THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2023 PATHFINDER FOR PTE I

PTE I: INCOME TAXATION

TUESDAY APRIL 18, 2023 **EXAM NO................................**

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS.

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

1. BAM Nigeria Limited is a manufacturer of leather bags and footwear. The company commenced operations on April 1, 2020, with December 31 as its financial year end.

   Since commencement of business activities, the company has been having issues with filing of its returns with the tax authorities, especially the inability of the company to provide additional information to the tax officials in respect of the annual returns filed.

   Having experienced excellent business performances in its first three years of operations, the Board of the company has applied for a loan facility of ₦500 million from one of the leading Deposit Money Banks in Nigeria. As part of the documents to be submitted to the bank are the audited annual reports and tax computations, for each of the last three years. These reports are available for the first two financial years, while the one for the financial year ended December 31, 2022 is yet to be finalised.

   The company has just employed you as its Tax Manager and your first assignment is to provide information on the company's tax liabilities and address other issues of concern to the Managing Director.

   The company's Accountant has provided you with the following details:

   Extracts from the financial statements for the year ended December 31, 2022 reveals the following:

	₦	₦
Gross turnover		95,700,000
Less: Direct cost of production		42,580,000
Gross profit		53,120,000
Other income		2,300,000
		55,420,000
Deduct:		
Personnel costs	12,130,000	
Transport and travelling expenses	820,000	
Motor vehicle running expenses	950,000	
Repairs and maintenance	4,960,000	

Depreciation	2,470,000	
Allowance for bad debts	4,500,000	
Legal expenses	2,000,000	
Audit and accountancy fees	1,000,000	
Power and utilities expenses	2,500,000	
Donations and subscription	1,600,000	
Insurance	2,200,000	
Miscellaneous expenses	3,560,000	38,690,000
Net profit		16,730,000

Additional information

(i) Included in other income was dividends of ₦1,350,000 received from investment in a Nigerian listed company.

(ii) One-quarter of the motor vehicle running expenses was expended by the Managing Director on his private activities.

(iii) The sum of ₦200,000 included in repairs and maintenance was used in erecting the company's gate, which was destroyed by some miscreants during a protest in June 2022.

(iv) **Allowance for bad debts:**

	₦
General provision	3,900,000
Specific provision	2,200,000
Bad debt recovered	(1,600,000)
	4,500,000

(v) **Legal expenses:**

	₦
Formation expenses	1,200,000
Cost of tax appeal	500,000
Debt collection	300,000
	2,000,000

(vi) **Donations and subscription:**

	₦
Manufacturers Association of Nigeria	400,000
Managing Director's social club	200,000
Fund set up by the State Government for Victims of communal clashes	1,000,000
	1,600,000

(vii) **Statement of prior turnover and adjusted profit**

Period/Year	**Turnover**	**Amount**
	₦	₦
Ended December 31, 2020	26,600,000	3,770,000
Ended December 31, 2021	59,150,000	9,440,000

(viii) **Schedule of qualifying capital expenditure:**

Item	**Date of acquisition**	**Amount**
		₦

Factory building	March 31, 2020	2,000,000
Non-industrial building	March 31, 2020	3,200,000
Plant and machinery	March 31, 2020	2,600,000
Furniture and fittings	March 31, 2020	800,000
Motor vehicles (2)	April 1, 2020	2,800,000
Furniture and fittings	October 13, 2021	700,000

Required:

Write a report to the Managing Director stating the:

(a) Provisions of the Finance Act 2019 in respect of basis period for the determination of assessable profits for a business entity that has just commenced operations. (4 Marks)

(b) Provisions of the Finance Act 2020 in respect of company's books of account. (6 Marks)

(c) Adjusted profit of the company for the year ended December 31, 2022. (5 Marks)

(d) Tax liabilities payable for the relevant assessment years in line with the provisions of the Companies Income Tax Act Cap C21 LFN 2004 (as amended). (21 Marks)

(e) Minimum tax payable (if any) for the relevant assessment years. (4 Marks)

(Total 40 Marks)

SOLUTION TO QUESTION 1

BAM Nigeria Limited
INTERNAL MEMO

Date: 6th March, 1966

From: Tax Manager

To: Managing Director

RE: COMPUTATION OF TAX LIABILITIES AND OTHER RELEVANT MATTERS

I refer to your request on the above subject. Please find below the results of adjusted profit, tax liabilities and other relevant issues that will facilitate your understanding of the situation at hand.

(a) Provisions of the Finance Act 2019 in respect of basis period for the determination of assessable profits for a business entity that has just commenced operations

Section 12 of Finance Act 2019 amends Section 29 of CITA 2004 stating that, *"for the first year, the assessable profits shall be the profits from the date in which it* *commenced to carry on such trade or business in Nigeria to the end of its accounting period".*

Second year of assessment

The Finance Act 2019 stipulates that "*for the second year, the assessable profits shall be the profits from the first day after its first accounting period to the end of its second accounting period*'.

Third year of assessment

The Finance Act 2019 provides that "*for the third year and for each subsequent year, the assessable profits shall be the profits from the day after the accounting period just ended*'.

(b) Provisions of the Finance Act 2020 in respect of company's books of account

Section 17 of the Finance Act 2020 substitute for Section 63 of the CITA 2004 and it provides that:

(i) Every company, including a company granted exemption from incorporation, shall, whether or not the company is liable to pay tax under the CITA, maintain books or records of accounts, containing sufficient information or data of all transactions;

(ii) The books and records required to be maintained under (i) above shall be in the English language and shall, for the purposes of tax account, be consistent with the format that may be prescribed by the Service;

(iii) Where a record of a company is maintained in a language other than the English language, the company shall, on demand by the Service, produce, at its own expense, a translation in English language, which shall be certified by a sworn translator;

(iv) Any company that on request by the Service, fails to provide any record or book prescribed under (i) – (iii) above shall be liable to pay as penalty:
- ₦100,000 in the first month in which the failure occurs; and
- ₦50,000 for each subsequent month in which the failure continues.

(v) Where in the opinion of the Service, a company fails or refuses to maintain books or records of accounts that are consistent with the provisions of (i), (ii) and (iii) above or adequate for the purposes of tax, the Service may, by notice in writing, require it to maintain such records, books and accounts as the Service considers adequate, in such form and language as may be specified in the notice;

(vi) Any direction of the Service made under (v) above shall be subject to objection and appeal in like manner as an assessment; and

(vii) Any book or record required to be kept under this Section shall be kept for a period of at least six years after the year of assessment in which the income relates.

(c) BAM Nigeria Limited

Adjusted profit for the year ended 31st December, 2022

	₦	₦
Net profit as per accounts		16,730,000

Add back: Disallowable items:		
Depreciation	2,470,000	
Motor vehicle running expenses (1/4 x ₦950,000)	237,500	
Repairs and maintenance (gate)	200,000	
Allowance for bad debts	3,900,000	
Legal expenses:		
Formation expenses	1,200,000	
Cost of tax appeal	500,000	
Donations and subscription	200,000	8,707,500
		25,437,500
Less: Non-taxable income (Dividends)		1,350,000
Adjusted profit		**24,087,500**

(d)

BAM Nigeria Limited
Computation of tax liabilities for the relevant tax years

	₦	₦
2021 assessment year		
Adjusted profit		3,770,000
Less: Capital allowances for the year (Note 1)	4,867,750	
Utilised	(3,770,000)	(3,770,000)
Unutilised capital allowances c/f	1,097,750	
Total profit		NIL
Companies income tax @ 20%		NIL
Tertiary education tax (2% of ₦3,770,000)		75,400
2022 assessment year		
	₦	₦
Adjusted profit		9,440,000
Less: Capital allowances for the year (Note 1)	1,517,000	
Unutilised capital allowances b/f	1,097,750	
Capital allowances available for utilisation	2,614,750	
Utilised	(2,614,750)	(2,614,750)
Unutilised capital allowances c/f	NIL	
Total profit		6,825,250
Companies income tax @ 20%		1,365,050
Tertiary education tax (2½% of ₦9,440,000)		236,000
	₦	₦
2023 assessment year		
Adjusted profit		24,087,500
Less: Capital allowances for the year (Note 1)	1,389,000	
Utilised	(1,389,000)	(1,389,000)
Unutilised capital allowances c/f	NIL	
Total profit		22,698,500

Companies income tax @ 20% 4,539,700

Tertiary education tax (2½% of ₦24,087,500) 602,187,50

Note 1: Capital allowances schedule

	Factory Building	**Non-indust Building**	**Plant & Machinery**	**Furniture & Fittings**	**Motor Vehicle**	**Capital Allowances**
	IA 15% AA 10%	IA 15% AA 10%	IA 50% AA 25%	IA 25% AA 20%	IA 50% AA 25%	
	₦	₦	₦	₦	₦	₦
2021 A/Y						
Cost	**2,000,000**	**3,200,000**	**2,600,000**	**800,000**	**2,800,000**	
IA	**(300,000)**	**(480,000)**	**(1,300,000)**	**(200,000)**	**(1,400,000)**	3,680,000
AA	**(127,500)**	**(204,000)**	**(243,750)**	**(90,000)**	**(262,500)**	927,750
Inv. allow			**(260,000)**			260,000
						4,867,750
2022 A/Y						
TWDV	**1,572,500**	**2,516,000**	**1,056,250**	**510,000**	**1,137,500**	
Addition				**700,000**		
IA				**(175,000)**		175,000
AA	**(170,000)**	**(272,000)**	**(325,000)**	**(225,000)**	**(350,000)**	1,342,000
						1,517,000
2023 A/Y						
TWDV	**1,402,500**	**2,244,000**	**731,250**	**810,000**	**787,500**	
Addition	**200,000**					
IA	**(30,000)**					30,000
AA	**(187,000)**	**(272,000)**	**(325,000)**	**(225,000)**	**(350,000)**	1,359,000
						1,389,000

Workings

(i) Annual allowances for 2021

Factory building: $\frac{₦2,000,000 - 300,000}{10}$ x 9/12 = ₦127,500

Non-industrial building: $\frac{₦3,200,000 - 480,000}{10}$ x 9/12 = ₦204,000

Plant & machinery: $\frac{₦2,600,000 - 1,300,000}{4}$ x 9/12 = ₦243,750

Furniture & fittings: $\frac{₦800,000 - 200,000}{5}$ x 9/12 = ₦90,000

Motor vehicles: $\frac{₦2,800,000 - 1,400,000}{4}$ x 9/12 = ₦262,500

(ii) Annual allowances for 2022

Factory building: $\frac{₦2,000,000 - 300,000}{10}$ = ₦170,000

Non-industrial building: $\frac{₦3,200,000 - 480,000}{10}$ = ₦272,000

Plant & machinery: $\frac{₦2,600,000 - 1,300,000}{4}$ = ₦325,000

Furniture & fittings (old): $\frac{₦800,000 - 200,000}{5}$ = ₦120,000

(new) $\frac{₦700,000 - 175,000}{5}$ = ₦105,000

225,000

Motor vehicles: $\frac{₦2,800,000 - 1,400,000}{4}$ = ₦350,000

(iii) Annual allowances for 2023

Factory building (old):		**=**	**₦170,000**
(new)	**$\frac{₦200,000 - 30,000}{10}$**	**=**	**17,000**
			187,000

(e) Minimum tax provision

In line with Finance Act 2019 and 2021, the company having not being in existence for a period of 48 calendar months, is therefore exempted from the provision of minimum tax computation.

Thus, there is no need to assess the company to minimum tax in each of the three assessment years.

If you still need further clarification, please do not hesitate to contact me.

Aseye Baba
Tax Manager

2. (a) In line with the provisions of Capital Gains Tax Cap C1 LFN 2004 (as amended),
define disposal and state **THREE** specific circumstances where disposal is deemed to have taken place. (4 Marks)

(b) Colbios Limited is a manufacturing company based in one of the major cities in Nigeria. In its bid to re-organise the business for future profitability and growth, the Board of the company approved the underlisted transactions during the year ended December 31, 2022:

* A motor vehicle, which was acquired in August 2019 for ₦2,750,000, was sold to the General Manager in October 2022 for ₦2,550,000. The market value of the motor vehicle at the date of disposal was ₦2,900,000.

* A machinery that was acquired in April 2020 for ₦6,800,000 was disposed off for ₦9,500,000 in March 2022. The incidental cost of disposal incurred was ₦300,000. However, in May 2022, a new machinery was purchased for ₦8,100,000.

