



THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2021 PATHFINDER FOR **FOUNDATION LEVEL.**

PRINCIPLES OF TAXATION

TUESDAY 13TH APRIL, 2021

EXAM NO.....

PART I

MULTIPLE CHOICE QUESTIONS (MCQ)

(40 MARKS)

ATTEMPT ALL QUESTIONS.

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

1. Which one of the following is not an advantage of progressive tax?
 - A. Cheap to collect.
 - B. Certainty.
 - C. Inflationary.
 - D. Convenience.

2. Which of the following is not a source of tax laws in Nigeria?
 - A. Statute laws.
 - B. Case laws.
 - C. Circulars issued by and practices of the Federal Inland Revenue Service.
 - D. Opinion of a governor in any state.

3. Which one of these taxes is not collectible by the federal government?
 - A. Petroleum profits tax.
 - B. Tertiary education tax.
 - C. Stamp duties on corporate bodies.
 - D. Slaughter slab fees.

4. Which of the following is not an example of taxes classified by tax base?
 - A. Personal income tax.
 - B. Proportional tax.
 - C. Information technology levy.
 - D. Tertiary education tax.

5. Which one of the following instances will a tax consultant not disclose information on taxpayers?
- A. Disclosure is permitted by law.
 - B. Disclosure is authorised by the client, that is, the taxpayer.
 - C. Disclosure is permitted by religious belief.
 - D. Disclosure is required by law.
6. Which of the following information will not be disclosed on a tax clearance certificate of a company?
- A. Gross profit.
 - B. Assessable profit or loss.
 - C. Revenue (turnover).
 - D. Total profit.
7. How many days' notice would a Tax Appeal Tribunal give to an appellant and Federal Inland Revenue Service of the date and place fixed for hearing of the appeal?
- A. 28 days.
 - B. 21 days.
 - C. 14 days.
 - D. 7 days.
8. How many members or their representatives shall constitute a quorum at a meeting of the Joint Tax Board?
- A. 7 members.
 - B. 6 members.
 - C. 5 members.
 - D. 4 members.
9. Which of the following is not a canon of taxation?
- A. Simplicity.
 - B. Equity.
 - C. Convenience.
 - D. Ability to pay.
10. What is the minimum amount of the non-current tangible asset of a company applying for pioneer status?
- A. ₦10,000,000.
 - B. ₦100,000,000.
 - C. ₦50,000,000.
 - D. ₦150,000,000.

11. Which of the following relates to tax system?
- A. Tax law and tax policy.
 - B. Tax administration and tax law.
 - C. Tax law, tax policy and tax administration.
 - D. Tax policy and tax law.
12. Which one of the following is not an indirect tax?
- A. Import duties.
 - B. Value added tax.
 - C. Excise duties.
 - D. Withholding tax.
13. Which of the following is not an objective of taxation?
- A. To provide fiscal tool for stimulating economic growth and development.
 - B. To promote healthy competition among different tiers of government.
 - C. For revenue generation to meet the needs of the government.
 - D. To redistribute income and wealth in order to reduce inequality.
14. Which one of the following is not a function of the Joint Tax Board (JTB)?
- A. Advise the Federal Government, on request, in respect of double taxation arrangement with any other country.
 - B. Assess, collect, account and enforce payment of taxes as may be due to the government or any of its agencies.
 - C. Advise the Federal Government, on request, in respect of rates of capital allowances and other taxation matters, having effect throughout Nigeria in respect of any proposed amendment to PITA.
 - D. Exercise the powers or duties conferred on it by the PITA and other Acts.
15. Within what period is a newly incorporated company expected to register with the FIRS?
- A. Eighteen months after incorporation or eight months after the end of its first accounting period.
 - B. Eighteen months after incorporation or six months after the end of its first accounting period.
 - C. Eighteen months after incorporation or seven months after the end of its first accounting period.
 - D. Twenty months after incorporation or six months after the end of its first accounting period.
16. Which of the following is the head of Local Government Revenue Committee?
- A. Supervisor of Finance.

- B. Commissioner for Finance.
- C. Local Government Executive Chairman.
- D. Leader of the House of the Local Government.

17. What is the name given to the management board of the FIRS?
- A. Board of Federal Inland Revenue Service.
 - B. Federal Board of Inland Revenue Service.
 - C. Federal Internal Revenue Service Board.
 - D. Federal Inland Revenue Service Board.
18. Which one of the following is not the objective of the Nigeria tax policy?
- A. Guide the operation and review of the tax system.
 - B. Advise on the tax collectible by the various tiers of Government.
 - C. Provide the basis for future tax legislation and administration.
 - D. Serve as a point of reference for all stakeholders on taxation.
19. Which of the following is/are not fundamental feature(s) of good taxes?
- A. Equity and fairness.
 - B. Simplicity, certainty and clarity.
 - C. Convenience.
 - D. Extraordinary.
20. Which of the following is not a goal that a tax system must achieve to support sustainable growth and development at all times?
- A. Wealth creation and employment.
 - B. Quality education.
 - C. Taxation and diversification.
 - D. Focus on indirect taxation.
21. Which one of the following is not a primary responsibility of government as a key stakeholder in ensuring an orderly and sustainable development of the Nigeria tax system?
- A. Receive prompt, courteous and professional assistance in dealing with tax authorities.
 - B. Implement and regularly review tax policies and laws.
 - C. Provide information on all revenue collected on a quarterly basis.
 - D. Ensure adequate funding, administrative and operational autonomy of tax authorities.
22. Which one of the following is not a primary responsibility of the revenue agencies in ensuring an orderly and sustainable development of the Nigeria tax system?
- A. Ensure efficient implementation of tax policies, laws and international treaties.
 - B. Treat the taxpayer as a customer.

- C. Facilitate inter-agency co-operation and exchange of information.
 - D. Self-representation or by any agent of choice, provided an agent acting for financial reward shall be an accredited tax practitioner.
23. Within how many months after the accounting year end should an existing company file its tax returns?
- A. Eighteen months.
 - B. Twelve months.
 - C. Six months.
 - D. Eight months.
24. Which of the following is not a document expected to accompany the application for registration by companies with the FIRS?
- A. Bank statements.
 - B. Memorandum and articles of association.
 - C. Certificate of incorporation.
 - D. Form CAC 7.
25. What is the time limit for objecting to a tax assessment raised on a taxpayer by the tax authority?
- A. 60 days.
 - B. 30 days.
 - C. 15 days.
 - E. 5 days.
26. Which one of the following is not a condition for a notice of objection to be valid?
- A. It must be in writing.
 - B. It must be addressed to the Chairman of Federal Inland Revenue Service.
 - C. It must state the grounds of objection.
 - D. It must state the amount of withholding tax recoverable.
27. Which of the following is not a condition for a valid appeal against the decision of the Tax Appeal Tribunal at the Federal High Court?
- A. Amount involved must be less than ₦200.
 - B. Amount involved must not be less than ₦400.
 - C. The appeal must be on points of law.
 - D. Notice of appeal must be given to the Tax Appeal Tribunal within 30 days after the date of the judgement of the Tax Appeal Tribunal.
28. What is the quorum at any sitting of the Tax Appeal Tribunal?
- A. Five members.
 - B. Six members.
 - C. Three members.
 - D. Two members.

29. Which of the following is not a procedure for hearing an appeal before the Tax Appeal Tribunal?
- A. The Tax Appeal Tribunal gives seven (7) days' notice to the appellant and FIRS of the date and place fixed for hearing of the appeal.
 - B. A member with vested interest in any matter before the Tax Appeal Tribunal must disclose such interest and abstain from attending any sitting, at which the matter is to be heard.
 - C. All appeals before the Tax Appeal Tribunal are heard in public.
 - D. The Tax Appeal Tribunal can only entertain tax cases below N1 million.
30. Which one of these is the source of government funding of public services?
- A. Levelling infrastructural taxes.
 - B. Asking for voluntary donations from the citizens.
 - C. Raising money through fines and levies.
 - D. Raising money through taxation of both corporate and individual citizens.
31. When was the last amendment to the Personal Income Tax Act in Nigeria?
- A. 2020.
 - B. 2015.
 - C. 2012.
 - D. 2011.
32. What is the basis for personal income tax?
- A. Personal income from both earned and unearned sources.
 - B. Personal income from earned income.
 - C. Personal income from personal business.
 - D. Personal income from investment income.
33. What is the basis for value added tax?
- A. Goods brought into the country.
 - B. Goods produced in the country.
 - C. Qualifying goods and services.
 - D. Activities of residents in the country.
34. How does the constitution describe taxation?
- A. A compulsory levy.
 - B. A civic duty of every citizen.
 - C. Constitutional right of every citizen.
 - D. Voluntary duty of every citizen.

35. Which of the following personal income tax is not collectible by the Federal Inland Revenue Service?
- A. Income tax of personnel of Armed Forces.
 - B. Income tax of personnel of the Nigerian Police Force.
 - C. Income tax of the personnel of the Ministry or Department of Government assigned the responsibilities for Foreign Affairs.
 - D. Income tax of federal civil servants resident in all states.
36. What is the basis of capital gains tax?
- A. Gains from lotteries and coupons.
 - B. Gains from disposal of personal residential house.
 - C. Gains from sales or disposal of assets.
 - D. Gains from sales of stock and shares.
37. Which of the following is not a reason why government imposes taxes?
- A. To maintain general administration.
 - B. To maintain internal law and order.
 - C. To redistribute income.
 - D. To punish offenders.
38. Which of the following is not an advantage of direct tax?
- A. More equitable.
 - B. Flexibility.
 - C. Better redistribution of income.
 - D. Cannot be evaded.
39. Who is the chairman of the Joint Tax Board?
- A. The Minister of Finance or his representative.
 - B. Any chairman of the Tax Appeal Tribunal.
 - C. Chairman/Chief Executive of the Federal Board of Inland Revenue.
 - D. Any chairman of the state internal revenue service elected by the board.
40. Which of the following is not a function of Joint State Revenue Committee?
- A. Implement the decisions of the Joint Tax Board.
 - B. Advise the Joint Tax Board and the State and Local Governments on revenue matters.
 - C. Harmonise tax administration in the State.
 - D. Approves the tax rates to be applied in the state.

