolitan Area Network (MAN)
C. Local Area Network (LAN)
D. Client/server network
E. Cloud computing.

20. Which of the following is **NOT** a common defect in system administration?

    A. Poor quality control of system operation
    B. Access to the system by unauthorised users
    C. Inability to control technology and adjust to software updates
    D. Concentration of responsibilities in only few individuals
    E. Access to the system by authorised users.

PART II: SHORT-ANSWER QUESTIONS (20 MARKS)

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

1. The telecommunication technology that applies a packet radio principle to transfer user data packet between GSM stations and external packet data networks is called....................

2. Going by the advances in telecommunication technologies, GPRS evolved to.........................

3. The arrangement in which tasks are shared over multiple computers which are connected together to form a virtual supercomputer is called...........................

4. Virtualisation, abstraction, resource pooling and outsourced IT management are features of...............................

5. Data communication analysis encompasses two distinct activities: network intrusion detection and...............................

6. Click-wrap, shrink-wrap and e-sign are the various forms of................employed by vendors and software producers to safeguard copyright infringements.

7. The protection of information systems by verifying and validating authorised users' access to IT systems and data according to user's authorisation levels is called......................

8. The determination of the type of activity that is permitted in an information system is called...................

9. The full meaning of IDEA in information technology is.........................

10. Information system controls are specific activities performed by persons or systems designed to ensure that business objectives are met in relation to integrity, availability and..........................

11. A data entry device that is generally used to process cheques in banks is the............................

12. The semi-conductor silicon chips used to build the third generation computers are called the..........................

13. The smallest unit of data on a binary computer is a single............................

14. The hardware that uses a cathode ray tube (CRT) to display output together with the keyboard to accept input is the..................................

15. A device that allows segmentation of a large network into two smaller efficient networks is called.................................

16. An application-layer internet standard protocol used by local e-mail clients to retrieve e-mails from a remote server over an TCP/IP connection is known as.................................

17. A machine that digitizes and transmits documents with both text and graphics over telephone lines is known as............................

18. The routines performed to verify input data and correct errors prior to processing are referred to as..................................

19. The correction of errors and inconsistencies in data to increase accuracy so that they can be used in a standard format is called..........................

20. The standard data manipulation language for Relational Database Management System is called..............................

SECTION B: ATTEMPT QUESTION 1 AND ANY OTHER THREE QUESTIONS (60 Marks)

QUESTION 1

CASE STUDY

Hercules Medicals Limited is a wholesale company dealing in drugs of various kinds. The company has experienced significant sales growth even when the cost of drugs has increased.

As a result of these increased sales, the company has purchased computer and software facilities for its operations. The facilities were installed on the ground floor of its two-storey Head office building. It is behind large plate glass windows so that the computer room can be displayed as a measure of the company's improvement and also to attract customers' attention.

The building is assumed safe because there are adequate fire exits. The company instituted a disk back-up procedure that backs-up the database every Saturday evening. All disks are labelled and carefully stored in the manager's office. There is an operator's manual, which explains how to reconstruct the database when the need arises.
Recently, the room housing the company facilities was razed by fire. The customers were informed about the disaster and the difficulty of restoring their records within the shortest possible time.

You are required to:

a. Suggest **THREE** likely security lapses at Hercules Medicals Limited that made the outbreak of fire possible. (3 Marks)

b. Suggest any **SIX** safeguards that should have been included in the company's disaster plan. (6 Marks)

c. Enumerate **SIX** threats, other than fire disaster that the company should have protected itself against. (6 Marks)

(Total 15 marks)

QUESTION 2

a. List **FIVE** career paths open to a professional accountant in Information Technology. (5 Marks)

b. i. What is IT training? (1 Mark)
ii. List **THREE** types of training. (3 Marks)

c. An advert says "A generation of technology that answers all man's questions on communication has arrived. It is called 3G"

You are required to:

i. Describe briefly **TWO** prominent technologies in 3G. (2 Marks)

ii. List **FOUR** services and applications offered in 3G. (2 Marks)

iii. State **TWO** challenges that 3G operators will have to contend with. (2 Marks)

(Total 15 Marks)

QUESTION 3

Considering the rapid advances in the evolution of information technology and the ever-increasing need for IT services and resources, the management of Lockview Limited is contemplating connecting the company's IT infrastructure to a private computing cloud in the neighbourhood.

Required:

a. What is cloud computing? (2 Marks)

b. Explain **THREE** technical concepts underlying and promoting cloud computing. (6 Marks)

c. List **TWO** deployment models used in cloud computing. (2 Marks)

d. State **THREE** advantages of cloud computing. (3 Marks)

e. List **TWO** challenges in the deployment of cloud computing. (2 Marks)

(Total 15 Marks)

QUESTION 4

A Senior Engineer in a communication company in his quest to know if the intern serving with them for over two months understands the training she had undergone asked her the following IT related issues:

a. Describe any **FOUR** basic communication network components. (8 Marks)

b. State any **FOUR** advantages of database management system. (4 Marks)

c. List any **THREE** hardware devices in communications network. (3 Marks)

You are required to provide answers to the questions. **(Total 15 Marks)**

QUESTION 5

a. What is e-government? (2 Marks)

b. Enumerate **THREE** ways through which e-government can improve governance. (3 Marks)

c. State **FIVE** expectations of the citizens from e-government. (5 Marks)

d. Explain briefly the following e-Government models:

   i. Government to Citizen (G2C)
   ii. Government to Government (G2G) (5 Marks)

(Total 15 Marks)

QUESTION 6

As part of its efforts towards improving the economy, addressing the problem of unemployment and checking rural-urban migration, the government of Libicon State is proposing the creation of a business hub, comprising several agro-allied factories in a remote location in the state.

It intends to provide the business hub with full connectivity of rural telephony and internet services to promote business initiatives and settlement of people there. To achieve this proposed plan, a consultant to the government is suggesting the deployment of WiMAX technology.

You are required to

a. Define WiMAX. (2 Marks)

b. Describe the **TWO** components of WiMAX system. (4 Marks)

c. State **FOUR** applications of WiMAX. (4 Marks)

d. Identify **THREE** existing telecommunication systems that may be replaced by WiMAX applications soon. (3 Marks)

e. State **TWO** features that make WiMAX superior to WiFi. (2 Marks)

(Total 15 Marks)

SOLUTIONS TO SECTION A

PART I MULTIPLE CHOICE QUESTIONS

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

EXAMINERS' REPORT

The questions cover an appreciable portion of the syllabus.

The performance was above the average mark obtainable

PART II SHORT-ANSWER QUESTIONS

1. 2.5G/GPRS (General Packet Radio Service)
2. 2.85G/3G/EDGE(Enhanced Data Rate for GSM Evolution)
3. Grid computing
4. Cloud computing
5. Data interception
6. Licensing Agreement
7. Logical access control
8. Authorization
9. Interactive Data Extraction and Analysis
10. Confidentiality
11. Magnetic Ink Character Reader (MICR)
12. Integrated circuits (IC)
13. Bit
14. Terminal/PC
15. Bridge
16. Post Office Protocol version 3 (POP3)
17. Facsimile (fax)
18. Edit checks/validation
19. Data cleansing
20. Structured Query Language (SQL)

EXAMINERS' REPORT

The questions cover a substantial part of the syllabus. The performance was below average. The major pitfall was candidates' inadequate knowledge in computer network and information systems.

Candidates are advised to use standard information materials such as the ICAN study pack and standard IT books among others.

SOLUTIONS TO SECTION B

QUESTION 1

(a) Likely security lapses at Hercules Medical Limited that made the outbreak of fire possible include:

i. Faulty electrical system e.g use of low quality wiring material.

ii. No procedure for switching off electrical appliances at the end of each business day.

iii. Electricity power surge

iv. Sabotage by disgruntled staff or unknown persons

v. Negligence on the part of staff

(b) The contents of the company's disaster plan should include:

i. Insurance of company's properties for loss recovery

ii. Education of all categories of staff on how to prevent and combat all forms of disaster

iii. Public relations must be maintained especially if the disaster has a public impact. The recovery team must keep the public informed through the media

iv. Communication with staff, customers and other stakeholders who need to be informed of the developments

v. Backup and standby arrangements so that the company's activities are still carried-on even if it is on limited scope

vi. Establishment of priorities much in advance because some tasks are more important than others and because of limited resources

vii. Responsibilities of each staff must be defined because somebody has to take control/responsibility in a crisis

(c). Threats other than fire that the company should protect itself from include:

i. Electrical power problems like outrage surges, fluctuations among others

ii. Located on the ground floor of the building, the threat of flooding is real especially during the rainy season.

iii. Environmental pollution such as dust, humidity, high temperature among others

iv. Weather related threats such as thunderstorm, lightning and heavy rainfall

v. Computer related problems such as hacking, fraud and virus attack

vi. Loss of data occasioned by software failure

vii. Hardware failure

viii. Sabotage/Disgruntle staff

ix. Espionage

x. Physical theft

xi. Unauthorized access

EXAMINERS' REPORT

The question tests candidates' knowledge on the need for security measures within a company's computing environment and also his/her familiarity with the company's disaster plan for business continuity.

Over 80% of the candidates attempted this questions and more than 50% of the candidates scored 40% and above of the allocated mark.

Candidates' major pitfall was in their inability to identify some security lapses, instead most candidates were writing on the type of equipment that should be made available should there be a fire outbreak.

Candidates are advised to read more literature on security issues in a computing environment.

QUESTION 2

(a) Career path open to a professional accountant in Information Technology include:

i. Information Systems Auditor
ii. Information systems security manager
iii. IT consultant in the areas of software deployment and implementation
iv. Information System Manager
v. Computer analyst
vi. Application software designer
vii. Computer Hacking investigator
viii. Computer forensic investigator/Auditor

(b)i. IT training is the familarisation of the staff with the skills necessary to operate the computer system and computer networks in order to perform specific tasks. It entails constant updating of knowledge in computer operation and computer networking.

(b)ii. Types of training include:

- Full time courses on computer application and skill
- Regular course
- Basic computer appreciation course
- On-the-job training
- Use of instruction manuals
- Specialist training
- Part-time training
- E-training
- Home video training
- Seminars/Workshops

(c)i. Two prominent technologies in 3G include

- Enhanced Data rates for GSM Evolution (EDGE). EDGE is standardized by 3G partnership project (3GPP) as part of the GSM family and it is an upgrade that provides a potential three-fold increase in capacity of GSM/GPRS networks. The specification achieves higher data-rates by switching to more sophisticated methods of coding within existing GSM timeslots

- Enhanced GPRS or IMT single carrier (IMT-SC) is a backward-compatible digital mobile phone technology that allows improved data transmission rates, as an extention on top of standard GSM.

