

COVENANT UNIVERSITY

TUTORIAL KIT

PROGRAMME: ACCOUNTING

ALPHA SEMESTER

400 LEVEL



Raising A New Generation Of Leaders

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COVENANT UNIVERSITY

CANAANLAND, KM 10, IDIROKO ROAD
P.M.B 1023, OTA, OGUN STATE, NIGERIA.

TITLE OF EXAMINATION: B.Sc EXAMINATION

COLLEGE: BUSINESS AND SOCIAL SCIENCES

SCHOOL: BUSINESS

DEPARTMENT: ACCOUNTING

SESSION: 2014/2015 **SEMESTER:** ALPHA

COURSE CODE: ACC 411 **CREDIT UNIT:** 3

COURSE TITLE: **ADVANCED FINANCIAL ACCOUNTING 1**

INSTRUCTION: Answer ALL Questions **TIME:** 2 1/2 HOURS

Question 1 Section A

(1) The balancing figure in the capital reduction and capital re-construction accounts is transferred to as:

A. Revenue reserves, B. Capital redemption reserves, C. Capital reserves, D. Revaluation reserves, E. Unappropriated reserves

(2) The purchase consideration agreed during business combinations is settled by

- (i) issue of debentures
- (ii) issue of bonus shares
- (iii) issue of ordinary shares
- (iv) cash

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

(3). Given that the agreed purchase consideration for the acquisition of 60% holding in a company is 3.6 million to be satisfied by issue of ordinary shares of 0.50 per share at a premium of 0.30 per share, calculate the number of ordinary shares to be issued.

A. 18 million, B. 12 million, C. 7.2 million, D. 4.5 million, E. 2.88 million

(4). Where the liability of a business being absorbed is taken over by the acquiring company the double entry is.

- A. Dr. Liability account , Cr. Acquiring Company Account
- B. Dr. Liability Account, Cr. Liability Account
- C. Dr. Realisation Account, Cr. Liability Account
- D. Dr. Bank Account, Cr. Liability Account
- E. Dr. Liability Account, Cr. Bank Account

(5). Whether recognized or unrecognized in an entity's financial statements, disclosure of the fair values of the entity's financial instruments is required when:

It is practicable to estimate those values	Aggregated fair values are material to the entity
A. No	No
B. No	Yes
C. Yes	No
D. Yes	Yes

(6) Fair value is used as the basis for valuation of a firm's investment securities when:

- A) Management's intention is to dispose of the securities within one year
- B) The market value is less than cost for each equity security in the portfolio
- C) The investment security is not classified as held-to-maturity.
- D) The investment security is classified as held-to-maturity
- E) Non of the above.

(7) Which of the following Standard governs impairment of assets?

- A. IAS 22, B. IAS 30, C. 1AS 35, D. IAS 36, E. SAS 17

(8) In line with the IFRS framework, at which of the following stages should revenue on sale of goods and services in the ordinary course of business be recognized?

- A). At any stage in the operating cycle of an entity, B). On full performance of the critical event,
- C). On receipt of cash , D). On transfer of significant risk and rewards of ownership to the buyer , E). On delivery and acceptance of goods

(9) Which ONE of the following is NOT a matter covered by the IFRS framework for the preparation and presentation of financial statements?

A. Concept of capital maintenance, B. Qualitative and threshold qualities of financial statements , C. Lease agreements , D. Elements and components of financial statements

E. Measurement, presentation, recognition and disclosure of elements of financial statements

(10) The following statements are true of capital reduction and capital reconstruction EXCEPT

A. Capital reconstruction is a part of, and includes capital reduction

B. Capital reduction is a part of, and includes capital reconstruction

C. Capital reconstruction is embarked upon in severe financial difficulties

D. Capital reduction involves the existing shareholders

E. Capital reduction and capital reconstruction have the effect of reducing the balance sheet size.

(11). In the preparation of consolidation schedule, goodwill represents the excess of purchase consideration over the.....

(12). The excess of the cost of acquiring a controlling interest in a subsidiary over the value of interest acquired is the.....

13. On the completion of a scheme of capital reduction the capital reconstruction account is expected to show abalance.

(14). In amalgamation all the assets of the discontinuing companies are transferred to the realisation account at _____ value

(15). Under IFRS, carrying amount is net book value of which the asset is included in the Statement of Financial Position after deducting..... and any

(16). 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.

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

(18). shareholders' fund is also known as

You are required to use the information below to answer question 19 and 20

Abba Plc. acquired 75% of the shares in Bello Plc. for N68,000 on 1 January 2011 when, Bello Plc. had retained earnings of N15,000. The market price of Bello Plc's shares before the date of

acquisition was N1.60 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:

	N,000
Property, Plant & Equipment	50
Current Assets	<u>35</u>
	<u>85</u>
Ordinary share capital of N1.00 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.

(20.Marks)

SECTION B

(1) Naboth Construction Company Plc is in financial difficulty. The following is the Trial Balance of the company as at 30 June, 2013.

	DR	CR
Land	580,000	
Building (Net)	136,230	
Ordinary shares of 1 each		500,000
5% cum-preference shares at 1 each		350,000
8% Debenture (2013)		400,000
Equipment (Net)	53770	
Goodwill	200,000	
Investment in shares (quoted)	135,000	
Stock and work in progress	501,235	
Debtors	253,460	
Profit/Loss Account	199,105	
Interest payable on debenture		64,000
Trade creditors		481,235
Loan from Directors		80,000
Bank draft		<u>183,565</u>
	<u>2,058,800</u>	2,058,800

|=====|=====|

Authorized capital is 1,000,000 ordinary shares of 1.00 each and 500,000 5% cumulative preference shares of 1.00 each.

During the meeting of the shareholders and directors it was decided to carry out a scheme of internal reconstruction.

The following scheme was agreed:

- (ii) Each ordinary share is to be reduced to a share of 25k.
- (iii) The existing 5% cumulative preference shares are to be exchanged for new issue of 175,000 8% cum preference shares of 1.00 each and 700,000 ordinary shares of 25k each.
- (iii) Ordinary shareholders accepted a reduction in the nominal value of the shares of 1.00 for 25k, with subscription to a new issue on the basis of 1 to 1 at a price of 30k per share.
- (iv) 30,000 of Directors loan is to be cancelled. The balance is to be settled by issue of 50,000 ordinary shares of 25k each.
- (v) Goodwill and loss in the profit and loss account are to be written off.
- (vi) Investments in shares are to be sold at market price of 300,000.
- (vii) Bank overdraft to be repaid, 100,000 is to be paid to trade Creditors and the balance payable instalmentally.
- (viii) 20% of debtors is to be written off.
- (ix) Assets are revalued as follows:

Land	1,450,000
Building	400,000
Equipment	50,000
Stock and Work-in-Progress	250,000

Required:

- (a) Show the necessary journal entries to effect the reconstruction scheme (7 Marks).
- (b) Prepare the Statement of Financial Position after the reconstruction, showing all workings. **(8Marks)**

(2A). According to IAS 36, what is the specific objective that Impairment of Assets seeks to achieve? (3 Marks)

B. State two internal and two external indicators of impairment. **(4 Marks)**

C. X Ltd has a single manufacturing plant which has a carrying amount of N900,000. A new government has passed legislation which significantly restricts exports of the product produced by the plant. As a consequence, and for the foreseeable future, X Ltd's production will be cut by 40%. Cash flow forecasts have been prepared derived from the most recent budgets/forecasts for the next five years approved by management.

Year	1	2	3	4	5
	N000	N000	N000	N000	N000
Future cash flows	280	253	188	125	280
					(including disposal proceeds)

If the plant was sold now it would realise N660,000, net of selling costs. X Ltd estimates the pre-tax discount rate specific to the plant to be 15%, excluding the effects of general inflation. Calculate the recoverable amount of the plant and any impairment loss and estimate whether or not impairment has occurred and quantify the impairment loss **(8 Marks)**

Question 3(a)

The following is the financial position of Patrick Plc and Chika Plc as at 30th June 2010.

	Patrick Plc	Chika Plc
	N'000	N'000
Non-current assets:		
Property, plant and equipment	900	600
Investment in Chi Plc	650	--
Other investments	300	250
<u>Current assets</u>		
Inventory	500	300
Receivables	400	300
Bank	<u>250</u>	<u>150</u>
	<u>3,000</u>	<u>1,600</u>

Equity and Liabilities

Share s of 25k each	800	400
10% Irredeemable shares	250	200
Share Premium	300	150
Retained earnings	<u>650</u>	<u>350</u>
	2,000	1,100

Non-current Liabilities

5% loan stock	200	50
Deferred tax	100	80

Current Liabilities

Trade payables	150	70
Bank overdraft	300	250
Income tax payable	<u>250</u>	<u>50</u>
	<u>3,000</u>	<u>1,600</u>

Relevant Notes:

- i. Patrick Plc acquired 1,200,000 equity shares and 80,000 preference shares of Chika Plc for N500,000. and N150,000 respectively on October 1st 2005 when the retained earnings of Chika Plc was N250,000 debit.
- ii. The inventory of Chika Plc includes N120,000 being amount of goods purchased from Pat Plc. It is the policy of Pat Plc to invoice goods to a
- iii. ll customers at cost plus 25%.
- iv. The group policy is to measure the NCI of the subsidiary using the proportion of net asset method.

Prepare consolidated financial position of Patrick Plc as at 30th June, 2010 (14 Marks)

(3b) Describe any **three** conditions under which a parent would not need to prepare group accounts (6 Marks)

Grand Total = 70 Marks

ACC411 MARKING GUIDE (2014/2015)

SECTION A

1. C
2. D
3. D
4. A
5. D
6. B
7. D
8. D
9. C
10. B
11. Fair value of assets acquired
12. Goodwill
13. Nil
14. Book Value
15. Accumulated Depreciation and impairment loss
16. A) Power over the investee company
B) The ability to use its power over the investee to affect the amount of the investors' returns.
C) Exposure or right to variable returns from its involvement with the investee.
17. Controlling interest
18. Equity
19. N23,000
20. N22,500

Workings:

	N
19) Cost of investment in subsidiary	68,000
Add: Non controlling interest (NCI) fair value 25%	
(50,000 shares X N1.60)	<u>20,000</u>
	88,000
Less: Subsidiary Net @date of acquisition (50,000+15,000)	<u>65,000</u>

23,000

20) NCI= N20,000 + 25%(N25,000- N15,000) = **N22,500**

(1A) NABOTH CONSTRUCTION COMPANY PLC

Journal Entries

	Debit	Credit
5% cum preference shares 8% cum preference shares Ord. Shares (700,000 x 25k) Being exchange of 5% cum pref.	350,000	175,000 175,000
Ordinary shares New ordinary shares Capital reconstruction Amount written off ordinary share capital	500,000	125,000 375,000
Bank (500,000 x 30k) Ordinary shares Share premium Issue of 1 for 1 right at 30k each	150,000	125,000 25,000
Director's Loan Capital reconstruction Ord shares (50,000 @ 25k each) Share premium Write off and issue of shares to settle director's loan	80,000	30,000 12,500 37,500
Capital reconstruction Goodwill P & L account Goodwill and loss written off	399,105	200,000 199,105
Bank Investment Capital reconstruction Sale of investment at market price	300,000	135,000 165,000
Bank overdraft Trade creditors Bank Payment of overdraft and part payment of trade creditors	183,565 100,000	283,565
Capital reconstruction Debtors	50,692	50,692

20% written off debtors account		
Land	870,000	
Building	263,770	
Stock & WIP		251,235
Equipment		3,770
Capital reconstruction		878,765
Revaluation of assets		

(1B) **STATEMENT OF FINANCIAL POSITION
AFTER RECONSTRUCTION**

Non Current Assets:	N	N
Land		1,450,000
Building		400,000
Equipment		50,000
		<u>1,900,000</u>
Current Assets		
Invenory & WIP	250,000	
Account Rec'ble (less 50,692)	202,768	
Bank	166,435	
	619,203	
<hr/>		
Current liabilities		
Account payable	381,235	
Interest on debenture	64,000	
	445,235	
Net current asset		173,968
Total assets less Current Liabilities		2,073,968
8% Debenture		<u>(400,000)</u>
Net Assets:		<u>1,673,968</u>
Capital and reserves:		
Ordinary shares of 25k		437,500
Share premium		62,500
8% of cum preference		175,000
Capital reserve (WI)		<u>998,968</u>
		<u>1,673,968</u>

Workings
(W1)

Capital Reduction Account

Goodwill (written off)	200,000	Ordinary shares	375,000
Profit and loss account	199,105	Investment	165,000
Debtors	50,692	Land	870,000
Equipment	3,770	Buildings	263,770
Stock	251,235	Directors loan	30,000
Capital reserve	<u>998,968</u>		
	<u>1,703,770</u>		<u>1,703,770</u>

(2A). The specific objective that asset impairment seeks to achieve is to ensure that an entity's assets are not carried at an amount that is over and above their recoverable amount (i.e. the higher of fair value less costs of disposal and value in use).

(B). Internal Indicators of Impairment

- a) Evidence of physical damage or obsolescence
- b) Significant changes which have an adverse effect on the entity
 - The asset becomes idle
 - Plans to discontinue/ restructure operations
 - Plan to dispose of asset before previously expected date
 - Reassessing an asset's useful life
- c) Internal evidence that asset performance is or will be less favourable than expected.

External Indicators of Impairment

- i) Significant decline in the market value of the asset that is more than would be expected from passage of time or normal use, for example, increased competition
- ii) Significant changes in technological, market legal or economic environment which the business operates.
- iii) An increase in market interest rates of return on investment likely to affect the discount rate used in the calculation of value in use.
- iv) The carrying amount of the entity's net assets being more than its market capitalization.