PART I

MULTIPLE CHOICE SOLUTION

(40 MARKS)

1. C

2. D
3. D
4. B
5. C
6. A
7. D
8. A
9. D
10. B
11. C
12. D
13. B
14. B
15. B
16. A
17. D
18. B
19. D
20. B
21. A
22. D
23. C
24. A
25. B
26. D

- 27. A
- 28. C
- 29. D
- 30. D
- 31. C
- 32. A
- 33. C
- 34. B
- 35. D
- 36. C
- 37. D
- 38. D
- 39. C
- 40. D

PART II SHORT ANSWER QUESTIONS (SAQ) (60 MARKS)

ATTEMPT ALL QUESTIONS.

- 1. State two (2) objectives of taxation.
- 2. What is the definition of tax, in accordance with the Federal Inland Revenue (Establishment) Act, 2007?
- 3. Describe tax evasion.
- 4. State two (2) sources of Nigerian tax laws.
- 5. Explain tax burden briefly.
- 6. Explain briefly two (2) principles of an ideal tax system.
- 7. Explain the concept of progressive tax.
- 8. List four (4) taxes collectible by local governments.
- 9. Explain briefly the concept of presumptive tax.

10. What is the tax base for tertiary education tax?
11. List any four (4) transactions in respect of which tax clearance certificate must be produced.
12. List two (2) functions of the State Board of Internal Revenue.
13. List any four (4) legislations that were enacted as a result of Raisman Commission of 1958.
14. For a payment/collection to be considered a tax, what are the characteristics that it should possess?
15. Explain briefly why a taxpayer cannot sue government for not spending enough tax money or fund in his community or local government area, even when he pays more tax than others.
16. List four (4) difficulties encountered by tax collectors in Nigeria.
17. Explain the concept of incidence of tax briefly.
18. What is tax avoidance?
19. When can an Appeal commissioner be removed from the Body of Appeal Commissioners?
20. List four (4) objectives of tax incentives.
21. Differentiate between direct and indirect taxes.
22. List two (2) functions of the Joint Tax Board.
23. When is an assessment deem final and conclusive?
24. What is the composition of Local Government Revenue Committee?
25. List four (4) of the functions of the Joint State Revenue Committee.
26. List two (2) taxes and levies that are usually imposed and collected by state governments.
27. In accordance with section 7 of Federal Inland Revenue Services Established Act, (FIRSEA), 2007, mention four functions of the Federal Inland Revenue Service Board?
28. List two (2) examples each of direct and indirect taxes.
29. What are the conditions for the granting of a pioneer status?
30. List two (2) factors that are likely to improve efficiency of tax administration in Nigeria.

1. The objectives of taxation include the following:
 - a. Revenue generation so as to meet the needs of government particularly in the provision of infrastructure and public goods;
 - b. To redistribute income or wealth in order to reduce poverty, inequality and promote social welfare in the society;
 - c. For social function, such as discouraging the consumption of demerit or harmful goods like alcohol and cigarettes. This is done to reduce external costs (health risks and pollution) to the society;
 - d. Harmonisation of economic objectives: Harmonisation of diverse trade or economic objectives of different countries can be achieved through a good tax system. For example, tax system can be employed by member states of Economic Committee of West African States (ECOWAS) so as to achieve the philosophy of the single market (free movement of people and goods) within the region; and
 - e. Management of the economy: Taxation is important in the planning of savings and investments and by harmonizing it with development strategy and changing economic structure, the government can use taxation as a powerful fiscal weapon to plan and develop a country.
2. The Federal Inland Revenue Establishment (Establishment) Act, 2007 defined the term "Tax" to include any duty, levy or revenue accruable to the government in full or in part under this Act, the laws listed in the First Schedule to this Act or any other enactment or law.
3. Tax evasion is an illegal method of reducing one's tax liability, such as declaring lower income or refusing to pay tax altogether or non-submission of tax returns. It is punishable with fines, payments of double the amount that has been undercharged or not paid at all, etc.
4. The major sources of Nigerian tax laws are:
 - a. Customary laws;
 - b. Statute laws;
 - c. Case laws or court judgements;
 - d. Circulars issued by and practices of the Revenue;
 - e. Opinions of tax experts and authors in so far as the courts take judicial notice of them;
 - f. Budget and pronouncement of relevant ministries; and
 - g. The Constitution of the Federal Republic.
5. Tax burden is the amount of income, property or consumption tax levied on an individual or business. Tax burdens vary, depending on a number of factors including income level, jurisdiction, and current tax rates.

Income tax burdens are typically satisfied by deductions from an individual's pay slip each time he or she is paid.

6. The principles of an ideal tax are:
 - a. **Equity:** This affirms that every taxable person should be taxed according to his ability, therefore, the rich should pay more, while the poor pay less;
 - b. **Certainty:** The time of payment, the manner of payment, the amount to be paid should be certain and clear to the taxpayer. The determination of tax liability should not be left to the whims and caprices of tax officials;
 - c. **Convenience:** The social and economic standing of the taxpayer must be taken into consideration. Thus, the time of payment should not be inconvenient to the taxpayer;
 - d. **Administrative efficiency:** The process of levying and collection must be administratively efficient, transparent and must not cause economic distortion to the taxpayers;
 - e. **Simplicity:** The tax system should be such that it is simple to understand by the taxpayers;
 - f. **Productive:** The tax system should be such that it brings in sufficient revenue to the government. The cost of administering the tax should be less than the revenue such tax will generate; and
 - g. **Flexibility and stability:** A good tax system should be flexible enough for changes to be effected by any government of the day. This flexibility, however, must be balanced with the need to have a stable tax system.
7. **Progressive tax:** This form of tax is graduated as it applies higher rates of tax as income increases.
8. **Taxes and levies to be collected by local governments include:**
 - a. Shops and kiosks rates;
 - b. Tenement rates;
 - c. Marriage, birth and death registration fees;
 - d. Slaughter slab fees;
 - e. On and off liquor licence fees;
 - f. Street naming registration fee except in state capital;
 - g. Right of occupancy fees on lands in rural areas (exclusive of those collectable by federal and state governments);
 - h. Market taxes and levies excluding any market where state finance is involved;
 - i. Motor park fees;
 - j. Domestic animal licence fees;
 - k. Bicycle, truck, canoe, wheelbarrow and cart fees, other than a mechanically propelled truck;
 - l. Cattle tax - payable by cattle farmers only;
 - m. Road closure levy;

- n. Radio and television licence fees (other than radio and television transmitter);
 - o. Cradio licence fees (to be imposed by the local government of the state in which the car is registered);
 - p. Illegal parking fees;
 - q. Public convenience sewage and refuse disposal fees;
 - r. Customary burial ground permit fees;
 - s. Religious places establishment permit fees; and
 - t. Signboard and advertisement permit fees.
9. Presumptive tax is a form of tax regime designed to bring tax payers operating in the informal sector e.g., Artisans, Traders etc. into the tax net. It is predicated on a tax payer's presumed (not actual) income, which may not be easy to determine because records are not adequate. This method of taxation is thought to be effective in reducing tax evasion as well as equalising the distribution of the tax burden.
10. It is imposed on assessable profits of companies registered in Nigeria. It is 2% of assessable profit of the company.
11. The transactions in respect of which tax clearance certificate must be produced are as follows:
- a. Application for Government loan for industry or business;
 - b. Registration of motor vehicle;
 - c. Application for firearms licence;
 - d. Application for foreign exchange or exchange control permission to remit funds outside Nigeria;
 - e. Application for certificate of occupancy;
 - f. Application for award of contracts by government, its agencies and registered companies;
 - g. Application for approval of building plans;
 - h. Application for trade licence;
 - i. Application for transfer of real property;
 - j. Application for import or export licence;
 - k. Application for agent licence;
 - l. Application for pools or gaming licence;
 - m. Application for registration as a contractor;
 - n. Application for distributorship;
 - o. Confirmation of appointment by government, as chairman or member of public board, institution, commission, company or to any other similar position made by the government;
 - p. Stamping of guarantor's form for Nigerian passport;
 - q. Application for registration of a limited liability or of a business name;
 - r. Application for allocation of market stalls;
 - s. Appointment or election into public office;
 - t. Change of ownership of vehicle by the vendor; and
 - u. Application for plot of land.
12. The functions of the State Board of Internal Revenue are:
- a. Ensuring the effectiveness and optimum collection of all taxes and penalties due to the government under the relevant laws;

- b. Doing all such things as may be deemed necessary and expedient for the assessment and collection of the tax and shall account for all amounts so collected in a manner to be prescribed by the Commissioner;
 - c. Making recommendations, where appropriate, to the JTB on tax policy, tax legislation, tax treaties and exemption as may be required from time to time;
 - d. Generally controlling the Management of the Service on matters of policy; and
 - e. Appointing, promoting, transferring and imposing discipline on employees of the State Service.
13. Legislations that were enacted as a result of Raisman Commission of 1958 are:
- a. The Petroleum Profit Tax Act (PPTA), 1959;
 - b. The Stamp Duty Act (SDA) Cap.411 LFN 1990 Act. Cap.S8LFN 2004;
 - c. The Companies Income Tax Act (CITA), 1979;
 - d. The Income Tax Management Act (ITMA), 1961; and
 - e. The Personal Income Tax (Lagos) Act (PITLA), 1961.
14. For a payment/collection to be considered a tax, it should possess the following characteristics:
- a. It is a compulsory payment imposed by the government on the people residing in the country. Since it is a compulsory levy, any person who refuses to pay a tax is liable to punishment. A levy, the payment of which is voluntary is not a tax but a contribution or donation;
 - b. A tax must be for common use. It must be for common good. The government uses the revenue collected from taxes for providing hospitals, schools, public utility services, etc. which benefit all people; and
 - c. A tax is not levied in return for a specific purpose or service rendered by the government to the taxpayer. An individual cannot ask for any special benefit from the state in return for the tax paid by him.
15. A taxpayer cannot sue government for not spending enough tax money or fund in his community or local government area, even when he pays more tax than others. This is because tax is not paid for a specific purpose. Government power of imposition is not descendent on the conferment of benefit, but is essentially an exercise of sovereign power.
16. Difficulties encountered by tax collectors in Nigeria are:
- a. False declaration of income - Many workers, especially those in private firms do not declare their real incomes;
 - b. Improper books of account - Majority of the traders keep improper or no books of account at all;
 - c. Tax evasion - Many people do not fulfil their civic responsibilities by paying tax as and at when due;
 - d. Ignorance of the importance of taxation - Many people as a result of ignorance think that the money is for the tax collectors and therefore refuse to pay tax;
 - e. Mismanagement of government fund - Embezzlement and misappropriation of government fund by those at the corridors of power may kill people's enthusiasm to fulfil their civic obligation of paying tax;
 - f. Inadequate provision of amenities - Many people with the belief that the money they pay as tax is used only for the provision of social amenities will resist payment of tax if these anticipated amenities are not provided; and

g. High taxes - High taxes scare the potential payers away.

