



# THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

## APRIL 2023 PATHFINDER FOR FOUNDATION

### PRINCIPLES OF TAXATION

**TUESDAY APRIL 18, 2023**

**EXAM NO.....**

**PART I                      MULTIPLE CHOICE QUESTIONS (MCQ)                      (60 MARKS)**

#### **ATTEMPT ALL QUESTIONS**

1. In line with the Constitution of the Federal Republic of Nigeria 1999 (as amended), which of the tiers of government has taxing powers that are specified as residual?
  - (a) Federal
  - (b) State
  - (c) Local
  - (d) Community
  
2. Which one of the under listed taxes is not collected by the Federal Inland Revenue Service (FIRS)?
  - (a) Personal income tax of personnel of Nigerian Armed Forces
  - (b) Personal income tax of Nigeria Police Force
  - (c) Personal income tax of staff of the Ministry or Department of Government assigned with the responsibilities for foreign affairs
  - (d) Personal income tax of the residents of the Federal Capital Territory (FCT)
  
3. Which of the following is NOT a source of Nigerian tax laws?
  - (a) Statute laws
  - (b) Common laws
  - (c) Budget and pronouncement of relevant Ministries
  - (d) Circulars issued by and practices of the Inland Revenue
  
4. What is the type of law that governs the taxation of incomes, goods and properties of persons or communities within an ethnic group?
  - (a) Customary law
  - (b) Common law
  - (c) Community law
  - (d) Case law
  
5. In line with the National Tax Policy 2017, which of the under listed is NOT an objective which a tax system should seek to achieve?
  - (a) Guide the operations and the review of the tax system
  - (b) Serve as a point of reference for all stakeholders on taxation
  - (c) Provide benchmark on which stakeholders shall be held accountable

- (d) Provide the basis for past tax legislation and administration
6. Which one of the following is NOT a key stakeholder in the Nigerian tax system?
- (a) The government
  - (b) Tax evaders
  - (c) Professional bodies
  - (d) Media and advocacy groups
7. Which one of the following perspectives is NOT a way of classifying taxes?
- (a) Tax incidence
  - (b) Tax methods
  - (c) Tax effect
  - (d) Tax base
8. What is the tax legislation that governs gains accruing on disposal of chargeable assets in Nigeria?
- (a) Capital Gains Tax Act Cap C1 LFN 2004
  - (b) Commodity Gains Tax Act Cap C2 LFN 2004
  - (c) Asset Disposal Gains Tax Act Cap A1 LFN 2004
  - (d) Companies Income Tax Act Cap C21 LFN 2004
9. Which of the following is NOT an advantage of direct taxes?
- (a) Inequitably levied
  - (b) Certainty of the time, manner of payment and amount to be paid
  - (c) Control of inflation
  - (d) Better redistribution of income
10. Which one of the following is NOT an example of direct taxes?
- (a) Companies income tax
  - (b) Value added tax
  - (c) Personal income tax
  - (d) Hydrocarbon tax
11. In line with the Federal Inland Revenue Service (Establishment) Act 2007, who has the power to specify the number of zones, matters and places in relation to which the Tax Appeal Tribunal may exercise jurisdiction?
- (a) President of the Federal Republic
  - (b) Minister of Finance
  - (c) Chairman of Federal Inland Revenue Service
  - (d) Chief Justice of the Supreme Court
12. What is the term of office of a Tax Appeal Commissioner?
- (a) Two years renewable for another term of two years
  - (b) Three years renewable for another term of three years
  - (c) Four years renewable for another term of four years
  - (d) Five years renewable for another term of five years

13. Where will any person who is dissatisfied with the decision of the Tax Appeal Tribunal on a point of law appeal to?
- (a) State High Court
  - (b) Federal High Court
  - (c) Court of Appeal
  - (d) Supreme Court
14. Which one of the following is NOT a component of a good tax system?
- (a) Tax payers
  - (b) Tax policy
  - (c) Tax laws
  - (d) Tax administration
15. Which one of the following taxes is NOT collectible by the Federal Government?
- (a) Companies income tax
  - (b) Value added tax
  - (c) Withholding tax on residents of Federal Capital Territory
  - (d) Petroleum profit tax
16. Following the provisions of the Taxes and Levies (Approved List for Collection) Act 2004 (as amended), which tier of government has the taxing right over collection of signboard and advertisement permit fees?
- (a) Federal government
  - (b) State government
  - (c) Local government
  - (d) Community
17. What is the period a company is granted a tax-free holiday under the Industrial Development (Income Tax Relief) Act?
- (a) A minimum period of two years and a maximum period of four years
  - (b) A minimum period of three years and a maximum period of four years
  - (c) A minimum period of two years and a maximum period of five years
  - (d) A minimum period of three years and a maximum period of five years
18. In line with the Industrial Development (Income Tax Relief) Act, who is referred to as a Minister?
- (a) Minister of Industry
  - (b) Minister of Finance
  - (c) Minister of National Planning and Economic Development
  - (d) Minister of Communication
19. What is the minimum value of non-current tangible assets for a company that can apply for a pioneer status?
- (a) ₦25 million
  - (b) ₦50 million
  - (c) ₦100 million
  - (d) ₦200 million

