COVENANT UNIVERSITY

TUTORIAL KIT

PROGRAMME: ACCOUNTING

OMEGA SEMESTER

400 LEVEL

Raising A New Generation Of Leaders

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List of Contents

COVENANTUNIVERSITY

CANAANLAND, KM 10, IDIROKO ROAD

P.M.B 1023, OTA, OGUN STATE, NIGERIA.

TITLE OF EXAMINATION: MID-SEMESTER EXAMINATION

COLLEGE: Business and Social Sciences

SCHOOL: Business

DEPARTMENT: Accounting

SESSION: 2014/2015 **SEMESTER:** OMEGA

COURSE CODE:ACC 421 **CREDIT UNIT:** 3

COURSE TITLE: ADVANCED FINANCIAL ACCOUNTING

INSTRUCTION: ATTEMPT ALL QUESTIONS **TIME:**

Section A : This comprises 10 multiple choice questions and 10 short answer questions

1). Financing cash outflows include all the following **EXCEPT**

A. redemption of shares and debenture.

B. dividends paid to non-controlling interests.

C. payment of outstanding liability on a finance lease.

D. payment of company income tax.

E. payment of dividends to shareholders of the parent company.

2) . Where dividend is paid out of the pre-acquisition profit of a subsidiary, the parent's share of the dividend is

A. added to the cost of investment.

B. deducted from the cost of investment.

C. deducted from the net assets acquired.

D. deducted from the consolidated profit and loss account.

E. added to the subsidiary’s post-acquisition profit.

3) . A company is said to be highly geared when the company has

A. more of equity capital in relation to fixed interest capital.
B. more of fixed interest capital in relation to equity capital.
C. no fixed interest capital.
D. more of current assets in relation to current liabilities.
E. more of current liabilities in relation to current assets.

4). The current assets of a company consist of cash ₦5.1 million, inventory ₦10.9 million and trade receivable ₦10.9 million. The acid test ratio of the company is 1.25:1. Calculate the current liabilities.

A. ₦15m

B. ₦12m

C. ₦20m

D. ₦12.8m

E. ₦16.8m

5. Which of the following is considered a profitability measure?

a. Days sales in inventory
b. Fixed asset turnover
c. Price-earnings ratio
d. Cash coverage ratio
e. Return on Assets

Use the information below to answer the next five questions.

Gentle Co. Plc is the Parent company with investees, Peace Co. Plc and Safety Co. Plc. Gentle Co. Plc owns 600,000 ordinary shares in Peace Co. Plc and 225,000 ordinary shares in Safety Co. Plc. Peace Co. manufactures a component used by both Gentle Co. Plc and Safety Co. Plc. Transfers are made by Peace Co. Plc at cost plus 25%. Gentle CO. Plc held ₦100,000 inventory of these components at 31st December 2010 and Safety Co. Plc held ₦80,000 at the same date.

The following is the extract of the Statement of Financial Position as at 31st December 2010

	Gentle Co. Plc	Peace Co. Plc	Safety Co. Plc
	₦'000	₦'000	₦'000
Current Assets			
Inventory	575	300	265
Equity			
Share capital-			
Ordinary shares at N1 each	2,000	1,000	750

6. From the information above, what is the unrealized profit on sales to Gentle Co. Plc?

a. N25,000 b. N20,000 c. N75,000 d. N33,333

7. From the information above, what is the unrealized profit on sales to Safety Co. Plc?

a. N4,800 b. N16,000 c. N20,000 d. N26,667

8. What is the figure of unrealized profit that will be deducted from consolidation of inventory of the parent company and subsidiary?

a. N25,000 b. N75,000 c. N20,000 d. N33,333

Short Answer Questions.

1. State the formular for fixed assets turnover.

2. State the **TWO** ratios that are required to be disclosed in financial statements.

3. According to IAS 28 holding between …… and ….. of the ordinary (equity) shares can be presumed to give the investor significant influence unless it can be demonstrated otherwise.
4. Significant influence can still be demonstrated where less than 20% of the voting rights are obtained. Two situations where significant influence can be demonstrated under such scenario are …………… and …………….. .
5. Equity accounting reflects the ……………. that the investing company does not have control over the associate and therefore, their accounts should not be ……………….. .
6. Consolidation of the financial results of a parent company and ……….. companies is not done on a line by line basis.

Question 1

INEC is a public company that would like to acquire 100% of a suitable private company. It has obtained the following financial statements for two companies, TVC and PVC. They operate in the same industry and their managements have indicated that they would be receptive to a takeover.

Profit and loss Account for the year ended 31 December 2010

	TVC	PVC
	N'000	**N'000**
Sales	12,000	20,500
Cost of Sales	10,500	18,000
Gross profit	1,500	2,500
Operating expenses	240	500
Interest charges - Loan	210	300
- Overdraft		10
- Lease		290
Profit before tax	1,050	1,400
Income tax expense	150	400
Profit after tax	900	1, 000
Dividends paid	250	700
Retained profit	750	300

Balance sheet as at 31 December 2010

	TVC	PVC
	N'000	**N'000**
Fixed assets	9,400	7,500
Current assets:		
Stock	2,000	3,600
Account receivable	2,400	3,700
Bank	600	-
Total assets	14,400	14,800
Share Capital (₦ 1 each)	2,000	2,000
Revaluation reserve	900	-
Retained profits	2,600	800
	5,500	2,800
Long term liabilities:		
Finance lease obligations	-	3,200
7% Loan Notes	3,000	-

10% Loan Notes	-	3,000
Deferred Tax	600	100
Government grants	1,200	-
Current Liabilities:		
Bank overdraft	-	1,200
Account payable	3,100	3,800
Government grants	400	-
Finance lease obligations	-	500
Taxation	600	200
	14,400	14,800

Notes:

i) The interest rate implicit within PVC'S finance lease is 7.5% per annum. For the purpose of calculating ROCE and gearing, all finance lease obligations are treated as long term interest bearing borrowings.

ii) The following ratios have been calculated for TVC and can be taken to be correct.