Required:

(i) Compute the capital gains (if any) for each of the transactions. (7 Marks)

(ii) Compute the capital gains tax payable (if any) for each of the transactions. (2 Marks)

(iii) State the date(s) when the tax liability (if any) is to be paid to the relevant tax authority. (2 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 2

(a) Section 6 of Capital Gains Tax Act 2004 (as amended) provides that a disposal of assets by a person is where any capital sum is derived from a sale, lease, transfer, an assignment, a compulsory acquisition, or any other disposition of assets, notwithstanding that no asset is acquired by the person paying the capital sum.

Specific circumstances where disposal is deemed to have taken place are:

- Where any capital sum is derived by way of compensation for any loss of office or employment;
- Where any capital sum is received under a policy of insurance and the risk of any kind of damage or injury to, or that loss of depreciation of, assets;
- Where any capital sum is received in return for forfeiture or surrender of rights, or for refraining from exercising rights;
- Where any capital sum is received as consideration for use or exploitation of any asset; and
- Where any capital sum is received in connection with or arises by virtue of any trade, business, profession or vocation.

(b) (i) Computation of capital gains

Motor vehicle

	₦
Sales proceeds (consideration)	2,900,000
Less: Cost of acquisition	2,750,000
Capital gains	**150,000**

Machinery

	₦
Sales proceeds	9,500,000
Cost of acquisition	6,800,000
Capital gains record	2,700,000

Roll-over relief;

Lower of:

Sales proceeds	9,500,000	
and		
Amount re-invested	8,100,000	
Less: Cost of old asset	6,800,000	
Roll-over relief	1,300,000	

	₦	₦
Capital gains record		2,700,000
Less: Incidental cost	300,000	
Roll-over relief	1,300,000	1,600,000
Capital gains		**1,100,000**

(ii) Capital gains tax payable

Motor vehicle

	₦
Capital gains	150,000
Capital gains tax @ 10%	**15,000**

Machinery

	₦
Capital gains	1,100,000
Capital gains tax @ 10%	**110,000**

(iii) Due date of payment

Motor vehicle
Disposal date: October 2022
Due date of payment; December 31, 2022

Machinery
Disposal date: March 2022
Due date of payment; June 30, 2022

3. Mr. Paulo Ojeaga was employed in 2015 as the Assistant Safety Manager of EPS Nigeria Limited, an oil service company. The following information for the last two financial years is provided by Mr. Ojeaga for the purpose of tax assessment:

(i) Employment income received for the:

	Year ended December 31, 2021	**Year ended December 31, 2022**
	₦	₦
Basic salary	3,000,000	3,300,000
Transport allowance	240,000	300,000
Utilities allowance	180,000	192,000
Medical allowance	96,000	102,000
Leave bonus (10% of basic salary)		
Entertainment allowance	70,000	72,000
13th month salary (bonus)	100,000	110,000

(ii) Mr. Ojeaga's employer provided him with an official vehicle, which cost ₦2,500,000.

(iii) His employer also provided him a four-bedroom flat, with annual rent of ₦200,000. The company spent ₦850,000 to furnish the apartment.

(iv) He received the following dividends income (net) from investment in a listed Nigerian consumer goods company:

Date of payment	**Amount received**
	₦
August 15, 2022	49,500
March 6, 2022	45,000
December 20, 2021	38,250
April 15, 2021	37,800

(v) Rental income received from his building (property) built in 2018:

	₦
For the year ended December 31, 2022	1,440,000
For the year ended December 31, 2021	1,200,000

(vi) Expenses incurred on his property:

	₦
Water rate:	
Paid December 31, 2022	26,400
Paid December 31, 2021	27,600
General repairs:	
2022	105,200
2021	75,900
Insurance premium per annum	150,000

(vii) Capital allowances on the property for the year of assessment amounted to ₦110,000.

(viii) He took out a life assurance policy for capital sum of ₦10,000,000 and pays annual premium of ₦432,000.

(ix) He contributes to National Housing Fund and Pension fund at 2½% and 8% of basic salary, respectively.

(x) He is married with two wives and nine children (all under 16 years of age).

(xi) He has an aged mother on whom he spent ₦20,000 per month. His mother has no income of her own.

Required:

(a) Compute Mr. Ojeaga's chargeable income for 2022 assessment year in line with the provisions of Personal Income Tax Act Cap P8 LFN 2004 (as amended). (11 Marks)

(b) Ascertain the tax payable by Mr. Ojeaga for 2022 assessment year. (4 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 3

Mr. Paulo Ojeaga
Personal income tax for 2022 assessment year

	₦	₦
Earned income:		
Basic salary	3,300,000	
Transport allowance	300,000	
Utilities allowance	192,000	
Medical allowance	102,000	
Leave bonus (10% of basic salary)	330,000	
Entertainment allowance	72,000	
13th month salary (bonus)	110,000	
Benefits-in-kind:		
Vehicle (5% of ₦2,500,000)	125,000	
Rented apartment (building)	200,000	
Furnishing of apartment (5% of ₦850,000)	42,500	4,773,500
Unearned income:		
Dividends (gross):		
Received on 20th Dec. 2021 (₦38,250) / 0.9	42,500	
Received on 15th Apr. 2021 (₦37,800) / 0.9	42,000	
Rental income (W1)	836,500	921,000
Total income		**5,694,500**
Less: Franked investment income (₦42,500 + ₦42,000)		84,500
		5,610,000
Less: Tax exempt items:		
NHF contribution (2½% of ₦3,300,000)	82,500	
National pension fund (8% of ₦3,300,000)	264,000	
Life assurance premium	432,000	778,500
Gross income		**4,831,500**
Consolidated relief allowance (₦200,000 or 1% of gross income + 20% of ₦4,831,500)		1,166,300
Chargeable income		**3,665,200**

Workings

1. **Rental income**

	₦	₦
Income received		1,200,000
Less: Expenses		
Water rate	27,600	
General repairs	75,900	
Insurance	150,000	253,500
		946,500
Deduct: Capital allowances		110,000

Net rental income 836,500

(b) Computation of tax payable by Mr. Ojeaga for 2022 assessment year

	₦
First ₦300,000 @ 7% =	21,000
Next ₦300,000 @ 11% =	33,000
Next ₦500,000 @ 15% =	75,000
Next ₦500,000 @ 19% =	95,000
Next ₦1,600,000 @ 21% =	336,000
Next ₦465,200 @ 24% =	111,648
Tax payable	**671,648**

4. One of the major organs of tax administration in Nigeria is the Joint Tax Board. It is established under Section 86 of the Personal Income Tax Act 2004 (as amended).

Required:

(a) State the composition, powers and functions of the Joint Tax Board. (7 Marks)

(b) Write short notes on the following concepts as prescribed under Personal Income Tax Act 2004 (as amended):

(i) Types of assessment. (4 Marks)

(ii) Final and conclusive assessments (2 Marks)

(iii) Filing and payment due dates (2 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 4

(a) Composition of the Joint Tax Board

The JTB shall consist of the following members:

(i) The Chairman of the Federal Inland Revenue Service Board, who doubles as the Chairman of the JTB;

(ii) One member from each State, being a person experienced in income tax matters, nominated either by name or office, from time to time, by the Commissioner charged with responsibility for matters relating to income tax of the State in question;

(iii) The Secretary, who is not a member of the Board, and is appointed by the Federal Civil Service Commission; and

(iv) The Legal Adviser of the FIRS acts as the Legal Adviser to the JTB.

Powers and functions of the JTB

(i) Exercise the powers or duties conferred on it by the PITA and other Acts.

(ii) Advise the Federal Government, on request, in respect of double taxation arrangement with any other country.

(iii) Advise the Federal Government, on request, in respect of rates of capital allowances and other taxation matters, having effect throughout Nigeria in respect of any proposed amendment to PITA.

(iv) Promote uniformity, both in the application of PITA and in the incidence of tax on individuals throughout Nigeria.

(v) Impose its decisions, on matters of procedure and interpretation of PITA, on any State, for purposes of conforming to agreed procedures or interpretations.

(b) (i) Types of assessment

Direct assessment

- This is used to assess tax for self-employed individuals.
- With the self-assessed tax, a new taxpayer can assess himself/herself, pay the calculated tax at designated banks and get an electronic tax clearance certificate (e-TCC) without visiting the tax office.

Self-assessment system

- This is the tax system which operates for the administration and collection of taxes such as the income tax, capital gains tax and companies income tax.
- The system can be described as the assessment by a taxpayer in which he carries out the computation of the tax liability on a prescribed form and accompanies it with the payment of the tax due in part or full, to the relevant tax authority latest by the due date as provided in the tax law.
- The taxpayer is generally required to complete an annual tax return and submit to the relevant tax authority before a statutory filing deadline.
- Section 44 of PITA states that a taxable person is required to file a return of income and in the returns calculate the amount of tax payable.

(ii) Final and conclusive assessment

An assessment becomes final and conclusive:

- Where an assessment as made by the tax authority has been agreed by the taxpayer;
- Where no valid objection or appeal has been lodged within the time limit; and
- Where the assessment has been revised or determined on appeal has not been the subject of a further appeal within the time allowed.

(iii) Filing due date: Section 41 of Personal Income Tax Act 2004 (as amended) requires all individuals to submit their individual tax returns (Form A) with the relevant tax authority. This return is for all income earned from all sources in the preceding year and is due for submission on or before March 31 of every year.

Payment due date: Within **ten days** of the end of every month, an employer shall pay to the nearest tax office or to any bank (as may be prescribed or designated by the relevant tax authority) all taxes deducted under the PAYE regulation.

5. Below is the extract of closing balances from the ledger of DEBANGO Multi-Services limited for the first quarter of 2021 accounting year.

		DR	CR
	Particulars	**(₦'m)**	**(₦'m)**
1.	Sale of shares	--	920.00
2.	Sale of new product (other income)	--	2.50
3.	Rent	4.75	13.00
4.	Interest	2.73	0.77
5.	Land acquired/disposed	100.00	26.00
6.	Sale of Equipment	--	27.50
7.	Receipt from debenture holder	--	50.00
8.	Purchase of Plant and machinery	32.55	--
9.	Bank loan	500.00	--
10.	Sales (business main product)	--	998.75
11.	Payment of salary	148.00	
12.	Payment for telephone expenses	5.50	
13.	Discount	1.23	

Required:

(a) (i) In a tabular form, classify the items extracted from the above closing balances into the following heads: Capital receipt; revenue receipt; capital expenditure; and revenue expenditure. Determine the closing total balances under each of the four (4) heads. (5 Marks)

(ii) Is an amount spent on a motor vehicle to completely change and overhaul the engine a capital expenditure?

Justify your answer with reason and show how it will be treated in the business books of accounts. (3 Marks)

(iii) State any 3 features of a capital receipt. (3 Marks)

(b) Explain these in relation to taxation of Estate:

(i) An Estate
(ii) An Executor
(iii) Trust
(iv) Annuity (4 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 5

(a) DEBANGO Multi-Services Limited

(i) Capital Receipt	N'm	(ii) Revenue Receipt	N'm
Sale of shares	920.00	Sale of new products	2.50
Sale of Equipment	27.50	Rent received	13.00
Receipt from debenture holder	50.00	Interest received	0.77
Loan from bank	500.00	Sale of business products	998.75
Land disposed	26.00		
Total	1,523.50	Total	1,015,02

Capital Expenditure	N'm	Revenue Expenditure	N'm
Purchase of plant and mach.	32.55	Rent paid	4.75
Land acquired	100.00	Discount allowed	1.23
		Interest paid	2.73
		Payment of salary	148.00
Total	**132.55**	Telephone expenses	5.50
		Total	**162.21**

(ii) Amount spent on a motor vehicle to change and overhaul the whole engine system is a capital expenditure.

Reason: The changing of engine of a motor vehicle further improves the performance and elongates the life of the vehicle for more than one reporting period.

Treatment in the account: It will be capitalised (i.e. added to the cost of the motor vehicle) and shown in the statement of financial position as an addition to the non-current asset on which depreciation will be charged.

(iii) **Features of a Capital receipt**

i. It is a receipt that do not affect the profit or loss of a business (therefore without capital receipt a business can survive).
ii. It is a receipt of non-occurring nature (not received every now and then).
iii. It either creates a liability or reduces business asset.
iv. Though a receipt but it is not available for distribution of profit.
v. It resides or found in the statement of financial position.

