



THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2021: PROFESSIONAL EXAMINATION

PTE I: INCOME TAXATION

TUESDAY 12TH OCTOBER, 2021

EXAM NO.....

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS.

SHOW ALL WORKINGS.

TIME: 3 HOURS.

1. Samalex Company Limited was incorporated on August 1, 2019 but commenced business operations on October 1, 2019. The following information is made available to you as the head of tax department to the company. The company's year-end is December 31.

Period	Assessable Profit
	₦ '000
Three months period ended 31/12/19	46,000
Year ended December 31, 2020	64,000
Year ended December 31, 2021	94,000
The following assets were purchased during the period:	
June 1, 2019	Office building
August 1, 2019	Motor Cars
November 1, 2019	Machinery
March 1, 2020	Furniture
July 1, 2020	Delivery vans
	₦ '000
	28,000
	17,200
	20,000
	14,800
	16,000

The turnover of Samalex Company Ltd for all the relevant years is more than ₦25m but less than ₦100m

You are required to:

- State the basis period for the assessment, basis period for capital allowance and qualifying capital expenditure allocation for the first five (5) years of assessment (10 Marks)
 - Calculate the Capital allowances due to be utilised for the first three (3) years of assessment in respect of the qualifying capital expenditure incurred by the Company. (10 Marks)
 - Compute the company's tax liabilities for the first three (3) years of assessment. (10 Marks)
 - In the computation of adjusted profit of a company certain expenses are disallowed to arrive at taxable profit of the company. Enumerate five of such expenses. (5 Marks)
 - Enumerate Five (5) non-allowable expenses. (5 Marks)
- (Total 40 Marks)

SOLUTION TO QUESTION 1

- (a). SAMALEX COMPANY LIMITED
DETERMINATION OF BASIS PERIOD FOR ASSESSMENT, BASIS PERIOD FOR CAPITAL ALLOWANCE AND QUALIFYING CAPITAL EXPENDITURE ALLOCATION

YOA	Basis period for assessment	Basis period of capital allowance	Qualifying capital expenditure allocation
2020	1/10/2019 – 31/12/2019	1/10/2019 – 31/12/2019	Office Building Motor Vehicle / car, machinery
2021	1/1/2020 – 31/12/2020	1/1/2020 – 31/12/2020	Furniture Delivery Van
2022	1/1/2021 – 31/12/2021	1/1/2021 – 31/12/2021	NIL
2023	1/1/2022 – 31/12/2022	1/1/2022 – 31/12/2022	NIL
2024	1/1/2023 – 31/12/2023	1/1/2023 – 31/12/2023	NIL

- (b). SAMALEX COMPANY LIMITED
COMPUTATION OF CAPITAL ALLOWANCE FOR 2020 – 2022 TAX YEAR

YOA	CAPITAL ALLOWANCE RATES	OFFICE BUILDING	MOTOR VEHICLE	MACHINERY	FURNITURE	MOTOR VEHICLE	TOTAL CAPITAL ALLOWANCE
	I.A	15%	50%	50%	25%	50%	
	A.A	10%	25%	25%	20%	25%	
	INV.ALL	NIL	NIL	10%	NIL	NIL	
	USEFULL LIFE	10YEARS	4YEARS	4 YEARS	5 YEARS	4YEARS	
		₦ '000	₦ '000	₦ '000	₦ '000	₦ '000	₦ '000
2020	Cost	28,000	17,200	20,000	-		
	Less: I.A	(4,200)	(8,600)	(10,000)	-		22,800
	A.A (3month)	(595)	(538)	(625)	-		1,758
	INV. A	-	-	-	-	-	2,000
		23,205	8,062	9,375	-	-	26,558
2021	Addition – Cost	-	16,000	-	14,800	16,000	
	Less: I.A	-			(3,700)	(8,000)	11,700
	A.A	(2,578)	(2,687)	(3,125)	(2,220)	(2,000)	12,610
		22,627	5,375	6,250	8,880	6,000	24,310
2022	Less: A.A	(2,578)	(2,687)	(3,125)	(2,220)	(2,000)	12,610
		18,049	2,688	3,125	6,660	4,000	12,610

(c).

**SMALEX COMPANY LIMITED
COMPUTATION OF TAX LIABILITIES
FOR YEAR 2020 – 2022 YEAR OF ASSESSMENT**

2020 Year of Assessment	₦ '000	₦ '000
Basis period 1/10/19 – 31/12/19		
Assessable profit		46,000
Less: Capital allowance (IA X AA)	24,558	
Investment allowance	<u>2,000</u>	<u>(26, 558)</u>
Total Profits		19,442
Income tax payable (₦ 19,442 X 20%)	<u>3,888.4</u>	
Education tax (₦ 46,000 X 2%)	<u>920.0</u>	
2021 Year of Assessment		
Basis period 1/1/20 – 31/12/20		
Assessable profit		64,000
Less: Capital allowance	<u>24,310</u>	<u>(24,310)</u>
Total profit		39,690
Income tax payable (₦ 39,690 X 20%)	7,938	
Education tax (₦ 64,000 X 2%)	1,280	
2022 Year of Assessment		
Basis Period 1/1/21 - 31/12/21		
Assessable profit		94,000
Less: Capital allowance	<u>12,610</u>	<u>(12,610)</u>
Total profits		81,390
Income tax payable (₦ 81, 390 x 20%)	<u>16,278</u>	
Education tax (₦ 94,000 X2%)	<u>1,880</u>	

(d). Disallowable expenses

- i. Depreciation expenses
- ii. Any contribution to a pension fund not approved by the Joint Tax Board (JTB)
- iii. Any provision for doubtful debt of a general nature
- iv. Capital expenditures
- v. Legal expenses including:
 - Cost of acquiring a new lease
 - Cost of renewing a long lease
 - Cost of defending a traffic offence
 - Cost of defending a tax appeal
 - Stamp duties on increase in capital
- vi. Any withdrawal of capital
- vii. Income tax provisions
- viii. Fines and penalties
- x. Pre – operational or preliminary expenses
- xi. Any sum recoverable under an insurance or contract.
- xii. Any sum reserved out of project.

(e). Non – allowable expenses

- i. Capital repaid or withdrawn and expenditure of capital nature.

- ii. Any sum recoverable under an insurance or contract of indemnity.
- iii. Taxes on income on profits levied in Nigeria or elsewhere, other than taxes levied out of Nigeria on profits which are also chargeable to tax in Nigeria where relief for double taxable of those profit may be given under any other provision if CITA;
- v. The depreciation of any asset.
- iv. Any payment to a savings, widows and orphans, pensions, provident or other retirement benefits funds, society or scheme except as permitted by paragraph (vii) of section 24 of CITA.
- vi. Any sum reserve out of profits, except as permitted by this paragraph or section 25 of CITA or as may be estimated to the satisfaction of the board, pending the determination of the amount to represent the amount of any expenses deductible under the provisions of that section, the liability for which was invocably incurred during the period for which the income is being ascertained.
- vii. Any expenses of any description incurred within or outside Nigeria for the purpose of earning management fee unless prior approval of any agreement giving rise to such managerial fee has been obtained from the minister.
- viii. Any expenses whatever incurred within or outside Nigeria as management fee under any agreement entered into after the commencement of this section except to the extent as the Minister may allow.
- ix. Any expenses not wholly, reasonably, exclusively and necessarily spent on the operations of the company;

Examiner's Report

The question tests the basis period for assessment, basis period for capital allowance and qualifying capital expenditure allowance, as well as computations of relevant tax liabilities using provisions of Finance Act 2020.

All the candidates attempted the question being a compulsory question, performance was below average.

Commonest pitfalls of the candidates was their inability to apply the provisions of new Finance Act to solve the question. Majority of them used the old tax law provisions.

Candidates are advised to pay more attention to the new provisions of the Finance Act 2020, as it is now the relevant tax law to be applied.

2. With reference to "income taxes" and levies under IFRS
 - (a)
 - (i) What is the objective of IAS 12 "on income tax"? (2 Marks)
 - (ii) Briefly discuss the two main components of income tax. (4 Marks)
 - (iii) What does IFRIC 21 on "levies" set out to address. (2 Marks)
 - (b) KILECHI Nigeria Limited has been filing its returns before due dates. Recent development showed that payment of penalty for late filing is inevitable.

Relevant information for the accounting year ended September 30, 2017 are as follows:

- (i) The Audited accounts is ready to be submitted on June 30, 2018.

(ii)	Computation of taxes showed:-	Companies income tax CIT	₦322,500
		Education Tax	₦52,333
		Minimum Tax	₦588,100
(iii)	Withholding Tax credit available to use as offset		₦132,205

Required:

1. What is the tax liability due for payment for CIT, EDT and penalty for late filing of accounts? (4 Marks)
 2. What are the documents, forms, letters etc., to be submitted by this company while filing audited financial statement for the year ended 30/9/2017? (3 Marks)
- (Total 15 Marks)

SOLUTION TO QUESTION 2

- (a). i. Objectives of IAS 12 "income Tax"
IAS 12 prescribes the accounting treatment for income taxes (both domestic and foreign taxes) that are based on taxable profit. The treatment includes how to account for current and future tax.
- ii. Components of Income Tax
The two components of income tax are current tax and Deferred tax
Current tax: Current and prior period tax where not paid is recognised as liability, while overpayment of current tax is recognised as asset. Current and prior unpaid tax are measured using the tax rates (tax laws) enacted or in place at the end of reporting period.
- Deferred Tax:** Deferred tax liability is a tax that is assessed or is due for the current period but has not yet been paid. The deferred comes from the difference in timing between when the tax is incurred and when the tax is paid.
- iii. IFRIC 21 on levies clarified when an entity recognises a liability for levies imposed by a government other than specified levies such as income taxes, fines and penalties. Applying IFRIC 21, an entity recognises a liability when it conducts the activity that triggers the payment of a levy under law or regulation.

- (b). i. Kilechi Nig Ltd
Tax liability due for Company Income Tax (CIT), Education Tax (EDT) and Penalty for late filling of Accounts

<u>Company Income Tax (CIT)</u>	
CIT computed	<u>₦322, 500</u>
Minimum Tax Computed	<u>₦588,100</u>
CIT Payable = Higher of CIT computed or Minimum tax	₦588,100
Less WHT credited	<u>(132,205)</u>
CIT Due	₦ 455,895
EDT Due is the EDT computed	₦ 52,333

Penalty for late returns (PLR)
 Accounting year ended 30/9/2019
 Date account due for filling (6 month) after 1/10/2017 – 31/3/2018
 i.e 1/10/2017 – 31/3/2018 - No penalty

	N
1/4/2018 – first month of default	25,000
Subsequent months N5,000/month:	
i.e 1/5/2018 – 30/6/2018 (2 x 5000)	<u>10,000</u>
PLR	<u>35,000</u>

- ii. Documents, forms, letters to accompany audited accounts for submission.
- Computation of capital allowances and tax liability (CIT, EDT and Min Tax)
 - Evidence of remittance / payments made at bank (i.e e-tickets) and Tellers (for CIT N455,895, EDT N52,333 and Penalty N35,000)
 - Letter or correspondence with FIRS for filling financial statement and relevant documents
 - Letter requesting to offset CIT with WHT credit
 - Copy of WHT credit Note to be utilised as tax offset.
 - FIRS forms for filling EDT and CIT
 - Self Assessment Notice – form for education tax.
 - Self Assessment Notice – form IR3C – for company
 - Evidence of payment of VAT on Professional fees incurred by auditors, as demanded by FIRS staff.

Examiner's Report

The part (a) of the question tests the objective of IAS12 – Income Tax and the IFRIC 21 on levies. Part (b) of the question tests computation of tax liability for company income tax, education tax, penalties for late filling of returns and the documents, forms and letters to be submitted along with filling of audited financial statements.

Majority of the candidates attempted the question and their performance was good in part (a) but below average in part (b) of the question.

Commonest pitfall was lack of understanding of the requirements of part (b) of the question.

Candidates are advised to pay more attention to all aspects of the syllabus for better performance in future examinations.

3. Mr Timpriye Awutze is a member of staff of the State Government Agency in charge of provision of electricity in one of the South – West states.

His salaries and allowances for the year 2020 are as follows:

	N000
Basic salary	20,000
Housing allowance	13,000
Utility allowance	1,560
Transport allowance	6,240

The following additional information are also provided:

- (a) Net rent received by Mr Awutze ₦2,160,000.
- (b) Interest income received on Federal Government securities during the year amounted ₦1,800,000;
- (c) He was registered with Micro Pension Fund Managers. His office took full responsibility for the contribution of 18% of his emoluments;
- (d) He paid ₦75,000 every month as life assurance premium;
- (e) He obtained a salary advance of ₦1,500,000 on October 1, 2019 repayable on the 3rd quarter of the following year; and
- (f) He contributed monthly to the National Housing Fund (NHF).

You are required to:

Compute the income tax payable by Mr Awutze for 2020 year of assessment.