20. What is the amount of application fee to be paid by a pioneer company that seeks for an extension of the pioneer status?
- (a) ₦100,000
  - (b) ₦200,000
  - (c) ₦500,000
  - (d) ₦2,500,000
21. Income derived from the use of brain or exaction of energy is known as
- (a) Scarce Income.
  - (b) Earned Income.
  - (c) Chargeable Income.
  - (d) Assessable Income.
22. An outright dishonest action whereby the taxpayer seeks to minimise his tax liabilities through illegal act is known as tax
- (a) Dodging.
  - (b) Evasion.
  - (c) Chargeable.
  - (d) Reducing.
23. Which tier of government collects Motor Park fees and Domestic animal licence fee?
- (a) Federal Government.
  - (b) State Government.
  - (c) Local Government.
  - (d) Private Government.
24. An action whereby the taxpayer seeks to reduce to the lowest minimum his tax liability by taking advantage of the loopholes in the tax laws is known as
- (a) Tax Shifting.
  - (b) Tax Incidence.
  - (c) Tax Avoidance.
  - (d) Tax Allowance.
25. Which one of the following does not relate to a "person" in the context of the Personal Income Tax Act, 2004 (as amended)?
- (a) A resident.
  - (b) A community.
  - (c) An executor.
  - (d) A family.
26. A quorum for the meeting of State Internal Revenue Board is
- (a) 2
  - (b) 3
  - (c) 4
  - (d) 5

27. Taxes or levies collectible by the local governments do not include
- (a) Customary burial ground permit fees.
  - (b) Development levy not more than ₱100 per annum on all taxable individuals.
  - (c) Marriage, birth and death registration fees.
  - (d) Signboard and Advertisement permit fees.
28. Which of the qualities listed below is NOT required of a good tax system?
- (a) Certainty.
  - (b) Humility.
  - (c) Fairness.
  - (d) Convenience.
29. If the minimum tax exceeds the calculated tax, the excess tax is
- (a) Deducted from the calculated tax.
  - (b) Carried back to the first preceding year of assessment.
  - (c) Carried back to the third preceding year of assessment.
  - (d) Payable in addition to the calculated tax.
30. The following are transactions for which Tax Clearance Certificate (TCC) must be produced EXCEPT.
- (a) Application for government loan for industry or business.
  - (b) Application for membership of professional bodies.
  - (c) Application for Certificate of Occupancy.
  - (d) Registration of Motor Vehicles.
31. Withholding tax deducted at source from dividend due to a non-resident individual is collectible by
- (a) Country of resident of the recipient.
  - (b) State of residence of individual.
  - (c) Joint Tax Board.
  - (d) Federal Inland Revenue Service.
32. Which tier of Government is responsible for the collection of Fire Service Charge and Hotel Restaurant or Event Center Consumption tax (where applicable).
- (a) Federal and Local Governments.
  - (b) State Government.
  - (c) Federal and State Governments.
  - (d) Local Government.
33. Within how many days should a valid Notice of Appeal be filed, counting from the date of service of the notice of refusal to amend the assessment?
- (a) 30.
  - (b) 60.
  - (c) 15.
  - (d) 90.

34. The objectives of modern tax system EXCLUDES
- (a) Redistribution of income and wealth.
  - (b) Economic regulation.
  - (c) Payment of salaries.
  - (d) Revenue generation.
35. Which of the following is NOT among the functions of the Technical Committee of the State Board of Internal Revenue?
- (a) Consideration of all matters that may require professional and technical expertise and make recommendations to the Board.
  - (b) Advising Board on all its powers and duties.
  - (c) Provision of general policy guidelines relating to the functions of the State Service.
  - (d) Attending to all matters as may from time to time be referred to it by the Board.
36. The minimum number of members of the Tax Appeal Tribunal (TAT) that must be present to hear an appeal is
- (a) 6
  - (b) 5
  - (c) 3
  - (d) 7
37. The main difference between "taxes" and "levies" is that
- (a) taxes are contestable while levies are not contestable.
  - (b) levies are fixed while taxes are calculated on specified rates.
  - (c) levies are generic while taxes are computed on standard table.
  - (d) taxes are restrictive and specific while levies are penalties or fines.
38. The Annual Employers Returns and Tax Declaration are required by the Personal Income Tax Act, 2004 (as amended) to be filed with the relevant tax authority on or before
- (a) March 31 of the following year.
  - (b) April 30 of the following year.
  - (c) May 31 of the following year.
  - (d) January 31 of the following year.
39. The Personal Income Tax (Amendment) Act, 2011 states that Consolidated Relief Allowance (CRA) shall be
- (a) ₦200,000 or 1% of the gross income whichever is higher.
  - (b) ₦200,000 or 1% of the gross income whichever is lower.
  - (c) ₦200,000 or 1% of the gross income (whichever) is higher plus 20% of the gross income.
  - (e) ₦200,000 or 1% of the gross income whichever is higher plus 30% of the Gross income.