(b) (i) **Estate** - An estate is the totality of all things (money and goods) and properties possessed by a person either in his lifetime or death.

(ii) **An Executor** (or Executrix - for female) is a person or representative appointed by a Will to administer the Estate of a deceased person.

(iii) **Trust** - refers to equitable obligation (on a person called trustee), to deal with a property over which he/she has custody (i.e. trust property for the benefit of persons (beneficiaries) of which he/she may be one.

(iv) **Annuity** - Is a fixed amount of money specified in the Trust Deed that is paid each year to someone usually until death.

6. (a) State the basis periods for the ascertainment of assessable profits when a company decides to change its accounting date. (6 Marks)

(b) AOLAT Limited was incorporated on 15/6/ 2020 but commenced business on 1/8/2020 and has chosen October 31 as its business accounting year end.
Profit figures as obtained from business records were as follows:

- for the period to 31/10/2021	₦5,250,000
- for the year 1/11/2021 to 31/10/2022	₦4,100,000

Required:
For the relevant Year of Assessment determine the:
(i) Basis Period of Assessment and
(ii) Assessable profits (9 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 6

(a) The requirement of the Companies Income Tax Act 2004 (as amended) and the practice of the tax authority when there is a change in accounting date is as follows:

(i) Identify the year of change;
(ii) Identify the two years that follow the year of change, thereby making 3 years;
(iii) Determine the assessable profit of the three years identified in (ii) above using the old accounting date;
(iv) Repeat (iii) above using the new accounting date;

(v) Add up the assessable profits for the 3 years under the old date. Repeat this for the new date;

(vi) The practice of the tax authority is to pick the higher of the 2 assessable profits computed in (v) above; and

(vii) Thereafter the company will be allowed to change to its new date.

(b) **AOLAT LIMITED**

	YOA	**BASIS PERIOD OF ASSESSMENT**	**ASSESSABLE PROFIT**
			₦
(i)	2021	1/8/2020 -31/10/2020 (3/15 X N5,250,000)	1,050,000
(ii)	2022	1/11/2020 - 31/10/2021 (12/15 X N5,250,000)	4,200,000
(iii)	2023	1/11/2021 - 31/10/2022	4,100,000

7. (a) What are the main features of withholding tax? (3 Marks)

(b) State four non-investment income from which withholding tax is deductible. (2 Marks)

(c) Explain with an example and tax treatment of each of the following:

Benefits–in- kind (2 Marks)
Artificial transaction (2 Marks)
Itinerant worker (2 Marks)
Balancing charge (2 Marks)
Compensation for loss of office (2 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 7

(a) **Main features of withholding tax include**:

- Rate applicable is a function of the type of transaction and whether it is carried out by an individual or a company;
- Payment of withholding tax is statutory on a person making the payment;
- It is an advance payment of income tax which can be utilised as tax credit against income tax liability;
- It is not a separate tax:
- Withholding tax represents the final tax on franked investment income in the hands of the recipients;

- Being an advance payment of income tax, it cannot be used to claim tax credit for any other tax such as tertiary education tax and value added tax; and
- Unutilised WHT Credits can now be carried forward to be used in future to offset CIT tax liability.

(b) Four non-investment income from which withholding tax is deductable

(i) Professional fees
(ii) Technical fees
(iii) Directors' fees
(iv) Contract of supply
(v) Management fees

(c) Explanation with an example and tax treatment of the followings.

(i) Benefit–in-kind (BIK)

It is the official non-monetary renumeration of an employee.
Examples include official car, driver, stewards, official accommodation, etc allocated to a staff.

Tax treatment: It will be regarded as an additional income indirectly provided by the business and as such will be added back to the income of such staff in line with the provision of the applicable law.

(ii) Artificial transaction

Transactions between two or more related parties.

Examples: transaction between; Parent company and subsidiary, family, etc

Tax treatment: It assumed that the parties concerned are not likely to deal with each other at arm's length (i.e. the way they would have dealt with others with no string attached.) Therefore, "market value" is usually considered as against the value of their transaction.

(iii) Itinerant worker

A person who earns his livelihood working in more than one place in Nigeria ie not confined to a single place, no fixed place for their businesses. (They are a times referred to as a "nomadic worker").

Examples: Entertainers, Consultants, traders, Marketers etc.

Tax treatment: It implies he has no permanent residence and therefore, applicable tax e.g. withholding tax or PAYE will be collected by any state where the worker has worked during the year.

(iv) Balancing charge

This occurs where the disposal of an asset results in a "profit" i.e. Sales proceeds exceed Tax Written Down Value (TWDV) of the asset. (It is a term used in taxation and can be likened to profit on disposal of asset in the account)

Examples: Sales proceeds exceed Tax Written Down Value (TWDV) of the asset or "profit made on disposal of an asset"

Tax treatment: Balancing charge figure is added back to Adjusted profit because the "profit made on disposal of an asset" would have been deducted as a disallowable income when computing tax liability payable.

(v) Compensation for loss of office (Terminal Benefit)

It is a redundancy lump sum paid to a worker as a result of his being forced to retire before the expiration of the service contract as a result of accident, merger/takeover etc.

Example: A worker who while on official duty got his hand injured and amputated**.** A worker compulsorily retired when his company is merged with another company.

Tax treatment

By employer: it will be treated as an allowable expense in their accounts.
In the hands of the employee, it is not taxable but, it is chargeable for Capital Gain Tax for any payment for loss of office above ₦10m.

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2023: PROFESSIONAL EXAMINATION

PTE I: GOVERNANCE, RISK & ETHICS

TUESDAY APRIL 18, 2023 EXAM NO……………….

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS.

TIME: 3 HOURS

1. The Governor of Emina State announced in his 2023 Budget speech that the State internally generated revenue (IGR) would be increased from ₦200b (Two hundred billion Naira) in 2022 to ₦600b (Six hundred billion Naira) in 2023. He stated that this increase will be collected by the State Internal Revenue Service (SIRS). He also declared that the government believes the low IGR collected in the past was due to the following reasons:

- Narrow width of the tax net;
- Lack of professionalism in the SIRS;
- Inefficient revenue collection process;
- Corruption within the SIRS;
- Lack of reconciliation with collecting banks; and
- Delay in reporting collections to the government.

The government, therefore, decided to restructure the SIRS as follows:

- Appoint a new board for the SIRS with a new Executive Chairman and Secretary;
- Create new area offices for the SIRS to bring the total number of tax collection offices to 200 from the previous 50;
- Recruit aggressive Tax Monitoring Agents for effective and efficient tax audit to increase tax collection; and
- Give a mandate to the new board to ensure that they collect the ₦600b (Six hundred billion Naira) revenue, despite expert advice (based on the demography and economic activities in the state) that the best that could be collected using legitimate means, is ₦400b (Four hundred billion Naira).

The Commissioner for Finance, a prominent politician has pledged to the Governor that the target of ₦600b (Six hundred billion Naira) will be surpassed. He has, therefore, mandated the new Executive Chairman, who is a leading CITN registered Tax Practitioner, to ensure that he sets up a good governance system in SIRS in order that the Governor's IGR objective is achieved and surpassed. The Commissioner also mandated the Executive Chairman to ensure that:

- All the issues raised in the Governor's address are redressed; and
- All the decisions made by the government as stated above are implemented.

During the inauguration of the new board, the Commissioner emphasised the following:

- The need to surpass the ₦600b (Six hundred billion Naira) at all cost, including possible delay in implementing the new state law exempting those earning below ₦360,000 per annum from paying the minimum tax; and
- The need to develop a comprehensive strategy to achieve the SIRS's objectives, as stated by the Governor.

In your response to the Commissioner's address, as the newly appointed Executive Chairman, on behalf of the Board, you expressed serious concerns about the ₦600b (Six hundred billion Naira) target and the strategies proposed to achieve it. However, the Commissioner would not have any of the reservations you expressed. He has also given to you a list of his friends he wants you to appoint as tax monitoring agents.

After the inauguration of the Board, you have arranged a retreat for all board members and other heads of departments in SIRS to enable you come up with a good corporate governance code for the service and strategies to adopt to ensure that the objectives laid down by the Governor on IGR are achieved.

Your firm, Topflight Consulting, has been contacted to address the retreat on need for good corporate governance and crafting strategies to achieve the Revenue's objectives.

Required:

a. Prepare a paper, on the following to give an insight to the new Board members, many of who are politicians:
   i. The role of good governance in achieving organisational objectives. **5 marks**
   ii. The meaning of strategy and corporate strategy. **5 marks**
   iii. The components of corporate strategy. **6 marks**
   iv. TEN benefits of having a corporate strategy document. **10 marks**

b. Explain briefly the steps in the strategy formulation process. **10 marks**

c. State TWO reasons for the Executive Chairman's reservations about the target and the methods planned to achieve it. **2 marks**

d. What should be the response of the Executive Chairman, if the government and the Commissioner insist on adopting these methods in achieving the targeted result. **2 marks**

Total 40 marks

SOLUTION TO QUESTION 1

ai. The role of good governance in attaining organisational objectives

- **To preserve and strengthen stakeholder confidence**: Nothing distracts an organisation more than having to deal with a disgruntled stakeholder group caused by a lack of confidence in the governing body. And on the positive side, a supportive stakeholder base can generate benefits for the organisation through social and emotional support, intangible but very valuable attributes that all organisations should strive to achieve and sustain;

- **To provide the foundation for a high-performing organisation:** The achievement of goals and sustainable success requires input and support from all levels of an organisation. The Board, through good governance practices, provides the framework for planning, implementing and monitoring of performance. Without a foundation to build high performance upon, the achievement of this goal becomes problematic. Achievement of the best performance and results possible, within existing capacity and capability, should be an organisation's on-going goal.
- **To ensure the organisation is well placed to respond to a changing external environment**: Business today operates in an environment of constant change. Technology has created an information age that has transformed our world, and for business to both survive and remain profitable to enable it to fulfil its mission and achieve its vision, a system must be in place to assist an organisation to identify changes in both the external environment and emerging trends. This process of understanding our changing world does not happen by chance, it requires leadership, commitment, and resources from the governing body to establish and maintain such a system within the organisation. Change generally does not happen "overnight", it is there for all to see if they have in place a system for scanning the environment. Governing bodies, as the ultimate leaders of an organisation, should take prime responsibility for this activity

aii. Definition of Strategy

According to Drucker, strategy is "a pattern of activities that seek to achieve the objectives of the organisation and adapt its scope, resources and operations to environmental changes in the long term."

OR

Chandler (1962: 13) defines strategy as "the determination of the basic long-term goals and the objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals."

OR

Johnson, Scholes and Whittington (1998:7), strategy is the direction and scope of an organisation over the long-term, which achieves advantage in a changing environment through its configuration of resources and competencies with the aim of fulfilling stakeholder expectations.

Corporate strategy: is usually rated as the highest **strategic plan** of an organisation, meaning that it is arguably the most essential and broad ranging strategy level within the hierarchy of organisational strategy. It defines the overall growth and direction of a company, that is, the corporate overall goals and directions and the way in which the intended goals of an organisation will be achieved within the strategic management activities. It helps in determining the overall value of the organisation's strategic goals and motivates workers to achieve them. It takes care of issues relating to decisions on the purpose of the entity, the scope of the activities of the entity, the range of businesses, the chosen business activities to the external environment of the entity and also to its available resources.

aiii. The main components of corporate strategy:

- **Visioning**: It involves setting the high-level direction of the organisation, namely, the vision, mission and potentially, corporate values.
- **Objective Setting:** It involves developing the visioning aspects created and turning them into a series of high level objectives for the company, typically spanning a period of 3-5 years.
- **Allocation of resources**: This refers to decisions which concern the most efficient allocation of human and capital resources in the context of stated goals and aims.
- **Prioritisation or Strategic trade-offs**: This component involves the need to consider the fact that it is not always possible to take advantage of all feasible opportunities and that business decisions almost always entail a degree of risk in arriving at the optimal strategic mix.

aiv. Benefits of Strategic Management

According to Cesnover (2006: 230), strategic management is employed in business in order to "master the business environment's complexity, which is difficult to achieve unless it is managed in a settled and systematic way." As a matter of fact, it is argued that those companies which use strategic management are more successful than those that do not apply it. As such, the important benefits of applying strategic management are (see Richardson 1995; Mintzberg 1998):

- The focus of effort and setting of directions;
- Distinguishing the company from its environment;
- Providing consistency in the decision-making process;
- Magnifying the focus on the external environment;
- Intensifying instruments for guiding and leading employees;
- Making communication and mutual understanding easier;
- Establishing a system for logical and systematic problem-solving;
- Providing for the rational distribution of scarce resources among units, programmes and projects;
- Allowing effective management and lowering of business costs;
- Enabling the attainment of the set objectives;
- Reducing indistinctness; and
- Ensuring order.

b. Steps in the Strategic Formulation Process

- **Strategy formulation** is the process by which a firm or an organisation chooses the most appropriate courses of action in order to realise its defined goals. It forces an organisation to scrutinise the changing environment with a view to preparing for the possible changes that may occur. For effective implementation, strategy formulation requires the following six steps:

  Step 1. **Define the Organisation:** This step requires that an organisation identifies its customers by end benefits, by specific target markets, or by technology. A company must therefore identify the factors that are valued by its customers.