(15 Marks)

SOLUTION TO QUESTION 3

MR. TIMPRIYE AWUTZU
COMPUTATION PF PERSONAL INCOME TAX PAYABLE
FOR 2020 YEAR OF ASSESSMENT

	₦	₦
Basic Salaries		20,000,000
Housing allowance		13,000,000
Utility allowance		1,560,000
Transport allowance		6,240,000
Entertainment allowance		<u>520,000</u>
Gross Emoluments		41,320,000
Rental income – gross (₦2,160,000/90 x 100)		2,400,000
Interest on Salaries (exempted from tax)		<u>-</u>
		43,720,000
Less: Reliefs:		
Consolidated Relief Allowance (working 1)	9,181,200	
National Housing Fund ($2\frac{1}{2}\%$ X ₦20,000,000)	500,000	
Life Assurance Premium (₦75,000 X 12)	900,000	10,581,200
Chargeable Income		<u>33,138,800</u>
Income Tax Liability :		
First ₦300,000 @ 7%		21,000
Next ₦300,000 @ 11%		33,000
Next ₦500,000 @ 15%		75,000
Next ₦500,000 @ 19%		95,000
Next ₦1,600,000 @ 21%		336,000
Balance ₦29,938,800 @ 24%		<u>7,185,312</u>
₦33,138,800		
Income Tax Payable		7,745,312
Less withholding Tax on Rent		<u>240,000</u>
Final Income Tax Payable		<u>7,505,312</u>

Workings 1		
Consolidated Relief Allowance		
N 200,000 or 1% of gross income, whichever is higher, plus 20% of gross income = N 200,000 or 1% X N 43,720,000 + N 43,720,000 X 20% = N 433,200 + N 8,744,000 = N 9,181,200		

Tutorial notes:

- a. Interest on income earned on securities issued by the Federal Government is excluded from the gross income because it is exempted from tax. Therefore, it is not taken into account in the calculation of consolidated Relief Allowance.
- b. Mr. Awutze did not contribute to the pension scheme. His employer make both the employer's and the employee's contribution to the Micro Pension Fund Managers. Therefore, the 18% pension contribution is a tax deductible expense in the computation of tax payable by the employer and not that of Mr. Awutze.
- c. Under the National Housing fund, the rate of contribution to the National Housing Fund is 2½% of the basic salary.

Examiner's Report

The question tests computation of income tax payable by an individual.

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

Commonest pitfall was the inability of the candidates to use appropriate tax liability rate.

Candidates are advised to study more and practice more past questions, when preparing for future examinations for better performance

4. (a) Define any three (3) of the following terms in relation to taxation of Estate, Trusts and Settlement;
 - (i) Executor
 - (ii) Estate
 - (iii) Annuity
 - (iv) Trust

(3 Marks)
- (b) (i) State the basis of assessment of Estates, Trusts and Settlement.

(3 Marks)

 - (ii) Explain the incomes chargeable in the hands of Trustee and the beneficiaries.

(3 Marks)
- (c) Briefly differentiate (with examples) the following:
 - (i) Taxable income and non-taxable income. (1 Mark)
 - (ii) Earned income and unearned income. (1 Mark)
 - (iii) Allowable expenses and disallowable expenses. (1 Mark)

- (d) Explain three (3) differences between initial allowance and investment allowance as regards qualified capital expenditure and capital allowance computation.
(3 Marks)
(Total 15 Marks)

SOLUTION TO QUESTION 4

- (a). i. An Executor (or Executrix – for Female) is a person or representative appointed by a Will to administer the Estate of a deceased person.
ii. Estate – An estate is the total of all the things (money and goods) and property possessed by a person either in his life time or death.
iii. Annuity – Is a fixed amount of money specified in the Trust Deed that is paid each year to someone usually until death.
iv. Trust – refers to equitable obligation (on a person called Trustee), to deal with a property over which he/she has custody (i.e trust property) for the benefit of persons (beneficiaries) of which he/she may be one.
- (b). Basis of Assessment of Estates, Trust or Settlement, and persons chargeable
i. Basis of assessment – The income of a trust, estate or settlement is to be subjected to tax on the Preceding Year Basis (PYB)
ii. Person chargeable to tax – these are:
- Trustee – subjected to tax on the remaining of the undistributed income in his name
- The beneficiaries – subjected to tax on the income derived from the Trust or Estate or Settlement.
- (c) i. Taxable Income – These are incomes derived by an individual or organisation in the course of carrying out business activities on which tax will be applied. Examples include; profit from trade, professional services fees, salaries, dividends etc.

Non- Taxable Income - Incomes which are not derived wholly, reasonably, exclusively and necessarily in the course of business activities. Examples are: Profit on disposal of asset, it could be income exempted from tax law e.g dividend received from a pioneer company, dividend from unit trust scheme.

- ii. Earned income – This is any income derived by an individual (trade, business, profession, vocation, employment etc) exercised by him (i.e by physically working for it) or a pension derived from previous employment. Examples include: salary, Professional fee received.

Unearned Income – (Income received from not physically working for it). Income derived from investments e.g rent, dividends, royalty, discounts, interest, etc. unearned income is usually received net of withholding tax.

- iii. Allowable Expenses – These are expenses which are incurred wholly, reasonably, exclusively and necessarily in the course of business. Examples include; rent of accommodation, interest on loan obtained for the purpose of the business.

Disallowable expenses – These are expenses which are not incurred reasonably, wholly, exclusively for the purpose of generating income for the business, income for the business e.g Fines and penalties, Capital expenditure, donation not provided for under Act, income tax provision etc.

d.

Initial Allowance	Investment Allowance
1. Initial Allowance rate differs depending on the types of qualifying capital expenditure (QCE)	Investment allowance is fixed at 10% and applicable to Plant and Machinery
2. It is considered (ie deducted from cost) in the determination of tax written down value of QCE to be carried forward to the second year	It is not considered (ie deducted from cost) in the determination of Tax written Down Value (TWDV) of QCE for the second year.
3. Applicable to any newly acquired QCE in the first year	Applicable only to Plant and Machinery acquired in the first year and not all QCE
4. It is not an additional capital allowance	It is an additional capital allowance.

Examiner's Report

The question tests candidates' knowledge of taxation of Estate, Trusts and settlement, as well as their basis of assessment and differences between terminologies used in taxation.

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

Common pitfalls were inability of the candidates to understand some terminologies used in taxation and poor understanding of the requirements of the question.

Candidates are advised to study indepth all aspect of the syllabus for better performance in future examinations.

5. Collections of adequate revenue to meet the expenditure of a country is a major task before a government.

In Nigeria, the Federal, State and Local government are responsible for collecting the taxes and levies as stated in parts I to III of the schedule to the Taxes and Levies (Approved list for collection) Act 1998 respectively.

You are required to:

State five (5) taxes and levies collectible by each tier of government in Nigeria.
(15 Marks)

SOLUTION TO QUESTION 5

Taxes collectible by each tier of government in Nigeria

- a. Taxes collectible by the Federal Government
- Company income tax
 - Withholding tax on companies
 - Petroleum profit tax
 - Value Added Tax

- v. Tertiary Education tax
- vi. National Information Technology Development Agency Levy
- vii. Capital gains tax on body corporate and non – resident individuals.
- viii. Stamp duties on body corporate
- ix. Personal Income tax in respect of the following:
 - Member of the Nigeria Police Force; and
 - Staff of the Ministry of Foreign Affairs and non – resident individuals
- b. Taxes collectible by the State Government
 - i. Personal income tax in respect of
 - PAYE and
 - Direct taxation (self - assessment)
 - ii. Withholding tax (individuals only)
 - iii. Capital gains tax (individual only)
 - iv. Stamp duties on instruments executed by individual
 - v. Pools bettings and lottery, gaming and casino taxes.
 - vi. Road taxes
 - vii. Business premises registration fees in respect of :
 - Urban areas as defined by each State, subject to a maximum of ₦10,000 for registration and ₦5,000 p.a for the renewal of the registration and
 - Rural areas – ₦2,000 for registration and ₦1,000 p.a for the renewal of the registration
 - viii. Development levy (individuals only) of not more than ₦100 p.a on all taxable individuals
 - ix. Naming of street registration fee in the state capital
 - x. Right of occupancy fee on land owned by the state government in urban areas of the state and
 - xi. Market taxes and levies where state finance is involved.
- (c). Taxes and levies collected by the Local Government.
 - i. shop and kiosk rate,
 - ii. Tenement rate,
 - iii. On and off liquor licence fees
 - iv. Slaughter stab fees
 - v. marriage and death registration fees
 - vi. Naming of street registration fees, enhancing and street in the state capital
 - vii. Right of occupancy fees on lands in rural areas, excluding those collected by the Federal and State government.
 - viii. Market taxes and levies excluding any market where the state finance is involved
 - ix. Motor parks levies
 - x. Domestic animal licence fees
 - xi. Bicycle, Truck, Canoe, wheel barrow and cart fees, other than a mechanically propelled trucks,
 - xii. Cattle tax payable by cattle farmers only.
 - xiii. Merriment and road closure levy
 - xiv. Radio and TV licence fee (other than radio and Tv transmitter)
 - xv. Vehicle radio licence fee (to be imposed by the local government in the State in which the car is registered
 - xvi. Public conveniences, sewage and refuse disposal fee
 - xvii. Customary burial ground permit fees
 - xviii. Religious places establishment permit fees.
 - xix. Signboard and advertisement permit fees.

Examiner's Report

The question tests taxes and levies collectible by each tier of government in Nigeria.

Majority of the candidates attempted the question and their performance was excellent.

Candidate are advised to pay more attention to all aspects of the syllabus for better performance in future examinations.

6. The lecture you delivered to potential investors in your local government area is beginning to yield result in view of your appointment as Tax Consultant to Goomy Paints Industry Limited, Abeokuta.

The Company was incorporated on 1/2/2019 but commenced business on 1/7/2019. Analysis of the business bank statements for payments made for the underlisted transactions are as follows:

- (i) Chief Paul Hilander ₦9,500,000 for land purchased for business use.
- (ii) Clean Clear Construction Company (CCCC) Ltd TIN Num 02222333 – 001 at 22 Iwo road Ibadan receive (a) ₦97,375,000 for Industrial Building construction and (b) ₦22,420,570 for Non-Industrial Building Construction.
- (iii) ABC Legal Practitioners & Co received ₦3,153,600 for Legal services
- (iv) Creditors for supplies - Bisi Enterprises ₦4,237,475

You observed that:

- (i) All the payments were made net of WHT of 5% except for legal fees which is 10%; and
- (ii) The various amounts withheld by the company have not been remitted to the appropriate relevant tax authority.

Required:

- (a) Determine the following:
 - (i) the Actual cost of each of the transactions
 - (ii) the Withholding tax payable
 - (iii) the Relevant Tax Authority for the collection of each transaction.
- (b) With particular reference to transaction with Clean Clear Construction Limited, prepare a schedule that would be submitted to the Relevant Tax Authority when filing WHT returns.

(15 Marks)

SOLUTION TO QUESTION 6

(a). GOOMY PAITS IND LTD

Nature of Transaction	Amount paid Net of WHT (95/90)	Gross up (WK1) 100%	Withholding tax Held/ payable (WK2)	Relevant Tax Authority
	₦	₦	₦	₦
1. Land purchase 5%	9,500,000	10,000,000	500,000	State Internal Revenue Service (IRS)
2. Contract of construction				Federal Inland Revenue FIRS
- Industrial building	97, 375,000	102,500,000	5,125,000	
- Non Ind. Building	22,420,570	23,600,600	1,180,030	
3. Professional Service 10%	3,153,600	3,504,000	350,400	State IRS
4. Suppliers 5%	4,237,475	4,460,500	223,025	State IRS

Working

- Gross up: e.g Land = $\frac{9,500,000}{0.95} = ₦ 10,000,000$
Less 5% WHT = $₦ 10,000,000 - ₦ 500,000 = ₦ 9,500,000$
- WHT Payable = Gross Amount – Amount Paid = $₦ 10,000,000 - ₦ 9,500,000 = ₦ 500,000$

(b). Schedule to be submitted while filling WHT Returns:

- Name and TIN of collecting Agent: Goomy Paints Ind. Ltd (TIN.....)
- Name of Beneficiary: Clean clear Construction Company (CCCC)
- Beneficiary TIN: 02222333 – 0001
- Address of Beneficiary: 22. Iwo Road, Ibadan.
- Nature of Transaction: Construction
- Period : 2019
- Gross Amount : ₦102,500,000
- WHT Rate: 5%
- WHT payable ₦5,125,000

Documents to attached

- Evidence of remittance through bank
- Bank tellers
 - E-ticket

Examiner's Report

The question tests computation of gross amount calculated from net amount of withholding tax and tax authorities to collect withholding tax returns.

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

Commonest pitfall was inability of the candidates to compute gross amount and apply it to real life situation.

Candidates are advised to pay more attention to all aspects of the syllabus.

7. Mr Zulu Ziga is a foreign investor and a potential client of the firm where you work. His area of interest is Telecommunication and Cyber Company. He came to Nigeria in year 2015. You are to enlighten him, and
- (a) (i) Briefly explain Companies Income Tax (CIT) in Nigeria. (1 Mark)
 - (ii) List profits liable to CIT. (2 Marks)
 - (iii) List profits exempted from CIT. (2 Marks)
 - (b) Discuss National Information Technology Development Levy (NITDL) as it affects his preferred industry with specific examples on:
 - (i) The Act that governs it, the rate and turnover threshold. (3 Marks)
 - (ii) Companies liable. (2 Marks)
 - (iii) Due date for filling and penalty attached to defaulting after due date. (2 Marks)
 - (c) Briefly discuss the relevance of certificate of capital importation to him as a foreign investor. (3 Marks)
- (Totals 15 Marks)

SOLUTION TO QUESTION 7

- (a). i. Company Income Tax in Nigeria is regulated by companies Income Tax Act (CITA) Cap C21, Laws of the Federation of Nigeria 2004 as amended. The tax rate is 30% of the total profit of a company and it is chargeable on the profit of all companies registered in Nigeria and income derived from Nigeria by non-resident company.
- ii. Profit liable to Company Income Tax (CIT): CIT is imposed on the profits of any company accruing in, derived from, brought into, or received in Nigeria; they include:
 - Any trade or business;
 - Rent or any premium arising from a right granted to any other person for the use or occupation of any property;
 - Dividends, interest, royalties, discount, charge or annuities;
 - Fees, dues and allowance (wherever paid) for service rendered.
 - Any amount deemed to be income or profit under a provision of companies Tax Act.
- iii. Profit exempted from CIT: The profit of some entities are exempted from CIT provided they are not derived from trade or business carried on by the them. They include:
 - Company being a statutory or registered friendly society;
 - Cooperative society registered under the relevant Act.

