



**THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA**  
**FOUNDATION: PRINCIPLES OF TAXATION**

EXAM NO.....

TIME: 3 HOURS.

**SECTION A: PART I MULTIPLE CHOICE QUESTIONS (MCQ) (20 MARKS)**

**ATTEMPT ALL QUESTIONS.**

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

1. The term used to describe a situation where a tax authority agrees to forgo the payment of interests and penalties of a taxpayer in exchange for the prompt payment of actual tax liability within a given period of time is called.....
  - A. Tax farming
  - B. Tax amnesty
  - C. Tax yield
  - D. Tax savings
  - E. Tax sovereignty
  
2. Which of the following is NOT a factor affecting compliance and collection cost of tax in Nigeria?
  - A. The tax rates
  - B. Methods of tax payment
  - C. Distance to tax stations
  - D. Time of tax payment
  - E. Severity of penalty for tax offenders
  
3. Which of the following cannot be regarded as a member of the State Board of Internal Revenue in Nigeria?
  - A. Executive Chairman of State Internal Revenue Service
  - B. A director in the State Internal Revenue Service
  - C. A director from the State Ministry of Finance
  - D. A director from the State Ministry of Education
  - E. A legal Adviser to the Board of the State Internal Revenue Service
  
4. On which of the following will Ad-valorem stamp duty be charged?
  - A. Proxy form
  - B. Bank note
  - C. Limited liability company share capital
  - D. Certificate of occupancy
  - E. Protest of will

5. A taxpayer with no fixed address or place of residence in a given year of assessment is known as a/an.....
- A. Homeless taxpayer
  - B. Dependent taxpayer
  - C. Itinerant taxpayer
  - D. Foreign taxpayer
  - E. None of the above
6. An employer of labour is expected to remit tax deducted from the salaries and allowances of his staff to the relevant tax authority within how many days of deduction?
- A. 8
  - B. 9
  - C. 10
  - D. 12
  - E. 15
7. Which of the following is not an example of instruments assessed at flat or fixed rate of stamp duties?
- A. Proxy forms
  - B. Certificate of occupancy
  - C. Limited liability company share capital
  - D. Partnership agreement
  - E. Protest of will
8. John commenced business as a grocery seller on April 1, 2007. His accounting date is June 30 every year. The first year of assessment is.....
- A. 2005
  - B. 2006
  - C. 2007
  - D. 2008
  - E. 2009
9. Using the statement in Q8, the basis period for the third year of assessment is.....
- A. 01/04/2007 – 31/12/2007
  - B. 01/04/2007 – 31/12/2008
  - C. 01/01/2007 – 31/12/2007
  - D. 01/07/2007 – 30/06/2008
  - E. 01/07/2007 – 31/12/2007
10. The relevant tax authority for the executor of an Estate of a deceased person is:
- A. Federal Internal Revenue Service
  - B. State Internal Revenue Service
  - C. Local Government Revenue Committee
  - D. The Joint Tax Board
  - E. State Inland Revenue Service

11. All the following are objectives of taxation, EXCEPT:
- A. To raise money for States and Federal Inland Revenue Services
  - B. To raise money for the government
  - C. To raise money for projects only
  - D. To discourage consumption of harmful goods
  - E. To redistribute income and wealth of the citizens
12. An example of indirect tax on consumption expected to be borne by the final consumer of goods and services is known as.....
- A. Capital Gains Tax
  - B. Companies Income Tax
  - C. Petroleum Profit Tax
  - D. Commission Tax
  - E. Value Added Tax
13. The power to assess, collect and administer taxes on limited liability companies is vested in the.....
- A. Joint Tax Board
  - B. Education Tax Fund
  - C. Stamp Duties Office
  - D. State Internal Revenue Service
  - E. Federal Inland Revenue Service
14. One of the following is NOT on the list of approved taxes and levies to be collected by a State Internal Revenue Service
- A. Road Taxes
  - B. Capital Gains Tax (individual)
  - C. Withholding Taxes (corporate)
  - D. Pools betting and lotteries, gaming and casino taxes
  - E. Stamp Duties on instruments executed by individuals
15. A person who is in full time employment with Armed Forces is deemed to be resident for tax purposes in.....
- A. Lagos
  - B. Abuja (FCT)
  - C. State Capital
  - D. Ogun State
  - E. Barracks

16. The Personal Income Tax (Amendment) Act 2011, states that Consolidated Relief Allowance shall be.....
- ₦200,000 or 1% of the gross Income, whichever is higher
  - ₦200,000 or 1% of the gross income, whichever is lower
  - ₦200,000 or 1% of the gross income whichever is higher plus 20% of gross income
  - ₦200,000 or 1% of the gross income whichever is higher plus 10% of the gross income
  - ₦200,000 or 1% of the gross income whichever is higher plus 30% of the gross income.
17. All the taxes stated below are examples of direct tax EXCEPT:
- Value added tax
  - Companies income tax
  - Capital gains tax
  - Petroleum profit tax
  - Personal income tax
18. Tenement rate is being collected by which of these tiers of Government?
- Federal Government
  - Local Government
  - FCT and Local Government
  - State Government
  - Federal and State Government
19. The relevant tax law that governs taxation of Trusts, Settlements and Estate is.....
- Pioneer Legislation
  - Executor Laws
  - Companies Income Tax Act
  - Personal Income Tax Act
  - Capital Gains Tax Act
20. Which one of the following is the method of collecting tax due on employment income including pensions?
- Pioneer tax
  - Pay As You Earn
  - Petroleum tax
  - Value added tax
  - Direct assessment

**SOLUTION TO SECTION A: PART 1 MULTIPLE CHOICE QUESTIONS (MCQ)**

- B
- D
- D
- C

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

### **EXAMINER'S REPORT**

The questions cover most of the topics in the syllabus.

All the candidates attempted the question and performance was above average.

Despite the good performance, candidates are expected to cover the entire syllabus for subsequent examinations.

### **SECTION A: PART II SHORT ANSWER QUESTIONS (SAQ) (10 MARKS)**

#### **ATTEMPT ALL QUESTIONS**

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

1. "A payment in return for which no direct and specific quid-pro-quo or benefit is required" is called.....
2. A voluntary payment, donation or gift is not a ..... not even when it is made for a public purpose.
3. List Two (2) attributes of a good tax system.

4. The enabling law for the Federal Inland Revenue Service Board (FIRSB) is called.....
5. State the relevant tax authority (RTA) that is responsible for registering the following for tax purposes:
  - (i) an incorporated company
  - (ii) an unincorporated company
- 6 All the members of the Federal Inland Revenue Service Board are part-time members except.....
- 7 Rural investment allowance granted to companies established in rural areas without electricity is entitled to..... investment tax relief.
- 8 Two (2) major purposes of the voluntary assets income declaration scheme are..... and.....
- 9 Who is responsible for the appointment of the Auditors to the FCT Internal Revenue Service?
- 10 Under the personal income taxation, the taxpayer's revocation order can be filed within how many months after the third tax year of assessments?

**SOLUTION TO SECTION A: PART II      SHORT ANSWER QUESTIONS (SAQ)**

1. Tax
2. Tax
3. Attributes of a good tax system are:
  - (i) Equitability
  - (ii) Economy
  - (iii) Certainty
  - (iv) Convenience
  - (v) Flexibility
  - (vi) Impartiality
  - (vii) Productivity
  - (viii) Simplicity
  - (ix) Political acceptability
  - (x) Difficult to evade
4. Federal Inland Revenue Service (Establishment) Act,2007
5. (i) Federal Inland Revenue Service

- (ii) State Internal Revenue Service
- 6. The Executive Chairman
- 7. 50%
- 8. (i) Expand tax net
- (ii) Increase revenue collection
- 9. FCT Internal Revenue Board
- 10. 12 Months

**EXAMINER’S REPORT**

The questions relate to the introduction to taxation and tax administration. Majority of the candidates attempted the questions and performance was above average. Candidates are advised to read the Institute’s study text before sitting for subsequent examinations.

**SECTION B:**

**THEORY PART (ANSWER QUESTION 1 AND ANY OTHER 3 QUESTIONS)**

- 1. Mr Sunday Akinsanyabi worked as a Factory Manager in Kaduna State for seven years. He retired from this pensionable employment in 2014 and decided to relocate to a neighbouring state in January 2015, there he lived till March 2015.

He started a personal trading business in Kebbi State and went through the pains of travelling from Kebbi to Kano State weekly to supply goods to his customers.

He got another employment as Head of Operations of Sadiku International Company in 2017 and was registered under the PAYE (Pay As You Earn) scheme with remittance made accordingly.

In 2018, Mr Sunday Akinsanyabi received Notice of Assessment from Kaduna, Kano, Kebbi and Sokoto tax authorities, each demanding taxes from relevant sources of income.

**Required:**

- (a) Mr Sunday Akinsanyabi has approached you as a tax expert to briefly highlight the theory of the term “Principal Place of Residence” as it relates to sources of income. (12 Marks)
  - (b) Itemise his right as a taxpayer. (10 Marks)
  - (c) In case Mr Sunday Akinsanyabi’s tax issue escalate to the Tax Appeal Tribunal, you are to let him know how many of the tribunals are available in Nigeria and the number of members in each. (3 Marks)
- (Total 25 Marks)

## SOLUTION TO QUESTION 1

### (a) Meaning of Principal Place of Residence

- (i) For an individual with Pension as the only source of income, the principal place of residence is that place or those places in which he usually resides.
- (ii) For an individual who has another source of earned income apart from pension, his place of residence is that place or those places which on a relevant day is nearest to his usual place of work.
- (iii) An individual who has one source or more sources of unearned income, his principal place of residence is that place or those places in which he usually resides.
- (iv) For an individual who works in the branch office or operational site of a company or other body corporate, his principal place of residence is the place at which the branch office or operational site is situated provided the operational site shall include oil terminals, oil platforms, flow stations, factories, quarries, construction sites with a minimum of 50 workers, etc.

### (b) Right of a taxpayer

- (i) Right to a fair and just system
- (ii) Right to confidentiality
- (iii) Right to know when and how much to pay as tax (not to pay more than tax due)
- (iv) Right to be informed of the tax laws warranting payment
- (v) Right to privacy
- (vi) Right to objection
- (vii) Right to appeal
- (viii) Right to be represented
- (ix) Right to the deadlines for tax payment
- (x) Right to high quality service

(c) There are 8 tax Appeal Tribunals in Nigeria. (One in each geo-political zone with Lagos and FCT having one each).

Each tribunal has 5 members.

## EXAMINER'S REPORT

The question tests candidates' knowledge on the tax rule relating to principal place of residence of a pensioner in the determination of the relevant tax authority. Candidates are also required to state the rights of a taxpayer, the composition and number of Tax Appeal Tribunals available in Nigeria.

All the candidates attempted the question and performance was poor. Most of the candidates were not able to explain the tax rule relating to "principal place of residence," the rights of a taxpayer, the composition and number of Tax Appeal Tribunals.

Candidates should be conversant with the principles relating to taxation of employment income and tax appeal procedures in their preparations for subsequent examinations.

2. (a) The Federal Executive Council, the highest executive decision making organ in the country, on February 1, 2017, approved a new National Tax Policy for the country.

### Required:

State Five (5) of the key challenges presently facing the Nigeria tax system which the policy is aimed to address. (7 Marks)

(b) State any Four (4) functions of a Commissioner of Stamp Duties. (6 Marks)

(c) When can an assessment be said to be final and conclusive. (2 Marks)

(Total 15 Marks)



## **SOLUTION TO QUESTION 2**

- (a) Key challenges presently facing the Nigeria tax system which the National Tax Policy is aimed to address are:
- (i) Low tax - to - Gross Domestic Product ratio;
  - (ii) Fragmented database of taxpayer and weak structure for exchange of information;
  - (iii) Multiplicity of taxes and revenue agencies;
  - (iv) Poor accountability for tax revenue;
  - (v) Use of aggressive and unorthodox methods for tax collection;
  - (vi) Failure by tax authorities to honour refund obligation to taxpayers;
  - (vii) The non-regular review of tax laws which has led to obsolete laws that do not reflect current economic realities; and
  - (viii) Poor clarity on the roles and responsibilities of stakeholders in the tax system.
- (b) **Functions of a Commissioner of Stamp Duties**
- (i) Ensure proper functioning of stamp duties office.
  - (ii) Assess documents on appropriate duties.
  - (iii) Ensure proper stamping and embossment of documents with dies, affixing stamps, etc.
  - (iv) Take custody of dies and stamps.
  - (v) Adjudicate on the amount of duty payable on documents when the need arises.
- (c) **An assessment becomes final and conclusive:**
- (i) When no valid objection has been lodged within the time limit stated in the notice of assessment;
  - (ii) Where a taxpayer and the board have agreed as to the amount of tax liability of the taxpayer; and
  - (iii) Where no valid appeal (has been lodged against decision of the Tax Appeal Tribunal or Judge.