17. Tax incidence refers to the final place of the tax or the person who bears the burden of the tax by suffering a loss in his personal disposable income. In this connection, it may be necessary to distinguish between legal impact and effective impact of tax. Legal impact falls on whoever is legally liable to pay tax to the tax authority. Effective impact falls on whoever finally bears the burden of the tax, when legal impacts differ from the effective impact, the tax has been shifted.
18. Tax avoidance is a deliberate act of the taxpayer to pay less than he ought to pay legally. It is an "art of winning games without actually cheating". It is permissible under the law. Tax avoidance is practiced by taxpayers who take advantage of loopholes in tax laws, i.e. those who take advantage of circumstances that are not clearly defined in the law or can bear different interpretations. For examples, the act of claiming Investment Allowance (IA) on office equipment when this was meant to be claimed on industrial equipment.
19. An appeal commissioner can be removed from the body of appeal commissioners on the occurrence of any of the following:
 - a. Where an appeal commissioner has been absent from two consecutive meetings of the body without the written permission of the Chairman of the Board;
 - b. Where an appeal Commissioner is incapacitated by physical or mental illness;
 - c. Where he has attended a meeting concerning a taxpayer in which he has interest without informing other members; and
 - d. Where he has been convicted of a felony, or of an offence under any enactment in Nigeria imposing tax on income or profit.
20. The objectives of tax incentives are to:
 - a. Attract, retain or increase investment in a particular sector;
 - b. Attract foreign investment into Nigeria;
 - c. Encourage investors to invest in certain preferred sectors of the economy such as manufacturing, agriculture, etc.
 - d. Assist companies or individuals carrying on identified activities;
 - e. Encourage investors to invest in rural areas to enhance development of those areas;
 - f. Encourage repatriation of foreign earnings to Nigeria;
 - g. Promote export;
 - h. Encourage voluntary compliance;
 - i. Encourage research and development activities;
 - j. Accelerate the growth of small businesses; and
 - k. Encourage businesses to make financial contribution to activities which the government considers socially desirable but which may not make direct contribution to their profits, such as donations to educational institutions, research institutes, government hospitals etc.
21. Direct tax: This form of tax is assessable directly on the taxpayer who is required to pay tax on his property, income or profit, etc. The taxpayer bears the burden of the tax liability.

Indirect taxes: These are taxes which are imposed on commodities before they reach the consumer, and are paid by those upon whom they ultimately fall, not as taxes, but

as part of the selling price of the commodity. Thus, the taxes are borne by a person other than the one from whom the tax is collected.

22. The major functions of the Joint Tax Board are:
 - a. To exercise the powers or duties conferred on it by PITA and other Acts;
 - b. To ensure harmonization and uniformity of the Nigerian Tax system and practice;
 - c. To advise the Federal Government, on request, in respect of:
 - (i) Double Taxation Arrangements (DTA) concluded or under consideration with any other country;
 - (ii) Rates of Capital Allowances and other taxation matters having effect throughout Nigeria; and
 - (iii) Proposed amendments to tax laws.
 - d. To look into any disagreements between States in relation to their tax matters;
 - e. To consider and approve, even on a continuous basis, application in respect of Nigeria Pension, Retirement Benefits Schemes and all matters related thereto; and
 - f. To impose its decision on matters of procedure or interpretation of PITA on any state for purpose of confronting with agreed procedure and interpretation.

23. An assessment raised on a company is said to be final and conclusive where:
 - a. No valid objection or appeal has been lodged against the amount of total profit assessed on a company within the time statutorily allowed for that purpose; or
 - b. The amount of total profit has been agreed by the tax payer after his objection has been determined by FIRS; or
 - c. The amount of total profit has been determined on appeal.

24. The composition of Local Government Revenue Committee is as follows:
 - a. The Supervisor for Finance as Chairman;
 - b. Three Local Government Councilors as members; and
 - c. Two other members experienced in revenue matters to be nominated by the Chairman of the Local Government on their personal merits.

25. The functions of the Joint State Revenue Committee are:
 - a. Implement the decisions of the Joint Tax Board;
 - b. Advise the Joint Tax Board and the States and Local; Governments on revenue matters.
 - c. Harmonise tax administration in the States;
 - d. Enlighten members of the public generally on State and Local Government revenue matters; and
 - e. Carry out each other functions as may be assigned to it by the Joint Tax Board.

26. Taxes and levies that are usually imposed and collected by state governments are:
 - a. Road taxes;
 - b. Pool's betting and lotteries, gaming and casino taxes;
 - c. Naming of street registration fees in the State Capital;
 - d. Market taxes and levies where State finance is involved; and
 - e. Right of Occupancy fees on lands owned by the State Government in urban areas of the State.

27. The Board is responsible for the overall supervisions of the Federal Inland Revenue Service Board, Section 7 of FIRSEA, 2007 provides that the Board shall:
- a. Provide the general policy guidelines relating to the functions of the Service, that is FIRS;
 - b. Manage and superintend the policies of the FIRS on matters relating to administration of the revenue assessment, collection and accounting system under the Act or any other enactment or law;
 - c. Review and approve the strategic plans of FIRS;
 - d. Employ and determine the terms and condition of Service including disciplinary measures of the employees of the FIRS;
 - e. Stipulate remuneration, allowances, benefit and pension of staff and employees in consultation with National Wages, Incomes and Salaries Commission; and
 - f. Do such other things which in its opinion are necessary to ensure the efficient performance of the functions of the FIRS under the Act.
28. Examples of direct taxes include Personal income tax, Companies income tax, Capital gains tax, Petroleum profits tax and Tertiary education tax. Examples of indirect taxes include Value added tax, Stamp duties, Excise duties and Customs duties.
29. Conditions for the granting of a pioneer status are:
- a. The industry is not being carried on in Nigeria on a scale suitable to the economic requirements of Nigeria or at all; or
 - b. There are favourable prospects of further development in Nigeria of any industry; or
 - c. It is expedient in the public interest to encourage the development or establishment of any industry in Nigeria by declaring the industry to be a pioneer industry and any product of the industry to be a pioneer product.
30. For any tax administration to be efficient, the following factors must be present:
- a. Honest and Competent Staff - Tax officials must be honest and dedicated. They must also possess sufficient technical and administrative competence to be able to practicalise the tax laws as may be modified from time to time;
 - b. Accounting Records - For a tax system to succeed, accounting records of businessmen, professionals and other self-employed people which the tax authority can rely upon, must be honestly prepared;
 - c. Literacy - It is much easier for educated people who can read and understand the tax laws to cooperate fully in reaching consensus on tax liability, whereas it will take a lot of time as deal with an illiterate taxpayer who cannot even understand and complete the simple income returns;
 - d. Political Will - The authority must be firm, sincere and honest to ensure that everybody pays tax irrespective of social status; and
 - e. Voluntary Compliance - The populace should voluntarily pay tax rather than being forced to do so.



THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2021: PROFESSIONAL EXAMINATION

**FOUNDATION: BUSINESS
LAW**

TUESDAY 13TH APRIL, 2021

EXAM NO.....

PART I MULTIPLE CHOICE QUESTIONS (MCQ) (40 MARKS)

ATTEMPT ALL QUESTIONS.

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

1. In the Nigerian judicial system, which one of the following explains the principle that a court is bound by the decisions of higher courts?
 - A. Judgement accord
 - B. *Obiter dictum*
 - C. Judicial precedent
 - D. Golden rule.

2. Which of the following is associated with the application of common law?
 - A. Rigidity
 - B. Flexibility
 - C. Adaptability
 - D. Conformity

3. Which of the following is a source of Nigerian laws?
 - A. International treaties
 - B. Panel of enquiry decisions
 - C. Probate registry records
 - D. The records of National Judicial Institute

4. Which of the following is the *grundnorm*?
 - A. *Stare decisis*
 - B. International law
 - C. The Constitution of the Federal Republic of Nigeria
 - D. Act of the National Assembly

5. Which of the following is an advantage of establishing Alternative Dispute Resolution mechanism.
- A. Arbitration award is unchallengeable
 - B. Parties can represent themselves at panel proceedings
 - C. Police involvement ensures enforcement of arbitration award
 - D. Legal representation is essential at proceedings.
6. Which of the following has amended tax statutes in Nigeria?
- A. Finance Act 2020
 - B. Fiscal Act 2020
 - C. Tax (Amendment) Act 2020
 - D. Revenue Act 2020
7. Which of the following is not within the jurisdiction of the Tax Appeal Tribunal?
- A. Personal Income Tax disputes
 - B. Petroleum Profit Tax disputes
 - C. Boundary Tax disputes
 - D. Value Added Tax disputes
8. Which of the following is an allowable expense under Personal Income Tax Act?
- A. Donations to political party
 - B. Levies paid to social club
 - C. Subscriptions paid to professional bodies
 - D. Sundry payments to help friends.
9. Which of the following is not subject to Value Added Tax?
- A. Medical supplies
 - B. Office appliances
 - C. New motor cars
 - D. Electricity Generators.
10. Which of the following is exempted from tax?
- A. Profit from sale of Federal Government securities
 - B. Dividends, interests, discounts and royalties
 - C. Dividends distributed by Unit Trust
 - D. Rents from a right of occupation of a property.
11. Within which period after commencement of operation must a company in the petroleum industry file tax return?