- Ecclesiastical, charitable or educational institutions of a public character;
- Company formed for the purpose of promoting sporting activities;
- Dividend, interest, royalty derived by a company outside Nigeria but brought in through government approved channels e.g CBN and any other corporate body appointed by the minister;
- Interest on Agricultural loan if the moratorium period is not less than 18 months and rate of interest is not more than base lending rate at the time the loan was granted; and
- Dividends received from small companies in the manufacturing sector in the first (5) years of their operation.

- (b). i. The National Information Technology Development Levy (NITDL) is governed by National Information Technology Development Agency Act Cap N156 2004 (as amended) through its Agency (NITDA).

The level is charged at the rate of 1% of the profit before tax of specified companies liable. Such company must have a minimum turnover of ₦100m and above.

- ii. Specified companies liable include:
- GSM Service Provider and all Telecommunication companies;
 - Cyber companies and Internet Providers;
 - Pension managers and Pension Related companies;
 - Banks and other Financial Institutions; and
 - Insurance companies.
- iii. Due dates for filling returns and payment of levy is the same as Companies Income Tax ie 6 months after accounting year end.
Defaulters at due date shall attract a penalty of 10% plus interest at the prevailing minimum rediscount rate of CBN.
Enforcement takes place if payment is not made within one month.

- (c). Relevance of certificate of capital importation (CCI) to a foreigner.
Certificate of Capital Importation is a Certificate issued by a bank in line with CBN foreign exchange guidelines. It confirms inflow of foreign currency as a direct investment into Nigeria by investor.

It is therefore important that foreign investor must process and obtain this certificate in order to have:

- i. Legal backing to the fact that foreign currency was brought into the country as an investment;
- ii. It guarantees access to official foreign exchange market for repatriation of capital and / or returns on investment; and
- iii. It is required in order to obtain business permit and expatriate quota.

Examiner's Report

Part (a) of the question tests computation of Company Income Tax (CIT) from a foreign investor in Nigeria. Part (b) of the question tests the current issues on National Information Technology Development Levy (NITDL) Act, company liable and due date for filling and penalty.

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

Common pitfall were lack of understanding of the Act and requirement from a foreign investor.

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



THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2021: PROFESSIONAL EXAMINATION

PTE I: GOVERNANCE, RISK AND ETHICS

TUESDAY 12TH OCTOBER, 2021

EXAM NO.....

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS.

SHOW ALL WORKINGS.

TIME: 3 HOURS.

ADEPT COMPANY PLC

Adept Company Plc, a producer of household aluminium equipment is located by Tema River, the source of water supply for the community. The company currently holds the largest share of household aluminium equipment in the West African market and plans to expand its operation to Eastern and Southern parts of Africa. At its 20th AGM, shareholders approved the appointment of Adamu Professional Services (APS) as Tax Consultants to the company. The Managing Partner of APS; Alhaji Adamu Boss is a nephew of the Managing Director of Adept Company Plc. The appointment of APS was facilitated by Adept's Managing Director, who did not disclose his relationship with Alhaji Adamu Boss to the company's board.

At a recent board meeting, the Managing Director of Adept Company Plc expressed concern that too much of the company's resources are being expended on host community projects at the expense of the company's shareholders. According to him, shareholders are the primary stakeholders of the company and their interest should be given the highest priority. He further believed that other stakeholders are important to the extent that Adept Company Plc needs them. Consequently, the board resolved that henceforth, the company should not spend more than 0.5% of the company's profit after tax on other stakeholders.

However, it so happened that at the peak of the company's production cycle, one of its neighbouring waste tanks ruptured and a large quantity of chemical was leaked into Tema River. This led to the destruction of aquatic life and contamination of neighboring farmlands. This catastrophic event devastated the community as many farmers and fishermen lost their livelihood. The community's major source of potable water was also contaminated.

While this was happening, there was a major fire outbreak in Adept's second factory, destroying the company's main furnace, machinery and large quantity of finished goods. Some of the workers were severely injured while trying to put out the fire. This event led to production shut down at the second factory and temporary disengagement of several skilled workers as well as casual staff. Fortunately, the company is covered by a comprehensive fire and workmen compensation insurance policies.

AGING POPULATION

In many countries of West Africa, the average age of the population is rising. A large number of individuals are reaching retirement age and the percentage of the total population working

is declining. This demographic change will have consequences for many companies in the affected countries. It could be much more difficult in the future to attract and retain needed human resources, this could affect the demand for various goods and services, such as holidays and health products.

Among people of retirement age, two distinct social groups might emerge: those who have retired because they have sufficiently large pensions; and those who cannot afford to retire because their pension would be inadequate for a reasonable living. An increase in the number of older people continuing to work past retirement age will have an impact on human resources planning for employers.

Required:

- a. (i) Using the shareholder's theory of CSR, evaluate the Managing Director's position. (10 Marks)
 - (ii) Identify four (4) stakeholders other than shareholders. (2 Marks)
 - b. As a risk consultant, evaluate the adequacy of the risk management process in Adept Company Plc. (7 Marks)
 - c. Evaluate the company's residual risks in contrast to the management's risk appetite. (5 Marks)
 - d. Identify and discuss the ethical issues in the Adept Company Plc scenario. (6 Marks)
 - d. Using SWOT, analyse the business environment described in the section titled Aging Population. (10 Marks)
- (Total 40 Marks)

SOLUTION TO QUESTION 1

- (a) (i) Analysing the Managing Director of Adept Company Plc position, it can be observed that, he believes in the shareholders' theory other than the stakeholders' theory or the social contract theory.
 - The shareholders' theory is based on the view that the objectives of a company is to maximise value for its shareholders through maximisation of profit and hence shareholders' wealth. Some invest in the company for the long-term gain and others invest only for the short term, hoping to make a quick profit from a favourable movement in the share price;
 - Long term shareholders are likely to support the view that the company should invest for long-term growth.
 - Short term shareholders are likely to support a policy of high dividend payment and measures to boost short-term profits.
 - The management essentially focusses on the shareholders and at best considers other internal stakeholders like employees and management.
- (ii) But we have other stakeholders who are also important to the company and are essentially external parties, they include the following:
 - Customers;
 - Suppliers;
 - Government;

- Bankers and financials;
- Host communities;
- General public; and
- Employees.

(b) As a Risk Consultant to evaluate the adequacy of the risk management processes, including its information and communication systems, the following steps will be undertaken:

- (i) Helping with the identification of risks;
- (ii) Establishing tools help with the identification of risks;
- (iii) Establishing modelling methods for the assessment and measurement of risks;
- (iv) Collecting risk incident report;
- (v) Assisting functional heads in the review of reports by the internal auditors;
- (vi) Preparing regular risk management reports for senior manager or risk committees; and
- (vii) Monitoring best practice in risk management and encouraging the adopting of best practice within the entity.

(c) Residual risks refer to those risks that internal controls no matter the effectiveness may not be able to eliminate completely. But it must be kept at acceptable level.

While risk appetite is the acceptance of the risk of making a loss in order to create a chance to make profit, the risk appetite of a board or management in any particular situation will depend on:

- (i) The nature and essentiality of the decision;
- (ii) The amount and nature of the potential gains or losses; and
- (iii) The reliability of the information available to help the Board or Management to make their decision.

(d) The ethical issues involved in the scenario described in the case are:

- (i) The leaking of its underground waste tanks which led to the release of large quantity of chemical waste leading to destruction of aquatic life and contamination of neighbouring farmlands;
- (ii) The injuries suffered by workers of the company as a result of the fire outbreak is also an ethical issue, but fortunately the company had a comprehensive fire and workers compensation insurance policies with GYANG Risk and Life Assurance Plc; and
- (iii) The concealment of the relationship existing between the Managing Director and the external auditor by the Managing Director is also an ethical issue however, he is his nephew and may not be taken as a related party because he is not a close family relationship; and
- (iv) Keeping the old people at work at the expense of younger ones who are more productive can also be seen as an ethical issue.

(e) The SWOT Analysis as one of the theories of strategic management seems relevant and appropriate to review and analyse the last section of the case titled "Aging Population". The SWOT Analysis basically involves:

- S – Strength;
- W – Weakness;
- O – Opportunity; and

T – Threats.

The identification of the factors under each of these heading has to do with the following:

- (i) Resources;
- (ii) Competences;
- (iii) Capabilities;
- (iv) Opportunities; and
- (v) Threats.

It should be noted that while S and W considers the internal environment, O and T considers the company's external environment.

S – Strengths

- The aging adults are a talent pool that can power the businesses and enhance the community of the future.
- The aging adults are ready, willing and able to be deployed.
- The older employees provide emotional stability, complex problem – solving skills, nuanced thinking and institutional know-how.
- The aging adults talents complement those of younger counterparts.
- Older workers can be mentors and serve as role models to younger colleagues.
- Age diverse teams do better at problem solving and generating ideas than same age group.

W – Weaknesses

- The increased number of older adults working longer will increase expenditure on health and long-term care.
- There could be labour-force shortage.
- The creativity and innovativeness of the company may not be guaranteed with older employees.
- There may be increased demand for leave and holidays by the older employees compared to young ones.

O – Opportunities

- Young employees can be used to open new markets, branches and outlets compared to older employees.
- Special intern arrangements can be organised to train and retrain young employees compared to older staff.
- Younger employees can be poached from competitors in the industry.

T - Threats

- The use of older employees can be perceived to mean the decline of the company in the industry.
- Contemporarily industrial ideas or trends may not be easily interpreted by the older employees.
- Possible social or media campaign or protests against the company for the failure to employ young employees.

EXAMINER'S REPORT

The question tests the candidates' knowledge and understanding on risk management process

as well as analysis of business environment using SWOT. Candidates' performance was fair, as about 40% of the them scored above average of the total marks obtainable.

The commonest pitfall in answering the question was their inability to identify various types of risks and their failure to analyse business environment using SWOT.

Candidates are advised to read well and consult CITN Study Pack and Pathfinders when preparing for future examinations.

2. The Internet has become an important means of effecting cross-border business transaction which have profound tax implications.

(a) Discuss Five (5) major components of e-business tax. (10 Marks)

(b) Outline Five (5) problems of e-business. (5 Marks)
(Total 15 Marks)

SOLUTION TO QUESTION 2

(a) Components of e-business tax are:

- (i) Tax content services: This addresses the creation, maintenance and management of tax content;
- (ii) Tax content repository: This component contains mark and reference setup data. Data created via tax content service is stored in the tax content repository;
- (iii) Tax service request manager: This component manages the access to all tax data and services including integration with e-business tax services, integration with tax service provided standard interface for e-business and suit applications to add tax services to their business process;
- (iv) Tax determination services: Made up of tax determination management which manages the requirements and processes around automation of tax calculation based on transaction details and tax setup information and tax role management, which manages the setup and definition of tax role;
- (v) Tax record repository: Key attributes necessary to record tax events;
- (vi) Tax administration service: Manages accounting for all tax transactions; and
- (vii) Tax reporting ledger: Manages access to tax content and tax record repositories for tax report.

(b) Problems of e-business are:

- (i) Security: Such as hacking and phishing etc.
- (ii) Confidentiality: This is difficult to secure due to vulnerability to hackers and phishers. There is also no guarantee that parties to e-banking transactions will keep such information confidential.
- (iii) Authenticity: Difficulty in determining authenticity/genuineness of information and offers;
- (iv) Non- repudiation: Existence of proof of transaction;
- (v) Access control: Prevention of access to information/system to unauthorised individuals;

- (vi) Availability: Disruption of services due to power outages, damages to physical information and limited service coverage especially by internet service providers; and
- (vii) Cost: Cost of maintaining electronic infrastructure is high as especially in developing countries.

EXAMINER'S REPORT

The question tests the candidates' knowledge and understanding of e-business tax and stating its major components and problems.

About 80% of the candidates attempted the question and performance was poor, as only about 20% of the them scored above average of the total marks obtainable.

The commonest pitfall in answering the question was the inability of the candidates to identify the major components and problems of e-business.

Candidates are advised to read widely and make adequate use of the CITN Study Pack and Pathfinders when preparing for future examinations.

3. Mr. Danladi obtained tax practice license recently from The Chartered Institute of Taxation of Nigeria (CITN). In today's business environment, tax firms face numerous challenges.

You are required to explain to Mr. Danladi Five (5) of such challenges. (15 Marks)

SOLUTION TO QUESTION 3

Challenges facing tax practice

Some of the challenges facing tax practice in the country are internal while others are external. Some of these challenges are:

- (a) Economic pressure
The economic downturn and other factors has forced tax practitioners to view tax practice less as a profession and more as a business. In a buyer's market, the client determines what services are needed and at what cost. To survive, tax firms are looking for competitive advantage. To remain competitive, many tax firms are forced to consider price reductions. This simply involves doing the same work for less it was done in the past;
- (b) Human capital
In a tax firm, as it is with all professional service firms, skilled employees are more important than in any other industry. Skilled and experienced workforce helps to reduce the derivative time or engagements without compromising quality. Not knowing when new business will come makes it difficult to staff skilled resources effectively. Highly paid employees may be utilized poorly, or employees that were formerly under-utilised and let go, may suddenly become needed;

(c) Knowledgeable Clients

As clients evolve in their sophistication and their own internal ability to execute and deliver projects, it becomes more challenging to professional service organisations to show their value. As information becomes more and more available, and as technology allows individual or small group of tax firms to expand their practice, it is likely companies will create or expand in-house tax departments.