(c)(ii) Four services and applications offered in 3G include:

- Packet transfer between two points
- Messaging (e-mail)
- Remote Access to corporate networks
- Internet WEB – browsing
- Conferencing
- News
- Traffic Information
- Weather Forecasts

(c)(iii) Challenges 3G operators will have to contend with include:

- Developing value-added applications for the corporate market
- Developing partnership with content providers to provide unique service
  combinations to users, such as banks, news services and entertainment providers
- Security and roaming issuers
- Difficulties associated with ensuring quality of service on GPRS/2.5G
- Picture clarity
- Audio clarity
- Speed of messaging

EXAMINERS' REPORT

This question tests candidates' understanding of various professional careers in computer and Information Technology open to an accountant. Candidates' knowledge of 3G technology is also required.

About 60% of the candidates attempted this question and more than half of this number scored 50% and above, of the allocated mark.

The Commonest pitfall was in part 2(c) of the question where candidates displayed little knowledge, as they did not understand the concept of the specified telecommunications technology.

Candidates are therefore advised to read books, such as the ICAN study pack and other relevant journals in order to familiarize themselves with the available technologies in 3G.

QUESTION 3

a. Cloud computing is a system in which applications and services run on a distributed network using virtualized resources and accessed by common internet protocols and networking standard.

<u>OR</u>

Cloud computing is a trend in information technology that moves computing resources and data away from the user's desktop and PCs into a large data centre.

b. Three technical concepts underlying and promoting cloud computing are:

(i) Grid computing technologies

This is the process of sharing tasks over multiple computers connected together to form a virtual supercomputer called Grid. Grid has enormous, flexible and scalable capacity for extensive computation and data storage. The concept of grid computing is used to build data centre that can host vast software and data resources, which the clients can access at any time. Thus it is a key technology promoting cloud computing.

(ii) Service – oriented Software (Software – As-A-Service)

These are software that help enterprises achieve service – oriented architecture on which cloud computing runs. They enable the users to move easily and effectively, create, deploy and manage services across their distributed and diverse IT infrastructure and global organisations.

(iii) Virtualization

This is the concept of creating an abstraction layer that decouples the physical hardware from the operating system to deliver greater IT resource utilization and flexibility. In cloud computing, virtualization allows multiple virtual machines, with heterogeneous operating systems to run in isolation side-by-side on the same physical machine.

(iv) Platform-as-a-service

(v) Infrastructure

c. Deployment models used in cloud computing include:
- Public cloud
- Private cloud
- Hybrid cloud
- Community cloud

d. Advantages of cloud computing include:
- Resource pooling
- Scalability
- Ease of utilization
- Outsourced IT management
- Low cost
- Measured/Regulated service
- Ease of Access/Speed

e. Challenges in the deployment of cloud computing include:

- Security of IT resources/Hacking
- Privacy of data

EXAMINERS' REPORT

The question tests candidates' knowledge on the concept of cloud computing, its advantages and challenges posed in the deployment of cloud.

Over 60% of the candidates attempted this question and almost 70% of this number scored 50% and above, of the allocated mark.

The major pitfall was that, most of the candidates who attempted the question could not differentiate between the technical concept underlying and promoting cloud computing from deployment models used in cloud computing.

Candidates are therefore advised to read books such as the ICAN study pack and other relevant journals in order to familiarize themselves with the concept of cloud compuling.

QUESTION 4

(a) Communication Network Components include:

i. Terminals: They are computer systems or nodes that server as client/end-user computer-systems during communications. Terminals are the starting and stopping points in any communication network environment. Any imput or output device that is used to transmit or receive data can be classified as a terminal component.

ii. Communication Channels: These are the ways in which data can be transmitted and received. Communication channels are created through a variety of different media. The most popular methods are found in the home which includes copper wires, and coaxial cables, more and more frequently fiber-optic cables are being used to bring faster and more robust connections to business and homes.

iii. Communication Processors: These are used to support data transmission and reception between terminals and computers by providing a variety of control and support functions (i.e convert data from digital to analog and vice-versa).

iv. Communications Control Software: This is present on all computers and is responsible for controlling network activities and functionality

v. Communications Server: A server is a powerful computer System that provides services used by the clients (i.e other computer systems, nodes or terminals). In communication, a client is the end-user while the server is the web site. For example, a web server is a powerful computer system hosting a web site and serves up web pages.

(b) Advantages of Database Management System (DBMS) include:

i. Availability of and access to information can be increased.

ii. Program development and maintenance costs can be radically reduced.

iii. Data mix-up can be eliminated by providing central control of data creation and definitions.

iv. Flexibility of information systems can be greatly enhanced by permitting rapid and inexpensive adhoc queries of very large pools of information.

v. Program-data dependence can be reduced by separating the logical view of data from its physical arrangement.

vi. Complexity of the organisation's information environment can be reduced by central management of data, access, utilization, and security.

vii. Data redundancy and inconsistency can be reduced by eliminating all isolated files in which the same data elements are repeated.

(c) Hardware devices in communication network include:

(i) Communications processors e.g Routers, bridges, switches
(ii) Communications servers
(iii) Workstations/Terminals
(iv) Physical communication channels e.g optic fibres, cables, and wires

EXAMINERS' REPORT

This question tests candidates' knowledge on components of communications network as well as benefits derived from a Database Management System.

Over 80% of the candidates attempted this question and the performance was good as 70% of the candidate scored 50% and above, of the allocated mark.

Commonest pitfall was that some candidates gave solutions meant for communications network, to those required for communications network devices.

Candidates are advised to read widely: books, journals and other relevant publications on computer and telecommunications network.

QUESTION 5

(a) E-government is a procedure for government to use Information Technology to provide citizens with more convenient access to government information and services, to improve the quality of the services and to provide greater opportunities to participate and influence governance and its processes.

(b) E-government could improve governance in the following ways:

i. It will be easier for citizens to have their say in government
ii. Citizens/people will get better services from the government
iii. People will be better informed due to up-to-date and comprehensive information about government laws, regulations policies and services.

(c) Citizens expectations include:

i. Online registration of information with government such as births, marriage deaths at a convenient time and place.
ii. Conduct of financial dealings with government organisations electronically.
iii. Having their say on a wide range of government proposals and policies through the internet.
iv. Benefits from high quality health care
v. Having confidence that effective controls backed up by good legislation will safeguard privacy

vi. Notification of change of addresses, so that one entry on the internet can ensure that multiple government agencies are notified automatically.

(d) i. Government to Citizen (G2C) model. G2C model provides non-stop, online access
to information and services to individuals: Using this model, citizens could find what they need quickly and easily as well as access information promptly. For example, access to information in government agencies and parastatals can be integrated into a single government portal for the citizens to get access to the information therein. Among the benefits of this model is that it reduces the average time for citizens to access government information.

ii. Government to Government (G2G) model:
The primary goal of G2G model is to enable Federal, State and Local Governments to work easily together in order to serve citizens better within key lines of businesses. The model, if properly implemented, will improve the way information is shared among all levels of government and with numerous benefits. G2G could also involve linkage with foreign governments' websites for inter-governmental relationships. Among the benefits of G2G is the reduction of
time to verify birth and death entitlement.

EXAMINERS' REPORT

This question tests candidates' understanding of e-government and e-government models.

More than 80% of the candidates attempted this question, and 80% of these scored over 50% of the allocated mark.

Candidates' major pitfall was that most of the solutions given for part 5(c) were repetition of part 5(b).

Candidates are advised to read widely.

QUESTION 6

(a) WiMAX, is an acronym for World Interoperability for Microwave Access. It is a family of IEEE 802.16 standards that aims to deliver wireless data to a large number of users over a wide area at high speed of 70-80 miles per hour.

(b) WiMAX system comprises of the following basic components:

i. WiMAX base station: This is a central equipment which coordinates the transmission of link-layer packets in both the downstream (from base station to subscriber stations) and upstream (from subscriber stations to base station) directions according to the TDM frame structure
The base station transmits signals through a massive system comprising of WiMAX Transmitters and Towers installed at various locations to achieve wide and effective coverage.

ii. WiMAX subscribers' stations. These are also called customer premise equipment and they refers to the receivers and antenna which might come in form of a small box or PCMIA card installed into a client's computer machine to facilitate reception of transmitted signal.

(c) Applications of WiMAX include:

i. Broad internet access
ii. Voice over Internet Protocol (VoIP)
iii. Internet Protocol Television (IPTV)
iv. Mobile emergency response services
v. Wireless backhaul

(d) Existing telecommunication systems that soon be replaced by WiMAX application include

i. Conventional telephone services
ii. Cable television service
iii. Fibre optic cable
iv. Wifi hotspots
v. Cell phone towers
vi. EDGE

(e) Features of WiMAX that makes it superior to Wifi include

i. Range covers up to 6 miles with one base station as against 10 yards limit of Wifi

ii. Throughput: 72 mbps as against 11 mbps of Wifi

iii. Security: Multi-level encryption as against limited security of Wifi

iv. Quality of Service IQoS: Dynamic bandwidth allocation good for voice and video as against limited Qos of Wifi.

EXAMINERS' REPORT

The question tests candidates' knowledge on WIMAX and Wifi. Less than 1% of the candidates attempted this question and less than 50% of this number scored 60% and above of the allocated mark.

The major pitfall was that a few of the candidates who attempted the question did not have the basic knowledge of the topic.

Candidates are advised to read widely on the telecommunications technologies in order to avail themselves of the knowledge of mobile technology.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
PROFESSIONAL EXAMINATION I - NOVEMBER 2012
ADVANCED AUDIT AND ASSURANCE

Time allowed – 3 hours

SECTION A: Attempt All Questions

PART I: MULTIPLE-CHOICE QUESTIONS (20 Marks)

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

1. An auditor can disclose the client's confidential information for the following reasons **EXCEPT**

   A. Auditor suspects that the client has committed treason
   B. When there is a public duty to disclose
   C. Disclosure is needed to protect the auditor's interest
   D. When the client has committed an act of felony
   E. When information is formally requested by another client

2. Which of the following is **NOT** an objective of profit forecast investigation on which an opinion can be given?

   A. Whether or not the profit forecast complies with the Generally Accepted Accounting Principles
   B. As to whether the profit forecast has been prepared on the basis of the existing organisation's accounting policies
   C. Whether or not the profit forecast has been prepared on the basis of management assumptions and judgement
   D. On the reasonableness of the management assumptions and judgement of the profit forecast
   E. As to whether the profit forecast agrees with the underlying records.

3. The responsibilities of the directors in relation to the accounting functions of the company fall under the following **EXCEPT**

   A. Safe-guarding the company's assets and preventing errors and fraud in the company
   B. Defining the concept of materiality and tolerable error as a guide to the auditor
   C. Ensuring that the company keeps proper accounting records as defined in the legislations
   D. Setting up internal control system in the company as a standard practice
   E. Preparing the financial statements to show the results of the company for the year and financial position as at year end.