## **EXAMINER'S REPORT**

The question tests candidates' knowledge on the objectives of National Tax Policy, 2017, administration and methods of stamping, and when an assessment is said to be final and conclusive. Few of the candidates attempted the question and performance was above average. The commonest pitfall was the inability of the candidates to state the key objectives of the National Tax Policy, 2017. Candidates are advised to read the Institute's study text when preparing for future examinations.

3. The Constitution of Nigeria has specific provisions for tax. What are the provisions of the Constitution in respect of the following:
- (a) Declaration of income? (3 Marks)
  - (b) Distribution of net proceeds of taxes? (3 Marks)
  - (c) Expenditure incurred by the Federal Government while collecting taxes? (3 Marks)
  - (d) Pension and tax? (3 Marks)
  - (e) Collection and administration of personal income tax? (3 Marks)
- (Total 15 Marks)

### **SOLUTION TO QUESTION 3**

**(a) Declaration of Income**

Section 24, item (f) of the Constitution provides that “it shall be the duty of every citizen to declare his income honestly to appropriate and lawful agencies and pay his tax promptly”. Thus the Constitution makes it a civic duty on the part of every Nigerian citizen to declare his income and to pay tax on it as appropriate.

**(b) Distribution of net proceeds of taxes**

Section 163 of the Constitution mandates the Federal Government to distribute the net proceeds of such tax or duty among the States on the basis of derivation.

**(c) Expenditure incurred by the Federal Government while collecting taxes**

Section 165 of the Constitution provides that States shall pay the Federal Government the expenditure incurred by it in respect of collecting taxes on behalf of the States.

**(d) Pension and tax**

Sections 173(4) and 210(4), stipulate that Pension paid in respect of past services rendered to the Federal and State governments shall not be taxed.

**(e) Collection and administration of personal income tax**

Section 4(2) and item 59 of part 1, Schedule II to the 1999 Constitution, stipulates that States can collect and administer personal income tax subject to such condition as the National Assembly may prescribe (item 7, part II, Schedule II to the 1999 Constitution).

### **EXAMINER’S REPORT**

The question tests the candidates’ knowledge of the provisions of the Constitution as they relate to the need for taxpayers to declare their income, collection and distribution of taxes collected by the Federal Government, and the treatment of pension for tax purposes.

Few of the candidates attempted the question and performance was poor. It was obvious that some of the candidates did not understand the relevant provisions of the Constitution, hence wrong solutions were proffered.

Candidates are advised to familiarise themselves with the relevant provisions of the Constitution before sitting for subsequent examinations.

4. (a) Define appeals in the context of the Nigerian tax system. (3 Marks)
- (b) State any Three (3) information that must be stated on the notice of an appeal. (3 Marks)
- (c) State any Three (3) jurisdictions of the Tax Appeal Tribunal (TAT). (3 Marks)
- (d) Discuss the roles of the Secretary to the Tax Appeal Tribunal. (3 Marks)
- (e) Under what conditions can a Tax Appeal Tribunal member lose his/her seat? (3 Marks)
- (Total 15 Marks)

#### **SOLUTION TO QUESTION 4**

- (a) Appeals in the context of the Nigerian Tax System relate to established procedures usually followed to resolve disagreements between taxpayers and revenue authorities. The disagreements may relate to items reported in the tax returns submitted to the revenue office.

If any taxpayer disputes a tax assessment raised on it by the tax authority, it may give a notice of objection to the tax authority seeking a review or revision of the assessment.

- (b) Contents of the Notice of an appeal are:
- (i) The name and address of the appellant.
  - (ii) The official number and the date of the relevant notice of assessment.
  - (iii) The amount of the assessable, total or chargeable income and of the tax charged /payable as shown by that notice and the year of assessment concerned.
  - (iv) The precise grounds of appeal against the assessment.
  - (v) The address for service of any notice or other documents to be given to the appellant.
  - (vi) The date which the appellant was served with notice of refusal by the relevant tax authority to amend the assessment as desired.
- (c) The Tribunal shall have power to adjudicate on disputes and controversies arising from the following tax laws (hereinafter referred to as “The Tax Laws”
- (i) Companies Income Tax Act CAP. C21 LFN 2004 (as amended)
  - (ii) Personal Income Tax Act CAP. P8 LFN 2004 (as amended)
  - (iii) Petroleum Profits Tax Act CAP, P13 LFN 2004 (as amended)
  - (iv) Value Added Tax Act CAP, VI LFN 2004 (as amended)
  - (v) Capital Gains Tax Act CAP, CI LFN 2004 (as amended)
  - (vi) Any other law contained in or specified in the first schedule to the Act or other laws made or to be made from time to time by the National Assembly.
- (d) Roles of Secretary to the Tax Appeal Tribunal  
The Minister of Finance shall appoint for each place or Zone, where the tribunal is to exercise jurisdiction a Secretary who shall:
- (i) Subject to the general control of the Tax Appeal Commissioners, be responsible for keeping records of the proceedings of the Tribunal;
  - (ii) Be the head of the secretariat and responsible for the day –to- day administration; and
  - (iii) Be responsible for the direction and control of all other employees of the Tribunal.

The official address of the Secretary appointed for each zone shall be published in the Federal Gazette.

- (e) Conditions when a Tax Appeal Tribunal member can lose his/her seat are;
- (i) Resignation through a letter addressed to the Chairman of the Tribunal;
  - (ii) Where a tribunal member absents himself/herself from two or more consecutive meetings of the Tribunal without any reasonable explanation for doing so;
  - (iii) Where a tribunal member was found to have had meeting or meetings with an appellant whose case is before the tribunal; and
  - (iv) A Tax Appeal Commissioner may be removed from office by the Minister on the grounds of gross misconduct or incapacity after due inquiry has been made and the Tax Appeal Commissioner concerned has been informed of the reasons for his removal and given an opportunity of being heard in respect of the reasons.

## EXAMINER'S REPORT

The question tests candidates' knowledge on the procedure to be followed by taxpayers for objections and appeals to tax assessments.

Majority of the candidates attempted the question and performance was above average. The commonest pitfall of the candidates was their inability to state the jurisdictions of Tax Appeal Tribunals.

Candidates are advised to read the jurisdictions of tax appeal tribunals and the institute's study text.

5. (a) Differentiate between employment and contract of employment. (10 Marks)
- (b) Which profits/income are exempted from tax? Enumerate Five (5) of such profits/income. (5 Marks)
- (Total 15 Marks)

## SOLUTION TO QUESTION 5

### (a) Difference between employment and contract of employment

The Labour Act 1994, defines a contract of employment (also referred to as contract of employment) as "any agreement whether written or verbal, expressed or implied, whereby one person agrees to serve the employer as a worker".

A contract for employment is an agreement whereby a person is engaged as an independent contractor, such as a self-employed person or vendor engaged for a fee to carry out an assignment or a project for the company. In a contract for employment, there is no employer–employee relationship in the contract and the self-employed person is not covered by the Labour Act.

An individual under a contract of employment is commonly referred to as an employee, while an individual under a contract for employment is referred to as an independent contractor or self-employed person. The following distinctions can be drawn between a contract of employment and a contract for employment:

- (a) An individual under a contract of employment earns remuneration (that is, salary), while an individual under a contract for employment earns profit;
- (b) An individual under a contract of employment is assessed to tax on actual year basis, while an individual under a contract for employment is assessed to tax on preceding year basis;
- (c) A self–employed person is required to register for value added tax, while an employee is not required to do so; and
- (d) An employee has the right not to be unlawfully dismissed and to receive redundancy payment and other employment rights, while a self-employed person does not have such rights.

### (b) Profits /Income exempted from tax

These include:

- (i) Dividend distributed by a unit trust.
- (ii) Dividends derived by a company from another company incorporated in Nigeria provided the recipient of the dividend:
  - Is the beneficial owner of not less than ten percent of the equity capital of the company paying the dividend; and
  - Wholly paid for its equity participation in the company paying the dividend, in foreign currency or by asset brought into or imported into Nigeria, between January 1, 1987 and December 31, 1992;

- (iii) Dividend, interest, rent, royalty derived by a company from a country outside Nigeria brought into Nigeria through government approved channels.  
Government approved channel means Central Bank of Nigeria (CBN) or any bank or other body corporate appointed by the Minister as authorised dealer under the Second-Tier Foreign Exchange Market Act;
- (iv) Interests on deposit account of a foreign non- resident company provided the deposits are in respect of foreign currencies transferred into the account on or after January 1, 1990 through government approved channel;
- (v) Dividend received from small companies engaged in manufacturing during the first five (5) years of their operations;
- (vi) Dividend received from investments in wholly export oriented business;
- (vii) Dividend of a Nigerian company in respect of goods exported from Nigeria provided, that proceeds from such export are repatriated to Nigeria and used exclusively for the purchase of raw materials, plant, equipment and spare parts;
- (viii) Dividend received by a Nigerian company from another Nigeria company after deduction of withholding tax shall be regarded as Franked Investment Income in the hands of the recipient company and shall not be subject to further companies income tax as part of the profits of the recipient company. The concept of Franked Investment Income is that the dividend has been paid out of a profit that has been subjected to corporate tax.
- (ix) Interest earned on bonds issued by the federal, state or local government and their agencies with effect from June 14, 2011;
- (x) Interest earned on bond issued by corporate and supra – nationals;
- (xi) Interest earned by holders of bonds and short term securities listed in (ix) and (x) above;
- (xii) The profits of any company being a statutory or registered friendly society, in so far as such profits are not derived from a trade or business carried on by such society;
- (xiii) The profit of any company being a co-operative society registered under an enactment or law relating to co-operative societies, not being profits from any trade or business carried on by that company other than co-operative activities solely carried out with its members or from any share or other interest possessed by that company in a trade or business in Nigeria carried on by some other persons or authority;
- (xiv) The profits of any company formed for the purpose of promoting sporting activities where such profits are wholly expendable for such purpose, subject to such conditions;
- (xv) The profits of any company being a trade union registered under the Trade Unions Act in so far as such profits are not derived from a trade or business carried on by such trade union; and

- (xvi) The profits of any company engaged in ecclesiastical, charitable or educational activities of a public character as far such profits are not derived from a trade or business carried on by such company.

### **EXAMINER'S REPORT**

The question tests candidates' knowledge on the distinction between employment and contract of employment. In addition, candidates are expected to list profits/income exempted from tax.

Majority of the candidates attempted the question and performance was above average. Some of the candidates were not able to differentiate between employment and contract for employment.

Candidates are advised to prepare adequately for subsequent examinations by reading the institute's study text and other relevant texts.



**THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA**  
**FOUNDATION: FINANCIAL ACCOUNTING**

EXAM NO.....

TIME: 3 HOURS.

**SECTION A: PART I    MULTIPLE CHOICE QUESTIONS (MCQ)    (20 MARKS)**

**ATTEMPT ALL QUESTIONS.**

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

1.     The ₦32million disclosed in the motor vehicle account below should be classified in the statement of cash flows as:

<b>Motor Vehicle Account</b>			
	₦'000		₦'000
Bal. b/d	40,000	Depreciation charge	16,000
Depreciation on disposal	4,000	Disposal	10,000
Cash/bank	<u>32,000</u>	Bal. c/d	<u>50,000</u>
	<u>76,000</u>		<u>76,000</u>

- A.    Financing activity cash inflow
- B.    Operating activity cash inflow
- C.    Investing activity cash inflow
- D.    Financing activity cash outflow
- E.    Investing activity cash out flow

2.     In a limited liability company, which of the following is shown in the statement of changes in equity?

- (i)    Loan note interest
- (ii)   Dividends paid
- (iii)   Transfer to reserves
- (iv)   Directors' remuneration

- A.    (i) and (ii)
- B.    (ii) and (iii)
- C.    (i) and (iv)
- D.    (ii) and (iv)
- E.    (i) and (iii)

3.     The need to create and value goodwill will not arise when.....

- A.    A new partner is admitted.
- B.    A partner retires.
- C.    There is change in the profit sharing ratio.

- D. A partner dies.  
E. There is change in the name of the partnership.
4. Capital expenditure is .....
- A. The extra capital paid in by the proprietor.  
B. The cost of running the business on a day to day basis.  
C. Money spent on buying non-current assets or adding value to them.  
D. Money spent on selling non-current assets.  
E. Money received on disposal of non-current asset.
5. The record or book where credit sales could be generated is.....
- A. Cash book  
B. Sales ledger  
C. Creditors control ledger  
D. Debtors control ledger  
E. Bank statement

Use the data below to answer questions 6 - 8

**Receipts and payments account for year ended December 31, 2018**

	₦		₦
Bal. b/f	320,000	Equipment	360,000
Subscriptions	2,000,000	Bar purchases	1,200,000
		Bar wages	160,000
Bar sales	1,440,000	Gen. expenses	312,000
		Furniture	1,080,000

Additional information provided:

- (i) The club had equipment worth ₦960,000 and owed electricity bill of ₦20,000 at the beginning of the year; and  
(ii) The bar inventory at the beginning of the year was valued at ₦400,000 and at the end of the year ₦520,000.