ROCE	14.8%
Pre tax return on Equity	19.1%
Net asset turnover	1.2 times
Gross profit margin	12.5%
Operating profit margin	10.5
Current ratio	1.2:1
Stock holding period	70 days
Debtors collection period	73 days
Creditors payment period	108 days
Gearing	35.3%
Interest cover	6 Times
Dividends cover	3.6 Times

Required

Prepare a report to the board of INEC PLC evaluating the relative performance and financial position of the two companies, to assist them in their acquisition decision. Include in your report comments on the limitation of using ratios.

2.a) State THREE benefits and THREE drawback of cash flow statement

b. There are basically three (3) classifications of cash flows in a statement of cash flows, write short note on them.

c. Classify the following items into the three classes in b above.

- Cash received from customers
- Cash paid to suppliers
- Cash paid for other operating expenses
- Cash paid or received in respect of extra-ordinary items
- Tax paid
- Cash paid to acquire fixed assets and investments
- Sales proceeds from disposals
- Investment income such as dividend received or interest received.
- Cash proceeds from issue of shares and Debts
- Repayment of Debt Capitals
- Finance lease obligations
- Dividend paid
- Interest paid

3. (a). According to International Accounting Standards (1AS) 28, define an associate (2 marks)

(b). **Carefully read the case study below.**

Answer the questions (i), (ii) and (iii) that follow:

IvoryTower Company Plc has investments in four companies namely Bright Company Plc, Cool Company Plc and Distinct Company Plc.

IvoryTower Company Plc has 30,000 non-voting preference shares of the 100,000 non-voting preference share capital in Bright Company Plc.

Cool Company Plc has a total of 100,000 ordinary shares. IvoryTower Company Plc has 18,000 ordinary shares in Cool Company Plc and also has two of the five places on the board of Cool Company Plc.

Distinct Company Plc has 200,000 ordinary shares. IvoryTower Company Plc has 90,000 of the ordinary share capital of Distinct Company Plc, with directors of IvoryTower Company Plc having four of the six places on the board of Distinct Company Plc.

Required: Explain whether the investments owned by IvoryTower Company Plc in:

(i). Bright Company Plc (ii). Cool Company Plc (iii). Distinct Company Plc should be equity accounted in the consolidated financial statements of IvoryTower Company Plc? Give reasons for your answer. (6 marks)

(c). From the information below prepare the Statement of Financial Position of June Company Plc and its investee companies, Bright Co. Plc and Sunny Company Plc, at 31st December 2014.

	June Company Plc	Bright Co. Plc	Sunny Company Plc
	N'000	N'000	N'000
Non-current assets			
Freehold Property	5,900	2,500	1,000
Plant and machinery	1,590	750	570
Investment in associate	1,000	----	----
	8,490	3,250	1,570
Current assets			
Inventory	1,150	600	530
Trade receivables	660	580	740
Cash	100	240	40
	1,910	1,420	1,310
Total Assets	10,400	4,670	2,880
Equity			

Share capital -			
Ordinary shares N1 each	4,000	2,000	1,500
Retained earnings	2,920	1,770	780
	6,920	3,770	2,280
Non-current liabilities			
12% loan stock	1,000	200	-----
Current liabilities			
Bank overdraft	1,360	700	600
Trade Payables	1,120	--- -	----
	2,480	700	600
Equity and Liabilities	10,400	4,670	2,880

Additional Information:

i. June Company Plc acquired 2,000,000 ordinary shares in Bright Co. Plc on 1sr January 2009 for N2,740,000 when the retained earnings of Bright Co. Plc were N400,000.

ii. At the date of acquisition of Bright Co. Plc, the fair value of its freehold property was considered to be N800,000 greater than its value in Bright Co. Plc's statement of financial position. Bright Co. Plc had acquired the property in January 2009 and the buildings (including 50% of the total value) which is depreciated on cost over 40 years.

iii. June Company Plc acquired 450,000 ordinary shares in Sunny Company Plc on 1st January 2013 for N1,000,000 when the retained earnings were N300,000.

(7 marks)

1 A. Multiple Choice/ Short Answers Questions

1. D
2. B
3. B
4. D
5. E
6. B
7. A
8. C
9. EPS and DPS
10. 20% and 50%
11. -Representation on the board of directors of the investee

    -Participation in the policy-making process
    -Material transactions between the investor and investee
    -Interchange of management personnel
    -Provision of essential technical information
    (any 2 out of the 5 points stated above is correct)
12. Economic reality (the substance)
13. Associate
14. Cash bases

Solution to Question 1

JEGAPOLL PLC

To:	The Board of Director
From:	The Financial Analyst
Date:	14th January 2011
Subject:	Evaluation of relative performance and financial position of two companies for possible acquisition.

Introduction

This report has been prepared following the board's decision to review performance and financial position of the two companies to assist them in their acquisition decisions.

An examination of accounting figures is normally insufficient to allow for any meaningful conclusion to be reached, and ratio analysis enables the available data to be placed on a more comparable basis. The information used to produce this report was extracted from the accounts of the companies for the year ended 31 December 2010 and from relevant ratios. The computation of relevant ratios is illustrated the attached appendix to the report.

Performance

The primarily ratio, the return and capital employed, is perhaps the most important profitability ratio. That of PVC (20.95%) is considerably higher than that of TVC (14.8%). An examination of secondary ratios reveals that PVC is more efficient in asset utilization but riot In terms of expenses control.