4. The deficiencies of historical cost accounting during inflation **EXCLUDE** which of the following?

   A. The Net Book Value of Fixed Assets is often substantially below their current value
   B. The statement of financial position figure of stock reflects prices ruling at the date of purchase or manufacture rather than those current at the year end.
   C. Charges made in arriving at the profit do not reflect the current value of assets, which result in overstated profit in real terms.
   D. If the historical cost accounting profit were distributed in full, the level of operations would have to be curtailed
   E. The understatement of profit and the overstatement of assets prevent meaningful calculations of profitability.

5. Regarding investigation in the public sector, the final report of the Board of Inquiry shall include

   A. The number of memoranda received from the public
   B. A statement of the exact amount of loss that has been incurred
   C. Certification from the Due Process office
   D. Report of the Auditor-General for the Federation
   E. External Auditors' opinion statement on the loss that occurred

6. Auditors that carry out transnational audit usually belong to multinational firms and as such are

   A. Independent of the local laws and regulations
   B. Not expected to operate under the professional rules of any particular country
   C. Not accountable to any supervisory body
   D. Expected to buy the shares of the multinational corporations to gain entry into the country
   E. Operating subject to national laws and professional values in more than one country

7. In the audit of an insurance company carrying out life business, which of the following is **NOT** relevant?

   A. Providing a general reserve which shall be equal to net liabilities on policies in force at the time of actuarial valuation and an additional amount equal to 25% of net premium for every year between actuarial valuation dates.
   B. Providing a contingency reserve equal to 1% of gross premium or 10% of profit whichever is greater and which is accumulated until it attains the amount of minimum paid up capital
   C. Providing a margin of solvency which shall not be less than 15% of the gross premium received, less re-insurance premium paid or 15% of the paid up capital whichever is higher
   D. Separation of funds into Individual Life, Group Life, Health Insurance etc showing each class
   E. Profit determination only by actuarial valuation of the liabilities and comparing this with available assets.

8. In a recent study involving different users of financial services in Nigeria, various types of unethical behaviour have been identified. Which of the following does **NOT** have general application in the industry?

   A. Any act that does not follow the norms of a profession
   B. Any act not in consonance with professional code of conduct
   C. A conduct that is morally adjudged wrong, unbecoming and below expectation
   D. Behaviour that is based on moral or pre-modial principles
   E. Deviations from standard and known code of conduct guiding an operation.

9. Which of the statements listed below about IFRS is invalid?

   A. Multinational should benefit from a number of cost savings when using IFRS
   B. Companies that wish to reach a wider group of investors will find financial statements based on IFRS acceptable in all major markets
   C. Using IFRS will make it easier, though more expensive, to have secondary listing in other countries of the world
   D. Using the same accounting basis provides greater comparability between companies which will lead to more efficient investment
   E. The original standard setter between (1973-2000) was International Accounting Standard Committee (IASC)

10. In order to review a payroll journal, the auditor is **NOT** likely to interface with which of the following ledger accounts**?**

   A. Pay As You Earn
   B. Pension
   C. Staff loans
   D. Current Assets
   E. National Health Insurance

11. The impact of Due Process Review **EXCLUDES**

   C. Recognition of competent contractors
   D. Recognition and reinstatement of rightful contract winners
   C. Elimination of middlemen in contract awards
   D. Elimination of doubt in the ability of the contractor
   E. Elimination of businessmen in contract awards

12. Which of the following is **NOT** an example of Revenue Related Fraud?

   A. Accounting and documentary
   B. Lifestyle of employees
   C. Related party transactions
   D. Management override of significant internal control activities
   E. Sale of assets that is very similar to subsequent purchases at similar amounts.

13. The auditor should always date the audit report on a date

   A. The financial statements were approved
   B. After the directors have approved the financial statements

C. When the directors approved the audit work
D. The audit assignment was completed
E. The audit commenced.

14. According to ISA 320, the auditor is expected to treat information as IMMATERIAL if

A. Its omission could influence the economic decision of users based on the financial statement
B. Its misstatement could alter the decision of stakeholders based on the financial statements
C. Its omission is within the audit objective
D. Its misstatement will make an audit objective to be defeated
E. Its omission threatens the going concern of the organisation

15. While developing a risk-based audit program, the Information Technology Auditor most likely will focus on

A. Strategic controls
B. Critical IT applications
C. Operation control
D. Business strategy
E. Business process

16. The Letter of representation is normally signed by

A. Managing Director and Chairman of the Board
B. Managing Director and Company Secretary
C. Managing Director and Finance Director
D. Chairman of the Board and Finance Director
E. Chairman of Audit Committee and the Managing Director

17. Which of the following actions is inappropriate to a material fraud detected during an audit of a banking institution?

A. Discuss the matter with at least one level of management above the perpetrators
B. Obtain further evidence
C. Mention it in the audit report
D. Suggest that the client consults with legal counsel about question of law
E. Report the matter directly to the police.

18. The following categories of debtors may be declared bankrupt (according to Bankruptcy Law in Nigeria) **EXCEPT**

    A. A debtor owing a liquidated sum of at least ₦2,000 (Two Thousand Naira only).
    B. A debtor who has committed an act of bankruptcy within 3 months before presentation of bankruptcy petition.
    C. Any debtor domiciled in Nigeria or who has carried on business in Nigeria by means of an agent or a manager
    D. A debtor that makes any conveyance or transfer of his property or any part thereof if he were adjudged bankrupt.
    E. A debtor who transacts business in Nigeria and is able to meet his obligation as at when they fall due.

19. Which of the following is the most appropriate objective of audit review?

    A. Frauds and errors do not occur in an audit engagement
    B. The audit is completed early for the report to be used
    C. The audit is performed with the highest standard of quality
    D. To ensure that appropriate bill is sent to the client
    E. No dispute arises between the firm and the client

20. Which of the following is **NOT** an example of Computer Audit Program?

    A. Computer audit software
    B. Computer audit packages
    C. Purpose written computer audit
    D. Clients installed file interrogation program
    E. Test data pack.

PART II: SHORT-ANSWER QUESTIONS (20 Marks)

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

1. In the financial position of a company, ……………….. are resources arising from past events and for which future economic benefits are derivable

2. An unintentional mistake is ……………committed by anyone in the accounting process which results in material mis-statement

3. The audit that is aimed at confirming the relationship between the value of services provided and the resources used to achieve that service is called………….

4. The audited financial statements of every company must be filed with the ………………………

5. Auditors need negotiation skills to be able to agree fees with prospective clients or agree increase in fees with existing clients. **TWO** recommended general approaches to negotiation are…………and ……………bargaining

6. In view of the guidelines in Statement No 8 of ICAN's Professional Conduct for Members covering "obtaining professional work" referred to under Advertising and Publicity, ……………….should commence only when a firm has been approached by a prospective client

7. A chartered accountant in public practice, who is engaged to report under the relevant provisions of Companies and Allied Matters Act, CAP. C20, LFN 2004 and the listing requirements of the Nigerian Stock Exchange is known as……………

8. The monthly accounts submitted to the Accountant-General of the Federation by a Self- Accounting Unit are referred to as…………………

9. IAS 20 deals with Accounting for Government Grants and Disclosure of Government Assistance. In the Standard, a grant in the form of a non-monetary asset may be valued at …………..or…………..value.

10. Money laundering is an attempt to……………the origin of the money by making it look legitimate or clean.

11. Ethical standards as contained in the ICAN Code of Professional Conduct for Members are ....principles and statements.

12. The creditors given priority payment during a liquidation process are known as...................... creditors.

13. The use of external specialist teams or consultants to perform functions which could otherwise be performed in-house is known as............

14. A schedule prepared as part of the audit plan for determining the timing and grade of staff needed for an audit engagement is referred to as...................

15. One of the major deficiencies of our Local Standards over IFRS's presentation of Non-current Assets is that our Local Standards do not recognise................process.

16. To examine financial statements, in Assurance Engagements, **"Responsible Parties"** are linked to ....

17. Audit firms are required to ensure that their quality control policies and procedures are documented and...............to the firm's personnel.

18. The rate of corporate.............in the last ten years has tended to increase the risk exposure of the auditor.

19. For the auditors to have a right of lien on the books and records of the client, they must have obtained...........by.................means

20. Audit....................is essential in every audit process as this reduces audit time and invariably the cost.

SECTION B: ATTEMPT QUESTION 1 AND ANY OTHER THREE QUESTIONS (60 Marks)

QUESTION 1

CASE STUDY

You have just been appointed the Auditor of Sheerahmog Manufacturing Company Limited, which manufactures 2.0 ml syringes specifically used by veterinary doctors. Recently, it was discovered that the 2.0 ml syringes are used on human beings due to the shortage of syringes for human use.

The Federal Government has decided to phase out the 2.0ml syringe in the next three years.

In order to diversify into production of carbonated water, the Finance Director suggested that the company approach a bank for a complementary ₦1.26 billion required to finance the diversification program.

In spite of their proposal and cashflow to Bank of Akowonjo Plc, which was described as being fantastic, their loan application was not granted. As a result, the company is likely to go into liquidation with its numerous staff disengaged, if viable alternative is not provided to raise the required fund.

In carrying out the analysis of the sources of funds at the end of the year under review, you found that the company made much money from human trafficking to enable it accomplish the proposed plan of diversification.

At the next meeting with management of the company, you brought your findings to their knowledge and threatened to disclose it as an extraordinary item in the income schedule. Management frowned at it and were considering reviewing your appointment including fee which is currently 52% of your annual income.

Required

a. Identify the ethical issues involved as they relate to the auditor (2 Marks)

b. What are the **THREE** elements of fraudulent practices presented in this case? (6 Marks)

c. What are the safeguards for the ethical issues identified? (4 Marks)

d. List the issues that should be brought to the attention of the company by the auditors as regards the disclosure of the illegal act. (3 Marks)

(Total 15 Marks)

QUESTION 2

Your firm, Alheri & Co, has been appointed to carry out an audit assignment on Barders Bank Limited. The Bank's year ended 30 September 2010. In the process of carrying out this assignment, it was discovered that no provision was made for doubtful debts. Total loans and advances of ₦50 billion consisting of 200 customers were found to be at various stages of performance except a ₦1 billion term loan granted to a Director's relation's company on 31 December 2009 to be repaid in ₦100 million monthly equal instalments commencing from 31 January 2010. Interest was simply agreed at ₦100,000 per month.

As at the time of this audit, no repayment had been made on this loan.

Required:

a. What audit steps should be taken to ascertain the true position of the loan portfolio? (5 Marks)

b. State the basis and determine the provision that should be made on the loan portfolio. (10 Marks)

(Total 15 Marks)

QUESTION 3

a. Explain the following terms in relation to Public Sector Audit
   i. Self-Accounting Unit (2 Marks)
   ii. Sub-Accounting Unit (2 Marks)

b. As a staff in the Auditor-General's office, outline **SIX** procedures for the audit of revenue collected on behalf of government. (6 Marks)

c. i. Distinguish between Regulatory Audit and Financial Audit. (2 Marks)

   ii. State **SIX** documents an auditor of a Public Sector Organisation may require in conducting a Compliance Audit. (3 Marks)

(Total 15 Marks)

QUESTION 4

In accordance with ISA 240, the primary responsibility for the prevention and detection of fraud rests with Management. But the issue of Accountants seeking specialisation as forensic auditors has continued to dominate discussion on professional practice.