6. The bar operation surplus/deficit for the year was.....
- A. ₦360,000  
B. ₦1,440,000  
C. ₦200,000  
D. ₦80,000  
E. ₦80,000 loss
7. Calculate the cash balance at the end of the year.
- A. ₦660,000  
B. ₦640,000  
C. ₦648,000  
D. ₦728,000  
E. ₦900,000



8. Calculate the cost of bar sales for the year.
- A. ₦1,080,000
  - B. ₦2,120,000
  - C. ₦280,000
  - D. ₦1,240,000
  - E. ₦1,440,000
9. A business operation's mark-up ratio is  $33\frac{1}{3}\%$ , what is its margin ratio?
- A. 25%
  - B. 20%
  - C. 15%
  - D. 10%
  - E. 5%
10. The excess of share market price over the share nominal price is called.....
- A. Share discount
  - B. Share bonus
  - C. Share premium
  - D. Share surplus
  - E. Share loss
11. How many kinds of company exist?
- A. 5
  - B. 4
  - C. 3
  - D. 2
  - E. 1
12. The document used to issue shares or debentures notes is called.....
- A. Register book
  - B. Articles of association
  - C. Prospectus
  - D. Memorandum of association
  - E. CAC form CO1
13. The process of sharing available shares among the applicants is called.....
- A. Pro-rata basis
  - B. Calls
  - C. Allotment
  - D. Application
  - E. Forfeiture of share

14. When calls are made on shares and payments were not received this is described as.....
- Calls
  - Calls in advance
  - Calls in arrears
  - Second calls
  - Last call
15. Given a desired cash float of ₦20,000, if ₦14,600 is spent in the period, how much will be reimbursed at the end of the period?
- ₦20,000
  - ₦5,400
  - ₦2,540
  - ₦14,600
  - ₦4,540
16. If a trial balance totals do not agree, the difference must be entered in.....
- The profit or loss account
  - A nominal account
  - The capital account
  - A suspense account
  - A dummy account
17. Given opening debtors of ₦115,000, sales ₦480,000 and receipts from debtors ₦450,000, the closing debtors should be.....
- ₦85,000
  - ₦145,000
  - ₦835,000
  - ₦185,000
  - ₦190,000
18. In a sales ledger control account, the bad debts written off should be shown in the account.....
- As a debit
  - As a credit
  - Both as a credit and debit
  - As a balance carried down
  - As a balance carried forward
19. Which of the following should be charged into profit or loss statement?
- Rent prepaid
  - Wages
  - Carriage inwards
  - Salary
  - Return inwards

20. Given opening capital of ₦165,000, closing capital ₦113,500 and drawings were ₦33,000 then,
- A. Loss for the year was ₦18,500
  - B. Profit for the year was ₦18,500
  - C. Loss for the year was ₦84,500
  - D. Profit for the year was ₦84,500
  - E. Profit for the year was ₦33,000

**SOLUTION TO SECTION A: PART I MULTIPLE CHOICE QUESTIONS (MCQ)**

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

## EXAMINER'S REPORT

These are 20 marks compulsory questions which covers the entire syllabus. Most of the candidates attempted these questions and their performance was quite high as about 70% of them scored above 60% of total marks obtainable.

### SECTION A: PART II SHORT ANSWER QUESTIONS (SAQ) (10 MARKS)

#### ATTEMPT ALL QUESTIONS

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

1. The commercial document issued by a supplier to supply goods or services required by a buyer at specified price and within a period of time is.....

Use the following information to answer questions 2 and 3.

Thimoty Venture has a total revenue of ₦1,700,000, opening inventory of ₦144,000 and closing inventory of ₦384,000 in its accounting records. The venture's profit mark-up is  $33\frac{1}{3}\%$ .

2. What is the venture's purchases for the period.....?

3. What is the gross profit for the same period.....?

4. Financial statements that are not influenced by personal and management belief is said to be .....

5. In a limited liability company, the document that governs internal relationship between the company and the directors is called.....

6. A ledger with total of ₦70,000 on the credit side and ₦20,000 on the debit side has a ..... balance of .....

7. An accounting concept which serves a common denominator for measuring items of assets and liabilities is referred to as.....

8. On January 1, 2018 an entity paid office rent of ₦100,000 for the period to May 31, 2019. The amount to be recognised as prepayment in the statement of financial position as at December 31, 2018 is .....

9. The major source of income of associates and clubs is .....

10. The book where details, profile and history of entity's non-current assets is being recorded is called.....

### SOLUTION TO SECTION A: PART II SHORT ANSWER QUESTIONS (SAQ)

1. Invoice

2. ₦1,515,000

3. ₦425,000
4. Objective/True and Fair
5. Articles of Association
6. Credit balance of ₦50,000
7. Monetary measurement
8. ₦29,411.76
9. Subscription
10. Non-current assets register

### EXAMINER'S REPORT

The questions consisted of 10 marks compulsory questions that covers the whole syllabus. Most of the candidates attempted the questions, however, performance was just fair as about 60% scored 50% of total marks obtainable.

### SECTION B:

#### THEORY PART (ANSWER QUESTION 1 AND ANY OTHER 3 QUESTIONS)

1. Mallam Audu has run a small business for many years. He had never kept adequate records. However, the need to obtain a bank loan for the expansion of the business has necessitated the preparation of accounts for the year ended December 31, 2017. As a result, the following information has been obtained after much investigation:

- (i) Mallam Audu's business assets and liabilities are as follows;

	1/1/2017	31/12/2017
Inventory	860,000	1,680,000
Trade receivables	390,000	430,000
Creditors for purchases	740,000	890,000
Rent prepaid	30,000	42,000
Electricity accrued	21,000	16,000
Balance at bank	230,000	165,000
Cash in hand	36,000	33,000

- (ii) All takings have been banked after deducting the following payments:

Cash drawings – Audu has not kept a record of cash drawings, but drawings have been estimated to be ₦800,000.

Wages paid to casual workers was ₦120,000.

Purchases of goods for resale ₦180,000

**Note:** Takings have been the source of all amounts banked.

- (iii) Bank payments during the year ended December 31, 2017 are summarised as follows:

	₦
Purchases	10,150,000
Rent	504,000
Electricity	139,000
Delivery cost to customers	300,000
Casual labour	662,000

(iv) It has been established that a gross profit of  $33\frac{1}{3}\%$  on cost has been obtained on all goods sold.

(v) Despite his apparent lack of precise accounting records, Audu is able to confirm that he has taken out of the business during the year under review goods for his own use costing ₦60,000.

You are required to;

- (a) Prepare ledgers for;
- (i) Cash (3 Marks)
  - (ii) Bank (1 Marks)
  - (iii) Purchases/creditors control; and (3 Marks)
  - (iv) Sales/debtors control (1 Marks)
- (b) Prepare a profit or loss statement for the period ended December 31, 2017. (8 Marks)
- (c) Prepare statement of financial position as at December 31, 2017. (9 Marks)
- (Total 25 Marks)

### SOLUTION TO QUESTION 1

(a) (i)

#### Cash Account

	₦		₦
Bal. B/d	36,000	Labour	120,000
		Purchases	180,000
Sales received	12,760,000	Banked (Takings)	11,690,000
		Drawing (Diff)	773,000
		Bal. C/d	33,000
	12,796,000		12,796,000

(ii)

#### Bank Account

	₦		₦
Bal. B/d	230,000	Payments	11,755,000
Cash banked	11,690,000	Bal. C/d	165,000
	11,920,000		11,920,000

(iii)

#### Creditors Control Account

	₦		₦
Bank	10,150,000	Bal. B/d	740,000
Cash	180,000	Drawings (Goods)	60,000
Bal. C/d	890,000	Purchases (Diff)	10,420,000
	11,220,000		11,220,000

(iv)

#### Debtors Control Account

	₦		₦
Bal. B/d	390,000	Cash	12,760,000
Sales	12,800,000	Bal. C/d	430,000
	13,190,000		13,190,000

- (b) Opening capital = ₦860 + 390 + 30 + 230  
36 = ₦1,546 – (740 + 21) = ₦785  
Opening capital = Total assets - Liabilities

- (c) Mallam Audu

Profit or Loss Statement for the year ended December 31, 2017

	₦	₦
Sales (w)		12,800
Less: Cost of sales		
Opening inventory	860	
Purchases	10,420	
	11,280	
Closing inventory	1,680	
Cost of sales		9,600
Gross profit		3,200
Less Expenses:		
Casual labour (120 + 662)	782	
Rent (504 + 30 – 42)	492	
Delivery costs	300	
Electricity (139 + 16 – 21)	134	
		1,708
Net profit		1,492

Mallam Audu statement of financial position as at December 31 2018.

	₦'000	₦'000
Current assets:		
Inventory	1,680	
Trade receivables	430	
Prepayments	42	
Bank	165	
Cash	33	2,350
Current liabilities:		
Trade payables	890	
Expenses owing	16	(906)
		<u>1,444</u>
Financed by:		
Capital		785
Add: Profit		1,492
		2,277
Less: Drawings		833
		<u>1,444</u>

## EXAMINER'S REPORT

This is a compulsory question that tests candidates' understanding of incomplete records. The candidates were required to prepare ledgers for cash, Bank, Purchases/Creditors control, Sales/Debtors control. They were also expected to prepare a statement of profit or loss as well as statement of financial position for the period. Most of the candidates attempted the question while about 60% scored above 50% of the marks obtainable.

The major pitfall could be attributed to poor preparation for the examination.

Candidates are advised to prepare more adequately for future examinations.

2. (a) (i) Explain the term contra entry. (2 Marks)  
(ii) List Four (4) benefits of control accounts for proper accountability. (4 Marks)

(b) Bet Naija Venture maintains self balancing ledgers. From the details given below, you are required to prepare the control accounts for purchases and sales ledgers for the period ended December 31, 2018.

	₦
Purchases	153,270
Bad debts written-off	2,200
Bills payable accepted	21,700
Interest charged to customers	70
Purchases returns	890
Payment to creditors	125,380
Receipts from debtors	143,080
Bills receivable dishonoured	5,750
Discount allowed	5,280
Discount received	3,270
Sales return	3,010
Cash refunded to debtors	750
Cheque from debtors returned unpaid	250
Sales and purchases ledger contra	10,170
Bills receivable discounted	47,350
Sales	200,510
Bad debts recovered (included in cash from debtors)	80
Creditors ledger balance at December 31, 2018	50,860
Debtors ledger balance at December 31, 2018	68,180
Purchases ledger control balance 1/1/2018	57,500
Sales ledger control balance at 1/1/2018	74,710
Bills received drawn	50,200
Bills payable returned for non-payment	1,500

(9 Marks)

(Total 15 Marks)

## SOLUTION TO QUESTION 2

(a) (i) Contra entry is any accounting entries in which both its credit and debit entries are recorded in a single ledger account.

- (ii) Benefits of control accounts;  
- They can be used to locate errors.



- They serve as internal checks and therefore prevents fraud and errors.
- They serve as a sources of information about some risky ledgers such as debtors and creditors accounts.
- They also facilitate balancing of ledger or accounts particularly a firm with large volumes of accounts.
- Control account can also be used for reconciliation of itself and the respective ledger e.g. debtors control accounts against debtors ledger.
- They serve as a management account that can be used by business managers to take some tactical accounting and finance decisions.

**(b) Sales Ledger Control Account Bet Naija Ventures**

	₦		₦
Bal. B/d	74,710	Bad debts	2,200
Dishonoured bills	5,750	Bills receivable	50,200
Returned cheques	250	Receipts from debtors	143,080
Sales	200,510	Discount allowed	5,280
Bad debts recovered	80	Sales returns	3,010
Interest charge	70	Purchases ledger	10,170
Cash refund to debtors	<u>750</u>	Bal. C/d	<u>68,180</u>
	<u>282,120</u>		<u>282,120</u>
Bal. B/d	68,180		

**Purchases Ledger Control Account**

	₦		₦
Bills payable	21,700		
Purchases return	890	Bal. b/d	57,500
Payment to creditors	125,380	Purchases	153,270
Discount received	3,270	Bills payable returned	1,500
Sales ledger	10,170		
Bal. c/d	<u>50,860</u>		
	<u>212,270</u>		<u>212,270</u>
		Bal. b/d	50,860

**EXAMINER'S REPORT**

The question was divided into two parts, (a) and (b). The part (a) requires candidates to explain the term "contra entry" and benefits of control accounts while part (b) requires the candidates to prepare control accounts for purchases and sales ledgers from records available. Most of the candidates attempted the question, and performance was above average.

The pitfalls noticed was inability of most candidates to differentiate what to be posted into each of the control accounts.

Candidates are advised to practice more practical questions when preparing for future examinations.