(C) The fair value less costs to sell of the plant is below its carrying value so it may be impaired. It is now necessary to estimate the value in use in order to determine whether impairment has occurred and to quantify the impairment loss.

Year	<i>Future cash flows</i>	<i>Discount rate 15%</i>	<i>PV</i>
	N000	N000	N000
1	280	0.86957	243
2	253	0.75614	191
3	188	0.65752	124

4	125	0.57175	71
5	280	0.49718	<u>139</u>
Value in use			<u>768</u>
			N000
Recoverable amount (higher of value in use and fair value less costs to sell)			<u>768</u>
Impairment loss (900 -768)			<u>132</u>

Question 3a: Calculate the shareholding

Ordinary shares $1200000/1600000 \times 100 = 75\%$

Preference share $80000/200000 \times 100 = 40\%$

(ii) Capital and reserve of subsidiary

	DOC	DOA	Post acq
	N	N	N
Equity share	400	400	-
Share premium	150	150	-
Retained earnings	<u>350</u>	<u>(250)</u>	<u>600</u>
Equity Fund	900	300	600
Preference share	<u>200</u>	<u>200</u>	<u>---</u>
Net assets	<u>1,100</u>	<u>500</u>	<u>600</u>

(iii) Unrealized profit

$25/125 \times N120,000 = N24,000$

(iv) NCI

NCI at DOA

Equity	(400x.25) = 100
Share premium	(150 x.25) =37.5
Retained earnings	(250) x.25 = <u>(62.5)</u>
	75
Preference share	(200x.60) <u>120</u>

	195
Add: Share of post acq net asset (25% of N600)	<u>150</u>
	<u>345</u>

(v) Goodwill

Cost of Investment (500+150)	650
Add NCI at DOA	<u>195</u>
Purchase consolidation	845
Less subsidiary net asset at DOA	<u>500</u>
Goodwill	<u>345</u>

(vi) Consolidated retained earnings

Parent retained earnings	650
Add: share of subsidiary post acq. Retained earnings (75% of N600)	450
Less Unrealized profit on inventory	<u>(24)</u>
	<u>1076</u>

Patrick Plc Group: Consolidated Statement of Financial Position as at 30 June 2010

<u>Non-current Asset</u>	N'000
Property, Plant and Equip(900+660)	1,500
Goodwill	345
Other investment(300+250)	550
<u>Current Assets</u>	
Inventory (500+300-24)	776
Receivables (400+300)	700
Bank (250+150)	<u>400</u>
Total assets	<u>4271</u>

Equity and Liabilities

Capital and reserves	800
Share Premium	300
10% Irredeemable preference shares	250
Retained earnings	<u>1,076</u>
	2,426
NCI	<u>345</u>
	2771

Non-Current liabilities

5% loan stock	250
Deferred tax	<u>180</u>
	430

Current Liabilities

Trade payable(150+70)	220
Bank overdraft (300+250)	550
Income Tax payable (250+50)	<u>300</u>
	<u>4,271</u>

2b. A parent need not consolidate financial statements if and only if the following conditions apply.

- (i) The company itself is a wholly-owned subsidiary of another company,
- (ii) The company is a partially-owned subsidiary
- (iii) The company's debt or equity instruments are not traded in a public market.

- (iii) The company does not file its financial statements with a securities commission for the purpose of issuing financial instruments in a public market.
- (iv) The company's own parent or the ultimate parent company publishes consolidated financial statements for public use that comply with IFRS (IFRS 10).

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COURSE CODE: ACC 412

CREDIT UNIT: 2

COURSE TITLE: MANAGEMENT ACCOUNTING I

INSTRUCTION: Answer ALL Questions

TIME: 2 1/2 HOURS

PART I: Multiple Choice Questions (20 marks)

- 1 As the Chief Accountant of a medium size company, which of the following information would you require for effective planning and control of capital expenditure?
 - a. Method of investment appraisal
 - b. Sources of finance
 - c. Cash Budget
 - d. Size of the company
- 2 The difference between Present Value (PV) and Net Present Value (NPV) is that
 - a. While PV is the discounted value of inflow or outflow, NPV is the difference between the PV of inflows and the PV of outflows
 - b. While NPV considers time value of money PV does not
 - c. While PV is the sum of all the discounted inflows, NPV is the net total of all inflows and outflows
 - d. While PV deals with discounted outflows NPV deals with discounted inflows
- 3 If N400 is invested today and generates N500 in one year's time, what is the internal rate of returns?
 - a. 30%
 - b. 32%
 - c. 31%
 - d. 25%
- 4 Which of the following is NOT correct about Capital Rationing?
 - a. CR arises when a firm has insufficient funds to undertake all projects available
 - b. Financial constraint caused by management policies are referred to as artificial capital rationing
 - c. Unwillingness on the part of investors to invest in a company is among the causes of hard capital rationing
 - d. Under CR the risk attached to all projects is the same

- 5 God is Good Ent wish to invest N500,000 in a project for which he expects to earn N200,000 per year for the next four years. What is the Pay Back Period of this project?
- 2years 3months
 - 2years 4months
 - 2 years 5months
 - 2 years 6months
- 6are the cost of resources already acquired where the total will be unaffected by the choice between various alternatives.
- Sunk costs
 - Opportunity costs
 - Marginal cost
 - Differential costs
- 7 Sometimes it is necessary for decision-making to input costs which will not require cash outlays, and these imputed costs are called.....
- Sunk costs
 - Opportunity costs
 - Marginal cost
 - Differential costs
- 8 can be defined as a principle whereby variable costs are charged to cost units and the fixed cost attributable to the relevant period is written off in full against the contribution for that period.
- Absorption costing
 - Opportunity costing
 - Marginal costing
 - Differential costing

Use the following information to answer questions 9-13

Abel Company produces three versions of baseball bats: wood, aluminum, and hard rubber. A condensed segmented income statement for a recent period follows:

	<u>Wood</u>	<u>Aluminum</u>	<u>Hard Rubber</u>	<u>Total</u>
	N	N	N	N
Sales	500,000	200,000	65,000	765,000
Variable Expenses	<u>325,000</u>	<u>140,000</u>	<u>58,000</u>	<u>523,000</u>
Contribution Margin	175,000	60,000	7,000	242,000
Fixed Expenses	<u>75,000</u>	<u>35,000</u>	<u>22,000</u>	<u>132,000</u>
Operating Income	<u>100,000</u>	<u>25,000</u>	<u>(15,000)</u>	<u>110,000</u>

9. Assume none of the fixed expenses for the hard rubber line are avoidable. What will be total net income if the line is dropped?
- N125,000
 - N103,000
 - N105,000
 - N140,000
10. Assume all of the fixed expenses for the hard rubber line are avoidable. What will be total net income if that line is dropped?
- N125,000
 - N103,000
 - N105,000
 - N140,000
11. What would have to occur for total net income to remain unchanged when the hard rubber line is dropped?
- Total net income could not remain the same if hard rubber is dropped.
 - The avoidable fixed expenses for hard rubber would have to be N15,000.
 - The unavoidable fixed expenses for hard rubber would have to equal its contribution margin.
 - The avoidable fixed expenses for hard rubber would have to be N7,000.
12. If the total net income after dropping the hard rubber line is N105,000, hard rubber's avoidable fixed expenses were
- N20,000.
 - N2,000.
 - N7,000.
 - N5,000.

13. North Division has the following information:

Sales	N900,000
Variable expenses	N480,000
Fixed expenses	N465,000

If this division is eliminated, the fixed expenses will be allocated to the company's other divisions. What is the incremental effect on net income if the division is dropped?

- N45,000 increase
- N465,000 decrease
- N420,000 decrease
- N435,000 increase

14. What is the formula for calculating perpetuity?

- Annual cash flow/future value

- b. Discount rate/Annual cash flow
- c. Annual cash flow/discount rate
- d. Future value/discount rate

15. In a decision tree stands for which of the following?

- a. Chance events
- b. Decision point
- c. Alternative events
- d. Line events

16. Which of the following is a method of mitigating risk?

- a. Payback period
- b. Sensitivity
- c. Simulation analysis
- d. Discount rate

17. Which of the following is a pessimist approach to decision making under a condition of uncertainty?

- a. Maximin decision rule
- b. Minimax decision rule
- c. Marginal decision rule
- d. Minimax regret decision rule

18. Makinde PLC has equity worth N100million with associated cost of 10% per annum. The cost of debt is 16% and presently has total debt of N500m. Determine the weighted average cost of capital.

- a. 13%
- b. 12%
- c. 15%
- d. 18%

19. A product's full cost is N30 and it is sold at full cost plus 30%. A competitor has just launched a similar product selling for N35. How will this affect the first product's mark up?

- a. The cost plus percentage will be reduced by 10%
- b. The cost plus percentage will be reduced by 11%
- c. The cost plus percentage will be reduced by 12%
- d. The new product launch will have no effect

20. An organisation manufactures product X at a variable cost of N10 and sells at N20. The fixed cost is N100,000. Calculate the number of units of X required to be sold to break even.

- a. 100,000units
- b. 10,000 units
- c. 1,000 units
- d. 100units

PART II (50 Marks)

(1) Olaolu Ltd manufactures part XY for use in its production cycle. It hires a plant from outside at =N=4,000 per annum on which it also incurs plant insurance of =N=5,000 per annum and plant maintenance contract per annum of =N=3,000. Other costs per unit for production of 15,000 units of XY are as follows:

	=N=
Direct material	5.00
Direct labour	7.15
Manufacturing Overheads	<u>12.50</u>
	<u>24.65</u>

It has been established that 70% of the manufacturing overheads is fixed. Smart Ltd has offered to sell XY to Olaolu Ltd at =N=25 per unit. If Olaolu Ltd accepts the offer of smart Ltd, the plant currently being used will be returned to the owner and =N=5,000 of the annual fixed manufacturing overheads can be saved. If the offer of Smart is accepted the following cost will be incurred in addition to the basic price charged by Smart Ltd. Inspection and storage =N=5,000 and carriage of 20k per unit.

Required: Prepare a statement, which will assist the management of Olaolu Ltd to decide whether to continue manufacturing XY or to buy from Smart Ltd.

12.5marks

(2a) 'Exceeding Grace' LTD, a retailing company has two departments, X and Y. A recent monthly contribution format income state for the company is as follows.

	<u>X</u>	<u>Y</u>	<u>Total</u>
	N	N	N
Sales	3,000,000	1,000,000	4,000,000
Variable expenses	<u>900,000</u>	<u>400,000</u>	<u>1,300,000</u>
Contribution margin	2,100,000	600,000	2,700,000
Fixed expenses	<u>1,400,000</u>	<u>800,000</u>	<u>2,200,000</u>
Operating income (loss)	700,000	(200,000)	500,000

A study indicates that N 340,000 of the fixed expenses being charged to Y are sunk costs or allocated costs that will continue even if Y is dropped. In addition the elimination of Y will result in a 10% decrease in the sales of X.

Required: If Department Y is discontinued, will this be a positive move or a negative move for the company as a whole?

(2b) Jackson Company is now making a small part that is used in one of its products. The company's accounting department reports the following per unit costs of producing the part internally.

	N
Direct materials	15.00
Direct labor	10.00
Variable manufacturing overhead	2.00
Fixed manufacturing overhead, traceable	4.00
Fixed manufacturing overhead, allocated	<u>5.00</u>
Unit product cost	<u><u>36.00</u></u>

Depreciation of special equipment represents 75% of the traceable fixed manufacturing overhead cost with supervisory salaries representing the balance. The special equipment has no resale value and does not wear out through use. The supervisory salaries could be avoided if production of the part were discontinued.

An outside supplier has offered to sell the part to Jackson Company for N30 each, based on an order of 5,000 parts per year.

Should Jackson Company accept this offer, or continue to make the parts internally?

12.5marks

(3) Because of public credit policy binding in the current year GOD'S WILL LTD is unable to raise all the funds it requires for investments which must be made in the current year. There are three investment opportunities open to it this year, but it can only finance one of them. The project cash flow are as follows:

Year	A	B	C
0	(500,000)	(350,000)	(532,000)
1	300,000	100,000	350,000
2	300,000	260,000	300,000
3	300,000	200,000	200,000
4	(100,000)	50,000	10,000

Required:

Assuming that the marginal cost of capital of GOD's WILL LTD is 28%, advise the company on which of the three investment opportunities to choose.

12.5marks

(4a) The capital structure of IVORY Plc is as follows:

Equity 2/3
Debt 1/3

The cost of equity is 12% and debt 15%. IVORY Plc intends to invest in a particular project and the required capital outlay is N4million. An annual cash flow of N800,000 is expected in perpetuity. As a financial adviser, recommend whether or not IVORY should invest in the project. Use weighted average cost of capital (WACC) for your calculation.

(4b) BROBOS Limited presently has a sugarcane plantation but considers going into manufacturing of sugar. He can either invest into a big plant with a capital outlay of N400 million or a small plant with a capital outlay of N150million. Based on the following details of estimated cash flows, advise BROBOS Limited on which plant to build.

DEMAND	High	Medium	Low
Big plant	N900,000,000	N600,000,000	N300,000,000
Small plant	N450,000,000	N400,000,000	N250,000,000
Probabilities	0.5	0.3	0.2

12.5marks

MARKING GUIDE

ACC 412

2014/2015

SECTION A

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

SECTION B

1. Olaolu Ltd

Computation of Relevant Cost of Producing 15,000 units of XY

	=N=	=N=
Direct Material (15,000 x N5)	75,000	
Direct labour (15,000 x N7.15)	107,000	
Variable Manufact. Overhead (15,000 x (.3x12.5))	<u>56,250</u>	
-		238,500
Plant hire		4,000
Plant insurance		5,000
Plant maintenance contract		3,000
Fixed manufact. Cost that can be saved		<u>15,000</u>
Total avoidable cost of producing 15,000 units of XY		<u>265,500</u>
<u>Total Relevant Cost of External Purchase</u>		
		=N=
Basic Price (15,000 x N25)	375,000	
Inspection and Storage		5,000
Carriage		<u>3,000</u>
		<u>383,000</u>
		=N=
Total relevant cost external purchase	383,000	
Relevant cost of producing internally	<u>265,500</u>	
Benefit of producing internally	<u>117,500</u>	

Recommendation:

Olaolu Ltd should reject the offer of Smart Ltd because Olaolu Ltd is better off by producing internally.