Required:

a. Explain forensic audit and how it applies to fraud investigation. (5 Marks)

b. Compare the responsibilities of the auditor in respect of fraud when conducting

i. Statutory Audit (5 Marks)
ii. Forensic Audit (5 Marks)

(Total 15 Marks)

QUESTION 5

You are the audit manager of Kunle Segun & Co (Chartered Accountants) which has been appointed as auditors to St. Anne's Teaching Hospital and Agrocom Farms Limited.

Required:

a. State **FIVE** problems associated with the audit of a Teaching Hospital. (10 Marks)

b. List the types of farms and explain the peculiar characteristics associated with the audit of farm accounts. (5 Marks)

(Total 15 Marks)

QUESTION 6

In a recent seminar you attended, it was explained that although auditors can incur civil liability under various statutes, it is far more likely that they will incur liability for negligence under common law. The paper presenter mentioned cases against auditors which were in this area. You also learnt that auditors must be fully aware of the extent of their responsibilities, together with steps they must take to minimise the danger claims arising from professional negligence.

Required:

a. Discuss the extent of auditors' responsibilities to shareholders and other stakeholders during the course of their normal professional engagement. (8 Marks)

b. Outline **FIVE** steps that audit firms can take to minimise the danger of claims against them. (5 Marks)

c. Itemise **TWO** steps that must be taken to minimise danger of claims when the company is deemed to have been distressed. (2 Marks)

(Total 15 Marks)

SOLUTIONS TO SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

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

EXAMINERS' REPORT

The questions test most areas of the syllabus. Candidates demonstrated good understanding of the questions and performance was good.

PART II SHORT-ANSWER QUESTIONS

1. Assets
2. Error
3. Value for Money
4. Corporate Affairs Commission
5. Distributive, Integrative
6. Tendering
7. Reporting Accountant
8. Transcript
9. Fair, Nominal
10. Conceal
11. Fundamental
12. Preferential
13. Outsourcing
14. Audit Planning Memorandum
15. Impairment
16. Management
17. Communicated/disclosed/explained
18. Failure
19. Possession, Proper
20. Strategy or Plan

EXAMINERS' REPORT

The questions test almost all areas of the syllabus. Candidates demonstrated good understanding of the questions and their performance was good.

SOLUTIONS TO SECTION B

SOLUTION 1

(a) Firstly Section 15(b) and 18(a) of the Money Laundering Act 2011 (as amended) states that any person who collaborates in concealing and conspires with, aids, abets or counsels any other person who commits an offence under the act is liable under the Act.

Secondly, for the auditor to be earning 52% of his total income from the company also puts the independence of the auditor at stake.

Self-interest threat is bound to arise as the auditor will be afraid of losing a client whose fee income is significant to the survival of the firm. The integrity of the auditor to disclose unethical business practices will be compromised.

(b) Fraudulent practices presented in the case are:

i. Human trafficking
ii. Use of animal syringes for human beings
iii. Management objection to the disclosure of fraudulent source of income

(c) Safeguards against ethical issues identified:

i. The auditor should consider merging with another firm
ii. The auditor should endeavour to increase his client's base
iii. The auditor could expand the business in conformity with Accountancy Practice
iv. Hot review should be undertaken within the firm to ensure quality of work done.

(d) Issues to be brought to the attention of management by the auditor as regards the disclosure of the illegal act are:-

i. That human trafficking is a criminal act
ii. Using animal syringe for human beings is violation of human rights
iii. The effect of non-disclosure of the illegal income from human trafficking
iv. Violation of Money Laundering Act

EXAMINERS' REPORT

The question tests candidates' understanding of ethical issues as they affect the work of an auditor and the treatment of such issues.

Almost all candidates attempted it. Candidates demonstrated poor understanding of the question, and performance was poor.

Candidates' commonest pitfall was that rather than use the case as reference point in answering the question, they gave general answers.

Candidates are advised to read a case properly before answering the questions relating to it. They are also encouraged to attempt compulsory questions in future examinations.

SOLUTION 2

(a) The steps to ascertain the true position of loan portfolio include:

(i) Obtain or prepare a schedule of the loans
(ii) Cast the schedule and agree to individual debtors' accounts or ledger
(iii) Obtain direct confirmation from debtors through circularization.
(iv) Review samples of customers' credit files for evidence of offer letters, correspondences, red flags, queries e.t.c.
(v) Review minutes of board meetings for approval of material loans
(vi) Ensure adequacy of provision with reference to the prudential guidelines
(vii) Review the status of collateral for adequacy and perfection of title documents
(viii) Obtain a letter of representation from the bank's management on loans
(ix) Ensure appropriate disclosure requirements to show a true and fair view.

(b) Loan loss provision would be made in line with the current prudential guidelines as follows:

General provision	=	1%	-	
Pass and watch	=	5%	-	30 days
Substandard	=	20%	-	31 – 60 days
Doubtful	=	50%	-	61 – 90 days
Lost	=	100%	-	91 days and above

The provision that will be computed on this loan is as follows:

Provision Required:	₦'000
General Provision (1% x 50b – 1b)	490,000
Interest due and unpaid (9 months x ₦100,000)	900
Principal not performing for 9 months	1,000,000
Total provision	1,490,900

EXAMINERS' REPORT

The question tests in part (a) steps to be taken to ascertain the true position of loan portfolio and part (b) provisions to be made on bad and doubtful loans.

Candidates demonstrated poor understanding of part (a) while part (b) was well understood. Overall performance was fair.

Candidates' commonest pitfall was the application of the outdated Prudential Guidelines on provisions for bad and doubtful loans.

Candidates are advised to be abreast with latest developments affecting the profession.

SOLUTION 3

(a)(i) Self-Accounting Unit:

It is a ministry or extra-ministerial department where the accounting functions are delegated to the Accounting Officer. Before the unit is created, the following conditions must be met:

- Establish an Internal Audit Department
- Establish and operate a Central pay office that is adequately secured
- Write an Accounting Manual and/or code to be approved by the Accountant-General and Auditor-General
- Seek approval from the Ministry of Finance to be a self-accounting unit

Example of self accounting units are all Federal and State Ministries.

(ii) Sub-Accounting Unit:-

Sub-Accounting unit is the unit or branch, of Ministries outside the Headquarters, that prepare payment vouchers only but cannot audit or pay such vouchers. It may check such vouchers, if the unit has a Checking Section. The audit and payment functions are performed by the Sub-Treasurer (Abuja) or Federal Pay Offices (States). Examples include the Unity Schools (Federal Ministry of Education, branches of Ministries in the States of the Federation.

(b) Procedures for the Audit of Revenue Collected on behalf of Government

(i) Conduct a cash survey on the revenue collector who is an officer entrusted with official receipts or license booklets for the regular collection of a particular form of revenue from the public and is required to keep a cash book.
(ii) Obtain and ascertain all receipts issued to the revenue collector after the last audit
(iii) Trace all the triplicate copies of receipts into the revenue cash book maintained by the revenue collector
(iv) Cast the cash book to ensure that no mistake has been made
(v) Verify the total collection as recorded in the revenue cash book with TB 6 pasted on the cash book for evidence of payment to the main cashier
(vi) Examine the bank pay-in-slips and confirm at the Central Pay Office that all cheques received have been correctly and completely recorded
(vii) For tenement rates, obtain copies of the latest assessment notice and list of outstanding from the previous year.
(viii) Evaluate the system of internal control for the handling of all receipts of Revenue
(ix) Ensure generally that the classification of revenue is in accordance with the year's estimates
(x) Ensure also that receipts are issued for all the money collected and such receipts bear the stamp of the office of issue
(xi) Check that all entries in the cash book include the dates and numbers of all receipts
(xii) Check that revenue collectors do not make any payment out of the money collected by them
(xiii) Verify that revenue collectors submit their cash book and receipts books for examination to the sub-treasurer

(xiv) Verify that Accounting officer prepares regular returns of revenue arrears and

(xv) Where paper money (bank notes, cheques etc) are received by post etc such should be entered in a paper money register under the supervision of the officer opening incoming mails in the Ministry. Thereafter, records and remittances should be passed to the cashier who will issue the receipts or licenses in respect of the amount and record them in his cash book.

(c)(i) Regulatory Audit, otherwise referred to as Compliance Audit, is conducted with a view to ensuring that expenditures have been incurred on approved services and in accordance with the enabling statutory provisions and regulations governing the particular expenditure. Example is an audit conducted on each project or contract awarded by government.

Financial Audit is one that is conducted in order to ensure that the accounting and financial control systems are efficient and operating properly and that financial transactions have been correctly authorized and accounted for. This ensures that financial statements and accounts have been prepared to present a true and fair view of the state of affairs of the establishment concerned and in respect of the period covered by the audit.

Example is the type of audit conducted on the treasury accounts of the Federation from time to time.

(c)(ii) Documents needed in conducting a Compliance Audit include:

- The Nigeria Constitution (latest edition)
- Civil Service Rules
- Treasury Circulars
- Establishment Circulars
- Official Gazettes of Government
- Financial Instructions/Regulations (latest edition)
- Budgets
- Finance (Control and Management) Act of 1958

EXAMINERS' REPORT

The question tests various issues involved in the audit of the Public Sector, distinguishing between Regulatory and Financial Audit.

Candidates demonstrated fair understanding of the question and majority of them attempted it; but performance was poor. Candidates' commonest pitfall was the lack of understanding of the requirements of the question.

Candidates are advised to cover the syllabus thoroughly before sitting for the examinations.

SOLUTION 4

(a) A forensic audit is an examination of evidence regarding an assertion to determine its correspondence to established criteria carried out in a manner suitable to the court or it can be defined as the process of gathering, analyzing and reporting on data in pre-defined context, for the purpose of finding facts and/or evidence in the context of financial/legal disputes and/or irregularities and giving preventive advice in this area.

An example would be a forensic audit of income records to determine the quantum of rent owing under a lease agreement, which is the subject of litigation.

Fraud is an example of an irregularity which may be investigated as part of a forensic audit. The main objective of the work is to determine whether a fraud has taken place; identify who has perpetrated the fraud and to calculate the loss incurred by the company.

The evidence obtained may be presented in a court of law.

b(i) Statutory Audit

- It is not the primary responsibility of the statutory auditor to discover fraud. However, he is to plan his work in such a way that if there are any material mistakes or fraud it will be discovered in the ordinary course of his work. If put on enquiry, the statutory auditor has a duty to probe into the matter to a logical conclusion.