- A. 5 months
 - B. 4 months
 - C. 3 months
 - D. 2 months
12. Under the law of contract, which of the following is the term used where an obligation is to be performed in the future?
- A. Suspended consideration.
 - B. Executory consideration.
 - C. Past consideration.
 - D. Executed consideration.
13. Which of the following is true of an offer?
- A. It is a preliminary move in negotiation
 - B. It could be made to the whole world
 - C. It is an advertisement
 - D. It creates the intention to create legal relations
14. What is the effect of mutual mistake on a contract?
- A. Contract is void.
 - B. Contract is enforceable.
 - C. Contract is illegal.
 - D. Contract is voidable.
15. In which of the following situations is a master liable for the tortious acts of his servant?
- A. Acts of the servant for self interest without the consent of the principal
 - B. Acts of the servant conducted within his authority
 - C. Acts of the servant outside his authority for more profit
 - D. Acts of the servant conducted to help third parties.
16. In which situation would a contract be binding on an illiterate person?
- A. When all the elements of a contract are present
 - B. When the illiterate person is an adult
 - C. At the instance of the illiterate person
 - D. When the terms of the contract are not difficult
17. Which of the following is not an element of fraudulent misrepresentation?
- A. Recklessness
 - B. Falsehood
 - C. Omission
 - D. Lack of belief in the truth of one's statement.

18. Which of the following relates to the rule of *nemo dat quod non habet* under the sale of goods contract?
- A. Only the owner can validly transfer title in the goods.
 - B. No legal action can be brought against the seller by the buyer.
 - C. Only buyer can sue the seller.
 - D. The seller and buyer can sue each other.
19. Which of the following is not an obligation of the owner under a hire purchase agreement?
- A. Protecting the goods
 - B. Good title
 - C. Disclosing the cash price of the goods to the hirers when the agreement is being made
 - D. Delivering the goods to the hirer.
20. Which of the following conditions must be present before a seller can exercise right of stoppage of delivery of goods to a buyer?
- A. Buyer sells the goods to third party.
 - B. Third party claims ownership of the goods.
 - C. Buyer is unable to pay for the goods.
 - D. Buyer and owner disagree on title to the goods.
21. Under lease agreement, which of the following is a feature of Operating Lease?
- A. Lessor is responsible for maintenance of the leased asset
 - B. Lessee is responsible for maintenance of the leased asset
 - C. Lessor retains both possession and title of the leased asset
 - D. Lessee takes possession and ownership of the leased asset.
22. Which of the following pleas may enable a master to escape vicarious liability for the tort of his servant?
- A. *Volenti non fit injuria*
 - B. Exemption plea
 - C. *Non est factum*
 - D. Frolic of his own
23. Under which of the following circumstances will transmission of shares of a public company be relevant?
- A. When the company requires funds.
 - B. When a deceased shareholder's shares are taken over by his legal representatives.
 - C. When the company is being wound-up.
 - D. When a shareholder sells his shares.

24. Which of the following is not a duty of a carrier of goods?
- A. Duty to deliver
 - B. Duty of care
 - C. Duty of storage
 - D. Duty to act in good faith
25. Which of the following is an element of Negligence?
- A. Volunteerism
 - B. Duty of care
 - C. Likelihood of deception
 - D. Acquiescence
26. What is the part-payment of dividend to equity shareholders during an accounting year of a company called?
- A. Interim dividend
 - B. Final dividend
 - C. Deferred dividend
 - D. Accrued dividend.
27. Which of the following is not a tort?
- A. Occupiers liability
 - B. Battery
 - C. Assault
 - D. Obstruction of justice
28. Which of the following courts has jurisdiction to hear cases of fraud committed by individuals against a State of the Federation?
- A. State High Court
 - B. Federal High Court
 - C. Court of Appeal
 - D. Special Tribunal.
29. Which of the following word or phrase represents the duty of an agent not to allow his interest to conflict with his duty?
- A. Loyalty
 - B. Obedience
 - C. Single-mindedness
 - D. Dutifulness
30. In the law of agency, ratification is equal to
- A. antecedent authority.
 - B. exigent authority.
 - C. implied authority.

- D. presumed authority.
31. Where a servant, acting within the normal course of his master's business commits his master to evade tax payment, who is liable?
- A. Tax agent
 - B. Master to the servant
 - C. Servant to the master
 - D. Tax officer.
32. Which of the following government agencies is responsible for the formulation of tax policies in Nigeria?
- A. Federal Inland Revenue Service
 - B. States Internal Revenue Board
 - C. Joint Tax Board
 - D. Federal Finance and Economic Board.
33. What is the nature of relationship between partners in a partnership?
- A. Pecuniary
 - B. Fraternity
 - C. Fiduciary
 - D. Infirmary
34. What is the effect of a contract that is deficient in one of the essential elements?
- A. Contract is invalid
 - B. Contract is actionable
 - C. Contract is inconsequential
 - D. Contract is subjugated.
35. Which of the following companies must not have share capital?
- A. Company limited by guarantee
 - B. Private company
 - C. Unlimited liability company
 - D. Chartered company
36. Where remuneration is payable to directors by virtue of the articles of association from which of the following is it payable?
- A. Profits
 - B. Capital
 - C. Profits and capital
 - D. Company's regular stream of income

37. Which tax authority is charged with the responsibility of collecting Value Added Tax (VAT) in the Federal Capital Territory, Abuja?
- A. Federal Inland Revenue Service
 - B. Federal Capital Internal Revenue Service
 - C. Abuja Internal Revenue Service
 - D. Local Government internal Revenue Service.
38. What is the class of a company's unsold shares and the last of shareholders to receive dividends called?
- A. Preference shares
 - B. Intangible shares
 - C. Deferred shares
 - D. Unclaimed shares.
39. Which of the following courts has exclusive jurisdiction for winding up of a public company?
- A. States High Courts
 - B. Federal High Court
 - C. Court of Appeal
 - D. Supreme Court.
40. Which of the following has the jurisdiction to order the winding up of a company?
- A. High Court of the State of the Registered Office
 - B. High Court of the Federal Capital Territory
 - C. Administrative Proceedings Committee of the Corporate Affairs Commission
 - D. Federal High Court.

TUESDAY 13TH APRIL, 2021

EXAM NO.....

PART I MULTIPLE CHOICE SOLUTION (40 MARKS)

- 1. C
- 2. A
- 3. A
- 4. C
- 5. B
- 6. A

7. C
8. C
9. A
10. C
11. D
12. B
13. B
14. D
15. B
16. C
17. C
18. A
19. A
20. C
21. A
22. D
23. B
24. C
25. B
26. A
27. D
28. A
29. A
30. A
31. B

- 32. C
- 33. C
- 34. A
- 35. A
- 36. C
- 37. A
- 38. C
- 39. B
- 40. A

FOUNDATION: BUSINESS LAW

PART II SHORT ANSWER QUESTION (SAQ) (60 MARKS)

ATTEMPT ALL QUESTIONS.

1. State the circumstances under which the Supreme Court may depart from its own ruling in earlier cases.
2. State two (2) types of Received English Law.
3. State two advantages of mediation as an Alternative Dispute Resolution (ADR) mechanism.
4. State two (2) tax offsets deductible from chargeable tax under the Petroleum Profits Tax Act.
5. State two (2) types of personal income tax that the Federal Government of Nigeria has power to collect.
6. How is capital gains tax calculated on a partial sale of an asset?
7. What is "agency by estoppel"?
8. State two (2) conditions under which past consideration may be valid in contract.
9. Who is "occupier of property" under the law of torts?

10. Okezie, an eighteen-year old accounting undergraduate, bought recommended books from Booknook Stores on credit. What is the nature of the purchase and the liability, if any, of Okezie?
11. State two (2) types of contract that are void at common law.
12. What is "Input Vat and Output VAT" under the Value Added Tax Act.
13. Define a contract of Hire purchase.
14. State the personal rights that an unpaid seller can exercise against the goods.
15. State two (2) classes of persons who may petition the court for winding up of a company under the supervision of the court.
16. State two (2) types of debentures of a company.
17. State two (2) duties of a buyer of goods.
18. Explain briefly the term *volenti non fit injuria*.
19. What is the liability of the statutory auditor of a company?
20. Define a defective product.
21. State two (2) types of authority of an agent under agency law.
22. Which agency could arise when it is impracticable to communicate with the principal so as to obtain fresh instruction?
23. What is "False Imprisonment" under the law of tort?
24. Adex Akeem, a businessman, intends to set up a sole proprietor business under the name "AdA Ventures. What must he do and why?
25. When is a company exempted from the provisions of Companies and Allied Matters Act 2020 relating to the audit of accounts in respect of a financial year?
26. State two (2) characteristics of preference shares of a company.
27. What does the Companies and Allied Matters Act, 2020 require to be filed as an alternative to a "declaration of Compliance" signed by a legal practitioner and attested before a notary public prior to the registration of a company?
28. What is the effect of dissolution of a Partnership?
29. When is a voluntary winding up deemed to commence?
30. When does a merger occur?

