THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2022 PATHFINDER
PROFESSIONAL 1 LEVEL

PTE I: INCOME TAXATION

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS.

SHOW ALL WORKINGS. **TIME: 3 HOURS.**

1. Plastic Recycling Company Ltd was incorporated on 29 November, 2019 but the company commenced operation on the 1 of January, 2020 and chose 31 December as its accounting year end. The capital structure of the company showed 27.5% imported equity capital. Analysis of expenditure incurred while acquiring its capital assets are as shown below:

		₦
(i)	Land at acquisition purchase price	40,575,000
(ii)	Land clearing, scrapping and access road	5,330,150
(iii)	Landlord association entertainment	157,980
(iv)	Industrial Building site foundation preparation and leveling	2,689,110
(v)	Industrial Building construction cost	82,300,710
(vi)	Land and survey cost	16,201,250
(vii)	Reception of local government chairperson	433,800
(viii)	Plant and machinery purchase price	200,555,300
(ix)	Installation and testing of plant and machineries	18,333,670
(x)	Toyota Hilux Vehicle (2)	37,000,000
(xi)	Fine (Late registration – Institute of building)	432,700
(xii)	Heavy duty trucks	71,000,000
(xiii)	Legal fees (Land tittle documentation)	10,643,600
(xiv)	Set of furniture and fittings	32,800,000
(xv)	Professional and Architects fees (Design and Supervision of constructing – Industrial building)	20,560,180
(xvi)	Testing and servicing (to enhance performance of plant and machinery)	3,831,030

Additional information

(i) All Qualified Capital Assets were agreed with the tax authorities to have been newly acquired and put to use on the date of commencement of business.

(ii) The business depreciates its non-current assets on straight line basis. Thus, Building 5%, Plant and machinery $33^{1}/_{3}$%, Motor vehicle 25%, Furniture and fittings 15%.

(iii) A motor vehicle whose cost is ₦18,500,000 was disposed off at the accounting year end, 31/12/2020 at a profit of ₦2,500,000.

Required:

(a) (i) Briefly explain what is meant by capital expenditure (2 Marks)

(ii) List Two (2) features of capital receipt (2 Marks)

(b) In line with the Finance Act, 2019, which amended section 29(1), (3) and (4) of CITA, show the new commencement rule for the first 3 years. (3 Marks)

(c) Determine the total allowable expenditure for tax purpose for each of the Qualified Capital Expenditure (QCE) under the following headings; (i) Land (ii) Industrial Building (iii) Plant and Machinery (iv) Motor vehicle and (v) Furniture and fittings. (9 Marks)

(d) Compute the capital allowance for the first year in operation. (12 Marks)

(e) For the motor vehicle disposed, determine:

(i) The amount received at disposal (4 Marks)

(ii) The balancing charge or balancing allowance (4 Marks)

(f) With respect to pre and post Finance Act, 2019; what effects (if any) has the 27.5% imported equity capital has on minimum taxation of a business entity? (4 Marks)

(Total 40 Marks)

Solution to question 1

(a) i. Capital Expenditure is the amount spent to acquire or significantly improve the capacity or capacities of long term assets e.g Building or Equipment

OR

It refers to the expenditure of fund for an asset that is expected to provide utility to a business for more than one reporting period e.g Plant and Machinery.

ii. Feature of capital receipt are:

- It is from non-operating profit of the business;
- It is non-occurring in nature;
- It is either create a liability or reduces the asset; and
- It has no impact on income statement, instead, statement of financial position (balance sheet) is affected by a capital receipt.

(b).

Year	Tax Year	Basic period for assessable year
1	2021	1/1/2020 - 31/12/2020
2	2022	1/1/2021 - 31/12/2021
3	2023	1/1/2022 - 31/12/2022

(c).

i. Land	₦
Land acquisition price	40,575,000
Land clearing, scrapping and access road	5,330,150
Land survey cost	16,201250
Legal fee (tittle document)	10,643,600
	72,750,000

ii. Industry Building (IB)

	₦
IB site foundation, preparation and levelling	2,689,110
IB construction cost	82,300,710
Professional and architect fees	20,560,180
	105,550,000

iii. Plant and Machinery

	₦
Plant and machinery purchase price	200,555,300
Installation and testing of plant and Mech.	18,333,670
Testing and servicing of enhance performance	3,831,030
	222,720,000

iv. Motor Vehicle

	₦
Toyota Hilux vehicles (2) @ N18.5m each	37,000,000
Heavy duty trucks	71,000,000

	₦
v. Furniture and Fittings	32,800,000

d.

2021 YOA	IB Industrial Building)	P & M	M/V	F 7 F	C.A
Cost	105,550,000	222,720,000	108,000,000	32,800,000	
I.A	15,832,500	111,360,000	54,000,000	8,200,000	189,192,000
A.A	8,971,750	27,840,000	13,500,000	4,920,000	55,231,750
	(24,804,250)	(139,200,000)	(67,500,000)	(13,120,000)	
Invt. Allowance	------------	22,272,000	------------	--------------	22,272,000
TWDV c/d	80,745,750	83,520,000	40,500,000	19,680,000	
2022					266,695,750

Working Note: Non allowable expenses not considered in the determination of cost of asset

e.

i. Disposal of motor vehicle 31/12/2020

Amount received at disposal	₦	₦
Sales proceed		16,375,000
Cost	18,500,000	
Less: accumulated depn (1yr) (25% x N18.5m)	(4,625,000)	
Carrying amount	13,875,000	(13,875,000)
Profit or loss on disposal		2,500,000

Amount received on disposal N16,375,000

ii. Balancing charge

	₦	₦	₦
Sales proceed			16,375,000
Less TWDV of asset			
Cost		18,500,000	
I.A (0.5 x N18.50m)	9,250,000		
A.A (0.25 x N9.250m)	2,312,500	(11,562,500)	
TWDV			(6,937,500)
Balancing charge			9,437,500

(f) Effect of 27.5% imported equity with respect to:

(a). Pre- Finance Act 2019

Before Finance Act 2019, a company with less than 25% imported equity capital is exempted from minimum tax. Therefore, the company would have been exempted from computation of minimum tax at the appropriate time if the Finance Act has not been introduced.

(b). Post – Finance Act 2019

Section 14 of the Finance Act 2019 amended section 33 by substitution for sub section (2), a new subsection "(2)" which redefined computation of minimum tax. Therefore, companies with imported share capital of 25% are no longer exempted from minimum tax.

Examiner's Report

The question tests candidates' knowledge of capital expenditure, commencement rule, capital allowance and Finance Act 2019. All the candidates attempted the question being a compulsory question, but performance was poor.

The pitfall of candidates were lack of understanding of capital expenditure and revenue receipts, and inability to recognise payments that should form capital expenditure. Candidates are advised to read widely and ensure they cover all the aspect of the syllabus when preparing for future examination.

2. Yoto Limited is a medium sized company with a turnover of ₦68,375,000 by virtue of the categorisation of companies. The following information was provided by the company for the year ended 30/9/2020:

(i) Company income tax liability ₦450,000
(ii) Capital allowance relevant to the tax year as agreed with tax authorities, ₦525,000
(iii) Total disallowable expenses ₦130,556
(iv) Rent received (gross), ₦172,000, as part of the company's other income has suffered 10% WHT deduction at cost.

You are required to determine:

(a) (i) Net profit of the business
(ii) Adjusted profit
(iii) Net Company Income Tax (CIT) payable
(iv) Tertiary Education Tax (10 Marks)

(b) (i) What do you understand by a "statute of limitation" in the Nigerian tax system?

(ii) What is the stipulated maximum period available to the Relevant Tax Authority?

(5 Marks)
(Total 15 Marks)

SOLUTION TO QUESTION 2

(a).

i. Net profit of the business (wk6) ₦2,666,444

ii Adjusted profit (wk4) ₦2,775,000

iii. Net Company Income Tax (CIT) payable (WK1) ₦432,000

iv. Tertiary Education Tax (wk5) ₦55,500

Presentation (Direct)	₦ OR	(Using work back Principle)	₦
Net profit per account (WN6)	2,644,444	CIT Payable	432,800
Add back disallowed expenses	130,556	Add back: WHT	17,200
Adjusted profit or assessable profit (WN4)	2,775,000	CIT Liability @ 20%	450,000
Less: Capital allowance	(525,000)	Gross up to give	
Total profit (WN3)	2,250,000	Total Profit 450,000/0.2	2,250,000
Tax liability:		Add back: Capital Allow	525,000
-CIT @ 20% (WN2) 20% x N2,250,000	450,000	Adjusted Profit	**2,775,000**
Less WHT (10% x N172,000) (WN1)	(17,200)	Less: Disallowable Exp.	(130,556)
-CIT payable	423,800	Net Profit per Account	**2,644,444**
EDT (2% x 2,775,000)(WN5)	55,500	EDT (2% x 2,775,000)	**55,500**

Working note (WN)

1. WHT deducted: 10% x ₦172,000 = ₦17,200. This is an advance tax deducted at source and should be used to reduce tax liability by deducting it from computed CIT liability: CIT payable = CIT liability – WHT deducted i.e ₦450,000 – ₦17,200 + ₦432,000.
2. CIT rate to be applied is 20% applicable to medium sized company whose turnover is beteweenN25m and N100m to which Yoto Ltd belongs.
3. Determination of Total profit
   Total profit x tax rate = CIT liability
   Therefore, Total profit = CIT liab/ Tax rate
   =₦450,000/0.20 = ₦2,250,000
4. Determination of Adjusted profit
   Adjusted profit – Capital allowance = Total profit
   Therefore, Adjusted profit = Total allowance + Capital allowance
   = ₦2,250, 000 + ₦525,000 = ₦2,775,000
5. Determination of Education tax = 2% of adjusted profit
   = 2% x ₦2,775,000 = ₦55,500

6. Determination of Net profit of the business
   Adjusted profit + Disallowable expenses – Allowance income
   Therefore, Net profit = ₦2,775,000 + ₦130,556 – 0 =₦2,664,444

(b). Statute of limitation in the Nigerian Tax System are provisions which set the maximum time after an event within which legal proceedings may be initiated'

In the Nigeria Tax System, the statute of limitation refers to the maximum period after which the Relevant Tax Authority (RTA) can assess a taxable person to tax in respect of a certain Year of Assessment (YOA). Nigerian Tax legislation provides that RTAs only have six (6) years after the relevant accounting period to assess a taxable to additional tax.

However, the above tax laws further provide that, where any form of fraud, wilful default or neglect has been committed in connection with any tax imposed by the Acts, the six years limitation may not apply and an investigation may be instituted by the RTA. This creates ambiguity implying that the RTA can go as far back as they want to review, access and collect tax form payer.

Recently however, Tax Appeal Tribunal (2018/2019) sitting in Enugu, held that a taxpayer may not be liable to taxes (including interest and penalties) based on assessments arising after the expiration of six years statutory period for tax audits.

Examiner Report

The question tests ability of work back and arrive at net profit based on given information and the statute of limitation under the Nigeria Tax system. Performance was poor as candidates did not understand how to work back and arrive at net profit.

Candidates are advised that they should work as many practical questions as possible when preparing for future examination.

3. The Finance Act 2019 has introduced amendments to several tax laws including section 33(2) of the Personnel Income Tax Act (PITA) which redefined gross income, which is the basis of calculating Consolidated Relief Allowance (CRA).

Your recent promotion as Audit Senior in charge of Personnel Income Tax requires your deep understanding of the above stated redefinition. In view of this, your boss has provided you with the following information on an employee for the year ended 31 December 2020:

	₦
Basic salary	964,800
Housing	723,600
Transport	603,000
Utility	120,600

You are required to:

(a) (i) state how the computation of Consolidated Relief Allowance been redefined. (1 Mark)

(ii) List the effects the redefinition have on employees and employers. (2 Marks)

(b) (i) Determine the PAYE tax liability for the relevant tax year.

(ii) Now assume you are provided the following additional information on deduction from his salary:
Pension (Employee's contribution, 8%) ₦183,312
National Health Insurance Scheme (NHIS) 5% of basic salary
National Housing Fund (NHF) 2.5% of basic salary

Compute the PAYE tax liability for the employee. Your answer may be presented in a tabular form for easy of comparison of (i) and (ii) above (i.e. without deduction and with deductions). (12 Marks)
(Total 15 Marks)

SOLUTION TO QUESTION 3

(a).

(i) Section 33(2) of the PITA has been amended and has affected the treatment of Pension, NHIs, NHF before calculating Consolidated Revenue Allowance (CRA). By the new definition, it means that tax exempt items will now be deducted from gross emolument before computing the CRA.

(ii) Effect on Employee
Employee will no longer benefit from the additional 20% relief previously claimable on the portion of their income that relates to pension contribution, National Housing Fund etc and other tax exempt items. This will reduce CRA, lead to higher tax rate and lower disposable income.