- Assess the effect of the fraud on financial statements and consider how it affects the audit opinion

- If any fraud is discovered, report to management for further action

(ii) Forensic Audit

In forensic audit the auditor will:

- Work in accordance with the terms of reference
- Gather evidence in accordance with law of evidence and the rule of court
- Determine the quantum of fraud which is the subject of the special audit

EXAMINERS' REPORT

The question tests candidates understanding and knowledge of forensic audit and the auditor's responsibility when conducting Statutory Audit. Most candidates attempted the question, but performance was poor.

The major pitfall of the candidates was that they were discussing types of Forensic Audit instead of stating its application to fraud investigation.

Candidates are advised to prepare adequately to be able to handle special areas of this nature.

SOLUTION 5

(a) Problems that may be associated with the audit of a Teaching Hospital include:

(i) Matching cost with related revenue especially in cases where a patient's admission extends from one accounting year to another.

(ii) High incidence of bad debts especially in cases of patients who die in the course of treatment.

(iii) Owing to the peculiar nature of the services of a hospital, unavoidable weaknesses may exist in the internal control system.

(iv) They may likely have sophisticated equipment whose value may be out of proportion to the size and whose real value will depend on the condition of the asset, thus requiring an expert to determine its value.

(v) Stocks will consist of drugs, dressings, consumables, supplies and disposable items some of which will have expiry dates. Apart from the problem of examining these items individually in order to determine the expiry dates, the auditor may lack the skills to determine the condition of the items, hence may have to rely on the opinion of experts.

(vi) Apart from the normal creditors for supplies made or services rendered, the liabilities of a hospital may include contingent liabilities for pending litigation or claims for negligence arising out of faulty medical treatment or application or wrong drugs.

(vii) In addition to ensuring the truth and fairness of the financial statements they may also be required to be in a particular format for presentation to the relevant supervising authority or donor agencies.

(b) Accounts of farms vary according to the type of business organisations being run, that is, sole proprietorship, partnership, company, etc the type or variety of products that one farm produces, as well as the extent of records being kept. Types of farms include:

(i) Arable farming involving crops
(ii) Pastural farming involving livestock
(iii) Mixed farming involving both crops and livestock
(iv) Plantation farming involving planting of tree crops such as rubber, plantain, cocoa, palm tree, sugar-cane etc.

Peculiar characteristics associated with farm accounts include:

(i) Farmers usually operate as sole proprietors in which case a lot of the records may not be kept at all.

(ii) The farmer may not have adequate knowledge of columnar and departmental accounts in respect of the variety of farm products that may exist. For instance, crops, fruits, poultry, piggery, cattle and fishery.

(iii) The farmer may not be able to carry out valuation of the stock of the various categories of the farm products as at the end of the financial year in accordance with the provision of SAS No 4.

EXAMINERS' REPORT

The question tests candidates' knowledge of the audit of specialised organisations (e.g. teaching hospital, farm, etc).

Few candidates attempted the question, and demonstrated good knowledge as most of them scored above average marks.

The candidates' commonest pitfall was poor presentation.

Candidates are advised to prepare well for future examinations.

SOLUTION 6

AUDITORS RESPONSIBILITIES

(a) An auditor of a limited liability company has a responsibility imposed upon him by the law (Statute) i.e. CAMA 1990 (as amended). He is expected to form and express an opinion on the financial statements presented by the directors to the shareholders i.e. he performs the audit and signs the audit report.

(i) **Responsibility under Statute**

He must report upon the truth and fairness of such statements and the fact that they comply with the law and so auditors owe a duty of care to the company or shareholders as imposed by statutes.

(ii) **Responsibility under contract**

It is the duty of an auditor to bring to bear skill, care and caution which a reasonably competent, careful and cautious auditor would use.

A measure of good practice can be proved using auditing standards and working papers e.g. Re-Kingston Cotton Mill is still relevant today.

(iii) **Responsibility in tort**

Under the law of tort, a person owes a duty of care and skill to his neighbours. This neighbour's principle can be relevant in law of trespass, slander, libel etc and have wider implication to the professional auditor.

(iv) **Liability to third parties**

It is believed that auditors have no legal obligation in the absence of a contractual or fiduciary relationship. The auditors are not insurers and are not paid to accept a liability to outside parties but only to their clients.
However, auditors can be liable to third parties if they know about the third parties investment contemplation. Re: Caparo Industries Plc Vs Dickman and others.

(b) **Steps by audit firms to minimize danger of claims against them**

(i) Firms should ensure adequate and proper quality control of audits in line with the auditor's operational standard.

(ii) The scope of every professional assignment undertaken by an auditor should always be agreed with the client and documented.

(iii) Firms should adequately plan and execute every audit assignment.

(iv) Auditors should use written audit programme and maintain a proper record of work done.

(v) If the auditor encounters technical accounting problems or matters requiring subjective judgment, he should consult with other knowledgeable auditor and document their views.

(vi) Auditors should not give advice in a hurry.

(vii) Auditors should follow the principles laid down in the auditing standards and the IFRS because the courts may regard those principles as representing current good practice.

(viii) If the scope of the audit work is restricted in any manner, the auditor should put a disclaimer in the report limiting his liability.

(ix) If during the course of the audit, the auditor comes across any suspicious circumstances he should investigate the matter thoroughly until he is reasonably satisfied.

(x) Each audit firm should take sufficient professional indemnity insurance policy.

(c) **Two steps to minimize claims when company is distressed**

(i) The firm can qualify the report making full disclosure of all the issues
(ii) Taking indemnity insurance policy

EXAMINERS' REPORT

The question tests candidates' knowledge of auditors' responsibilities to shareholders and other stakeholders, and how auditors can minimize claims against them, (i.e. auditors). About 90% of the candidates attempted the question and performance was poor.

The major pitfall of the candidates was their inability to interprete the question correctly.

Candidates should read questions carefully so as to give correct interpretation.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
PROFESSIONAL EXAMINATION I - NOVEMBER 2012
MANAGEMENT ACCOUNTING

Time allowed – 3 hours

SECTION A: Attempt All Questions

PART I: MULTIPLE-CHOICE QUESTIONS (20 Marks)

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

1. Bad debt expenses would appear in the .... budget.

   A. Cash
   B. Material purchases
   C. Selling and administrative expenses
   D. Overhead
   E. Product

2. Which of the following methods is a measure of liquidity and NOT of profitability?

   A. Pay Back Period
   B. Accounting Rate of Return
   C. Internal Rate of Return
   D. Profitability Index
   E. Net Present Value

3. Quality training programmes are

   A. Prevention costs
   B. Appraisal costs
   C. Internal failure costs
   D. External failure costs
   E. Sunk costs

4. Re-order level for inventory depends on

   A. Economic Order Quantity
   B. The lead time
   C. The rate of usage during lead time
   D. Market forces
   E. The activity level

5. The qualitative factors that should be considered when evaluating a make-or- buy decision **EXCLUDE**

   A. The nature of other business engaged in by the suppliers of the product
   B. Ability of the outside supplier to provide the needed quantities
   C. Ability of the outside supplier to provide the product when it is needed
   D. The possibility of getting the product on time
   E. The ability of the outside supplier's product to meet the taste of the company

6. Basic guidelines that should be followed when allocating service department cost include

   A. Actual costs should always be used for allocations
   B. Budgeted costs should be allocated
   C. Service department costs should always be allocated at the beginning of the period
   D. Budgeted costs and actual costs should be allocated
   E. Re-distribution of costs to all departments

7. Which of the following is NOT a type of responsibility centre?

   A. Cost centre
   B. Revenue centre
   C. Profit centre
   D. Investment centre
   E. Budget centre

8. The structure of information flow within an organisation may be

   A. Direct or Indirect
   B. Controllable or Uncontrollable

C. Vertical or Horizontal
D. Historical of Futuristic
E. Variable or Fixed

9. Which of the following techniques can be adopted in a cost reduction exercise?

A. Budgetary control
B. Variety reduction
C. Standard costing
D. Value reduction
E. Marginal costing

10. An aspect where management accounting and financial accounting differ is that management accounting information is prepared

A. Following prescribed rules
B. Using whatever methods the company find beneficial
C. For stockbroker
D. For the Internal Revenue Services
E. For Government use only

11. If the total cost of an activity level is ₦18,000 and the independent variable is 800 units with the fixed cost element in the mixed cost being ₦6,000, what is the slope coefficient?

A. ₦10
B. ₦12.5
C. ₦15
D. ₦22.5
E. ₦30

12. If Y is the number of outputs expected of a product and X is the number of outputs expected of another product from the same production process, which of the following inequalities expresses the constraint that the number of outputs of X must not be more than 20% of the total number of units produced.

A. $5x \leq y$
B. $x < 5y$
C. $4x \leq y$
D. $x/5 \leq x+y$
E. $4x/5 \leq y$

13. A company has a severe shortage of labour hours. The normal hourly rate is ₦150. If the shadow price is ₦20, what maximum hourly rate should the company be willing to pay for every additional hour worked?

A. ₦130
B. ₦150
C. ₦160
D. ₦170
E. ₦190

14. The standard time for the manufacture of a product is 30 minutes while the actual production of 50,000 units took 20,000 hours. What is the efficiency ratio?

A. 20%
B. 25%
C. 75%
D. 80%
E. 125%

15. In a Markov Chain Analysis, the process in which it is possible to go from one state to any other state where x is non-zero and less than one is called

A. Regular chain
B. Absorbing chain
C. Egordic chain
D. Normadic chain
E. Down-stream chain

16. A pictorial method of showing a sequence of inter-related decisions and outcomes is

A. Simulation
B. Decision tree
C. Network analysis
D. Probability theory
E. Portfolio theory

17. Which of the following is NOT a method of adjusting for risks and uncertainties?

    A. Finite Horizon
    B. Sensitivity analysis
    C. Simulation analysis
    D. Accounting rate of return
    E. Expected value

18. Which of the following is NOT a top management decision area?

    A. Divisional planning and control
    B. Appointment of senior management staff
    C. Approval of all major capital expenditure proposals
    D. Product line closure and departmental closure decisions
    E. Determination of the corporate objectives of the organisation

19. Feedback is essential in management accounting system for the following reasons **EXCEPT**

    A. Motivation
    B. Coordination
    C. Cost commitment
    D. Control
    E. Monitoring

20. A dual transfer pricing system is capable of promoting all of the following **EXCEPT**

    A. Autonomy
    B. Motivation
    C. Performance evaluation
    D. Centralisation
    E. Goal congruence

PART II: SHORT-ANSWER QUESTIONS (20 Marks)

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

1. The technology of having an intelligent machine to perform a complete task without the use of human assistance is called ....

2. A long-term decision-making process that includes setting goals and selecting the means for attaining them is referred to as ....

3. The Management Accountant's responsibility to disclose fully all relevant information that could reasonably be expected to influence an intended user's understanding of the reports, comments and recommendations presented is called ....