They will do so for the efficiency of the service and to save costs. This will most certainly create competition for the tax firms representing those companies;

(d) Attracting potential clients

One of the major challenges facing tax practitioners is inadequate clients and how to attract client to the firm considering the fact that there is limit to the advert you can place as a professional firm. The problem is that things are based much on who you know than what you know. It is better to keep the clients you have than to lose any one of them;

(e) Lack of basic infrastructures

Although this is not common with big firms, but it is a problem with small tax practicing firms. These may include power supply, office space, technology development, etc; and

(f) Quacks parading as Tax Professionals

There are some people parading themselves as tax professionals without having the practices license of the Institute. They do not have any office, staff and such have less administrative expenses or associated cost to the job they are doing.

These set of people charges very low and portray the profession badly before taxpayers that patronise them because of the quality of services they render.

EXAMINER'S REPORT

The question tests the candidates' knowledge and understanding of challenges facing tax practices in the country. This is a contemporary issue that is trending in the tax practices generally.

About 70% of the candidates attempted the question, and only about 10% of them scored above average of the total marks obtainable.

Candidates' commonest pitfall in answering the question was their inability to differentiate between the internal and external challenges.

Candidates are advised to study well for future examinations. They should also avail themselves with the CITN Study Pack and Pathfinders.

4. Incompatible desires may drive a wedge between each stakeholder and cause inefficiencies and financial losses in corporate environment.
- (a) Carefully explain the concept of Agency in Corporate Governance. (5 Marks)
 - (b) Discuss Five (5) types of Agency conflicts that may exist in the context of an organisation. (10 Marks)
- (Total 15 Marks)

SOLUTION TO QUESTION 4

The law of agency as enunciated by the Companies and Allied Matters Act 2020 stated that the directors are agent of the company. The board of directors as a whole are agent and individual directors has the authority to bind the company to contractual agreements with other parties.

The theory of agency deals with the relationship between

- (a) a company's owners and
- (b) its managers (directors)

The 5 types of Agency conflicts are:

- (a) Remuneration;
- (b) Risk profile differences;
- (c) Difference in valuation horizon;
- (d) Unnecessary perks; and
- (e) Creative accounting system.

Remuneration

Most managers are paid fixed salaries irrespective of profit made during the year. This causes conflict most times because the managers tend to believe that they have generated more than they were paid in salaries, that the salaries are not commensurate to their inputs or efforts.

Risk profile differences

Shareholders prefer high risk, high return investment, since they may have diversified investment portfolios. The managers prefer low risk investments which have low returns. Thus, the profit generated by the company reflects the managers performance. High risk investment gone bad can lead to managers loss of job hence preference for low risk, low returns for investments.

Difference in valuation horizon

Managers prefer projects with profits in the short run so that they can get credit for their efforts. On the other hand, shareholders prefer long term investment which are consistent with going concern accounting concept. This causes conflict between the managers (i.e. agents) and the owners.

Unnecessary perks

These are sometimes incurred by management in form of high salaries, bonus or allowances and fringe benefits to compensate for their pressured exerted efforts at the detriment or unknown to owners. When the owners get wind of this, they are unhappy and thus causes conflicts.

Creative accounting system

This involves manipulation of accounting policies in order to report high profits e.g., by changing stock valuation and depreciation methods. While the managers are doing this to paint a picture of performance the owners hate this, see it as deception and also making the company to pay high taxes. This causes conflicts between them.

EXAMINER'S REPORT

The question tests the knowledge and understanding of the candidates on the concept of agency in corporate environment and agency conflicts as enunciated by the Companies and Allied Matters Act 2020.

Many candidates stayed away from this question, as only about 30% of them attempted it. Performance, as expected was very poor, as only about 5% of them scored above average of the total marks obtainable.

The major pitfall was their inability to exhaustively explain the types of agency conflict that may exist in the context of an organisation.

Candidates are advised to cover all areas of the syllabus and make adequate use of the CITN Study Pack and Pathfinders when preparing for future examinations.

5. The nature of taxation and complexity of work that tax practitioners do, means that they needed to be trusted, and they must demonstrate the highest standards of professional conduct.

Threats to compliance with fundamental ethical principles are grouped into five broad categories.

Explain these five (5) categories.

(15 Marks)

SOLUTION TO QUESTION 5

Threats to compliance with fundamental ethical principles

Threats to compliance with the fundamental ethical principles are grouped into five broad categories. They are:

- (a) **Self-interest threat or conflicts of interest**
These occur when the personal interests of the professional tax man, or a close family member are affected by the practitioner's decisions e.g. having joint financial interest with the client in a business venture, receiving gifts or hospitality from a client etc;
- (b) **Self-Review Threats**
This type of threat occurs when a professional tax man is responsible for reviewing some work or a judgement that he was responsible for originally. An extreme example would be a situation where a professional tax man prepares the annual tax returns for a corporate client and then is appointed to do the tax audit or assessment;
- (c) **Advocacy Threats**
This type of threat can occur when a tax practitioner promotes the point of view of a client, for example, by acting as a professional witness in a legal dispute, by providing

a professional opinion in support of a client, in a case involving a dispute with a third party (possibly litigation) etc;

(d) Familiarity Threats

A familiarity threat arises from knowing someone very well, possibly through a long association in business. The risk is that a tax man might become too familiar with a client and therefore becomes more sympathetic to the client and more willing to accept the client's point of view e.g. having a close family relationship with a director or a senior officer of the client company or with an employee of the company who is in the position to influence significantly the subject matter of the tax audit; and

(e) Intimidation Threats

A professional tax man might find that his objectivity and independence is threatened by intimidation, either real or imagined e.g. when tax practitioner is threatened with dismissal or a loss of benefits (pay, bonus, promotion) for failing to agree to the demands of management or colleagues.

A tax man in public practice may also be threatened with litigation by a client. These threats to compliance with the fundamental ethical principles apply to firms of tax practitioners, in their dealings with clients, as well as to individual practitioners.

EXAMINER'S REPORT

The question tests the candidates' knowledge and understanding of the work that tax practitioners do and threat to compliance with fundamental ethical principles.

Only about 37% of the candidates attempted the question. Performance was very poor, as only about 5% of them scored above average of the total marks obtainable.

The commonest pitfall was their inability to comprehend the threat to compliance with the fundamental ethical principles.

Candidates are advised to prepare well in future examinations and make adequate use of the CITN Study Pack and Pathfinders.

6. The functional leadership style model places more importance on behaviour that get things done rather than assigning a formal leadership role.

(a) State the role of management under functional leadership style. (1 Mark)

(b) Mention seven (7) characteristics of a functional leadership style. (14 Marks)
(Total 15 Marks)

SOLUTION TO QUESTION 6

(a) Functional leadership characteristics

According to the functional leadership model, the primary task of the leader is to ensure that all requirements of the group are met so that goals can be achieved.

(b) The following are the characteristics of a functional leadership style:

(i) Focus on actions

The functional leadership theory has been developed after studying the behaviours of successful leaders, and identifying the particular actions that led to successful results.

Here, the focus is more on what the leader does than on who the leader is;

(ii) Result oriented

In functional leadership, what matters is whether things get done. The leadership role is fluid and the primary emphasis is on ensuring behaviours that achieve a particular result.

It is not of much use getting applauded on a great leadership style if nobody does anything;

(iii) Priority on needs

The basic notion on functional leadership is that any group will have three primary needs:

- The need of the task;
- The needs of the team; and
- The needs of individuals who make up the team.

These three need are the basic building blocks that form functional leadership. When these needs are met, goals are achieved and the organisation progresses;

(iv) Flexible leadership role

The functional leadership approach maintains that it is not necessary for a group to have only one particular member who performs all the leadership functions. This idea is that any group member can perform these actions, which means that anybody can be the leader. It does not matter who does what, what matters is whether the task gets done. Therefore, the leadership role itself is quite flexible;

(v) Organising

In order for the group to effectively perform their task, the functional leader must ensure that the group is properly organised. Not only should each member have a clear understanding of what is expected of him or her, but the group itself should be properly structured to facilitate their actions;

(vi) Motivation

The functional leader must ensure that every individual in the group feels sufficiently appreciated for their efforts and actions. In the absence of motivation or clear communication about how their actions contribute to the group's success, there is a high chance that members might get dejected and leave the group;

(vii) Clear understanding of individual responsibilities under the functional leadership style where the actions of each individual matter, it is of vital importance that each member knows exactly how he or she contributes to the group to achieve its goals. Everyone has to know what they are supposed to do, and the leader

- is responsible to ensure clear understanding of each individual's desired behaviours;
- (viii) Controlling
Functional leadership involves a great deal of resources which are usually limited in any situation, and the leader must control what happens by being efficient about getting the maximum results from the available resources;
 - (ix) Guidance
Team members want to know how they are doing and whether they need to change anything. They need feedback about their jobs and how they can improve. One of the important tasks of a functional leader is to provide appropriate guidance to all members. The functional style assumes that leadership is defined by the behaviour of the leader and its corresponding effect on the group. Leadership is something that any individual provides to a group to meet certain needs; and
 - (x) Setting an example
People tend to observe their leaders and emulate their behaviours. Functional leaders set an example by doing the things that they want their followers to do.

EXAMINER'S REPORT

The question tests candidates' knowledge and understanding of functional leadership style model and its characteristics.

About 63% of the candidates attempted the question and about 20% of them scored above average of the total marks obtainable.

The commonest pitfall was their inability to identify the characteristics of a functional leadership style.

Candidates are advised to read widely to cover the whole syllabus, and to make use of the Institute's Study Pack and Pathfinders when preparing for future examinations.

7. Explain the following:

- (a) Speculative risk (3 Marks)
 - (b) Pure Risk (3 Marks)
 - (c) Strategic Risk (3 Marks)
 - (d) Operational Risk (3 Marks)
 - (e) Compliance Risk (3 Marks)
- (Total 15 Marks)

SOLUTION TO QUESTION 7

- (a) **Speculative Risks:** These are those risks, which offer the possibility of either gain or loss. If a beneficial or adverse outcome stems from a specific event, then, there is a speculative risk. For instance, the rise in price could be beneficial to a business man with large stock of goods. Other examples are the buyer of stocks and shares in a stock exchange market where value can rise or fall at the end of the year, the launching of a new product, exporting and importing of goods, etc. The above activities are associated with speculative risks, which hold out the prospects of loss, break-even or gain. Such risks are insurable.
- (b) **Pure Risks:** These are the misfortunes which bring about damage or hurt. If the possibility of harm is the only alternative to the occurrence of a specific event then it is a pure risk. For instance, fire occurrence in a factory produces only loss. Pure risks are known for economic losses once they occur. There is no possibility of gain economically to the individual. Examples of pure risks are shipwreck, theft, motor accident, etc. When these events do not occur, the status quo is maintained. Pure risks are insurable.
- (c) **Strategic Risk:** This is a risk that may arise due to implementation of successful business plan making poor business decisions, poor execution of decisions and inadequate allocation of resource. It often leads to a decline in the value of the company.
- (d) **Operational Risk:** This is the risk of a change in value of an organisation by actual losses incurred due to:
Inadequate or failed internal forces, people and systems;
External events such as legal risks; and
Hazard arising from the day-to-day operations of organisation.
- (e) **Compliance Risk:** This is exposure to legal penalties, financial forfeiture and material loss of an organisation when it fails to act in accordance with industry laws, regulations, internal policies or prescribed best practices.

EXAMINER'S REPORT

The question tests candidates' knowledge and understanding of various risks organisations face.

About 95% of the candidates attempted this question. Performance was impressive, as about 60% of them scored above average of the total marks obtainable.

The commonest pitfall was their inability to differentiate between types of risks.

Candidates are advised to prepare well for future examinations of the Institute, and make adequate use of CITN Study Pack and Pathfinders.



THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2021: PROFESSIONAL EXAMINATION

PTE I: FINANCIAL REPORTING

WEDNESDAY 13TH OCTOBER, 2021

EXAM NO.....

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS.

SHOW ALL WORKINGS.

TIME: 3 HOURS.

1. Sweetecho Plc. (Sweetecho) is a seller of household utensils. The trial balance extracted from the books of the company as at December 31, 2019 is shown below:

Items	Note	Dr ₦'m	Cr ₦'m
Ordinary share capital	ix		5,328
5% Cumulative preference shares of N1.00 each	v		1,776
Land and building at cost	vii	5,264	
Equipment at cost	vii	2,251	
Motor vehicles at cost	vii	1,018	
Brand	ii	524	
Accumulated depreciation (1/1/2019)			
Building			296
Equipment			463
Motor vehicle			303
Deferred tax 1/1/2019	viii		444
Inventories 1/1/2019	vi	618	
Revenue	i		9,513
Purchases		3,637	
Carriage inwards		466	
Administrative expenses		1,606	
Trade receivables		2,934	
Trade payables			683
Cash and bank		1,602	
Share premium			829
Dividends paid		207	
Retained profits			1,228
Financial assets at fair value 1/1/2019	iv	951	
Provision for warranty	iii		215
		21,078	21,078

Additional Information:

- (i) Revenue includes ₦338million in respect of goods sold to a customer on a sale or return basis. However, the customer has given no indication to date whether it plans to keep or return the goods. The goods were sold to the customer at a margin of 30%.