40. The Assessment Notice, raised at the discretion of the tax authority where returns have not been filed, after due date is called
- Administrative assessment
  - Best of judgement.
  - Revised assessment.
  - Provisional assessment.
41. The power to assess, collect and administer taxes of business enterprises under the Personal Income Tax Act (as amended) is vested in the
- Joint Tax Board
  - State Board of Internal Revenue
  - Joint State Revenue Committee
  - Local Government Revenue Authority
42. Which of the following is NOT an example of an Indirect Tax?
- Personal Income Tax
  - Value Added Tax
  - Excise Duty
  - Import Duties.
43. Which of the following is the time limit for filing a Notice of Objection to an assessment raised by the Federal Inland Revenue Service?
- 60 days from the date on the assessment notice
  - 90 days from the date on the assessment notice
  - 30 days from the date of the service of assessment notice
  - 30 days from the date on the assessment notice
44. Income derived from employment, business, profession or vocation is known as \_\_\_\_\_
- Legitimate Income
  - Unearned Income
  - Statutory Total Income
  - Earned Income
45. The following are the conditions for allowing donations as a deductible expense EXCEPT
- It should not be of a capital nature.
  - It must be made to one of bodies listed in Schedule 5 of Companies Income Tax Act
  - It could be made whether the company made profit or not.
  - (d) It must be made out of profit.
46. What term can be used to describe the imposition of Value Added Tax (VAT) at the federal level and Consumption Tax by some state governments on the same goods and services?

- (a) Double Taxation
  - (b) Similar Taxation
  - (c) Special Taxation
  - (d) Multiple Taxation
47. Research and Development have been defined as listed below EXCEPT
- (a) Equipment, rates, licences secret formula or process
  - (b) Intellectual property
  - (c) Accomplished results of a permanent nature which may be capitalised
  - (d) Information concerning industrial, commercial or scientific process
48. Taxes levied on consumption of goods and services are generally classified as
- (a) Direct Taxes
  - (b) Withholding Tax
  - (c) Indirect Taxes
  - (d) Joint Venture Tax
49. The aggregate of a person's properties either during his life time or on his death is known as \_\_\_\_\_.
- (a) Portfolio
  - (b) Assets
  - (c) Estate
  - (d) Trust
50. Transactions between related persons or group of persons is known as \_\_\_\_\_
- (a) Family transactions
  - (b) Artificial transactions
  - (c) Acceptable transactions
  - (d) Deferred transactions
51. Withholding tax deducted from a dollar (USD) denominated transaction should be remitted to an appropriate authority in \_\_\_\_ .
- (a) Deutsche mark
  - (b) Euro
  - (c) Dollars
  - (d) Pound sterling
52. Which agency of government is responsible for collection of Tertiary Education Tax in Nigeria?
- (a) Federal Inland Revenue Service
  - (b) State Internal Revenue Service
  - (c) Education Tax Fund Office
  - (d) Joint Tax Office
53. Which of the following is NOT a condition for an expense to qualify as an allowable deduction under the Personal Income Tax Act (as amended)?
- (a) Wholly
  - (b) Reasonably



- (c) Exclusively
- (d) Certainly

54. Miss Joy Peperenpe has just completed her study of Accounting and has been awarded Ordinary National Diploma (OND). She has been offered appointment in Gidado Local Government of Bauchi State. Details of her appointment contract are as follows:

Consolidated salaries per annum ₦230,000

Contributions to Pension Scheme and National Housing Fund at the rates of 7.5 % and 2.5% respectively of consolidated salaries. Miss Peperenpe has her mother and two sisters living with her. She was employed in January, 2021.

Calculate the personal tax to be paid by Miss Peperenpe

- (a) ₦200,000
  - (b) ₦230,000
  - (c) Nil
  - (d) ₦46,000
55. Characteristics of capital receipts listed below does not include
- (a) They are shown in the statement of financial position.
  - (b) They are recurrent.
  - (c) They are not available for distribution as dividend.
  - (d) They increase liabilities or reduce assets
56. Examples of revenue expenditures does not include
- (a) Repairs and maintenance
  - (b) Selling expenses
  - (c) General and administrative expenses
  - (d) Amount spent to improve assets
57. Income Chargeable to tax in Nigeria must possess these qualities EXCEPT
- (a) "accruing in"
  - (b) "received in"
  - (c) "derived from"
  - (d) "spent in".
58. The "principal place of residence" of an individual whose only source of income is pension is
- (a) His place of petty trading.
  - (b) That place nearest to his place of work.
  - (c) His state of origin.
  - (d) That place he usually resides.
59. Which of statements below is NOT a merit of Withholding Tax?
- (a) Withholding tax helps to bring obscure transactions into the tax net.
  - (b) Withholding tax increases the incidence of tax evasion.

- (c) Withholding tax does not enhance voluntary compliance.
- (d) Withholding tax helps to bring unknown taxpayer into the tax net.

60. Problems of withholding tax are listed below, EXCEPT
- (a) Payment to wrong Tax Authorities;
  - (b) Wrong Classification of Activities;
  - (c) Non-remittance and deductions;
  - (d) Complete or Correct Information

**PART II                      SHORT ANSWER QUESTIONS (SAQ)                      (40 MARKS)**

**ATTEMPT ALL QUESTIONS**

1. State one disadvantage of direct taxes.
2. State the legislation and the relevant tax authority for the collection of Personal Income Tax in Nigeria.
3. What is the main advantage of a regressive tax?
4. Consider the income and tax paid by the under listed taxpayers in the month of January 2023:

<b>Name of taxpayer</b>	<b>Income (₦)</b>	<b>Tax paid (₦)</b>
Ukommadu Ogochukwu	250,500	37,575
Amaechi Marian	320,000	48,000
Adedigba Ameerah	480,700	72,105

What classification of taxes was adopted by the tax authority?