4. Any job providing ancillary support services to line managers is referred to as ....

5. The five basic duties of Managers are planning, organizing, controlling, leading and ....

6. The equation y = a + bx which represents the equation for a linear function with one independent variable; b in the equation is ....

7. Maintenance costs of Hardrick IT Company are to be analyzed for the purposes of constructing a budget. Examination of past records disclosed the following costs and volume measures:

	Highest	Lowest
Cost per month	₦78,400	₦64,000
Machine – (hours)	48,000	30,000

   Use the high-low technique to estimate the annual fixed cost for maintenance expenditure.

8. The over-riding feature of information for decision-making is that it should be ....

Use the following data to answer questions 9 and 10:

CAT Company Limited carried out a market survey at a cost of ₦50,000 to determine which of the prices ₦5 and ₦8 should be adopted for its only product. At these prices, the following numbers of packets are forecast:

Expected packets per year (000)

Probability of Demand	Price ₦5	Price ₦8
0.10	350	320
0.20	500	380
0.40	700	420
0.20	750	460
0.10	800	520

9. The expected revenue at price of ₦5 is ....

10. The price that would maximise profit is ....

11. The discount rate which is raised above cost of capital in an attempt to allow for the variability of projects is known as.............

12. Aboki Company Limited has two projects with estimated results as follows:

Project	A	B
Standard Deviation	₦25,000	₦35,000
Mean	₦160,000	₦260,000

The less risky project has co-efficient of variation of ....

13. An investigation into whether proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources is known as ....

14. Costs that are taken directly to the income statement as expenses in the period in which they are incurred or accrued are called ....

15. Bayasell Limited, makers of product G, has fixed overhead of ₦60 million per annum and selling price of ₦20 per unit. Its contribution to sales ratio is 40%.

What would be the break-even point in units?

Use the following information to answer questions 16 and 17:

Project	Required Investment ₦	NPV ₦
W	2,000,000	500,000
X	2,400,000	900,000
Y	800,000	360,000
Z	1,000,000	420,000

16. The Net Present Value Index for project X would be ....

17. Which of the four projects has the highest net present value index?

18. A company is considering the costs for a special order. The order would require 1,250kg of material X. This material is readily available and regularly used by the company. The current market price is ₦32.4 per kg. Calculate the cost of material required to execute the order.

19. A system of costing that is applied to relatively large cost units, which normally takes a considerable length of time to complete is called ....

20. The use of cost data based on strategic and marketing information to develop and identify superior strategies that will sustain a competitive advantage is called ....

SECTION B: ATTEMPT QUESTION 1 AND ANY OTHER THREE QUESTIONS (60 Marks)

QUESTION 1

CASE STUDY

Wellness Company Limited is the manufacturer and distributor of a new wonder drug designed to relieve tension and reduce inhibitions. The company's market consists principally of people connected with the entertainment industry on the west coast of Africa. The company prices the drug at full cost plus 100%. The current variable costs of production are as follows:

Ingredient 'X':	8 mgs @ ₦10 per mg
Labour:	5 minutes @ ₦80 per hour
Ampoules:	1 @ ₦1.50 per ampoule

The company's fixed costs (which include the cost of distribution) are currently ₦320,000 per annum and are absorbed on the basis of budgeted production for the year.

The company is currently setting the price of the drug for the coming year and wishes to take into account expected price increases attached to the various elements of cost.
These are as follows:

Element of cost	**Expected price increase**
Ingredients "X"	10%
Labour rate	50%
Ampoules	$33^1/_3$ %
Fixed costs	12 ½ %

The budgeted figure of the company's production and sales for the coming year is 9,000 units of wonder drug. Having received the projected profit figure for the coming year, the Chairman has asked the market protection unit to help in producing a more sophisticated approach to pricing. The unit has investigated the market and believes that, with some influence being exercised on clients, the following demand pattern will emerge:

Selling price ₦	Demand Units
200	17,000
220	16,000
240	15,000
260	11,000
280	9,000
300	7,000

You are required to calculate

a. The selling price of the drug for the coming year on the company's usual basis (3 Marks)

b. The company's profit at the budgeted level of activity (2 Marks)

c. The break-even point in units and sales value (2 Marks)

d. The profit/volume ratio (2 Marks)

e. The maximum amount that the company should be prepared to spend on advertising to increase sales to 10,000 units (2 Marks)

f. The optimal selling price and production level (with supporting calculations) assuming that the demand pattern shown above is accurate (2 Marks)

g. The additional profit (if any) compared to the selling price calculated in (a) above. (2 Marks)

(Total 15 Marks)

QUESTION 2

Recab Limited was incorporated in 1999 and has since engaged in the manufacturing of household equipment. The company is located in South-Western Nigeria. Most of the raw materials used by the company are locally sourced while manpower needed is available within the country.

Since the emergence of the global economic melt-down, Management has been planning to either eliminate or embark on product mix decision that can enhance the profitability of the company and re-position to face the challenges ahead.

The company is currently producing four major products: AXEON, BAXON, CAXON and DAXON with a turnover of ₦30million in 2011. The company earned a profit of 10% before interest and depreciation which are fixed. The details of product mix and other information are as follows:

Product	Mix % to total sales	PV ratio	Raw material % of sales
AXEON	30	20	35
BAXON	10	30	40
CAXON	20	40	50
DAXON	40	10	60

Interests and depreciation amounted to ₦2,250,000 and ₦1,155,000 respectively. Due to increase in prices in the international market, the company anticipates that the cost of raw materials which are imported will increase by 10% during 2012. The company has been able to secure a licence for the importation of raw materials valued at ₦15,350,000 at year 2012 prices. In order to compensate for the increase in costs of raw materials, the company is contemplating a revision of its product mix. A market survey report indicates that the sales potential of each of the products AXEON, BAXON and CAXON can be increased to 30% of total sales value of 2011. There was no inventory of finished goods or work in progress for the year.

You are required to prepare the

a. Schedule showing the optimal product mix for year 2012 (9 Marks)

b. Profitability statements for year 2011 and 2012 (6 Marks)

(Total 15 Marks)

QUESTION 3

Hague Air Limited is one of the commercial airlines in Nigeria. It operates a regular schedule flight along the West African Coast. One of the flights is on the route from Lagos to Monrovia (in Liberia). The airline is considering two proposals:

i. The marketing department has carried out a market survey which favours a reduction of the flight ticket fares to Monrovia to ₦48,000. This will result in an average daily passenger of 215.

ii. JB Tours & Travels has approached the Airline on the possibility of chartering its Aircraft on the Monrovia route. JB Tours & Travels will pay a rental of ₦7,500,000 to Hague Air per flight for using its Aircraft. JB Tours & Travels will, in addition, pay for fuel costs and food costs. JB Tours & Travels will use Hague Air's flight crew and ground service staff.

The management accountant of Hague Air has prepared the following data on the current operations of Hague Air:

Seating capacity per Aircraft	350 passengers
Average number of passengers per flight	205 passengers
Flights per week	4 flights
Flights per year	208 flights
Average fare	₦50,000
Variable fuel costs per flight	₦140,000
Food and beverages service cost (free to passengers)	₦200 per passenger
Commission to travel agents paid by Hague Air	10%
Fixed annual lease costs allocated to each flight	₦530,000
Fixed ground services cost allocated to each flight	₦70,000
Fixed flight crew salaries allocated to each flight	₦40,000

Required:

a. Calculate Hague Air's operating profit on each flight . (7 Marks)

b. Advise whether or not the company should accept the following proposals:

  i. the marketing department's proposal (4 Marks)

  ii. the leasing proposal from JB Tours & Travels. (4 Marks)

(Total 15 Marks)

QUESTION 4

In the third week of April, the Accountant of North-East Plc is reviewing the division's cash budget up to the end of the company's financial year on 31st August. Each of the company's divisions has its own bank account but arrangements are made centrally for transfers among them as a need or an opportunity arises. Interest is charged or allowed on such intra-company transfers at a market-related rate.

The three months of MAY, JUNE and JULY are the North-East's division's busiest months, providing two-thirds of its annual profit, but there is always a cash flow problem in this period. In anticipation of a cash shortage, arrangements have been made to borrow ₦1,000,000 internally over the busy period at an annual interest rate of 15% chargeable monthly. The agreed borrowing and repayment schedule is as follows

1 MAY	borrowing of	₦300,000
1 JUNE	borrowing of	₦700,000
1 JULY	borrowing of	₦200,000
1 AUG.	borrowing of	₦600,000
1 SEPT.	borrowing of	₦200,000

The Accountant has before him the budgeted divisional Profit and Loss Accounts figures for the four months May to 31 August and the Income Statements for March and April, the former being an estimated statement. These documents can be summarised as follows:

	ACTUAL		BUDGET			
	MAR	APR	MAY	JUN	JULY	AUG.
	₦	₦	₦	₦	₦	₦
Sales revenue	1,200,000	1,200,000	2,300,000	2,500,000	3,000,000	1,600,000
Factory cost of goods sold	1,000,000	1,000,000	1,825,000	1,975,000	2,350000	1,300,000
Selling and distribution costs	42,000	42,000	64,000	68,000	78,000	50,000
Admin. Costs & interest charges	70,000	70,000	73,750	82,500	80,000	72,500
	1,112,000	1,112,000	1,962,750	2,125,500	2,508,000	1,422,500
Divisional profit	88,000	88,000	337,250	374,500	492,000	177,500
	1,200,000	1,200,000	2,300,000	2,500,000	3,000,000	1,600,000

The following assumptions were used:

i. Factory Cost of Goods Sold figure includes a fixed cost element of ₦100,000 of which ₦20,000 is depreciation. The remaining fixed factory cost can reasonably be assumed to be paid as it is charged.

ii. Direct material cost is approximately 75% of the variable factory cost of the firm's products. The suppliers of this direct material are paid in the month following its purchase. Other variable factory costs of production are paid in the month that the production takes place.

iii. Half of the fixed selling and distribution costs is a depreciation charged for motor vehicles. The remaining cost under this heading is paid in the month in which it is charged.

iv. A monthly central administration charge of ₦10,000 and interest on any borrowings are charged to administrative costs and interest charges respectively. Such is credited to a head office current account. Other administrative costs of approximately ₦60,000 per month are paid monthly.

v. The following policies are followed by the division: The target month-end stock level for finished goods is ₦100,000 plus 25% of the variable cost of next month's budgeted sales. Finished goods are valued at variable costs for accounting purposes. The target month-end stock level for direct materials is ₦100,000 plus 25% of the material required for next month's budgeted production.

vi. All sales are on credit terms. 20% of the cash from customers is received in the month following that in which the sales were made. The remainder is received in the month after.

vii. The cash at bank and in hand at the end of April are expected to be approximately ₦100,000.

Required:

Prepare the division's cash budget for the months of MAY and JUNE

(Total 15 Marks)

NOTE: Each cash figure should be rounded up to the nearest ₦1,000.