3. (a) (i) Distinguish between revenue and capital expenditures. (3 Marks)

(ii) State Three (3) differences between the revenue and capital expenditures. (6 Marks)

(b) For the business of a sole-trader (James Park), classify the following as revenue or capital expenditures.

- (i) New tyre for motor van.
- (ii) Roof repairs
- (iii) New cash register

- (iv) Construction of new toilet
- (v) Building repairs
- (vi) Wages of office assistants
- (vii) Additional furniture
- (viii) Purchase of sales van
- (ix) Putting headlight on motor van
- (x) Construction of borehole
- (xi) Carriage on return outward
- (xii) Owner's drawings in form of goods

(6 Marks)  
(Total 15 Marks)

### SOLUTION TO QUESTION 3

(a) (i) Revenue expenditure is all operational expenses or costs incurred for the running of a business and for which benefits is for one year. Examples are, electricity bills, wages, salaries.

Capital expenditure is all expenses or costs on acquiring, extending or improving assets of a permanent nature and for which benefits is for more than a year. Examples of capital expenditure are motor vehicles, plant, machinery, etc.

(ii) Differences between capital and revenue expenditures.

- Amount involved in capital expenditure is larger than that of revenue expenditure.
- Benefits from revenue expenditure is for one year, while that of capital expenditure is for more than a year.
- Revenue expenditures are charged to profit or loss while capital expenditures are charged to statements of financial position.
- Capital expenditure is subject to depreciation while revenue expenditure is not.
- Examples of capital expenditures are plant, building, machine, etc. while that of revenue expenditures are wages, salaries water rate, etc.

(b) <b>Transactions</b>	<b>Expenditure</b>
(i) New tyre for motor van	Revenue
(ii) Roof repairs	Revenue
(iii) New cash Register	Revenue
(iv) Construction of new toilet	Capital
(v) Building repairs	Revenue
(vi) Wages of office assistants	Revenue
(vii) Additional furniture	Capital
(viii) Purchase of sales van	Capital
(ix) Putting headlight on motor van	Revenue
(x) Construction of borehole	Capital
(xi) Carriage on return outward	Revenue
(xii) Owner's drawings in form of goods	Revenue

### EXAMINER'S REPORT

The question tests the candidates' understanding of the differences between revenue and capital expenditures and also requires them to classify some items into either revenue or capital expenditures. Most of the candidates attempted the question while about 40% of them scored above 50% of the marks obtainable.

The commonest pitfall was the candidates' inability to identify the differences between revenue and capital expenditures.

Candidates are advised to make use of the Institute's study pack when preparing for future examinations.

4. Delta Stephen is a sole trader who prepares his accounts annually to April 30. The summarised statement of financial position for the two recent years are shown below:

	2017		2018	
	N	N	N	N
<b>Assets:</b>				
Non-current at cost	1,550,000		1,850,000	
Less depreciation	<u>(150,000)</u>		<u>(170,000)</u>	
		1,400,000		1,680,000
<b>Current assets:</b>				
Inventory	310,000		590,000	
Receivables	390,000		340,000	
Cash at bank	<u>150,000</u>		<u>--</u>	
		<u>850,000</u>		<u>930,000</u>
		<u>2,250,000</u>		<u>2,610,000</u>
<b>Financed By:</b>				
Capital at 1/1		2,000,000		2,050,000
Profit for the year		700,000		850,000
Additional capital		<u>--</u>		<u>200,000</u>
		2,700,000		3,100,000
Less: Drawings		<u>(650,000)</u>		<u>(800,000)</u>
		2,050,000		2,300,000
<b>Current Liabilities:</b>				
Trade payables	200,000		220,000	
Bank overdraft	<u>--</u>		<u>90,000</u>	
		<u>200,000</u>		<u>310,000</u>
		<u>2,250,000</u>		<u>2,610,000</u>

Delta Stephen is surprised to see that he now has an overdraft inspite of making profit and introducing more capital to the business during the year.

You are required to prepare statement of cash flow for the period ended April 30, 2018.

(15 Marks)

#### SOLUTION TO QUESTION 4

##### Delta Stephen Statement of Cash Flow for the Period Ended April 30, 2018

Operating Activities	N	N
Net profit	850,000	
Add items not involving movement of cash:		
Depreciation	<u>20,000</u>	870,000
Add changes in working capital:		
Decrease in receivables	50,000	
Increase in inventory	(280,000)	
Increase in payables	<u>20,000</u>	
		<u>(210,000)</u>
		660,000
<b>Financing Activities</b>		
Capital Introduced	200,000	

Drawings	(800,000)	
		(600,000)
		60,000
Investment Activities:		
Non-current assets acquisition		(300,000)
		(240,000)
Cash and cash equivalent as at 1/1/2018		150,000
Cash and cash equivalent as at 31/12/2018		(90,000)

### EXAMINER'S REPORT

The question tests candidates' understanding of the preparation of statement of cash flow. Few of the candidates attempted the question, while less than 40% of them scored above 50% of the marks obtainable.

The commonest pitfall was lack of adequate knowledge of how to prepare statement of cash flows in accordance with the disclose requirements of IAS 7.

Candidates are advised to work more practical questions when preparing for future examinations.

5. Acada Ventures book-keeper extracted a trial balance on June 30, 2018. He discovered the total of debit side is more than the credit side by ₦75,625 and transferred the figure to a suspense account.

However, the causes of this disagreement of the two sides were discovered to be the following:

- (i) A credit note sent to J. James for ₦20,625 had been entered in the return inward book as ₦19,500 and posted to his account as ₦19,500;
- (ii) Commission received account amounting to ₦113,686 had been omitted from trial balance though it was duly recorded in the cashbook and posted into the ledger;
- (iii) Equipment sold for ₦125,000 had been credited to the sales account;
- (iv) The purchases day book had been overcast by ₦25,000;
- (v) Goods worth ₦25,000 sold to James had been credited to his account; and
- (vi) Goods with the value of ₦13,063 returned by Dawodu had been duly credited in his personal account but no entry was made in the returns inward account.

#### You are required to;

- (a) Prepare journal entries necessary to correct these errors. (9 Marks)
  - (b) Prepare the suspense account. (6 Marks)
- (Total 15 Marks)

### SOLUTION TO QUESTION 5

#### (a) ACADA VENTURES JOURNAL ENTRIES

		DR	CR
		₦	₦
(i)	Returns Inward	1,125	
	J. James		1,125
	<i>Being correction of compensating error</i>		
(ii)	Suspense A/c	113,688	
	Commission received		113,688
	<i>Being correction of error of extraction from ledger</i>		
(iii)	Sales account	125,000	
	Equipment A/c		125,000
	<i>Being correction of error of principle</i>		

(iv)	Suspense a/c	25,000	
	Purchases a/c		25,000
	<i>Being correction of the over cast in the purchase daybook</i>		
(v)	James a/c	50,000	
	Suspense a/c		50,000
	<i>Being correction of error of posting of items to the wrong side</i>		
(vi)	Return Inward a/c	13,063	
	Suspense a/c		13,063
	<i>Being correction of partial error on the posting of return inward item</i>		

(b) Suspense Account

	₦		₦
Commission received	113,680	Bal. b/f	75,625
Purchases	25,000	James	50,000
		Returns Inward	<u>13,063</u>
	<u>138,688</u>		<u>138,688</u>

**EXAMINER'S REPORT**

The question tests the candidates' knowledge of errors in the trail balance, Journal entries and suspense account. Few of the candidates attempted the question, while about 60% of them scored above 50% of marks obtainable.

The commonest pitfall was that some of the candidates did not know the types of errors available in the question.

Candidates are advised to make use of the Institute's study pack when preparing for future examinations.

6. (a) (i) Explain the term petty cash imprest system. (2 Marks)

(ii) List Three (3) advantages of an imprest system. (3 Marks)

(b) The following is a summary of petty cash transactions of Garki Ventures for the month of June 2019. The ventures maintains a petty cash float of ₦150,000.

	₦
June 1 Main cashier reimbursed the petty cashier	
June 2 Postages	6,000
June 5 Transport fare	15,000
June 6 Cleaning materials	12,000
June 9 Stationery	8,000
June 14 Petrol for delivery van	26,400
June 16 Taxi fare	10,800
June 20 Postages	5,400
June 21 Disinfectant for cleaning toilet	8,400
June 23 Petrol for manager's car	19,800
June 24 Service of delivery van	12,000
June 28 Writing materials	9,000
June 30 Transport fare	4,800

You are required to prepare analytical petty cash book under the following heads: postage; transport & travelling; cleaning; stationery; and motor expenses and post the months transactions, entering the

re-imburement on June 30, 2019 to restore the imprest.

(10 Marks)

(Total 15 Marks)

### SOLUTION TO QUESTION 6

(a) (i) Petty cash imprest system is a type of petty cash system whereby a cash float is maintained and periodically reimbursed with the amount spent at the end of a specific period by the main cashier.

(ii) Advantages of imprest system are;

- It serves as a training ground for new staff and encourages them to be more responsible;
- It saves time for the main cashier who will have more time to attend to huge payments and withdrawals;
- The main cash book will not be overloaded with payment of small items;
- It makes expenses analysis and monitoring easy; and
- It eliminates proliferation of accounts for unnecessary items.

### (b) Analytical Petty Cash Book

Date	Particulars	Amount ₹	Date	Particulars	Amount	Postage ₹	Travelling & Transport	Cleaning	Stationery	Motor exp.
1/6/19	Main cash book	150,000	2/6/19	Postage	6,000	6,000				
			5/6	Transport	15,000		15,000			
			6/6	Cleaning materials	12,000			12,000		
			6/6	Stationery	8,000				8,000	
			14/6	Petrol	26,400					26,400
			16/6	Taxi fare	10,800		10,800			
			20/6	Postage	5,400	5,400				
			21/6	Cleaning materials	8,400			8,400		
			23/6	Petrol	19,800					19,800
			24/6	Services of van	12,000					12,000
			26/6	Writing materials	9,000				9,000	
			30/6	Transport fare	4,800		4,800			
					137,600	11,400	30,600	20,400	17,000	58,200
			30/6	Bal. c/f	12,400					
		150,000			150,000					
1/7/19	Bal. B/f	12,400								
	Main cash book	137,600								

### EXAMINER'S REPORT

The question tests the candidates' knowledge of analytical petty cash book preparation. Majority the candidates attempted the question, and about 70% of them scored 50% of the total marks obtainable. The pitfall noticed was some candidates lack of understanding of the differences between analytical petty cashbook, ledger and narrations.

Candidates are advised to make use of the Institute's study pack when preparing for future examinations.



**THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA**  
**PROFESSIONAL EXAMINATION**  
**FOUNDATION: BUSINESS LAW**

EXAM NO.....

TIME: 3 HOURS.

**SECTION A: PART I MULTIPLE CHOICE QUESTIONS (MCQ) (20 MARKS)**

**ATTEMPT ALL QUESTIONS.**

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

1. Customary courts are created by:
  - A. The Federal Government
  - B. The Constitution
  - C. A State Government
  - D. A Local Government
  - E. The National Assembly
  
2. In order to avoid making an Act clumsy, unwieldy, uninteresting and incoherent, ..... are inserted as the last part of it.
  - A. Explanatory memorandum
  - B. Schedules
  - C. Definition and interpretation sections
  - D. Consequential provisions
  - E. Transitional provisions
  
3. An agreement which one of the parties is entitled to rescind, and which until that happens, has full legal effect is a.....
  - A. Void contract
  - B. Valid contract
  - C. Unilateral contract
  - D. Voidable contract
  - E. Quasi contract
  
4. To sell his car to Peace, Love asked for ₦1.5million and to which Peace responded and said she could only pay ₦1million. Peace's response is termed:
  - A. Acceptance
  - B. Acceptance subject to contract
  - C. Counter – offer
  - D. Cross – offer
  - E. Irrevocable offer

5. A promise to save another harmless from loss caused as a result of a transaction entered into at the instance of the promisor is.....
- A. A contract of indemnity
  - B. A contract of guarantee
  - C. A contract of insurance
  - D. A contract of bailment
  - E. A contract of uberrimae fidei
6. In a contract for the sale of goods, there is an implied warranty under the Sale of Goods Act (SOGA) that:
- A. The goods are free from any charge or encumbrance not known to the buyer
  - B. The seller has the right to sell the goods
  - C. In goods sold by description, the goods correspond with the description
  - D. In goods sold by sample, the goods correspond with the sample
  - E. In goods sold by sample as well as by description, the goods correspond with the sample as well as description.
7. Which of the following is a prerequisite for the successful operation of a reservation of title clause in a contract of sale of goods:
- A. The buyer must be insolvent when the clause is enforced
  - B. The goods must be identifiable
  - C. The rights of third parties must not be prejudiced
  - D. The buyer must be solvent when the contract is made
  - E. The goods must be fungible commodities
8. Vicarious liability will render an employer liable for:
- A. Torts which he/she commits in the course of his/her business
  - B. Torts which his/her employees commit in the course of his/her business
  - C. Torts which anyone commits in the course of his/her business
  - D. Torts which his/her independent contractors commit in the course of his/her business
  - E. Torts which his/her suppliers commit in the course of his/her business
9. Malice is relevant to the following torts, except one
- A. Conspiracy
  - B. Defamation
  - C. Malicious falsehood
  - D. Trespass
  - E. Malicious prosecution
10. An agent whose authority to act for his principal is unrestricted and who transacts series of transactions for his principal is a .....
- A. General agent
  - B. Special agent
  - C. Commissioned agent
  - D. Universal agent
  - E. "del credere" agent