  Step 2. **Define the Strategic Mission:** This offers a long-range perspective of what the organisation strives for, going forward. The strategic mission should be clearly stated and include the values that the organisation holds dear, the nature of the business, special abilities or position the organisation holds in the marketplace, and the organisation's vision or aspirations. Strategic mission therefore helps the firm to identify its values, the nature of its business, its competitive advantage, and its vision for the future.

  Step 3. **Define the Strategic Objectives:** This requires an organisation to identify the performance targets needed to reach its objectives which may include, but not limited to, market position relative to competition, production of goods and services, desired market share, improved customer services, corporate expansion, advances in technology, and sales increases. For successful results, all employees and stakeholders must be aware of these objectives, their expected roles in the process and how their efforts contribute to meeting the organisation's objectives.

  Step 4. **Define the Competitive Strategy:** This requires that the firm or organisation understand the competitive state of the market through an evaluation of the overall industry and marketplace, and a thorough evaluation of the company's internal strengths and weaknesses. This applies not only to the organisation as a whole, but to each individual unit and department throughout the enterprise. It is important that each unit or department is aware of its role within the company and how those roles can enhance the organisation's competitive position.

  Step 5. **Implementation of Strategic Plans:** Strategic plans should be pursued with decisive implementation through appropriate tactics. This step will help the organisation to realise its goals and objectives; after all, the organisation's strategic plans are of no value if they are not implemented. It is instructive to note that companies are able to identify which of their efforts are more successful than others and will adopt new methods of implementation, if necessary.

  Step 6. **Evaluate Progress:** This last step requires that an organisation embark on a regular evaluation and revision of strategies to meet the changing needs and challenges of the marketplace and business environment. This simply means that an organisation must keep track of the progress it is making as defined by its strategic plan. Therefore, if certain goals are not met, the organisation must be adaptable and flexible to recognise that changes may be needed.

c. The reservations are based on the following:

- The use of aggressive debt collectors to collect tax is unprofessional; and
- The delay in implementing the exemption of earners of ₦360,000 per annum from PAYE.

These are in breach of the CITN Ethical codes.

d. If the Governor and the Commissioner insist on adopting these approaches, The Executive Chairman, as a CITN licensed tax practitioner:

- Should resign his appointment on the board of the state SIRS; and
- Report to the CITN.

2. Following the discovery of crude oil in the Island of Ologbo, Zip Petroleum Limited recently secured a drilling license from the Federal Government. It was estimated that the crude oil reserve buried deep inside Ologbo Island is in commercial quantities. Due to the current high price of oil, the project promises huge profit for Zip Petroleum Limited and increased foreign exchange earnings for the country. However, Ologbo Island is located in the Bight of Benin, playing host to a wide range of Marine life. Also, a substantial percentage of supply of the country's fish and sea food comes from the ocean surrounding Ologbo Island. An independent Environment Impact Assessment (EIA) of the project shows that the resulting environmental pollution will destroy the marine wild life of the ocean surrounding Ologbo Island and compromise the country's supply of sea Food and fish. Despite those widely publicised EIA report, all relevant government approvals for the project were secured.

Required:

Using the Tucker's five question model, determine whether the decision to approve the project in the given scenario is ethical. **15 marks**

SOLUTION TO QUESTION 2

The Tuckers five question Model seeks to determine whether a business decision is ethical by asking five questions. The decision will be deemed ethical only if answers to all five questions are affirmative.

i. Is it profitable? The project is profitable.
ii. Is it legal? From the given scenario, the project is legal.
iii. Is it fair? The destination of the marine wild life makes it fair.

3

iv. Is it right? The destruction of the wild life and compromise of supply of sea food to the country does not make it right.

4 v. Is it sustainable or environmentally sound? No because it puts the environment in danger.

Conclusion: More than one of the question is answered as 'no', as such, the decision to approve the project is unethical.

a. Define risk assessment **2marks**
b. Enumerate five (5) activities that will be involved in assessing identified risk. **5marks**
c. List five (5) benefits to be derived in assessing identified risks **5marks**
d. Enumerate two (2) ways to be dealing with identified IT risks **3marks**

Total 15 marks

Solution To Question 3

a. Risk assessment is the overall processes or methods of identifying hazards and factors that have the potential to cause harm in the organisational environment and determine appropriate ways to eliminate the hazard or control (reduce) the hazard.
b. Activities involved in assessing identified risks are:
   i. Identify the resources or value of risk;
   ii. Identify the risks;
   iii. Access potential severity i.e (impact) value of possible loss;
   iv. Access the probability of occurrence;
   v. Consider the options to mitigate the loss; and
   vi. Select the appropriate option.
c. Benefits of assessing identified risk are:
   i. Helps the organisation to evaluate possible impact of the risk;
   ii. It helps provide an estimate of probability of occurrence of the risk,
   iii. It assists in cost / benefits of the effects in managing the risk;
   iv. It creates awareness of the risk
   v. It document all incidents of occurrence of the risk; and
   vi. It helps in prioritising risk intervention activities.
d. Ways of dealing with identified risk are:
   i. Mitigation / reduction;
   ii. Avoidance;
   iii. Elimination;
   iv. Transference; and
   v. Acceptance

a. Within the contest of an organisation, differentiate between the following pairs:
   i. Narrow and Wide Stakeholders **2marks**
   ii. Active and Passive Stakeholders **2marks**
   iii. Internal and External Stakeholders **2marks**
b. Outline the principles of Corporate Governance **9marks**

5

Total 15 marks

Solution To Question 4

a.

i. Narrow stakeholders are stakeholders to an organisation who are seen from a narrow perspective. This is interpreted as those that actually have transactional dealings with the company e.g employees, customers, suppliers and shareholders.
While wide stakeholders are those that are not having direct transactional dealings with the company e.g government, host communities, general public, etc.

ii. Active stakeholders are those that runs affairs of the company on a daily basis e.g directors, employees.
While passive stakeholders are those that are not involved in the running of the affairs of the company on a daily basis e.g shareholders, government, bankers, general public and host communities.

iii. Internal stakeholders are those who are domiciled or resident within the company e.g shareholders, directors, employees, etc.
While external stakeholders are those who are domiciled or resident outside the premises of the company e.g customers, suppliers, government, bankers, host communities and general public.

b. Corporate governance refers to the framework of policies and guidelines that inform a company's conduct, decision -making and practice. This infrastructure is built upon certain key principles, these are:

i. Lay solid foundation for management and oversight;

ii. Structure the Board to add value;

iii. Promote ethical and responsible decision-making;

iv. safeguard integrity in financial reporting;

v. Make timely and balanced disclosure;

vi. Respect the rights of shareholders;

vii. Recognise and manage risk;

viii. Encourage enhanced performance;

ix. Remunerate fairly and responsibly; and

x. Recognise the legitimate interest of stakeholders.

a. Differentiate between Deontological and Consequentialist approach to business ethics **10marks**

b. Explain FIVE principles of professional ethics **5marks**

Total 15 marks

Solution To Question 5

a. The Deontological theory determine the ethics of an act by working into the process of the decision (i.e the means). The Deontological tradition holds that what makes an action right is not the sum of its consequences, but the fact it conforms to the moral law. This concept addresses the issue of obligation or duty.

The consequentialist (Teleological) approach to ethics can be explained as follow:

- Actions in themselves do not have intrinsic moral value;
- The moral value of action is determined by its consequences (not the act itself); and
- Using reason, it is possible to calculate the costs and the benefits of an action to determine whether or not it is morally correct.

b.

i. Professional Behaviour: Practitioner of professions must comply with relevant laid down rules and regulations and avoid any action that discredit his / her profession.

ii. Professional competence and Due care:

   a. Maintain professional knowledge and skill to ensure that clients or employers receive the advantages of the competent professional service based on current development in practice, regulation and techniques; and
   b. Act diligently in accordance with applicable technical and professional standards when providing professional services.

iii. Confidentiality: Professionals should not disclose to a third party any confidential information about the client acquired in the course of their relationship without the constant of the client in question.

iv. Integrity: Professional's decisions should reflect the quantity of honesty and the determination not to compromise fundamental moral principles.

v. Objectivity: Every preferred decisions should be based on real facts and should be devoid of any influence due to personal feeling or beliefs.

6. The mixed model of Emotional Intelligence has five contracts as stated below:

   a. Self – awareness;
   b. Self – regulation;
   c. Motivation;
   d. Empathy; and
   e. Social Skill

You are required to:

Enumerate two (2) benefits and two (2) ways of improving or developing each of these emotional intelligence attributes.

Total 15 marks

Solution To Question 6

1. Self – awareness
   Self - awareness is the ability to accurately recognise your emotions, strengths limitations, actions and understand how these affects others around you.
   Benefits
- Increase the likelihood of you handling and using constructive feedback effectively
- By knowing your strengths and weaknesses you can improve your organisation's performance, for example, you may hire individuals who perform well in areas you struggle with.

Improve self-awareness by:

- Keeping a dairy of the situation that have triggered disruptive emotions in you, such as anger, and your thoughts and behaviours during those situations. With this information you can form an understanding of your emotions and reactions and work towards self-regulation; and
- Receiving feedback from staff as this can highlight how others perceive you and it also helps you target unhelpful reactions.

2. Self-regulation
   Benefits
- Self – regulation helps earn the respect and trust of employees
- Useful when adapting to change
- Allows you to react rationally

Improve self-regulation by:

- Taking responsibility if you have made mistakes. Rather than blaming others admit that you are at fault. You will feel less girthy and your team will respect you for it; and
- Responding to situations calmly as your communication is more effective when you are in this state and this feeling will spread to others. Breathing techniques, such as controlled breathing, can be useful practice.

3. Empathy
   Benefits
- Provides you with an understanding of how an individual feels and why they behave in a certain way. As a result, your compassion and your ability to help someone increase because you respond cenvirely to concerns.
- Especially helpful when delivering constructive feedback

- Being empathetic shows your learn that you care
  Examples, if a manager reacts angrily after finding out that an employee has been arriving to work late because her child is unwell, the team is likely to react negatively towards the manager.
- Employees will respect you more and subsequently job performance will improve.

Develop empathy by:

- Imagine yourself in someone' else's position. Even if you have not experience a similar situation, remember a situation where you have felt the same emotion your employee is experiencing;
- Practice listening to your employees without interrupting them;
- Observe your employees and try to gauge how they are feeling;
- Try to understand first rather than form a judgement; and
- To communicate your empathy, keep your body language open and regulate your voice to show your sincerity.

4. Motivation
   Benefits
- Reduce your likelihood of procrastinating
- Increase self-confidence
- Keeps you motivated even if you face setbacks
- Make you focused on achieving your goals
- Spread to the team.

To increase you motivation

- Remember why you are doing your job - maybe think about why you wanted it initially.
- Set new goals if you lack them
- Remain optimistic because to be motivated you must be positive
- To increase your employees' motivation explain why they are valuable, using example, as this will provide them with a sense of purpose.