Effect on Employer
The employer are expected to be aware of the new development and therefore re-adjust by updating their payroll templates or applications takes care of the changes and ensure compliance.

(b).

Without deduction			**With deduction**		
	₦	₦		₦	₦
Basic salary	964,800			964,800	
Housing	723,600			723,600	
Transport	603,000			603,000	
Utility	120,600			120,000	
Gross earnings		2,412,000			2,412,000
Deductions (Tax Exampt):					
Pension (Employees control)		------------		183,312	
NHIS		------------	5% x N964,800	48,240	
NHF		-----------	2.5 x N964,000	24,120	
Total tax exempt		---------		255,672	
Total earnings net of tax exempt (wn1)			(N2,412,000 – N255,672)	2,156,328	
Less: Relieves					

CRA computation:					
Higher of 1% of gross income					2,412,000
Or N200,000	200,000			200,000	
20% x N2,412,000	482,400		20% x N2,156,328	431,266	
	682,400			631,266	
Pension				183,312	
NHIS	--------			48,240	
NHC				24,120	
Total relief		(682,400)			(886,938)
Taxable income		1,729,600			1,525,062
Tax rate					
First N300,000 @ 75		21,000			21,000
Next N300,000 @ 11%		33,000			33,000
Next N500,000@ 15%		75,000			75,000
Next N500,000@ 19%		95,000	Next 425,062@19%		
			(1,525,062-1,100,000)		80,762
Next N129,600@21%					
ie (1,729,600-1,600,000)		27,216			--------
Tax liability for the year		251,216			209,762

Examiner's Report

The question tests candidates' understanding of PAYE calculations based on the provisions of the Finance Act 2019. About 50% of the candidates attempted the question but performance was poor.

The commonest pitfall was the candidates' lack of knowledge of the provisions of the Finance Act 2019 on PAYE.

Candidates are advised that they should ensure adequate understanding of the provisions of the relevant tax laws when preparing for future examination.

4. (a) In tax practice, certain people are treated as being closely involved with each other that they have to be viewed as the same person or that transactions between them needs to be treated as transaction not at arm's length.

You are required:
To discuss any Five (5) situations/examples/meanings of connected persons as provided for in the Capital Gains Tax Act 2004 (as amended). (5 Marks)

(b) The sale proceeds of a chargeable asset owned by Aseye Nigeria Limited is ₦4,500,000 and the cost of the asset is ₦2,500,000.

You are required to:

Compute the capital gains tax for 2020, if re-investments are made in the assets of the same class within 12 months of the disposal of the old asset as follows:

(i) ₦5,500,000 (5 Marks)

(ii) ₦4,000,000 (5 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 4

The situation / examples /meaning of the connected persons as provided for in the Capital Gain Tax Act 2004 (as amended) are:

i. An individual is connected with his/her spouse and with his/her relatives and their spouse;
ii. A trustee of settlement is connected with any individual who in relation to the settlement (settlor) and with any person who is connected with such an individual;
iii. A partner is connected with the person with whom he is in partnership and with the spouse or relative of that person with whom he is in partnership;
iv. A company is connected with another company:
   - If the same person has control of both, or a person has control of one and persons connected with him, or he and the persons connected with him, have control of the other;
     Or
   - If a group of two or more persons has control of each company, and the groups either consist of the same persons or could be regarded as consisting of the same persons by treating (in one or more cases) a member of either group as replaced by a person with whom he is connected.
v. A company is connected with another person who (either alone or with persons connected with him) has control of it; and
vi. Any two or more persons acting together to secure or exercise control of a company shall be treated in relation to that as connected with one another and with any person acting on the direction of any of them to secure or exercise control of the company.

Note: For the purpose of this Act, "relative" means brother, sister, ancestor or lineal descendant.

(b).

Aseye Nigeria Limited
Computation of Capital Gain Tax
For 2020 Tax Year

	(i) ₦	(ii) ₦
Sales proceeds	4,500,000	4,500,000
Less: Cost of acquisition	2,500,000	2,500,000
Capital Gain record	2,000,000	2,000,000
Amount Roll – over:		
The lower of:		
Sales proceeds of the old asset	4,500,000	4,500,000
Or		
The amount re-invested in acquiring new asset	5,500,000	4,000,000
Less: Cost of acquisition of old asset	2,500,000	2,500,000
Amount Roll –over	2,000,000	1,500,000
Capital Gain record	2,000,000	2,000,000
Less: Roll – over relief	2,000,000	1,500,000
Chargeable gain	Nil	500,000
Capital Gain Tax @ 10%	Nil	50,000

Examiner's Report

The question tests candidates' knowledge of capital gain tax and about 50% of the candidates attempted the question. Performance was above average.

Candidates' commonest pitfall was lack of understanding of the principle of calculating roll-over relief.

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

5. Payment of tax assessed as at when due is essential for the issue of tax clearance certificate by the tax authority to the taxpayer. The laws also make it mandatory for a Ministry, Department or an Agency of Government or a deposit money bank, with whom a person has any dealing, with respect of some transactions, to demand from the person, a Tax Clearance Certificate for the three years immediately preceding the current year. However, where a company has failed to pay any income tax assessed on it, the Federal Inland Revenue Service (FIRS) is empowered to either enforce payment or recover the tax due.

Required:

(a) Discuss any Four (4) methods which the FIRS can employ to enforce payment of tax due. (4 Marks)

(b) List Eight (8) transactions in respect of which Tax Clearance Certificate must be produced. (8 Marks)

(c) State Two (2) penalties for wrongful collection of Tax Clearance Certificate by a taxpayer. (3 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 5

a. Method which the FIRS can employ to enforce payment of due tax are:

i. Distrain on the taxpayer's goods, other chattels, bonds or other securities; and

ii. Distrain upon land, premises, or places owned by the taxpayer.

The goods, properties, etc., distrained above may be sold by the tax authority and tax due and incidental costs recovered therefrom;

However, this can only be done if, after keeping the goods, chattels, properties, etc for fourteen days, the taxpayers still failed to pay the tax due, cost and charges;

iii. The FIRS may sue a taxpayer for recovery of a tax due by filing an action in a court of competent jurisdiction; and

iv. Where a company is in business as a ship owner or charterer and has been in default of payment of tax for more than three months, the FIRS may recover such by issuing a certificate to the Nigeria Custom Service, stating the name and address of the ship owner and particulars of the tax in default. The certificate is an authority to the Nigeria Custom Service to deny clearance to the company until the tax due is paid.

The denial of clearance to the company means a detention of the ship owned or chartered by the company.

In order to exercise this power, the tax due:

i. Must have become final and conclusive;

ii. Assessment notice must have been duly served on the company;

iii. A demand notice must have been duly served on the company; and

iv. The company must have failed or refused or neglected to pay the tax within the time statutorily allowed for that purpose.

(b). Transactions in respect of which Tax clearance certificate must be produced are:

i. Application for Government loan for industry or business;

ii. Registration of motor vehicle;

iii. Application for firearms licence;

iv. Application for foreign exchange or exchange control permission to remit funds outside Nigeria;

v. Application for certificate of occupancy;

vi. Application for awarded of contracts by Government, its agencies and registered companies;

vii. Application for trade licence;

viii. Application for approval of Building;

ix. Application for transfer of real property;

x. Application for import or export licence;

xi. Application for export licence;

xii. Application for agent licence;

xiii. Application for pools or gaming licence;
xiv. Application for registration as contractor;
xv. Application for distributorship;
xvi. Stamping of guarantor's form for Nigeria Passport;
xvii. Application for registration of a limited liability or of a business name;
xviii. Application for allocation of market stalls, and
xix. Application or election into public office.

(c). The taxpayer is liable on conviction to:

i. A fine ₦500 plus twice the tax payable by him, or
ii. imprisonment for three years; or
iii. Both such fine and imprisonment.

Examiner's Report

The question test candidates' understanding of methods FIRS can employ to enforce payment of tax due and transactions that require Tax clearance certificate. About 50% of the candidates attempted the question and performance was excellent.

6. Education tax was introduced into the Nigerian tax system through the Education Tax Act, 1993 (ETA 1993) which metamorphosed into Education Tax Act CAP E4 LFN 2004 but is now repealed by the Tertiary Education Fund (Establishment etc) Act, 2011 to address funding crisis in the educational sector.

Required:

(a) State Four (4) members of the Board of Trustees of the Fund. (4 Marks)

(b) Which tax body is responsible for the administration of the tax law? (1 Mark)

(c) Identify Four (4) uses of the fund. (4 Marks)

(d) What are the bases of computation of the tax? (3 Marks)

(e) Discuss any Three (3) offences and penalties available under the Act. (3 Marks)
(Total 15 Marks)

SOLUTION TO QUESTION 6

a. Member of the Board of Trustees are:

- A chairman;
- Eight other members;
- A representative each of the Federal Ministries of Finance and Education who shall not be below the rank of a Permeant Secretary;
- The Executive Secretary who shall be the Secretary of the Board of Trustees; and
- The membership of the Board of Trustee shall reflect the six geo-political zones of the Federation.

b. The Federal Inland Revenue Service assesses and collects from each company, tertiary education tax imposed on companies' income tax or petroleum profit tax for an accounting period of the company.

c. The Fund will be specially used for the provision or maintenance of the following:
   - Essential physical infrastructure for teaching and learning;
   - Instructional materials and equipment;
   - Research and publications;
   - Academic staff training and development; and
   - Any other need which, in the opinion of the Board of Trustee, is critical and essential for the improvement of quality and maintenance of standard in higher educational institutions.

d. The rate of education tax is 2.5 percent of the assessable profit or part thereof that is assessed to Companies income tax in an assessment year.

   The Tertiary education tax imposed is due and payable within 30 days (Finance Act, 2019) after the Federal Inland Revenue Service has served notice of the assessment on a company.

e. If tertiary education tax is not paid with 30 days (Finance Act 2019), the Federal Inland Revenue Service will serve, on the company, a demand note for the unpaid tax plus a penalty which is equal to 5% of the tax.
   - In addition to such penalty, the tax payable shall carry interest at bank lending rate from the date when the tax becomes payable until it is paid.
   - If the tax and penalty are not paid within a further period of two months of the demand, the company is guilty of an offence.
   - The FIRS shall with the approval of the board of trustees of TETfund remit in whole or in part a sum added to the unpaid tax.
   - Notice that other officers of such company are severally of that offence of default and liability to be prosecuted against and punished for the offence in like manner as if they themselves committed the offence, unless they prove that the act or omission constituting the offence took place without their knowledge, consent or connivance.
   - The person guilty of the offence shall, on conviction, be liable:

   For the first offence, to a fine of up to ₦1,000,000 or imprisonment for a term of twelve months, or both such fine imprisonment.

   For a second and subsequent offence, to a fine up to ₦2,000,000 or imprisonment for a term of twelve months, or both fine and imprisonment.

Examiner's Report

The question test candidates' understanding of the provisions of the Tertiary Education Tax Act. The question was well attempted by the candidates and performance was above average.

7. The signing of the 2019 Finance Bill into Act on January 12, 2020 has brought about long desired amendments and major changes in the Nigerian tax laws.

Required:
Discuss the following major changes brought about by Finance Act 2019 and their effects on stakeholders:

(a) Replacement of official identification of a company (3 Marks)

(b) Categorisation of companies based on Turnover (3 Marks)

(c) Loss relief by insurance company (3 Marks)

(d) Utilisation of excess input VAT over output VAT (3 Marks)

(e) Redefined minimum tax for companies (3 Marks)
(Total 15 Marks)

Solution to question 7

Major changes in the Nigeria Tax Laws

1. Replacement of official identification of a company:
Section 3 of Finance Act amended section 10 of CITA. With the amendment, the RC number which hitherto is used as the official identification of a company, has been replaced with a Tax Identification Number (TIN). Also, section 10(2) of the new section 10 imposes a duty on all banking and financial service providers in Nigeria to request TIN as a pre-condition for operating bank account within 3 months of passage of the Act and continued operations of an existing bank account.
Effects
    - It would eliminate reluctance of companies to register with FIRS especially for VAT.
    - It would reduce incidence of tax evasion generally.
    - It would widen tax net as there is no hiding place for companies that would want to enjoy banking and financial services.
    - Impliedly, it would increase revenue generation.
2. **Categorization of companies by turnover:**
Section 16 of Finance Act amended section 40 of the CITA by:
i. Removing the hitherto 30% flat rate and
ii. Introduced graduate rate of 0%, 20%, and 30% rates in line with turnover categorisation into small, medium and large companies respectively. However, companies must file their returns so as address suppression of income.
Effects
    - To reduce incident of tax burden on companies especially small and medium sized ones
    - To give opportunities for small and medium companies to grow
    - To encourage establishment of small and medium size companies which is prevalent in Nigeria.
3. **Loss relief by insurance companies:**
The limitations of losses carried forward by insurance companies to four years of establishment has been abolished. Thus, insurance companies can now carry forward

losses indefinitely, deduct reserves for unexpired risks on time apportionment basis while special minimum tax has been abolished.