11. Which of the following will terminate an agency relationship?
- A. Bankruptcy of agent
  - B. Bankruptcy of principal
  - C. Bankruptcy of agent's business partners
  - D. Bankruptcy of principal's business partners
  - E. Bankruptcy of third party
12. A contract of Hire Purchase can be described as a
- A. Contract of hire with option to purchase
  - B. Contract of guarantee
  - C. Credit sale agreement
  - D. Contract of lease
  - E. Financial derivative agreement
13. A contract of Hire Purchase is determined in the following ways, except one. Which one?
- A. By performance
  - B. By constructive notice
  - C. By subsequent agreement
  - D. By repudiation
  - E. By frustration
14. In the absence of any usage or custom of trade to the contrary, the implied authority of a partner does not empower him to:
- A. Pledge movable property of the firm
  - B. Engage servants for the partnership business
  - C. Submit a dispute relating to the business of the firm to arbitration
  - D. Sue on behalf of the firm and defend suits in the name of the firm
  - E. Purchase goods on behalf of the firm, in which the firm deals or which are employed in the firm's business
15. Gamma (Nig.) Plc was incorporated on March 1, 2019. What is the latest date on which it must hold its statutory meeting?
- A. 31 March 2019
  - B. 31 March 2020
  - C. 31 August 2020
  - D. 31 August 2019
  - E. 29 February 2020

16. Delta (Nig.) Plc is insolvent and is being wound up. Epsilon Bank Plc has a floating charge over its assets in regard to an overdraft which has not been registered. What is the effect of this?

- A. The charge is void against the liquidator and the bank proves as an ordinary creditor
- B. The debt is void as against the liquidator and the bank will get nothing
- C. The charge is voidable by the liquidator if the company was insolvent when the charge was created
- D. The charge can be made valid by an application to the court by the bank
- E. The charge is void against subsequent secured creditors and the bank loses its priority accordingly.

17. Success Plc has just prepared its financial statements for 2020. The accounting records from which they were prepared must be kept until.

- A. 2025
- B. 2030
- C. 2021
- D. 2026
- E. 2023

18. The capital clause of a company limited by shares is contained in its memorandum of association.

What does this clause state?

- A. The amount of share capital which the company is entitled to issue
- B. The amount of the share capital presently issued
- C. The amount of the share capital currently paid-up
- D. The amount of the share capital currently called-up
- E. The amount of share capital which the directors can issue

19. The willful and deliberate attempt by a taxpayer to defraud the government by understating his tax liability through the design and implementation of illegal tax strategies is referred to as:

- A. Tax avoidance
- B. Tax evasion
- C. Tax planning
- D. Tax mitigation
- E. Tax schedulization

20. The canon of taxation which states that the tax system should be structured with an in-built mechanism to make the tax revenue increase along with an increase in national income without the need to revise the tax base and the tax rate is:

- A. Convenience
- B. Equity
- C. Buoyancy
- D. Diversity
- E. Certainty

## **SOLUTION TO SECTION A: PART I MULTIPLE CHOICE QUESTIONS (MCQ)**

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

### **EXAMINER'S REPORT**

The questions covered all areas of the syllabus. Candidates' performance was fairly good. Candidates' pitfall was lack of understanding of various legal terms and concepts. Candidates are advised to ensure adequate coverage of the entire syllabus when preparing for future examinations.

**SECTION A: PART II      SHORT ANSWER QUESTIONS (SAQ)      (10 MARKS)**

**ATTEMPT ALL QUESTIONS**

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

1. A fit and proper person can only be appointed as a judge of the federal court when he has qualified to practice as a legal practitioner in Nigeria for .....years.
2. The general conduct of affairs in a legislative house is governed by rules which are called.....
3. ....is a rule of law which precludes a person from alleging or denying certain facts as a result of his previous allegation, denial, conduct or admission.
4. In a competitive business environment, a tort committed by a person who, in a manner designed to deceive others in the course of trade, makes his goods look like those of his more successful rival is.....
5. In agency law, “delegatus non potest dele-gare” is a maxim which means.....
6. The document in which the respective rights and obligations of the members of a partnership are set forth is called.....
7. The process by which a company can, by an issue of security, raise capital from the public is called.....
8. The object or service or transaction on which tax is imposed is known as.....
9. .... is a limited time opportunity for a specified group of taxpayers to pay a defined amount in exchange for forgiveness of a tax liability relating to previous periods and without fear of criminal prosecution.
10. Application for tax clearance certificate by a taxpayer will be issued to him by the relevant tax authority within..... weeks.

**SOLUTION TO SECTION A: PART II      SHORT ANSWER QUESTIONS (SAQ)**

1. 10 years
2. Standing orders
3. Estoppel
4. Passing off
5. A person to whom authority has been given cannot delegate that authority to another.
6. “Partnership deed” or “articles of partnership”.
7. Floatation

8. Tax base
9. Tax amnesty (or Voluntary Asset & Income Discipline Scheme VAIDS)
10. 2 weeks (or 14 days)

### **EXAMINER'S REPORT**

The questions test all areas of the syllabus and performance was good. Candidates are advised to ensure adequate coverage of the syllabus when preparing for future examinations.

### **SECTION B:**

#### **THEORY PART (ANSWER QUESTION 1 AND ANY OTHER 3 QUESTIONS)**

1. (a) What factors will invalidate a simple contract. (15 Marks)

(b) MR MARVELLOUS OLOHUNIYO (a.k.a. Super Golden Voice) was a very young school dropout and an unknown musician when he entered into a contract eight years ago with AGBALOWOMEERI LTD, a limited liability company whose main objectives, as stated in its memorandum of association, are the making of CDs, tapes and the publishing of music for sale whether in the soft copy or hard copy forms.

Though OLOHUNIYO is not skilled in business and finance, he is a talented musician. His talent in music combined with the company's huge expenditure on advertisement, promotion and publicity, coupled with a team of well paid public relations professionals made him become the best in the industry and his genre of music is in great public demand. Now, he is not only famous but also very rich. He is also AGBALOWOMEERI LTD'S golden egg.

This year, in breach of the agreement signed by him, OLOHUNIYO has just recorded a music album for OKECHUKWU LTD, a newly formed recording company.

The agreement signed by OLOHUNIYO with AGBALOWOMEERI LTD was in the company's standard form designed for and normally signed by all musicians and artistes under contract of service with the company and contained the following terms:

- (a) The contract is to run for twelve (12) years;
- (b) No musician is allowed to sign up any contract of service with any other music producer for twelve (12) years;
- (c) No musician is allowed to perform in a live concert during the currency of this agreement without a written permission of the company;
- (d) The company is to be assigned the full copyright of all the musician's composition and recordings;
- (e) The company has the exclusive right to dictate when and how musicians should release an album;
- (f) The company has the exclusive right to decide whether and when to produce or release the musician's work to the local or international market;
- (g) The company is under no obligation to publish or market any of the musician's work;
- (h) The company has the exclusive right to terminate the agreement at any time by giving one month's written notice;
- (i) The company has the option to renew the contract of service at its expiration for a further ten years if it is satisfied with the musician's market performance;

- (j) In the event of a musician's market failure, illness or involvement in an accident, the contract is automatically determined;
- (k) Royalty shall be paid to a musician only after all the company's expenses on an album have been fully recouped from earnings;
- (l) The royalty is set at ₦10 on every ₦100 made by the company after all expenses directly spent on the production, release and marketing of the music album have been fully taken care of;
- (m) Apart from the royalty payable on the sale of music albums, the company is not liable to pay the musician any remuneration, compensation or any other payment by any other name.

After reading through the agreement as reproduced above, MR MARVELLOUS OLOHUNIYO signed the agreement in the presence of his two loyal friends; one a tailor and the other a mechanic. Six company executives were also there to witness the signing of the agreement that was to midwife the birth of a business relationship between OLOHUNIYO and the company, the relationship which all believed would result into a beautiful economic romance between the two parties.

OLOHUNIYO had no manager or consultant. He did not seek any independent advice. He also did not take any advice from his seniors in the business of entertainment. The company on its own part also failed to advise him to seek an independent advice.

Now, in quick response to OLOHUNIYO'S "ignoble action" as perceived by the company, AGBALOWOMEERI LTD has dragged OLOHUNIYO to court seeking for:

- (i) A DECLARATION that the agreement between OLOHUNIYO and the company, AGBALOWOMEERI LTD is still subsisting; and that he cannot enter into a contract of service with another company;
- (ii) An INJUNCTION restraining OLOHUNIYO, OKECHUKWU LTD, their agents, distributors, assignees, etc. from distributing or selling the music album titled "supernature";
- (iii) An ACCOUNT of all sales of the record "supernature" already sold;
- (iv) A DAMAGES of ten million naira (₦10m) for breach of contract of service with the company, AGBALOWOMEERI LTD.

You are required to advise MR MARVELLOUS OLOHUNIYO (a.k.a. super Golden voice).

(10 Marks)

(Total 25 Marks)

### **SOLUTION TO QUESTION 1**

#### **(a) Factors that will invalidate a simple contract**

Genuine assent exists where there has been a true "consensus ad idem" (meeting of minds) in a decision to enter into a contract.

The following are the factors that authenticate or establish the artificiality or phoniness of consent in a contract (that is, that an agreement lacked genuine assent).

- (1) Mistake;
- (2) Misrepresentation;
- (3) Undue Influence; and
- (4) Duress

#### **Mistake**

Mistake is a misunderstanding or an erroneous belief about something. A mistake could be a mistake of fact, a mistake of law or a mistake of opinion. Not every mistake made in connection

with a proposed contract by a party or parties to the contract will invalidate the contract. A mistake of law has no effect on the validity of agreement, only operative mistake does. A mistake of fact has the effect of rendering the contract void. Mistake as to value is not a ground to rescind a contract. There are three types of operative mistake:

(i) Common Mistake

Common mistake is where there is complete agreement between the parties to the contract but both parties make the same error relating to a fundamental fact, that is, a single mistake shared by both. (*Couturier V. Hastie* 1952).

(ii) Mutual Mistake

Mutual mistake is where the parties are at cross-purposes but each believes that the other agrees with him and does not realise that there is a misunderstanding, that is, both parties fail to understand each other (*Raffles V. Wichelams*, 1864).

(iii) Unilateral Mistake

Unilateral mistake is where only one party to the contract is mistaken and the other party, who must have been the one who induced the mistake, is fully aware of it. (*Bell V. Lever Bros. Ltd*, 1932) (*Harlog V. Colins and Shields*, 1939).

Generally, a common mistake relating to any really fundamental matter will render a contract VOIDABLE, while unilateral mistake does not afford a basis for such relief, that is, a contract is not voidable because of a unilateral mistake and it will not release the mistaken party from the contract. But if there is mutual mistake, the contract may be RESCINDED.

### **Misrepresentation**

An actionable misrepresentation is an untrue statement of a material fact (not a statement of law or a statement of opinion) made before the conclusion of a contract by the representor to mislead and with an intention to induce the representee to enter into the contract. There are three types of active misrepresentation:

(i) Innocent Misrepresentation:

Innocent misrepresentation is a statement made by the representor to the representee in the belief that it is true and the representor has reasonable grounds for that belief.

(ii) Negligent Misrepresentation:

Negligent misrepresentation is a statement made by the representor to the representee in the belief that it is true but the representor has no reasonable grounds for that belief.

(iii) Fraudulent Misrepresentation:

Fraudulent or intentional misrepresentation is a statement made by the representor to the representee with knowledge that is untrue, or without believing it to be true or recklessly careless whether it be true or false.

Generally, common law permits rescission of a contract where there is a misrepresentation of a material fact, whether made innocently or negligently. An intentional or fraudulent misrepresentation of material fact by one party is also a ground for rescission, though it is also legally possible for the injured party to elect to enforce the contract and sue for damages.

### **Undue Influence**

Undue influence in law is described as an influence or improper pressure mounted on a person by a party who is in a position to dominate his will, resulting in his being at a manifest disadvantage in

relation to some transactions, because the pressure prevents him from exercising an independent judgement with respect to the said transaction.

There are two types of undue influence:

(i) Actual Undue Influence:

Actual undue influence may consist of the application of illegitimate pressure and other forms of wrong doing.