The capital base of a company consists of Equity and loan capital. A highly geared company must earn sufficient profit to cover interest before any distribution to equity shareholders and the higher the earring, the more difficult it may be to raise further loans. In this regard, PVC is the more highly geared, having u gearing of 70.5% as compared to 35.3% of TVC. This position would make it quite difficult for PVC to raise further long tern; loans.

Financial Position

The ability to settle maturing obligations as they fall clue is more apparent in PVC as its working capital ratios are better than that of TVC, although the current ratio of 1:31 may still be regarded as below the acceptable norm of 2:1. The working capital cycle of TVC (35 days) is better than that of PVC (62 days), although at the expense of suppliers, which may be dangerous.

Limitation of Ratios:

Care should be taken in drawing conclusions from ratios. The reasons for this are;

i. Ratios are calculated from sunk data which may not be relevant for future decision makings.
ii. Ratios can be easily manipulated through creative accounting and window dressing.
iii. Ratios can be misleading for inter-firm comparisons, because of vagaries in accounting policies
iv. Certain transactions are naturally excluded from the financial statements which form the basis of computing ratios. In view of this, ratios calculated from such statements may not show the true performance and financial position of a company.

Conclusion:

Considering the limitation outlined above, it is difficult to reach at a sound conclusion as to the performance and financial position of the two companies. However, PVC appears to be performing better than TVC, utilizing its assets more efficiently and paying reasonable returns to equity shareholders. In my opinion, PVC will be a profitable subsidiary to be acquired.

Yours faithfully,

Kalu Udo
Financial Analyst

Appendix

1. Financial Ratios:

	TVC	**PVC**
ROCE	14.8%	20.95%
Pre-tax return on Equity	19.1%	50%
Net asset turnover	1.2times	2.3times
Gross profit margin	12.5%	12.2%
Operating Profit Margin	10.5%	9.7%
Current ratio	1:2:1	1:3:1
Stock holding period	70 Days	73 Days
Debtors collection period	73 Days	66 Days
Creditors payment period	108 Days	77 Days
Gearing	35.3%	3 Times
Interest cover	6 Times	3 Times
Dividend cover	3.6 times	1.4 times

Suggested Solution 2

Uses or purposes of statement of cash flows

(i) To assess the operating capability and capital maintenance status of an enterprise.

(ii) To assess the direction and focus of management in the area of investment.

(iii) To establish the various sources of capital available to an folk enterprise and their associated costs.

(iv) To assess the liquidity position of an enterprise.

(v) To assess the long term solvency or stability or going concern status of an enterprise

(vi) To evaluate the impact of current transactions on the performance and financial position of an enterprise.

(vii) To compare the cash management ability of an enterprise over time or against another enterprise in the same industry.

(viii) To measure the quality of operating profit by reconciling the profit with cash flow.

(ix) Used as a tool for predicting the future cash need of an enterprise and the amount of external financing.

(x) Used to determine the social responsibilities of an enterprise.

Limitations or Reservations or Problems of statement of cash flows

i) It is prepared from historical information and so may not have the intended predictive value.

ii) It is subject to manipulations through window dressing, creative accounting, teaming and lading, fleeting etc.

iii) It cannot be used in isolation in liquidity assessment

iv) It is prepared based on different accounting policies and so may be misleading in comparing the cash management ability of two companies. For instance, extra-ordinary items are normally included among operating activities while interest payments may be regarded as either operating or financing activities. Standard headings of cash flows or classification of cash flows.

2b) The three classes are :

- Operating activities
- Investing activities
- Financing activities

Operating activities: These are the principal revenue generating activities s of an enterprise.

Investing activities: These are activities involving the acquisition and disposal of fixed assets, investment properties, investments and other productive assets held for or used in the production of goods and services.

Financing activities: These are activities involving changes in the capital structure of an enterprise as well as payment of returns to the providers of capital in form of dividends and interests.

2c) **(i) Operating activities:**

- Cash received from customers

- Cash paid to suppliers
- Cash paid for other operating expenses
- Tax paid

(ii) Investing activities:

- Cash paid to acquire fixed assets and investments
- Sales proceeds from disposals
- Investment income such as dividend received or interest received.

(iii) Financing activities:

- Cash proceeds from issue of shares and Debts
- Repayment of Debt Capitals
- Finance lease obligations
- Dividend paid
- Interest paid

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TITLE OF EXAMINATION: B.Sc DEGREE EXAMINATION
COLLEGE: **BUSINESS AND SOCIAL SCIENCES**
SCHOOL: BUSINESS
DEPARTMENT: ACCOUNTING
SESSION: 2014/2015 **SEMESTER:** OMEGA
COURSE CODE: ACC 423 **CREDIT UNIT:** 3
COURSE TITLE: MANAGEMENT ACCOUNTING II
INSTRUCTION: Answer ALL Questions **TIME:** 3 HOURS

SECTION A: **Multiple Choice Questions (20 marks)**

1 Which of the following is not a type of standard?
a. Ideal
b. Current
c. Attainable
d. Budgetary

2 Divisionalisation is most appropriate for which type of company?
a. Companies engaging in similar activities
b. Companies in manufacturing industries
c. Companies engaging in dissimilar activities
d. Government Business entities

3 What is the best measure of divisional performance?
a. Controllable profit b. Divisional profit
c. Turnover d. Cost savings

4 Where a division transfers goods at a transfer price which differs from what the purchasing division will recognise, the transfer pricing system is referred to as?
a. Negotiated transfer pricing system
b. Market based transfer pricing system
c. Dual price transfer pricing system
d. Two part pricing system

Use the following information to answer the following questions.
DIVINE Limited operates a divisional structure with two divisions A and B. Each division has its own divisional manager which is responsible for making investment decisions within the division. The weighted average cost of capital for A and B is 10%. From history, investment decisions were based on calculating return on investment (ROI) and presently, ROI is 15%.