FOUNDATION: BUSINESS LAW

PART II

SHORT ANSWER SOLUTION

(60 MARKS)

1. The circumstances under which the supreme court may depart from its own ruling in its earlier cases are as follows:
 - a. Where its earlier decision was made in error (per incuriam) after disclosure of fresh facts on the earlier decided case.
 - b. Where it had made two conflicting decisions in the past case, it will overrule one and uphold the other.
 - c. Where the court had pronounced that its decision on a particular case should not be applied in future cases.
2. The received English Law are:
 - a. The received law of England;
 - b. Doctrines of Equity; and
 - c. Statutes of General Application that were in force in English as at January 1, 1900.
3. The advantages of mediation are as follows:
 - a. It promotes friendliness, voluntariness and speed,
 - b. It enables parties to resolve their disputes and remain friends; and
 - c. It promotes the actualization of an enterprise's corporate objectives.
4. The following are tax deductible from chargeable tax under the petroleum Profit Tax Act:
 - a. Royalties paid on oil disposal to local refineries;
 - b. Non-productive rents incurred by the company during the accounting period;
 - c. Custom duties and in the similar charges in petroleum operations;
 - d. Investment tax credits;
 - e. Tax credits from tax deducted at source.
5. Personal Income tax of:
 - a. Members of the armed forces of the federation;
 - b. Members of the Police Force;
 - c. Residents of the federal capital Territory, Abuja;
 - d. Staff of the Ministry of foreign Affairs; and
 - e. Non-residents individual.
6. The cost of the asset is apportioned between the disposed and the undisposed parts respectively.
7. Agency by estoppel is created when a person who by words or conduct, allows another to appear as his agent to a third party who acted on the basis of the representation to his detriment, cannot afterwards deny the agency.
8. The conditions under which past consideration may be valid are as follows:
 - a. Where the past act by the promisee was ordered by the promisor;

- b. Where it was understood that payment would be made for the goods supplied or for services rendered; and
 - c. Where there is promisory estoppel.
9. The occupier of property under the law of tort is a person lawfully occupying and using a land or property for specified purposes and includes sub-lessee of the holder.
 10. The purchase made by Okezie are of necessities because they are books required for his education; and Okezie is liable to pay a reasonable price for the books.
 11. The following types of contract are void at common law:
 - a. A contract to oust the jurisdiction of the court;
 - b. A contract that is sexually immoral;
 - c. A contract in restraint of trade; and
 - d. Contract to defraud the government of revenue.
 12. Input Vat is the tax collected from payments made to suppliers of goods and services. Output Vat is tax paid on income received from sales of goods and services.
 13. A Hire purchase contract is a bailment of goods with an option to purchase the goods. In other words, the hirer has possession of the goods but not the ownership until he has paid up the price in instalments and exercised his option to purchase the goods.
 14. The personal rights available to an unpaid seller are:
 - a. Action for the price; and
 - b. Action for damages.
 15. Classes of persons who may petition the court for winding up of a company under supervision of the court are as follows:
 - a. The company;
 - b. A creditor or creditors of a company;
 - c. The official Receiver;
 - d. A contributory;
 - e. A trustee in bankruptcy;
 - f. Corporate Affairs Commission.
 16. The different types of debentures of a company are:
 - a. Bearer debentures;
 - b. Redeemable debentures;
 - c. Perpetual debentures;
 - d. Convertible debenture;
 - e. Naked (unsecured) debentures.
 17. Duty to pay the price, and duty to accept delivery of the goods.

18. "Volenti non fit injuria" means no injury is done to a person who has consented to the injury; or no person could enforce a right which he has voluntarily waived or abandoned.
19. The statutory auditor of a company is liable for any loss or damage to the company and other affected stakeholders of the company arising from the statutory auditor's negligence and falsehood in his official audit report.
20. A defective product is a product that is unreasonably dangerous to the user when used for its intended purpose without any interference.
21. The types of authority of an agent under the agency law are as follows:
 - a. Express (oral written) authority.
 - b. Implied authority
 - c. Apparent or ostensible authority
 - d. Authority by necessity
 - e. Usual authority
 - f. Authority by cohabitation.
 - g. Authority by ratification.
22. Agency of necessity.
23. False imprisonment, under the law of tort is an act of unlawful and unauthorized restraint of bodily movement within a space, of a person by another.
24. Adex Akeem must register AdA Venture as a business name under the provisions of the companies and Allied Matters Act. This is because AdA ventures is not his true forename and surname without any addition thereto.
25. A company is exempted from audit requirement if:
 - a. It has not carried on any business since its incorporation; or
 - b. It is a small company within the meaning of the provision of the Act.
26. The characteristics of Preference shares of a company include the following:
 - a. Holders have fixed rate of dividend;
 - b. Holders received dividend before equity shareholder;
 - c. Holders cannot vote at general meetings except where it concerns them;
 - d. Holders are paid before equity shareholders during winding – up of the company.
27. A statement of compliance to be signed by the applicant or his agent confirming therein that the requirements of law for registration have been complied with.
28. Under the Partnership Act, the basic effect of dissolution of partnership is revocation of partners' powers and right to bind the partnership, except to complete on-going transactions uncompleted at the time of dissolution.
29. A voluntary winding up is deemed to commence at the time of passing of a special resolution to the effect.
30. A merger happen when a company finds a benefit in combining business operation with another company in a way that will contribute to increased shareholders value.



THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2021: PROFESSIONAL EXAMINATION

FOUNDATION: FINANCIAL ACCOUNTING

WEDNESDAY 14TH APRIL, 2021

EXAM NO.....

PART I MULTIPLE CHOICE QUESTIONS (MCQ) (40 MARKS)

ATTEMPT ALL QUESTIONS.

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

1. Which of the following is equity in the statement of financial position?
 - A. Ordinary share capital plus reserves.
 - B. Total assets plus total liabilities less paid up ordinary share capital.
 - C. Ordinary share capital plus reserves plus bank balance.
 - D. Ordinary share capital plus preference share capital.

2. Which of the following statements is correct?
 - A. A decrease in assets is debited.
 - B. An increase in expenses is credited.
 - C. An increase in equity is debited.
 - D. A decrease in revenue is debited.

3. Which of the following best defines accounting period?
 - A. Time span during which taxes are paid to the tax authority.
 - B. Budget period, usually one year, relied on by the accountant.
 - C. Time span, usually one year, covered by the financial statements.
 - D. Period within which debtors are expected to settle accounts.

4. Which of the following cannot be included in the cost of inventory?
 - A. Cost of abnormal wastage of materials and labour
 - B. Import duties payable on acquisition of inventory
 - C. Variable production overhead
 - D. Fixed production overhead

5. What is the accounting principle that anticipates no profit and provide for all possible losses?
- Accrual concept.
 - Matching concept.
 - Prudence concept.
 - Realisation concept.
6. If the bank column of a cash book of an entity shows a credit balance of ₦160,000. What does this mean to the entity?
- ₦160,000 cash in the bank.
 - ₦160,000 overdraft.
 - ₦160,000 cheque paid to suppliers.
 - ₦160,000 cheque from the received customer.
7. Which of the following is a capital receipt?
- Discount received.
 - Commission received.
 - Premium on shares.
 - Dividend received on shares.
8. The following are opening balances in the ledger accounts of Adewale Limited:
- | | ₦ |
|-----------------------|--------|
| Plant and equipment | 80,000 |
| Inventories | 10,000 |
| Trade receivables | 18,000 |
| Loan | 20,000 |
| Bank balance (credit) | 15,000 |
- What is the total assets of the company?
- ₦90,000.
 - ₦108,000.
 - ₦123,000.
 - ₦128,000.
9. Which of the following describes the practical cycle of bookkeeping?
- Classifying, recording and summarising.
 - Reporting, analysing and interpreting.
 - Classifying, analysing and interpreting.
 - Recording, summarising and reporting.

10. Which of the following will not be recognised as a liability in financial statement of a sole trader?
- A. Electricity bill due but not yet paid.
 - B. Rent received in advance.
 - C. Insurance premium paid.
 - D. Trade payables.
11. How will the purchase of a motor vehicle on credit from Tony Automobile Company Ltd for use by the company be recorded in the company's books?
- A. Dr. Maintenance of vehicle expense Cr. Tony Automobile Company.
 - B. Dr. Purchases Cr. Toy Automobile Company.
 - C. Dr. Motor vehicle Cr. Tony Automobile Company.
 - D. Dr. Motor vehicle Cr. Cash.
12. How would the salary paid to a partner be treated in a partnership account?
- A. a charge to profit or loss
 - B. an appropriation of divisible profit
 - C. a credit to the partner's capital account.
 - D. a debit to the partners current account
13. How would you classify accounts receivable and inventory in a statement of financial position?
- A. Liquid assets.
 - B. Current assets.
 - C. Fixed assets.
 - D. Non – current assets.
14. Which of these statements is correct under the reducing balance method of depreciation?
- A. Amount of depreciation increases every year.
 - B. Amount of depreciation remains constant for every year.
 - C. Amount of depreciation decreases every year.
 - D. Amount of depreciation is doubled every year.
15. Which of the following is NOT derived from the accounting equation?
- A. $\text{Capital} = \text{Liabilities} - \text{Assets}$
 - B. $\text{Capital} = \text{Assets} - \text{Liabilities}$
 - C. $\text{Assets} = \text{Capital} + \text{Liabilities}$
 - D. $\text{Liabilities} = \text{Assets} - \text{Capital}$

16. Which of the following is not a component of financial statements in accordance with International Financial Reporting Standards (IFRS)?
- A. Statement of financial position
 - B. Statement of changes in equity.
 - C. Statement of value added.
 - D. Statement of comprehensive income.
17. Which of the following is an alternate term which can be used for share capital?
- A. Liability
 - B. Owner's equity.
 - C. Working capital.
 - D. Asset.
18. What is the name given to an informal accounting statement that lists the ledger account balances at a point in time and compares the total of debit balances with the total of credit balances?
- A. Income Statement.
 - B. Statement of financial position.
 - C. Cash Book.
 - D. Trial Balance.
19. Which of the following could be found on the debit side of the cash book (bank column) but missing in the bank statement for the period?
- A. Cheque issued to customer not yet presented
 - B. Uncredited lodgement
 - C. Bank charges
 - D. Dishonoured cheque
20. Which of the following would not affect the determination of adjusted cash book balance?
- A. Standing order
 - B. Bank charges
 - C. Dividends received directly by the bank on behalf of the customers
 - D. Unpresented cheques
21. Which of the following is not a book of original entry?
- A. Petty cash book
 - B. The journal
 - C. Carriage outwards ledger
 - D. Purchases returns day book.