(2a) Exceeding Grace' LTD

Contribution margin lost if Y is dropped:

	N
Department Y contribution margin lost	(600,000)
Department X contribution margin lost	<u>(210,000)</u>
Total contribution margin lost	(810,000)
Avoidable fixed costs	<u>460,000</u>
Decrease in operating income	<u>(350,000)</u>

Jackson Company

(2b)	N	N
Direct materials	15.00	
Direct labor	10.00	
Variable manufacturing overhead	2.00	
Fixed manufacturing overhead, traceable	1.00	
Purchase price		<u>30.00</u>
Unit product cost	28.00	30.00
Units produced	<u>5,000</u>	<u>5,000</u>
Total cost	<u>140,000</u>	<u>150,000</u>

Difference in favor of making: N10,000. The depreciation on the equipment and common fixed overhead are not avoidable costs.

(4a) IVORY PLC

$$\begin{aligned} \text{Cost of equity: } & \frac{2}{3} * 12\% = 8\% \\ \text{Cost of debt: } & \frac{1}{3} * 15\% = 5\% \\ \text{WACC} & \underline{13\%} \end{aligned}$$

To determine whether or not to accept the investment, we determine the net present value (NPV) of the investment thus:

$$\text{NPV} = \text{Present value} - \text{initial outlay}$$

$$\begin{aligned}\text{Present value of future cash flows} &= \frac{\text{Annual cash flow}}{\text{Discount rate}} \\ &= \frac{800,000}{0.13} \\ &= \text{N}6,153,846.15\end{aligned}$$

$$\begin{aligned}\text{NPV} &= \text{Present value} - \text{initial outlay} \\ &= \text{N}6,153,846.15 - \text{N}4,000,000 \\ &= \text{N}2,153,846.15\end{aligned}$$

The investment has a positive NPV and may be accepted

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SESSION: 2014/2015

COURSE CODE: ACC 413

COURSE TITLE: AUDITING & INVESTIGATIONS

INSTRUCTION: ANSWER ALL QUESTIONS

SEMESTER: ALPHA

CREDIT UNIT: 3

TIME: 3HOURS

Instruction: Answer all Questions

SECTION A

Multiple Choice Questions

1. In appraising the financial conditions when planning an organization's operations, activity ratios can be used to:
 - a. Measure the organization's use of resources.
 - b. Identify the components of solvency.
 - c. Measure the financial contributions of shareholders and creditor.
 - d. Measure the amount of financing required to carry accounts receivable and inventory.
 - e. Both b and c are correct.

2. A computer master file that is the output of the most recent updating operation is referred to as the:
 - a. Grandfather file.
 - b. Father file.
 - c. Son file.
 - d. Scratch file.
 - e. None of the above.

3. A computer memory dump is:
 - a. The preparation of a copy of an existing program.
 - b. A place to dispose of magnetic tapes that are no longer usable.
 - c. Useful in preserving the content of a transaction file that was originally recorded on magnetic tape.
 - d. Likely to involve the transfer of data to a disk pack.
 - e. None of the above.

4. An EDP batch processing system for file updating would:
 - a. Process transactions in the order in which they occur.
 - b. Be useful for an airline reservation system.
 - c. Normally require disk storage for the master file.
 - d. All of the above.
 - e. None of the above.

5. Which of the following data included in a typical EDP accounts receivable file?
 - a. All sales transactions not yet paid in full.
 - b. The current balance for each account.
 - c. Sufficient information to prepare an aging analysis of each account.
 - d. The credit limit for each account.
 - e. All of the above.

6. A macro instruction in a computer program:
 - a. Causes processing to stop.
 - b. Causes looping to occur.
 - c. Represents a number of output operations built into the computer by the manufacturer.
 - d. Is a single instruction which can initiate several machine operations.
 - e. None of the above.

7. A binary numbering system:
 - a. Is the basis of digital computer logic.
 - b. Uses only the symbols zero and one.
 - c. Expresses expansion in powers of 2.
 - d. Is convertible to hexadecimal notation.
 - e. All of the above.

8. In a computer environment, which of the following cannot be used to store data subsequent processing?
 - a. Magnetic core.
 - b. Punched core.
 - c. Punched paper tape.
 - d. Magnetic disk.
 - e. Magnetic tape drive.

9. A block of magnetic tape is most likely to be:
 - a. Randomly accessed.
 - b. Separated from other block of records by a tape.
 - c. Limited to 80 characters of data.

- d. Created from magnetic disk input.
- e. All of the above.

10. In a real-time computer application:

- a. The system provide for a response to the user.
- b. Records may be updated immediately as transactions occur.
- c. Remote terminals are usually an integral part of the system.
- d. Response time may be virtually instantaneous.
- e. All of the above.

11. Which of the following is not a fundamental part of an EDP data storage and retrieval control structure?

- a. Media library.
- b. Terminal transaction logs
- c. File access routines.
- d. Log of operator interventions.
- e. Backup procedures.

12. The objective(s) of effective computer system development include(s):

- a. Reasonable assurance that a computer application will produce greater net benefits than any other alternative.
- b. Installation of component systems and programs.
- c. Reasonable assurance that systems and programs can be properly maintained.
- d. All of the above
- e. Both a and c above.

13. Means of controlling the accuracy and completeness of data entered on-line into computer include all of the following except:

- a. Editing and validating routines.
- b. Predetermined formats.
- c. Header labels.
- d. Input control totals.
- e. Warning and error messages.

14. The objective(s) in developing an EDP data-base management system include:

- a. Reduction in the amount of stored data to meet an organization's needs.
- b. Improvement of flexibility in the creation of logical records.
- c. Elimination of reports that contain similar information.
- d. Reduction in the amount of hardware required.
- e. Both a and b above.

15. "Megabyte" is a term used by computer manufacturers to:
- Measure the size of core storage capacity.
 - Identify the complexities of software.
 - Describe a specific piece of hardware.
 - State the price of computer equipment.
 - Measure an interval of processing time.
16. Point-of-sale systems in retail stores can provide for:
- Credit approval.
 - An update of accounts receivable.
 - An update of inventory for each receipt of goods.
 - An update of inventory for each sale of goods.
 - All of the above.
17. Which of the following controls could be associated with point-of-sale equipment?
- Edit.
 - Data validation.
 - Batch.
 - Access.
 - All of the above.
18. Which of the following control techniques contributes little or no assurance as to the completeness of data processed by computer:
- Run totals.
 - Authorization of input documents.
 - Batch counts.
 - Log times.
 - Output to input reconciliations.
19. In the design of computer programs, the techniques known as "structured programming" is used to:
- Facilitate program maintenance.
 - Permit the development of program modules by functional specification.\
 - Allow a team to code a program.
 - Restrict unconditional branches in program.
 - All of the above.
20. Data-entry alternatives to key punching cards now include key-to-disk or tape and on-line entry. Which advantage is associated with these alternatives in contrast to key punching cards?

- a. Edit controls are not needed because of the effectiveness of visual display in detecting errors.
- b. Data can be visually displayed for review after entry but before processing.
- c. Batch balancing is not needed.
- d. Sequential numbering of documents is not needed.
- e. All of the above.

21. The standard audit report which expresses “clean opinion” is also called.....

22. A disclaimer is an opinion which states that financial statement are true and fair. True or false.

23. The third paragraph of a standard unqualified audit report is called.....

24.is a written statement normally issued by the auditor of an enterprise at the end of the audit assignment in which the auditor expresses an opinion on the financial statements prepared by the management of an enterprise.

Generally Accepted Auditing Standards, or GAAS, are ten auditing standards, developed by the American Institute of Certified Public Accountants(AICPA)which are grouped into three.(25)..... (26).....(27)

28. In May 2008, the Institute of Chartered Accountants of Nigeria adoptedInternational Standards on Auditing (ISAs) with modifications to reflect local legal environment and issued new and revised Nigerian Standards on Auditing.

29. Standards of Field Work state that the auditor must adequately plan the work and must properly supervise any assistants. True or False

30. The auditor must identify in the auditor's report those circumstances in which such principles have been consistently observed in the current period in relation to the preceding period.

(15 MARKS)

SECTION B

- 1) Client confidentiality under-pins the relationship between chartered Accountants in practice and their clients. It is a Core element of ICAN Rules of Professional Conduct.

Required:

- a. Explain the circumstances in which ICAN's Rules of Professional conduct permit or require external auditors to disclose information relating to their clients to their parties without the knowledge or consent of the clients.

(5 Marks).

- b. A waste disposal company has breached tax regulations, environmental regulations and health and safety regulations. The auditor has been approached by the tax authorities, the government body supervising the award of licensed to such companies with information about the company. The auditor has been approached by the police. They are investigating a suspected fraud perpetrated by the managing director of the company and they wish to ask the auditor certain questions about the managing director.

Required:

Describe how the auditor should respond to these types of request. (2.5 Marks)

Name three ethical reasons why an auditor might not seek re-election or might resign, explaining the nature of the problem and the reasoning behind the resignation.

(2.5

Marks)

- 2a) Audit software may be used during many audit testing procedures its use is particularly appropriate during substantive testing of transactions and balances, as it can scrutinize large volumes of data and extract information, leaving skilled manual resources to concentrate upon the investigation of the results. You are required to identify briefly some of the challenges that auditors may have to cope with while using computer audit programs.

(10

Marks)

- (b) Indicate the procedural controls which should be exercised to ensure that only authorized data are input into the computer.

(7.5

marks)

- 3a) Most auditors' reports are positive and with a statement expressing the auditors' opinion that the financial statements show a true and fair view and comply with statutory requirements. However, some express this opinion with reservations or express a conversed opinion. What are the conditions that can lead to qualification of audit report?

(9

Marks)

b) The final outcome of any audit is the issuance of report by the auditors.

i) List the essential elements of an audit report.

(2marks)

ii) Identify the three paragraphs of the standard audit report

(1.5marks)

**(Total -12.5
marks)**

4a) Professor Last Result, a retired lecturer is about going into a partnership business with an old friend and has engaged you as an investigating accountant. What are the issues that your investigations will cover?

**(5
marks)**

4b) The term investigation can be described as the examination of the records and financial statements of an organization for a specified purpose. Discuss briefly how it differs from conventional audit.

**(10
marks)**

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SEMESTER: ALPHA

CREDIT UNIT: 3

MARKING GUIDE

SECTION A

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

17. B

18. E

19. B

20. C

DR ADETULA'S SOLUTIONS 4 SECTION A

21. Unqualified opinion

22. False

23. Opinion paragraph

24. Audit report

25. General standards

26. Standards of field work

27. Standards of reporting, along with interpretations

28. Thirty

29. True

30. False

SOLUTION TO QUESTION (2a)

1. Cost: there will be substantial set-up costs even in using a generalized package. This is because the client's procedures & files need to be investigated thoroughly prior to identifying audit tests. The use of specially written programs will be even more expensive.

2. Changes to client's systems: these can mean costly alterations to the programs or at least require the programs to be run regularly during the year to test the system at different dates.

3. Small installation: there may be no suitable audit software package for use on minicomputer or micro-computer installations. Software documentation may be incomplete so that it is very difficult to identify all procedures. It may be impossible to justify and hence recover the cost of specially written audit software.

4. Over-elaboration: there may be a tendency to produce over-elaborate enquiry programs which are expensive to develop, take up considerable computer running time & extensive reviewing time. Auditors should be able to justify the costs of using the program to the benefit in audit terms of its use.

5. Quantities of output: an enquiry program may produce huge quantities of output. This may be because the system is wrong or the enquiry program was badly designed. To avoid this problem, some packages can be set terminate after a given number of items have been included in the account. Auditors must distinguish between cases where they have merely misjudged the parameters & obtained too large a sample and cases where the print-out is long because lots of items are wrong. In the latter case, they must follow the audit work through & consider the implications and problems encountered.

6. Version of files used in the test: the audit software only tests the files against which it is run. It is therefore preferable to use the software on the actual files of the client is needed & the software must be carefully tested prior its use on live data. An alternative approach is to run the programs against copies of the data files.

(2 marks each for any five point= 10 marks)

2b) Suitable procedural controls to ensure that only authorized data is input include:

- Preparation of data and operation of the computer should be strictly segregated.
- All input to be authorized before processing.
- Use of password
- Use of CAATS
- Use of logbook register
- Data management system control
- Restriction of access to unauthorized person
- Centralized processing: this is a method of data processing in which all EDP work are performed by a central unit. The user department sends their data to the EDP department where the data is processed and output given back to them.
- Decentralized processing: here each unit maintains an independent EDP function.
- Distributed data processing: here, each unit within the organization maintains an EDP function. This EDP functions are

generally linked to one another and to a central computer in the form of a network.

(0.75 marks for each point of 10 = 7.5 marks)

SOLUTION TO QUESTION 3

- a) Conditions that may cause the auditors to issue qualified audit report would normally be matters that are material in the context of the total accounts as follows among others:
- i) Where proper accounting records have not been kept;
 - ii) Where books of account if kept, do not agree with the financial statements prepared by the management;
 - iii) Where proper returns adequate for the purposes of the audit have not been received from branches not visited by the auditors;
 - iv) Where the information given in the directors' report is not consistent with information in the accounts;
 - v) Where Auditors are unable to obtain all the information and explanation required for the purposes of their audit;
 - vi) Where the management of the enterprise did not comply with relevant statutory and professional regulations in preparing the financial statements;
 - vii) Where there are significant departures from accounting standards;
 - viii) Where internal control systems are not effective within the enterprise and
 - viii) Where there is a doubt as to the going concern concept status of the company
- .(9marks)

b)(i) Essential element of audit report include:

1. Heading
2. Identification of those to whom the report is addressed and the date.
3. Reference to the financial statement audited.
4. Reference to statutory requirements.