5. State the relevant authority that is mandated to collect export duty.
6. State any two features of the tax structure in Nigeria.
7. Give two reasons in support of the type of tax structure in Nigeria.
8. Who is the legal adviser to the Joint Tax Board?
9. What is the tenure of a member (excluding an ex-officio member) of Federal Inland Revenue Service Board?
10. State any two functions of the Technical Committee of the Federal Inland Revenue Service Board.
11. What is the term used to describe the tests used to determine whether an activity is a proper economic business activity or merely money making, similar to a hobby?
12. Identify two objectives of Withholding Tax as contained in Personal Income Tax 2004 and Companies Income Tax 2004.
13. What is the provision of the law that permits the relevant tax authority to deny issuance of a tax clearance certificate to a taxpayer?
14. What is the term given to the amount of net income a taxpayer has available to invest, save or spend after income taxes?
15. The Nigerian tax system involve tripartite position namely
16. State any two (2) features of a good tax system.
17. State the two (2) classification of tax in accordance with the person that bears the burden of tax.
18. State any two (2) examples of revenue receipts.

19. Two merits of indirect taxation are ..... and .....
20. Two (2) demerits of direct taxation are ..... are .....
21. What is the type of tax where the rate of tax reduces as income increases?
22. A tax system used for redistribution of income is called .....
23. Out of the types of tax systems, which is the most equitable.
24. What is Benefit-In-Kind (BIK)?
25. Who is the Chairman of the Joint Tax Board?
26. The relevant tax authority responsible for the collection of tax relating to foreign Diplomats posted to Nigeria is .....
27. An individual who carries out his work in more than one place in Nigeria is referred to as an .....
28. The tax imposed on manufactured goods within the Government territory, collected by the Nigeria Customs service is known as.....
29. Incidence of Taxation means .....
30. Three tiers of government charged with administration of tax in Nigeria are .....
31. False declarations such as under-reporting income or over-reporting reliefs and allowances are examples of .....
32. An attempt by taxpayers to escape tax liability (wholly or partially) by taking advantage of the loopholes in the tax laws, not by breaking it is known as .....
33. List any two (2) members of the Joint State Revenue Committee (JSRC).
34. Profits from non-pioneer business are taxable during and after the period of pioneer. TRUE or FALSE.
35. The term "Territory" in the Nigerian tax laws means.....
36. State two (2) conditions under which a member of the Federal Inland Revenue Board shall cease to be a member.
37. What is Tax Shifting?
38. Which Nigerian source of tax laws describes the doctrine of *stare decisis*, that is, the judicial precedents?
39. The appointment of the Secretary to the Joints Tax Board (JTB) is usually done by .....
40. What is a Tax Heaven?

### **MULTIPLE CHOICE QUESTIONS (MCQ) SOLUTION**

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

- 18. A
- 19. A
- 20. A
- 21. B
- 22. B
- 23. C
- 24. C
- 25. B
- 26. D
- 27. B
- 28. B
- 29. D
- 30. B
- 31. D
- 32. B
- 33. A
- 34. C
- 35. C
- 36. C
- 37. D
- 38. D
- 39. C
- 40. A
- 41. B
- 42. A
- 43. C
- 44. D
- 45. C
- 46. A
- 47. A
- 48. C
- 49. C
- 50. B
- 51. C
- 52. A
- 53. D
- 54. C
- 55. B
- 56. D
- 57. D
- 58. D
- 59. B
- 60. D

**SHORT ANSWER QUESTIONS (SAQ) SOLUTION**

- 1. (i) Disincentive to work.
- (ii) Easy to evade.
- (iii) Affects disposable income negatively.
- (iv) Adversely affect savings and investment.

- (v) Create disincentive to efforts and therefore affect the economic functions of the taxpayers.
2. Personal Income Tax Act Cap. P8 LFN 2004 (as amended)  
State Internal Revenue Service (SIRS)
  3. (i) It creates incentive to efforts.  
(ii) It has no disincentive to savings and investment,
  4. Neutral or Proportional Tax (a flat rate of 15% was imposed on each of the taxpayers)
  5. The Nigerian Customs Service (NCS)
  6. Features of the tax structure in Nigeria are:
    - (i) There is a very narrow tax base.
    - (ii) The types of taxes that are being administered are very few.
    - (iii) Total revenue from taxes does not represent a significant percentage of proportion of the national income.
  7. Reasons in support of the type of tax structure in Nigeria include:
    - (i) Income level is very low;
    - (ii) The self-employed people do not keep proper accounts, which tax authorities can rely upon;
    - (iii) Companies income tax appears to be imposed on the few large public companies since most other companies do not render accurate accounts;
    - (iv) Marketing of properties is largely underdeveloped and as such it is difficult to calculate capital gains tax on such properties;
    - (v) Manufacturing activities are too narrow as such excise duty cannot be broadly used; and
    - (vi) High incidences of tax evasion and tax avoidance.
  8. The Legal Adviser of the Federal Inland Revenue Service Board.
  9. Four (4) years renewable once
  10. (i) Consider all tax matters that require professional and technical expertise and make recommendations to the Board.  
(ii) Advise the Board on any aspect of the functions and powers of the Federal Inland Revenue Service under the Act.  
(iii) Attend to such other matters as may from time to time be referred to it by the Board.
  11. Tests of trade
  12. (i) Discourage, minimise or prevent incidence of tax evasion  
(ii) Increase the tax net of the government  
(iii) Serve as a veritable source of revenue to the government  
(iv) Serve as a collection mechanism for income tax
  13. (i) When a person who has deducted any tax but fails to pay the tax so deducted to the relevant tax authority, or  
(ii) When a taxpayer fails to respond to examination letter from tax authority, or  
(iii) When a taxpayer fails to fulfil all its tax obligations
  14. Disposable income
  15. The Tax Policy, The Tax Law and The Tax Administration.
  16. (i) Economic growth facilitator;  
(ii) Tolerable tax burden;  
(iii) Minimum sacrifice;  
(iv) Highly canonical;  
(v) Economic stimulator,  
(vi) Common good; and  
(vii) Maximum social advantage