Effects

- It will make operators in the insurance sector relief their losses.
- Insurance companies will be greatly relieved and motivated to perform and serve the insured better.
- Impliedly, it will boost their profit and survival.

4. VAT in relation to microfinance banks (MFBs)

All microfinance banks services have been exempted from VAT

Effects

- This will encourage more business especially with the grassroots which microfinance banks target and the grassroots will feel their impact more.
- It will encourage more investment.
- It will boost microfinance banks and survival.

5. Utilisation of excess input VAT over output VAT:

The amendment of section 16(1) of the VAT Act now gives taxpayer the right to utilise excess of input of VAT over out VAT in subsequent months or be entitled to a refund subject to production of documents as may be required by the service.

Effects

- It will reduce costs associated with claiming VAT refund under VAT Act.
- It will reduce cost of production and by extension prices of goods.
- It gives tax payer more confidence in the tax system in Nigeria.

6. Redefinition of Minimum tax

Section 14 of the Finance Act 2019 amended section 33 by substitution for subsection (2), a new subsection "(2)" which redefined computation of minimum tax which is now based alone on 0.5% of gross turnover of the company, less franked investment income. The turnover mentioned here must be at least N25m since companies with revenue of N25m and below are exempted from CIT.

Effects

- With the amendments, minimum tax parameters on capital, net assets, paid assets, paid –up capital and revenue are now eliminated.
- Companies with revenue imported share capital 25% are no longer exempted from minimum tax.
- Companies with revenue of N25m and below are exempted from CIT and minimum tax computation does not apply to them.
- Small companies are further protected from payment of CIT.

Examiner's Report

The question tests the candidates' knowledge of some provisions of the Finance Act 2019. About 50% of the candidates attempted the question, but performance was very poor.

Candidates demonstrated lack of understanding of the provisions of the Finance Ac, 2019.

Candidates are advised to ensure that they familiarise themselves with the provisions of all the relevant tax laws when preparing for future examination.

PTE I: INDIRECT TAXATION

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS.

SHOW ALL WORKINGS. **TIME: 3 HOURS.**

1. Jolly Nigeria Limited has been in operation for more than ten years as a distiller of alcoholic drinks and wines. The company's records for the month of December 2021 as presented to the Nigerian Customs Service revealed the following:

	Jolly Beer ₦'000	Jolly Stout ₦'000	Jolly Wines ₦'000
Turnover	750,200	495,600	610,700
Raw materials- opening	20,400	8,500	19,500
Raw materials- closing	28,300	6,600	22,550
Raw materials- Purchases	390,200	217,800	295,600
Direct wages	50,000	30,500	45,500
Direct expenses	35,000	28,000	32,000
Work-in-progress (opening)	70,800	66,600	58,900
Work-in-progress (closing)	55,100	59,900	43,200

Additional information:

(i) Lighting and heating expenses amounted to ₦25,200,000 are to be apportioned thus: Jolly Beer (45%); Jolly Stout (20%) and Jolly Wines (35%).

(ii) Sundry expenses amounted to ₦12,000,000 are to be distributed as follows: Jolly Beer (40%); Jolly Stout (30%) and Jolly Wines (30%).

(iii) The Nigerian Customs Service has agreed a tariff structure of: Beer (30%); Stout (30%) and Wines (45%).

You are required to:

(a) State Five (5) legislative framework for excise duties in Nigeria. (5 Marks)

(b) Discuss Four (4) reasons for imposition of excise duties in Nigeria. (4 Marks)

(c) Explain Three (3) bases for computing applicable excise duties on manufactured products in Nigeria. (3 Marks)

(d) Compute the excise duties chargeable on the products manufactured by the company and state the due date for the payment of the duties. (22 Marks)

(e) In line with the provisions of Customs Excise Tariff, etc. (Consolidation) Act, state any Four (4) offences and accompany penalties. (6 Marks)

(Total 40 Marks)

SOLUTION TO QUESTION 1

(a) Jolly Nigeria Limited

Legislative framework for Excise Duties in Nigeria are:
(i) The Constitution of the Federal Republic of Nigeria;
(ii) Customs and Excise Management Act (CEMA);
(iii) Customs and Excise Tariff, etc. (Consolidation) Act 1995 (as amended);
(iv) Nigerian Customs Service Board Act;
(v) Excise (Control of Distillation) Act; and
(vi) The Current Common External Tariff of the Nigeria Customs Service 2008-2012.

(b) Reasons for imposition of Excise Duties in Nigeria are:
(i) Excise duty plays important role in the fiscal policies of government. It is therefore a fiscal weapon that can be manipulated to achieve predetermined economic objectives;
(ii) It has high capacity for re-allocating income;
(iii) Excise duty can be used to influence the exercise of purchasing power by consumers;
(iv) Excise duty has an import substitution effect, and rates of excise duty are sometimes reduced or completely eliminated in order to give impetus to local production activities; and
(v) Excise duty can be used to discourage the proliferation of industrial development along certain lines to the exclusion of others. For instance, it may be increased on certain commodities to deter investors.

(c) Bases of computing the applicable excise duties on manufactured products in Nigeria are:
(i) The manufacturer's price;
(ii) The distributor's wholesale price, where the manufacturer is a distributor or where the manufacturer and the distributor are associated companies;
(iii) The retail price, where the associated company or the manufacturer sell retail; or
(iv) Where dissatisfied with the price declared, a price which in the opinion of the Nigerian Customs Service (NCS) is equal to the cost of manufacture plus profit;

Any of the above adopted by the Nigerian Customs Service (NCS) will be the basis for the Unit Cost Analysis (UCA) upon which rate will be applied to arrive at the excise duty payable

(d) Jolly Nigeria Limited
Computation of Excise Duties Chargeable
For the month of December 2021

	Jolly Beer	Jolly Stout	Jolly Wine
	₦'000	**₦'000**	**₦'000**
Raw materials-opening	20,400	8,500	19,500
Add: Purchases	390,200	217,800	295,600
Less: Raw materials-closing	(28,300)	(6,600)	(22,550)
	382,300	219,700	292,550
Add: Direct wages	50,000	30,500	45,500
Direct expenses	35,000	28,000	32,000
Prime cost	467,300	278,200	370,050
Add: Lighting & heating cost	11,340	5,040	8,820

Sundry expenses	4,800	3,600	3,600
Work-in-progress (opening)	70,800	66,600	58,900
Less: Work-in-progress (closing)	(55,100)	(59,900)	(43,200)
Production cost	499,140	293,540	398,170
Excise Duty Rate	30%	30%	45%
Excise Duties Chargeable	149,742	88,062	179,176.50

Total Excise Duties Chargeable = ₦149,742,000 + ₦88,062,000 + ₦179,176,500
= ₦416,980,500

Due Date for Payment
Excise duty computed is payable immediately on manufacture of excisable products (in this case, December 2021). The Board may, however, exercise its discretion to allow the duty to be payable on a date not later than the delivery of the goods from the products store.

(e) Offences and penalties
The offences include but are not limited to be following:
(i) Unlawful manufacture of goods liable to excise duty;
(ii) Excess or deficiency in product inventory;
(iii) Concealing products liable to excise duty;
(iv) Manufacturing products without excise license; and
(v) Improper record keeping.

Penalties vary depending on the type of products liable to excise duty. Penalties include:
(i) Fines;
(ii) Forfeiture of products;
(iii) Forfeiture of equipment and materials used in the manufacture of the products; and
(iv) Imprisonment.

EXAMINER'S REPORT
The question tests candidates' understanding of excise duty and being a compulsory question all the candidates attempted it. Performance was average.

The candidates did understand the questions but they were not really prepared for it.

The candidates are advised to read widerly and practice with CITN pathfinder, when preparing for future examination.

2. Write short notes on the following:

(a) Ad Valorem Duties (3 Marks)

(b) Fixed Duties/charge (3 Marks)

(c) Adjudication (3 Marks)

(d) Denoting Stamp (3 Marks)

(e) Loss of Instruments (3 Marks)
(Total 15 Marks)

SOLUTION TO QUESTION 2

(a) Ad-Valorem Duties

It is from the Latin term meaning "according to value or according to valuation". It is a term used in assessing and taxing instruments at certain rates per centum on their value.

To compute Ad-Valorem duties, the commissioner or adjudicator needs to know the amount involved in the transaction or the value of the chattel as the case may be, to determine the appropriate duty payable.

Examples of instruments on which Ad-Valorem duties are assessed include:

(i) Bill of Exchange;
(ii) Mortgage and Debenture Loans;
(iii) Policy of Life Insurance etc;
(iv) Promissory notes;
(v) Property valuation; and
(vi) Share capital of companies.

(b) Fixed Duties/Charge

Fixed Duties – Duties are fixed and do not vary with consideration, e.g. duties on payment receipt, proxy forms, guarantor forms etc.

(c) Adjudication

This is the process of determining the correct amount of stamp duties payable on an instrument. The determination is usually carried out by the Commissioner for Stamp Duties.

It should be noted that:

- Apart from being a statutory requirement, adjudication is a process that convinces a third party that an instrument is genuine.
- As soon as a commissioner for Stamp Duties has expressed an opinion on the liability to duty, or the actual amount due, the instrument may be stamped with the amount determined.
- An adjudication Stamp is impressed on an instrument to denote that it is duty stamped.
- If the duty is not paid, the document is treated as not adjudicated, thus it is not duly stamped.
- Once an instrument is duly stamped under the Adjudication Process, it is admissible for all purposes, not withstanding any objection as to the duty required to be paid.
- Where a court has ruled that an instrument is not duty stamped, subsequent adjudication cannot retrospectively make it duty stamped.

- Any person that is aggrieved by the assessment of a Commissioner for Stamp Duties can call for a judicial review of the adjudication process. Appeal can be made to the High Court.
- The process of adjudication cannot authorise the stamping of an instrument after its execution.

Limitation of Adjudication

A commissioner's functions under the Stamp Duty Act (SDA) are confined to matters in respect of which the government that appointed him is competent to make laws. Thus, a commissioner for Stamp Duties appointed by a state cannot carry out functions pertaining to matters in respect of which the Federal Government has the competence to make laws.

- State governments cannot adjudicate where the instruments relate to matters executed between a company and an individual, group or body of individuals. This is the exclusive preserve of the Federal Government.
- State government can collect duties in respect of instruments executed between person or individuals at such rates "to be imposed or charged as may be agreed with the Federal Government.

(d) Denoting Stamp

Stamp duties may be denoted by way of "electronic stamping" or "electronic denoting" of dutiable documents.

Stamp – means an impressed pattern or mark by means of an engraved or inked die, an adhesive stamp, an electronic stamp or an electronic acknowledgement for denoting and duty or fee.

When an instrument which is being transferred has been duly stamped, the instrument of transfer does not need to be stamped again under such as circumstance, the instrument of transfer will merely carry a stamp denoting the amount of duty already paid. This is exactly true for an ad-valorem duty due on a convergence on sale where it carries an agreement which has itself borne an ad-valorem duty.

(e) Loss Instrument

A loss instrument if presumed to have been duly stamped but where there is a proof that it has not been stamped, it remains unstamped.

When a duly stamped instrument has been lost, a replica may by concession be stamped free of charge or if a replica has been stamped, it may be required that the original duty be repaid. The rate of duty at that point in time shall be the rate of duty in force at the time of the original instrument.

EXAMINER'S REPORT

The question is on Stamp Duty. The questions were simple but the performance was poor because candidates were ill-prepared.

Candidates are advised to read widely and practise with the CITN pathfinder, when preparing for future examination.

3. Value Added Tax (VAT) is a consumption tax placed on a product whenever value is added at each stage of the supply chain, from production to the point of sales, including imports to the country. It is administered by Value Added Tax Act Cap V1 LFN 2004 (as amended).

Required:

(a) Discuss the provisions that govern value of imports on which VAT is payable in Nigeria. (5 Marks)

(b) Explain the provisions of Finance Act 2019 in respect to VAT on imported and exported goods and services. (10 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 3

(a) Provisions that govern the value of imports on which VAT is payable in Nigeria are:

(i) **Basis of Value:** The taxable value of goods imported into Nigeria is normally the price payable in money for the goods (if there is no other consideration) plus, if not already included in the price, the following:
- Any customs duty or levy payable on importation;
- Any excise duty or other charges payable on imports into Nigeria (except the VAT itself); and
- All commission, packing, transport and insurance costs incurred up to the period of legal entry of the goods into Nigeria.

In other words, VAT is to be charged in addition to customs duties and all other charges that may be made at the port. It is to be calculated on the total of the cost, insurance and freight (CIF) plus customs duties and all other charges on the imported goods;

(ii) Amount expressed in foreign currency is to be converted into Naira, using the rate of exchange adopted by the Nigeria Customs Service (NCS); and

(iii) Where no price in money is payable, for the goods or the price payable at importation is not the sole consideration, the taxable value of the goods is the open market value.