22. The opening capital of a retailer was ₦503,000 while the closing capital was ₦555,000; during the period he withdrew ₦78,000 for personal use.

What is the profit or loss for the period?

- A. ₦26,000 profit
- B. ₦26,000 loss
- C. ₦130,000 profit
- D. ₦130,000 loss

23. What type of balance would an account have, if the credit side is less than the debit side?

- A. Nil balance.
- B. Debit balance.
- C. Contra balance.
- D. Credit balance.

24. Which of the following concepts is responsible for treating cash taken by the proprietor of a business as drawings rather than as an expense?

- A. Entity
- B. Prudence
- C. Matching
- D. Neutrality

Extract from the financial records of XYZ Ltd is as follows:

	₦
Opening carrying amount	2,000,000
Cost of new machine purchased during the year	500,000
Depreciation during the year	250,000

25. What is the closing carrying amount of the machines?

- A. ₦2,000,000.
- B. ₦2,250,000.
- C. ₦2,500,000.
- D. ₦ 2,750,000.

26. How will you classify sale proceeds of goods?

- A. Revenue expense.
- B. Capital expense.
- C. Capital receipt.
- D. Revenue receipt.

27. Which of the following is not an inventory of manufacturing concern?

- A. Raw material.
- B. Work in process.
- C. Finished goods.
- D. Merchandise goods.

Use the following information to answer question 28.

	₦'000
Plant and equipment	30,000
Drawings	7,800
Accounts payables	31,000
Inventory	24,500
Trade receivables	16,000
Rent received in advance	24,000
Bank balance	12,500

28. Calculate the amount of current assets.

- A. ₦53,000,000
- B. ₦54,000,000
- C. ₦77,000,000
- D. ₦107,000,000

Use the following information to answer question 29.

	₦'000
Plant and equipment	30,000
Drawings	7,800
Accounts payables	31,000
Inventory	24,500
Trade receivables	16,000
Rent received in advance	24,000
Bank balance	12,500

29. Determine the current liabilities.

- A. ₦55,000,000
- B. ₦62,800,000
- C. ₦71,000,000
- D. ₦78,800,000

30. Which of the following is NOT an example of Current Asset?

- A. Accounts receivable.
- B. Notes receivable.
- C. Prepaid expenses.
- D. Bank overdraft.

31. Which of the following is NOT an example of intangible assets?
- A. Computer software.
 - B. Goodwill.
 - C. Patents.
 - D. Computer equipment.
32. What is the effect of excess of expenditure over income in a club account?
- A. Increases accumulated fund
 - B. Decreases accumulated fund
 - C. Increases bank balance
 - D. Decreases bank balance
33. The following will not be reported in the accounts of a new firm when two or more partnership firms merge?
- A. assets taken over by the new firm
 - B. liabilities agreed to be settled by the new firm
 - C. assets taken over by one of the partners.
 - D. agreed capital of the partners.
34. Why do firms charge depreciation each year?
- A. To ensure there is enough money in the firm to replace the assets.
 - B. To reduce the profit and thus reduce the dividends they can pay to shareholders.
 - C. Because the law states they must be reduced.
 - D. To spread the cost of the asset over its useful life.
35. Which of the following correctly defines equity according to the IASB's framework for preparation and presentation of financial statement?
- A. Equity is increase in economic benefits during an accounting period.
 - B. Equity is the residual interest in assets of an entity after deducting liabilities.
 - C. Equity is assets and liabilities of an entity.
 - D. Equity is the resources controlled by an entity because of past events.
36. Which body is charged with the responsibility of regulating accounting standards in Nigeria?
- A. Corporate Affairs Commission.
 - B. Security and Exchange Commission.
 - C. Ministry of Finance and Development Planning.
 - D. Financial Reporting Council of Nigeria.

37. Which accounting concept is being upheld by making allowances for doubtful receivables?
- Materiality
 - Periodicity
 - Prudence
 - Matching.
38. Which of the following items is included in the cost of inventory?
- Cost of abnormal wastage of materials and labour
 - Storage cost of finished goods.
 - Selling cost
 - Conversion cost
39. How is inventory included in the statement of financial position valued under IAS 2?
- net realisable value
 - lower of cost and net realisable value
 - higher of cost and net realisable value
 - at the estimated selling price.
40. When closing inventory is understated, what are the effects on profit and current asset?
- | | Profit | Current asset |
|----|---------------|----------------------|
| A. | Overstated | Understated |
| B. | Understated | Overstated |
| C. | Understated | Understated |
| D. | Overstated | Overstated |

FOUNDATION: FINANCIAL ACCOUNTING

PART I MULTIPLE CHOICE SOLUTION (40 MARKS)

- A
- D
- C
- A
- C
- B
- C
- B
- D
- C
- C

12. B
13. B
14. C
15. A
16. C
17. B
18. D
19. B
20. D
21. C
22. C
23. B
24. A
25. B
26. D
27. D
28. A
29. A
30. D
31. D
32. B
33. C
34. D
35. B
36. D
37. C
38. D
39. B
40. C

FOUNDATION: FINANCIAL ACCOUNTING

PART II

SHORT ANSWER QUESTIONS (SAQ)

(60 MARKS)

ATTEMPT ALL QUESTIONS.

- 1.State two (2) fundamental quantitative characteristics of financial information?
- 2.State two (2) different branches of accounting?
3. State one (1) advantage and one (1) disadvantage of making financial information available on timely basis.
4. State two (2) elements of financial statement that are found on the credit side of a trial balance of a sole trader.
5. State the fundamental accounting equation?

Use the following information to answer question 6.

The purchase of non-current asset for ₦50,000 cash was debited to purchase account and credited to cash account. Depreciation is charged on the assets at 20% per annum on cost. The error was discovered at the end of the year.

6. What is the effect of the error on gross profit?

Use the following information to answer question 7.

The purchase of non-current asset for ₦50,000 cash was debited to purchase account and credited to cash account. Depreciation is charged on the assets at 20% per annum on cost. The error was discovered at the end of the year.

7. State the double entry required to correct the error?
8. State any four (4) sources of income for a not-for-profit organisation.
9. What is the quantitative characteristic that ensures completeness, neutrality and freedom from errors and omission in the presentation of financial information?
10. General journal is used for recording transactions that cannot be conveniently recorded into other books of prime entry; state four (4) uses of such journal?
11. Balance in the share premium account cannot be used to pay cash dividends but they can be used for other purposes; state two (2) uses of the share premium.
12. Which users will be interested in the following financial information of an entity?
 - i. Short-term liquidity.

ii. Information to formulate fiscal and monetary policies.

13. What are the functions of petty cash book?
14. Which accounting entries are necessary to record an increase in the value of assets on revaluation by the partners?
15. The following data relate to an equipment acquired by an enterprise:

Cost	₦735,000
Expected useful life	7 years
Annual depreciation	₦100,000

What is the residual value of the equipment at the end of its useful life?

16. State the two (2) source documents for recording inward returns and outward returns day books.

Use the following information to answer question 17.

	Date	₦
Carrying Amount	1 January, 2020	400,000
Carrying Amount	31 December, 2020	500,000
Depreciation charged	During the year	200,000

17. Calculate the carrying amount of the non-current asset acquired during the year.

Use the following information to answer question 18.

	Date	₦
Carrying Amount	1 January, 2020	400,000
Carrying Amount	31 December, 2020	500,000
Depreciation charged	During the year	200,000

18. How should the amount be classified in the statement of cash flow?
19. State two (2) causes of depreciation.
20. State the formula for calculating depreciation on straight-line basis.

Use the following information to answer question 21.

On 1 June 2020 Kudirat Ltd paid a rent of ₦630,000 for the period to 31 May 2021.

21. What is the charge to the statement of profit or loss for the year ended 31 December 2020?

Use the following information to answer question 22.

On 1 June 2020 Kudirat Ltd paid a rent of ₦630,000 for the period to 31 May 2021.

- 22. What entry should be made in the statement of financial position at 31 December 2020?
- 23. What are the two limitations of a trial balance?

Use the following information to answer question 24.

An entity maintains monthly imprest system. The petty cash balance at the end of January 2021 was ₦25,000. The following transactions occurred during the period:

Amount spent on Office entertainment ₦19,450
Travelling expenses paid amounted to ₦22,300
Office stationery paid for was ₦13,250

- 24. How much is reimbursed to the petty cashier at the beginning of February 2021?

Use the following information to answer question 25.

An entity maintain monthly imprest system. The petty cash balance at the end of January 2021 was ₦25,000. The following transactions occurred during the period:

Amount spent on Office entertainment ₦19,450
Travelling expenses paid amounted to ₦22,300
Office stationery paid for was ₦13,250

- 25. Calculate the cash float every month?
- 26. If equity of a sole trader is made up of capital + profit less drawings, what is the equity of a Limited Liability Company made up?
- 27. Apart from equity, what are the two other forms of capital of a company?
- 28. State two (2) qualitative characteristics which enhance the usefulness of financial information.

use the following information to answer question 29.

A sole trader that does not keep proper accounting records, presents the following information to you.

	₦
Opening inventory	56,000
Purchases	237,000
Closing inventory	62,000

Standard gross profit percentage on sales revenue is 25%.

29. Calculate the cost of goods sold?

Use the following information to answer question 30.

A sole trader that does not keep proper accounting records, presents the following information to you.

	₦
Opening inventory	56,000
Purchases	237,000
Closing inventory	62,000

Standard gross profit percentage on sales revenue is 25%.

30. Calculate the gross profit?

FOUNDATION: FINANCIAL ACCOUNTING

PART II

SHORT ANSWER SOLUTION

(60 MARKS)

1.
 - (i) Relevance
 - (ii) Faithful representation

2.
 - (i) Financial accounting
 - (ii) Management accounting
 - (iii) Public sector accounting
 - (v) Cost accounting
 - (vi) Environmental accounting

3. Advantage:- Information is relevant for decision making.
Disadvantage:- Information may not be complete or free from error.