17. The classification of tax in accordance with the person that bears the burden of tax are:
  - (i) Direct taxes; and
  - (ii) Indirect taxes
  
18.
  - (i) Income from sales or services rendered
  - (ii) Discount receive from creditors or suppliers
  - (iii) Sale of scrap
  - (iv) Interest earned
  - (v) Dividend received
  - (vi) Rent received
19. Merits of indirect taxation are:
  - (i) Easy to pay;
  - (ii) Difficult to evade;
  - (iii) Highly productive;
  - (iv) Social impact;
  - (v) Promotes Capital Formation;
  - (vi) Protect Domestic Industries; and
  - (vii) Discrimination
20. Demerits of Direct Taxation are:
  - (i) Disincentive to work;
  - (ii) Easy to evade;
  - (iii) Disincentive to Foreign Investment;
  - (iv) Unpopular and painful; and
  - (v) Unpleasant to Entrepreneurs
21. A Regressive Tax
22. A Progressive Tax
23. Progressive
24. BIK is earnings usually from employment other than cash or anything that is paid for with employer's money that one cannot claim as a legitimate expense
25. The Chairman of the Federal Inland Revenue Service.
26. Tax Authority of home country.
27. Itinerant worker.
28. Excise duty
29. Incidence of Taxation means the person who bears the burden of tax or the distribution of a particular tax's economic burden among the affected parties.
30. The Federal, the State and Local Governments.
31. Tax evasion.
32. Tax Avoidance
33.
  - (i) The Chairman of the State Internal Revenue Service as Chairman;
  - (ii) The Chairman of each of the Local Government Revenue Committee;
  - (iii) A representative of the Bureau of Local Government Affairs not below the rank of a Director;
  - (i) A representative of Revenue Mobilisation Allocation and Fiscal Commission (RMAFC), as an observer;
  - (ii) The State Sector Commander of the Federal Road Safety Commission (FRSC), as an observer;
  - (iii) The Legal Adviser of the State Internal Revenue Service; and

- (iv) The Secretary of the Committee who shall be a staff of the State Internal Revenue Service.
34. FALSE.
35. A state or federal capital territory
36. (i) He resigns his appointment as a member of the Board by notice, under his hands addressed to the President;
- (ii) He becomes of unsound mind;
- (iii) He becomes bankrupt or makes a compromise with its creditors;
- (iv) He is convicted of felony or of any offence involving dishonesty or corruption;
- (v) He becomes incapable of carrying on the functions of his office either arising from an infirmity of mind and body;
- (vi) The President is satisfied that it is not in the interest of FIRS or in the interest of the public for the person to continue in office and the President removes him from office;
- (vii) He has been found guilty of contravening the Code of Conduct Bureau and Tribunal Act or gross misconduct in relation to his duties;
- (viii) In the case of a person possessing professional qualification, he is disqualified by a competent authority; and
- (ix) In the case of a person who becomes a member by virtue of the office he occupies, he ceases to hold such office.
37. Tax shifting refers to the process of passing the burden of the tax from the person who is legally liable to pay the tax to the authority to the person who finally bears the burden of the tax.
38. Case laws.
39. The Chairman of the Federal Civil Service commission.
40. Jurisdiction which imposes a low or zero rate of tax and allows money to be stored in secrecy. e.g. Cayman Islands, Monaco etc



# THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

## APRIL 2023: PROFESSIONAL EXAMINATION

### FOUNDATION: BUSINESS LAW

**TUESDAY APRIL 18, 2023**

**EXAM NO.....**

**PART I**

**MULTIPLE CHOICE QUESTIONS (MCQ)**

**(60 MARKS)**

#### **ATTEMPT ALL QUESTIONS**

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

1. The set of laws that regulates the relationship between different independent or sovereign countries is commonly known as
  - (a) Criminal law
  - (b) Municipal/Domestic law
  - (c) International law
  - (d) Private law
  
2. The criminal law which operates in the northern part of Nigeria is known as
  - (a) The Penal Code
  - (b) The Hammurabi Code
  - (c) The Criminal Code
  - (d) The ISPS Code
  
3. One of the problems commonly associated with the application of common law is
  - (a) Its fairness and justness
  - (b) Its rigidity which made it difficult for litigants to obtain justice
  - (c) Sufficiency and adequacy of writs for commencement of court actions
  - (d) Its flexibility for and simplicity for comprehension of common man
  
4. The laws made by the legislative arm of the local government is commonly referred to as
  - (a) Council laws
  - (b) Municipal laws
  - (c) Bye-Laws
  - (d) Subsidiary legislation
  