At present, each division is considering the investment stated as follows

	Division A	Division B
Capital outlay	N70m	N36m
Expected sales	N38m	N24m
Net profit margin	25%	28%

5 What is the residual income for A and B?
   a. 9.5m, 6.7m
   b. 34.2m, 21.6m
   c. 15m, 17m
   d. 2.5m, 3.1m

6 What is the return on investment for A and B?
   a. 13.6%, 18.7%
   b. 2.5%, 3.1%
   c. 13%, 12%
   d. 3.1%, 2.5%

7 Which of the following is most required for successful divisionalisation?
   a. Objectivity of divisions
   b. Transparency of divisions
   c. Independence of divisions
   d. Location of divisions

8 Which of the following integrates accounting adjustments into divisional financial performance measures
   a. Residual income
   b. Economic value added
   c. Return on investment
   d. Economic margin

9. If the selling price of a bottle of COOL sanitizer is N1200 and budgeted sales are 1000 bottles for May, what is the target cost per unit? The capital required is N1m and return on investment expected is 25%.
   a. N950
   b. N1000
   c. N950,000
   d. N1,200,000

10. The students' affairs department of Covenant University is which type of responsibility centre?

   a. Investment centre
   b. Cost centre
   c. Revenue centre
   d. Profit centre

11. Which of the following control systems represents the predominant control system in most organizations?
   a. Strategic control Systems

b. Management control Systems
c. Management Accounting Control systems
d. Procedural Control Systems

12. Responsibility Accounting is sometimes called Activity-Based accounting because
    a. it is based on activity based costing
    b. it is based on activity based budgeting
    c. it is based on activity based management
    d. it provides information relating to the activities of the individual managers

13. Which of the following is NOT a remedy for budget padding?
    a. Setting realistic targets
    b. Using both financial and non-financial measures of performance evaluation
    c. Encouraging the use of Initiative with control
    d. Encouraging management by objective (MBO)
14. One of the following is the most important justification for why budgets are usually defined in term of money?
    a. non-monetary items cannot budgeted
    b. Expressing budgets in monetary form allows for precision and clarity to the plan
    c. Expressing budgets in monetary form allow for time value of money
    d. Expressing budgets in monetary form enables accounting entries to be executed
15. One of the following is NOT a major benefit of budgeting in a private sector organisation:
    a. Budgeting provide a platform for the ratification of roles and responsibilities in the organisation
    b. Budgeting help in the progressive fulfilment of the long-term plan for the organization.
    c. The budget facilitates the communication of ideas and plans to everyone affected by them
    d. Budget helps to establish a system of control by having a plan against which actual results can be progressively compared.
16. Which of the following is not true of cash budget
    a. Cash budget indicates timings of short-term borrowing
    b. Cash budget is based on accrual concept
    c. Cash budget is based on cash flow concept
    d. Repayment of principal amount is shown in cash budget
17. Cash Budget does not include
    a. Dividend Payable b. Postal Expenditure
    c. Issue of Capital d. Total Sales Figure

18. When preparing a sales budget, the quantity to be sold equals
    a. Production Quantity + Opening Stock – Closing Stock
    b. Production Quantity – Opening Stock + Closing Stock
    c. Production Quantity – Opening Stock – Closing Stock
    d. Production Quantity + Opening Stock + Closing Stock

19. Zero-based budgeting
    a. Does not adjust costs for the expected level of activity

b. Is used when no increases in budgets are allowed.
c. Requires that all programs be justified and prioritized
d. Assumes that departments are entitled to at least the current level of spending.

20. Cash budget ignores non-cash item such as........which does not cause a loss of cash
   a. Margin
   b. Income
   c. Depreciation
   d. Profit

SECTION B (50 Marks)

(1a) The success of a business is largely dependent on how well it is managed. Management plays a pivotal role in determining the way in which a business is run and the direction it is moving in. Discuss this with reference to budgeting in an organization. [5mks]

(b) Zero Based Budgeting is a technique that sets all budgets to nil at the beginning of the year or period. Explain how this can lead to effectiveness and efficiency in an organization. [5mks]

(c) Someone argued that budget may not achieve the objectives of an organization except it is subjected to analysis on monthly or quarterly basis. Discuss the benefits of analyzing Cash Budget. [5mks] (Total = 15marks)

2. The performance report of WONDERS-WITHOUT-END (WWE) LTD revealed an adverse variance in Net profit of N4000. The Management were not satisfied with the explanation for this unfavourable operational performance, especially as it was based on a static/fixed budget.

	Budgeted Amount	Actual	Variance
Sales & Production (Unit)	2000	1400	---
Sales	N40,000	N28,400	11,600(A)
Variable Cost:			
Direct materials	16000	10400	5600 (F)
Direct Labour	8000	6200	1800 (F)
Variable Overhead	4000	3000	1000 (F)
TOTAL VARIABLE COST	**28000**	**19600**	**8400 (F)**
Contribution	12000	8800	3200 (A)
Fixed Cost	10000	10800	800 (A)
Net Profit	2000	2000	4000 (A)

As the management accountant of WWE LTD you are required to:

i) Briefly comment on the above performance statement (2Marks)

ii) Prepare a more meaningful performance report using the information provided (10marks)

iii) Comment on the statement in (ii) above?(3 marks) (Total = 15marks)

(3) Divisionalisation is a vital aspect of performance measurement and its understanding is very crucial to the growth of a business intending to adopt this structure. Critically discuss.

15 marks

(b)State four benefits of an effective management reporting system and also explain six principles of good management reporting system. 5 marks

(Total = 20 marks)

ACC 423 MARKING GUIDE

2014/2015 SESSION

Part 1

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

SECTION B

N0 1
WHY DO WE PREPARE BUDGETS?