- (ii) On January 1, 2019, the directors commissioned a professional firm to measure the value of the brand. The advice of the professional firm is that the brand had a value of ₦524million with estimated useful life of 10 years.
- (iii) Sweetecho offers a 12-month warranty on goods or services which prove faulty. The average cost of rectifying the errors is 80% of sales prices.
- (iv) Financial assets consist of equity investments. Re-measurement gains or losses are recognised in other comprehensive income (OCI). The fair value of this investment at December 31, 2019 was ₦1.121million.
- (v) The preference shares were issued two years ago. The preference dividend for the year has not been provided for. The director wishes to provide for this payment.
- (vi) Inventories as at December 31, 2019 was ₦646million.
- (vii) Property, plant and equipment (PPE) are depreciated on a straight-line basis using the following rates per annum: building 2%; equipment 20%; and motor vehicle 25%. Cost of land at January 1, 2019 was ₦1,824million and building ₦3,440million. Depreciation on building and equipment are charged to cost of goods sold while depreciation on motor vehicle and amortisation on intangible assets are charged to administrative expenses.
- (viii) The estimate of the company's current income tax expense for the year is ₦222million. Deferred tax increased by ₦185million during the year.
- (ix) Rights issue of one share for every two held at ₦2.50 per share on December 31, 2019 were offered to the shareholders and they were fully subscribed. The effects of this transaction has not been included in the above trial balance.
- (x). The policy of the company is to make a provision of 5% warranty on its revenue for the year.

Required:

- (a) Explain, including the necessary journal entries, how transactions and events in notes (i) to (v) are to be treated in the financial statement of Sweetecho Plc., within the context of the relevant IFRS. (10 Marks)
- (b) Prepare in accordance with IAS 1 Presentation of Financial Statements:
 - (i) Statement of comprehensive income for the year ended December 31, 2019. (11 Marks)
 - (ii) Statement of changes in equity for the year ended December 31, 2019. (7 Marks)
 - (iii) Statement of financial position as at December 31, 2019. (12 Marks)
 Notes to the financial statements are not required but all workings must be shown. (Total 40 Marks)

SOLUTION TO QUESTION 1

- (a).i. Goods sold on sales or return do not meet the definition of revenue because the risk associated with the goods has not been transferred to the customer. It is not yet probable that the economic benefit associated with earning revenue on the good would flow to sweetecho, hence revenue must be reduced and trade receivable also reduced by ₦338m. The goods must be included in the closing inventory at cost price (₦338m X 70%) = ₦236.6m.

JOURNAL		
	Dr	Cr
	N'm	N'm
Revenue	338	
Trade receivables		338
Inclusion of good in cost of sales		
Inventory	236.6	
Cost of sales		236.6

- ii. According to IAS 38, - Intangibles, internally generated asset may not be recognised in the financial statements as assets unless there is an active market for identical assets. The standard does not permit capitalisation of internally generated brand because it does not satisfy the above criterion and the expenditure to create the assets is not easily spreadable. The brand must be written off as follow;

	Dr	Cr
	N'm	N'm
Administrative expenses	524	
Intangible assets		524

- iii. Under IAS 37, a provision should be made since it is probable that the outflow of economic benefit will occur in aggregate.

The estimated cost of rectifying the errors is
~~N~~917.5m X 5% X 80% which is ~~N~~ 367
Existing provision is (215)
Increase in provision 152

	Dr	Cr
	N'm	N'm
Administration expenses	152	
Provision for warranty		152

- iv. A gain of (1,121 – 951) is recognised in other comprehensive income (OCI) as the entity has elected to recognise gains or losses on remeasurement of equity investment

	Dr	Cr
	N'm	N'm
Financial assets	170	
OCI		170

- v. As the preference share are cumulative and redeemable, they are classified as liabilities under IAS 32. Therefore, dividend charged is finance cost and preference share is classified as non – current liability. (5% X ~~N~~1,776,000 = 88.8)

	Dr	Cr
	N'm	N'm
Finance cost 5% X 1,776	88.8	
Preference dividend payable		88.8

(b). i.

SWEETECH PLC

Statement of comprehensive income for the year ended December 31, 2019

	Note	N'm
Revenue	2	9,175.0
Cost of sales	3	<u>(4,357.4)</u>
Gross profit		4,817.6
Administration expenses	4	<u>(2,536.5)</u>
Profit from operations		2,281.1
Financial cost	9	<u>(88.8)</u>
Profit before tax		2,192.3
Income tax expenses	11	<u>(407.0)</u>
Profit after tax		1,785.3
Other comprehensive income		
Gain from financial assets	8	<u>170.0</u>
Total comprehensive income		<u>1,955.3</u>

Sweetecho PLC

Statement of changes in equity for the year ended December 31, 2019

	Ordinary shares	Share premium	OCI	Retained earnings	Total
	N'm	N'm	N'm	N'm	N'm
As at Jan. , 2019	5,328	829	-	1,228.0	7,385.0
Right issue (w1b)	2,664	3,996	-	-	6,660.0
Profit for the year				1,785.3	1,785.3
Gain from financial asset			170		170.0
Dividend paid	<u> </u>	<u> </u>	<u> </u>	<u>(207)</u>	<u>(207.0)</u>
As at December 31, 2019	<u>7,992</u>	<u>4,825</u>	<u>170</u>	<u>2,806.3</u>	<u>15,793.3</u>

SWEETECH PLC

Statement of financial position as at December 31, 2019

	Note	N'm
Property plant and equipment	1	6,697.5
Financial assets	8	<u>1,121.0</u>
Total non-current assets		7,818.5
Current assets:		
Inventories	7	882.6
Trade receivables	14	2,596.0
Cash at bank	15	<u>8,262.0</u>
Total current assets		<u>11,740.6</u>
Total assets		<u>19,559.1</u>
Equity and liabilities:		
Equity:		

Ordinary shares of ₦1 each	12	7,992.0
Share premium	13	4,825.0
Gain on financial assets remeasurement		170.0
Retained earnings		2,806.3
Total equity		15,793.3
Non – current liabilities:		
Preference Shares		1,776.0
Deferred tax liability	10	629.0
Total non-current liabilities		2,405.0
Current liabilities:		
Income tax expenses		222.0
Trade payables		683.0
Provision for warranty		367.0
Preference dividend payable		88.8
Total current liabilities		1,360.8
Total equity and liabilities		19,559.1

Working Note

1. Property plant and equipment.

	Land and building	Equipment	Motor vehicle	Total
Cost / Revaluation:	₦'m	₦'m	₦'m	₦'m
As at Jan. 1, 2019	5,264	2,251	1,018	8,533
Addition	-	-	-	-
As at Dec. 32, 2019	5,264	2,251	1,018.1	8,533
Depreciation:				
As at Jan. 1 2019	296	463	303	1,062.0
Charged for the year	68.8	450.2	254.5	773.5
As at Dec. 2019	364.8	913.2	557.5	1,835.5
Carrying amount:				
Dec. 31, 2019	4,899.2	1,337.8	460.5	6,697.5
Dec. 31, 2018	4,968.0	1,788.0	715.0	7,471.0

2. Revenue

	₦'m
Revenue – per draft TB	9,513
Consignment goods	(338)
	9,175

3 Cost of sales

	₦'m
Opening inventories	618.0
Purchases	3,637.0
Carriage inwards	466.0
Closing inventory (w7)	(882.6)
Depreciation – Building (3440 x 2%)	(68.8)
Equipment (2,251 x 20%)	450.2
	4,357.4

4. Administrative expenses

	N'm
Administration expenses – TB	1,606.0
Depreciation – Motor vehicle 25% x 1,018	254.5
Brand written off (w6)	524.0
Increase in warranty provision (w5)	<u>152.0</u>
	<u>2,536.5</u>

5. Provision for warranty

	N'm
Current year 9,175 X 5% X 80%	367
Existing provision	<u>(215)</u>
Increase in provision	<u>152</u>
	NIL

6. Brand written off

	N'm
Intangible assets:	
Cost	<u>524</u>
Written off	<u>(524)</u>

7. Inventories

	N'm
Inventories	646.0
Consignment goods	<u>236.6</u>
	<u>882.6</u>

8. Gain on financial assets

	N'm
Financial assets	
Fair value as at Dec. 31, 2019	1,121
Carrying amount	<u>(951)</u>
Gain on remeasurement	<u>170</u>

9. Preference dividend

	N'm
Preference share dividend	
5% X 1,776	88.8

10. Deferred tax liabilities

	N'm
Deferred tax bal b/d	444
Increase	<u>185</u>
	<u>629</u>

11. Income tax expense

	N'm
Increase tax expense	222
Increase in deferred tax liabilities	<u>185</u>
	<u>407</u>

12. Ordinary share capital

	N'm
Ordinary shares	5,328
Rights issue $\frac{5,328}{2} \times \text{N}1$	<u>2,664</u>
	<u>7,992</u>

13. Share premium

	N'm
Share premium b/d	829
Increase $2,664 \times \text{N}1.50$	<u>3,996</u>
	<u>4,825</u>

14 Trade receivables

	N'm
Trade receivable b/d	2,934
Goods on sale or return	<u>(338)</u>
	<u>2,596</u>

15. Cash and bank

	N'm
Cash and bank b/d	1,602
Realised from issue of share $2,664 \times \text{N}2.50$	<u>6,660</u>
	<u>8,262</u>

16. Right issues

	N'm
$\frac{1}{2} \times 5328 \times \text{N}2.50$	6,660

Examiner's report

The question tests candidates' knowledge of preparation of statement of comprehensive income, statement of changes in equity and statement of financial position in accordance with IAS I – Presentation of Financial Statements. The (a) part of the question tests treatment of accounting issue with reference to relevant IFRS.

All the candidates attempted the question being a compulsory one and their performance was poor.

The common pitfalls of the candidates were their inability to correctly prepare the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position. Wrong computation and postings were also major pitfalls.

Candidates are advised to study extensively, using the CITN Study Pack to prepare very well for better performance in future examinations.

2. IAS 2 Inventories requires that the amount at which inventories are stated in the financial statements should be at the lower of cost and net realisable value (NRV). The standard also emphasises the need to match cost against revenue in order to achieve greater uniformity in the measurement of income as well as improving the disclosure of inventory valuation.

Required:

- (a) Discuss how cost of inventory carried in the books is determined under IAS 2. (5 Marks)
- (b) Discuss the principle for determining and applying the net realisable value under IAS 2. (6 Marks)
- (c) State Four (4) disclosures required under IAS 2. (4 Marks)
- (Total 15 Marks)

SOLUTION TO QUESTION 2

- (a). inventory cost comprises of cost of purchase, cost of conversion and other cost in bringing inventories to their present location and condition.

Cost of inventory issued is determined either by using FIFO or weighted average and specific identification methods. Cost of purchase include any import duties, irrecoverable purchase taxes, transport handling and other directly attributable costs of purchase. Trade discount and rebates are deducted but not settlement discount.

Cost of conversion includes directly attributable labour and overhead cost in converting unit of raw material to finished goods. They also include a systematic allocation of production costs which are indirectly attributable to manufacturing or conversion. Any apportionment of fixed overhead is based on normal output.

- (b). Net realisable value (NRV) is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale and estimated cost of completion.

Inventories are written down to net realisable value on an item-by item basis or by a group of similar items, not on the basis of classification.

Inventories of raw materials and other supplies held for use in production of goods are not written down below cost if the finished goods in which they will be used are expected to be sold at or above cost.

However, when a decrease in the price of raw materials indicates that the cost of finished goods exceed the NRV the materials are written down to NRV

NRV is assessed at the end of each period. If changes indicates that the NRV is now higher, the earlier write-down values are reversed to costs but not higher than cost in any circumstances.

- (c). Disclosures:
- Accounting policies adopted for measuring inventories and the cost formula used;
 - Total carrying amount stated according to the classes of inventory;
 - Carrying amount of inventories stated at fair value less cost to sell;
 - Amount of inventories recognised as expense during the period;
 - Amount of any write -down of inventories recognised as an expense in the period;
 - Amount of reversal of a write -down to NRV and the circumstances that led to the reversals; and
 - Carrying amount of inventories pledged as security for liabilities

Examiner's report

The question tests candidates' knowledge of computation of cost of inventory, net realisable value and the disclosure requirements under IAS 2.

Few of the candidates attempted the question and their performance was poor.

Commonest pitfall was their inability to identify cost that made up cost of inventory and net realisable value. They also demonstrated poor knowledge of disclosure requirements under IAS 2.

Candidates are advised to familiarise themselves with all relevant accounting standards in the syllabus for better performance in futures examinations.

3. (a) Define impairment of assets in accordance with IAS 36. (2 Marks)
- (b) State Two (2) external and Two (2) internal sources of indicators of impairment of an asset. (4 Marks)
- (c) Racers Ltd is into car hire service. The notes relating to the property, plant and equipment in the financial statements for the year ended December 31, 2019 are as the followings:

	₦'000	₦'000
Cost: January 1, 2019		120,000
Accumulated depreciation: 1 January, 2019	48,000	
Charged for the year	<u>24,000</u>	
		<u>72,000</u>
		<u>48,000</u>

The cars on hire are measured using the cost model.

However, the car hire market has slumped and as a result, they could only be used to generate ₦25million income for each of the years 2020 and 2021. Alternatively, the cars could be sold immediately for ₦32million before consideration of the probable selling expenses of ₦1.8million. The cost of capital is 12% per annum.