(ii) Presumed Undue Influence:

Presumed undue influence occurs when the inducer has taken advantage of a relationship of trust and confidence to the substantial detriment of the induced who has reposed trust and confidence in him. In cases of presumed but not actual undue influence, it is necessary for the induced party to show that the transaction was manifestly disadvantageous to him/her. (Dunbar Bank Plc V. Nadeem, 1998).

Where a contract is entered into because of undue influence, the contract is not void but VOIDABLE.

A contract procured by undue influence cannot be rescinded after affirmation; express or implied, but it may be avoided against volunteers (persons who gave no consideration).

Duress/Coercion:

Duress/coercion is an actual or a threatened physical force put on an innocent party to force him to enter into a contract against his will. It may involve a wrongful or illegal act such as blackmail and physical harm.

There are three types of duress at common law:

- (i) Duress to the person.
- (ii) Duress to goods.
- (iii) Economic duress.

A contract entered into under legal duress is VOID and may be set aside. Economic duress, however, may render a contract voidable. To prove duress, the victim must show that his/her consent was obtained by illegitimate pressure.

(b) Mr. Marvellous Olohuniyo and Agbalowomeri Ltd.

(1) The court will declare the contract invalid and unenforceable because it was onerous on the defendant, Olohuniyo, unfair, unreasonable, harsh and oppressive and therefore contract to PUBLIC POLICY (Backhouse V. Backhouse, 1978, Creswell V. Porter 1978).

(2) This was a clear case in which a party with SUPERIOR KNOWLEDGE and much STRONGER BARGAINING POWER used these factors in achieving an extremely UNCONSONABLE BARGAIN (Schroeder Music Publishing Co. Ltd V. Marcaulay, 1974) Instone V. Schroeder Music Publishing Co. 1974).

(3) Lord Alfred Denning's doctrine of INEQUALITY BARGAINING POWER will be applied by the court because the contract was a harsh and unfair one.

(4) There was a presumption of UNDUE INFLUENCE in the relationship and the absence of independent advice. There was a considerable disparity in bargaining power between the two parties. (Clifford Davis Management V. W. E. A. Records 1975).

However, the exercise of undue influence is unlikely to occur where the transaction is innocuous.



(5) The court is established to protect those whose bargaining power is weak from being forced into bargains that are unconscionable by those whose bargaining power is stronger (“Silus populi supreme lex”).

(6) The case is a contract on restraint of trade. The courts have always viewed contracts in restraint of trade as void unless it could be reasonably justified, for example, to protect the legitimate interest of the plaintiff and nothing more. The restraints must also not be prejudicial to public interest. This is not the case in this matter.

(7) Agbelowomeri Ltd may likely be granted the first two prayers but not the last two, based on the authority of a Nigerian case, *African Songs Ltd V. Sunny Adeniyi* (1975). But on the authority of an English case, which has the same fact as the case above and decided before it, *Agbalowomeri Ltd. may lose the case totally because of the oppressive nature of the contract between it and Olohuniyo* (*Davis Management V. W. E. A. Records* 1975).

### **EXAMINER’S REPORT**

The question tests candidates’ understanding of the law of contract. Performance was fair as most candidates scored high marks in part (a) of the question.

Candidates’ commonest pitfall was inability to apply factors that can invalidate a contract to the practical case.

Candidates are advised to make use of the Institute’s study pack when preparing for future examinations.

2. (a) “Search and seizure” is a procedure that helps the tax authorities to deal with recalcitrant taxpayers. An authorised tax officer and the law enforcement officers armed with a warrant issued by a judicial officer have the power to carry out the exercise. What are the functions the tax officer is required to perform in a search process?

(5 Marks)

(b) Who are the members of the Federal Inland Revenue Service Board? (10 Marks)

(Total 15 Marks)

### **SOLUTION TO QUESTION 2**

(a) Functions of the tax officer in connection with search proceedings

The authorised officer is required to perform the following functions in search proceedings:

(i) Enter any premises covered by such warrant and search for, seize and take possession of any book, document or other article used or suspected to have been used in the commission of an offence;

(ii) Inspect, make copies of, or take extracts, including digital copies, from any book, record, document or computer, regardless of the medium used for their storage or maintenance;

(iii) Search any person who is in or on such premises;

(iv) Open, examine and search any article, container or receptacle;

(v) Open any outer or inner door or window of any premises and enter or otherwise forcibly enter the premises and every part thereof; or

(vi) Remove by reasonable force any obstruction to such entry, search, seizure or removal as he is empowered to effect; and

(vii) Ensures that no person shall be bodily searched except by a person who is of the same gender as the person to be bodily searched.

(b) Members of the Federal Inland Revenue Service Board (FIRSB)

The Board shall consist of:

- (i) The Executive Chairman of the Service who shall be experienced in taxation as Chairman of the Service to be appointed by the President and subject to the confirmation of the senate;
- (ii) Six members with relevant qualifications and expertise who shall be appointed by the President to represent each of the six geo-political zones;
- (iii) A representative of the Attorney-General of the Federation;
- (iv) The Governor of the Central Bank of Nigeria or his representative;
- (v) A representative of the Minister of Finance not below the rank of a Director;
- (vi) The Chairman of the Revenue, Mobilisation, Allocation and Fiscal Commission or his representative who shall be any of the Commissioners representing the 36 states of the Federation;
- (vii) The Group Managing Director of the Nigerian National Petroleum Corporation or his representative who shall not be below the rank of a Group Executive Director of the Corporation or its equivalent;
- (viii) The Comptroller-General of the Nigeria Customs Service or his representative not below the rank of Deputy Comptroller-General;
- (ix) The Registrar-General of the Corporate Affairs Commission or his representative not below the rank of a Director; and
- (x) The Chief Executive Officer of the National Planning Commission or his representative not below the rank of a Director.

### EXAMINER'S REPORT

The question tests candidates' knowledge of functions of tax officer with respect to search proceedings in part (a) and members of the board of the Federal Inland Revenue Service in part (b). Performance was average.

The candidates' commonest pitfall was lack of understanding of the functions of tax officer in connection with search proceedings.

Candidates are advised to ensure that they cover all areas of the syllabus when preparing for future examinations.

3. (a) Enumerate the essential points that should be stated in a partnership deed. (10 Marks)

(b) Abdullahi and Ifasooto, two chartered tax practitioners with practicing licence, agreed to carry on practice in common at the office of Abdullahi, under the name, Abdullahi Ifasooto Associates, who has been in practice for over ten years, while Ifasooto established his own practice just a year ago. They agreed to practice together for a period of ten years. The terms of the agreement between them further provide that Ifasooto should manage the office and supervise the clerical work and that he should draw a fixed allowance of ₦2million per month in lieu of profits. It is further agreed that losses, if any, shall be borne by Abdullahi alone, and that after 10 years Abdullahi would be entitled to the office and all the other equipments and Ifasooto would not have any right or claim in respect of them.

You are required to state whether Abdullahi and Ifasooto are partners. (5 Marks)  
(Total 15 Marks)

### SOLUTION TO QUESTION 3

- (a) Essential Points/Matters to be stated in a partnership deed/articles of partnership  
The deed should cover the following points:
- (i) The name of the firm;
  - (ii) The names and addresses of partners who compose it;
  - (iii) Nature of partnership business;
  - (iv) The town and place where there partnership business will be carried on;
  - (v) Date of commencement of partnership;

- (vi) The duration of partnership;
- (vii) The amount of capital to be contributed by each partner and the method;
- (viii) The method of raising finance in future if so required;
- (ix) The ratio of sharing profits and losses;
- (x) Interest on partners' capital, partners' loan and interest, if any, to be charged on drawings;
- (xi) Salaries, commissions, etc, if any, payable of partners;
- (xii) The method of preparing accounts and arrangement for audit;
- (xiii) Safe custody of cash and other partnership property;
- (xiv) Division of task and responsibility, that is, the duties, powers and obligations of all the partners;
- (xv) Rules to be followed in case of retirement, death and admission of a partner;
- (xvi) Expulsion of partners in case, of gross breach of duty or fraud;
- (xvii) Statement on whether or not a partner may carry on any other business, whether competing, or not;
- (xviii) The circumstances under which the partnerships will stand dissolved; and
- (xix) Arbitration in case of dispute among the partners.

(b) Abdullahi and Ifasooto's partnership

Yes Abdullahi and Ifasooto are partners. In a partnership, partners are free to agree to any terms as regards sharing of profits. Again, sharing of losses is not necessary for becoming a partner. So also, partners may agree that on the dissolution of their partnership all the assets will belong to one partner only (*Badeley V. Consolidated bank*, 1888).

### EXAMINER'S REPORT

The question tests candidates' understanding of contents of a partnership deed and test of the existence of a partnership.

Candidates demonstrated good knowledge of the question and so performed very well in the question.

4. (a) In relation to the law of agency, enumerate the duties owed by an agent to his principal. (8 Marks)

(b) Julius Blair employs Gloria Audu as manager of his factory in Nigeria for a term of five years at a monthly salary of ₦1.5million. Without any lapse on the part of Gloria, Julius dismissed her after three years of service. Gloria could not get another job elsewhere and filed a suit against Julius for ₦90 million damages for breach of contract. Will she succeed?

(7 Marks)

(Total 15 Marks)

### SOLUTION TO QUESTION 4

(a) Duties of Agents

The following are the main duties of an agent:

- (1) Duty to faithfully perform the undertaking;
- (2) Duty to obey the principal's lawful instructions;
- (3) Duty to exercise reasonable (due) care, skill and diligence;
- (4) Duty to keep proper accounts and render the account when required;
- (5) Duty to communicate with the principal in case of difficulty;
- (6) Duty to pay over to the principal all money held on his behalf;
- (7) Duty to protect and preserve the interests of the principal in case of his death or insolvency;
- (8) Duty of loyalty, that is, to act in good faith and not to permit a conflict of interest to arise;
- (9) Duty not to delegate his authority, that is, to act personally. ("Delegatus non potest delegare");
- (10) Duty not to make secret profit or money;

- (11) Duty not to misuse confidential information;
- (12) Duty not to take or collect a bribe;
- (13) Duty not to disclose confidential information or document entrusted to him;
- (14) Duty not to deal on his own account;
- (15) Duty not to use information obtained in the course of the agency against the principal; and
- (16) Duty not to set up an adverse title.

(b) Julius Blair and Gloria Audu: Breach of contract

1. Whenever there is a breach of contract, the injured party becomes entitled to any one or more of the following remedies against the guilty party:

- Rescission of the contract;
- Suit for damages;
- Suit upon “quantum meruit”;
- Suit for an injunction; and
- Suit for specific performance of the contract.

2. It is the duty of the injured party to take all reasonable steps to mitigate damage suffered as a result of the breach. He cannot recover any part of the damage traceable to his own neglect to mitigate.

3. A person who is wrongfully dismissed must attempt to obtain alternative equivalent employment.

4. Gloria Audu will succeed, for she did not fail in her duty to mitigate the loss subsequent upon the breach (*Okongwu V. NNPC 1985*).

5. Since she will succeed, the amount of damages she will receive will not be more than her loss. The amount of damages recoverable will amount to ₦36 million (i.e. ₦1.5m per month multiply by 24 months) and NOT ₦90 million.

### EXAMINER’S REPORT

The question tests candidates’ knowledge of the agency law. Candidates have a good understanding of the question and performed very well in the question.

5. (a) What are the implied conditions under the Sale of Goods Act 1893? (6 Marks)

(b) What are the implied warranties under the Sale of Goods Act 1893? (2 Marks)

(c) A lady, Miss Pretty Ologede, who knew that she was allergic to a particular hair dye developed dermatitis as a result of having her hair dyed with that substance. She did not disclose her allergy to Jennifer, the hair dresser. Is Jennifer liable for breach of implied condition?  
(7 Marks)

(Total 15 Marks)

### SOLUTION TO QUESTION 5

(a) Implied Conditions

- (i) Condition as to title (S. 12(1)).
- (ii) Condition as to sale by description (S. 13 (1)).
- (iii) Condition as to sale by sample (S. 15(2)).
- (iv) Condition as to sale by sample as well as by description (S. 13 (1)).
- (v) Condition as to quality or fitness for purpose (S. 14 (1)).

- (vi) Condition as to merchantability (S. 14 (2)).
  - (vii) Condition implied by custom.
  - (viii) Condition as to wholesomeness.
- (b) Implied Warranties
- (i) Implied warranty of quiet possession (S. 12 (2)).
  - (ii) Implied warranty of freedom from encumbrances (S. 12 (3)).
  - (iii) Implied warranty of disclosing the dangerous nature of goods to the ignorant buyer.
- (c) Miss Pretty Ologede and Jennifer

The benevolent hand of the law has replaced the harsh rule of CAVEAT EMPTOR which imposed the duty on the buyer to examine the article she was buying and act on her own judgement and at her own risk, with CAVEAT VENDITOR, which makes the seller to be liable for his express warranties as well as warranties implied by law.

There are now legal duties put upon the seller not only to deliver appropriate goods but also to provide appropriate information about them.