The reasons for preparing budgets are as follows:
1. Planning. The planning aspect of budgeting enable management to determine those policies needed to achieve the desired goals. Knowledge of the costs of the resource inputs together with the predicted incomes form the basis for profit forecasting. The budgeting process ensures that managers do plan for future operations, and that they consider how conditions in the next year might change and what steps they should take now to respond to these changed conditions.

The planning objectives of budgeting thus enable management to anticipate future problems and difficulties and so take correcting action at an early stage.

2. Coordination .*The* budget serves as a vehicle through which the actions of the different parts of an organization can be brought together and reconciled into a common plan. Budgeting compels managers to examine the relationship between their own operations and those of other departments and, in the process to identify and resolve conflicts.

3. **Communication.** If an organization is to function effectively, there must be definite lines of communication so that all the parts will be kept fully informed of the plans and the policies, and constraints, to which the organization is expected to conform. Through the budget, top management communicates its expectations to lower-level management so that all members of the organization may understand these expectations and can coordinate their activities to attain them. It is not just the budget itself, which facilitates communication; much vital information is communicated in the actual act of preparing it.

4. **Motivation.** The budget can be a useful device for influencing managerial behavior and motivating managers to perform in line with the organizational objectives.

A budget provides a standard, and if individuals have actively participated in preparing the budget, and it is used as tool to assist managers in managing their departments, it can act as a strong motivational device by providing a challenge. Alternatively, if the budget is dictated from above, and imposes a threat rather than a challenge, it may be resisted and do more harm than good.

5. **Control** A budget assists managers in managing and controlling the activities for which they are responsible. By comparing the actual results with the budgeted amounts for different categories of expenses managers can ascertain which costs do not conform to the original plan and thus require their attention.

6. **Performance evaluation** A manager's performance is often evaluated by measuring his success in meeting the budgets. In some companies bonuses are awarded which are based on an employee's ability to achieve the targets specified in the periodic budgets, or promotion may be partly dependent upon a manager's budget record.

b] ADVANTAGES OF ZERO-BASED BUDGETING

1. The budget process focuses on a comprehensive analysis of objectives and needs.
2. Planning and budgeting are combined into a single process.
3. Managers must evaluate the cost effectiveness of their operations in detail.
4. Cost awareness and management participation in planning and budgeting is expanded at all levels of the organization.
5. Drives Managers to find cost effective ways to improve operations
6. Efficient allocation of resources, as it is based on needs and benefits.
7. Detects inflated budgets.
8. Increases staff motivation by providing greater initiative and responsibility in decision-making.
9. Increases communication and coordination within the organization.
10. Identifies and eliminates wasteful and obsolete operations.
11. Identifies opportunities for outsourcing.
12. Forces cost centers to identify their mission and their relationship to overall goals.

c] PURPOSE OF ANALYZING THE CASH BUDGET

1. Observations can assist with future planning.
2. Assist in exercising control over business operations.
3. Assist management with decision making.
4. Allow for redistribution of resources where necessary.
5. Assist with setting of targets for the business.

6. Help to determine effective utilization of cash resources.
7. Help to maintain control over expenditure.
8. Determine availability or shortage of cash.

No 3(a)

For every organisation, there are two forms of organisational structure which are centralised and decentralised structures of organisation. The main difference between the two forms lies in the delegation of power to make key decisions. If power to make key decisions is given to top management, then the structure is centralised, but if power is given to the lower level management, it is decentralised. This leads to the concept of divisionalisation and it is found in a decentralised structure. (2 marks)

Divisionalisation is the practice of dividing a single business into autonomous business areas where area managers are given a degree of autonomy over decision making. This implies that managers of each division are allowed to run their part of the business almost as though it were their own company and are therefore required to take responsibility of their own costs, revenue and profit. (1 mark)

Reasons for divisionalisation

1. Division managers are more abreast with the happenings of their markets so they are in a better decision to make key decisions.
2. Where there is a divisional structure in place, speed is achieved in decision making.
3. The power to make decisions on behalf of senior management serves as a motivating tool for managers.
4. It helps lower and middle level managers to have a sense of responsibility and grow in it.
5. Divisionalisation helps to facilitate easy communications process within an organisation. (Any two(2) = 2 marks)

Challenges

1. It may be fairly difficult in completely delegating the role of decision making to divisional managers essentially because it might lead to loss of control.
2. Where this structure is not well monitored, it may lead to sub-optimization. That is, a situation where divisional managers make decisions that profits their divisions at the expense of the whole organisation.
3. It might lead to increased cost as well as duplication of functions. For example, having an accounting department in all the divisions when one could have been sufficient for the whole organization. 2 marks (Any two (2)).

Measures of divisional performance

1. Profit: This is the net income achieved by a division for a period. Divisional performance should be measured by factors that can be controlled by the divisional manager.

Total sales	xx	
Variable cost	(xx)	Managers have control
Contribution margin	xx	May not be appropriate because of FC element
Controllable fixed cost	(x)	
Controllable profit	x	More appropriate
Head office charge	(x)	not controllable by the manager
Divisional profit	x	best measure of divisional performance

2 marks

2. Variance analysis

This is the process of analysing any difference reported between standard and actual results. It is used mainly to determine the variances from standards and probe into the reason for the variances. For each division, standard performance are set and afterwards compared with the actual performance. Standards could be in terms of costs or behaviour.

2 marks

3. Return on Investment

This is a performance measure that shows how much profit has been made with respect to a capital investment. It is calculated as

(Profit employed/capital employed) * 100

ROI can also be measured in other forms as follows:

Profit after depreciation as a percentage of net assets employed.

Profit after depreciation as a percentage of gross assets employed

Advantages

1. Calculating ROI is straightforward.

Disadvantages

1. It is difficult defining profit since there are different variants of profits such as EBIT, operational profit, e.t.c

2 marks

Residual income

This is a measure that measures performance based on profit after deducting a notional or imputed interest cost. The interest cost could be borrowing cost or weighted average cost of capital (WACC).