(b) The provisions of Finance Act 2019 in respect to VAT on imported and exported goods and services are as follows:

Imported goods

(i) VAT will be charged on non-exempted imported goods into Nigeria and it is based on government assessment via Nigeria Custom Service.

(ii) There are basically four points of VAT payments for imported goods. They are through:
- Nigeria Customs Service (NCS);

- Nigeria Port Authority (NPA);
- Shipping companies or airlines; and
- Clearing and forwarding agents.

(iii) The VAT assessment payable through Nigeria Customs Service (NCS) is usually calculated via the summation of the following:
- Cost, insurance and freight (CIF) value of good imported;
- Import duty value;
- Sur-charge; and
- Any other charges which are collectable by the Nigeria Customs Service. The total sum above is multiplied by VAT rate of 7.5% to arrive at the VAT payable on import.

Imported services
VAT is payable on services received from outside Nigeria if such services are supplied to a Nigerian customer.

VAT on export
All exported goods and services are exempted from VAT. This is in line with the concept of destination principle, which allows for VAT to be retained by the country where the taxed product is being sold/consumed.

EXAMINER'S REPORT
The question is in respect of VAT on import and the provision of Finance Act, 2019 as it relates to import and export of goods and services.

The candidates understood the question but did not prepare for it. In view of this, majority of the candidates did not attempt the question and the few that attempted it scored very low marks.

It is advised that the candidates should read widely and prepare adequately for future examinations by making use of the Institute study pack and pathfinders.

4. In the 1990s, the ethnic minority groups (particularly Ijaws and Ogonis) in the Niger Delta, confronted the Federal Government and oil giant, Shell Development Producing Company, on the extensive environmental degradation and pollution from oil activities that have occurred in the region since when oil exploration started in 1950s. The confrontation constantly disrupted oil production in the area and revenue from crude oil exportation was significantly affected.

Therefore, to find lasting solutions to the demands of the minority groups in the area, the Niger Delta Development Commission (NDDC) was established by the Federal Government of Nigeria.

Required:

(a) State any Six (6) of the mandates of the NDDC. (6 Marks)

(b) Explain Five (5) of the sources of funding for the NDDC. (5 Marks)

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(c) Discuss any Four (4) areas the proceeds of the fund shall be applied. (4 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 4

(a) Mandates of NDDC

The mandates of the Commission are to:

(i) Formulate policies and guidelines for the development of the Niger Delta area;

(ii) Provide conception, planning and implementation, in accordance with set rules and regulations, of projects and programmes for sustainable development of the Niger Delta area in the field of transportation including roads, jetties and waterways, health, employment, industrialisation, agriculture and fisheries, housing and urban development, water supply, electricity and telecommunications;

(iii) Undertake Survey of Niger Delta Area in order to ascertain measures necessary to promote its physical and socio-economic development;

(iv) Prepare master plans and schemes designed to promote the physical development of the Niger Delta region and the estimation of the member states of the Commission;

(v) Implement all the measures approved for the development of the Niger Delta region by the Federal Government and the states in the area;

(vi) Identify factors inhibiting the development of the Niger Delta region and assisting the member states in the formulation and implementation of policies to ensure sound and efficient management of the resources of the Niger Delta region;

(vii) Assess and report on any project being funded or carried out in the region by oil and gas companies and any other company, including non-governmental organisations, as well as ensuring that funds released for such projects are judiciously utilised;

(viii) Tackle ecological and environmental problems that arise from the exploration of oil mineral in the Niger Delta region and advising the Federal Government and the member states of the prevention and control of oil spillages, gas flaring and environmental pollution;

(ix) Liaise with the various oil mineral and gas prospecting and producing companies on all matters of pollution, prevention and control; and

(x) Execute other functions, which in the opinion of the Commission are required for the sustainable development of the Niger Delta region and its people.

(b) Sources of funding for the NDDC

In line with the provisions of Niger-Delta Development Commission (Establishment) (Amendment) Act 2017, there shall be paid and credited to the fund established pursuant to subsection (1):

(i) From the Federal Government, the equivalent of 15 per cent of the total monthly statutory allocations due to member States of the Commission from the Federation Account; this being the contribution of the Federal Government to the Commission;

(ii) 3 per cent of the total annual budget of any oil producing company operating, on shore and off shore, in the Niger-Delta Area; including gas processing companies;

(iii) 50 per cent of monies due to member States of the Commission from the Ecological Fund;

(iv) Such money as may from time to time, be granted or lent to or deposited with the Commission by the Federal or a State Government, any other body or institution whether local or foreign;
(v) All moneys raised for the purposes of the Commission by way of gifts, loan, grants-in-aid, testamentary disposition or otherwise; and
(vi) Proceeds from all other assets that may, from time to time, accrue to the Commission.

(c) Areas where proceeds of the fund shall be applied

The Commission shall apply the proceeds of the fund established pursuant to section 14 of this Act to:

(i) Defray the cost of administration of the Commission;
(ii) Pay salaries, fees, remuneration, allowances, pensions and gratuities payable to the members of the Board specified in section 6 of this Act or any committee of the Board and the employees of the Commission;
(iii) Pay for all contracts, including mobilisation, fluctuations, variations, legal fees and cost on contract administration;
(iv) Pay for all purchases made; and
(v) Undertake such other activities as are connected with all or any of the Functions of the Commission under this Act.

EXAMINER'S REPORT

The question tests candidates' knowledge of the Niger Delta Development Commission's (NDDC) functions, sources of funding and areas where its fund could be applied.

The question is simple and straight forward and in line with the syllabus, however, the candidates demonstrated lack of understanding of the question, therefore performance was poor

The commonest pitfall in answering the questions was lack of knowledge of the mandates, funding and application of funds available to NDDC.

Candidates are advised to prepare adequately for future examination by making use of the Institute's study pack and pathfinders.

5. The administration of stamp duties and other matters thereof in Nigeria are specifically provided for in the Stamp Duties Act Cap. S8 LFN 2004 (as amended).

Required:

(a) Discuss the administration of stamp duties in Nigeria. (2 Marks)

(b) State Four (4) functions of Commissioner for Stamp Duty. (4 Marks)

(c) Describe the procedures at the stamp duty office. (2 Marks)

(d) List Four (4) modes of denoting stamp duties. (4 Marks)

(e) State Three (3) consequences from non-compliance with the provisions of the Stamp Duties Act. (3 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 5

(a) The administration of stamp duties is confined to matters in respect of which the Government of the Federation and State shall be competent to make laws subject to the fact that nothing under the law shall be interpreted as preventing the appointment by the President and by a Governor of the same person to be both a Federal and a State commissioner under section 6 of this Act.

The Federal Government through the Federal Inland Revenue Service is the only competent authority to impose, charge and collect duties upon instruments specified in the Schedule to this Act if such instrument relates to matters executed between a company and an individual, group or body of individuals. While the State Governments through the State Internal Revenue Service collect duties in respect of instruments executed between persons or individuals at such rates to be imposed or charged as may be agreed with the Federal Government.

(b) Functions of Commissioner for Stamp Duty are to:

(i) See to the overall administration of the office;
(ii) Adjudicate;
(iii) Keep custody of stamping instruments such as dies, stamping/embossing machine;
(iv) Stamp or emboss the instrument with the appropriate stamp denominations; and
(v) Assess the instruments and impose penalties where applicable.

(c) Procedures at the stamp duty office
These include:

(i) The original of the instrument and copies are presented to the Stamp Duties Office for assessment of the duty payable, that is two (2) or more copies of the deed are delivered to the Stamp Duties Office for assessment based on value of transaction reflected in the instrument. Stamp Duties Office retains one of the copies;

(ii) The solicitor pays the assessed duty either to a designated bank or the accounts department of the State Board of Internal Revenue and presents the evidence of payment to the Stamp Duties Commissioner but it is paid to the Federal Inland Revenue Service (FIRS) where it is an incorporated body; and

(iii) The instrument is accordingly impressed with the stamp (usually in red ink) as 'Duty Stamped' as evidence of payment of the duty. Between 2½% and 3% of the value of the property as reflected on the deed of assignment is charged by many States of the Federation as Stamp Duties. It takes about 2 to 3 days to get document stamped. Adhesive stamp can be used but must be cancelled to avoid it being re-used.

(d) Modes of denoting stamp duties

The stamping of duties can be effected through the under listed methods:

(i) Affixing printed adhesive stamps issued by the Service on instruments;
(ii) Electronic tagging;
(iii) Employing a die impressed on an instrument as an adhesive stamp;

(iv) Issuance of stamp duties certificates;
(v) Direct electronic printing or impression on the instrument; and
(vi) Any other form of acknowledgement of payment for stamp duties adopted by the Service.

(e) Consequences from non-compliance with the provisions of the Stamp Duties Act are:
(i) Prosecution of offences under the Acts;
(ii) Payment of penalties of various degrees;
(iii) Inability to use the relevant instrument as evidence in court or other judicial or quasi-judicial proceedings; and
(iv) Enforcement actions

EXAMINER'S REPORT
The question tests candidates' understanding of the administration of the Stamp Duty Act.

Majority of the candidates that attempted the question scored over 50% of the marks allocated. Performance was average.

Candidates are advised to always read widely, by using the Pathfinder and other instructional manuals when preparing for future examination.

6. The Standard Organisation of Nigeria (SON) is the apex body in charge of standardisation in Nigeria. The organisation, which was created in 1971, currently operates under the SON Act Number 14, 2015.

Required:
(a) State the primary responsibility of SON in respect to locally manufactured and imported goods. (3 Marks)

(b) Discuss Four (4) powers of the organisation. (6 Marks)

(c) List Six (6) functions of the organisation. (6 Marks)
(Total 15 Marks)

SOLUTION TO QUESTION 6

(a) (i) The primary responsibility of Standard Organisation of Nigeria is to make sure that products that are locally manufactured in Nigeria have the required level of satisfaction desired by consumers;

(ii) They achieve this by making sure that companies comply with the policies of the government on standardization and also to assess the products for conformity.

(iii) The Standard Organisation of Nigeria also makes sure that imported goods meet the minimum requirements of industry standards in Nigeria or other approved and domesticated international standards.

(b) Powers of the Organisation include:

(i) Establish, designate, and approve various standards related to commodities, materials, measurements, structures, and processes for the certifying of products in Nigeria commerce and industry;

(ii) Enforce the standards of products, the quality control of products and also acceptable scientific measurements and other things related to the scientific study of measurement;

(iii) Certify industrial products that meet the approved standards;

(iv) Inspect the quality and standard of products and the facilities used for production; and

(v) Seize and destroy or prohibit the selling of any products that are below standard in Nigeria.

(c) Functions of SON

These include but not limited to:

(i) Establish and compile Industrial standards in Nigeria;
(ii) Compile an inventory of products that require standardisation;
(iii) Provide reference standards for verification and calibration of measurements, and equipment used for measuring in Nigeria;
(iv) Carry out inspections of the quality of products and materials, and facilities used in production. Also, to institute a quality assurance system that includes the certifying of products, laboratories, and factories;
(v) Carry out tests and make sure every product and service complies with the standards approved by the council.
(vi) Develop the methods for testing of equipment, materials, and supplies including the ones purchased for the government use;
(vii) Compile and publish general scientific data; and
(viii) Work with other national and international bodies that are in charge of standardisation.

EXAMINER'S REPORT

The question tests the candidates' understanding the functions and powers of the Standard Organisation of Nigeria (SON).

Candidates understood the requirements of the question, therefore, performance was above average.

Candidates are advised to always practice with the Institute's Pathfinders when preparing for future examination.

7. Olab-Jaye Nigeria Limited is a licensed importer and exporter of tobacco and alcoholic drinks. During November 2021, the company imported from the United States to Nigeria via the Tin Can Island port, Lagos State, the following commodities:

Drink	Quantity (Bottles)	Price per unit ($)	Value ($)
Yankee stout	2,500	15	37,500
Florida wine	3,200	16	51,200
California beer	4,000	10	40,000
Alaska whiskey	1,700	20	34,000

Tobacco/cigar	Quantity (Pack)	Price per unit ($)	Value ($)
Texas super tobacco	8,000	4.50	36,000
Chicago cigar	6,000	3.00	18,000
New York cigar	5,000	3.75	18,750

Additional information:

(i) A bottle of any of the brand of drinks contains 30 centiliter liquid.

(ii) A pack of cigar/tobacco consists of 20 sticks.

(iii) Duties payable as provided by the Nigeria Customs Service are as follows:

Beer and stout	₦1.35 per centiliter
Wine	₦1.50 per centiliter
Whiskey	₦2 per centiliter
Tobacco/cigar	₦2.90 per stick

(iv) Assume exchange rate of ₦520 to USA $1.