However, in order to balance the protection of the buyer from fraud and to limit the heavy burden of likely damages the seller may be exposed to, the law grants some exceptions to the rule of caveat venditor (S.14 (1) of Sale of Goods Act).

For this exception to apply, the following points must be proved:

- (i) That the buyer made known to the seller the particular purpose for which the goods are required;
- (ii) That the buyer relied on the seller's skill or judgement; and
- (iii) That the goods are of a description which is in the course of the seller's business to supply.

Therefore, in this instant case, the hair dresser, Jennifer, is not liable for the breach of implied condition as to the fitness of the hair dye since that condition extends to the dyeing of the hair of a normal person. If the buyer purchasing an article for a particular use is suffering from an abnormality and it is not made known to the seller at the time of sale, implied condition of fitness does not apply (Griffiths V. Peter Conway Ltd, 1939).

### **EXAMINER'S REPORT**

The question tests candidates' knowledge of the Sales of Good Act. Candidates demonstrated lack of knowledge of the question, so performance was very poor.

Candidates are advised that they should ensure adequate coverage of the syllabus when preparing for future examinations.

6. (a) What is a special resolution? (5 Marks)
- (b) For what purposes is a special resolution required? (7 Marks)
- (c) By inadvertence, the secretary of Happiness Plc failed to send notice to twelve (12) members of the company of a special resolution to be proposed at an Annual General Meeting. The special resolution was passed at the meeting. Is the resolution valid?

(3 Marks)  
(Total 15 Marks)

## **SOLUTION TO QUESTION 6**

### (a) Special Resolution

Special resolution is a company resolution passed by a majority of three-fourths (75%) of the votes cast at a general meeting by members present in person or by proxy entitled to vote and voting of which not less than 21 days' notice specifying the intention to pass the resolution as a special resolution has been duly given.

### (b) Purposes of Special Resolution

Purposes for which a special resolution is required are:

- (1) To alter the OBJECT clause of the memorandum, S. 46 (1);
- (2) To change the NAME of the company, S. 31 (3);
- (3) To alter any provision in the memorandum, S. 44 (5);
- (4) To reduce capital, on the authorisation of the article with the consent to the court, S. 106 (1);
- (5) To make the liability of the directors, managing director or manager unlimited on the authorisation of the Articles, S. 289;
- (6) To effect a winding up by the court, S. 408 (a);
- (7) To wind up voluntarily, S. 457 (b);
- (8) To re-register a private company with a share capital as a public company, S. 50 (1) (a);
- (9) To re-register an unlimited company as a private company limited by shares, S. 52 (1);
- (10) To re-register a public company as a private company, S. 53 (1) (a);
- (11) To create reserve capital, S. 134;
- (12) To alter the Articles of Association, S. 48 (1);
- (13) To vary class right, S. 141;
- (14) To alter the share capital, S. 100;
- (15) To alter the provision in the memorandum which might lawfully have been in the articles, S. 47 (1);
- (16) To sanction a sale to another company in consideration for the sales of the property of the company, S. 538 (1);
- (17) To pay interest out of capital on the shares issued for the purpose of construction work, S. 113;
- (18) To allow the liquidator to pay any classes of creditors in full, S. 481 and S. 425 (1) (d);
- (19) To empower the liquidator to make any compromise or arrangement with creditors or persons claiming to be creditors, S. 481 and S. 425 (1) (e);
- (20) To empower the liquidator to compromise all calls, debts and liabilities, S. 481 and S. 425 (1) (f);
- (21) To reduce any capital redemption fund, (Table A, Art 6); and
- (22) To reduce any share premium account, (Table A, Art 6).

### (c) Happiness Plc

An accidental omission to give notice to or the non-receipt of any notice by, any member does not invalidate the proceedings at the meeting. (S. 218 (5)). Deliberate omission to give notice even to a single member may invalidate the meeting (Smith V. Dorcay, 1849).

The RESOLUTION as passed at the meeting of Happiness Plc is therefore VALID.

## **EXAMINER'S REPORT**

The question tests candidates' knowledge of company's special resolutions. Most of the candidates avoided the question and the few ones that attempted the question demonstrated poor understanding of the question and so performed woefully.

Candidates are advised to ensure adequate coverage of the syllabus in their preparation for future examinations.



**THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA**  
**FOUNDATION: ECONOMICS**

**EXAM NO.....**

**TIME: 3 HOURS.**

**SECTION A: PART I MULTIPLE CHOICE QUESTIONS (MCQ) (20 MARKS)**

**ATTEMPT ALL QUESTIONS.**

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

1. Making a decision of what to produce, how to produce, for whom to produce is expressed in the basic economic concept of
  - A. Scarcity
  - B. Choice
  - C. Scale of preference
  - D. Opportunity cost
  - E. Utility
  
2. A good is a necessity if its
  - A. Price elasticity of demand is greater than 1
  - B. Price elasticity of supply is less than 1
  - C. Income elasticity of demand is negative
  - D. Price elasticity of demand is zero
  - E. Price of elasticity of demand is equal to 1
  
3. A vertical supply curve for a product implies that supply is
  - A. Elastic
  - B. Inelastic
  - C. Unit elastic
  - D. Perfectly elastic
  - E. Perfectly inelastic
  
4. Division of labour is limited by
  - A. Products price
  - B. Behaviour of factory salesmen
  - C. Wages and salaries of the factory workers
  - D. Nearness to market
  - E. The extent of the market

5. The minimum amount of profit that is necessary to keep a firm in business in the long run is referred to as
- A. Normal profit
  - B. Abnormal profit
  - C. Accounting profit
  - D. Economic profit
  - E. Supernormal profit
6. A line that is upward sloping from the left in a graph, with the vertical axis labelled tax rate and horizontal axis labelled income, illustrates
- A. Progressive tax
  - B. Indirect tax
  - C. Regressive tax
  - D. Direct tax
  - E. Proportional tax
7. Kinked demand curve is a feature associated with
- A. Monopolistic competition
  - B. Perfect competition
  - C. Monopoly
  - D. Oligopoly
  - E. Duopsony
8. Microeconomics is concerned with all the following EXCEPT
- A. Price of a commodity
  - B. Wages received by a worker
  - C. General price level
  - D. Output of a firm per day
  - E. Number of workers in a factory
9. Expenditure made by government on construction of new schools and hospitals are classified as
- (a) Transfer Payments
  - (b) Recurrent expenditure
  - (c) Capital expenditure
  - (d) Variable expenditure
  - (e) Fixed expenditure
10. Which of the following is used to measure inflation rate?
- A. Price mechanism
  - B. Price legislation
  - C. Price regulation
  - D. Price discrimination
  - E. Price index



11. The type of business organisation formed by two to twenty persons with profit motive is called
- A. Partnership
  - B. Public enterprise
  - C. Sole partnership
  - D. Private limited company
  - E. Public limited company
12. At output level zero, a firm's short run total cost of production is equal to the
- A. Marginal Cost
  - B. Total Fixed Cost
  - C. Total Variable Cost
  - D. Average Variable Cost
  - E. Average Fixed Cost
13. If the long run average total cost increases as output increases, the firm is experiencing
- A. Internal economies of scale
  - B. External economies of scale
  - C. Constant returns to scale
  - D. Diseconomies of scale
  - E. Increasing returns to scale
14. A market structure characterised by the existence of a few sellers is called
- A. Oligopoly
  - B. Duopoly
  - C. Monopoly
  - D. Perfect competition
  - E. Monopolistic competition
15. The desirable feature of money which facilitates its use as a unit of account is
- A. Divisibility
  - B. Portability
  - C. Durability
  - D. Homogeneity
  - E. Scarcity
16. In every modern society, the lender of last resort function is performed by
- A. Microfinance Bank
  - B. Development Bank
  - C. Central Bank
  - D. Commercial Bank
  - E. Merchant Bank

17. The following are instruments of monetary policy EXCEPT
- A. Open market operations
  - B. Reserve requirement
  - C. Discount rate
  - D. Government expenditure
  - E. Credit ceiling
18. The theory of comparative cost advantage is credited to
- A. Adam Smith
  - B. David Ricardo
  - C. Alfred Marshall
  - D. Thomas Malthus
  - E. Lionel Robbins
19. The price of a country's currency expressed in terms of the currency of another country is called
- A. Foreign exchange
  - B. Foreign exchange system
  - C. Foreign exchange market
  - D. Foreign exchange allocation
  - E. Foreign exchange rate
20. Giving loan to help a member country out of balance of payments problem is a function associated with
- A. African Development Bank (AfDB)
  - B. World Bank Group
  - C. East African Community (EAC)
  - D. World Trade Organisation (WTO)
  - E. International Monetary Fund (IMF)

**SOLUTION TO SECTION A: PART 1 MULTIPLE CHOICE QUESTIONS (MCQ)**

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

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

**EXAMINER’S REPORT**

The questions cover all the sections of the syllabus. All the candidates’ attempted the question and performance was good.

**SECTION A: PART II SHORT ANSWER QUESTIONS (SAQ) (10 MARKS)**

**ATTEMPT ALL QUESTIONS**

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

- 1. The economic system in which only the price system allocate productive resources is called.....
- 2. The percentage change in the quantity demanded of a commodity divided by the corresponding percentage change in the price is known as.....
- 3. A technical relationship between the amount of output of a commodity and a given quantities of input is referred to as.....
- 4. The technical term that describe the total monetary value of all final goods and services produced within the geographical boundary of a country during a specific period of time is.....
- 5. Increase in real gross national product (GNP) accompanied by improvement in average living standard is called.....
- 6. If the price elasticity of demand for a good is greater than 1, demand is said to be.....

7. The proportion of disposable income spent on consumption is called.....
8. The activity of banks in financing purchases of non-current assets by their customers and allowing repayment over an agreed period of time is referred to as.....
9. A sustained increase in the general price level in an economy is described as.....
10. An affiliate of the African development Bank (AFDB) set up to provide development finance to members on easier repayment terms than the AFDB is.....

**SOLUTION TO SECTION A: PART II SHORT ANSWER QUESTIONS (SAQ)**

1. Capitalist/free market/ free enterprise economic system
2. Price elasticity of demand
3. Production function
4. Gross Domestic Product (GDP)
5. Economic development
6. Elastic (or Price elastic)
7. Average Propensity to Consume (APC)
8. Equipment leasing
9. Inflation
10. African Development Fund (ADF)

**EXAMINER’S REPORT**

The short answer questions cover all sections of the syllabus. Being a compulsory question all candidates attempted them and performance was above average.

**SECTION B:**

**THEORY PART (ANSWER QUESTION 1 AND ANY OTHER 3 QUESTIONS)**

**SHOW ALL WORKINGS**

1. (a) Distinguish between price elasticity of demand and cross price elasticity of demand. (6 Marks)
- (b) The following table shows hypothetical data of prices and quantities demanded of lager beer and stick meat in certain city.

Commodity	Price (₦)		Quantity (000 Unit)	
	Old	New	Old	New
Lager Beer	200	250	240	180
Stick Meat	100	150	300	280

Using the table, calculate:

- (i) Price elasticity of demand for lager beer and interpret. (3 Marks)
- (ii) Price elasticity of demand for stick meat and interpret. (3 Marks)

(iii) Cross price elasticity of demand for lager beer with respect to the price of stick meat and identify the relationship between the commodities. (3 Marks)

(c) Define marginal propensity to consume (MPC) and marginal propensity to save (MPS). (3 Marks)

(d) Given the consumption function of a simple economy as:

$$C = \text{N}24\text{billion} + 0.6Y$$

$$\text{Where national income } (Y) = C + S$$

$$S = \text{Savings and } C = \text{Consumption}$$

**Required:**

- (i) Derive the savings function and identify the MPS. (4 Marks)
- (ii) Determine the amount of savings in the economy if the national income (Y) is ~~N~~450billion. (3 Marks)

(Total 25 Marks)

### SOLUTION TO QUESTION 1

**a. Price elasticity of demand** for a commodity measures the responsiveness of demand to a change in price of the commodity. The coefficient of the price elasticity of demand ( $E_d$ ) can be expressed as

$$E_d = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$$

**Cross-price elasticity of demand** measures the responsiveness of the demand for a commodity to a change in the price of another commodity. Given two commodities A and B, the cross price elasticity of demand for commodity A with respect to change in the price of commodity B, can be defined as the ratio of percentage change in the quantity demanded of commodity A to the percentage change in the price of commodity B. This is expressed as:

$$E_{ab} = \frac{\text{Percentage change in quantity demanded of A}}{\text{Percentage change in the price of B}}$$

(b) (i) Price elasticity of demand for lager beer ( $E_b$ )

$$E_d = - \left( \frac{\Delta Q_b}{\Delta P_b} \times \frac{P_b}{Q_b} \right)$$

where,

$$Q_b = 180 - 240 = -60$$

$$P_b = 250 - 200 = 50$$

$$P_b = 200,$$

$$Q_b = 240$$

$$E_b = -\left(\frac{-60}{50} \times \frac{200}{240}\right)$$

$$= 1$$

Interpretation:  $E_b = 1$  implies that the price elasticity of demand for lager beer is unitary.