5. Social skills
   Benefits:
- Effective social skills helps you to build rapport with your employees and earn their respect and loyalty.
- Employees will trust you which is especially valuable if unwelcomed decisions have been made, such as a rise in performance targets.
- When you interact with your employees you can identify the best way to meet their individual needs and identity how their activities can be used to achieve the organisation's aims.
- Staff will feel comfortable presenting ideas to you and discussing concerns

Improve social skills by:

- Developing your communication skills. Problems can arise if there is bad communication, such as, misunderstandings upsetting employees. Listen to feed back to work out what to target, for example, the manner in which you speak or perhaps your body language;
- Learning how to provide praise and constructive feedback;
- Cooperating and working together with your employees because you are all working towards a shared goal;
- Listening to employees and practicing empathy;
- Building relationships with your employees will assist you in understanding how to manager each individual; and
- Resolving conflict by looking at the situation from all the viewpoints involved and try to come to a compromise that benefits everyone.

a. SWOT analysis is a tool used in analysing business' environment.
   Explain the usefulness of environmental scanning in strategy formulation.
   10marks
b. Outline the limitations of SWOT Analysis. **5marks**

Total 15 marks

Solution To Question 7

a. Usefulness of environmental scanning in strategy formulation

i. SWOT Analysis:
   The close study of the internal and external environment of an organisation will reveal some very valuable information i.e the strengths, weaknesses, opportunities, and threats of a company.
ii. Best use of resources:
   Environmental scanning helps us conduct a thorough analysis and hence leads to the optimum utilisation of resources for the business.
iii. Survival and Growth of the Business:
   It is a very competitive world and for any business to survive and thrive, it is a difficult task. But if the business employs all the techniques of environmental scanning it can gain a significant advantage.
iv. Planning for Long Term:
   A business must have a plan for both short term and long term. The planning of long -term objectives can only occur after proper analysis and environmental scanning. This will help the entrepreneur plan the necessary business strategy.
v. Helps in decision making:
   Environmental scanning allows the firm to make the best decision keeping in mind the success and growth of the business.

b. Limitations of SWOT analysis

i. SWOT analysis may cause organisation to view the environment as very simple there by overlooking key strategic moves which may occur.

ii. Because of uncertainty in the business environment, categorising some aspects as strengths, weaknesses, opportunities and threats might be subjective and misleading.

iii. External examination may not be correct and accurate because outside/external variables are not in the control of organisations.

iv. if inappropriate information is utilised to break down SWOT, wrong choices can be made which may be detrimental to organisation success.

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2023: PROFESSIONAL EXAMINATION

PTE I: FINANCIAL REPORTING

WEDNESDAY APRIL 19, 2023 **EXAM NO…………………………….**

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS.

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

1. On October 1, 2022 Papa Plc acquired 90% of Sister Ltd issuing 1,000,000 shares at an agreed value of ₦2 per share and paying ₦1,000,000 in cash.

At the time, the net assets of Sister Ltd. were as follows:

	₦'000
Property plant and equipments	1,900
Inventories	700
Trade receivables	300
Cash and cash equivalents	100
Trade payables	(400)
	2,600

The consolidated statement of financial position of Papa Plc as at December 31,

	2022 ₦'000	2021 ₦'000
Non-current assets:		
Property, plant and equipment	25,000	23,000
Goodwill	660	--
	25,660	23,000
Current assets:		
Inventories	14,500	12,000
Trade receivables	13,700	11,000
Cash and cash equivalents	760	500
	28,960	23,500
	54,620	**46,500**
Equity attributable to owners of parent:		
Ordinary share capital (₦1 each)	11,500	10,000
Share premium account	6,500	5,000
Retained earnings	17,910	15,300
	35,910	30,300
Non-controlling interest	310	--
Total equity	36,220	30,300

Current liabilities:		
Trade payables	16,900	15,200
Income tax payable	1,500	1,000
	18,400	16,200
	54,620	**46,500**

Consolidated statement of profit or loss for the year ended December 31, 2022

	2022
	₦'000
Revenue	100,000
Cost of sales	(75,000)
Gross profit	25,000
Administrative expenses	(20,800)
Profit before taxation	4,200
Income tax expense	(1,500)
Profit for the year	2,700
Profit attributable to:	
Owners of Papa Plc	2,610
Non-controlling interest	90
	2,700

The statement of changes in equity for the year ended December 31, 2022 was as follows:

	2022
	Retained Earnings
	₦'000
Balance as December 31, 2021	15,300
Total comprehensive income for the year	2,610
Balance as December 31, 2022	17,910

You are also given the following information:

i. Depreciation charged to the consolidated statement of profit or loss amounted to ₦2,100,000.
ii. There were no disposal of property, plant and equipment during the year.
iii. Goodwill is not impaired
iv. Non-controlling interest is valued on proportionate basis.

Required:

(a) Prepare consolidated statement of cashflows for Papa Plc for the year ended December 31, 2022, using indirect method in accordance with IAS 7.

(25 Marks)

(b) Shade Plc acquired 250,000 of 1,000,000 ₦1 Ordinary shares in Uche Ltd for ₦600,000 on January 1, 2022. In the year to December 31, 2022 Uche Ltd earns profit after tax of ₦240,000 from which it declares a dividend of ₦60,000.

Required:

Explain how investment in Uche Ltd and its result should be accounted for in the separate and consolidated financial statements of Shade Plc for the year ended December 31, 2022. **(10 Marks)**

State the five (5) conditions under which a parent company is exempted from preparing and presenting consolidated financial statements. **(5 Marks)**

(Total 40 Marks)

SOLUTION TO QUESTION 1

(a) **Papa Plc Group**

Consolidated statement of cashflows for the year ended December 31, 2022

Cashflow from operating activities:		**N'000**	**N'000**
Profit before taxation			4,200
Adjustments:			
Depreciation	(w1)		2,100
			6,300
Movement in working captial:			
Increase in trade receivable (13,700 – 11,000 – 300)			(2,400)
Increase in inventories (14,500 – 12,000 – 700)			(1,800)
Increase in trade payable (16,900 – 15,200 – 400)			1,300
Cash generated from operations			3,400
Income tax paid	(w4)		(1,000)
Net cash generated from operating activities:			2,400
Cashflow from investing activities:			
Acquisition of Sister Ltd net cash acquired	(w5)	(900)	
Purchase of property plant and equipt	(w1)	(2,200)	(3,100)
Cashflows from financing activities:			
Proceeds from issue of shares (11,500 + 6,500) – (10,000 + 5,000) – (1,000 x 2)		1,000	
Dividend paid to non-controlling interest	(w3)	(40)	
Net cash flow from financing activities			960
Net Cash and cash equivalent			260
Cash and cash equivalent at the beginning			500
Cash and cash equivalent at year end			760

Working Notes

(w1) Property Plant & Equipment

	N'000		**N'000**
B/fwd	23,000	Depreciation	2,100
On acq. From Sister Ltd	1,900		
Addition (Bal.)	2,200	C/Fwd	25,000
	27,100		27,100

(w2) Goodwill

	N'000		N'000
Goodwill 3000 – (90% 2,600)	660	Impairment losses	Nil
		C/fwd	660
	660		660

(w3) Non-controlling interest

	N'000		N'000
C/Fwd	310	B/fwd	Nil
Dividend (Bal.)	40	On acquisition (10% x 2,600)	260
		CSPL	90
	350		350

(w4) Income Tax

	N'000		N'000
C/fwd	1,500	B/d	1,000
Tax paid (Bal)	1,000	CSPL	1,500
	2,500		2,500

(w5) Acquisition of subsidiary (Sister Ltd) Net Cash Acquired:

	N'000
Cash consideration	1,000
Cash and cash equivalent	(100)
	900

(b) Investment in Uche Ltd at 250,000 ordinary shares out of a total of 1,000,000 shares represents 25% of the equity of the company being held by Shade Plc. This makes Uche Ltd an associate of Shade Plc.

In the separate financial statements of Shade Plc at December 31, 2021, the investment in Uche Ltd can be accounted for at any of the following bases:

(i) At cost;
(ii) At fair value; or
(iii) Using the equity method.

At cost, the investment is measured at the cost of the shares bought in Uche Ltd. This is N600,000.00 i.e. the actual cost of the investment. Dividend receivable or received is separately recognised and is not part of the cost or valuation of the share investment. Any impairment is netted off the cost.

At fair value, the fair value as at December 31, 2021 of each share of Uche Ltd is used to multiply the volume of shares. The fair value of each share is however not available as at the date stated. Dividend received or receivable is also separately recognised and does not form part of this valuation.

Using the equity method of accounting, the investment is presented in the separate financial statements of Shade Plc at the value which is the cost of the shares bought plus Shade Plc's proportionate share of post-investment profit after tax less any dividend received or receivable. The cost of the investment is N600,000. 25% share of the N240,000 profit after tax of Uche Ltd is N60,000. Therefore, the equity-accounted value of the investment is N660,000 (i.e. N600,000 + N60,000) less N15,000 (25% x N60,000) dividend received and this gives N645,000.

In Shade Plc's consolidated financial statements, investment in equity is measured and presented using the equity method. For the year ended December 31, 2022, the carrying amount of the Shade Plc's share in its associate Uche Ltd would also be N645,000. This is as already ascertained.

(c) (i) When it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its owners have been informed about, and do not object to, the parent not presenting consolidated financial statements.
(ii) Its debt or equity instruments are not traded in a public market.
(iii) It did not file, nor is it in the process of filing, its financial statements with a security commission or other regulatory organisation.
(iv) Its ultimate or intermediate parent produces financial statements that are available for public use and comply with IFRS.
(v) The parent is an investment entity which is required to measure all of its subsidiaries at fair value through profit or loss.

2. The following are the final accounts of Suanu Limited for the year ended December 31, 2021:

Suanu Limited
Statement of comprehensive income for the year ended December 31, 2021

	₦
Turnover	116,500
Cost of goods sold	(85,000)
Gross profit	31,500
Distribution cost	(7,500)
Administration expenses	(8,400)
Other overhead expenses	(3,100)
Net profit	12,500

Suanu Limited
Statement of financial position as at December 31, 2021

	₦	₦
Non-current assets		55,500
Current assets:		
Inventory	9,050	
Receivables	3,000	
Bank	3,400	15,450
Total assets		**70,950**
Equity and liabilities:		
Equity:		
Share capital	40,000	
Retained earnings	8,450	48,450

Non-current liability:		
Loan notes		12,500
Current liabilities:		
Payables	7,000	
Accruals	3,000	10,000
Total Equity and Liabilities		**70,950**

As at January 1, 2022, inventory at hand was valued at ₦21,500.

The following average ratios relate to the industry in which Suanu Limited operates:

Gross profit %	29.8%
Net profit to sales%	12.5%
Working capital ratio	1.4:1
Inventory turnover	10.7 times
Return on capital employed	20.2%

Required:

Compute the ratios above for Suanu Limited. **(7½ Marks)**

Give one reason each for the possible difference between Suanu Limited's ratios and industry's average ratios. **(7½ Marks)**

(Total 15 Marks)

SOLUTION TO QUESTION 2

Suanu Limited Ratios

S/N	Ratios/Formulae	Company ratios	Industry average
(i)	**Gross profit %:** $\frac{\text{Gross profit}}{\text{Turnover}} \times \frac{100}{1}$		
	$\frac{₦31{,}500}{₦116{,}500} \times \frac{100}{1} =$	27.0%	29.8%
(ii)	**Net profit to sales %:** $\frac{\text{Net profit}}{\text{Turnover}} \times \frac{100}{1}$		
	$\frac{₦12{,}500}{₦116{,}500} \times \frac{100}{1} =$	10.7%	12.5%
(iii)	**Working capital ratio:** $\frac{\text{Current assets}}{\text{Current liabilities}}$		
	$\frac{₦15{,}450}{₦10{,}000} =$	1.5:1	1.4:1
(iv)	**Inventory turnover:** $\frac{\text{Cost of goods sold}}{\text{Average inventory}}$		
	$\frac{₦85{,}000}{\frac{1}{2}(₦21{,}500 + ₦9{,}050)} =$	5.6 times	10.7 times

(v) Return on capital employed

$\frac{\text{Net profit}}{\text{Equity}} \times \frac{100}{1}$

$\frac{₦12,500}{₦48,450} \times \frac{100}{1}$ = 25.8% 20.2%

Possible reasons for differences:

(i) Gross profit %: The gross profit % of Suanu Limited being lower than the industry may be due to cheaper pricing by Suanu Limited or increases in costs which it could not pass on to customers.