4. Elements of financial statements are:
 - (i) Capital
 - (ii) Liabilities
 - (iii) Revenue

5. Assets = Capital + Liabilities

6. Gross profit is under stated by N40,000

7.

DR	Motor vehicle A/c	N40,000
DR	Depreciation A/c	N10,000
CR	Purchases A/c	N50,000

8. Sources of income for Not-for-profit organisation
 - (i) Members fees or subscription
 - (ii) Donations
 - (iii) Trading activities

- (iv) Government grant
- (v) Entrance fee or registration fee

9. Faithful representation

10. Uses of general journals

- (i) Correction of errors
- (ii) Recognition of opening and closing balance.
- (iii) Writing off bad debts.
- (iv) Uses inter ledger transactions etc.

11. Uses of Share Premium are as follows:

- (i) Issued to fully pay bonus shares to existing shareholders.
- (ii) Used for writing off share issued expenses and commission.
- (iii) Writing off of preliminary expenses.
- (iv) Payment of premium on redeemable preference shares or loan notes

12. (i) Short term liquidity - Creditors or suppliers

(ii) Information to formulate fiscal and monetary policies – Government

13. Functions of Petty Cash Book

- (i) Small payments are made through petty cash book by using imprest system.
- (ii) Main cash books are not overloaded with transactions of small amounts.
- (iii) Payment of small amounts that are authorized and approved.

14. DR Assets Accounts

CR Revaluation Accounts

15. Calculation of Residual Value

$$\text{N}735,000 - (7 \times \text{N}100,000) = \text{N}35,000$$

16. Returns Inward Book = Credit note issued

Returns Outward Book = Debit note received

17. Closing balance as @ 31/12/2020 500,000

Opening balance as @ 01/1/2020 (400,000)

100,000

Add: Depreciation during the year 200,000

Addition during the year 300,000

18. Outflow under investment activities

19. Causes of Depreciation

- (i) Wear and tear
- (ii) Passage of time
- (iii) obsolescence

20. Depreciation Cost less scrap value

Estimated useful life

21. June 1 to Dec. 31 = 7 months

$$\text{Change for the year } \frac{7}{12} \times \text{N}630,000 = \text{N}367,500$$

22. Prepayment of $\frac{5}{12} \times 630,000 = \text{N}262,500$

23. Limitations of Trial Balance

- (i) It does not identify certain errors that do not affect agreement of the trial balance.
- (ii) It does not identify in what accounts errors have been made.
- (iii) It does not include figures to be directly included in the financial statements.

24. Amount reimbursed is the amount spent $\text{N}22,300 + \text{N}19,450 + \text{N}13,250 = \text{N}55,000$

25. Amount of imprest

$$\begin{aligned} \text{Amount spent} - \text{N}55,000 + \text{B/d } \text{N}25,000 \\ = \text{N}80,000 \end{aligned}$$

26. Ordinary share capital plus reserves

27. Loan notes or debenture and preference share capital.

28. Qualitative characteristics (Enhancing)

- (i) Comparability
- (ii) Verifiability
- (iii) Timeliness
- (iv) Understandability

		N'000
29.	Opening inventory	56,000
	Purchases	237,000
	Closing inventory	<u>(62,000)</u>
	Cost of goods sold	<u>231,000</u>

30. Gross profit = $\frac{25}{125} \times \text{N}231,000 = \text{N}46,200$



THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA
APRIL 2021: PROFESSIONAL EXAMINATION

FOUNDATION: ECONOMICS

WEDNESDAY 14TH APRIL, 2021

EXAM NO.....

PART I MULTIPLE CHOICE QUESTIONS (MCQ) (40 MARKS)

ATTEMPT ALL QUESTIONS.

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

1. A demand, desire, wish or want that is backed by ability to pay is referred to as?
 - A. Effective demand
 - B. Pseudo demand
 - C. Complete demand
 - D. Composite demand

2. The locus of points showing the various quantities that will be bought at given prices of a commodity for a given time period, when all other factors remain unchanged is depicted by.
 - A. Supply curve
 - B. Price-Quantity line
 - C. Demand curve
 - D. Isocost

3. Which of these is a feature or characteristic of market structure?
 - A. Number of firms involved
 - B. The extent to which the products are diverse or homogeneous
 - C. The ease of entry into and exit from the market
 - D. All of the above

4. What differentiate wants from demand?
 - A. Willingness and ability to pay
 - B. Wants and demand are the same
 - C. Wants is unlimited while demand is not
 - D. Wants is ends which are things we want to do, have or have done.

5. Reward to 'land' as a factor of production is called
- A. Salary and wages
 - B. Profit.
 - C. Interest.
 - D. Rent.
6. When a choice is made, the forgone best alternative is referred to as the
- A. Opportunity cost.
 - B. Accounting cost.
 - C. Explicit cost.
 - D. Implicit cost.
7. If the price elasticity of demand coefficient for a good is ZERO, the good is said to have
- A. Elastic demand.
 - B. Inelastic demand.
 - C. Perfectly elastic demand.
 - D. Perfectly inelastic demand.
8. A perfectly competitive firm will maximise its total profit at the point where
- A. TR equals TC
 - B. TR curve and the TC curve are parallel
 - C. TR curve and the TC curve are parallel and TC exceeds TR
 - D. TR curve and the TC curve are parallel and TR exceeds TC
9. Which of these could be used to correct demand pull inflation?
- A. Sale of treasury bills in open market operation by the government
 - B. Increase in government expenditure
 - C. Reduction in income taxes
 - D. Increase in discount rates
10. The marginal cost curve is the same as the
- A. demand curve.
 - B. supply curve.
 - C. marginal utility curve.
 - D. production possibilities curve.
11. A price floor fixed below the equilibrium price will
- A. have no effect.
 - B. create a surplus.

- C. create a shortage.
- D. clear the market.

12. Which of these described the non-rivalry characteristics?
- A. People cannot be prevented from consuming it
 - B. Consumption by one person reduces consumption of other individuals
 - C. Some people are excluded from consuming it
 - D. All the above
13. The firm is also the industry under
- A. Duopoly.
 - B. Monopoly.
 - C. Perfect competition.
 - D. Monopolistic competition.
14. The problems of industrialisation in Nigeria **EXCLUDE**
- A. Lack of industrial promotion policy.
 - B. Poor and inadequate infrastructures.
 - C. High bank lending rate.
 - D. Smuggling of industrial goods.
15. Market failure occurs in which of these situations?
- A. Market does not function
 - B. Market solution occurs if government intervenes
 - C. Social efficiency is not achieved in the market
 - D. Market price is greater than marginal cost
16. Which of the following instruments is NOT traded in the capital market?
- A. Corporate bonds
 - B. Treasury bills
 - C. Mortgages
 - D. Shares
17. The point where isocost is just tangent to the isoquant illustrates.
- A. Revenue maximisation.
 - B. Cost minimisation.
 - C. Profit maximisation.
 - D. Welfare maximisation.
18. If the total cost (TC) of producing an output (Q) of 25 units is ₦10,000 and the total fixed cost (TFC) is ₦2,500, then the average variable cost (AVC) is
- A. ₦7,500
 - B. ₦500

- C. ~~₦400~~
- D. ~~₦300~~

19. A firm facing increasing returns to scale will
- A. Less than double its output when it doubles its inputs.
 - B. Achieve constant output when it doubles its inputs.
 - C. Double its output when it doubles its inputs.
 - D. More than double its output when it doubles its input.
20. The total amount of goods and services purchased within an economy at a given overall price level and in a given time period is called what?
- A. Aggregate demand
 - B. Aggregate supply
 - C. Compensated demand
 - D. Derived demand
21. Which of these is a disadvantage of indirect taxation?
- A. Increases inequality
 - B. Causes cost-push inflation
 - C. Establishes a "black market" and "market distortion"
 - D. All of the above
22. Which of these is incorrect about monopoly market structure?
- A. Sole supplier of good or commodity
 - B. The extreme case of perfect competition
 - C. There is lack of competition
 - D. Price maker
23. Which of the following is **NOT** a component account of the balance of payments (BOP)?
- A. Current Account.
 - B. Capital Account.
 - C. Service Account.
 - D. Official Settlement Account.
24. Which of these is not true about the Production Possibility Frontier (PPF)?
- A. It represents the maximum combinations of two alternative goods an economy can produce with the resources available to it within the given state of technology.
 - B. It offers the best selection of goods that society can pick from and occurs when the economy is fully efficient.
 - C. It is downward sloping
 - D. It is convex to the origin

25. Which of the following is **NOT** a function of International Monetary Fund (IMF)?
- A. Granting long term loans to private companies in member countries.
 - B. Facilitating convertibility of national currencies.
 - C. Promoting maintenance of stable exchange rate among member countries.
 - D. Assisting member countries to solve their balance of payments problems.
26. Which of these can cause income inequalities in an economy?
- A. Proportional taxation
 - B. Progressive taxation
 - C. Regressive taxation
 - D. Retarded taxation
27. Which of the following will lower the real value of money?
- A. Rising inflation rate.
 - B. Declining terms of trade.
 - C. Rising deflation rate.
 - D. Currency devaluation.
28. A tabular arrangement of different quantities purchased at various prices of a commodity at a given time is presented on which of the following?
- A. Demand curve
 - B. Market demand
 - C. Demand line
 - D. Demand schedule
29. Which of these is a drawback of market economies?
- A. Increase in the number of monopolies
 - B. Private ownership and control of factors of production
 - C. Retains consumer sovereignty, Freedom of choice
 - D. Dynamic and responsive to changes in the technological environment
30. Inflation caused by rising prices of factors of production can be described as
- A. Hyperinflation.
 - B. Creeping inflation.
 - C. Demand-pull inflation.
 - D. Cost-push inflation.
31. Which of the following is **NOT** a factor contributing to economic growth?
- A. Investment in transport networks.
 - B. Rapidly ageing population.
 - C. Investment in new factories.
 - D. Technological progress.