Advantages

1. There is no complexity in its calculation.
2. It is flexible because imputed interest cost can be varied with respect to risk in every investment.

Disadvantages

1. It does not help comparisons between divisions.
2. It does not show the relationship between income size and investment.

2 marks

NO 3b

FOUR BENEFITS OF AN EFFECTIVE MANAGEMENT REPORTING SYSTEM

1. **Increased communication** – creates communication channel for upward, downward and lateral exchange of information.

2. **Increased productivity –** Allows organisation to quickly respond to competition. Managers are able to make better decision with accurate and reliable information provided by the management reporting system.

3. **More accurate planning and forecasting** – accurate and timely information provide basis for more accurate forecasting and budgeting.

4. **Timely evaluation and control** – Timely information provided by the MRS would help appropriate assessment of activities and allow timely control decisions.

(1/2mark*4 = marks)

C. SIX PRINCIPLES OF GOOD MANAGEMENT REPORTING SYSTEM

1. Clarity – A report should send a clear definite message with straightforward language.
2. Usefulness – Every report must be based on a clear purpose defined by the users. The users' preference should prevail on questions of format, context, and detail.
3. Comprehensiveness – Should contain sufficient details compatible with the need of management.
4. Relevance – Report should contain data/information relevant to the decision at hand. Inclusion of irrelevant data may result in less than optimal decision.
5. Accuracy – Report should be prepared with care to ensure correctness.
6. Timeliness - Reports should be prepared in a timely manner to make it valuable in influencing current decision.

7. Cost Effective – The cost of report should not exceed the benefits to be derived from the reports.
8. Simplicity – Report should be simple, avoiding as far as possible, technical jargons and visual aids such as charts and diagrams.
9. Controllability – Reports should be addressed to appropriate managers and analysed into controllable and uncontrollable factors.
10. Flexibility – The system should allow adjustment to reports to suit the needs of the users.
11. Proper Form – Good report should be appealing in the way it is presented. It should have suggestive title, headings and subheadings.

(1/2mark*6points= 3marks)

COVENANT UNIVERSITY

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

TITLE OF EXAMINATION: B.Sc. EXAMINATION
COLLEGE: COLLEGE OF BUSINESS AND SOCIAL SCIENCES
SCHOOL: SCHOOL OF BUSINESS
DEPARTMENT: DEPARTMENT OF ACCOUNTING
SESSION: 2014/2015 **SEMESTER:** OMEGA
COURSE CODE: ACC 426 **CREDIT UNIT:** 3
COURSE TITLE: Multidisciplinary Case Studies and Professional Ethics
INSTRUCTION: ANSWER ANY 3 QUESTIONS **TIME:** 2 HOURS

1a) Unethical practices in organisations are becoming a matter of concern to relevant stakeholders. The cases of Enron in the USA and Cadbury in Nigeria are a few examples. Though a number of measures have been adopted to control the situation, not much has been achieved. What in your opinion are the reasons for the continued spread of unethical practices in organisations?

(10 marks)

1b) Drawing inspirations from Covenant University context identify and discuss how a culture of ethical behaviour can be maintained in organisations **(7.5 marks)**

(**TOTAL = 17.5 marks)**

2 ai) What are the ethical challenges being faced by banks in Nigeria. **(5marks)**

aii) How may the challenges be addressed through code of ethics? **(5 marks)**

2b) Based on the above statement, write short note on the followings construct:

i) Conflict of interest
ii) Whistle-blowing
iii) Ethical principle
iv) Ethical values. **(7.5 marks)**

(TOTAL= 17.5 marks)

3a) Ethics refers to a system of moral principles- a sense of right and wrong of actions and their motives and consequences. Define business ethics and identify eight stakeholder groups that a business can be responsible to and explain how. **(10 marks)**

3b) Corporate governance is a system by which companies are regulated, controlled and directed. Identify a company with ethical problems around the World and analyse the corporate governance issues relating to the company.

(10 marks)

(TOTAL= 20 marks)

4) Assume that Catty-Mousy Plc. has been one of the valuable customers of your bank for 15 years. The company's directors are planning to expand the business to other market areas and into new areas of business, so as to maximize the shareholders' wealth. The directors of the company have put up a proposal to increase the company's overdraft facility to ₦750 million (seven hundred and fifty million naira).

This proposal has been declined so many times with series of reasons ranging from

i. Volatile risks exposure of the bank

ii. Poor planning on the part of the company for the proposed expansion

iii. Inconsistency in the cash flow pattern of the company

The Branch Manager of your bank sent you the correspondence file of Catty-Mousy Plc. along with the company's current proposal since you are the Accounts Officer in charge of the company's account.

The summary of the contents of the correspondence file/the proposal are as follows:

(a) The present overdraft facility being enjoyed by the company was granted two years ago with a limit of three hundred and fifty million naira (₦350 million).

(b) The company's current account maintained with the bank has remained stagnant for the past two years.

(c) The bank's security on the company's overdraft facility was the guarantee from one of the major shareholders (Alhaji Barawo Mainu-Daya) who was recently declared bankrupt.

(d) The 10% debenture in the financial statements of the company was secured on the company assets with fixed and floating charges.

(e) The report made available in a current newspaper is that the company's major supplier of raw materials has been listed among the bank's debtor schedule submitted to the EFCC investigating team.

(f) The company's Auditors were recently disengaged by the directors because the auditors refused to assist the directors to window dress the current year annual accounts. The company's accounts were last audited in year 2009.

(g) The accounts submitted for 2010 were audited on part-time basis by a licensed auditor who has used another Audit firm's stamp and seal on the account submitted to the bank. This same auditor was visited by the wives of Mr Catty and Mousy during the last Christmas.

(h) The proposed expansion of the company is into marketing of telecommunication equipment which was not included in the object clause of the Memorandum and Articles of Association of the company.