(v) Ignore value added tax.

Required:

(a) Compute the amount of import duties payable by the company to the Nigerian government. (10 Marks)

(b) State Five (5) bases for imposition of import duty on selected imported commodities. (5 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 7

(a) Olab-Jaye Nigeria Limited

Determination of amount of duties payable to the Nigeria Government for November 2021.

Drinks:

Yankee stout

Quantity (cl) = 2,500 bottles x 30cl = 75,000 cl

Duties payable = 75,000 cl x ₦1.35 per cl = ₦101,250

Florida wine

Quality (cl) = 3,200 bottles x 30cl = 96,000 cl

Duties payable = 96,000 x ₦1.50 per cl = <u>₦144,000</u>

<u>California beer</u>
Quantity (cl) = 4,000 bottles x 30cl = 120,000 cl
Duties payable = 120,000 cl x ₦1.35 per cl = <u>₦162,000</u>

<u>Alaska whiskey</u>
Quantity (cl) = 1,700 bottles x 30 cl = 51,000 cl
Duties payable = 51,000 x ₦2 per cl = <u>₦102,000</u>

Total amount of duties payable on drinks imported = ₦101,250 + ₦144,000 + ₦162,000 = ₦102,000 = **₦509,250.**

Tobacco/cigar:
<u>Texas super tobacco</u>
Quantity (sticks) = 8,000 packs x 20 sticks = 160,000 sticks
Duties payable = 160,000 sticks x N2.90 per stick = ₦464,000

<u>Chicago cigar</u>
Quantity (sticks) = 6,000 packs x 20 sticks = 120,000 sticks
Duties payable = 120,000 sticks x N2.90 per stick = ₦348,000

<u>New York Cigar</u>
Quantity (sticks) = 5,000 packs x 20 sticks = 100,000 sticks
Duties payable = 100,000 sticks x ₦2.90 per stick = ₦290,000
Total amount of duties payable on tobacco/cigar imported = ₦464,000 + ₦348,000 + ₦290,000 = **₦1,102,000**.

Total amount of duties payable on imported goods = ₦509,250 + ₦1,102,000 = **₦1,611,250**

(b) The bases for imposition of tariffs on selected imported goods are to:

(i) Protect infant industries;
(ii) Prevent dumping;
(iii) Serve as a means of raising revenue;
(iv) Serve as a retaliatory measures;
(v) Encourage production of goods of strategic importance;
(vi) Promote employment locally;
(vii) Restrict importation of demerit or harmful goods thereby regulating the consumption of these goods;
(viii) Correct an adverse balance of payment or to ensure favourable balance of payment; and
(ix) Prosecute political objectives or decisions through imposition of sanction.

EXAMINER'S REPORT

The question tests candidates' understanding of import duty calculation and the reasons for importing import duties on some goods.

Few candidates attempted the question and performance was poor.

The commonest pitfall was that some candidates were calculating the value of the imported goods instead of the import duties payable.

Candidates are advised to always practise as many practical questions as possible when preparing for future examination.

PTE I: GOVERNANCE, RISK & ETHICS

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS.

TIME: 3 HOURS.

1. Mr. Bolade Yahaya, a retired civil servant recently inherited a substantial amount of money which he plans to invest in any high yielding financial instrument. In order to make an informed decision, he decided to check the annual report of a number of companies quoted on the stock exchange so as to be able to decide which share to buy. However, due to his background as a non-accountant, he was informed about voluntary and mandatory disclosures as regards content of companies' annual reports. Therefore, he became concerned about some information which he consider as important to his investment decision which may not be disclosed by these companies.

As a friend of Mr. Bolade Yahaya, he has contacted you to provide him with professional advice.

Required:

(a) Distinguish between voluntary and mandatory disclosures, assessing their usefulness to Mr. Bolade Yahaya's investment decision. (15 Marks)

(b) Explain to Mr. Bolade Yahaya the following terms:-

(i) Risk (2 Marks)

(ii) Risk management process. (3 Marks)

(iii) Types and categories of risks with clear examples. (10 Marks)

(iv) Business risk and financial risk. (4 Marks)

(c) Advise Mr. Bolade Yahaya on how his risk awareness and risk appetite can affect his choice of investment. (6 Marks)

(Total 40 Marks)

SOLUTION TO QUESTION 1

(a) <u>Mandatory disclosures</u> in annual reports are items or transactions in the financial statements that are compelled by the laws e.g. the Company and Allied Matters Act (CAMA) 2020 and/or the Accounting standards to be disclosed. Examples of such includes:

- Auditors Report;
- Statement of Financial Position;
- Statement of comprehensive income;
- Inventories to be valued at the lower of cost or Net Realisable Value (NRV);
- The First-in-First-out (FIFO) inventory valuation method to be adopted;
- 5 year financial summary; and
- Value added statement.

Voluntary disclosures in annual reports are items or parts of the reports that the Board or Management has included in the report to aid or assist self-explanations or interpretation of the report or will add value to the presentation of the report to the relevant stakeholders. Examples of such include:

- Sustainability report;
- Use of pie charts and bar charts;
- Use of pictures of Board Members and Management team members; and
- The branding of the annual report in the company's corporate colour.

The usefulness of corporate governance disclosures to Bolade Yahaya in selecting his investments can be as follows:

- It is a form of public relations and covert marketing exercise for the company;
- It is an exhibition of genuine ethical and cultural belief in the responsibilities of the company to society and the environment;
- It is a way of improving communications with its shareholders and stakeholders; and
- It is a form of education and enlightenment to potential investors about the managers of the company and its activities.

(b) (i) Risk is the uncertainty or possibility of an event occurring that will have an impact on the achievement of objectives.

Risk is measured in terms of its impact and likelihood effect of uncertainty on objectives. An effect may be positive, negative, or a deviation from the expected.

(ii) Risk management process can be referred to as the methodical process for identifying, assessing, managing, and controlling potential events or situation to provide reasonable assurance regarding the achievement of the organisation's objectives.

It involves an iterative process consisting of well-defined steps which when taken in sequence, support better decision making by contributing a greater insight into risk and their impact.

(iii) The different types and categories of risks are:

- Strategic risks;
- Compliance/commercial/legal risks;
- Operational risks;
- Technical risks; and
- Financial & system risks.

Examples or risks in different categories
(Risks Management Guidelines)

S/N	Strategic	Knowledge & system	Financial	Operational

1.	Loss of customers to competitors	Inadequate system security/confidential information not adequately protected	Incorrect valuation of capital assets	Absenteeism
2.	Change of power/leadership	IT systems not integrated	Capital assets not maintained/ deterioration	Inability to attract and retain staff/staff turnover
3.	Inaccurate forecasting	Network failure/ network unavailability	Equipment obsolescence	Poor services provided by staff
4.	Unethical business practices	Unauthorised system access/IT security breach or failure	Customer revenue/ collections target not met	Strikes and workplace unrest
5.	Business continuity planning inadequate/or not developed	Ineffective disaster recovery plan	Wasteful or unproductive expenditure	Uncompetitive remuneration

(iv) Business risks are strategic risks that threaten the health and survival of a business. Examples of business risks are:

- Scarcity of raw material for production; and
- Loss of customers to competitors etc

Financial risks are risks directly related to the finances or financing the daily operation of a company. Examples of financial risks are:

- Working capital management issues; and
- Cash flow and liquidity problems etc.

(c) Risk appetite refers to the extent and willingness to take risk or make certain investment even when there are some unfavourable information on it.

- Risk awareness refers to the full knowledge of the peculiarity of the risk attached to certain investments.
- Given the fact that Bolade has acquainted himself of the financial history and the share listing in the newspaper of some companies, he is able to compare and develop appetite for some companies against the others. And with the voluntary disclosures and information on the companies, he has enough awareness of the companies and their peculiar risks, as such his decision are not made out of lack of reasonable knowledge.

EXAMINER'S REPORT

The question tests candidates' knowledge of mandatory and voluntary disclosures by firms, risks, category, and types of risk. Being a compulsory question, all the candidates attempted the question but performance was poor.

The commonest pitfall of the candidates was their lack of understanding of the requirements of the question.

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

2. You have just been appointed as a consultant to provide advice on key considerations for the composition of the Board of Directors of a blue-chip company.

   Advise your client on key factors that are essential to the composition of a Board of Directors. (15 Marks)

SOLUTION TO QUESTION 2

Key factors that are essential to the composition of a Board of Directors (BOD) are:

(a) Harmony of Interest: The Board should be characterised by homogeneity. Mutual trust, common interest and sincere outlook among directors will lead to integrated management of the organisation.

(b) Able Persons: Ability in term of versatility and technical competence are prime consideration in the choice of those to be elected or co-opted into the Board of Directors of any company.

(c) Representation of economic groups: Due to the fact that activities of organisation span from production to exchange and consumption, it is necessary that the key stakeholders are represented in the Board of Directors.

(d) The Size: This should be determined as per the scale of the business.

(e) Age: It is mostly preferred that members of BOD should be a blend of the young and old.

(f) Prevention of interlocking directorship: People having stakes in too many companies can hardly put their hearts and souls in the administration of all such companies.

(g) Functions of the board should be clearly set: This should be clearly articulated and disseminated among board members.

EXAMINER'S REPORT

The question tests candidates understanding of the key factors to be considered in the composition of board of directors by firms. Most of the candidates attempted the question performance was very good.

3. In January 2014, Mr. Emeka Nduka Elvis the Managing Director of Jobar Energy Resources Limited, constituted a Strategic Planning Committee to coordinate the development of a five-year strategic plan for the company. This is the first time a formal strategic plan is being attempted in the company after several meetings of the Strategic Planning Committee.

Mr. Chinedu Protus, the Chairman of the Strategic Planning Committee, presented what he described as a road map to actualising the company's objectives. Several sub-committees were constituted to work on different aspects of the strategic plan. Mrs. Adaramaja is the Chairman of the sub-committee saddled with the responsibility of drawing up the company's mission statement. The Chairman of the Strategic Planning Committee took particular interest in the work of this sub-committee because, according to him, an appropriate mission statement would set the tone of the strategic plan, galvanise energies of the entire workforce and set a clear direction for the company.

At the first meeting of the mission statement's sub-committee, Mrs. Adaramaja distributed working papers, which included the history of the company. Speeches delivered by the pioneer Managing Director on different occasions and mission statements of similar companies were also provided.

The next meeting of the sub-committee was a brainstorming session in which participants were asked to identify the key elements that should be incorporated into the mission statement of the company.

Required:

(a) As a member of the sub-committee on mission statement, identify and explain any Five (5) elements which may be incorporated into the mission statement of the company. (10 Marks)

(b) Discuss the importance of mission statement. (5 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 3

(a) Content of mission statement are:

(a) Purpose: The reason for the entity's existence;
(b) Capability: In what ways is the business excelling;
(c) Inspirational: Must be written to inspire hard work, and confidence;
(d) Clarity: written in a clear manner and free from ambiguity;
(e) Legacy: should capture the essence of the company's legacy; and
(f) While mission statements should not be changed often, it should not be cast in stone.

(b) A mission statement can have the following importance

- Ensures consistency in strategic planning.
- Supports the translation of board intentions and purposes into corporate objectives.
- Useful in investigating consistent in employees' performance, productivity and, improvement.
- Useful in setting goals in business ethics.
- Serves as a tool for stimulating shareholders' support of company's activities.
- Mission statements indicate what the organisation does and where it is headed. The mission can be described as a statement which defines the role an organisation plays or intends to play in future of the society.

EXAMINER'S REPORT

The question tests candidates' knowledge of mission statement and its purpose. Most of the candidates attempted the question but performance was average.

The commonest pitfall was the candidates' lack of understanding of the importance of mission statement.

Candidates are advised to ensure they cover all aspect of the syllabus when preparing for future examination.

4. As a consultant to a company, you have been requested to deliver a paper on Corporate Social Responsibility (CSR) policy formulation.

Your paper should be centred on:

(a) Definition and principles of CSR. (3 Marks)

(b) Effects of CSR on Company's strategy. (2 Marks)

(c) Steps in formulating CSR policy. (8 Marks)

(d) CSR reporting. (2 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 4

(a) Corporate Social Responsibility (CSR):

CSR can be defined as decision-making by a business that is linked to ethical values and respect for individuals, society and the environment, as well as compliance with legal requirements.

Principle of CSR are:

- A company should operate in an ethical way, and with integrity;
- A company should treat its employees fairly and with respect;
- A company should demonstrate respect for basic human rights;
- A company should be a responsible citizen in its community; and
- A company should do what it can to sustain the environment for future generations.

(b) The effect of CSR on company strategy

(a) It gives a positive image of the company.

(b) It gives the company a sense of belonging among its customers or host community.

(c) Tax reliefs may be granted to the company by government.