1/5mark each= 2marks

(ii) The standard audit report is usually has introductory paragraph, scope paragraph and opinion paragraph (1.5marks) (TOTAL= 12.5)

SOLUTION TO QUESTION 4

- a) For partnership participation, the investigating accountant takes the following into consideration:

-) Collection and verification information obtained from the owners of the firm
-) Analyse the data into performance, position and prospects of the partnership business
-) Nature and background of the partnership business
-) Demand for the reason for admitting new partner(s)
-) Obtain the partnership deed to establish the rules and regulations guiding the business
-) Obtain information relating to profit sharing arrangement
-) Obtain audited account of the partnership business
-) Obtain information relating to the liability of the incoming partner(s) for existing debt of the partnership

(1 mark each for any five point= 5 marks)

- b) An investigation is a term which implies the examination of accounts for specific purpose. It entails an enquiry commissioned by a client for some purpose of his. Whereas normal audit is carried out primarily to ascertain whether or not the financial statement has been properly drawn up and presents a true and fair view

(1 mark)

The following differences can be seen between auditing and investigation:

- 1) Objective: The Objective of conventional audit is primarily to report on the truth and fairness of the view presented by an entity's financial information. The objective of investigation assignments on the other hand, varies and is usually other than to report on the truth and fairness of the view presented by financial information. The objective is as specified by the client
- 2) Scope: Whereas the scope of conventional audit is as laid down by statutes and Generally Accepted Auditing Practice (GAAP) and covers an entity's set of financial statements, the scope of investigation assignments is generally as agreed by the client

- 3) Timing: Conventional audits are usually annual exercises, which are mandatory on companies. Investigations, on the other hand, are conducted on ad hoc basis
- 4) Extent of Regulation: Conventional audit is chiefly governed by company legislation, which set out the rights, duties and responsibilities of the auditor; investigation on the other hand are generally governed by the terms of reference mutually agreed between the client and the accountant
- 5) Depth of examination: Investigation involve in- depth inquiry into specific areas of an entity's financial affairs. This is unlike conventional audit, which require the auditor to carry out reasonable inquiry into every aspect of an entity's financial information sufficient to enable him report on whether it presents a true or fair view.
- 6) Qualification; Statute strictly regulates the qualification of an auditor carrying out a conventional audit. The requirements of this statute, unless otherwise stated do not compulsorily apply to an investigating accountant
- 7) Examination Use of Policies
In audit, an auditor has to see whether the methods of valuation and other accounting policies have been consistently followed or not and he has to ensure that all disclosures have been properly made in the financial statements, while an investigation is not at all bound by accounting conventions, policies and disclosure requirements.

COVENANT UNIVERSITY, OTA
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2014/2015 ALPHA SEMESTER EXAMINATION

COURSE: OIL AND GAS ACCOUNTING (ACC 414)
INSTRUCTION: ANSWER ALL QUESTIONS IN SECTION A AND SECTION B
TIME ALLOWED: 2Hrs

SECTION A: Attempt All Questions

PART I: Multiple Choice Questions (15 marks)

1. Oil was discovered in commercial quantity in in
 - a. Oloibiri 1965
 - b. Oloibiri 1956
 - c. Oloibiri 1967
 - d. Oloibiri 1976
2. Indigenous participation in downstream activities was facilitated by decree
 - a. Indigenization Decree
 - b. Localization Decree
 - c. Liberation Decree
 - d. Liberalization Decree
3. The following are operations in the oil and gas sector except
 - a. Upstream Operation
 - b. Downstream Operations
 - c. Down rig Operation
 - d. Service & Maintenance
4. A porous and permeable underground formation containing a natural accumulation of producible oil or gas that is confined by impermeable rock or water barriers is called
 - a. Oil Reserve
 - b. Stratigraphic Well
 - c. Underground Tank
 - d. Reservoir
5. The downstream sector of the Oil & Gas Industry is made up of the following except
 - a. Transportation
 - b. Gas Utilization
 - c. Gas Flaring
 - d. Marketing & Distribution
6. Which of the accounting standards addresses disclosure of interest in other entities?
 - a. IFRS 11
 - b. IFRS 12
 - c. IFRS 13
 - d. IFRS 14
7. Which method is used in accounting for joint ventures
 - a. Equity
 - b. Proportionate
 - c. Historical cost
 - d. Sharing

8. The agreement for an arrangement between two parties A and B states that 75% voting rights will be needed to make decisions about activities and A has 70% and B 30%. The joint control is -----
 - a. Ambiguous
 - b. Explicit
 - c. Open
 - d. Implicit
9. How many features must be present in an arrangement for it to qualify as a joint arrangement?
 - a. 1
 - b. 2
 - c. 3
 - d. 4
10. Which of the following allows payment either in cash or output?
 - a. Lease
 - b. Production sharing contract
 - c. Concession
 - d. Pure service contract
11. A reserve which upon analysis of geological and engineering data, demonstrate with reasonable certainty to be commercially recoverable in future from known oil and gas reservoirs under existing economic and operating conditions is called.....
 - a. Proved Oil & Gas Reserve
 - b. Unproved Oil & Gas Reserve
 - c. Proven Reservoir
 - d. Oil Barrels
12. Petroleum companies are allowed to carry forward their unrealized losses to subsequent years for Period
 - a. Five years
 - b. Four years
 - b. Indefinite
 - d. Six years
13. The assessable tax for any accounting period of a petroleum company is
 - a. An amount of 85% of the assessable profit for the period
 - b. An amount of 85% of the adjusted profit for the period
 - c. An amount of 85% of the capital gains profit for the period
 - d. An amount of 85% of the chargeable profit for the period
14. Petroleum companies are required to file tax returns every year.
 - a. Two
 - b. Three
 - c. One
 - d. Quarterly
15. When the selling price of a qualifying capital expenditure is greater than the tax written down value of such an asset, it is a
 - a. Balancing Gain
 - b. Balancing Allowance
 - c. Balancing Charge
 - d. Capital gain

PART II: SHORT ANSWER QUESTIONS (10 marks)

1. The use of Aircrafts and Satellites to photograph the surface of the earth in studying and analyzing various areas so as to determine crude accumulation is called
2. is a well drilled or completed for the purpose of supporting production in an existing field.
3. A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement is classified as -----

4. A joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement is classified as -----
5. ----- are the managers of the joint arrangement.
6. The accounting period for a petroleum company is a period
7. The profit of petroleum companies are assessable to tax onbasis.
8. The restoration of an oil & gas field after its productive life to its pre-existing condition is called
9. Indicate whether True or False: Mineral interest acquisition involves the activities related to obtaining from mineral rights owner the legal rights to explore for, develop, and produce oil or gas in a particular area.
10. Is a method of accounting that capitalizes only the cost of successful well

SECTION B: Answer ALL Questions

Question 1

A. Define the following terms:

- i. Lease arrangement
- ii. Production sharing contract
- iii. Risk service contract

B. Explain the similarities and contrast between them with emphasis on the following:

- i. Nature of payment
- ii. Production bonus payment
- iii. Government entitlement to royalty payment
- iv. Payment of taxes
- v. Government participation as working interest owner.

(You may tabulate your answers)

(8 Marks)

C. According to International Financial Reporting Standards, “Joint arrangements are contractual agreements whereby two or more parties can exercise joint control”

Explain the elements that must be present in an agreement indicating the existence of joint control. Also, explain the factors to be considered in the classification of joint arrangements.

(7 Marks)

Question 2

A. Explain the distinctive features of the upstream activity of the petroleum sector operations (5 Marks).

B. Refining is the breaking down of the hydrocarbon mixture of crude oil into useful petroleum products through distillation, cracking, reforming and extraction processes.’ Discuss briefly the sub-divisions of the refining operation (10 Marks).

Question 3

A. Adesogo Petroleum Limited has the following particulars to present for the current year ended 31st December 2013.

Custom duties on essentials	1,250,000
Capital allowances	12,000,500
Unabsorbed concession rentals (non-productive rent)	600,000
Royalties on sales in Nigeria for local refining purposes	120,000
OPL and OML rents and royalties on exports	5,400,000
Surveys preparatory to drilling	1,000,000
Intangible drilling expenditure	4,000,000
Production and administration expense	6,000,000
Miscellaneous income	80,000
Sales of crude oil and gas within Nigeria	2,000,000
Chargeable oil exported	43,000,000

Required:

- i. Compute the company's assessable profit for the year
- ii. Compute the company's chargeable profit for the year
- iii. Calculate the chargeable tax for the year (10 Marks)

B. The crude oil exported from Nigeria by Olams Oil Limited in January 2014 was 34' API. The posted price advised by the Nigerian National Petroleum Corporation (NNPC) is N440 for the crude stream with a standard API of 37'. What is the posted price for the crude oil exported by Olams Oil Limited. Assume that the increase/decrease in gravity is calculated at N30. (5 Marks)

Marking Guide to Oil and Gas Accounting (ACC 414)

PART I: Multiple Choice Questions (15 Marks)

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

PART II: SHORT ANSWER QUESTIONS (10 marks)

1. Aerial Photography/Satellite Survey
2. Service well
3. Joint Venture
4. Joint Operation
5. Operators
6.
 - i. A period from the day the petroleum company commences commercial sale or bulk disposal of petroleum or crude oil up to the end of that year of assessment. i.e the date of commencement to the following 31st of December. This is the accounting period for a petroleum company that has just commenced.
 - ii. A period from 1st of January to 31st of December of the same year. This is the accounting period for petroleum companies after the year of commencement up to the penultimate year of cessation
 - iii. A period from 1st January to the actual day the petroleum company ceases commercial sale or bulk disposal of petroleum. This is accounting period for a petroleum company that has permanently ceased petroleum operation.
7. actual year
8. Closure/Decommissioning/Abandonment/Removal/Remediation/Asset Retirement
9. True
10. Successful Effort Method

THEORY

Question 1

A)

- i. Lease arrangement is one where an oil and gas company obtains the right to explore, develop and produce oil and gas through leasing a property with minerals from the original owner of the right. The arrangement can be between the oil and gas company and / or individuals, other companies or the government depending on the original owner of the right to the mineral resources.
- ii. PSC is a contract between a national oil company (NOC) in a given country or a host government (that is, the government of the country where the mineral resources reside) and another firm which is referred to as the contractor (or sometimes operators) to engage in exploration business with the intention of sharing the output resulting from the engagement.
- iii. Risk service contract is a form of service contract where a contractor enters into a contract with a host government of a given country acting as her agent to extract and produce oil.

Similarities And Contrast Of The Contract Types

	Lease	PSC	RSC
Government entitled to royalty payment	Yes	Yes	Yes
Production bonus payments	No	Maybe	Rare
Government participation as working interest owner	No	Yes	Yes
Payment of taxes	Yes	Yes	Yes
Nature of payment	Cash	Output	Cash or output

B)

In determining the existence of joint control in an arrangement, there must be the presence of three basic things which are-

1. No single party has control

That is, it must not be possible for just one of the parties to the joint arrangement to exercise control at any point in time otherwise it will not qualify to be a joint arrangement.

2. Rights to collective control of the parties

For rights to collective control to exist, all the parties exercising joint control should have rights in directing the activities involved in the arrangement.

3. Unanimous agreement

Joint control exists when decisions connected with relevant activities demand that the parties sharing control should all give their consent.

C) The factors to be considered in the classification of joint arrangements are as follows:

1. Determination of the structure as to whether a separate vehicle exists.

IFRS 11 defines a separate vehicle as 'a separately identifiable financial structure, including separate legal entities or entities recognized by statute'. The separate vehicle is analyzed to determine the rights accrued to the parties involved in the arrangement. It is either right to assets and obligations for the liabilities or right to net assets.

2. Legal form of the separate entity

If the form gives the parties right to assets and liabilities as it concerns the arrangement, then it is a joint operation but if otherwise, a joint venture.

3. Contractual terms

Examine the terms of the contract to determine the type of right conferred on the involving parties. This is to ensure that the terms of the contract have not tampered with the legal form of the arrangement. If the contract terms give the parties the right to assets and obligations for liabilities as it involves the arrangement, then it is a joint operation but otherwise a joint venture.

4. Any other fact or circumstance that may be deemed necessary in assessing the type of right conferred on parties to a joint arrangement, where the terms of contract does not state the rights. Where this implies that the parties in the arrangement have rights to the assets and obligations for liabilities, then it is a joint operation.

Question 2

A) Distinctive features of the upstream activity of the petroleum sector operations

- i. Exploration and Appraisal: Exploration is the initial activity with a view to discovering oil place. Appraisal is the evaluation of the discovered oil site to determine whether it is of commercial value and quantity.
- ii. Acquisition: This is the entire process of obtaining the drilling right, which is made up of: (a) drilling rights (b) other activities imperative to oil and gas production

- iii. Development: This is the preparation of ground for the oil and gas production after recovery. It entails drilling well and installing facilities necessary to obtain access to proven reserves and to efficiently and economically deplete the field. While exploration discovers oil-in-place, development converts oil-in-place to recoverable reserves.
- iv. Production: This is the removal of oil from ground. This continues until it is uneconomical to continue production, and then the activity is abandoned.