You are required to:

- (i) Calculate the impairment loss (if any) assuming the cars have two (2) years remaining useful lives as at December 31, 2019. (6 Marks)

- (ii) Prepare a revised note to the property, plant and equipment as at December 31, 2019. (3 Marks)
(Total 15 Marks)

SOLUTION TO QUESTION 3

- (a). An impairment is the amount by which the carrying amount of an asset or a cash generating unit exceeds the recoverable amount. The recoverable amount is the higher of fair value less cost to sell and the value in use.
- (b). indicators of impairment of asset are as follows:
- External sources**
 - Unexpected fall in the assets market value;
 - Significant adverse changes in technological economic or legal environment;
 - Increase in interest rates that impact negatively on value in use and recoverable amount; and
 - The enterprise's net assets are more than their market capitalisation;
 - Internal Source**
 - Evidence of obsolescence or damage;
 - A material reduction in the usage of the asset; and
 - Evidence that the economic performance of an asset is worse than expected.
- (c). i. Calculation of impairment loss as at Dec. 31 2019

	N'000	N'000
Carrying amount		48,000
Recoverable amount		
The higher of:	<u>30,200</u>	
-Fair value less cost of disposal (N32m-1.8m)		
-Value in use (25m x 0.8929)	22,322	
(25m x 0.7072)	<u>19,930</u>	
	<u>42,252</u>	<u>42,252</u>
Higher of the two impairment loss		<u>5,748</u>

- ii. Revised note of the PPE as at Dec. 31, 2019

	N'000	N'000
Cost		120,000
Less: Accumulated depreciation Jan. 1, 2019	48,000	
- Charge for the year	24,000	
- Impairment loss	5,748	
		<u>(77,748)</u>
Carrying amount		<u>42,252</u>

Examiner's report

This question tests candidates' knowledge of impairment of assets in accordance with IAS 36. They are also required to carry out computation of impairment loss and preparation of revised note after incorporating the impairment loss calculated.

Few of the candidates attempted the question and their performance was fair.

Commonest pitfall was the candidates' inability to correctly compute impairment loss and they were not able to prepare a revised note after incorporating the effect of the impairment loss.

Candidates are advised to pay more attention to all aspect of the syllabus for better performance in future examinations.

4. (a) IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, prescribes the criteria for the selection of accounting policies and the circumstances in which an entity may change an accounting policy. The standard also deals with accounting treatment of changes in accounting policies, changes in accounting estimates and correction of prior period errors.

Required:

- (i) Explain an accounting policy according to IAS 8; and (3 Marks)
- (ii) Explain in line with IAS 8, an accounting estimate. (2 Marks)
- (b) The following are the summaries of the draft financial statements of Sanctity Plc. for the year ended June 30, 2020 together with the comparative figure for 2019. During July 2020, prior to signing off the financial statements, it was discovered that fraud had been taking place in the company for the previous 3 years.

The Chief Financial Officer (CFO) had been misappropriating monies paid to the company by its customers, the amounts were being presented as receivables. There is no prospect of recovering the money because the CFO has been declared bankrupt by a court of competent jurisdiction.

The amounts were as follow, for each of the period ending on June 30,:

Date	Amount N'000
June 30 2018	17,920
June 30 2019	20,480
June 30 2020	<u>25,600</u>

The statements of profit or loss and other comprehensive income for the year ended June 30 are below as follows:

	2020 N'000	2019 N'000
Revenue	384,000	352,000
Cost of sales	<u>(288,179)</u>	<u>(271,367)</u>
Gross profit	95,821	80,633
Expenses and tax	<u>(38,400)</u>	<u>(33,280)</u>
Profit for the year	<u>57,421</u>	<u>47,353</u>

Movement in retained earnings for the year ended June 30:

	2020 N'000	2019 N'000
Balance b/f July 1	330,221	302,080
Profit for the year	57,421	47,353
Dividends paid	<u>(20,469)</u>	<u>(19,212)</u>
Balance c/f	<u>367,173</u>	<u>330,221</u>

The statements of financial position as at June 30:

	N'000	N'000
Non-current assets	376,321	391,686
Current assets	<u>285,252</u>	<u>207,335</u>
Total assets	<u>661,573</u>	<u>599,021</u>
Equity and liabilities:		
Ordinary share capital	192,000	192,000
Retained earnings	<u>367,173</u>	<u>330,221</u>
	<u>559,173</u>	<u>522,221</u>
Current liabilities	<u>102,400</u>	<u>76,800</u>
Total equity and liabilities	<u>661,573</u>	<u>599,021</u>

Required:

Restate the above financial statements after the necessary adjustments.
Disclosures are not required.

(10 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 4

- (a). i. Accounting policies are the specific principles, bases, convention and practices applied by an entity in preparing and presenting financial statements.
An accounting policy is the reporting prescription chosen to be applied by an entity to a transaction or an event in the financial statements. IAS8 specifies the rules for the selection and application of accounting policies. An entity shall select and apply accounting policies consistently for similar transaction, other events and conditions unless a standard specifically requires or permit otherwise.
- ii. A change in accounting estimate is the adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that result from the assessment of the present status of, and

expected future benefits and obligations associated with the assets and liabilities.

The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine the reliability of the financial statements. Examples of accounting estimates are inventory obsolescence, allowance for credit losses, useful lives of assets, warranty, estimation etc.

- (b). The effect of the fraud existed in previous year, hence the financial statements should be corrected retrospectively.

The impact of this is that corresponding amounts (Comparative figures) presented in the financial statements must be restated as if the fraud had been detected in the prior periods. The impact of the error on the retained earnings prior to the earlier period presented should be adjusted against the opening balance of retained earnings.

SANCTITY PLC
Statements of Profit or Loss for the period ended June 30

	2020	2019
	₦'000	₦'000
Revenue	384,000	352,000
Cost of sales	(288,179)	(271,367)
Gross profit	95,821	80,633
Expenses (38.4 + 25.6)	(64,000)	
(33.2+ 20.48)	-	(53,760)
	<u>31,821</u>	<u>26,873</u>

Movement in Retained earnings for the year ended June 30.

	2020	2019
	₦'000	₦'000
Bal b/f July1,	291,821	302,080
prior period adjustment 2019		(17,920)
Restated opening balance	291,821	284,160
Profit for the year	31,821	26,873
Dividends paid	(20,469)	(19,212)
Balance at June 30	<u>303,173</u>	<u>291,821</u>

Statement of financial position as at June 30

	2020	2019
	₦'000	₦'000
Non – current assets	376,321	391,686
Current assets (w1)	<u>221, 252</u>	<u>168,935</u>
Total assets	<u>597,573</u>	<u>560,621</u>
Equity and liabilities		
Ordinary share capital	192,000	192,000
Retained earnings	<u>303,173</u>	<u>291,821</u>

	495,173	483,821
Current liabilities	<u>102,400</u>	<u>76,800</u>
Total equity and liabilities	<u>597,583</u>	<u>560,621</u>
Workings:		
Current assets:	285,252	207,335
Less bad debt w/o (17.92 + 20.48)		(38,400)
Year 2020 (38.4 + 25.6)	<u>(64,000)</u>	
	<u>221,252</u>	<u>168,935</u>

Examiner's report

The question tests candidates understanding of IAS 8 – Accounting policies, Changes in Accounting Estimate and Errors. It required explanation of accounting policy, accounting estimate and restatement of financial statements after adjustments relating to changes in accounting policies.

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

Commonest pitfall was their inability to explain accounting estimate in accordance with IAS 8.

Candidates are advised to familiarise themselves with the relevant Accounting Standards and its application to practical situations.

5. The IASB Conceptual Framework for Financial Reporting provides a conceptual underpinning of the IFRS. The objective of general purpose financial reporting forms the foundation of the framework.

Required:

- (a) Outline the purpose and the status of the Conceptual Framework for Financial Reporting. (7 Marks)
 - (b) Define the following concepts and explain the significance of each on financial reporting:
 - (i) Materiality (3 Marks)
 - (ii) Offsetting (3 Marks)
 - (iii) Consistency (2 marks)
- (Total 15 Marks)

SOLUTION TO QUESTION 5

A conceptual framework is the structure of concepts and principles that describes the preparation and presentation of the general purpose financial statements for their primary user.

The purpose of the framework is set out as follow:

- i. To assist the IASB in the development of future IFRS and the review of existing ones;

- ii. To provide a basis for reducing the number of alternative accounting treatments permitted by IFRS in order to harmonise presentation of financial statements;
- iii. To assist national standard – setting basis for developing national standard;
- iv. To assist preparers of financial statements in applying IFRS;
- v. To assist users of financial statements in interpreting the information contained in the financial statements prepared in compliance with IFRS; and
- vi. To provide those who are interested in the work of the IASB with information about its approach to the formulation of IFRS.

Status of the conceptual framework

The concept of the conceptual framework does not have the status of the IFRS, and its provisions cannot override any specific IFRS. The requirements of the IFRS prevails over the framework in the event of any conflict between both.

- (b).i. Materiality: information is material, if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of general purpose financial statement make on the basis of the financial statements. This means that entities should include all information in the financial statements, without distorting any which is material to change the opinion of users and exclude immaterial items. The cost of applying any principle must not exceed the benefit of doing so, however, materiality is a relative term. It could be affected by the relative size to the total or by nature. For instance 5% threshold is regarded as material for items in the statement of financial position. Also if it would change a ratio sufficiently to bring an entity out of compliance with its lender's covenant, it is material, however, small the item is.
- ii. Offsetting: IAS1- presentation of Financial statement states that assets and liabilities should not be offset against each other, so also is income and expenses. They should be reported separately in the financial statements. The rule is to ensure that all material items of the elements of financial statements are disclosed for proper understanding by users of the statement. Offsetting can take place only when it is required or permitted by an accounting standard or interpretation, or when offsetting reflects the economic substance of the transaction.
- iii. Consistency: The concept of consistency holds that when a company selects an accounting policy, it should continue (unless conditions warrant changes) to use that policy in subsequent period so that comparison of information overtime is meaningful. Consistency is not violated when a specific IFRS requires a change in policy or a significant change in operations of an entity demands for a change in the classification and preparation of information or other components of reporting.

Examiner's report

The question tests candidate's knowledge of the IASB conceptual Framework for financial reporting and its status, as well as concept of materiality, offsetting and consistency.

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

Commonest pitfalls was that majority of the candidates could not properly explain the meaning of the concepts.

Candidates are advised to pay more attention to all accounting concepts and their practical applications for better performance in future examinations of the institute.

6. (a) IFRS 15 Revenue from Contracts with Customers has significant impact on the financial statements of many entities. The standard was issued to significantly reduce an entity's discretion to apply judgment when recognising revenue. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers for an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The core principle is delivered in a five-step model framework.

Required:

Identify and explain the five-step model that needs to be followed by entities when recognising revenue from contract with customers under IFRS 15. (10 Marks)

- (b). During the year ended March 31, 2020 Ajaks Plc. entered into a contract to construct an asset for a customer, satisfying the performance obligation over time. The contract had a total price of ₦250million.

The cost to date of the contract of ₦34million has been invoiced to the customer. Cost to complete the contract are estimated at ₦126million.

As at March 31, 2020, the contract is estimated to be 45% complete. To date, Ajaks Plc. has received ₦25million from the customer.

Required:

Explain how the above transactions would be reported in the financial statements of Ajaks Plc. for the year ended March 31, 2020 including relevant calculations. (5 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 6

The five steps model of IFRS 15 are explained as follows:

- i. **Identify the contract with customer:** A contract is an agreement between two parties that create enforcement rights and obligations. Party to the contract must have approved the contract and are committed to perform it; each party's right to the goods or service transferred must be identified, payment terms must be identified, the contract must have a commercial substance and it is probable that the entity will collect the consideration to which, it will be entitled to by each exchange for the goods and services to be transferred.
- ii. **Identify the performance obligation in the contract:** Is it the goods or service that the contract promises to transfer to the customer. It could be a single good or service or a bundle of goods or service that is distinct or it could be asking of distinct goods or services that are substantially the same or handle the same pattern of transfer. Distinct performance obligations and their revenues must be accounted for separately in line with the allocated transfer prices.
- iii. **Determine transaction prices:** Transaction prices is the amount of a consideration that the entity expects to be entitled to in exchange for transferring

promised goods or services to a customer, excluding amount collected on behalf of third parties. The entity need to consider variable consideration, constraining estimate in consideration, time value of money, non-cash consideration and other factors in determining the transaction price.

iv. **Allocate the transaction price to the performance obligation.** The general rule to allocate transaction price is based on their relative stand alone selling price. The best way to determine a stand – alone selling price is to take observable selling price or estimate then using adjusted market assessment approach.

v. **Recognise revenue when or as the entity satisfies a performance obligation:** The performance is satisfied when an entity transferred a promised goods or service to a customer and the customer obtains control of the good or service.

Control can be achieved overtime or at a point in time.

(b). The construction contract in Ajaks Plc qualifies for overtime recognition. therefore, the entity should estimate both the contract price and the stage of competition of the contract. Revenue and cost in the contract should be recognised with reference to the stage of completion (45%) as at March 31, 2020.

On the above basis, a profit of ₦40,500,000, (w2) would be recognised in the statement of profit or loss and ₦49,500,000 in the statement of financial position.

Workings	₦'000	₦'000
1. Overall contract price		250,000
Cost to date	34,000	
Cost of completion	<u>126,000</u>	<u>160,000</u>
Total estimated profits		<u>90,000</u>
2. Statement of profit or loss		
Revenue ₦250m x 45%		112,500
Cost of sales ₦160m x 45%		<u>72,000</u>
Profit on contract		<u>40,500</u>
3. Statement of financial position		
Cost to date		34,000
Profit to date (w2)		40,500
Amount billed to date		<u>(25,000)</u>
		<u>49,500</u>

Examiner's report

The question tests candidates' knowledge of IFRS 15 – Revenue from Contract with customers. They are to identify and explain the five – steps model to recognise revenue from contract with customers and apply the concepts to report transactions in the financial statement.

Few candidates attempted the questions and their performance was below average.

Common pitfall for the candidates were their inability to correctly identify the five-steps model and the application of the concepts of the IFRS to practical situation.

Candidates are advised to get acquainted with all provisions of all relevant accounting standards and their application to financial statements for better performance in future examinations.

7. Sharpman Plc. issued 100millions 6% convertible bonds on January 1, 2019. The bonds are redeemable at par on December 31, 2024 or can be converted at that date on the basis of two ₦1.00 equity shares for every ₦10.00 of nominal value of bonds held. The prevailing market for similar bonds without conversion rights is 8%.