5. The acronyms UNCITRAL in its full rendition means
  - (a) Unified Commission of Nations on Trade Law



- (b) United Committee on National and International Trade Law
  - (c) United Nations Commercial and International Trade Law
  - (d) United Nations Commission on International Trade Law
6. The important part of the contract which go to the root of the contract and a breach of which entitles an aggrieved party to sue for damages and avoid the contract is called .....
- (a) Warranty
  - (b) Implied terms
  - (c) Express terms
  - (d) Conditions
7. A partnership business where there is no profit is known as
- (a) Illegal partnership
  - (b) General partnership
  - (c) Joint partnership
  - (d) Legal partnership
8. The reason given for a decision by a judge when delivering judgement is known as
- (a) Per incuriam
  - (b) Obiter dictum
  - (c) Ratio decidendi
  - (d) The fact speaks for itself
9. A situation where an agent enters into a contract with a third party and reveals the name of his principal is known as
- (a) Disclosed principal
  - (b) Unnamed but disclose principal
  - (c) Obscure principal
  - (d) Agent of principal
10. The following are instruments by which a company raises capital **EXCEPT**
- (a) Cheque
  - (b) Bonds
  - (c) Shares
  - (d) Debenture
11. Two major examples of tax statutes in Nigeria are:
- (a) University of Lagos Act and Lagos State University Law
  - (b) The Exclusive Legislative List and the Concurrent Legislative List both in the Second Schedule of the CFRN 1999 (as amended)
  - (c) Companies Income Tax Act (CITA) and Tertiary Education Tax
  - (d) The Chartered Institute of Taxation of Nigeria, (CITN) Act and The Institute of Chartered Accountants of Nigeria, (ICAN) Act
12. One major distinguishing feature of law of tort is that
- (a) It is an agreement that will be enforced by the courts
  - (b) It is an offence with criminal consequences
  - (c) The parties to an action in tort are the State and the Defendant/Accused
  - (d) It is a breach of personal duties fixed by law

13. Which of the following is the aim of criminal law?  
(a) Persecute the protester  
(b) Award damages to victims  
(c) Assuage the aggrieved  
(d) Penalise the offender
14. The group of Courts categorised as Special Courts are  
(a) District Courts, Area Courts and Magistrate Courts  
(b) Sharia Courts, Customary Courts and Upper Area Courts  
(c) Supreme Courts, Court of Appeal and Customary Court of Appeal  
(d) Juvenile, Coroners and Military Courts/Tribunals
15. The court conferred with original jurisdiction over the revenue of the Federal Government is  
(a) Federal High Court  
(b) National Industrial Court  
(c) Arbitration and Conciliation Court  
(d) Revenue Court
16. Goods displayed with price tag attached in a self-service store is known as  
(a) Offer  
(b) Counter offer  
(c) Price  
(d) Invitation to treat
17. A tort that affects personal safety is called  
(a) Slander  
(b) Libel  
(c) Battery  
(d) Defamation
18. Parties to civil proceedings are the ----- and -----  
(a) State and the accused  
(b) Plaintiff and the Accused  
(c) Plaintiff and the Defendant  
(d) Plaintiff and Bailiff
19. A company limited by guarantee must  
(a) not have share capital  
(b) have share capital  
(c) liability of its members is not limited  
(d) have enough share
20. An agency which is created when a person allows another person to hold himself out as his agent, even though such relationship does not exist is ----  
(a) Agency by Ratification  
(b) Express Appointment

- (c) Agency by Estoppel
  - (d) Implied Agency
21. Which of the following courts has exclusive jurisdiction on tax matters of a state?
- (a) Supreme Court
  - (b) Court of Appeal
  - (c) Federal High Court
  - (d) State High Court
22. An Administrator of a company may be appointed by
- (a) Company Secretary
  - (b) A Court Order
  - (c) Probate Registrar
  - (d) Chief Registrar of the Federal High Court
23. Which of these courts is referred to as a Special Court?
- (a) Juvenile Court
  - (b) Magistrate Court
  - (c) High Court
  - (d) Supreme Court
24. Which of the alternatives listed hereunder is an attribute of Customary law.
- (a) Acceptance
  - (b) Notification
  - (c) Advocate
  - (d) Story
25. A situation where a manufacturer or seller is held liable for placing a defective product into the hands of a consumer is known as
- (a) Hire Purchase
  - (b) Product Liability
  - (c) Take Off
  - (d) Agency
26. Which of the following is NOT a duty of the hirer in hire purchase transaction?
- (a) To take care of the goods
  - (b) To give report of his performance or earnings
  - (c) To accept delivery of the goods
  - (d) To pay the instalments when due
27. Agency of necessity may be created in the following ways **EXCEPT** where
- (a) There is no market for the goods
  - (b) The agent acted in good faith and in the best interest of the principal
  - (c) The agent acted to prevent irreparable loss to the principal
  - (d) There is real and commercial necessity
28. What is the effect where the principal becomes insane under agency law?
- (a) The third party will be indemnified

- (b) The agent will be liable
  - (c) The contract will be terminated
  - (d) The contract will continue
29. Which of the following is a remedy for breach of contract?
- (a) Bail or recognisance
  - (b) Detention in police custody
  - (c) Jail term
  - (d) Damages
30. In sale of goods, the transaction is complete when the
- (a) Parties have negotiated
  - (b) Buyer identifies the goods
  - (c) Price is fixed
  - (d) Property in the goods are transferred from the seller to the buyer
31. A director who is unaffected by the rules of retirement and rotation of directors in a company is called
- (a) an executive director
  - (b) a life director
  - (c) a managing director
  - (d) an everlasting director
32. Where a person is not duly appointed as a director though other directors are accustomed to act on his directions and instructions, he is known as:
- (a) pseudo director
  - (b) shadow director
  - (c) chief operations officer
  - (d) MD/CEO
33. A casual vacancy arises in the directorship of a company in any of the following ways **EXCEPT**
- (a) Death
  - (b) Resignation
  - (c) Removal
  - (d) Transfer
34. The statutory minimum age of a director in a company is:
- (a) 21
  - (b) 18
  - (c) 24
  - (d) 70
35. A company that has not appointed a secretary after the commencement of the Companies and Allied Matters Act, 2020, must do so within a period of
- (a) 12 months
  - (b) 18 months
  - (c) 6 months
  - (d) 9 months