B) Refinery operations can be sub-divided into

- i. Crude oil acquisition,
 - ii. Crude oil storage,
 - iii. Processing,
 - iv. Blending and
 - v. Finished products storage.
-
- i. Crude oil acquisition involves acquiring crude oil (e.g. through purchase or swap) and transporting it through pipelines, railways, barges and road tankers.
 - ii. Crude oil is stored in large tanks and allowed to settle so that the water content can be removed, and it is then tested and checked for conformity with specification.
 - iii. Refining is a process that involves continuous pumping of crude oil through the distillation unit where heat is applied and the mixture of hydrocarbon vapors separated in the various trays in the cooling towers where water is continuously sprayed as a cooling agent. Volatile gases pass through pipes at the top of the column to be either liquefied for bottling as cooking gas, used for firing burners or flared. Hydrocarbon compounds that are liquid at room temperature after separation pass through pipelines to tanks for blending into finished products or other process units for further processing. This process goes on continuously until the plant is shut down. Due to high market demand for lighter products, the heavier products (intermediates) are pumped through other units such as vacuum distillation, fluid catalytic cracker, Hydrofluoric alkylation and dimersol for secondary processing as a means of extracting further lighter products. Chemicals and catalysts are used in these units for the conversion process.
 - iv. Blending is the mixture of refined products coming out of different process units to give the desired specification. Chemicals and colour (dye) are added as additives during blending.
 - v. Petroleum products are stored in tanks located in the refinery tank farms from where they are pumped through pipelines to depots or barges. Volatile light products are stored in floating roof tanks while heavier products are stored in fixed roof tanks.

A.

Adesogo Petroleum Limited
Petroleum Profit Tax Computation for 2013 Tax Year

	N'000	N'000
Sale of crude oil within Nigeria	2,000	
Chargeable oil Exported	<u>43,000</u>	
Fiscal Value of Oil sold		45,000
Add:		
Miscellaneous Income		<u>80</u>
Total Income		45,080

Less Allowable Expenses:

Production & Admin Expense	6,000	
Intangible Drilling Expense	4,000	
Surveys Preparatory to Drilling	1,000	
OPL & OML rent & royalties on export	5,400	
Royalties on Local Sales	120	
Non-Productive Rentals	600	
Custom Duties on Essentials	1,250	
Education Tax (2/102 * Assessable Profit)	<u>523,726</u>	<u>18,893,726</u>
Assessable Profit		26,186,274
Less Capital Allowance		<u>(12,000)</u>
Chargeable Profit		<u>14,186,274</u>
Chargeable Tax at 85%		<u>12,058,333</u>
Education Tax (2% of Assessable Profit)		<u>523,726</u>

B.

CALCULATION OF POSTED PRICE OF OLAMS OIL LIMITED

	API	N
NNPC Agreed Rate	37'	440
Olams Production Gravity	<u>34'</u>	
Difference	<u>3'</u>	
Thus Decrease in Gravity's price (3' * 30)		<u>(90)</u>
Posted Price		<u>350</u>

COVENANT UNIVERSITY

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TITLE OF EXAMINATION: B.Sc DEGREE
COLLEGE: BUSINESS AND SOCIAL SCIENCE
SCHOOL: BUSINESS AND SOCIAL SCIENCE
DEPARTMENT: ACCOUNTING

SESSION: 2014/2015

COURSE CODE: ACC 416

COURSE TITLE: FORENSIC ACCOUNTING

INSTRUCTIONS: ANSWER ALL QUESTIONS

Part 1a: Multiple Choice Questions (15 Marks)

SEMESTER: ALPHA

CREDIT UNIT: 2

TIME ALLOWED: 2½ HRS

1. What does the word forensic connote?
 - a. Financial audits when fraud is involved.
 - b. A particular type of accounting.
 - c. Matters relating to law and court of law.
 - d. Prosecutorial investigation.
2. For an act to be considered a fraud, which of the following ingredients is required?
 - a. Large loss
 - b. Legal entity, e.g. a Corporation, Partnership or Trust.
 - c. International Harm
 - d. Intentional action or inaction.
3. Which of the following is outside the area of Forensic Accounting?
 - a. Corporate acquisitions
 - b. Divorce
 - c. Contract of Disputes
 - d. None of the above
4. What field of accounting is most closely associated with Forensic Accounting?
 - a. Information Systems
 - b. Managerial accounting
 - c. Consulting

- d. Auditing.
5. The CAMA 1990 Act requires which of the following?
 - a. Auditor to receive specialized training in the act.
 - b. The CEO to certify the financial statement
 - c. Management to institute a zero tolerance policy for fraud.
 - d. None of the above.
 6. A forensic accountant who determines the amount of loss profits due to business interruption would be working in. which of the following areas.
 - a. Valuation
 - b. Estimation
 - c. Financial determination
 - d. Auditing
 7. Corporate scandals prompted companies to begin using, which of the followings:
 - a. Forensic audits
 - b. Fraud intensive audits
 - c. Proactive fraud check-up
 - d. Internal Control System.
 8. Which of the following is the most recognized fraud credential?
 - a. ICAN
 - b. ACCA
 - c. CPA
 - d. None of the above
 9. Which of the following describes an auditor?
 - a. Government watchdogs
 - b. Eyes and ears of the SEC.
 - c. Facilitators of the movement of capital between investors and companies using stock or between lenders and borrowers
 - d. None of the above.
 10. Which of the following is not true regarding licensing of ICAN members?
 - a. Licenses are issued at the at the state level
 - b. Licenses are issued at the federal level

- c. Potential licenses must first pass the uniform ICAN examination
 - d. None of the above is true
11. Which of the following organizations affects the international auditing procession by establishing standards on auditing, quality control, renew, other assurance, and related services and encouraging similarity between national and international standards?
- a. International Accounting Standards Board
 - b. Transactional Accounting Standards Boards
 - c. Multinational Accounting Standards Boards.
 - d. None of the above.
12. Which of the following is the reason that auditors audit companies?
- a. To determine where their financial statements (Including Footnotes) present financial position, results of operations, and cash flows in accordance with some accounting basis.
 - b. To determine whether their financial statements (Including footnotes) present financial positions result of operations and cash flow in accordance with international auditing standards.
 - c. To determine whether their financial statements (including footnotes) present financial position, result of operation, and cash flows in accordance with applicable auditing standards.
 - d. None of the above
13. Which of these statements is incorrect?
- a. Auditor's objective is to determine whether the financial statements are free of mis-statement whether from error or fraud.
 - b. Auditors have a responsibility to plan the audit to uncover material mis-statements regardless of their character.
 - c. A given amount of fraud is not an easy to find as is the same amount of error.
 - d. None of these statements is correct.
14. The suspicion of fraud, probably affects which of the following?
- a. Audit procedure selected by the auditor.
 - b. Amount of testing
 - c. The time of procedures selected by the auditor
 - d. Both (a) and (b) above

e. None of the above.

15. A business process is a set of coordinated activities that:

- a. Create source systems
- b. Constitute a transaction cycles
- c. Accomplish some organizational goal
- d. Do none of the above.

(15 Marks)

Question 1b.

Why does fraud occur and what are the factors responsible and how can it be reduce?

(10 Marks)

Question 2.

Investigation is an extension of Forensic Audit “. Do you agree with the statement? What are the peculiar characteristics of Forensic Auditors?

(10 Marks)

Question 3.

- a. For convenience, corporate fraud schemes are classified according to basic transaction cycles. Discuss. (10 Marks)
- b. We must realize that fraud prevention does not start with security around goods and services; it starts with people. Therefore, to prevent fraud, you control people first.
Required: There are steps necessary to prevent fraud and malpractice.
 - i. List 15 (fifteen) of the steps. (5 Marks)
 - ii. The fact here is that once an element of force is applied, it takes a different dimension and the law gives it a different interpretation. But Professor Jenfa B.I. classified fraud into 5 different types. Name them. (4 Marks)

Question 4.

- i. **Fill in the gaps below:**
 - a. The mental attitude that permits the individual accountant or auditor to fulfill professional responsibilities without compromising judgment or ethical beliefs is known as
 - b. The best lawyer in the world cannot completely defend an accused person if that lawyer cannot obtain crucial to the defense.

- c. Accountants look at the while forensic accountants look behind the
 (3 Marks).
- ii. Discuss the role of the Forensic Accountant in exposing the notable case of Bernard Madoff's multi-billion dollar ponzi investment scandal. (3 Marks).
- iii. As a team member of Ajegunle Crime Prevention Task Force, you have been asked to give investigation technique tips on how to arrest the perpetrators of frequent bomb blasts occurring in the town. (10 Marks)

The steps necessary to prevent fraud and malpractice are as follows:

Question 3b (i).

1. Effective efficient and functional internal check and control.
2. Institute obvious deterrents as checkmate in the system.
3. An accounting system, which is sound in practice, principle and effective.
4. Appropriate general policies, geared towards rewarding performance to serve as a deterrent to others.
5. A close watch on the life style of staff so as to be able to make special enquiries when there is a dramatic changes exhibiting affluence of indigence.
6. Provision of guarantors, referees and bonds.
7. Security measures, should be visible and effective to show that the chances of fraudsters being caught is very big, that is

3b.(ii).

- i. Bite fraud.
- ii. Nibble fraud.
- iii. Management fraud
- iv. Con Artist or 419
- v. Weight-bridge fraud

ACC 416 FORENSIC ACCOUNTING (MARKING GUIDE)

- (b) Strategic location of information on control unit.
- (c) Effective supervision.
- (d) Policies and procedures should be properly defined, documented and reviewed regularly.
- (e) Time limit when staff should be allowed within the business premises.
- (f) Job and approval authority schedule for staff.
- (g) Staff to be subjected to security checks as they move in and out of the business premises.
- (h) Staff who does not work in sensitive departments should not be allowed to move into them uncontrolled.
- (i) Restriction of the use of specialization equipments and machines to only authorized responsible officer or staff.
- (j) Insist on thorough pre-employment screening, study the application from the applicants to verify honesty.
- (k) Set up sound intelligence.
- (l) Analyze vulnerable points in your establishment.
- (m) Do not document all security measures.
- (n) Create an atmosphere in which honesty and sincerity are established and recognized.
- (o) Complete societal orientation.
- (p) Individual moral suasion.
- (q) Centralize financial data to reduce the risk of unauthorized access.
- (r) Identify all possible sources of potential fraud from outside.
- (s) Make immediate and full incident reporting policy.

(t) Questioned wealth- England (London).

(u) Employee social contribution scheme.

(20 marks)

The steps to prevent fraud and malpractice are as follows:-

- (1) Effective, efficient and functional internal check and control.
- (2) Institute obvious deterrents as checkmate in the system.
- (3) An accounting system, which is sound in practice, principle and effective.
- (4) Appropriate general policies, geared towards rewarding performance to serve as a deterrent to others.
- (5) A close watch on the lifestyle of staff so as to be able to make special enquiries when there is a dramatic change exhibiting affluence of indigence.
- (6) Provision of guarantors, referees and bonds.
- (7) Security measures, should be visible and effective to show that the chances of fraudsters being caught is very big, that is:
 - (a) Well-fortified vaults and safes.

QUESTION 1B ANSWER

Types of fraud, the fact here is that once an inducement of force is applied it takes a different dimension and the law gives it a different interpretation. But Jenta B.I. classified fraud as:

- (1) Bite fraud.
- (2) Nibble fraud.
- (3) Management fraud.
- (4) Con Artist or 419.
- (5) Weight-bridge fraud.

(5marks)

QUESTION (2A) ANSWER.

Idowu-fearon, (2005), identified the following as conditions that makes the perpetration of corrupt practices easy:-

- i. Concentration of power in decision makers who are not directly accountable to the people as often seen in non-democratic regimes,
- ii. Lack of government transparency in decision making.
- iii. Lack of integrity and suitability.

QUESTION 2B- ANSWER

- (a) Obsession with materialism.
- (b) Lack of ethical standards.
- (c) Greed.

(5 marks)

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SCHOOL: SCHOOL OF BUSINESS

DEPARTMENT: ACCOUNTING

SESSION: 2014/2015

SEMESTER: ALPHA

COURSE CODE: ACC 417

CREDIT UNIT: 2

COURSE TITLE: INTERNATIONAL ACCOUNTING

INSTRUCTION: ATTEMPT ALL QUESTIONS

TIME: 2 HOURS

SECTION A

1. Nigeria officially adopted IFRS in the year
2. Which of the following organizations was in charge of issuing Accounting Standards in Nigeria before the Financial Reporting council was established?
(a) ICAN (b) ANAN (c) NASB (d) SEC (e) CBN
3. Which of the following is **not** a form of classification of International accounting?
(a) Mueller's classification (1967) (b) Classification Based on Zones (c) Classification Based on Culture (d) Universal System Model (e) Classification using Clustering
4. Number of ways a country can adopt IFRS include all **EXCEPT**
(a) Replace national GAAP with IFRS.
(b) Require foreign companies listed on Domestic stock exchange(s) to use IFRS.
(c) Require domestic companies listing on foreign stock exchanges to use IFRS.
(d) All of the above
(e) A and C only
5. The sources of finance in the common law countries include (1) _____ (2) _____
6. Gray's Accounting values include all except
(a) Professionalism versus Statutory Control

- (b) Confidentiality and secrecy
 - (c) Uniformity and flexibility
 - (d) Secrecy versus transparency
7. The major provider of capital in Italy and England are _____ and _____
8. The accounting system suitable for contracting should include all except
- (a) objective
 - (b) Reliable
 - (c) Manageable
 - (d) Adequate
9. Accounting functions can 'flows' across borders in form of all except:
- (a) flows of capital
 - (b) flows of product
 - (c) flow of people
 - (d) Flow of financial disclosure
10. Identify four roles of accounting in the global economy.
11. What are the qualitative characteristics of financial reports?
12. In one of the following countries, government influences accounting via Commercial Code, Corporate Income Tax Law and Stock Exchange Law
- (a) United States of America
 - (b) United Kingdom
 - (c) Japan
 - (d) Germany
13. The accounting rules in one of these countries are derived from the common laws.
- (a) France
 - (b) China
 - (c) North Korea
 - (d) Nigeria
14. One of these is not a characteristics of accounting practices in the United Kingdom
- (a) The economic system is dominated by private sector enterprises

- (b) Capital market based financial system
 - (c) The accounting rules are source from the Code law
 - (d) Emphasizes a true and fair view of transactions
15. Reasons why International Accounting is studied include all except
- (a) Multinational Enterprises
 - (b) Comparative reasons
 - (c) Harmonization reasons
 - (d) National Enterprise
16. The recent growth in the scope of International Accounting could be attributed to:
- (a) International Trade (Export and Import)
 - (b) Foreign Direct Investment (FDI)
 - (c) A only
 - (d) A and B
17. What are the sources of finance in the common law countries?
18. The predecessor of IASB is the
- (a) NASB
 - (b) IASC
 - (c) FASB
 - (d) FRCN
19. All of these represent problems of International Accounting Transactions except:
- (a) Financial reporting
 - (b) Transfer pricing
 - (c) Transfer costing
 - (d) Budgets and Performance Evaluation
20. One of these statements is not correct about the reason for harmonization:
- (a) Facilitate international mergers and acquisitions.
 - (b) Reduce financial reporting costs.
 - (c) Will reduce Standards Overload for some firms.
 - (d) Increase the comparability of financial report prepared in different countries.