The present value of the interest factors at 8% has been calculated as follow:

Year	Discount factor @ 8%	Discount factor @ 6%
Year 1	0.9259	0.9433
Year 2	0.8573	0.8899
Year 3	0.7938	0.8396
Year 4	0.7350	0.7921
Year 5	0.6806	0.7472

Required:

- (a) Explain the provisions of IAS 32 Financial Instruments: Presentation, on the classification of financial instruments as equity or liabilities. (4 Marks)
- (b) Explain how the convertible bonds in Sharpman Plc. would be initially measured. (6 Marks)
- (c) Prepare a journal entry to initially record the convertible bond by Sharpman Plc. (2 Marks)
- (d) Calculate the value of liability to be recognised by Sharpman Plc. on December 31, 2019. (3 Marks)
- (Total 15 Marks)

Solution to question 7

- (a). Financial instruments are reflected in the financial statements on the basis of their substance not the legal form. When a financial obligation exists for an entity to deliver cash or another financial assets to another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity, it is a financial liability.

Equity instrument is any contract that evidence a residual interest in the asset of an entity after deducting all of its liabilities. A financial instruments is classified as an entity instrument only if, the instrument includes no contractual obligation to deliver cash or another financial assets to another entity, and the instrument will be settled in the issuer's own equity instruments.

- (b). IAS 32 requires that the equity and liability elements within convertible instruments must initially be recognised separately.

The initial amount of the liability is measured by calculating the present value of the future cash flows associated with the instrument assuming that it is not converted on redemption. The equity component is assigned the residual value by deducting from the fair value of the instrument as a whole.

The liability element will be determined by discounting the future stream of cash flow which will be the interest to be paid and the financial capital balance assuming no conversion.

The discount rate used is 8% which is the market rate for similar bond without the conversion rights.

(c). Liability component of convertible bond

	N'000	N'000
PV of principal amount ₦ 100m x (1.08)		68,058
PV of interest at 6% x ₦ 100m x 3.942		<u>23,958</u>
		92,018
Principal amount of loan notes		<u>100,000</u>
Equity – Residual value		<u>7,984</u>

Initial record of the convertible bond

	N'000	N'000
	Dr.	Cr.
January 1, 2019		
Bank	100,000	
Liability		92,028
Equity		7,984
Being the issue of convertible bond on January 1, 2019		

(d). carrying amount of liability as at Dec. 31, 2019

	N'000
Opening balance	92,018
Effective interest 8% x ₦92.018m	7,361
Interest paid 6% x ₦100m	<u>(6,000)</u>
Balance of liability as at Dec 31, 2019	<u>93,379</u>

Examiner's report

The question tests candidates' knowledge of IAS 32 – Financial Instrument; Presentation especially on the classification of financial instruments as equity or liabilities.

Few candidates attempted the question and their performance was poor.

Common pitfalls were lack of adequate knowledge of the standard (IAS2), poor knowledge of conversion of convertible bond, and the value of liability to be recognised at the year end.

Candidates are advised to pay more attention to all aspects of the syllabus, use the Institute study pack on the website for better performance in future examinations.



THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2021: PROFESSIONAL EXAMINATION

PTE I: INDIRECT TAXATION

WEDNESDAY 13TH OCTOBER, 2021

EXAM NO.....

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS.

SHOW ALL WORKINGS.

TIME: 3 HOURS.

1. (a) Transaction value method of valuing import goods stipulates that valuation shall, except in specified circumstances, be based on the actual price of goods to be valued which is generally shown on the invoice.

Discuss Five (5) conditions to be fulfilled by the importer in using transaction method of valuation. (5 Marks)

- (b) Miracle Ltd, a Nigerian resident company, deals in imported gin spirit and also locally manufactures gin spirit. The Company contracted your firm, Wisdom and Co. Consultants, to review its transactions for the month of December, 2020 and compute the custom and excise duties payable.

The Nigerian Customs Service released the following details:

- Import duty rate 40%;
- End use relief rate 50% of import duty;
- Excise duty rate 20%;
- Import duty is based on Cost Insurance and Freight (CIF); and
- VAT is 7½% of import Duty;

Total cost of imported goods and cost of manufacturing for the month of December 2020 are as follows:

- (i) TV sets for exhibition purpose and samples for prospective buyers \$5,000,000.00;
- (ii) Marine propulsion engines \$1,000,000.00;
- (iii) Military equipment \$1,500,000.00;
- (iv) Aircraft Knock Down Parts \$ 2,000,000.00;
- (v) Hydrocarbon oil \$ 1,000,000.00;
- (vi) 400 containers of bottles for local gin spirit is 500,000 bottles at \$5.00 per bottle;
- (vii) Insurance fee for end use goods \$ 3,000,000.00;
- (viii) Insurance fee for non-end use goods \$2,000,000.00;
- (ix) Freight charges end-use goods \$2,000,000.00; and
- (x) Freight charges non-end use goods \$2,000,000.00

You are required to compute:

- (i) Import duty payable on End-Use goods. (12 Marks)
 - (ii) Import duty payable on Non-End use goods. (6 Marks)
 - (iii) VAT payable on importation. (6 Marks)
 - (iv) Excise duty payable on production (3 Marks)
 - (v) Define End-use Relief (3 Marks)
 - (vi) List Five (5) import goods that qualify for End-use duty reliefs. (5 Marks)
- (Total 40 Marks)

SOLUTION TO QUESTION 1

- (a) Conditions to be fulfilled before using Transaction Value Method of valuing imports are:
- (i) Evidence of sale: There must be evidence of a sale for export to the country of importation e.g. commercial invoices, contracts, purchase order, etc;
 - (ii) No restriction on the disposition or use: There must be no restriction on the disposition or use of the goods by the buyer, other than restrictions which:
 - are imposed or required by law in the country of importation;
 - are limited to the geographic area in which the goods may be resold; and
 - do not substantially affect the value of the goods;
 - (iii) Not subject to additional conditions: The sale or price must not be subject to conditions or considerations for which a value cannot be determined with respect to the goods being valued;
 - (iv) Full prices, unless: No part of any proceeds of the subsequent resale, disposal or use of the goods by the buyer will accrue directly or indirectly to the seller, unless adjustment can be made in accordance with provisions in Article 8; and
 - (v) Documentary Input from the importer: The transaction value is calculated in the same manner on identical goods if the goods are the same in all respects including physical characteristics, quality and reputation produced in the same country as the goods being valued and produced by the producer of the goods being valued.

- (b) Computation of Import Duty Payable
End-Use Goods Imported

	Cost
	\$
Tv sets	5,000,000
Marine propulsion engines	1,000,000
Military equipments	1,500,000
Aircraft knock down parts	2,000,000
Hydrocarbon oil	<u>1,000,000</u>
	<u>10,500,000</u>

Non-End Use Goods Imported	\$
Bottles for gin production 500,000 bottles x \$5.00 per bottle	2,500,000

- (i) Import Duty Payable on End-Use Goods

	\$
Cost	10,500,000
Insurance	3,000,000

Freight	<u>2,000,000</u>
CIF	<u>15,500,000</u>
	\$
Import Duty rate of 40%	6,200,000
End-Use Relief 50%	<u>3,100,000</u>
Import Duty Payable	<u>3,100,000</u>
(ii) Non-End Use Goods Imported	
	\$
Cost	2,500,000
Insurance	2,000,000
Freight	<u>2,000,000</u>
CIF	<u>6,500,000</u>
Import Duty Rate @ 40%	<u>2,600,000</u>
	\$
Total Import Duty	
End-Use goods	3,100,000
Non-End Use goods	<u>2,600,000</u>
	<u>5,700,000</u>
(iii) VAT payable	
	\$
Total cost of goods imported	13,000,000
Insurance charges	5,000,000
Freight charges	<u>4,000,000</u>
CIF	<u>22,000,000</u>
Imported Duty @ 40%	8,800,000
VAT @ 7.5% of import duty	660,000
(iv) Computation of excise duty	
Production cost of local gin is 500,000 bottles @ \$5.00 = \$2,500,000	
Excise Duty rate @ 20%	= \$500,000
(v) End-Use relief is a relief available on certain goods imported into Nigeria that are to be processed or put to a specific use. It allows for a reduced or Zero rate of customs duty on the listed goods End-Use relief does not apply to VAT or Excise duties.	
(vi) List of import goods that qualify for End-Use Relief are:	
(a) Shipwork goods;	
(b) Aircrafts and parts;	
(c) Hydrocarbon oil;	
(d) Marine propulsion engines;	
(e) Military equipment; and	
(f) Fish.	

EXAMINER'S REPORT

The question is in two parts, part (a) tests the candidates' knowledge and understanding of using Transaction Value method of valuing import goods, while part (b) requires the candidates to compute import duty payable on "End-use goods" and "Non-End use goods", using the scenario provided.

About 30% of the candidates scored above average of the total marks obtainable.

The commonest pitfall was the inability of the candidates to differentiate between End-used and Non-End use goods.

Candidates are advised to make adequate use of CITN Study Packs, as well as previous Pathfinders when preparing for future examination.

2. Indirect taxes are part of the means designed by the Federal Government in Nigeria to raise revenue. Each of these taxes are normally backed by specific statute.

Required:

- (a) Discuss Five (5) statutes in Nigeria that impose indirect taxes on the citizens and the types of taxes payable under each. (7½ Marks)
 - (b) List Four (4) features of indirect taxes. (4 Marks)
 - (c) Discuss the provisions of the Nigerian Constitution on imposition of indirect taxes. (3½ Marks)
- (Total 15 Marks)

SOLUTION TO QUESTION 2

- (a) Statutes in Nigeria that impose indirect taxes on the citizens and the type of taxes payable under them are:
 - (i) Stamp Duties Act, Cap P8 Vol 13, LFN 2004;
 - (ii) Value Added Tax Act Cap VI, Vol 15, LFN 2004;
 - (iii) Custom Duties Act Cap 45, Vol 4, LFN 2004;
 - (iv) Excise Duties Act Cap 45, Vol 4, LFN 2004; and
 - (v) The 1999 constitution of the Federal Republic, as amended.
- (b) The features of indirect taxes are:
 - (i) For the final consumer or individuals, indirect taxes are less popular;
 - (ii) If you are not a business entity, you are not required to make any compliance or file indirect taxes return;
 - (iii) Indirect taxes are not paid in lump sum. In fact regular outflow takes place every time a consumer purchases a product or service;
 - (iv) They are not paid directly, instead they are already included in the sum total as a part of purchase price of any product or fee for any service;
 - (v) Evasion: It is difficult to evade indirect taxes because they are implemented indirectly through products and services; and
 - (vi) Indirect tax is borne by the final consumer of goods or services.
- (c) The constitution of the Federal Republic of Nigeria, 1999, provides amongst other things that the government of Nigeria shall provide economic and security welfare of its

people. These services, are to be funded from the revenues generated by the government. Taxes are the major sources of revenue to the government.

Therefore, section 4(3) of the constitution of the Federal Republic of Nigeria, 1999, empowered the National Assembly to make laws for the Federation in respect of matters included in the exclusive legislative list. The relevant sections are as follows:

16 – Customs and excise duties;

25 – Export duties

58 – Stamp duties; and

59 – Taxation of incomes, profits and capital gains

EXAMINER'S REPORT

The question tests the candidates' knowledge and understanding of Indirect statutes in Nigeria.

This is a familiar area to the candidates, as about 95% of them attempted the question and performance was good, 60% of them scored above the average marks obtainable.

The commonest pitfall in answering the question by the candidates was the way they confused the features of indirect tax with the provisions of the Nigerian Constitution on imposition of indirect taxes.

Candidates are advised to cover the entire syllabus and make adequate use of the CITN Study Packs and previous examination Pathfinders when preparing for future examinations.

3. (a) Explain briefly the following as stated in Hotel Occupancy and Restaurant Consumption Law 2009 (as amended).
- (i) Taxable persons under the law (3 Marks)
 - (ii) Consumption tax rate (1½ Mark)
 - (iii) Collecting agents (1½ Mark)
 - (iv) Remittance process and penalties for non-remittance (1½ Marks)
- (b) Mrs Joy incurred the following expenses during her visit to High Rise Hotel and Restaurant with her friends and family:
- (i) Total amount payable for food and drinks ₦155,450.00 (VAT inclusive)
 - (ii) Rent of facility to entertain guests, ₦60,500.00 (VAT exclusive)
 - (iii) Total service charge and musical entertainment fee, ₦50,000.00 (VAT inclusive).
 - (iv) Accommodation for family and guests, ₦220,000 (VAT inclusive).
 - (v) Healthcare services and use of the Hotel facilities by guests and family ₦300,000.00 (VAT exclusive).