Required: Identify and discuss the ethical issues in this case (Total: 15marks)

MARKING GUIDE

1A

a) Industry ethical climate
b) Lack of formal policy
c) Lifestyle of Superiors
d) Life style of colleagues
e) Lack of adequate incentives
f) Inappropriate appointment and promotion
g) Lack of whistle blowing
h) Lack of organizational structure
i) Pressure to achieve a target
j) Greed

(1 mark each for 10 points discussed = 10 marks)

1B

1) Rewarding integrity
2) Protection of whistle blower
3) Establishment of an ethical code of conduct
4) Good internal control system
5) Good corporate governance
6) Availability of good reward system
7) Good organizational structure
8) Availability of organizational policy
9) Appropriate promotion and appointment method
10) Adequate employee incentive and good job security

(1.5 marks for each point therefore, 5 points listed and discussed = 7.5 marks)

SUGGESTED ANSWERS TO QUESTION

1. There are many ethical challenges facing banks today. The under mention issues are associated with these ethical challenges;
   a. — Confidentiality.
   b. — conflict of interest.
   c. — Related Party Transactions.
   d. — Insider trading.
   e. — Discrimination.
   f. — whistle blowing.

1 mark for each point discussed

(5 marks).

(a) Much confidential information exists within a company. Much of the documentation and information should be considered to be highly confidential. Staff should take great care not to discuss or disclose any confidential information to external parties.e.g. shareholders.
When this situation occurs, the individual should consult the information disclosure policy of;
Fair disclosure: - increasingly, companies are expected to evaluate their disclosure in terms of fairness. A large number of corporate governance codes refer to the need for "fair disclosure" to under-pin corporate communications. Fair disclosure seeks to ensure an "even playing field" for all investors. It is the opposite of "selective disclosure", where price-sensitive information is provided to a limited number of market participants before it becomes public. Often tolerated in the past, selective disclosure is increasingly viewed by regulators as being inconsistent with the integrity of financial markets.

(b) Conflicts of interest:
A conflict of interest is a situation in which someone in a position of trust, such as a bank director, has competing professional interest, such competing interests can make it difficult to fulfill their duties impartially. A conflict of interest exists even if no unethical or improper act results from it. It can create an appearance of impropriety, which can undermine confidence in the person, profession, or company. Disclosure of conflicts of interest may be handled at two different levels: -
*The board &

*The public

Most countries take a two-pronged approach, with an obligation to inform the board first and then, if the conflict is material, the public. It is a good practice for companies to disclose the actions that board took to remedy the conflict of interest. A conflict of interest is taking part in related discussions, and decisions. At the very least, this requires the director in question to excuse himself /herself from the deliberation of the board meetings, the particular agenda item.

Ethical principles:-

Ethical principles are often formal and written statements that:

— Provide guidance and direction for behavior.
— Relate to issues such as fairness, equity and justice.
— Are universally applied within an organization.
— Set specified boundaries that should be respected.

Ethical values:-

— Shape the context in which ethical principles are implemented.
— Guide choices made by leaders and other members of the organization.
—From norms of behavior within which are incorporated into the organizational culture.

These ethical values are normally associated with how relationships are managed with the organization.

"We believe that in the long term the special contribution to the world by Africa will be in the field of human relationship. The great powers of the world may have done wonders in giving the world an industrial and military look, but the great gift still has to come from Africa – giving the world a more human face".

Steve Biko. 1970

Whistle blowing:

In august 2012, the central Bank of Nigeria issued an exposure draft of whistle blowing guidelines for all banks and other financial institution.

3ai) **Business Ethics** refers to a system of moral principles- a sense of right and wrong; goodness and badness of actions and their motives &consequences in relation to business activities. Business ethics also refers to the application of ethics to business.
To be more specific, business ethics is the study of good & bad, right & wrong, & just & unjust actions of a business **(2 marks)**

3aii) **Responsibilities to stakeholder groups:**

Shareholders – Generate profits and pay dividends

Customers – provide good and quality products at reasonable prices. Safety, honesty, decency and truthfulness

Employees – health and safety at work, security, fair pay etc.

Suppliers – pay on time, pay fair rates for the work done, provide element of security

Local Community – provide employment, safe working environment, minimise pollution and negative externalities. Also provide external benefits

Government – abide by the law, pay taxes and abide by regulations

Management – their aims versus those of the organisation as a whole

Environment – limit pollution, congestion, environmental degradation, development, etc.

(1 mark for each point discussed= 8 marks)

3b) **CORPORATE GOVERNANCE ISSUES IN FINANCIAL REPORTING - THE CADBURY NIGERIA CHALLENGE**

In October 2006, the board of Cadbury Nigeria PLC notified the world, which would include its stockholders and regulatory bodies of the discovery of "Overstatements" in her accounts, which according to it, has spanned for many years. It quickly appointed Price Water House Coopers, an independent accounting firm to investigate the "Overstatements" Price Water House Coopers have since submitted their report to the board of Cadbury PLC, and the sum total was to confirm the charge of fraudulent accounting, categorized as "Overstatements". Also the company in its release stated that the overstatements could be between #13billion and #15billion.

Relatedly, Mr Bunmi Oni, The Managing Director, and Mr Ayo Akadiri, the Finance Director, were sacked from the company. Following suit, the Council of the Nigeria Stock Exchange barred them from running any publicly quoted company for life.