If companies fail to respond to growing public concern about social and environmental issues, they will suffer a damage to their reputation and the possible loss (long term) of sales and profits. This will prevent the problem of reputation risk.

(c) Steps to formulating a CSR policy for an entity

- It should decide its code of ethical values, and possibly publish these as a code of ethics.

- It should establish the company's current position with regards to its CSR values, and decide the position it would like to reach in the future.
- The company should develop realistic targets and strategies for its CSR policies, and these strategies should be implemented.
- Key stakeholders in the company should be identified, whose views the company wishes to influence.
- The company's CSR achievements should be communicated to the key stakeholders.
- The company's CSR achievement should be monitored, and actual achievements compared with the targets and the CSR achievements of similar companies.

(d) CSR Reporting

CSR reporting are also called Social and Environmental Reports, and CSR reporting is sometimes called sustainability reporting, when its main focus is on environmental issues. The purpose of CSR reports are to inform the key stakeholders about the CSR policy objectives of the company and how successful it has been in achieving them.

EXAMINER'S REPORT

The question tests candidates' knowledge of Corporate Serial Responsibility (CSR). About 50% of the candidates attempted the question, but performance was poor.

The commonest pitfall was candidates' lack of understanding of parts (a) and (c) of the question.

Candidates are advised that they should make use of the Institute's study pack and pathfinders when preparing for future examination.

5. (a) Identify and discuss Four (4) different types of e-business. (6 Marks)

   (b) Explain the main components of strategy statements. (4 Marks)

   (c) Explain Five (5) major problems that is associated with e-business. (5 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 5

(a) Types of e-Business

(i) Business-to-Business (B-to-B): Here, transactions take place between two organisations. Producers and traditional commerce wholesalers typically operate with this type of electronic commerce. It greatly improves the efficiency of companies.

(ii) Business-to-Consumer (B-to-C): This occurs when a consumer buys products from a seller. People shopping from Flipkart, Amazon, etc. is an example of business to consumer transaction. In such a transaction the final consumer himself is directly buying from the seller.

(iii) Consumer-to-Customer (C-to-C): A consumer selling product or service to another consumer is a consumer-to-consumer transaction. For example, people put up ads on OLX of the products that they want to sell. C2C type of transactions generally occurs for second-hand products. The website is only the facilitator not the provider of the goods or the service.

(iv) **Consumer-to-Business (C-to-B):** Here, there is a complete reversal of the traditional sense of exchanging goods. This type of e-commerce occurs when a large number of individuals make their services or products available for purchase by companies seeking precisely these types of services or products.

(v) **Consumer-to-Administration (C-to-A):** This model encompasses all electronic transactions conducted between individuals and public administration. Examples of these applications are in the area of education – disseminating information, distance learning; in social security – through the distribution of information, making payments, etc.; in taxes – filing tax returns, payments, etc.

(vi) **Business-to-Administration (B-to-A):** This part of e-commerce encompasses all transactions conducted online by companies and public administration or the government and its various agencies. Also, these types of services have increased considerably in recent years with investments made in e-government.

(b) The component of strategy statements includes the following:

(i) **Strategic intent:** Strategic intent is defined as a compelling statement about the aspiration that succinctly conveys a sense of what that organisation wants to achieve in the long term. It can be understood as the philosophical base of the strategic management process. It implies the purpose which an organisation endeavours to achieve. It is thus a statement that provides a perspective of the means by which an organisation intends to reach its vision in the long run.

(ii) **Mission statement:** The mission statement defines the purpose of an organisation and the reason for its existence. It reflects the organisation's basic function in society in terms of the goods and services it produces for its primary customers, stating its geographical region of operation. It defines the present state of the organisation and what the organisation aspires to be in the future. It usually includes a short statement about the organisation's values or philosophies and the company's main competitive advantages.

(iii) **Vision:** Vision statement is an aspirational description of what an organisation would like to achieve or accomplish in the future, thereby representing the desired optimal future state of the organisation. A vision statement is "a company's road map, indicating both what the company wants to become and guiding transformational initiatives by setting a defined direction for the company's growth".

(iv) **Goals and Objectives:** In business, both goals and objectives help to clarify the purpose of the business and also help to identify necessary actions. Goals are general statements of desired achievement, while objectives, derived from the goals of an entity or organisation, are the specific steps or actions you take to reach your goal. A company's objectives should be specific or couched in clear language, realistic and time-bound.

(c) Problem associated with E-Business are:

- **Security:** E-business systems naturally have greater security risks than traditional business systems, therefore it is important for e-business systems to be fully protected against these risks. Hacking is one of the greatest threats to the security of e-businesses;

- **Confidentiality:** It is difficult to secure confidential information in e-business as this may be tampered with by hackers or other unauthorised individuals;

- **Authenticity:** E-business transactions pose greater challenges for establishing authenticity due to the ease with which electronic information may be altered and copied;

- **Data integrity:** There is a serious concern about whether the message sent can be changed or corrupted in any ways or whether the message received is identical to the message sent;

- **Access control:** When access to certain electronic resources and information is limited to only a few authorised individuals, a business and its customers must have the assurance that no one else can access the systems or information.

- **Availability:** This concern is about disruption of services by events such as power outages and damage to physical infrastructure which is common in the developing countries as availability of service is important for all e-business websites.

- **Cost:** The cost of maintaining the electronic infrastructure which supports e-business is huge. With each website being custom-crafted and maintained in code, the maintenance burden is enormous.

EXAMINER'S REPORT

The question tests candidates' understanding of e-business and components of strategy statement. Almost all the candidates attempted the question and performance was average.

Candidates' commonest pitfall was lack of understanding of components of strategy statement.

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

6. (a) Discuss Five (5) ways by which tax justice system can address the problem of inequality in an economy. (5 Marks)

   (b) State any Four (4) features of morality. (4 Marks)

   (c) Identify any Four (4) factors that are inherent in each element of SWOT that can affect an entity's competitive advantage (6 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 6

(a) The following points show how tax justice system can address the problem of inequality:

(i) Tax Justice system should focus on financial secrecy and tax abuse as key problems that deprive developing countries of the revenue to which they are entitled;

(ii) Tax systems should reflect the balance of powers in the society;

(iii) Tax justice system should formulate effective tax and fiscal policies;

(iv) The concept of tax justice is particularly relevant to a region where many people have long felt deprived of economic opportunity and excluded from the benefits of the high growth achieved in the early years of the third millennium. Tax justice should be relevant to region where many people have felt deprived of economic opportunity;

(v) Tax reforms should not place disproportionate burden on the poor without delivering on social and economic rights;

(vi) Radically, different economic and social policies are needed, with social justice at the forefront, and based on equitable and progressive policies to raise sufficient revenues for public expenditures prioritising marginalised groups and regions, alongside investment and incentives to create decent work opportunities and more productive economies; and

(vii) Trust in tax and fiscal policies must also be built. Tax systems need to be progressive and differential in their application, so that individuals and companies are happy to contribute to financing the development of the country according to their means and capacity.

(b) Features of Morality

(i) Morality involves making normative statements or judgments about specific human actions to the effect that they are either good or bad, right or wrong, just or unjust. Examples of normative statements made in the realm of morality are: (a) John did something wrong by lying; (b) It is morally bad for Steven to have stolen the money.

(ii) It is always meaningful to demand for the reasons or justifications for the normative statements made in the domain of morality.

(iii) There is usually a reliance on some normative principles, rules or ideals in the effort to provide justification for the moral judgments made in the arena of morality. Such normative principles include: Lying is wrong; Honesty is a virtue; Stealing is bad.

(iv) Morality involves some emotional states of approval or disapproval attached to the moral judgements made and the moral rules and principles relevant to them. There would also be the desire to communicate such emotional states to others.

(v) There are sanctions or incentives, usually verbal, in the form of either blame or praise attached to moral judgments.

(c) The four influencing environmental factors that SWOT analysis deals with are:

(i) Strength: An inherent capacity of an organisation which helps it gain a strategic advantage over its competitors. Strengths are resources and competences that an organisation has, and the capabilities it has developed. Strengths in resources, competences and capabilities can be exploited and developed to create sustainable competitive advantage.

(ii) Weakness: An inherent constraint or limitation which creates a strategic disadvantage for a business. Weaknesses are resources, competences and capabilities that are deficient or lacking. These weaknesses present the entity from developing or sustaining competitive advantage.

(iii) Opportunity: A favourable condition in the organisation's external environment, enabling it to strengthen its position. Opportunities are presented by the external environment within which an organisation operates. These arise when an organisation can take benefit of conditions in its external environment to plan and execute strategies that enable it to become more profitable. Organisations can gain competitive advantage by making use of opportunities.

(iv) Threat: An unfavourable condition in the organisation's external environment causing damage to the organisation. Threats arise when conditions in the external environment jeopardise the reliability and profitability of the organisation's business. They compound the vulnerability when they relate to the organisation's weaknesses. Threats are uncontrollable. When a threat comes, the stability and survival of the organisation can be at stake. Examples of threats are unrest among employees, ever-changing technology, increasing competition leading to excess capacity, price wars and reducing industry profits, etc.

EXAMINER'S REPORT

The question tests candidates' knowledge of tax justice, morality and SWOT. About 50% of the candidates attempted the question and performance was just fair.

Candidates' commonest pitfall was lack of understanding of tax justice system and SWOT. Candidates are advised to ensure proper coverage of the entire syllabus when preparing for future examination.

7. (a) Differentiate between emotional intelligence and intelligence quotient. (5 Marks)

(b) Explain the importance of emotional intelligence to business success. (10 Marks)
(Total 15 Marks)

SOLUTION TO QUESTION 7

(a) Comparison between Emotional Intelligence (EI) and Intelligent Quotient (IQ)

- High 1Q is no guarantee of success; how successful we are in life is determined by both emotional intelligence and by IQ, though intellect works best when it is accompanied by high emotional intelligence.

- Both IQ and EI have considerable value. Where IQ tells us the level of cognitive complexity a person can achieve and may, to some degree predetermine levels of academic achievement, EI indicates which individuals will likely make the best leaders within top management positions.

- IQ has limited connections to both work and life successes. IQ is actually less of a determinant of how well one will do in life than our ability to handle frustration, control emotions, and get along with other people – characteristics not only accounted for but also learnable under current EI theory.

- That IQ alone is the predictor or success is a misconception; it has been argued that life success is influenced more by an individual's ability to engage the five categories of EI, namely, self-awareness, self-regulation, motivation, empathy and social skills.

- While there is much discussion regarding the capability of individuals to improve IQ scores, EI can be developed and refined over time just like any skill, that is, given the necessary focus and effort to do so. Many would argue that the ability to connect with and understand others is a more powerful skill to possess than cognitive intellect alone.

- EI, unlike IQ which is relatively fixed, is a dynamic aspect of one's psyche and includes behavioural traits that, when worked upon, can yield significant benefits, from personal happiness and well-being to elevated success in a professional context.

(b) Importance of Emotional Intelligence to business success

- **Staff motivation:** Emotional intelligence matters for motivation, and motivation matters for success. In relation to work, personal goals or heath, the emotionally intelligent individual understands the deeper meaning of their aspirations and the self-motivation skills required to achieve them. An emotionally intelligent individual not only possesses the skills for self-motivation but also the skills required to motivate others, a useful talent to have especially in management positions.

- **Better working environment:** As the workplace evolves, so do individuals (from interns to managers) with higher EI are better equipped to work cohesively within teams, deal with change more effectively, and manage stress, thus, enabling them to efficiently pursue business objectives. Increasingly, organisations are recognising the value of employees who exhibit the skills to cope with change and respond accordingly.

- **Enhancing business success:** The ability to understand and manage emotions is crucial to realising one's true potential in business. Developing EI can greatly influence one's success by contributing to increased morale, motivation and greater co-operation. In the workplace, for instance, managers who consistently outperform their peers not only have technical knowledge and experience, but more importantly, they utilise the strategies associated with EI to manage conflict, reduce stress and as a result, improve their success.

- **Team spirit and bonding:** Emotional intelligence is an integral part of forming and developing meaningful human relationships. It is established that EI engenders significant links between high EI and more successful interpersonal relations.

- **Elimination of communication barrier:** The process of successful communication, and in times of conflict, successful negotiation is closely linked to high levels of EI. While those with low levels of EI may react defensively in stressful situations and escalate conflict, individuals with higher emotional intelligence have the skills available at their disposal to communicate effectively without resorting to confrontation or escalating the tension.

EXAMINER'S REPORT

The question tests candidates' understanding of Emotional Intelligence, intelligent quotient and their effects on business success.

Only very few candidates attempted the question and performance was good.

Candidates are advised to ensure complete coverage of the syllabus when preparing for future examination.

PTE I: FINANCIAL REPORTING

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS.