(ii) Net profit to sales%: The lower the net profit to sales % of Suanu Limited could have been caused by the same factors mentioned in (i) above. There is however, an improvement in operating efficiency as evidenced by Suanu Limited's expenses to sales ratio of 16.3% [i.e. (31,500-₦12,500) /₦116,500] which is lower than the industry average of 17.3% (i.e. 29.8% - 12.5%)

(iii) Working capital ratio: The slower rate of inventory turnover (see below) probably caused accumulation of inventory in stores which in turn inflated the current assets. This is possibly the reason why the working capital ratio of Suanu Limited is higher than the Industry average.

(iv) Inventory turnover: Possible reasons for the lower inventory turnover of Suanu Limited could be slow-moving inventory, obsolete inventory or over inventory.

(v) Return on capital employed (ROCE): The higher ROCE of Suanu Limited is an indication of improved efficiency in utilisation of assets, thus confirming the improvement on operating efficiency (noted earlier in ii above). The improved efficiency is further explained by the asset turnover of Suanu Limited which at 2.4 times (i.e. ₦116,500/ ₦48,500) is higher than the industry average of 1.6 times (i.e. 20.2%/ 12.5%).

3. The IASB Conceptual Framework for Financial Reporting identifies six characteristics of useful financial information, which include understandability and comparability.

(a) Explain the meaning and purpose of these two characteristics within the context of financial reporting and discuss the role of consistency within the characteristics of comparability. **(9 Marks)**

(b) Discuss why there may be trade-off between any of the qualitative characteristics in the Conceptual Framework, explain with examples. **(6 Marks)**

(Total 15 Marks)

SOLUTION TO QUESTION 3

(a) Understandability and comparability, meaning and purpose

i. Understandability – This is the concept that financial information should be presented so that a reader can easily comprehend it.

- Information in financial statements should be readily understandable by users who have business and accounting knowledge, and willing to study the information carefully.
- Information is made understandable by classifying, characterising and presenting it in a clear and concise manner.

- Complex matters that are relevant to economic decision making should not be excluded merely because they are difficult to understand.

ii. Comparability
- Comparability is the qualitative characteristics that enables users to identify and understand similarities in, and differences among items.
- Users of financial statements should be able to compare the financial statements of an entity over a period of time to identify trends in the financial position, performance and cash flows. They should be able to compare financial statements of different entities to evaluate their relative risk and returns.
- To effectively compare an entity's financial information, the accounting transactions should be consistently treated, and corresponding information of preceding period should be disclosed, using the same method, within a reporting entity overtime or across entities.
- Role of consistency within the characteristics of comparability:
  - Consistency refers to the use of the same methods for the same items either from period to period within a reporting entity or in a single period across entities.
  - Consistency helps to achieve the goal of comparability.

(b) Trade-off between qualitative characteristics of financial statements
The attributes of one of the qualitative characteristics may lead to a conflict in the application of another desirable qualitative characteristic. In this circumstance, it is necessary to strive to achieve appropriate balance among the characteristics in order to meet the objectives of financial statements.
Examples of these trade-offs include:

- Timeliness: Information that is not provided as at when required may not be relevant while information is produced quickly in order to meet certain economic decision may lack the characteristics of faithful representation. A balance must be struck between the benefits of relevance and faithful representation;
- Cost and benefit: The benefits obtained from financial information should exceed the cost of obtaining and providing it. Information should not be provided if the cost of providing it exceed the benefit; and
- Fair value and historical cost model: Fair value is more relevant for decision making whereas historical cost is more reliable than fair value, Investors may prefer forward-looking information using fair value while historical cost would be more appropriate to measure management's stewardship.

4. Berekete Nigeria. Ltd. is a manufacturer of agro-allied equipment. The company has prepared its draft financial statements for the year ended May 31, 2020. The final copy of the financial statements need to be completed (including audit) by July 31, 2020.

A review of the draft financial statements was done by the Finance and General Purpose Committee of the company. It was discovered that the company has not considered the impact of the following items in the draft financial statements, which may require adjustments to the draft financial statements.

(i) Factory Fire

Berekete Nigeria Ltd's plant and machinery was destroyed by fire on June 15, 2020.

Berekete Nigeria Ltd. had partially insured the plant but has estimated losses caused by the fire at ₦6,000,000, after insurance proceeds have been received and these losses are considered material.

(ii) Taxation

The company income tax charged for the year has been correctly estimated as ₦1,170,000. There was an over provision for company income tax of ₦122,500 in the year to May 31, 2019 and the balance of deferred tax liability was ₦160,000 at this same date. Berekete Nigeria Ltd. had invested in plant and machinery and as at May 31, 2020, the plant had a carrying amount of ₦1,900,000 and the tax base is ₦1,300,000.

Note: Company income tax rate is 30%.

(iii) Land & Buildings

Berekete Nig. Ltd. decided to change its accounting policy in respect of the valuation of land and building and re-valued these assets at June 1, 2019 as follows:

Land – ₦3,000,000
Building – ₦4,000,000

It is estimated that, at that date, the buildings had remaining useful life of 40 years.

The resulting revaluation surplus of ₦630,000 has been correctly recorded. No depreciation has been recorded in respect of the land and building because of their increase in value.

Note: Ignore any deferred tax adjustments arising in respect of item (iii).

Required:

Make reference to appropriate International Financial Reporting Standards (IFRS) and explain with supporting calculations, any adjustments required to the financial statements (including any notes to the financial statements) arising from each of the three items above. **(15 Marks)**

SOLUTION TO QUESTION 4

(i) Factory Fire

- The factory fire change will be dealt with in accordance with IAS 10-Events after the Reporting Period.
- The factory fire represents a non-adjusting event after the reporting period as the condition (fire) did not exist at the year end.
- The loss of ₦6,000,000 is considered material and therefore should be disclosed as a note in the financial statements.
- The disclosure of these material losses will contain: (a) the nature of the loss and (b) the ₦6,000,000 financial effect of the loss.

- No adjustment is required to any figure in the financial statements for year ended May 31, 2020.

(ii) Taxation

	₦
Company income tax for the year	1,170,000
Over provision	(122,500)
Deferred tax expense (₦1,900 – ₦1,300) x 30% = (₦180 – ₦160)	20,000
Tax expense for the year	1,067,500

- Tax expense will be calculated in accordance with IAS 12 – Income Tax.
- The over provision for the previous year must be deducted from the current year charge.
- The tax charge of N1,047,500 (₦1,170,000 – ₦122,500) must be shown as current liability.
- Deferred tax balance of ₦180,000 will be presented as non-current liability.
    - The difference between the carrying amount and tax base of the plant represent the taxable temporary difference. Applying the tax rate will give rise to closing liability for deferred tax.
    - The difference between the opening and closing balance represent the charge to the statement of profit or loss.

(iii) Land & Building

- The building revaluation will be dealt with in accordance with IAS 16 – Property, Plant and Equipment.
- The revaluation surplus of ₦630,000 must be presented through other comprehensive income in statement of profit or loss and other comprehensive income.
- The revaluation surplus is presented under Revaluation Surplus Reserve in the statement of changes in equity.
- The building element of the property must be depreciated over the remaining useful life as it is a depreciable asset.
- The depreciation charge for each year will be ₦4,000,000/40 = ₦100,000
- The amount depreciated annually should be allocated to their appropriate function in the statement of profit or loss.

5. There is increasing pressure on companies that are quoted in the stock market to provide extensive disclosures in their annual reports about their social and environmental policies, impacts and practices on voluntary basis.

Required:

(a) Discuss why companies are increasingly being required to include disclosures about their environmental policies, impacts and practices in their annual report. **(6 Marks)**

(b) Explain the nature of the information that could be disclosed by entities in their annual reports in respect of environmental and social factors that impact on their businesses. **(4 Marks)**

(c) Discuss the benefits of such disclosures to the entity. **(5 Marks)**

(Total 15 Marks)

SOLUTION TO QUESTION 5

(a) The following reasons can be adduced for the increasing pressure on companies to disclose the social and environmental policies, impacts and practices:

- The information provided in the financial statements are historical in nature, whereas potential and existing investors, lenders and other creditors of financial reporting are interested in information that is useful in making economic decisions about whether to invest in the business. Users of financial information are putting pressure on entities to provide forward -looking information that includes disclosure on their social and environmental impact in order to assess the future risks connected with these activities and the extent of liabilities arising from them;
- In addition to good returns on investment, many investors want to support and invest in entities that have good social and environmental practices and are considered to be good corporate citizens;
- There are numerous local and international pressure groups pushing for greater corporate responsibility on environmental issues. They are interested in environmental protection; hence they want to know details of the direct impact companies' activities are having on the environment and what they are doing to mitigate the effects of such negative impacts; and
- There is an increasing perception that an annual report is a public relations document that needs to show reports that the entity is a good corporate citizen.

(b) Information

- Disclosure about the environment is likely to include managements' policies about how an entity impacts the environment. It will include policies on waste, emissions and pollution. It will include targets that are set on waste management and strategies for achieving the targets. It will also include collaboration with other entities in solving common environmental matters.
- The social aspect sustainability relates to impact the entity has on the social system in which it operates. The entity may focus on performance in the area of human rights, labour practices, employee and employers' relations, gender diversity, regional diversity, employment of physically challenged persons, occupational health and safety and creation of equal opportunities for staff to grow to any height.

(c) When the results of environmental and social activities of an entity is published, the entity may derive the following benefits for such disclosures:

- The company may enjoy goodwill with investors and employees which in turn improves the economic position of the entity;
- Such reports could help to keep the share price of the company stable or even improve it;
- It may attract new investors to the entity who are interested in good environmental practices;
- It could open opportunity for the entity to access grants from individuals and NGO;
- The entity may also enjoy tax reliefs;
- Without extensive report, environmental and social costs can be overlooked or obscured in other overheads, but with the report, the company can evaluate the impact of the cost and its performance in a way that supports the company's development; and

- Effective environmental reporting may also help the entity to avoid prosecutions and penalties that relate to environmental pollution.

6. (a) IFRS 15: Revenue from Contracts with Customers, sets out principles to be applied in order to report useful information to users of financial statements about nature, amount, timing and uncertainty of revenue and cashflows arising from a contract with customers.

Required:

(i) Identify and explain five (5) steps required to recognise and measure revenue according to IFRS 15. **(5 Marks)**

(ii) On January 1, 2022, Angola Ltd enters into a 12-month pay-monthly contract for a mobile phone. The contract is with Telesouthwest Ltd and the terms of the plan are:
- Angola Ltd receives free hand set on January 1, 2022; and
- Angola Ltd pays monthly fee of ₦20,000 which includes unlimited free minutes. Angola Ltd is billed on the last day of the month.

(b) Customers may purchase the same handset from Telesouthwest Ltd. for ₦50,000 without the payment plan. They may also enter into payment plan without the handset in which case the plan cost them ₦17,500 per month. Telesouthwest Ltd year-end is July 31, 2022.

Required:

(i) Explain how Telesouthwest Ltd should recognise revenue in accordance with IFRS 15, five (5) steps identified in (a) above. **(7 Marks)**

(ii) Show necessary journal entries in the books of Telesouthwest Ltd on;
- January 1, 2022
- On January 31, 2022 **(3 Marks)**

(Total 15 Marks)

SOLUTION TO QUESTION 6

(a) IFRS 15 – requires application of this five processses:

(i) Identify the contract with the customer: A contract can be written, oral or implied by customary business practices;

(ii) Identify the separate performance obligation in the contract: If a promised goods or service is not distinct, it can be combined with others;

(iii) Determination of the transaction price: This is the amount to which the entity expects to be 'entiled' for variable consideration, the probability weighted expected amount is used. The effect of any credit losses is shown as a separate line item;

(iv) Allocate, the transaction price to the separate performance obligations in the contract: For multiple deliverables the transaction price is allocated to each separate performance obligation in proportion to the stand-alone selling price at contract inception of each performance obligation;

(v) Recognise revenue when (or as) entity satisfied a performance obligation: That is when the entity transfers a promised good and services to a customer. The goods or services is only considered as transferred when the customer obtains control of it.

(b) (i) Explanation and application of the five step (5) process under IFRS 15 to sales of Telesouthwest Ltd.

(i) Identify the contract with customers: This is very clear. Telesouthwest Ltd has a 12month contract with Angola Ltd.

(ii) Identify the separate performance obligation in the contract: In this situation there are two (2) distrinct preference obligation namely:

- The obligation to deliver handset; and
- The obligation to provide network services for 12.

(iii) Determination of transaction price:
This is straight forward. It is ₦240,000, that is, 12 month x the monthly fee of ₦20,000.