36. A situation where only one party is under the mistaken assumption and the other party is aware that the other contracting party is under a mistake is known as
- (a) Mutual mistake
  - (b) Unilateral mistake
  - (c) Non est factum
  - (d) Common mistake
37. An offer made in response to a previous offer by the other party during negotiations for a final contract is known as
- (a) Invitation to tender
  - (b) Counter offer
  - (c) Original offer
  - (d) Capacity
38. The document containing the rules and regulations including the norms and ethics concerning the ways and manner in which a country is to be administered is known as
- (a) Bye law
  - (b) CAMA
  - (c) Constitution
  - (d) Laws
39. One of the following is an attribute of a Rigid constitution
- (a) It can be easily amended
  - (b) It can be overturn
  - (c) It cannot be changed or amended easily
  - (d) It does not require special process in its amendment
40. A public limited company must hold its statutory meeting from the date of incorporation within..... period
- (a) 6 months
  - (b) 1 month
  - (c) 6 weeks
  - (d) 18 months
41. In sales of Goods, a lien is.....
- (a) Is the right to retain possession of the goods until payment of the price
  - (b) Is the power to give out goods until payment of the price.
  - (c) Is the right to retain possession of the goods before payment of the price
  - (d) Is the right to sell the goods when failure to pay arise
42. The holder that is not entitle to any right to participate beyond a certain amount in any distribution by way of dividend, redemption or winding up is called.....
- (a) Equity shares
  - (b) Equality shares
  - (c) Debenture
  - (d) Preference shares
43. The person who carries out the winding up process of a company is called .....
- (a) Liquidator
  - (b) Receiver

- (c) Promoter
  - (d) Proxy
44. The decision of an Arbitral Tribunal is known as
- (a) Arbitral Award
  - (b) Court Judgement
  - (c) Court decision
  - (d) Meditation
45. All but **ONE** of the following is an obligation of the owner under common law in a Hire Purchase contract
- (a) Fitness for purpose
  - (b) Warranty of quiet possession
  - (c) Payment of Instalment
  - (d) Good title to the goods
46. Which of the following can be regarded as legislation within a country
- (a) Judicial precedents
  - (b) Acts
  - (c) Voting
  - (d) Statutory interpretation
47. The correct designation of the head of the Supreme Court in Nigeria is
- (a) Chief Justice of Nigeria
  - (b) Chief Justice of the Supreme Court
  - (c) President of the Supreme Court of Nigeria.
  - (d) Director-General of the Supreme Court of Nigeria
48. Which one of the following is **NOT** a term used in criminal prosecution?
- (a) Imprisonment
  - (b) Arraignment
  - (c) Damages
  - (d) Sentencing
49. A fundamental breach of contract will **NOT** occur **EXCEPT** when **ONE** of the following events takes place
- (a) A party to the contract is not entitled to protection under an exemption clause
  - (b) A party to the contract relies on exemption clauses inserted in the contract for his benefit
  - (c) The right of an injured party to repudiate a contract is guaranteed
  - (d) There is a failure by one of the parties to the contract to perform a primary obligation which has the effect of depriving the other party of the benefit of the contract
50. Agency may be created in any of the following ways **EXCEPT**
- (a) Agreement
  - (b) Subrogation
  - (c) Necessity
  - (d) Estoppel

51. Which one of the following is regarded as the constitution of a registered company?  
(a) Bye-law  
(b) Memorandum and Articles of Association  
(c) Agreement  
(d) Members Register
52. The body corporate set up to advise the Minister of Finance on all matters that relate to the securities industry is .....
- (a) The Nigerian Police Force  
(b) The Securities and Exchange Commission  
(c) The Nigerian Security and Exchange Commission  
(d) Finance Minister
53. Capacity to enter into a partnership is governed by -----
- (a) Partnership deed  
(b) Partnership law  
(c) Partnership agreement  
(d) Law of contract
54. The phrase Merchantable Quality means
- (a) Fit for purpose  
(b) Fit for its normal purpose  
(c) Fit and proper  
(d) Sales by sample
55. The board of directors must give the secretary ----- written notice of intention to remove the secretary from office
- (a) 7 months  
(b) 7 working days  
(c) 7 weeks  
(d) 7 hours
56. One of the common types of contracts commonly used in the Nigerian oil and gas industry is
- (a) Production sharing contracts  
(b) Oil industry employment contracts  
(c) Building leases contract  
(d) Oil exploration licence
57. The sum of money payable by the producer on the quantity of the oil produced at the percentage fixed by law is known as
- (a) Exempted profits  
(b) Oil dividends  
(c) Petroleum profit tax  
(d) Royalty
58. The imposition of income tax on individuals, communities and families and on executors and trustees is carried out under the
- (a) Deductions Tax Act  
(b) Imposition Tax Act