You are required to:

Compute the tax payable under the Hotel and Occupancy and Restaurant Consumption Law of 2009 (as amended). (7½ Marks)
(Total 15 Marks)

SOLUTION TO QUESTION 3

- (a) (i) Taxable Persons: Any person, corporate or otherwise who:
- (1) Pays for the use or possession of any hotel, facility or event centre; and
 - (2) Purchases consumable goods or service in any restaurant whether or not located within a hotel.
- (ii) Consumption Tax Rate: 5% of the total bill issued to the customer excluding Value Added Tax and Service Charge.
- (iii) Collecting Agents: Any person owning, managing or controlling any business or supplying any goods or services chargeable under section 1 of the Law.
- (iv) Remittance process and penalties for non-remittance: This is the process of remitting taxes to the tax authorities. If a collecting agent fails to file a report and remit taxes (the goods and services tax collected within the time allowed by section 6(2) of this Law) that agent shall in addition to interest payable under section 10 of this law pay a penalty of 10% of the amount of tax due.
- (b) Mrs Joy Pass
Computation of:
- (i) Foods and Drinks bill
 $\text{N}155,450.00 \times \frac{5}{105} = \text{N}7,402.38$
 $\text{N}155,450.00 - \text{N}7,402.38$
 $\text{HORC} = \text{N}148,047.62 \times 5\%$
 $= \text{N}7,402.38$
- (ii) Rent Fee = $\text{N}60,500.00 \times 5\%$
HORC = $\text{N}3,025.00$
- (iii) Musical Entertainment Fee
 $\text{N}50,000.00 \times \frac{5}{105} = \text{N}2,380.95$
 $\text{N}50,000.00 - \text{N}2,380.95$
 $\text{HORC} = \text{N}47,619.05 \times 5\% = \text{N}2,380.95$
- (iv) Accommodation Fees = $\text{N}220,000.00 \times \frac{5}{105}$
 $= \text{N}10,476.19$
 $\text{N}220,000.00 - \text{N}10,476.19$
 $= \text{N}209,523.81 \times 5\%$
HORC = $\text{N}10,476.19$
- (v) Hotel Gym Fees
 $\text{N}300,000.00 \times 5\% = \text{N}15,000.00$

EXAMINER'S REPORT

The question tests candidates' knowledge and understanding of the provision of the Hotel and Occupancy and Restaurant Consumption Law of 2009 (as amended).

About 85% of the candidates attempted the question and performance was poor, as only about 10% of them scored above average of the total marks obtainable.

The commonest pitfall in answering the question was the inability of the candidates to compute the tax payable under the Hotel and Occupancy and Restaurant Consumption Law of 2009 (as amended).

Candidates are advised to cover all areas of the syllabus and make adequate utilisation of the CITN Study Packs and previous diets' examinations Pathfinders when preparing for future examinations.

4. (a) Briefly explain the tax implication of the following as stated in the Stamp Duties Act, Cap 58, LFN of 2004 (as amended).
- (i) Lost Instrument (2 Marks)
 - (ii) Unclaimed Instrument (2 Marks)
 - (iii) Unstamped or improperly stamped documents. (2 Marks)
- (b) Chief Oluwalambe Oluwalomejoda complained of errors in the computation of stamp duty payable by the Commissioner for stamp duty office and presented the instruments to be stamped to you as her tax consultant for review:

Purchased Date and Value

18/3/19: 10 plot of land at ~~₦~~4,000,000.00 per plot
30/5/19: 8 plots of land at ~~₦~~6,000,000.00 per plot
30/6/19: 5 plots of land at ~~₦~~10, 000,000.00 per plot

Date of presentation and Value (Current Date Value)

21/4/19: 10 plots of land at ~~₦~~6,500,000.00 per plot
31/5/19: 8 plots of land at ~~₦~~7,500,000.00 per plot
24/7/19: 5 plots of land at ~~₦~~12,000,000.00 per plot

The stamp duty rates on the instruments during the date of purchase and the date of presentation are 3.5% and 4% respectively.

You are required to:

Compute the stamp duties payable by Chief Oluwalomejoda after the review of the investments.

(9 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 4

- (a) (i) Effect of Loss Instrument
An instrument is said to be lost if it cannot be found by the owner after it has been duly assessed and stamped.

Tax Implication

The owner of the lost instrument may approach the commissioner in charge of stamp duties at the office where the original copy was previously stamped, for the stamping of the duplicate copy of the document.

Where the copy of the lost instrument has been previously stamped, the commissioner may request that another duty be paid for the stamping of the new document in place of the lost instrument.

(ii) Unclaimed Instrument

An instrument is termed unclaimed if six months after it has been properly assessed and stamped by the commissioner for stamp duties, the owner of the instrument failed or refused to collect or claim the instrument.

Tax Implication

Government will publish the particulars of the unclaimed instrument in a Gazette, and expect the owner to claim the instrument within two months or 60 days.

If after this sixty days period the instrument still was not claimed by the owner, the instrument will be classified as unclaimed and be destroyed; an act which cannot later be challenged by the owner of the instrument.

(iii) Unstamped or Improperly Stamped Instruments

This is an instrument that does not carry the correct amount of duty.

Tax Implication

The instrument is untenable in any court of law as evidence.

Parties to an instrument may or may not bring forward their document for stamping, therefore not stamping a document is not an offence.

- (b) (i) Instruments are assessed for stamping at their current value on the date it was presented for stamping.

Chief Oluwalomejoda

Computation of Stamp Duty Payable

10 plots of land at ₦6,500,000 per plot

= ₦65,000,000

Stamp duty payable = ₦65,000,000 x 4%

= ₦2,600,000.00

- (ii) 8 plots of land at ₦7,500,000.00 per plot

= ₦60,000,000

Stamp duty payable: ₦60,000,000 x 4%

= ₦2,400,000.00

- (iii) 5 plots of land at ₦12,000,000 per plot

₦60,000,000

Stamp duty payable = ₦60,000,000 x 4%

= ₦2,400,000

EXAMINER'S REPORT

This question tests the candidates' knowledge and understanding of the Stamp Duties Act, Cap 58, LFN of 2004 (as amended) and the computation of stamp duties payable.

About 45% of the candidates attempted the question and less than 5% of them scored above average of the total marks obtainable.

The commonest pitfall in answering the question by the candidates was their poor understanding of the implication of the Stamp Duties Act.

Candidates are advised to make use of the CITN Study Packs and study previous diets' examinations Pathfinders when preparing for future examinations.

5. Excise duty is a tax levied on excisable goods and manufactured within the country and is payable by the manufacturers before the goods are removed from the factories or warehouse. Being a type of indirect tax, the burden of excise duties are borne by consumers of the excisable goods in terms of increase in price. This will surely reduce the purchasing power of the consumers and affect their economic choice.

Required:

- (a) Justify the imposition of excise duty and levies by the government. (4 Marks)
 - (b) What are the criteria for selecting excisable products? (3 Marks)
 - (c) List Two (2) goods exempted from excise duty according to 7th schedule of CETA. (2 Marks)
 - (d) List Two (2) legislative frameworks for excise duties in Nigeria. (4 Marks)
 - (e) Apart from the manufacturers, which other two persons are liable to pay excise duties in Nigeria? (2 Marks)
- (Total 15 Marks)

SOLUTION TO QUESTION 5

- (a) Rationale for imposing Excise Duties are:
 - (i) Excise duty plays an important role in the fiscal policies of the government;
 - (ii) As a fiscal tool, it can be manipulated to achieve predetermined economic objectives;
 - (iii) It has high capacity for re-allocating income;
 - (iv) It can be used to influence the purchasing power by consumers;
 - (v) It has an import substitution effect, because its rates are sometimes reduced or completely eliminated in order to give impetus to local production activities; and
 - (vi) Excise duty can be used to discourage the proliferation of industrial development along certain lines to the exclusion of others.
- (b) Criteria for selecting excisable products are:
 - (i) It should be a fast moving product;
 - (ii) It should be a high volume daily consumable;
 - (iii) A non-essential product;
 - (iv) The volume of sales are very high;
 - (v) There are few producers of the products;
 - (vi) It is clearly identifiable; and
 - (vii) The goods has few substitutes.

- (c) Goods exempted from Excise Duty (7th schedule of CETA) are:
- (i) Goods exported;
 - (ii) Goods used in the manufacture of other excisable products, where excise duty will be paid on the final product; and
 - (iii) Goods which have become spoilt or otherwise unfit for use prior to delivery from the entered premises and so certified by the appropriate health officer or otherwise so established to the satisfaction of the Comptroller General of Customs and Excise.
- (d) Excise Duty is regulated by the following laws in Nigeria:
- (i) The constitution of the Federal Republic of Nigeria 1999;
 - (ii) Customs and Excise Management Act;
 - (iii) Customs, Excise Tariff etc (Consolidation) Act 1995 (as amended);
 - (iv) Nigerian Customs Service Board Act;
 - (v) Excise (Control of Distillation) Act; and
 - (vi) Current Common External Tariff of the Nigeria Customs Service (2008 – 2012).
- (e) Other persons liable to pay excise duties in Nigeria are:
- (i) Manufacturers or proprietor of excisable goods; and
 - (ii) Agents of the importers and their principals e.g. clearing agents, employees or the directors.

EXAMINER'S REPORT

The question tests Candidates' knowledge and understanding of the excise duty and levies according to 7th Schedule of CETA.

About 60% of the candidates attempted the question and about 10% of them scored above average of the total marks obtainable.

The commonest pitfall in answering the question was candidates' lack of adequate knowledge of the provisions of CETA.

They are therefore, advised to study well for subsequent examinations and make adequate use of CITN Study Packs and previous diets' examination Pathfinders.

6. Value Added Tax (VAT) will normally be charged on non-exempted imported goods imported into the country.

Required:

- (a) (i) List Four (4) points of VAT payments for imported goods. (4 Marks)
 - (ii) Discuss how assessment of VAT payable on imported goods are determined by the Nigerian Customs. (3 Marks)
 - (b) Discuss the provisions of the VAT law in respect of exported goods. (2 Marks)
 - (c) Discuss briefly each of the three types of variants of VAT. (6 Marks)
- (Total 15 Marks)

SOLUTION TO QUESTION 6

- (a) (i) Four points of VAT payment for imported goods are:
- * Nigeria Customs Service (NCS);
 - * Nigeria Port Authority;
 - * Shipping companies or airlines; and
 - * Clearing and forwarding agents.
- (ii) VAT assessment payable on imported goods are determined with the summation of the following:
- * Cost, insurance and freight (CIF) value of goods imported;
 - * Import duty value;
 - * Sub-charge; and
 - * Any other charges which are collectable by the Nigeria Customs Service.

The total of the above will be multiplied by the VAT rate of 7.5% to arrive at the VAT payable.

- (b) VAT on export: All exported goods and services are exempted from VAT in line with the concept of destination principle. This principle allows the country where the taxed goods is being sold or consumed to retain the value added tax on the goods or service.
- (c) The three variants of VAT are:
- (i) The gross products variant: This allows deductions for all purchases of raw materials and components plus depreciation on capital goods. Tax is levied on all sales with no deduction for business inputs. No deduction is made for capital goods, such as, plant and machinery and depreciation.
- (ii) The income tax variant: This allows deduction for purchase of raw materials and components plus depreciation on capital goods. The economic base of income variant is the net national product, that is, net investment (gross investment minus depreciation good is taxed).
- (iii) Consumption variants: The economic base is equivalent to total private consumption. Here, deductions are made for all business purchases and capital assets. Of all the three variants of VAT, the consumption variant is popular and widely used by many countries including Nigeria.

EXAMINER'S REPORT

The question tests the candidates' knowledge and understanding of the Value Added Tax (VAT) on non-exempted imported goods and on types of variants of VAT.

About 85% of the candidates attempted the question, and over 30% of them scored above average of the total marks obtainable.

The commonest pitfall in answering the question was the inability of the candidates to explain the Variants of VAT.

Candidates are advised to cover all areas of the syllabus, and familiarise themselves with CITN Study Packs and previous diets' examination Pathfinders when preparing for future examinations.

7. (a) (i) What is your understanding of Zero rated VAT? (2 Marks)
- (ii) List Two (2) Vatable goods and services that are regarded as zero rated items. (2 Marks)
- (iii) List Two (2) allowable items for input VAT in accordance with Section 13 VAT Act 2007 as amended. (2 Marks)
- (b) Discuss briefly the following:
- (i) VAT treatment of feed gas used for the manufacturing of Liquefied Petroleum Gas (LPG) and Liquefied Natural Gas (LNG). (4 Marks)
- (ii) VAT treatment of Incorporation/Change-In-Action as stated in CNOOC Exploration & Production Nigeria Limited v Attorney General of the Federation. (5 Marks)
- (Total 15 Marks)

SOLUTION TO QUESTION 7

- (a) (i) Under the zero rated VAT, goods and services are VATable at 0%, VATable person is entitled to refund of input VAT it paid in the production process.
- (ii) Goods and services that are subject to zero rated VAT are:
- Non-oil exports;
 - Goods and services purchased by diplomats; and
 - Goods purchased for use in humanitarian donor funded projects.
- (iii) List of allowable items for VAT input are:
- Goods purchased or imported directly for resale;
 - Goods which form stock-in-trade; and
 - Goods used for direct production (raw materials) for any good.
- (b) (i) VAT treatment of feed gas used for the manufacturing of LPG/LNG.
- LPG and LNG are non oil;
 - When exported, should be subjected to VAT at zero rate; and
 - Companies involved in such exports should be entitled to refund of input VAT incurred on feed gas used for the manufacturing of the LPG and LNG.
- (ii) VAT Act defines taxable goods and services to mean:
- The goods and services not listed in the first schedule to the act;
 - Supply of goods is any transaction where the whole property in the goods is transferred;
 - Supply of service is any service provided for a consideration;

- Transfer for incorporated goods chose in action was excluded in the VAT Act; and
- Also in CNOOC Exploration and Production Nigeria Ltd V Attorney General of the Federation and 2 Others.

It was decided that:

- Transfer of interest in an OML being an incorporated right do not fall within the purview of VAT;
- CNOOC is not liable to pay VAT on the transaction; and
- VAT does not apply to incorporeal/Chose in Action transactions.

EXAMINER'S REPORT

The question tests candidates' knowledge and understanding of Zero Rated VAT, as well as VAT treatment of feed gas, and of Incorporeal/Chose-in-Action.

About 85% of the candidates attempted the question, and about 20% of them scored above average of the total marks obtainable.

The commonest pitfall in answering the question was the inability of the candidates to discuss VAT treatment of feed gas used for the manufacturing of liquefied Petroleum Gas and liquefied Natural Gas, as well as Incorporeal/Chose-In-Action.

Candidates are advised to cover the entire syllabus in subsequent CITN examinations and make use of the Study Packs and past diets' examination Pathfinders.