SECTION B

2. Transfer pricing is one of the most important issues in international taxation. Transfer pricing is not, in itself, illegal or necessarily abusive. What is illegal or abusive is transfer mispricing,

also known as transfer pricing manipulation or abusive transfer pricing. Discuss this in the context of taxation of multinational corporations bearing in mind the conventional and alternative approaches to confronting transfer mispricing. Illustrate your arguments with clear cut example(s) affecting developing nations like Nigeria. **(15 Marks)**

3. (a) Harmonization is the process of increasing the level of agreement in accounting standards and practices between countries. However, various stakeholders have put up arguments for and against accounting harmonization. Identify and briefly explain these factors as they affect a country like Nigeria **(10 marks)**
 - (b) The implication of concept of harmonization on different stakeholders and constituents cannot be over-emphasized. Evaluate the impact of accounting harmonization as it affects the following interests: Investors, Corporate Management, Stock Markets, Accounting profession, Accounting Standard Setters. **(10 marks)**

4. What environmental factors would you evaluate if you were an investor? Assume that you wanted to open a manufacturing plant to boost production of your wildly popular product. What sorts of criteria would you evaluate in determining where to invest? **(15 marks)**

Suggested Answer to the Multiple Questions

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1. 2012
2. C
3. D
4. D
5. Bank or Government
6. D
7. Banks and Shareholders
8. C
9. D
10. Stewardship and accountability; Facilitation of Contracting; Usefulness for Decision Making and Representational faithfulness
11. Relevance (timeliness), Reliability (faithful representation), Understandability and Comparability
12. C
13. D
14. C
15. D
16. D
17. Shareholders, governments and banks
18. B
19. C
20. C

MARKING GUIDE (SECTION B)

SUGGESTED SOLUTION TO QUESTION 2A

Harmonization → the process of increasing the level of agreement in accounting standards and practices between countries. It is a process that reduces alternatives while retaining a high degree of flexibility in accounting practices. This means a reconciliation of different points of view. Therefore, harmonization is a process starting from diversity.

Argument for Accounting Harmonization:

- Raise the quality level of accounting practices internationally.
- Expedite the integration of global capital markets and make easier the cross-listing of securities.
- Facilitate international mergers and acquisitions.
- Make it easier for MNCs and international accounting firms to transfer accounting personnel to other countries.
- Reduce financial reporting costs for foreign listed firms
- Allow for easy adoption of high-quality standards by developing countries.
- Increase the comparability of financial reports prepared in different countries.

Argument against Accounting Harmonization:

- The unwillingness of the different nations involved in the process to collaborate based on: Different Cultures, Ethics, Standards, Beliefs, Type of economies, Political systems and preconceived notions for specific countries, systems and religions
- The time it will take to implement a new system of accounting rules and standards across the board.
- It is unnecessary to force all companies worldwide to follow a common set of rules. Today's global capital market has evolved without harmonized accounting standards.

SUGGESTED SOLUTION TO QUESTION 2B

The convergence and subsequent change of accounting and reporting standards at the international level impact a number of constituents, including corporate management, investors, stock markets, accounting professionals and accounting standards setters and agencies.

- J **Impact on Investors:** Investors will have to re-educate themselves in reading and understanding accounting reports and financial statements following the new internationally accepted standards. At the same time, the process will provide for more credible information and will be simplified without the need for conversion to the standards of the country. Further, the new standards will increase the international flow of capital.
- J **Impact on Corporate Management:** Corporate management will benefit from simpler, streamlined standards, rules and practices that apply to all countries and are followed worldwide. The change will afford corporate management the opportunity to raise capital via lower interest rates while lowering risk and the cost of doing business.
- J **Impact on stock market:** Stock markets will see a reduction in the costs that accompany entering foreign exchanges, and all markets adhering to the same rules and standards will further allow markets to compete internationally for global investment opportunities.
- J **Impact on Accounting Profession:** The shift and convergence of the current standards to internationally accepted ones will force accounting professionals to learn the new standard, and will lead to consistency in accounting practices.
- J **Impact on Accounting Standard Setters:** The development of standards involves a number of boards and entities that make the process longer, more time consuming and frustrating for all parties involved. Once standards have converged, the actual process of developing and implementing new international standards will be simpler and will eliminate the reliance on agencies to develop and ratify a decision on any specific standard.

Suggested Solution to Question 3

The criteria include:

- J Increase of Sales and Profits
- J What are the local laws to protect Domestic firms
- J Any measures in term of policies to protect Foreign firms
- J Can the technological and managerial know-how be acquired easily?
- J Avoid Trade Barriers
- J Reduce Production Costs
- J Expand Market Channels
- J Obtain Local Support

All these can be further grouped into:

- a. Legal system
- b. Political system
- c. Nature of business ownership
- d. Differences in size and complexity of business firms
- e. Social climate
- f. Level of sophistication of business management and the financial community
- g. Degree of legislative interference
- h. Preference of specific accounting legislation
- i. Speed of business innovation
- j. Stage of economic development
- k. Growth pattern of an economy and
- l. Status of professional education and organization **(1 mark each)**

SUGGESTED SOLUTION TO QUESTION 4

When two unrelated companies trade with each other, a market price for the transaction will generally result. This is known as “arms-length” trading, because it is the product of genuine negotiation in a market. This arm’s length price is usually considered to be acceptable for tax purposes. But when two related companies trade with each other, they may wish to artificially distort

the price at which the trade is recorded, to minimize the overall tax bill. This might, for example, help it record as much of its profit as possible in a tax haven with low or zero taxes.

For example, take a company called World Inc., which produces a type of food in Africa, then processes it and sells the finished product in the United States. World Inc. does this via three subsidiaries: Africa Inc. (in Africa), Haven Inc. (in a tax haven, with zero taxes) and America Inc. (in the United States). Now Africa Inc. sells the produce to Haven Inc. at an artificially low price, resulting in Africa Inc. having artificially low profits – and consequently an artificially low tax bill in Africa. Then Haven Inc. sells the product to America Inc. at a very high price – almost as high as the final retail price at which America Inc. sells the processed product. As a result, America Inc. also has artificially low profitability, and an artificially low tax bill in America. By contrast, however, Haven Inc. has bought at a very low price, and sold at a very high price, artificially creating very high profits. However, it is located in a tax haven – so it pays no taxes on those profits.

What has happened here? This has not resulted in more efficient or cost-effective production, transport, distribution or retail processes in the real world. The end result is, instead, that World Inc. has shifted its profits artificially out of both Africa and the United States, and into a tax haven. As a result, tax dollars have been shifted artificially away from both African and U.S. tax authorities, and have been converted into higher profits for the multinational.

Conventional approaches to confronting transfer mispricing.

The conventional international approach to dealing with transfer mispricing is through the “arm’s length” principle: that a transfer price should be the same as if the two companies involved were indeed two unrelated parties negotiating in a normal market, and not part of the same corporate structure. The OECD and the United Nations Tax Committee have both endorsed the “arm’s length” principle, and it is widely used as the basis for bilateral treaties between governments. Many companies strive to use the arm’s length principle faithfully. Many companies strive to move in exactly the opposite direction. In truth, however, the arm’s length principle is very hard to implement, even with the best intentions because arm’s length principle gives multinational companies leeway to decide for themselves where to shift their profits.

Imagine, for example, that two related parties are trading a tiny component for an aircraft engine, which is only made for that engine, and not made by anyone else. There are no market comparisons to be made, so the “arm’s length” price is not obvious. Or consider the case of a company’s brand.

How much is the Shell Oil logo really worth? There is great scope for misunderstanding and for deliberate mispricing – providing much leeway for abuse, especially with regard to intellectual property such as patents, trademarks, and other proprietary information.

Alternative approach

While multinationals tend to favor the arm's length principle as the basis for determining transfer pricing. It gives them tremendous leeway to minimize tax – academics, some public sector and private sector practitioners and, increasingly, non-governmental organizations, favor an alternative approach: combined reporting, with formulary apportionment and Unitary Taxation. This would prioritize the economic substance of a multinational and its transactions, instead of prioritizing the legal form in which a multinational organizes itself and its transactions. While the arm's length principle gives multinational companies leeway to decide for themselves where to shift their profits, the unitary taxation approach involves taxing the various parts of a multinational company based on what it is doing in the real world. The aim of unitary taxation, then, is to tax portions of a multinational company's income without reference to how that enterprise is organised internally. In addition, multinational enterprises with the same total income generally are treated the same under this method.

COVENANT UNIVERSITY

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TITLE OF EXAMINATION: B.Sc EXAMINATION

COLLEGE: COLLEGE OF DEVELOPMENT STUDIES

SCHOOL: BUSINESS

DEPARTMENT: ACCOUNTING

SESSION: 2014/2015 **SEMESTER:** ALPHA

COURSE CODE: ACC418 **CREDIT UNIT:** 3

COURSE TITLE: NIGERIAN TAXATION II

INSTRUCTION: Answer all **TIME:** 2.30 HOURS

1. Where a company has not yet commenced to make a sale or bulk disposal of chargeable oil under a programme of continuous production and sales, its assessable tax for any accounting period shall be of the profit for that period.
2. Oil Mining Lease (OML) is to win, work, carry away and dispose of petroleum while Oil Prospecting License (OPL) to
3. In PPT, failure of a petroleum company to pay any of the installments as they fall due attracts
4. Natural gas in its liquid state at approximately atmospheric pressure is called
5. The crude oil exported from Nigeria by Olams Oil Limited in January 2013 was 45' API. The posted price advised by the Nigerian National Petroleum Corporation (NNPC) is US\$45.50 for the crude stream with a standard API of 35'. The posted price for the crude oil exported is (Any increase/decrease in gravity is computed at \$0.03)
- 6 The following are correct in respect of commencement rule EXCEPT
 - a) Assessable profit in the first year is the actual profit, from date of commencement of business to December 31 following,
 - b) Assessable profit in the second year is profit of the first twelve (12) months from the date of commencement of business.
 - c) Assessable profit in the third year is the profit of twelve months accounting period ended in the preceding year of assessment or assessable profit of the second year
 - d) The Assessable profit in the fourth and subsequent years can either be actual or preceding year basis depending on the choice of the tax payer.
- 7 Revenue's option to revise an assessment to actual basis on cessation of business is for (a) Penultimate year (b) Pre-penultimate year (c) Ultimate year (d) Pre-Ultimate year
- 8 which of the following is not a condition for granting capital allowance: (a) The claimant must be the owner of the asset that is the subject of claim (b) The capital expenditure

incurred must be for the purposes of the trade or business (c) The claimant must incur qualifying capital expenditure as defined in PITA and PPTA (d) The expenditure must be incurred in the basis period.

- 9 Notice of revocation of election for the 2nd and 3rd years to be assessed on actual basis should be made in writing within: (a) 12 months after the end of the 1st year of assessment (b) 12 months after the end of the 2nd year of assessment (c) 12 months after the end of the 3rd year of assessment (d) at any time between the 2nd and 3rd year of assessment.
- 10 With respect to Back Duty Assessment (BDA), what is the time limit within which the revenue authority can raise additional tax to make up for any loss attributable to the fraud, wilful default or neglect of the tax payer (a) within one year (b) within two years (c) within three years (d) no time limit
11. The following expenses are admissible under the Capital Gain Tax Act 1990 except:
 - A. Any selling expenses such as advertisement cost.
 - B. The cost of acquiring the asset disposed.
 - C. Any cost of refurbishing the chargeable asset prior to disposal.
 - D. Any professional cost such as solicitors' fees.
 - E. Any donation to political party.
12. Capital gains tax on individuals is payable to:
 - A. State Internal Revenue Service Board
 - B. Federal Inland Revenue Service
 - C. Joint Tax Board
 - D. Body of Appeal Commission
 - E. Committee of Ministers
13. Capital gains is taxed at of the gains made on the disposal of an asset.
- 14 The following are the duties of the Joint Tax Board in Nigeria except:
 - a. To enlighten members of the public generally on Federal and State government revenue matters.
 - b. To settle disputes between the states as regards tax matters.
 - c. To promote uniformity both in the application and incidence of the provision of tax laws on individuals throughout the country.
 - d. To advise the government on request in respect of double taxation arrangements, rates of capital allowances and other tax matters.
 - e. To impose its decision on States on matters of procedure
15. Tax is evaded through the following ways EXCEPT:
 - a. Refusing to register with the relevant tax authority
 - b. Failure to furnish returns

- c. Incorporating tax payers sole proprietor into limited liability company
- d. Entering into artificial transactions
- e. Overstating expenses so as to reduce taxable profit.