(iv) Allocate the transaction price to the separate performance obligation in the contract.
This done as follows:

Performance obligation	**Stand alone selling price**	**Percentage (%) of total**	**Revenue (= relative selling price N240,000 x %)**
	₦	₦	₦
Handset	50,000	19.2	46,080
Network services			
(₦17,500 x 12)	210,000	80.8	193,920
Total	260,000	100	240,000

(v) Recognise revenue when (or as) the entity satisfies a performance obligation:

- When Telesouthwest Ltd gives a handset to Angola it needs to recognise the revenue of ₦46,080.
- When Telesouthwest Ltd provides network services of Angola Ltd, It needs to recognise the total revenue of ₦193,920. It is practical to do this once per month as the billings.

(ii) Journal Enties in the books of Telesouthwest Ltd.
On 1 January 2022

	Dr	Cr
	₦	₦
Trade receivable	46,080	
Revenue		46,080
Being recognition of revenue from sale of handset		
On 31 January 2022		
Receivable	20,000	
Revenue (193,920 ÷ 12)		16,160
Receivable (unbilled revenue) 46,080/12		3,840
		20,000

Being recognition of revenue from monthly provisions of network services and repayment of handset.

7. (a) The objective of IAS 36 - Impairment of assets is to ensure that non-current assets are recorded in the statement of financial position at no more than their recoverable amount, and that any impairment loss is measured and recognised on a consistent basis.

Required:
Explain the term recoverable amount and the significance of its definition within the context of IAS 36. **(6 Marks)**

(b) Damas Limited is into hire services in the metropolis. The notes relating to property, plant and equipment figure in the financial statements for the year ended December 31, 2021 was as follows:

	₦'000	**₦'000**
Cost of acquisition		120,000
Accumulated depreciation:		
At January 1, 2021	(48,000)	
Charge for the year	(24,000)	(72,000)
Carrying amount December 31,2021		48,000

The motor cars are being written off at the rate of 20% per annum. However, the car hire market has slumped due to light rail that has eased traffic gridlock in the metropolis. As a result, the cars can be used to generate ₦25,000,000 for each of the years 2022 and 2023. Alternatively, the cars could be sold immediately for ₦28,000,000 before consideration of the selling cost of ₦1,800,000.

The cost of capital is 15%

Required:
(i) Calculate the impairment loss as at December 31, 2021. **(4 Marks)**

(ii) Redraft the note on the property, plant and equipment as at December 31, 2021. **(3 Marks)**

(iii) Show the note on the property, plant and equipment as at December 31, 2022. **(2 Marks)**
(Total 15 Marks)

SOLUTION TO QUESTION 7

(a) IAS 36 defines recoverable amount as the higher of the fair value less cost to sell and the value in use. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is the exit price. Fair value is usually market value but if there is no active market, it may be possible to estimate the amount the seller will obtain from the disposal.

Value in use is the present value of the estimated future cash flows expected to arise from its continuing use, discounted at a suitable cost of capital.

Significance of recoverable amount

The rationale behind calculating recoverable amount of a non-current asset is that when there is an evidence that an asset is impaired:

- the entity must take the decision whether to sell the asset immediately or continue to use it;
- the entity will not continue to use the asset if it can obtain more cash by selling it immediately; and
- When an asset is stated at the higher of the fair value less cost to sell and the value in use, the entity is obtaining the highest value for the asset.

(b) (i) Calculation of impairment loss at December 31,2021

	₦'000	₦'000
Carrying amount		48,000
Recoverable amount is higher of		
Fair value less costs to sell ₦28,000,000-1,800,000	26,200	
and value in use ₦25m x 1.6257	40,000	
Hence , recoverable amount is		40,000
Impairment loss		8,000

(ii) Notes to Property, plant and equipment as at December 31, 2021

	₦'000	₦'000
Cost		120,000
Depreciation:		
Balance January 1, 2021	48,000	
Depreciation for the year	24,000	
Impairment losses	8,000	(80,000)
Carrying amount December 31, 2021		40,000

(iii) Notes to Property, plant and equipment as at December 31, 2022

	₦'000	₦'000
Cost		120,000
Depreciation:		
Balance January 1, 2022	80,000	
Depreciation for the year ₦40m/2	20,000	
		(100,000)
Carrying amount December 31,2022		20,000

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2023: PROFESSIONAL EXAMINATION

PTE I: INDIRECT TAXATION

WEDNESDAY APRIL 19, 2023 **EXAM NO……………**

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS.

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

1. Afamatic Nigeria Limited is an importer of various products that it sells through its various depots spreading across the country. During the year 2022, the company imported the following products into the country:

Cigarettes	480,000sticks	@ $0.25 per stick
Wines	500,000centilitres	@$0.50 per bottle of 25centilitres
Spirits	250,000centilitres	@$0.75 per bottle of 25centilitres

The products were distributed to its various depots across the nation and sold at uniform prices, inclusive of VAT, across the depots as follows:

Cigarettes	₦ 5,000 per packet of 10 sticks
Wines	₦ 1,000 per bottle of 25 centilitres
Spirits	₦ 2,000 per bottle of 25 centilitres

At the beginning of the year, the company has the following inventory in its warehouse and depots across the nation:

Cigarettes	48,000 sticks
Wines	25,000 centilitres
Spirits	50,000 centilitres

Custom duties were paid on the imported goods as follows:
Duty:

Cigarettes	250%
Wines	150%
Spirits	200%
Surcharge:	7.5%

On December 31, the company has the following inventories at its warehouse and depots:

Cigarettes	60,000sticks
Wines	75,000centilitres
Spirits	40,000centlitres

Exchange rate of $1 to Naira has been pegged at ₦500.

Note: The prices of the imported products and their selling prices have been on the same level in the past three years.

Required:

a. Discuss four (4) procedures Afamatic or any company should follow in importing the products into the country. (6 marks)
b. Calculate the Custom duties to be paid by Afamatic on the imported goods. (12marks)
c. Determine the input VAT Afamatic will claim in its VAT returns during the year. (10marks)
d. Determine the total VAT payable to the FIRS by Afamatic in the year. (7marks)
e. What will be the closing balance in Afamatic VAT accounts at December 31, 2022? (5 marks)

Total 40 Marks

Solution one

a. Before any importation is carried out in Nigeria, the importer should:

i. Register the company name and obtain a certificate of Incorporation;
ii. Register the company with the Federal Inland Revenue Services (FIRS) and get Tax Identification Number (TIN) and ensure that taxes due are paid;
iii. Open an account in any Bank of choice in Nigeria. This Bank will then process the Form M / PAAR, as well as mediate among the Nigeria Customs Service (NCS), the importer and other bodies;
iv. Open an E-Form "M": An e-Form "M" is a mandatory documentation process required by the Federal Government of Nigeria and it is processed through the Federal Ministry of Finance and the Central Bank of Nigeria, to monitor and keep track of the goods that are being imported into Nigeria and facilitate the payment of import duties;
v. Obtain regulatory certificates like SONCAP (Standards Organization of Nigeria Conformity Assessment Program) or (NAFDAC) National Agency for Food and Administration and Control as the case may be for items that are regulated; and
vi. After finishing the above procedures, register as an importer and client of the Nigeria Single Window Trade Portal on the FIRS site. The Single Window Trade Portal is an intergovernmental site that encourages the trade procedure by enabling Nigerian and international parties to get to Nigerian governmental services.

   Usually, import of goods to Nigeria requires three categories of procedures wherever required. One-time registration procedures to act as an Importer in Nigeria, Specific import licence to import goods to Nigeria if applicable, and certain certification like SONCAP or NAFDAC or others from concerned government agencies of Nigeria that are in charge of each import, wherever applicable.

b. Custom Duties Payable

Product	Quantity Centilitres	Quantity Bottles	Price $	Exchange Rate	₦	Value (₦)	Duty Rate	Duty ₦

Cigarettes	480,000		0.25	500	125.00	60,000,000	250%	150,000,000
Wines	500,000	20,000	0.5	500	250.00	5,000,000	150%	7,500,000
Spirits	250,000	10,000	0.75	500	375.00	3,750,000	200%	7,500,000
Duty payable						68,750,000		165,000,000
Surcharge							7.50%	12,375,000
Total custom duty paid								177,375,000

c. **Input Vat**

Product	Quantity	Value ₦	Custom duty ₦	Value ₦	Per unit	VAT per unit ₦
Cigarettes	480,000	60,000,000	161,250,000	221,250,000	460.94	34.57
Wines	20,000	5,000,000	8,062,500	13,062,500	653.13	48.98
Spirits	10,000	3,750,000	8,062,500	11,812,500	1,181.25	88.59
			177,375,000	246,125,000		
Vat Payable		7.50%		18,459,375		

Quantity sold

Product	Opening Inventories	Imported	Closing Inventories	Quantity sold	Quantity - Bottle	Input VAT/unit ₦	Input vat ₦
Cigarettes	48,000	480,000	60,000	468,000	468,000	34.57	16,178,906.25
Wines	25,000	500,000	75,000	450,000	18,000	48.98	881,718.75

Spirits	50,000	250,000	40,000	260,000	10,400	88.59	921,375.00
Input VAT							17,982,000.00

d. VAT Payable to FIRS

Product	Quantity	Quantity sold	Price ₦	Price per unit ₦	Sales value ₦
Cigarettes	468,000	468,000	5,000	500	234,000,000
Wines	450,000	18,000	1,000	1,000	18,000,000
Spirits	260,000	10,400	2,000	2,000	20,800,000
					272,800,000
Output VAT				7.50%	20,460,000
Less input vat					17,982,000
Payable to FIRS					2,478,000

e. Balance in Afamatic VAT Account

Product		Closing Inv	Input vat per unit	Total Input vat ₦
Cigarettes	60,000	60,000	34.57	2,074,218.75
Wines	75,000	3,000	48.98	146,953.13
Spirits	40,000	1,600	88.59	141,750.00
Dr balance				2,362,921.88

2. Apart from generating revenues to the government, tariff quotas are usually used as a fiscal policy by the government to manage the country's economy.

Required:

a. Discuss tariff quotas and its uses (3 marks)

b. Itemise eight (8) reasons why government impose tariffs. (8 Marks)

c. Discuss any two (2) bases of levying tariffs (4 Marks)

(Total Marks 15)

Solution Two

a. Tariff quotas

Tariffs are taxes, or the amount of money a country needs to pay for trading products.

- Quotas are the limitations on what is traded, how much is traded, how much is paid for each product traded, and where it is traded.
- Tariffs are more beneficial to a country's economy because the amount of money paid for their product raises their country's Gross Domestic Product (GDP). Quotas are not because they put limits on how much is paid, and that is what makes GDPs neutral.
- For a number of products, a reduction of the customs duty payable is allowed for limited quantities of imports. This limitation takes the form of tariff quotas.
- Tariff quotas may apply to imports of a specified origin, normally within the framework or preferential tariff arrangements, or to imports of all origins.
- Tariffs are duties or taxes imposed by government on selected imported commodities in order to restrict imports and conserve foreign exchange**.**

b. The following are the reasons for imposing tariffs:

i. To protect infant industries;
ii. To prevent dumping;
iii. As a means of raising revenue;
iv. As a retaliatory measure;
v. To encourage production of goods of strategic importance (i.e. for strategic reasons);
vi. To promote employment at home;
vii. To restrict importation of demerit or harmful goods thereby regulating the consumption;
viii. To correct an adverse balance of payment or to ensure favourable balance of payment; and
ix. To prosecute political objectives or decisions through imposition of sanction.

c. Bases for Levying Tariffs

i. An ad valorem tariff is levied on the basis of value; although what constitute value may vary, for example, some countries include the value of shipping packs.
ii. A specific tariff nominates a cash amount per unit, regardless of value.
iii. A compound or mixed tariff is a combination of ad valorem and specific.
iv. Import levies, import surcharges and border taxes are all thinly disguised tariffs, usually aimed at discouraging dumping.

3. The term, Incoterms, is an abbreviation for International Commercial Terms. They are a set of rules which define the responsibilities of sellers and buyers for the delivery of goods under sales contracts for domestic and international trade. They are published by the International Chamber of Commerce (ICC) and are widely used in international commercial transactions.