QUESTION 5

Dictum Company Limited is a large integrated conglomerate with shipping, metals and mining operations throughout the country. The General Manager of the shipping division has been directed by the Board to submit his proposed capital budget for 2013 for inclusion in the company wide budget. The Divisional Manager is considering the following projects, all of which require an outlay of capital and have equal risk.

Project	Investment required	Return
	₦'000	₦'000
1	24,000	5,520
2	9,600	3,072
3	7,000	980
4	4,800	864
5	3,200	640
6	1,400	392

The Divisional Manager must decide which of the projects to accept. The company has a cost of capital of 15%. An amount of ₦60 million is available to the division for investment purposes.

Required:

Compute the total investment, total return on capital invested and residual income on each of the following assumptions, indicating the preferred project:

a. The company has a rule that all projects promising at least 20% or more should be accepted. (5 Marks)

b. The divisional manager is evaluated on his ability to maximise his return on capital invested. (5 Marks)

c. The divisional manager is expected to maximize residual income as computed by using the 15% cost of capital. (5 Marks)

(Total 15 Marks)

QUESTION 6

Gaslad Ventures is a Nigerian Printing Company that bids on a wide variety of design and printing jobs. Tade Okonkwo, the MD/CEO prepares bids for most of the jobs. His cost budget for 2013 is as follows:

	₦	₦
Material		500,000
Labour		200,000
Overhead:		
Variable	250,000	
Fixed	150,000	400,000
Total production cost of the job		1,100,000
Selling and Administration:		
Variable	85,000	
Fixed	120,000	205,000
Total cost		1,305,000

Okonkwo has a target profit of ₦295,000 for 2013.

Required:

a. In respect of the job, compute the average target mark-up percentage for setting prices as a percentage of

i. Prime costs (material and labour cost) (2 Marks)
ii. Variable production cost (2 Marks)
iii. Total production cost (2 Marks)
iv. All variable costs (2 Marks)
v. Total costs (2 Marks)

b. Explain the major factors involved in pricing decisions. (5 Marks)

(Total 15 Marks)

SOLUTIONS TO SECTION A

MULTIPLE-CHOICE QUESTIONS

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

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

WORKINGS

11. $y = a + bx$

$18,000 = 6,000 + 800b$

$b = ₦\frac{18,000 - 6,000}{800} = ₦15$

12. $x \le \frac{x + y}{5} = 5x \le x + y$

$= 5x - x \le y$

$= 4x \le y$

13. Maximum Rate = ₦150 + 20) = ₦170

14. Standard Time = $^{30}/_{60}$ x 50,000 = 25,000 hours

EXAMINERS' REPORT

The questions cover a wide spectrum of the syllabus. Candidates' understanding was just fair as about 50% of them scored average marks.

Candidates are, however, advised to update their knowledge of contemporary management accounting techniques.

SHORT-ANSWER QUESTIONS

1. Robotic technology
2. Strategic Planning/Longterm or Corporate Planning
3. Objectivity
4. Staff Function
5. Decision Making
6. The Slope of the line/Gradient
7. ₦40,000*
8. Relevant
9. ₦3,225,000
10. ₦8
11. Risk Premium
12. 13.5%
13. Value for money audit
14. Period Costs/Fixed Costs
15. 7,500,000 units
16. Project x NPV index = 0.375 or 37.5%
17. Project with highest NPV index is Y
18. ₦40,500
19. Contract Costing
20. Value Chain Analysis

WORKINGS

7. ₦78,400 – ₦64000 = 14,400
48,000 – 30,000 hours = 18,000
Variable rate = $\frac{₦14,400}{18,000}$ = $\frac{4}{5}$ naira per hour = 80k per hour
at 48,000 hours = 48,000 x 80k = ₦38,400
Fixed Cost = ₦78,400 – ₦38,400 = <u>₦40,000</u>

9. 0.10 x 350 + 0.20 x 500 + 0.4 x 700 + 0.2 X 750 + 0.1 x 800
35 + 100 + 280 + 150 + 80 = 645,000 x ₦5
= ₦3,225,000

10. Expected Revenue at ₦8
0.1 x 320 + 0.2 x 380 + 0.4 x 420 + 0.2 x 460 + 0.1 x 520
32 + 76 + 168 + 92 + 52 = 420,000 x ₦8
= ₦3,360,000

Since expected revenue at ₦8 is higher, it is this price that will maximize revenue or contribution.

12. $\frac{sd}{X} \times \frac{100}{1} = \frac{25}{160} X \frac{100}{1} = 15.6\%$

$= \frac{35}{260} \times \frac{100}{1}$
$= \underline{\underline{13.5}}\%$

15. Selling price per unit = ₦20
Contribution per unit = ₦20 x 40% = ₦8
Fixed cost = ₦60,000,000

BEP in units = $\frac{₦60,000,000}{₦8}$
= <u>7,500,000 units</u>

16.

Project	Cost (₦)	NPV ₦	NPV Index	Ranking
W	2,000,000	500,000	0.25	4th
X	2,400,000	900,000	0.375	3rd
Y	800,000	360,000	0.45	1st
Z	1,000,000	420,000	0.42	2nd

Project x NPV index = 900,000/2,400,000 = 0.375

17.

Project Y should be selected

18. The material is readily available and the use of the materials will necessitate their replacement. The relevant cost is therefore the replacement cost of ₦40,500 i.e. (1250 x ₦32.4)

EXAMINERS'REPORT

The question tests many topics in the syllabus. Candidates generally understood the questions and performance was fair.

Candidates are advised to get acquainted with current developments and topics in the course.

SOLUTIONS TO SECTION B

QUESTION 1

CASE STUDY

a.i Calculation of selling price

		₦
Ingredient 'X'	8 milligrams @ ₦10 per milligram	88.00
Labour:	5 minutes @ ₦120 per hour	10.00
Ampoules	1 mg @ ₦2 per ampoule	2.00
Fixed costs:	₦320,000 (1.125) ÷ 9,000 units	40.00
Total Cost		140.00
Profit Margin	100%	140.00
∴Selling Price		280.00

b. Profit at budgeted level of activity =

9,000 units @ ₦140 per unit = ₦1,260,000

c. Break-even point in units =

$$\frac{\text{Fixed costs}}{\text{Contribution per unit}} = \frac{₦320,000\ (1.125)}{₦(280 - 100)} = 2,000 \text{ units}$$

In Sales value,
Break-even point in unit X selling price = 2,000 x ₦280 = ₦560,000

d. Profit volume ratio =
$$\text{P/V ratio} = \frac{\text{Contribution}}{\text{Selling price}} = \frac{₦180}{₦280} = 64.3\%$$

e. Maximum expenditure on advertising to increase sales to 10,000 units of wonder drug.

The maximum amount the company should be prepared to spend is equal to the additional contribution that they would earn.
1,000 units @ ₦180 = ₦180,000

f.

Optimal selling price and production level

Selling Price	Variable Cost	Contribution Per Unit	Demand	Total Contribution
₦	₦	₦	Units	₦
200	100	100	17,000	1,700,000
220	100	120	16,000	1,920,000
240	100	140	15,000	2,100,000
260	100	160	11,000	1,760,000
280	100	180	9,000	1,620,000
300	100	200	7,000	1,400,000

* The optimal selling price is ₦240 and the optimal production level is 15,000 units

g. Additional profit compared to selling price of ₦280 =
₦2,100,00 – ₦1,620,000 = ₦480,000

EXAMINERS' REPORT

The question tests the ability of candidates in using mark-up percentage to determine the price of a commodity. It also tests the use of break-even analysis combined with incremental costing and decision making based on the computations.

Candidates are expected to determine price based on increment in the cost of materials, compute break-even points in units and sales value to determine optimum selling price and production level.

Their commonest pitfall was the inability to correctly recall and apply basic formulae for mark-up and BEP which could have formed the basis for the computations.

Candidates are advised to be well grounded in cost accounting principles and techniques which are basic tools for decision making in order to ensure success in this stage of the professional examinations.

QUESTION 2

(i) Schedule of Optimal Product Mix for year 2012

Allocation of raw material whose supply was restricted to ₦15,350,000 in order of raw material constraints.

Product	Ranking	Sales	Raw Materials %	Raw Material Allowed	Raw Material Balance
		₦'000		₦'000	₦'000
CAXON	I	9,000	55	4,950	10,400
BAXON	II	9,000	44	3,960	6,440
AXEON	III	9,000	38.5	3,465	2,975
DAXON	IV	*4,510	66	2,975	0

* Balancing figure, hence sales will be restricted to 4,510,000 (2,975) i.e. 66%.

(ii) Profitability statement 2011

	A	B	C	D	Total ₦'000
Sales (₦'000)	9,000	3,000	6,000	12,000	30,000
P/V Ratio %	20	30	40	10	
Contribution (₦'000)	1,800	900	2,400	1,200	6,300
Fixed Cost					(3,300)
Profit					3,000
Depreciation					(1,155)
Interest					(2,250)
					(405)

Profitability Statement 2012

	A	B	C	D	Total ₦'000
Sales (₦'000)	9,000	9,000	9,000	4,510	31,510
P/v ratio %	16.5	26	35	4	
Contribution (₦'000)	1,485	2,340	3,150	180.4	7,155.4
Fixed Cost					(3,300)
Profit					3,855.4
Depreciation					(1,155)
Interest					(2,250)
					450.4

The increase in contribution of ₦855,400 in 2012 will set off the loss of ₦405,000 in 2011 and will result in an increase in profit of ₦450,400 in 2012 thus making the product mix decision worthwhile.

Workings

Product	**AXEON**	**BAXON**	**CAXON**	**DAXON**
Existing p/v ratio	20	30	40	10
Increase in raw material cost as % of sales value	3.5	4	5	6
Revised p/v ratio	16.5	26	35	4
Revised raw material as a % of sales value	38.50	44	55	66
Contribution per naira of raw materials m%	42.86%	59.09%	63.64%	6.06%
Ranking	III	II	I	IV

Maximum sales potential

AXEON = 30% of 30,000,000 = 9,000,000
BAXON = 30% of 30,000,000 = 9,000,000
CANON = 30% of 30,000,000 = 9,000,000
DAXON = 30% of 30,000,000 = 9,000,000

The worth of raw materials available was restricted to ₦15,350,000 in order of raw material profitability.

EXAMINERS' REPORT

The question tests candidates' knowledge of the optimal product mix and profitability given a scenario of increasing costs of raw materials and its constraints. Candidates are expected to rank the product mix using PV Ratio and expected contribution per material and product. They are also required to determine overall profitability of the business using the optimal product mix.

Most candidates could not understand the question hence about 20% of them attempted it.

The few who attempted it could not adequately interpret the requirement of the question and the performance was poor.

Many did not understand the variables required to determine the ranking of the projects and thus the proper allocation of the raw material constraint to achieve optimal product mix and profitability.