16 .In ascertaining the total profits of an insurance company on which income tax will be computed, income is to be aggregated

- (a) adjusted (b) franked investment (c) premium (d) turnover

17 The class of expenses that are allowable on certain conditions being fulfilled is known as

18 The tax returns of non-resident companies carrying on business in or deriving income from Nigeria are to be filed with the

- (a) Internal Revenue Division (b) Tax Division (c) International Tax Division (d) Non-resident companies Division

19 Where an insurance company is involved in life and non-life business, for the purposes of ascertaining the profit on which tax is to be imposed, the life insurance business shall be treated as business any other class of business.

- (a) an adjustable, with (b) a supporting, to (c) the same, with (d) separate, from

20 Self-assessment became mandatory for all companies with effect from

- (a) 1/1/98 (b) 1/1/99 (c) 1/11/2008 (d) 1/11/2009

1 SSV Petroleum Limited has the following particulars to present for the current year ended 31st Decemeber 2003.

	N'000
Sale of crude oil export	556,600
Sale of natural gas	30,250
Other incidental income	3,025
The expenses incurred during the period are as follows	
Production	145,200
Administration	193,600
Intangible drilling cost	30,250
Non-productive rentals	12,100
Royalties on export	3,025
Royalties on local sales	1,210
Custom duties on plant and machinery	18,150
Provision for restoration of wells	90,750

The following additional information is provided:

1. Memorandum of understanding (M.O.U) credit N12,100,000
2. Petroleum investment allowance has been agreed on N9,075,000
3. Depreciation included in production expenses has been agreed on N24,200,000
4. Capital allowances agreed with the Federal Inland Revenue is N36,300,000

Required:

Compute the Chargeable Tax for the relevant accounting period. **(15 mks)**

2 (a) ADFAK Ltd. disposed off its Plant for #600,000 in 1997. The Plant was acquired for #250,000 in 1992. A new Plant was acquired to replace the disposed one within eight months for #540,000

Required: Determine the relief available **(7 mks.)**

(b) Congratulations for your election as the President Federal Republic of Nigeria. To meet your electoral promises /manifesto, explain the various sources of revenue open to you via taxation

(3 mks)

3] ALPHA Global LTD had been in business for a long time making up his account to 30th September of each year. In 2010, it was decided to sell the business, hence ceased operations on 30th June, 2010. Its adjusted profit/losses for tax purposes were as follows:

	N
Year ended 30th September, 2007	24,000
Year ended 30th September, 2008	(36,000)
Year ended 30th September, 2009	92,000
Period to 30th June, 2010	50,000

Required

- i) Compute the assessable profit of the business for all relevant years [9 mks]
- ii) Advise the tax authority on the best option? [1 mk]

4] Royal Claim Insurance Co Ltd commenced business operations around the middle of 1980 tax year. The company usually prepared its annual accounts up to 30th September in every tax year. Due to the company's inability to adequately find its feet in Nigerian insurance business, it had recorded unutilized losses and allowances in its early years follows:

Tax Year	Assessable Profit/(loss)	#	Capital Allowances	#
1992	Unutilized losses	(480, 000)		116, 000
1993	Unutilized losses	(540, 000)		156, 000
1994	Unutilized losses	(440, 000)		108, 000
1995	Unutilized losses	(360, 000)		184, 000
1996	Unutilized losses	(240, 000)		226, 000
1997	Unutilized losses	(160, 000)		280, 000
1998	Assessable Profit	310, 000		264, 000

The performance of the company's business operations for the year ended 30th September, 1998 was reviewed by the external auditors and the following information was extracted from their statements and reports:

1. Total cash and cheque received during the financial year on premiums:

Life Assurance	N1, 700, 000
Motor Insurance	N2, 900, 000
Marine Insurance	N3, 500, 000

Premiums amounting to N400, 000 received in respect of life assurance included in above related to prepayments on 1999 accounts while the company still had about N800, 000 and #900, 000 on motor insurance and marine insurance respectively due from the policy holders as at 30th September, 1998.

2 Investment income during the year:

Dividends- Gross	N810, 000
Interest- Gross	N430, 000
Fees and Commissions on advisory services	N330, 000

3 Premiums due to other Reinsurance Companies and Agents:

Life Assurance	N510, 000
Marine Insurance	N874, 000

4 Total claims due to policy holders- (both actual payments and accruals).

Life assurance	N700, 000 (about N300, 000 was received from Reinsurance Companies)
Motor insurance	N300, 000
Marine insurance	N1, 500, 000 (about N500, 000 was received from Reinsurance Companies)

5 Reserve for unexpired risks as at:	30/9/97	30/9/98
Life assurance	N270, 000	N230, 000
Motor insurance	N411, 000	N421, 000
Marine insurance	N623, 000	N820, 000

6 Other Expenses:

Salaries and wages	N1, 310, 000
Depreciation	N411, 000
Profit on sale of Fixed Assets	N3, 100
Commissions paid to brokers and agents	N5,000
Miscellaneous	N1, 046, 000

7 Capital allowances computed for 1999 tax year	N1, 300, 000
Balancing charge computed for 1999 tax year	N63, 000

You are required to:

Compute the tax liability for 1999 year of assessment **(15 mks)**

SOLUTION ACC 418 2014/15

1 65.75% of Chargeable Profit

2 Search for oil

3 5% Flat penalty on the amount of installment

4 Liquefied Natural Gas

5 \$ 45.8

6 D

7 A

8 C

9 C

10 D

11 E

12 A

13 10%

14 A

15 C

16 B

17 Conditional Allowance

18 C

19 D

20 A

SOLUTION 3

ADFAK LTD

COMPUTATION OF ROLL OVER RELIEF FOR 1997 TAX YEAR

	#	#
Sales Proceed		600,000
Less Cost of Acquisition		(250,000)
Capital Gains		350,000
Deduct the Lower of:		
(a) Sales Proceed	600,000	
(b) Amount Re-invested	540,000	
Cost of Acquisition	(250,000)	
Amount Roll Over		(290,000)
Net Capital Gains		60,000
Capital Gains Tax @ 10%		6,000

(b) 1 Company Income Tax

 li Petroleum Profit Tax

 lii Value Added Tax

 Iv Custom/Excise Duty

 v Personal Income Tax

 vi Stamp Duty

 vii Capital Gains TAX

QUESTION 2

ALPHA GLOBAL LTD
DETERMINATION OF BASIS PERIOD AND COMPUTATION OF ASSESSABLE
PROFIT FOR ALL RELEVANT YEARS OF ASSESSMENT UNDER CEASATION
RULE

Option 1

ASSESSING THE PENULTIMATE YEAR ON PYB

YOA	BP	WORKINGS	AP
2009	1/10/2007-30/09/2008		NIL
2010	1/1/2010-31/12/2010	6/9 x 50,000	<u>33,333</u>
			<u>33,33</u>

NB: The AP for the penultimate year is Nil, since the BP using PYB coincided with a loss

OPTION 2

ASSESSING PENULTIMATE YEAR ON AYB

YOA	BP	WORKINGS	AP
2009	1/1/2009-31/12/2009	1/1/2009-30/9/2009 9/12 X 92000 1/10/2009-31/12/2009 3/9 x 50,000	69000 16667
2010	1/1/2010- 30/06/2010	6/9 x 50, 000	<u>33,333</u> <u>119,000</u>

ADVICE: Tax authority should assess the tax payer using the AYB for the penultimate year since it will result in higher revenue (OPTION 2)

QUESTION 1

SUGGESTED SOLUTION
SSVPETROLUEM COMPANY LTD
PETROLUEM PROFITS TAX COMPUTATION 2003

	N'000	N'000
PROFIT OF THE ACCOUNTING PERIOD:		
EXPORT SALE OF CRUDE OIL		556,600
SALE OF NATURAL GAS		30,250
OTHER INCIDENTAL INCOME		3,025
		589,875
LESS ALLOWABLE EXPENDITURE:		

PRODUCTION	145,200	
LESS DEPRECIATION	24,200	
	121,000	
ADMINISTRATION	193,600	
INTANGIBLE DRILLING COST	30,250	
NON-PRODUCTIVE RENTALS	12,100	
ROYALTIES ON EXPORT	3,025	
ROYALTIES ON LOCAL SALES	1,210	
CUSTOM DUTIES ON PLANT	18,150	
	(379,335)	
		210,540
Education Tax 2/102 * N210,540		(4,128)
Assessable Profit		206,412
Less Capital Allowances:		
As Agreed With FIBR	36,300	
Petroleum Investment Allowance	9,075	
	45,375	
Maximum = 85% Of N206,412	175,450	
Less 170% Of 9,075	(15,428)	
	160,022	
Capital Allowances Claim		(45,375)
Chargeable Profit		161,037
Assessable Tax At 85%		136,881
Less Section 20 Tax Offsets:		-
Chargeable Tax		136,881
Less Mou Credit		12,100
Ppt Payable		124,781
Education Tax 2% Of N206,412		4,128

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TITLE OF EXAMINATION: B.Sc DEGREE EXAMINATION

COLLEGE: COLLEGE OF BUSINESS AND SOCIAL SCIENCES

SCHOOL: SCHOOL OF BUSINESS

DEPARTMENT: ACCOUNTING

SESSION: 2014/2015

SEMESTER: ALPHA

COURSE CODE: MIS 413

CREDIT UNIT: 2

COURSE TITLE: MANAGEMENT INFORMATION SYSTEMS

INSTRUCTION: ATTEMPT ALL QUESTIONS

TIME: 2 HOURS

SECTION ONE

1. One of these is not part of an accounting transactions cycle
 - (a) Financial Cycle
 - (b) Expenses Cycle
 - (c) Expenditure Cycle
 - (d) Revenue Cycle

2. The first step in the systems development life cycle (SDLC) is:
 - A. Analysis.
 - B. Design.
 - C. Problem/Opportunity Identification.
 - D. Development and Documentation.

3. The make-or-buy decision is associated with the _____ step in the SDLC.
 - A. Problem/Opportunity Identification
 - B. Design
 - C. Analysis
 - D. Development and Documentation

4. In the Analysis phase, the development of the _____ occurs, which is a clear statement of the goals and objectives of the project.
 - A. documentation

- B. flowchart
 - C. program specification
 - D. design
5. Enhancements, upgrades, and bug fixes are done during the _____ step in the SDLC.
- A. Maintenance and Evaluation
 - B. Problem/Opportunity Identification
 - C. Design
 - D. Development and Documentation
6. _____ spend most of their time at the beginning stages of the SDLC, talking with end-users, gathering information, documenting systems, and proposing solutions.
- A. Systems analysts
 - B. Project managers
 - C. Network engineers
 - D. Database administrators
7. CAATs would normally be used when?
- A. auditing through the computer.
 - B. auditing with the computer.
 - C. auditing around the computer.
 - D. auditing without the computer.
8. Which of the following is *least* likely to be a general control over computer activities?
- A. Procedures for developing new programs and systems.
 - B. Requirements for system documentation.
 - C. A change request log.
 - D. A control total.
9. The best method of achieving internal control over advanced IT systems is through the use of:
- A. Batch controls.
 - B. Controls written into the computer system.
 - C. Equipment controls.
 - D. Documentation controls.

10. When conducting field work for a physical inventory, an auditor cannot perform which of the following steps using a generalized audit software package?
- A. Observing inventory.
 - B. Selecting sample items of inventory.
 - C. Analyzing data resulting from inventory.
 - D. Recalculating balances in inventory reports.
11. _____ is a part of branch of Accounting which establishes budgets, standard cost and actual cost of operations, processes, activities or products, and the analysis of variances, profitability and the social use of funds
- (a) Management Accounting
 - (b) Financial Accounting
 - (c) Cost Accounting
 - (d) Forensic Accounting
12. The following are the purposes of Accounting System except
- (a) Transaction processing.
 - (b) Formulating business strategy.
 - (c) Resource allocation decisions.
 - (d) Sacking of staffs
13. The ability of a system to maintain itself in a steady state is called
- (a) Interaction with the environment
 - (b) Self Correcting
 - (c) Self Regulating
 - (d) Achieving its goal
14. The following are the sub systems of Accounting Information except
- (a) General Ledger
 - (b) Payroll
 - (c) Account Receivable
 - (d) Cheque Book
15. The process of considering the elemental units of a system when studying it and not necessarily everything as a whole is called
- (a) General system theory
 - (b) Holistic approach
 - (c) Reductionist approach
 - (d) All of the above

16. The reviewing and evaluating the records used to prepare a company's financial statements is called
- (a) Auditing
 - (b) Taxation
 - (c) Forensic Accounting
 - (d) None of the above
17. Which of these statements is true?
- (a) All data produce specific and meaningful information
 - (b) All information produce specific and meaningful data
 - (c) Data are finished products
 - (d) None of the above
18. Accounting transactions incurred to acquire the input (material, labour and overhead) for conversion to the required output is called
- (a) Expenses cycle
 - (b) Expenditure cycle
 - (c) Asset cycle
 - (d) Material cycle
19. A system whereby the total output exceeds the sum of the outputs of individual components is called?
- (a) Collaboration System
 - (b) Soft System
 - (c) Synergistic System
 - (d) Sum of the Total System
20. Conciseness as information quality is an example of
- (a) Form Dimension
 - (b) Content Dimension
 - (c) Time Dimension
 - (d) Precise Dimension

Answers

MIS 413 MARKING GUIDE

1. B

2. D

3. B

4. C

5. A

6. A

7. B

8. D

9. B

10. A

11. C

12. D

13. C

14. D

15. C

16. A

17. A

18. B

19. C

20. B

SECTION B

1. As the manager of Covenant University Shopping Mall, Covenant University Accounting students have requested that you give them a lecture on the transaction cycles at the mall. Prepare your lecture brief enumerating the cycles and explain how they function at the mall. **(10 marks)**

2. Briefly describe the special audit techniques using the computer as an audit tool. **(15 marks)**

3. Christopher has been hired by Heaven on Earth Ltd as a member of its study team for the design and development of an accounting information system for Grace Ltd. Christopher has been delegated by the study team to present to the steering committee of Grace Ltd, the requirements for "planning for success" in the development of their accounting information system. Briefly discuss what you think should be the contents of Love Samuels' presentation. **(15 marks)**

4. (a) List and explain 4 (Four) different types/categories of Accounting Software you know and give two examples each. **(4 marks)**

(b) State 6 (six) things you have to keep in mind before configuring accounting software. **(6 marks)**

MARKING GUIDE (SUGGESTED SOLUTIONS)

1. **Special Audit Techniques:** In the absence of audit trail, the auditor needs the assurance that the programmes are functioning correctly in respect of specific items by using special audit techniques. The absence of input documents or the lack of visible audit trail may require the use of Computer Assisted Audit Techniques (CAATs) i.e. using the computer as an audit tool.