Required:

Briefly discuss the meaning and the purpose of the following "Incoterms":

a. EXW Ex Works;
b. FCA Free Carrier;
c. DAT Delivered at Terminal;
d. DAP Delivered at Place;
e. FAS Free Alongside Ship; and
f. FOB Free on Board. **Total 15 marks**

Solution Three

a. **EXW – Ex-Works**
This trade term means that:
Buyer assumes almost all costs and risk throughout the shipping process;
Seller's only job is making sure the buyer can access the goods; and
Once the buyer has access, it is all down to them (including loading the goods).
Risk transfers from seller to buyer at the seller's warehouse, offices or wherever the goods are being collected from.

b. **FCA – Free Carrier**
It is a trade term which means:
It is the seller's job to get the goods to the buyer's carrier at an agreed location;
Seller is also required to clear goods for export; and
Risk transfers from seller to buyer when the buyer's carrier receives the goods.

c. **DAT – Delivered At Terminal**
For this kind of international commercial transaction:
A Seller is responsible for the costs and risk of delivering the goods to an agreed terminal;
The terminal could be an airport, warehouse, road or container yard;
A seller organises customs clearance and unloads the goods at the terminal; and
A buyer sorts import clearance and any related duties.

d. **DAP – Delivered At Place**
This is an international trade term used to describe a transaction in which:
Seller covers the costs and risk of transporting goods to an agreed address;
Goods are classed as delivered when they are at the address and ready to be unloaded; and
Export and import responsibilities are the same as DAT.

e. **FAS – Free Alongside Ship**
In international trade contract, this is a term used to indicate that a:
Seller assumes all costs and risk until goods have been delivered next to a particular vessel in a particular port in order to be ready for transfer to a waiting ship;
Buyer then takes over risk and takes care of export and import clearance; and
Risk transfers from seller to buyer when goods have been delivered next to the ship.

f. **FOB – Free On Board**
FOB means that a:
Seller assumes all costs and risk until goods have been delivered on board the ship;
Seller also sorts out export clearance;
Buyer assumes all responsibilities as soon as the goods are on board; and
Risk transfers from seller to buyer when goods have been delivered onto the ship.

4. In Nigeria, VAT is chargeable on imported goods despite the fact that import duties have to be paid on the goods.

Required:

a. List and discuss how to arrive at the VAT payable on imported goods. (5 marks)

b. List and discuss how import duties payable on imported goods are determined. (6 marks)

c. List the four points at which VAT for imported goods may be paid. (4 marks)

Total 15 marks

Solution Four

a. Determination of Value

The value of imports on which VAT is payable is governed by the following provisions:

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;

i. Any excise duty or other charges payable on imports into Nigeria (except the VAT itself); and
ii. 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;

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

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. Import Duties Computation and Rates

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 goods 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.

Custom duties are levied on Cost, Insurance and Freight (CIF).

Rates vary for different items, and are assessed with reference to the prevailing Harmonised Commodity and Coding System (HS code), as follows:

7% surcharge (Port development levy) calculated on the customs duty;

0.5% trade liberalisation scheme levy, calculated on customs duty (where import is from countries outside the ECOWAS region);

1% Comprehensive Import Suspension Scheme (CISS) administrative charge for destination inspection based on the FOB value of goods; and

Value Added Tax (VAT) calculated at the rate of 7.5% on the CIF value of the import, customs duty and the charges stated above.

c. There are basically four points of VAT payments for imported goods. They are through:

a. Nigeria Customs Service (NCS)
b. Nigeria Port Authority (NPA);
c. Shipping companies or airlines; and
d. Clearing and forwarding agents.

5. Stamp duties have become a veritable source of revenue to the federal government and the scope of instruments that attract stamp duty is being widened by the federal government.

Required:

a. List five (5) bank transactions that banks are required to pay stamp duty on and state the amount of duty payable on each of the transactions (5 Marks)
b. List seven (7) instruments that are exempt from stamp duty. (7 Marks).
c. List six (6) written or printed dutiable instruments or receipts. (3 Marks)

(Total Marks 15)

Solution Five

a. Banks are expected to pay stamp duties on the following dutiable transactions in strict adherence with the relevant provisions of the Stamp Duties Act:

i. In respect of loan application, guarantor's form at a flat rate of ₦500;
Loan agreement, which is ad valorem at a fee of 0.125% of the value of the loan, that is ₦1.25 for every ₦1,000;
ii. Loan agreement which accompanies document to a mortgage or debenture is to be charged at a flat rate of ₦500;
iii. Legal mortgage, which is ad valorem at a fee of 0.375 of the mortgage value, that is ₦3.75 for every ₦1,000;
iv. Legal mortgage (up-stamping), which is ad valorem at a fee of 0.375% of the up-stamped value, that is N3.75 for every ₦1,000;
v. Tenancy or lease, which is ad valorem at a fee of 6% of the tenancy or lease value, that is ₦6 for every ₦100; and
vi. Bank cheque per leaflet (premium) at a flat rate of ₦1.00 per leaflet.

b. Instruments exempt from stamp duties

Instruments that are specifically exempted are as follows:

i. Those relating to agreements between the Federal Government and other foreign governments;
ii. Instruments relating to reconstruction and amalgamation, subject to specified condition under section 104(1) of the Act;
iii. Transactions and sales of properties of a company under liquidation arising from a compulsory winding up by a court or creditors' voluntary winding up;
iv. Based on Central Bank circular number CBN/GEN/DMB/02/006 dated January 15, 2016, titled *"Currency and Remittance of Statutory Charges or Receipts to Nigerian Postal Service under the Stamp Duties Act"*, the following transactions are exempted from stamp duties:

- Transactions relating to savings accounts holders, salary accounts or students savings accounts;
- Payments and deposits for self to self-transactions whether inter or intra-bank; and
- Payments for goods supplied or services rendered if the amount is under ₦1,000, payment of salaries or wages, pensions, gratuities, etc;

v. Section 56 of the Finance Act, 2019, exempts the following "exempt receipts" and "general exemptions" from stamp duties:

- Exempt receipts: Receipts given by any person in a regulated securities lending transaction carried out under regulation issued by the Securities and Exchange Commission;
- General exemptions which include the following:
- Shares, stocks or securities transferred by a lender to its approved agent or a borrower in furtherance of a regulated securities lending transaction;
- Shares, stocks or securities returned to a lender or its approved agent by a borrower in pursuant to a regulated securities lending transaction;
- All documents relating to a regulated securities lending transactions carried out under regulations issued by the Securities and Exchange Commission; and
- Share transfer based on FIRS information circular on "clarifications on the provisions of the Stamp Duties Act" No: 2020/05 dated April 29, 2020.

c. All written or printed dutiable instruments or receipts which include:

i. Leases;
ii. Contract notes;
iii. Bills of lading;
iv. Agreements;
v. Duplicates and counterparts;
vi. Marketable securities;
vii. Mortgages;
viii. Notarial acts;
ix. Policies of insurances;
x. Receipts;
xi. Settlements;
xii. Share warrants;
xiii. Warrants for goods;
xiv. Appraisement;
xv. Instrument of apprenticeship;
xvi. Bank notes, bills of exchange and promissory notes;
xvii. Conveyances of sale;
xviii. Other conveyances;
xix. Exchange partition or division;
xx. Letters of powers of attorney and voting papers; and
xxi. Capital of companies.

6. Dr. Kenneth who was a Director of Institute of Strategic Management has just been appointed as the Director of Inland Revenue Service. Dr. Kenneth is aware of the new Value Added Tax (VAT) Act that makes it mandatory for all VAT operators to use Electronic Fiscal Device (EFD) for each sale transaction, including new businesses. However, he does

not have much knowledge about VAT administration but has been charged with the task of improving revenue generation through VAT.

Dr. Kenneth has sought your assistance in presenting paper in a seminar to be organised for staff members in his department on Electronic Fiscal Device (EFD).

Your presentation is expected to highlight the following areas of Electronic Fiscal Device (EFD).

a. Meaning of Electronic Fiscal Device (EFD) (5 marks)
b. Five (5) Challenges of Electronic Fiscal Devices (5 marks)
c. Five (5) significance of Electronic Fiscal Devices (5 marks)

(Total Marks 15)

Solution Six

a. Electronic Fiscal Device (EFD) describes a wide variety of technological devices used by tax administrations to monitor transactions that create a fiscal obligation for the Value Added Tax (VAT). The types of the EFDs rolled out are Electronic Tax Register (ETR), Electronic Fiscal Printer (EFP) and Electronic Signature Device (ESD). The first phase deadline for VAT operators to acquire the devices was 30 June 2014. The implementation was from ETR which produces receipts and replaces manual receipts, then EFP for larger retail institutions that already operate some form of POS and ESD mostly used where a computerised sales and invoicing solution is in place. For all the three, there are machines at MRA's offices connected to EFDs.

b. Challenges of Electronic Fiscal Devices

- Resistance from taxpayers upon implementation
- Fewer taxpayers using the devices.
- Those entrusted with repairing would delay and thus most sales would be made without the devices.
- Falsification of sales value
- ETRs cannot process refunds, or transactions for returned goods.
- Lack of information on the part of the public that evasion is illegal and a form of corruption.
- Remitting the tax may be limited as currently digital finance systems do not have the business government component.

c. Significance of Electronic Fiscal Devices

- Increase Tax Revenue
- Less Disputes
- Less Work for Revenue collect / Tax officers
- Computerising the Tax Auditing System
- Fight against Tax Evasion
- Enhance Tax Compliance
- Development of a more Fair Tax System
- Provide connectivity to all the branches

- Reduction of formalities related costs
- Improvement of the quality of service
- Elimination of paperwork
- Greater Control
- Improvement in the collection of Revenue

7. OJIOKOTA Manufacturing Limited presented the following information concerning its products for the period ended October 31, 2022:

Products	O	P	Q
	₦	₦	₦
Direct material per unit	8	10	7
Direct wages per unit	4	6	9
Production overhead per unit	3	3	3
Other overheads per unit	4	2	1

Additional information:

a. 10% of direct wages is fixed for every product
b. 25% of production overhead is also fixed for every product
c. For product O and P, 60% of other overhead are fixed, while the other overheads of product Q are variable.
d. The company has the following selling price per unit

O	P	Q
₦	₦	₦
200	250	220

Note: all transactions are VAT exclusive

Required:

1. Calculate the VAT output on each of the product if
   50% of 20,000 units of product O was sold
   60% of 60,000 units of product P was sold
   70% of 100,000 units of Product Q was sold

2. Calculate the Excise duty payable by the company on each product using 20% as excise duty rate.

(Total marks 15)

<u>Solution Seven</u>

<u>(OJIOKOTA MANUFACTURING LIMITED)</u>

a.

<u>PRODUCT O</u>

Total units sold = 50% X 20,000 units = 10,000 units

Value of total units sold = ₦200 X 10,000 units = ₦2,000,000

VAT output ₦2,000,000 X 7.5% = **<u>₦150,000</u>**

PRODUCT P
Total units sold = 60% X 60,000 units = 36,000 units
Value of total units sold = ₦250 X 36,000 units = ₦9,000,000
VAT output = ₦9,000,000 X 7.5% = **₦675,000**

PRODUCT Q
Total units sold = 70% X 100,000 units = 70,000 units
Value of total units sold = ₦220 X 70,000 units = ₦15,400,000
VAT output = ₦15,400,000 X 7.5% = **₦1,155,000**

b.

PRODUCT O

COST OF PRODUCTION

		₦
Direct Materials per unit		8.00
Direct Wages per unit	₦4 X 90% =	3.60
Production overhead per unit	₦3 X 75% =	2.25
Other Overheads per unit	₦4 X 40% =	1.60
		15.45

Excise Duty
₦15.45 X 20,000 units X 20% = **₦61,800**

PRODUCT P

COST OF PRODUCTION

		₦
Direct Materials per unit		10.00
Direct Wages per unit	₦6 X 90% =	5.40
Production overhead per unit	₦3 X 75% =	2.25
Other Overheads per unit	₦2 X 40% =	0.80
		18.45

Excise Duty
₦18.45 X 60,000 units X 20% = **₦221,400**

PRODUCT Q

COST OF PRODUCTION

		₦
Direct Materials per unit		7.00
Direct Wages per unit	₦9 X 90% =	8.10
Production overhead per unit	₦3 X 75% =	2.25

Other Overheads per unit	=	<u>1.00</u>
		<u>18.35</u>

<u>Excise Duty</u>

₦18.35 X 100,000 units X 20% = **<u>₦367,000</u>**