SHOW ALL WORKINGS. **TIME: 3 HOURS.**

1. (a) The statements of profit of loss and other comprehensive income of Kaduna Plc, its subsidiary Port-Harcourt Ltd and associate Yola Ltd. for the year ended 31 December, 2021 are as follows:

	Kaduna Plc	Port-Harcourt Ltd	Yola Ltd
	₦'m	₦'m	₦'m
Revenue	1,500	450	210
Cost of sales	(810)	(240)	(90)
Gross profit	690	210	120
Administration expenses	(450)	(60)	(46)
Finance income	46	30	--
Finance costs	(60)	--	(30)
Profit before tax	226	180	44
Income tax expense	(76)	(44)	(14)
Profit for the year	150	136	30
Other comprehensive income:			
Gain on property revaluation (Net of Tax)	60	30	16
Total comprehensive income for the year	210	166	46

Additional Information:

(i) Kaduna Plc acquired 240million shares for ₦564m about three (3) years ago when Port-Harcourt Ltd had a credit balance of ₦120m on its reserve. Port-Harcourt Ltd. has 300million, ₦1 ordinary shares.

(ii) Kaduna Plc acquired 120million shares in Yola Ltd for ₦180m two years ago when the company had a credit balance of ₦60m on its reserve. Yola Ltd has 300million, ₦1 ordinary shares.

(iii) During the year Port-Harcourt Ltd sold goods to Kaduna Plc for ₦198m (cost ₦144m). None of the goods has been sold by the year end.

(iv) The group's policy is to measure non-controlling interest at acquisition at fair value. The fair value of non-controlling interest in Port-Harcourt Ltd at acquisition date was ₦120m.
An impairment test carried out at year end resulted in ₦46m of the recognised goodwill relating to Port-Harcourt Ltd being written off and recognition of impairment loss of ₦8m relating to the investment in Yola Ltd.

Required:
Prepare consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021 for Kaduna Plc Group incorporating its associate's results. (20 Marks)

(b) (i) A parent acquired 1,200,000 equity shares of its subsidiary three years ago for ₦2,400,000. The subsidiary's issued equity capital on that date was ₦500,000, denominated at 25kobo per share. Other components of the subsidiary's net assets at the acquisition date were share premium, ₦1,100,000 and retained earnings, ₦1,360,000. The subsidiary's shares were quoted at the stock exchange at ₦1.80k per share at the date the parent took control.

Required:
Calculate the goodwill on acquisition if it is the policy of the parent to measure non-controlling interest (NCI) at its fair value. (6 Marks)

(ii) IFRS 10 on consolidated financial statement states that, with certain exceptions a parent must present consolidated financial statement in which it consolidated its investment in subsidiaries.

Required:
State Four (4) exceptions to the rule. (4 Marks)

(c) (i) Explain what is meant by the term associates and significant influence. (3 Marks)

(ii) Discuss the equity method of accounting which is used to account for investment in associates. (4 Marks)

(iii) Distinguish between joint operation and joint ventures. (3 Marks)
(Total 40 Marks)

SOLUTION TO QUESTION 1

(a).

Kaduna Plc. Group

Consolidated Statement of Profit or Loss and other Comprehensive income for the year ended 31 December, 2021

	₦'m
Revenue (1,500 +450 -198)	1,752
Cost of sales (810+240-144)	(906)
Group profit	846
Admin expenses (450 +60)	(510)
Finance income (46+30)	76
Finance cost	(60)
Share of profit of associates (30 x 40% -8)	4
Profit before tax	356
Income tax expenses (76 +44)	(120)
Profit for the year	236
Other comprehensive income:	
Gain property revelation (60+30)	90
Share of other comprehensive income of associate (16 x40%)	6.4
	96.4
Total comprehensive income	332.4
Profit or loss attributable to:	
Owners of the parent (236-8)	228
Non – controlling interests	8
	236
Total comprehensive income attributed to:	
Owners of the parent (332.4 – 14)	318.4
Non-controlling interest	14
	332.4

Workings

W1 Kaduna Plc.'s Control over Portharcourt Ltd

$\frac{240}{300} \times \frac{100}{1} = 80\%$ (subsidiary)

Kaduna over Yola Ltd

$\frac{120}{300} \times \frac{100}{1} = 40\%$ (Associate)

W2 Non – Controlling Interest

	Profit for the Year	**Total Comprehensive Income**
	₦'m	**₦'m**
Per question	136	166
Unrealised profit (w3)	(54)	(54)
Impairment loss	(46)	(46)
	36	66
Share of NCI (20%)	8	14

W3 Unrealised Profit

	₦'m
Selling price	198
Less: cost	144
	54

(b) (i) Determination of Goodwill at acquisition at fair value

	₦'000	₦'000
Consideration transferred by parent		2,400
NCI at fair value (800 x N1.80)		1,440
Less:		
Net assets of subsidiary @ acquisition		

Equity share capital	500	
Share premium	1,100	
Retained earnings	1,360	
		2,960
Goodwill @ acquisition		880

(ii) A parent need NOT present consolidated financial statements if any of all the following conditions apply:

i. The parent itself (x) is a wholly owned subsidiary with its parent (Y);
ii. The parent (x) is a partially owned subsidiary with its own parent (Y) and the other owner of X are prepared to allow it to avoid preparing consolidated financial statement;
iii. The parent's debt or equity instrument are not traded in a public market;
iv. The parent does not file its financial statements with a securities commission for the purpose of issuing financial instrument in a public market; and
v. The parent's own or the ultimate parent company (for example, the parent of parent's parent) does produce consolidated financial statement for public use that comply with IRFS.

(c) (i) An Associate is an entity over which the investor has significant influence.

Significant influence is the power to participate in the financial and operating policy decision of the investee's without having control or joint control over those polices.

Significant influence is normally assumed to exit if the investor own 20% to 50% of the investee's ordinary shares excluding joint control.

(ii) Equity Method of Accounting

Under equity method of accounting, the investment made in the associate is recorded initially at cost. In each subsequent year, the investors share of the associate's profit is added to the carrying amount of the investment and is also recognised as income in the investor's financial statement.

- Dividend received from the associate is subtracted from the carrying amount of the investment.
- Only the investor's share of associate's profit is shown in the investor's statement of comprehensive income and only the investor's share of associate's net assets is shown in the investors statement of financial position.
- These are items that are shown as single line item and there is no need to account for non-controlling interest.

(iii) Joint Operation and Joint Ventures

- A joint Operations is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets; and obligation for the liabilities they are called joint operators.
- While a Joint Venture is a joint arrangement where the parties that have joint control of the arrangement have rights to the net assets of the arrangement. These parties are called joint venturers.

Examiner's Report

This question is a compulsory question and it is expected that all candidates would attempt this question. However, only about 98% of the candidates attempted the question.

Out of 40marks allocated to this question 15% scored above 20marks which indicated that candidates performance was below average.

Candidates had poor understanding of part 1bii and 1c of the question.

The candidates' commonest pitfall is the inability to give detail working and notes in 1a and in 1b. Candidates have issue in stating exception to presentation of consolidated financial statements by a parent company and part 1c ii and iii aspect of the question was poor comprehended.

Candidates are advised that they should ensure they cover the entire syllabus when preparing for future examination.

2. Your client, Mr. Oluwole Mohammed is contemplating investing in one of the two companies in his locality. He has come to you for professional advice. The financial statements for the two companies for the year ended 31 December 2021 are shown below:

Statement of Profit or Loss

	Enugu Ltd		**Aba Ltd**	
	₦'m	**₦'m**	**₦'m**	**₦'m**
Revenue		18,000		27,000
Less Cost of goods sold:				
Opening inventory	3,000		2,800	
Add Purchases	13,000		22,500	
	16,000		25,300	
Less Closing inventory	2,000	14,000	2,400	22,900
Gross profit		4,000		4,100
Less Other expenses	3,180		2,800	
Depreciation	220	3,400	400	3,200
Profit before tax		600		900
Less Income tax expense		180		270
Profit for the year		420		630
Interim dividend paid		250		300

Statements of financial position

	Enugu Ltd		Aba Ltd	
	₦'m	₦'m	₦'m	₦'m
Assets employed:				
Building at cost	4,000		5,400	
Less depreciation	3,550	450	2,200	3,200
Equipment at cost	2,400		1,800	
Less depreciation	1,190	1,210	900	900
		1,660		4,100
Current Assets:				
Inventories	2,000		2,400	
Trade receivables	2,050		1,100	
Cash and cash equivalent	100	4,150	140	3,640
		5,810		7,740
Current Liabilities:				
Trade Payables	2,450		2,520	
Taxation	180	2,630	270	2,790
Net Assets		**3,180**		**4,950**
Financed by:				
Ordinary shares (N1 each)		2,400		4,300
Retained earnings		380		100
Reserves		400		550
		3,180		**4,950**

Required:

(a) Compute the following ratios:
  (i) Gross profit percentage
  (ii) Net profit percentage
  (iii) Current ratio
  (iv) Acid test ratio
  (v) Returns on capital employed
  (vi) Dividend cover
  (vii) Earnings per share

(7 Marks)

(b) Using the ratios computed above, advise your client in which of the companies to invest. Justify your advice. (3 Marks)

(c) Describe the incidence of duality of interpretation as it relates to using accounting ratio for interpretation of financial statements. Illustrate your answer with two (2) examples. (3 Marks)

(d) Explain the implication of (c) above, to the users of financial statements. (2 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 2

(a)	Computation of ratio		
		Enugu Ltd	Aba Ltd
(i)	Gross profit percentage: $\frac{\text{Gross profit}}{\text{Revenue}} \times \frac{100}{1}$	$\frac{4{,}000}{18{,}000} \times \frac{100}{1}$ = 22.2%	$\frac{4{,}100}{27{,}000} \times \frac{100}{1}$ = 15.2%
(ii)	Net profit percentage: $\frac{\text{Profit before tax}}{\text{Revenue}} \times \frac{100}{1}$	$\frac{600}{18{,}000} \times \frac{100}{1}$ = 3.3%	$\frac{900}{27{,}000} \times \frac{100}{1}$ = 3.3%
(iii)	Current Ratio $\frac{\text{Current asset}}{\text{Current liability}}$	$\frac{4{,}150}{2{,}630}$ = 1.58:1	$\frac{3{,}640}{2{,}790}$ = 1.30:1
(iv)	Acid Test Ratio $\frac{\text{Current asset – Inventory}}{\text{Current liability}}$	$\frac{4{,}150 - 2{,}000}{2{,}630}$ = 0.82:1	$\frac{3{,}640 - 2{,}400}{2{,}790}$ = 0.44:1
(v)	Return on Capital Employed: $\frac{\text{Profit After Tax}}{\text{Shareholders Fund}} \times \frac{100}{1}$	$\frac{420}{3{,}180} \times \frac{100}{1}$ = 13.2%	$\frac{630}{4{,}950} \times \frac{100}{1}$ =12.73%
(vi)	Dividend Cover: $\frac{\text{Profit After Tax}}{\text{Dividend on Ord. Share}}$	$\frac{420}{250}$ = 1.68 times	$\frac{630}{300}$ = 2.1 times
(vii)	Earnings Per Share: $\frac{\text{Profit after tax}}{\text{No of Ord. Shares}} \times \frac{100}{1}$	$\frac{420}{2{,}400} \times \frac{100}{1}$ = 17.5 kobo	$\frac{630}{4{,}300} \times \frac{100}{1}$ =14.65kobo

(b) Mr. Oluwole Mohammed
CITN Road
Lagos
Nigeria

Dear Mr. Oluwole Mohammed,

ADVICE ON INVESTMENT

With reference to our discussion on the above subject on which you sought for our advice on your choice of investment between Enugu Ltd and Aba Ltd, please find attached herewith the relevant report we computed to enable us compare the performance of the two companies and advise you accordingly.

Aba Ltd. made more profit, ₦900m, when compared with ₦600m by Enugu Ltd. But in terms of gross profit percentage, returns on capital and earnings per share, Enugu Ltd. Is more efficient in the use of its resources with a gross profit percentage of 22.2%, return on capital employed of 13.2% and earnings per share of 17.5 kobo compared with Aba Ltd. Of 15.2%, 12.73% and 14.65 kobo respectively.

The net profit percentage for the two companies are the same but current ratio and the acid test ratio for Enugu Ltd are more favourable than those of Aba Ltd. Current and acid test ratio imply the immediate conversion of asset into cash and ability to settle current liability as they fall due. Ability to pay divined is 1.68 times for Enugu Ltd while that of Aba Ltd is 2.1 times.

In conclusion, we suggest that it would be more advantageous to invest in Enugu Ltd as it shows greater profitability than Aba Ltd and also has better future potential. Enugu Ltd also has better liquidity position based on the available financial statements.

Please let us know if you require further information.

Thank you.