(5 marks for any unethical issue identified and discussed in any company)

THE GOVERNANCE ISSUES

- **The Oversight Functions of the Board:**

From communications so far, the impression one readily gets is that it is only Messrs BUNMI ONI and AYO AKADIRI that were culpable for the "Overstatements". We would be making the point that the whole Board of CADBURY NIGERIA PLC should have serious explanation to make for this monumental fraud. To start with, MR BUNMI ONI and AYO AKADIRI were exercising delegated p Audit committee and External Auditors

- **The audit committee** was an innovation introduced by S. 359 of the C.A.M.A. to expose incidents of this nature. Can the Audit Committee of CADBURY be said to have exercised its oversight functions in a prudent manner?, given the magnitude of what was uncovered. The same question would apply for the reputable firm of Akintola Williams Deloitte. owers of the board of directors to which they are expected by law to be subjected to prudent oversight.
- **Whistle Blowing**

In the WORLDCOM scandal, it was someone that blew the whistle. What happened to the line officers and managers in CADBURY

Nigeria who generated the initial figures that were later inflated by the executive management?

What prevented them from blowing the whistle?

The relevance of a Whistle blowers Act, which would guide responsible whistle blowing is needed. Whistle blowing, is a core governance value in corporate governance.

Bank Governance

The banks have a role to play in the governance of the companies they lend to. A forensic scrutiny of the accounts of their debtors would assist the banks themselves as some of the statement of values made by companies upon which credits are granted may turn out to be false as in this instance. It would be interesting to know how the board of Cadbury Nigeria was able to finance its dividend payouts over the years when the company was not making as much as it claimed to be making.

(1.25 marks for each of the 4 issue discussed= 5 marks)

4) **ETHICAL ISSUES IN THE CASE**

(i) The auditors of the company were disengaged for a wrong reason i.e. "for not window dressing" the financial statements.

(ii) According to Companies and Allied Matters Act Cap 20 LFN 2004 and ICAN Code of Conduct, due process was not followed in the appointment of new auditors.

(iii) The possibility that the new auditor might not have obtained professional clearance from the former auditor before taking up appointment.

(iv) The new auditors used another audit firm's stamp and seal on the account submitted to the bank by the company. More so, the visit might influence the auditor's objectivity

(v) The proposed credit facility is sought to finance an activity outside the company's object clause.

(vi) It is unethical for the company's directors to pay interim dividend from overdraft facility or to even declare dividend when there is no means of payment. This will amount to sending wrong signals to the capital market.

Mark allocation- Identification and discussion of any 5 issues in the case study @ 3marks/ per issue fully discussed

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SCHOOL: SCHOOL OF BUSINESS
DEPARTMENT: ACCOUNTING
SESSION: 2014/2015 SEMESTER: OMEGA
COURSE CODE: ACC 429 CREDIT UNIT: 1
COURSE TITLE: ACCOUNTING LAB. IV
INSTRUCTION: WORK TO BE DONE IN TALLY ERP 9. TIME: I HOUR

The following balances are account balances as at February28, 2015 of a Phone dealer, FaithWorks (your Matric No)

Account Name	Balance (₦)
UBA Bank Account	3,066,000.00
FCMB Bank Account	3,000,000.00
Breakthrough Nig. Ltd (Customer)	240,000.00
GreenField Inv. Co. (Customer)	250,000.00
Glorious Nigeria Ltd (Supplier)	450,000.00
Praise Enterprises (Supplier)	350,000.00
UBA Bank Loan	600,000.00
Equity Capital	5,866,660.00
Purchases- Nokia Lumia 535	500,000.00
Purchases- Infinix Hot	500,000.00
Purchases-LG L Bello (D335)	300,000.00
Office Rent	40,000.00
Electricity Bill	4,860.00
Sales-Nokia Lumia 535	700,000.00
Sales-Infinix Hot	482,000.00
Sales-LG L Bello (D335)	600,000.00
Office Maintenance	3,800.00

The Product List is shown below:

Description	Opening Balance	Last Cost Price(₦)	Price(₦)
Nokia Lumia 535	22	17,000.00	27,000.00
Infinix Hot	20	10,000.00	17,000.00
LG L Bello (D335)	19	30,000.00	40,000.00

The Employee List is shown below

Employee Name	Basic Salary (₦)	House All. (₦)	Transp. All (₦)	Total Deduction(₦)
J. Benson	3,000.00	20% of Basic Salary	15% of Basic Salary	5% of Basic Salary
K. Harry	2,000.00	20% of Basic Salary	15% of Basic Salary	5% of Basic Salary

The establishment was involved in the following transactions

1/03/15: Purchased a Computer set at ₦105,000.00 using FCMB Bank Cheque which is to be depreciated over 4 years using the straight line method.

2/03/15: Purchased 50 units of Nokia Lumia 535 from Praise Enterprises 40 units of Infinix Hot and 30 units of LG L Bello (D335) from Glorious Nig. Ltd. He made 70% payment to each supplier using UBA Bank cheque.

02/03/15: Sold 40 units of Nokia Lumia 535, and 40 units of Infinix Hot to GreenField Inv. Co.who paid 90% of the amount into the business UBA account. Sold 30 units of LG L Bello (D335) Breakthrough Nig. Ltd who paid 95% of the amount into the business FCMB Bank account.

31/03/15: Withdrew ₦30,000.00 from FCMB as cash in hand. Posted depreciation for the month and paid salary for the month in cash.

01/04/15: Sold 10 units of LG L Bello (D335) to Breakthrough Nig. Ltd who made full payment in cash.

02/04/15: Deposited ₦390,000.00 cash into UBA Bank Account. Paid off UBA Bank Loan.

01/05/15: Sold 20 units of Nokia Lumia 535 to GreenField Inv. Co. who paid 80% of amount into FCMB bank account.

2/05/15: Paid 74%of amount owed to Praise Enterprises using FCMB Bank Cheque.

31/03/15: Posted depreciation for the months April and May. Paid salary for the monthsApril and May in cash.

Required: Create a new company in Tally ERP 9. Enter the transactions above.
Print the trial balance as at 31st of May 2015 (40 Marks)
Prepare the Profit & Loss account for up to May 2015 (30 Marks)