32. Which of these is not a usefulness of national income estimates or statistics?

- A. Indices of Economic Welfare
- B. Basis for Economic planning
- C. Basis for inter-temporal and international comparison of living standards
- D. A measure of regional balance

33. Which of these is incorrect about average product of labour (AP_L)?

- A. The shape of the curve is determined by the shape of the corresponding total product (TP) curve
- B. It remains negative as long as the TP curve is positive
- C. It rises first, reach maximum and then falls
- D. It is the TP divided by units of labour used

34. The basic concept of national income accounting indicating average standard of living in a country is

- A. Per capita real income.
- B. Personal disposable income.
- C. Nominal national income.
- D. Personal income.

35. Microeconomics deals with the study of which of the following?

- A. Comparative statics, general equilibrium and positive economics
- B. Dynamics, partial equilibrium and positive economics
- C. Comparative statics, partial equilibrium and normative economics
- D. Comparative statics, partial equilibrium and positive economics

36. Marginal cost curve is given by which of these?

- A. The slope of total fixed cost curve
- B. The slope of average fixed cost curve
- C. Either the slope of total variable cost or total cost curves
- D. None of the above

37. Dividing a nation's export price index by its import price index and multiply by 100 will give the

- A. Net export.
- B. Terms of trade
- C. Balance of trade.
- D. Balance of payments.

38. Expenditures of government on agriculture, industry, and trade are grouped under
- A. Social and community services.
 - B. General administration.
 - C. Economic services.
 - D. Transfers
39. What happened to the supply of a commodity when the price rises above the equilibrium price?
- A. It exceeds the demand
 - B. It is equal to demand
 - C. It cannot be determined
 - D. It increases continuously
40. Which of the following is **NOT** a member of the World Bank Group?
- A. International Monetary Fund (IMF).
 - B. International Financial Corporation (IFC).
 - C. International Development Association (IDA).
 - D. Multinational Investment Guarantee Agency (MIGA).

FOUNDATION: ECONOMICS

PART I	MULTIPLE CHOICE SOLUTION	(40 MARKS)
1.	A	
2.	C	
3.	D	
4.	A	
5.	D	
6.	A	
7.	D	
8.	D	
9.	A	
10.	B	
11.	A	

12. A
13. B
14. A
15. C
16. C
17. B
18. D
19. D
20. A
21. D
22. B
23. C
24. D
25. A
26. C
27. A
28. D
29. A
30. A
31. B
32. D
33. B
34. A

- 35. D
- 36. C
- 37. B
- 38. C
- 39. A
- 40. A

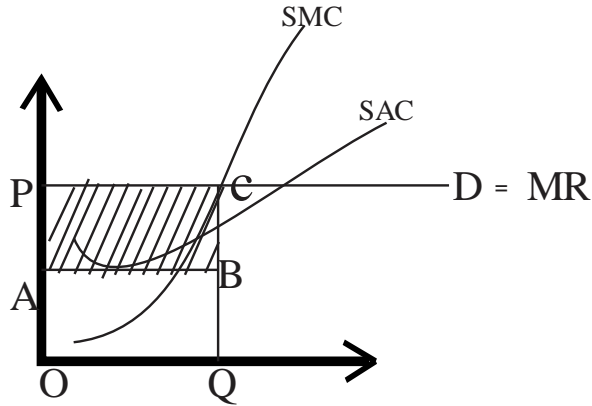
FOUNDATION: ECONOMICS

PART II SHORT ANSWER QUESTIONS (SAQ) (60 MARKS)

ATTEMPT ALL QUESTIONS.

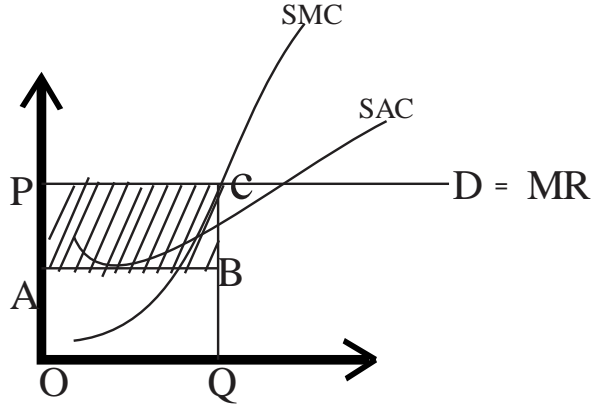
1. Economists generally agree that the founder of modern economics was _____
2. A graphical representation of a demand schedule is called _____
3. The two distinct reasons why price and quantity demanded of a normal good are inversely related are _____ and _____
4. Give four (4) reasons why people believe that deflation is worse than inflation.
5. Name two (2) characteristics of Isoquant.
6. The quantity sold of a product multiplied by the unit price gives the _____
7. The operating period of the firm during which all factors of production are variable is called _____
8. The practice whereby a firm charges different prices to different buyers for the same units of a product is called _____

Use the diagram below, which illustrates the short run equilibrium of a firm, to answer question 9.



9. The market structure to which the firm belongs is _____

Use the diagram below, which illustrates the short run equilibrium of a firm, to answer question 10.



10. The shaded rectangle PABC represents the firm's _____

11. The method of national income measurement which involves addition of values added at each stage of production in both the real and service sectors of the economy is called _____

Use the following information to answer question 12.

Suppose the following data were reported for a country.

Items	1996	2015
Gross National Product (GNP)	\$ 115 billion	\$ 193.6 billion
Price Index (1996 = 100)	100	110
Population (million)	50	80

12. The per capita real GNP in 1996 is _____

Use the following information to answer question 13.

Suppose the following data were reported for a country.

Items	1996	2015
Gross National Product (GNP)	\$ 115 billion	\$ 193.6 billion
Price Index (1996 = 100)	100	110
Population (million)	50	80

13. The per capita real GNP in 2015 is _____

use the following information to answer question 14.

Suppose the following data were reported for a country.

Items	1996	2015
Gross National Product (GNP)	\$ 115 billion	\$ 193.6 billion
Price Index (1996 = 100)	100	110
Population (million)	50	80

14. Identify the year in which average living standard of people was higher with a reason.
15. What is output elasticity?
16. What is the implication of horizontal demand curve?
17. Define the components of this model, $MPC + MPS = 1$.
18. If the demand curve remains unchanged, a rightward shift of the supply curve will lead to _____ in the equilibrium market price and _____ in the equilibrium quantity.
19. What is the meaning of the concept of multiplier?
20. List any two (2) withdrawals from an economy at various junctures in a circular flow of income.
21. Mention two (2) indicators that can be used to determine the stage of growth of an economy.
22. Holding money in cash balances to provide for unforeseen contingencies is called _____
23. Which institution is usually referred to as the 'lender of last resort' in every modern economy?
24. What are the sectors in an open economy?
25. What is the likely effect of an increase in subsidies and reduction of taxes on supply?
26. Mention any four (4) factors that determine the level and growth of national income?
27. What is the profit maximising rule for a perfectly competitive firm?
28. Economic growth plus widespread improvements in the living standards of people is described as _____

29. List two (2) ways to control inflation.
30. The Nigerian Trust Fund (NTF) is an affiliate of the _____

FOUNDATION: ECONOMICS

PART II SHORT ANSWER SOLUTION (60 MARKS)

1. Adam Smith
2. Demand curve
3. Income effect and substitution effect
4. Disadvantages of deflation:
 - (i) Increase in unemployment
 - (ii) Increase in the real value of debt
 - (iii) Deflation spiral
 - (iv) Lower production
 - (v) Lower wages
 - (vi) Decreased demand
 - (vii) Lower price levels
 - (viii) Worsens the economic situation during a recession
5. Characteristics of isoquant
 - (i) It is negatively shaped in the relevant range
 - (ii) It is convex to the origin
 - (iii) Two isoquants never cross
 - (iv) The higher the isoquant, the higher the relevant output
6. Total revenue.
7. Long-run period.
8. Price discrimination.
9. Perfect market.
10. Percentage change in output resulting from a given percentage change in an input while holding all other inputs constant.
11. Horizontal demand curve implies perfectly elastic demand curve. A small change will lead to a large or infinite effect on the quantity demanded.
12. MPC is marginal propensity to consume while MPS is marginal propensity to save.
13. A decrease, an increase.

14. The concept that shows that additions or decreases in variable is having an impact that is greater than the original additions or decreases.
15. Savings, taxation, import.
16. Leading economic indicators, coincident economic indicators and lagging economic indicators.
17. Precautionary motive.
18. The Central Bank of Nigeria
19. Sectors in an open economy:
 - (i) Household
 - (ii) Firm
 - (iii) Government
 - (iv) External sector
20. Effect of an increase in subsidies and reduction of taxes on supply.
21. Factors that determine the level and growth of national income:
 - (i) Political stability
 - (ii) Capital stock/investment level
 - (iii) Technological advancement
 - (iv) Availability and utilisation of various mineral resources
 - (v) Efficient and effective use of and management of economic resources
22. A firm will maximise profit by producing that level of output at the point where marginal revenue equals marginal cost and the slope of marginal revenue is less than the slope of marginal cost.
23. Economic development
24. Controlling inflation
 - (i) Increase production
 - (ii) Reduce stock of money in circulation
 - (iii) Reduction in public expenditure
 - (iv) Effective price control policy
 - (v) Provision of adequate infrastructural facilities
 - (vi) Provision of storage facilities
25. African Development Bank (AfDB)
26. Perfect competition
27. \$2,300 i.e. $\frac{\text{GNP 1996}}{\text{Population 1996}} = \frac{115,000,000,000}{50,000,000}$
28. \$2,200 i.e. $\frac{\text{GNP 2015} \times 100}{\text{Population 2015}} = \frac{193,600,000,000 \times 100}{\text{Population 2015}}$

Population 2015 x 110

80,000,000 x 110

29. 1996, because the per capital GNP of \$2,300 was higher than that of 2015 which was \$2,200.
30. Abnormal profit.