Yours faithfully

XYZ & Co. Consulting Firm

(c) Incidence of duality of interpretation is that some ratios may have more than one implication or interpretation. For example:
- (i). A high gross profit may indicate profitability and at the same time imply that the company is discouraging potential buyers by applying excessive mark-up;
- (ii). A high sale receivable ratio may imply that the receivable figure was kept to the minimum through good credit management. On the other hand, it could also mean that the company failed to use credit policy to push sales;
- (iii) A high inventory turnover may denote efficiency in the firm's inventory policy but it could also mean that the company is in danger of losing sales opportunities due to insufficient investment in inventory;
- (v). A low capital gearing may imply soundness of investment and low risk but it could also mean that the company may have lost opportunities to improve on its profitability by failing to leverage its equity capital.

(d) The implication to users of such ratios is that they must make further enquiries or investigation before coming to firm conclusion about the merit or demerit of the particular position portrayed. There is often the need to find corroborative evidence from one or more other ratios before drawing final conclusions.

Examiner's Report

The question tests candidates' understanding of accounting ratios and their interpretation. About 85% of candidates attempted the question. Candidates performance was above average.

The major pitfall was candidates lack of understanding of incidence of duality of interpretation of accounting ratio computed.

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

3. (a) On June 30, 2021, POPOP Limited acquired new technology that will revolutionise its current manufacturing process. The costs are set out below

	₦
Original cost of the new technology	4,000,000
Discount provided	400,000
Staffing training incurred in operating the new process	150,000
Testing of the new manufacturing process	110,000
Losses incurred whilst other parts of the plant stood idle	120,000

Required:

Determine the carrying amount of the new technology (intangible asset) as at 31 December, 2021. Ignore any amortisation charges. (10 Marks)

(b) ABC PLC has a computer software developed at the cost of ₦20 million. The firm intends to sell it at ₦30million. The Software agent, J-Flex Ltd has been contacted to get a buyer for the software at a fee of ₦1 million.

Required:

Determine the value of the Software to be carried in ABC PLC's Statement of Financial Position at 31 December 2021. Ignore any amortisation charges.

(5 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 3

POPOP Limited

Carrying amount of the new technology at 31/12/21

	₦
Cost	4,000,000
Less discount	(400,000)
	3,600,000
Plus testing of new manufacturing process	110,000
	3,710,000

Staff training cost and losses incurred should be expensed.

(a) ABC PLC

The value of the software to be carried in ABC PLC's statement of financial position will be the lower of:

	₦20,000,000 (Cost of the software)
Less	₦ 1,000,000 (Cost required to sell the asset)
	₦19,000,000

Or

₦30 million the carrying amount of the software.

According to IAS 38, the value of the software to be recorded in the books of ABC PLC is ₦19 million.

Examiner's Report

The question tests candidates' understanding of carrying cost of intangible assets. About 40% of the candidates attempted the question and performance was above average.

Candidates' commonest pitfall was lack of understanding of part (b) of the question. Candidates are advised to attempt practical questions when preparing for future examination.

4. The doctrine of maintaining and preserving the legal capital received by a company, is a long- and well-established principle in law. The IASB Conceptual Framework for Financial Reporting also discussed various capital maintenance concepts. The purpose of these rules and regulations is to improve the efficiency of capital market by protecting the rights of stakeholders.

Required:

(a) Explain the term 'capital maintenance' in relation to accounting. (3 Marks)

(b) Identify and discuss Two (2) capital maintenance concepts under the IASB Conceptual Framework for Financial Reporting. (6 Marks)

(c) Highlight Three (3) rules governing the determination of the profits legally available for distribution under the Companies and Allied Matters Act of 2020. (6 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 4

(a).

i. Capital maintenance involves the need to maintain capital intact in order to help ensure availability of funds to lenders and supplier.

ii. An entity is judged to have surplus available for distribution if the capital at the end of the reporting period exceeds that at the beginning, and this depends on the methods used to value assets and liabilities.

a. There are two concepts of capital: a financial concept of capital and a physical concept of capital.

Under the financial concept, capital is defined as the net assets or equity of the enterprise.

- The financial concept of capital maintenance is used by the financial statements users who are primarily concerned with the maintenance of nominal invested capital or the purchasing power of invested capital expressed in monetary unit of measurement.
- The financial capital maintenance concept does not require the use of a particular basis of measurement and is dependent solely on the type of the underlying financial capital to be maintained.

Under the physical concept, capital is defined as the productive capacity of the enterprise expressed in some physical units of measurement, for example, units of output per period.

- The physical capital is used when maintenance of the physical productive capacity is the main concern.
- It is concerned is to ensure that the purchasing power or real value to shareholders' investment is maintained intact.

b. Distributable profits consist of accumulated realised profit minus accumulated realised losses. Statutory distributable reserve includes the accumulated retained earnings in the statement of financial position.

According to the Companies Act, the non-distributable reserve of a public company are its share capital, share premium, capital redemption reserves and the excess of accumulated unrealised profit over accumulated unrealised losses.

Any other reserve not allowed to be distributed under the Act or by the company's Memorandum and Article of Association.

Examiner's Report

The question tests candidates' understanding of the concept of capital maintenance and distributable profit under CAMA 2020. About 50% of the candidates attempted the question but performance was poor.

The commonest pitfall of the candidates was lack of understanding of the question.
Candidates are advised to ensure complete coverage of the syllabus when preparing for future examination.

5. The statement of financial position of Tantala Plc and Benbela Ltd as at March 31, 2021 are as follows:

	Tantala Plc	**Benbela Ltd**
Non-current assets	**₦'000**	**₦'000**
Property plant and equipment	5,000	1,800
Investment in Benbela Ltd	1,800	--
Current Assets		
Inventory	500	100
Trade receivables	520	360
Cash and cash equivalent	356	400
	8,176	2,660

Equity and Liabilities		
Equity share capital (₦1 each)	2,000	400
Share premium	100	200
Retained earnings	4,384	1,464
Non-current liabilities		
Loan notes	1,280	200
Current liabilities		
Trade payables	312	356
Tax	100	40
	8,176	2,660

Additional information:

(i) Tantala Plc acquired 300,000 shares in Benbela Ltd on April 1, 2019 and at that date the retained earnings of Benbela Ltd was ₦1,000,000.

(ii) At acquisition the fair value of Benbela Ltd property plant and equipment was ₦380,000 above the book value. This has not been reflected in the financial statements. The additional depreciation on this would be ₦12,000 per annum.

(iii) Tantala Plc is accounting for the non-controlling interest by valuing it at fair value. The fair value of the goodwill attributable to the non-controlling interest is ₦73,000.

(iv) Included within the trade receivable of Tantala Plc is ₦180,000 that is owed by Benbela Ltd.

(v) At the year end the directors decided that the goodwill relating to Benbela Ltd needs to be impaired by ₦140,000.

Required:

(a) Prepare the consolidated statement of financial position of the Tantala group as at 31 March, 2021. (13 Marks)

(b) State Two (2) differences between individual financial statements and separate financial statements. (2 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 5

Tantala Group Plc

Consolidated statement of Financial Position as at March 31, 2021

	₦'000
Property plant and equipment (5,000 + 1,800 + 356)	7,156
Goodwill (w2)	248
Current Asset	
Inventory (500 + 100)	600
Trade receivable (520 + 360 – 180)	700
Cash and cash equivalent (356 + 400)	756
	9,460

Equity and Reserve	
Share capital (₦1 each)	2,000
Share premium	100
Retained earnings (w4)	4,609
NCI (w3)	643
Equity	7,352
Non – current liabilities:	
Loan Notes (1,280 + 200)	1,480
Current liabilities:	
Trade payable (312 + 356 -180)	488
Tax (100 x 40)	140
	9,460

Workings:

(w1) Net Assets of the subsidiary

	At Acquisition	**At reporting date**
	₦'000	₦'000
Share capital	400	400
Share premium	200	100
Retained earnings	1,000	1,464
Fair value adjustment	380	356
	1,980	2,420

(w2) Goodwill

	₦'000
Consideration	1,800
Less Net assets at acquisition (1,980 x 75%)	(1,485)
Goodwill attributable to NCI	73
Goodwill	388
Less: Impairment	(140)
	248

(w3) Non – Controlling Interest

	₦'000
2,420 (w1) x 25%	605
Goodwill attributed to NCI	73
Impairment (140 x 0.25)	35
	643

(w4) Retained Earning

	₦'000
Tantala	4,384
Benbola Ltd (1,464 – 1,000 x 75%)	348
(356 – 380) x 75%	(18)
Impairment (140 x 75%)	(105)
	4,609

(b) Difference between individual financial statements and separate financial statements
The separate financial statements which is otherwise known as consolidated financial statements as district from individual financial statements involves greater details in its preparation and presentation. The differences resolves around the followings:

i. Aggregation of individual account of both holding company and subsidiary company to present separate financial statements,
ii. As opposed to individual account, separate account involves:
   - Determination of non-controlling interest;
   - Determination of goodwill;
   - Determination of unrealistic profit; and
   - Determination of Holding company's control over subsidiary and associates.

Examiners Report
The question tests candidates' understanding of consolidated statement of financial position. About 55% of the candidates attempted the question. A poor performance was largely recorded in the question.

The commonest pitfall was candidates lack of understanding of consolidated financial statements.

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

6. On 1 September 2019, Contractee Ltd acquires land for ₦150m. The land consists of two pieces of ₦75m each, that could be sold separately. One piece is held for long-term capital appreciation and the other piece for constructing a new head office building for Contractee Ltd. Fair value of each half at the company's years end, 30 June 2020 and 30 June 2021 were ₦60m and ₦85m respectively. The entity normally applied the fair value model to measure investment property.

Required:
(a) Define fair value and explain how fair value for investment property is determined in accordance with IAS 40 and IFRS 15. (9 Marks)

(b) Explain the accounting treatments of the two pieces of land, including the double entries, in accordance with the requirements of the relevant International Financial Reporting Standards. (6 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 6

(a). Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, without deducting transaction costs.

i. The best reflection is normally given by the current prices is an active market for similar property in the same location and condition, and subject lease and contract

ii. Such similar properties may not always be present and thus an entity should consider evidence from alternative sources, such as;
   - Current prices is an active market for properties of a different nature, location or that are subject to different lease or other contractual terms, adjusted to reflect the differences.
   - Recent prices from transactions in less active markets, adjusted to reflect changes in economic conditions since the date of those transactions.

   Using the market approach to measure the fair value of investment property is likely to be a level 2 measurement.

iii. The fair value of an investment property may also be measured using discounted cash flow projections based on reliable estimates of future rental income and expenditures. This is called income approach.

Using the income approach the fair value of investment property is likely to result to a level 3 measurement as the most significant input will be the projected cash flows.

(b).

- In the case of partial use of property; a part for owners use and part to earn rentals or for capital appreciation, and they can be sold separately, the portion that is owned should be treated as property, plant and equipment, under IAS 16 and the other portion as investment property under IAS 40. The piece of land was acquired for dual purpose; one half represents investment property while the other half is owner-occupied property. Since the two pieces of land could be separated, used or sold, they should be accounted for separately.
- The two property will be recognised at acquisition at N75m each.
- Subsequently, the revaluation loss of N15m on owner occupied property is recognised in profit or loss in one year;
- There is a surplus of N35m in year two, N15m is credited to profit or loss and the balance of N20m is credited to other comprehensive income.
- On the other hand, gain or loss on fair value of investment property is recognised in profit or loss, no depreciation is charged.

Examiner's Report

The question is on fair value of investment property, about 40% of the candidates attempted the question, and performance was poor.

Candidates were unable to explain investment property and its accounting treatment. Candidates are advised that they should ensure they cover the entire syllabus when preparing for future examination.

7. PILAH Limited purchased a property four years ago for ₦600m. At 31 December 2020, the accumulated depreciation on the property amounted to ₦250m while the accumulated capital allowance amounted to ₦270m. On 31 December 2020, the Directors of PILAH Limited revalued the property to ₦490m. The company income tax rate is 30%.

Required:

(a) Calculate the tax base of the property (4 Marks)

(b) Calculate the taxable temporary difference (4 Marks)

(c) Calculate the deferred tax liability (4 Marks)

(d) State the accounting entries for the above transactions (3 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 7

PILAH Limited

(i). Calculation of tax base of the company property:

Tax base = Allowable historical cost/value – accumulated capital allowance

= ₦600m – ₦270m = ₦330m

(ii) Calculation of taxable temporary difference:

Taxable temporary difference = Revalued amount – Tax base

= ₦490m – ₦330m = ₦160m

(iii) Calculation of deferred tax liability:

Deferred tax liability – Tax rate x Taxable Temporary difference

= 30% x ₦160m = ₦48m

(iv) Accounting entries

DR –Profit or loss Statement = ₦48m

CR – Deferred tax liability = ₦48m

Examiner's Report

The question tests candidates' understanding of deferred tax, and about 65% of the candidates attempted the question. Performance was above average.

Candidates' commonest pitfall was lack of understanding of the accounting treatment of deferred tax.

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