(ii) Price elasticity of demand for stick meat ( $\Sigma_m$ )

$$E_m = -\left(\frac{\Delta Q_m}{\Delta P_m} \times \frac{P_m}{Q_m}\right)$$

$$\Delta Q_m = 280 - 300 = -20, Q_m = 300$$

$$\Delta P_m = 150 - 100 = 50, P_m = 100$$

$$E = -\left[\frac{-20}{50} \times \frac{100}{300}\right]$$

$$= 0.13$$

Interpretation: This shows that demand for stick meat is price inelastic.

(iii) Cross-price elasticity of demand for lager beer with respect to the price of stick meat

$$E_{bm} = \frac{\Delta Q_b}{\Delta P_m} \times \frac{P_m}{Q_b}$$

$$= \frac{180 - 240}{150 - 100} \times \frac{100}{240}$$

$$= \frac{-60}{50} \times \frac{100}{240}$$

$$= -0.5$$

Relationship between the two commodities: Since the coefficient of cross-price elasticity ( $E_{bm}$ ) is negative, implying that lager beer and stick meat are complementary goods.

(c) Marginal propensity to consume (MPC) can be defined as the ratio of change in consumption to change in disposable income i.e.

$$MPC = \frac{\Delta C}{\Delta Y_d}$$

Marginal propensity to save (MPS) can be defined as the ratio of change in savings to change in disposable income i.e.

$$MPC = \frac{\Delta S}{\Delta Y_d}$$

(d) (i) Given that  $C = \text{N}24\text{billion} + 0.6Y$  and  $Y = C + 5$ , then the savings function ( $s$ ) =  $Y - C$ .

$$S = Y - 24 - 0.6Y$$

$$S = (1 - 0.6)Y - 24$$

$$S = 124 + 0.4Y$$

- (ii) The amount of savings if national income (Y) is ₦450 billion:

$$S = -24 + 0.4 (450)$$

$$S = -24 + 180$$

$$S = \text{₦}156 \text{ billion}$$

### EXAMINER'S REPORT

The question tests candidates' knowledge of price elasticity of demand and marginal propensity to consume.

Most of the candidates' attempted the question but performance was below average. The commonest pitfall was the inability of the candidate to differentiate between price and cross elasticity of demand while others could not correctly calculate savings using the national income function.

Candidates are advised to cover all sections of the syllabus for better performance in future examinations.

2. (a) Distinguish clearly between land and capital as factors of production. (6 Marks)

- (b) Production activities are usually categorised as primary, secondary and tertiary. Explain this categorisation with examples. (9 Marks)

(Total 15 Marks)

### SOLUTION TO QUESTION 2

(a) **Land** is a factor of production is usually referred to as a free gift of nature. The term refers to not only land for agricultural activities but to all other resources freely provided by nature such as minerals, fishing ponds, water ways and forest. Land has features of being highly immovable and not limited in supply. The reward of land is rent.

**Capital** as a factor of production can be defined as stock of wealth created by man for the purpose of producing final goods and resources. Example of capital include plant, machines, industrial buildings, intermediate goods such as raw cotton used for textiles, motor spare parts, and so on. The term capital also covers social capital like roads, hospitals, railways, etc that are indirectly relevant in the production process. The reward of capital is interest.

- (b) The different categories of production activities are:

(i) **Primary Production:** This involves extraction of basic materials from nature such as land, or sea. Primary activities are mostly found in agriculture, mining, fishing, quarrying and drilling;

(ii) **Secondary Production:** This involves the processing of the extractive material from the nature into consumer and producer goods. Consumer goods directly satisfy human wants such as food, clothes, shoes, beer etc, while producer goods are those goods used for the production of other goods and services. They include industrial machines and equipments. Secondary activities are mostly found in the manufacturing sub-sector of the economy; and

(iii) **Tertiary Production:** This refers to the provision of services or production of intangible goods such as banking, insurance, transport, consultancy, distributive trade, legal and health care services, teaching, and so on. A medical practitioner that renders services to a sick person is a tertiary producer. The tertiary production in most cases completes the production process, since production of goods is not completed until they reach the final consumers.

### EXAMINER'S REPORT

The part (a) of the question tests the differences between land and capital as a factor of production, while part (b) requires candidates to explain the categorisation of production activities.

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

The main pitfall was the inability of candidates to explain the various categorises of production activities.

Candidates' are advised to make use of the Institute study text for better performance in future examinations.

3. (a) Explain briefly the utility maximisation condition under the cardinal utility theory. (6 Marks)
- (b) Explain the uses of taxation to:
- (i) Redistribute income and wealth; (3 Marks)
  - (ii) Bail out a country during economic recession; and (3 Marks)
  - (iii) Correct balance of payments deficit. (3 Marks)
- (Total 15 Marks)

### SOLUTION TO QUESTION 3

(a) Condition for utility maximisation under the cardinal utility theory of consumer behaviour is that the ratio of marginal utility to price must be equal for all goods subject to the budget constraint.

Given two commodities A and B:

$$\frac{MU_a}{P_a} = \frac{MU_b}{P_b} \text{ -----(1)}$$

Subject to:

$$Y = P_a Q_a + P_b Q_b \text{ ----- (2) (budget constraint)}$$

Where Y

- = Consumer's income
- $P_a$  = Price of commodity A
- $P_b$  = Price of commodity B
- $Q_a$  = Quantity demanded of commodity A
- $Q_b$  = Quantity demanded of commodity B

(b) The uses of taxation to:

(i) **Redistribute Income and Wealth:** Adopt a progressive tax system whereby more money is taken from the rich than the poor. Government should use the accruals form such taxes to provide public goods and services such as roads, schools and hospitals which will be of equal benefits to both the rich and the poor.

(ii) **To bail out a country from economic recession:** During economic recession with significant proportion of the national productive resources lying idle, government can grant tax concessions and other tax incentives to stimulate private enterprises in the domestic economy.

(iii) **To correct balance of payment deficits:** Upward review of import duties to reduce imports and boost exports thereby reducing the deficit in the nation's balance of payments via the current account component.

### EXAMINER'S REPORT

The question tests candidates' knowledge of utility maximisation condition under the cardinal utility theory as well as the use of taxation for income and wealth distributions.

Few of the candidates attempted the question and their performance was above average.

The commonest pitfall was the inability of the candidates to explain the use of taxation as tool for redistribution of income and wealth.

Candidates are advised to make use of the Institute's study text when preparing for future examinations.



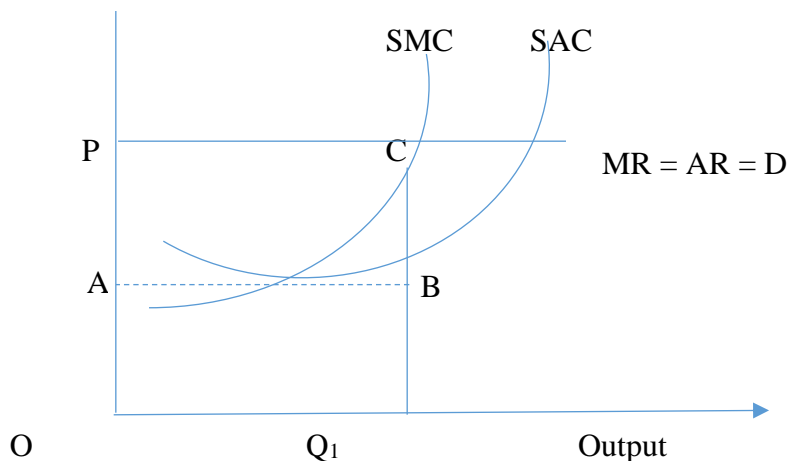
4. (a) Outline Four (4) of the main features of a perfectly competitive market. (8 Marks)
- (b) Explain the short run equilibrium of a perfectly competitive firm using appropriate diagram. (7 Marks)

(Total 15 Marks)

#### SOLUTION TO QUESTION 4

- (a) Features of a perfectly competitive market are:
- Large number of buyers and sellers:** No buyer or seller can influence the product price by his/her individual action.
  - Homogenous product:** The products in the market must be identical in the eyes of the consumers. Price discrimination is not possible.
  - Perfect knowledge of all relevant information:** All buyers and sellers must have knowledge of existing market conditions.
  - Perfect mobility of resources:** Resources should be relevant across the firms in the industry.
  - Free entry and exist:** There should be free movement of resources into or out of the industry.

- (b) Short-run equilibrium of a perfectly competitive firm.



In the short-run, profit is maximised at the output level  $Q_1$ , where  $MC = MR = P$

$$TT = TR - TC$$

$$TT = POQC - AOQ, B$$

$$TT = PABC \text{ (shaded rectangle)}$$

The perfectly competitive firm is making abnormal profit (TT) represented by the shaded rectangle PABC in the short run.

#### EXAMINER'S REPORT

The question tests candidates' knowledge of the main features of a perfectly competitive market and illustration of perfectly competitive market using appropriate diagram. Few of the candidates attempted the question and performance was above average.

The main pitfall was inability of the candidates to illustrate a perfectly competitive market using appropriate diagram.

Candidates are advised to pay more attention to both micro and macro economics section of the syllabus for better performance in future examinations.

5. (a) Define monetary policy. (2 Marks)

- (b) Explain briefly any Four (4) instruments of monetary policy. (10 Marks)
- (c) List Three (3) of the objectives of monetary policy in the modern economy. (3 Marks)  
(Total 15 Marks)

### SOLUTION TO QUESTION 5

- (a) **Monetary Policy:** Refers to the combinations of measures designed to control money supply and credit availability in the economy.
- (b) Monetary policy instruments include:
- (i) **Open Market Operations (OMO):** This refers to purchasing and selling of government securities such as treasury bill, treasury certificates, treasury bond, and so on.
- (ii) **Reserve Requirements:** This is the proportion of the total deposit liability of the commercial banks that must be kept with the central bank as liquidity reserve and demand deposit.
- (iii) **Discount Rate or Monetary Policy Rate (MPR):** This is a minimum lending rate of the Central Bank at which it rediscounts first class bills of exchange and government securities held by the commercial banks.
- (iv) **Selective credit control:** This is used by the Central Bank to favour specific sectors of the economy.
- (v) **Credit ceiling:** To impose a limit on the volume of credit granted by commercial banks in the economy.
- (vi) **Moral suasion:** To persuade commercial banks to take steps that is consistent with government economic goals and targets.
- (vii) **Special deposit:** To reduce money supply, commercial banks are instructed by the Central Bank to make deposit from their deposit liabilities.
- (c) **Objectives of monetary policy include:**
- (i) Full employment;
- (ii) Price stability;
- (iii) External balance or balance of payments equilibrium; and
- (iv) Economic growth.

### EXAMINER'S REPORT

The question tests candidates' knowledge of monetary policy definition and the instruments of monetary policy.

Majority of the candidates attempted the question but performance was below average.

The main pitfall was that candidates discussed the objectives of fiscal policy instead of monetary policy requested for by the examiner.

Candidates are advised to read the questions properly when sitting for future examinations.

6. (a) (i) What is balance of payments (BOP)? (4 Marks)
- (ii) Explain briefly what is meant by balance of payments equilibrium. (2 Marks)
- (b) (i) Distinguish between currency devaluation and currency revaluation. (4 Marks)
- (ii) Explain how currency devaluation will affect a country's balance of payments if demand for imports is price elastic and demand for exports is price inelastic.

(5 Marks)  
(Total 15 Marks)

## **SOLUTION TO QUESTION 6**

(a) (i) **Balance of payments (BOP)** is a systematic record of a country's financial transaction with the rest of the world. It is a record of all payments to abroad and all receipt from abroad during a given period of time usually a year. The balance of payments statement has three component accounts: (i) current account (ii) capital account; and (iii) official reserve or cash account.

(ii) **Balance of payments equilibrium:** It is achieved when the sum of all payments to abroad is equal to the addition of all receipts from abroad. There may be no need for a country to change its economic policies when balance of payments equilibrium is recorded.

(b) (i) **Currency devaluation:** refers to official reduction of the value of a country's currency in relation to foreign currencies.

**Currency revaluation:** On the other hand, refers to official increase in the value of a country's currency in relation to foreign currency.

(ii) **Currency devaluation** causes imports to be more expensive and exports to be cheaper. If demand for imports is price elastic, less of imports will be demanded according to the law of demand. In addition, there will be no significant reduction or decrease in quantity demanded of exports if demand for exports is price inelastic. Therefore the country's balance of payments will improve.

## **EXAMINER'S REPORT**

The question tests candidates understanding of balance of payment and balance of payment equilibrium as well as currency devaluation/revaluation.

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

The commonest pitfall was the inability of the candidates to differentiate between currency devaluation and revaluation.

Candidates are advised to pay more attention to all sections of the Institute's syllabus for better performance in future examinations.