Candidates are advised not to neglect any area of the syllabus. They should practise with past questions on determination on product mix and related topics.

QUESTION 3

HAGUE AIR'S OPERATION STATEMENT PER FLIGHT

		₦'000	**₦'000**
Revenue	205 x ₦50,000	10,250	
Less Commission Travel Agents		1,250	
			9,225
Less: Operating Costs:			
Fuelling		140	
Food and Beverages (₦200 x 205)		41	181
Contribution			9,044

Lease Costs	530	
Ground Services	70	
Flight Crew	40	
		640
Net Income		8,404

(i) **MARKETING DEPARTMENT'S PROPOSAL**

		₦'000	₦'000
Revenue	215 x ₦48,000	10,320	
Less Commission to Travel Agents		1,032	
			9,288
Less Operating Costs:			
Fuelling		140	
Food and Beverages (200 x 205)		43	183
Contribution			9,105
Lease Costs			
	530		
Flight Crew	70		
Net Income	40		640
			8,465

(ii) **J. B. TOURS AND TRAVELS'PROPOSAL**

	₦'000
Rental	7,500
Fuelling	140
Food and beverages (₦200 X 205)	41
Income per flight	7,601

Hague Air should accept marketing department's proposal as this will increase contribution by ₦61,000 i.e. (₦9,105,000 – ₦9,044,000). The lease proposal from J. B. Tours & Travels should not be accepted as this will reduce contribution by ₦1,443,000 i.e. (₦9,044,000 – ₦7,601,000).

EXAMINERS' REPORT

The question tests candidates' knowledge of the application of Marginal Costing Technique for short-term decision making applicable in the aviation industry.

Candidates are expected to determine the operating profit based on present position as well as the effect of two new proposals (if adopted) on the organisation.

About 40% of the candidates attempted the question, but only half of them had a clear understanding of the requirements of the question. Performance was below average.

Majority of the candidates computed the operating profit for the organisation instead of the operating profit per flight as required by the question. Many could also not sift the relevant elements to use in the computations as these were muddled up.

Candidates are advised to familiarise themselves with techniques of determining relevant variables to use in computations. They should avoid rushing into proffering solutions without thoroughly understanding the requirements of a question.

QUESTION 4

NORTH-EAST PLC
DIVISION'S CASH BUDGET

	May	June
Cash Inflow	₦	₦
Borrowings	300,000	700,000
Debtor's Receipts	1,200,000	1,420,000
-	1,500,000	2,120,000
Cash Outflow		
Fixed Cost	80,000	80,000
Variable Cost	431,000	469,000
Creditors' Payments (Material)	675,000	1,294,00
Selling & Distribution Cost	32,000	34,000
Administration Cost	60,000	60,000
	1,278,000	1,937,000
Net Cash Inflow	222,000	183,000
Opening Balance	100,000	322,000
Closing Balance	322,000	500,000

Workings

	March	April	May	June	July	August
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
Sales	1,200	1,200	2,300	2,500	3,000	1,600
Debtors Receipt						
20%	-	240	460	500	600	-

80%	-	-	960	960	1,840	2,000
			1,200	1,420		
Factory Cost	1,000	1,000	1,825	1,975	2,350	1,300
Less: Fixed Cost	100	100	100	100	100	100
Variable Cost	900	900	1,725	1,875	2,250	1,200
Direct Material	675	675	1294	1,406	1,687	900
Other Variable Cost	225	225	431	469	563	300
Payments	225	225	431	469	563	300
Payments to Suppliers	-	675	675	1,294	1,406	1,687
Fixed Cost	100	100	100	100	100	100
Depreciation	20	20	20	20	20	20
Net Fixed Cost	80	80	80	80	80	80
Payments	80	80	80	80	80	80

	March	April	May	June	July	August
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
Selling and Distribution Cost	42	42	64	68	78	50
Less: Depreciation 50%	21	21	32	34	39	25
Net	21	21	32	34	39	25
Payment	21	21	32	34	39	25
Administration Cost	70	70	74	83	80	73
Central/HO Admin Cost	10	10	10	10	10	10
Payment of Admin Cost	60	60	60	60	60	60

EXAMINERS' REPORT

The question tests candidates' understanding of the preparation of a divisional cash budget.

Candidates are expected to determine the amount of cash inflows, cash outflows, the net cash flows and the anticipated cash balances for the given period.

About 50% of the candidates attempted the question but only 30% scored above half of the marks allocated. This is an evidence that candidates did not clearly understand the requirements of the question. Performance was poor.

The commonest pitfall was the inability to differentiate between charges and real cash transaction among company's divisions.
Candidates are advised to practise with similar questions and avail themselves of the use of past questions and solutions in their preparations.

QUESTION 5

DICTUM COMPANY

Project	**Investment** Required **₦'000**	**Returns** **₦'000**	**ROCE/ROI**
1.	24,000	$\frac{5,520}{24,000} \times \frac{100}{1}$	23%
2.	9,600	$\frac{3,072}{9,600} \times \frac{100}{1}$	32%
3.	7,000	$\frac{980}{7,000} \times \frac{100}{1}$	14%
4.	4,800	$\frac{864}{4,800} \times \frac{100}{1}$	18%
5.	3,200	$\frac{640}{320} \times \frac{100}{1}$	20%
6.	1,400	$\frac{392}{1,400} \times \frac{100}{1}$	28%

(a) The Assumption is that all projects promising at least 20% or more should be selected.

* Accept projects 1,2,5, and 6 with ROCE greater than 20%

Therefore,

Total Investment will be:

(i)

Project	₦	**Project**	**Returns** ₦
1	24,000,000	1	5,520,000
2	9,600,000	2	3,072,000
5	3,200,000	5	640,000
6	1,400,000	6	392,000
	38,200,000		9,624,000

(ii) Return on capital invested =

$$\frac{\text{Total Returns}}{\text{Total Investment}} \times \frac{100}{1}$$

$$\frac{9,624,000}{38,200,000} \times \frac{100}{1} = 25.19\%$$

(iii) Residual Income
= Total Returns less imputed cost of capital

		₦
	Total Returns	9,624,000
Less:	Imputed Cost	5,730,000
(i.e.15% of ₦38,200,000)		3,394,000

(b) The assumption here is the maximization of ROI. Project 2 should be chosen in that, it provides the highest ROI of 32%.

i. Total Investment = ₦9,600,000
ii. Total Return = ₦3,072,000

iii. Returns on capital invested = $\frac{₦3,072,000}{₦9,600,000} \times \frac{100}{1}$

= 32%

		₦
iv.	Residual Income = Total Return	3,072,000
	Less: Imputed Cost	1,440,000
	(i.e.) 15% of ₦9,600,000	1,632,000

(c) The assumption here is maximization of Residual Income

Project l R1 = ₦5,520,000 - (15% of ₦24,000,000) = ₦1,920,000
Project 2 R1 = ₦3,072,000 - (15% of ₦9,600,000) = ₦1,632,000
Project 3 R1 = ₦980,000 - (15% of ₦7,000,000) = (₦70,000)
Project 4 R1 = ₦864,000 - (15% of ₦4,800,000) = ₦144,000
Project 5 RI = ₦640,000 - (15% of ₦3,200,000) = ₦160,000
Project 6 R1 = ₦392,000 - (15% of ₦1,400,000) = ₦182,000

Decision: Choose all the projects that have positive RI, i.e. Projects 1, 2, 4, 5 and 6 should be selected.

(d)i. Total Investment will be:

Project	**Investments**
	₦
1	24,000,000
2	9,6000,000
4	4,800,000
5	3,200,000
6	1,400,000
	43,000,000

ii. Total Return will be:

Project	Investments
	₦
1	5,520,000
2	3,072,000
4	864,000
5	640,000
6	392,000
	10,488,000

iii. Return on Investment:

$$= \frac{10,488,000}{43,000,000} \times \frac{100\%}{1}$$

$$= \underline{\underline{24.4\%}}$$

iv. Residual Income

	₦
Returns	10,488,000
Less: Imputed Cost	6,450,000
(i.e. 15% of 4,300,000)	4,038,000

EXAMINERS' REPORT

The question tests candidates' understanding of the techniques of investments appraisal using Return on Capital Employed (ROCE) and Residual Income concept (RI).

Candidates are expected to compute the ROCE and RI on the stated projects, compare with given benchmarks and take decision based on the analytical evaluations.

About 80% of the candidates attempted the questions but performance was below average as only about 40% scored half of the allocated marks.

Many candidates misinterpreted the question and some went into the computation of NPV and IRR. Some candidates could not correctly apply the ROCE and RI formulae.

Candidates are advised to endeavour to understand questions before proffering solutions.

QUESTION 6

GASLAD VENTURES

(a) Hint to achieve ₦295,000 profit the desired revenue for 2013 is ₦1,305,000 + ₦295,000 or ₦1,600,000. The target mark up percentage are:

(i)	% of Prime cost	=	$\frac{₦1,600,000 - ₦700,000}{₦700,000}$	=	128.57%
(ii)	% of Variable production cost	=	$\frac{₦1,600,000 - ₦950,000}{₦950,000}$	=	68.42%
(iii)	% of total prod. cost	=	$\frac{₦1,600,000 - ₦1,100,000}{₦1,100,000}$	=	45.45%
(iv)	% of all variable costs	=	$\frac{₦1,600,000 - ₦1,035,000}{₦1,035,000}$	=	54.59%
(v)	% of all costs	=	$\frac{₦1,600,000 - ₦1,305,000}{₦1,305,000}$	=	22.60%

(b) The main factors in pricing decisions are as follows:

(i) Pricing objectives;
(ii) Relationship between price and output;
(iii) Selling price/demand relationship and
(iv) Other factors

Pricing objectives: Pricing objectives of companies fall into three categories, i.e. achieving a target return on investment; stabilizing price and output; and realizing a target market share.

Relationship between price and output: The element of price is always instrumental to level of demand, therefore a company should consider the relationship between price and demand when deciding on an efficient plan of action.

Selling price/demand relationship: This relationship is influenced by such factors as variation in quality, advertising, buyers' choice and decisions of competitors.

Other factors: Such as overall company goals, costs, demand, legal and social responsibility also influence pricing decision of companies.

EXAMINERS' REPORT

The question tests candidates' knowledge of product pricing policy decisions using mark-up principles on various costs and target profit.

Candidates are expected to determine the variables costs, prime cost, and total production cost and apply the target mark-up percentage.

They are also required to explain factors affecting pricing decisions.

About 70% of the candidates attempted the question and performance was average. A number of candidates could not correctly determine the given costs; some even transposed the formulae and some could not correctly apply them. Some ignored giving explanations on pricing decision.

Candidates are advised to prepare adequately for the examinations. They should be conversant with the useful formulae and their applications in solving management problems. Candidates should endeavour to ensure adequate spread in tackling examination questions.