The effectiveness and efficiency of auditing procedures may be enhanced through the use of CAATs. Popularly, two common types of CAATs are in vogue, viz., test packs or test data and audit software or computer audit programmes. Normally speaking, special audit techniques may be used under the following circumstances:

- (i) to ensure the correct functioning of important programme controls;
- (ii) to overcome losses of audit trail;
- (iii) to reduce audit costs or increase the efficiency of the audit.

2 marks

Audit Software: Audit software consists of computer programmes used by the auditor, as part of his auditing procedures, to process data of audit significance from the entity's accounting system. It may consist of package programmes, purpose-written programmes, and utility programmes and systems management programs.

1 mark

These audit software programs include the following:

(2 marks each = 8 marks)

- J Package Programs are generalized computer programs designed to perform data processing functions, such as reading data, selecting and analyzing information, performing calculations, creating data files and reporting in a format specified by the auditor.
- J Purpose-Written Programs perform audit tasks in specific circumstances. These programs may be developed by the auditor, the entity being audited or an outside programmer hired by the auditor. In some cases, the auditor may use an entity's existing programs in their original or modified state because it may be more efficient than developing independent programs.

- J Utility Programs are used by an entity to perform common data processing functions, such as sorting, creating and printing files. These programs are generally not designed for audit purposes, and therefore may not contain features such as automatic record counts or control totals.

- J System Management Programs are enhanced productivity tools that are typically part of a sophisticated operating systems environment, for example, data retrieval software or code comparison software. As with utility programs these tools are not specifically designed for auditing use and their use requires additional care.

Test Data: Test data techniques are used in conducting audit procedures by entering data (e.g., a sample of transactions) into an entity's computer system, and comparing the results obtained with predetermined results. This enables to ascertain whether the controls residing in the hardware and in the programmes are operating correctly. Test data is used to test specific controls in computer programmes, such as online password and data access controls. Examples of such uses are:

- (i) Test transactions selected from previously processed transactions or created by the auditor to test specific processing characteristics of an entity's computer system. Such transactions are generally processed separately from the entity's normal processing.

- (ii) Test transactions in an integrated test facility where a "dummy" unit (e.g., a department or employee) is established and to which test transactions are posted during the normal processing cycle. When test data is processed with the entity's normal processing, the auditor should ensure that the test transactions are subsequently eliminated from the entity's accounting records.

4 marks

QUESTION 2

In planning for the development of an accounting system it is important to plan thoroughly so as to avoid costly mistakes. In planning for success, Whitten & Bentley (2007) assert that the following should be in place:

- a. Broad viewpoint in a systems study
- b. The Study team and the steering committee
- c. Investigating current systems

3 marks

- a. **Broad Viewpoint in a Systems Study:** When performing a systems study, the participants should use a systems approach, that is, a broad point of view. This approach aligns the systems study with the organization's mission and strategic planning goals and objectives. For example, if a company plans to consolidate divisions or discontinue unprofitable product lines, new IT systems will need to reflect these plans. In another scenario, a company that is embarking on a growth strategy through merger and acquisition should think twice about implementing a new enterprise system that could be incompatible with newly acquired companies. Also, management should think strategically about whether a potential new system could accommodate acquired businesses operating in different industries.

4 marks

- b. **The Study Team and the Steering Committee:** Using an interdisciplinary study team follows from the need for a broad viewpoint when performing a systems study. It also serves to correct the problem identified in our chapter quote—thinking that the system belongs only to the IT staff. Because most accounting and computer professionals are specialists, it is unlikely that any one or two people will have the broad background and experience necessary to understand and change a large AIS. For this reason, the recommended approach is to form (or hire) a team of specialists—a “study team”—to perform the system's study. It is important that the study team communicate closely and meaningfully with the company's top managers. To provide this continuous interface, the company's top management should also appoint a steering committee to work with each study team as it performs its tasks. Ideally, the committee will include top management personnel—for example, the controller, the vice president of finance, the top-level information systems manager (information systems vice president or chief information officer), perhaps one or more staff auditors, and (for very important projects) even the chief executive officer of the company. The rationale for such involvement is straightforward: *top management commitment is critical to the ultimate success of a new or revised system.*

4 marks

c. Investigating Current Systems

Planning for IT includes constant monitoring of current systems. When any appear to have problems, the systems study team performs a preliminary investigation of the system in question and advises the steering committee of its findings. One important part of this work is to separate symptoms from causes. In its deliberations, the study team may consider alternatives to the current system, attempt to estimate the costs and benefits of proposed solutions, or make recommendations for desired alternatives. In this phase of the project, the study team enjoys wide latitude in what it can choose to examine, and it is usually encouraged to “think outside the box” (i.e., to consider vastly different and innovative approaches to address current problems).

The duration of a preliminary investigation is comparatively brief—typically, a matter of a few weeks. The “deliverable” from this phase of the systems study is a preliminary investigation report describing the problems or objectives the study team identified, solutions or alternatives it investigated, and further course(s) of action it recommends. The study team submits this report to the company steering committee for a final determination. The steering committee may decide to: (1) disband the study team and do nothing, (2) perform further preliminary investigations, or (3) proceed to the formal systems analysis stage of the systems study.

4 marks

QUESTION 3a

The different categories or types of accounting software are as follows:

- a) Small business/personal accounting software which is mainly meant for home users. They are simple and inexpensive with simple functioning such as management of budgets.
- b) Low end accounting software is for small business markets that are capable of serving a single national market. Such software is characterized by 'single entry' products.

c) Mid market accounting software are for companies with large businesses. These softwares are capable of serving the needs of multiple national accountancy standards and facilitate accounting in multiple currencies.

d) High end accounting software is complex and expensive business accounting software that is also known as Enterprise Resource Planning or ERP software.

A. Small business/personal accounting software:

1. ePeachtree (Best Software)
2. MYOB Plus for Windows (MYOB Software)
3. Peachtree Complete Accounting (Best Software)
4. QuickBooks Online (Intuit)
5. Small Business Manager (Microsoft)

B. Low-End Accounting Software:

1. Business Vision 32 (Best Software)
2. MAS 90 & MAS 200 (Best Software)
3. QuickBooks Pro 2003 (Intuit)
4. ACCPAC Pro Series (ACCPAC International)
5. Vision Point 2000 (Best Software)

C. Middle-Market Accounting Software:

1. ACCPAC Advantage Series Corporate Edition (Best Software)
2. Great Plains (Microsoft) MAS 90 & MAS 200 (Best Software)
3. Navision (Microsoft)
4. SouthWare Excellence Series (SouthWare)
5. SYSPRO (SysproUSA)

D. High-end accounting ERP Market:

1. Axapta (Microsoft Software)
2. e-Business Suite (Oracle)
3. MAS 500 (Best Software)
4. Solomon (Microsoft)
5. ACCPAC Advantage Series Enterprise Edition (Best Software) (1 mark for any point)

QUESTION 3b

Computerized Accounting

Accounting software has the ability to generate reports on demand—something that could take a team of humans hours or days. These reports can be customized to what the company is spending money on, such as rent, day-to-day operations, salaries and marketing. In addition, when used properly, this feature can assist the business in its budgeting needs, telling executives in a quick and easy to use format exactly where their money is going. Reports empower executives to make informed decisions, and having instant access to them can only make success more likely. Computerized Accounting is a great computer application which world of banking system have to be proud of. This knowledge is both for the accounting literate and non accounting literate.

TEN WAYS TO ACCOUNTING SOFTWARE CONFIGURATION

Before you install the product:

- (a). Accounting software tracks sales tax. If you're a new business, you'll need to check on the regulations for your city, county, and states sales tax, where applicable. Web sites can provide this information, and your accounting software may offer links.
- (b). Payroll is probably the most complex module to set up. Be sure you have complete information about your employees' pay rates and withholding, company deductions, and so on before you start.
- (c). Pull together your customer and vendor lists. You don't have to enter comprehensive records before you start using the program, but you'll at least want easy access to them when needed.

- (d). Do you sell products or services? Whether you have them priced out in an Excel spreadsheet or a Word document or on Post-its, have all the info available. Your accounting program will let you document them neatly in prefabricated records.
- (e). If you're going to have multiple employees accessing the product, decide how you'll set up user permissions. Accounting software lets you set levels of access so that employees can work only in those designated areas.
- (f). Get your job schedules together. These programs are far from full-blown project-management software, but you'll be able to track basic details about jobs.
- (g). Take a deep breath and make a commitment. You're likely to hit potholes in the road to accounting automation, but remember the payoff: a place for everything, and everything in its place. Step away from the task, if you have to, and pick it up again later. **(1 mark for any point)**

Question 4

Transaction cycles:

1. Expenditure
2. Revenue
3. Financial (1^{1/2} Marks)

Expenditure Cycle:

A requisitioner which is the store manager and he works with the accounting officer. It is his responsibility to prepare the requisition document based on available inventory both on the shelves and in the store. The requisition document passes through the following;

The store manager - the supervisor - the manager - the coordinator- to the central purchasing unit (CPU)

A Central Purchasing Unit is responsible for filling the purchase order and determining vendors who will supply the needed goods. The purchase order contains the details on the requisition document by the requisitioner. The CPU does this entirely with their own fund which will later be transferred by the shopping mall upon receipt of goods

The Receipt and Storage of ordered items

There are two (2) stores. The first is the central store that receives deliveries from the supplier for all units and departments and the second one is the mall's store which receives requested items from the purchasing department which is the CPU. Goods are initially supplied to the central store managed by CPU where the goods are checked against the purchase order then they are taken from there and supplied to the shopping mall's store where the store's manager checks his requisition against the invoice and the goods supplied.

Approving vendor invoices and payment

After the CPU buys the stocks requisitioned by the store with their money, the invoice is forwarded to the Stores manager at the shopping mall, he transfers the purchase requisition, the suppliers invoice to the accounting department who approves it and forwards the accounts payable to the financial controllers' office located where transfer payments are made to the account of the CPU, no physical cash is involved. This fund transfer is facilitated by the Financial Controller's (FC) office.
(3 marks)

Revenue Cycle:

Sales order Point

The cycle is the customer comes in and moves round the individual shelves to choose what to purchase, inquiries are made at the counters which also double as customer service, after picking needed items, the customer takes the basket of goods to the POS where they are billed and the customer pays and the POS issues a receipt to the customer.

Control; the POS systems serves as control systems for the inventory and for the cash received. It gives a daily report of items sold; quantity and the items that should be left on the shelves. The individual in charge of the POS is responsible for making remittance to the supervisor at the end of the day that has the responsibility of querying the POS and cross checking the print out of the POS with the cash remitted by the seller and stock on the shelves.

Billing

Billing is done immediately at the POS terminals within the mall after the customer has picked needed items from the shelves.

Cash collection

The POS systems generate a daily report which is used by the supervisor and the manager to confirm amount delivered by the sales person at the end of each day. After confirming that these deliveries are consistent with the reports of the POS and rectifying differences, the supervisors print these reports generated and make submissions of same with the deliveries of each sales person to the accounting department where such documents are filed and registers are updated and the cash are given to the bank officials. These filed documents and updated registers are used to generate reports needed by the manager, the financial controller and the director at the end of a specified period which could be a week, a month or a year. **(3 marks)**

Financial Cycle

The mall uses the combination of a manual and an automated AIS system, the manual system is made up of registers, ledgers and vouchers while the automated system employs Microsoft excel to generate relevant financial data and reports analyzed and used by the accountants and the various levels of management. However, over the last one month, new computerized AIS is being tested known as the Tally system but this system is not reliable since it's only in its testing stage and the software is a trial version.

Update of General Ledger

The shopping mall makes use of a manual system in the update of the general ledger and the registers. The supervisors submit the cash remitted by the sales person and the report produced by the POS to the accountant on a daily basis who uses this to update his ledger accounts such as the cash book. At the end of the period, a Microsoft Excel package is used to financial statements at the end of the period.

All adjusting entries are made on the excel sheet after the initial trial balance and other statements have been prepared.

The shopping mall's accounting department is responsible for preparing the mall's income statement and balance sheet using Microsoft Excel. These are sent to the financial controllers' office where a consolidated financial statement is prepared at the end of the period.

The shopping mall's accounting office is responsible for producing the following reports; the fund flow statement, daily stock taking, debtors and creditors list. The profit and loss statements, the fund flow statement, daily stock taking, debtors and creditors list. These reports are used mainly by the following sets of internal users, the manager, the financial controller, the director and the banks to mention a few (**2 ^{1/2} marks**).