- (c) Personal Income Tax Act  
(d) Companies Income Tax Act
59. The tax of an itinerant worker or person - other than individual taxable under the Exclusive Legislative - List for any year of assessment is to be collected by
- The Federal Board of Internal Revenue
  - The individual's deemed state of residence for that year
  - Tax Appeal Commissioners
  - The Local Government authority which the individual last visited
60. One of the following is a non-taxable benefit in the hands of an employee/recipient
- maintenance of child education where this is disallowed by the relevant income tax law
  - Compensation for loss of office
  - rent payable on service-occupation premises by an employee
  - any asset other than living accommodation which is owned by an employee

**PART II                          SHORT ANSWER QUESTIONS (SAQ)                          (40 MARKS)**

**ATTEMPT ALL QUESTIONS**

- Laws passed for Nigeria before the 1954 Federal Constitution by the legislative body during colonial era was known as \_\_\_\_\_
- The end product of the process of passing a Bill into law by the National Assembly is \_\_\_\_\_
- The National Assembly is composed of the \_\_\_\_\_ and \_\_\_\_\_
- The rules and regulations made by the legislative branch of a Local Government Council, for the governance of its Local Government Area (LGA) is called \_\_\_\_\_
- The laws passed by Military Government at Federal level, is \_\_\_\_\_ while laws passed by Military Government at State level is \_\_\_\_\_
- A Company whose liabilities exceed its assets is said to be \_\_\_\_\_
- The types of contracts that is valid and binding on an infant is \_\_\_\_\_
- An Administrator of a company is appointed by \_\_\_\_\_
- The law passed by National Assembly in the form of Acts of parliaments or Statutes is \_\_\_\_\_
- Goods display with price tickets attached in a self-service store is an \_\_\_\_\_
- The Joint Tax Board comprises the Chairman of the Federal Inland Revenue Service and \_\_\_\_\_
- The written acknowledgement of the indebtedness of a company setting out the terms and conditions of a loan is known as \_\_\_\_\_
- \_\_\_\_\_ arises where the ownership and the possession of goods become vested in different persons.
- Judicial proceedings for the winding up of a company must be commenced before the \_\_\_\_\_
- Careless statements that causes financial and economic loss to a person or an entity is known as \_\_\_\_\_
- The aspect of a judgment of a higher court, which a lower court is duty bound to apply under the doctrine of binding precedent and as long as both courts are within the same judicial hierarchy is known as \_\_\_\_\_



17. Any dispute between employers and workers or between workers and workers but connected with employment is known as a \_\_\_\_\_
18. The supreme law of the Federal Republic of Nigeria is the \_\_\_\_\_
19. The final authority for receiving the award made by the Industrial Arbitration Panel is the Minister in charge of \_\_\_\_\_
20. The court of first instance for the adjudication of labour and industrial disputes is the \_\_\_\_\_
21. Equity in general sense means \_\_\_\_\_
22. A body of persons who carry on the business of banking is called \_\_\_\_\_
23. A new offer which terminates the initial offer is known as \_\_\_\_\_
24. What is past consideration
25. The articles of association regulate the company's \_\_\_\_\_
26. Where one person acts without prior authorisation of another person who subsequently adopts the act, there is agency by \_\_\_\_\_
27. In a limited partnership, there must be at least one \_\_\_\_\_
28. Upon the commencement of official liquidation, the hitherto powers exercisable by the directors of the company, become vested in the \_\_\_\_\_
29. The process by which a company is dissolved or liquidated is called \_\_\_\_\_
30. The two types of company resolutions are \_\_\_\_\_ and \_\_\_\_\_
31. The "identification of a company" required under section 10 of the Companies Income Tax Act, and meant to be displayed by the company on all business transactions with other companies and individuals, is the \_\_\_\_\_ of the company.
32. Notwithstanding where they have arisen or whether or not they have been brought into or received in Nigeria, the profits of a Nigerian company shall be deemed to have \_\_\_\_\_
33. Notwithstanding anything to the contrary, insurance business shall be taxed under the CITA as a Nigerian company whose profit accrued in part \_\_\_\_\_
34. The rate of Tertiary Education tax imposed on assessable profit of Nigerian companies is \_\_\_\_\_
35. Under Section 3 of the Tertiary Education Trust Fund Act, the purpose for which the trust fund was established, was for the rehabilitation, restoration and consolidation of \_\_\_\_\_ in Nigeria.
36. Domestic agreement as a general rule lacks \_\_\_\_\_
37. The number of parties in agency transaction is \_\_\_\_\_
38. The duties of a promoter end when \_\_\_\_\_
39. The process by which parties to a dispute engage the assistance of a neutral third party to intervene in resolving the dispute is known as \_\_\_\_\_
40. A partnership in which all members are involved in the management of the firm's business is \_\_\_\_\_

### **MULTI CHOICE QUESTIONS (MCQ) SOLUTION**

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

8. C
9. A
10. A
11. C
12. D
13. D
14. D
15. A
16. D
17. C
18. C
19. A
20. C
21. C
22. B
23. A
24. A
25. B
26. B
27. A
28. C
29. D
30. D
31. B
32. B
33. D
34. B
35. C
36. B
37. B
38. C
39. C
40. A
41. A
42. D
43. A
44. A
45. C
46. B
47. A
48. C
49. D
50. B

51. B
52. B
53. D
54. B
55. B
56. A
57. D
58. C
59. B
60. B

### **SHORT ANSWER QUESTIONS (SAQ) SOLUTION**

1. Ordinances
2. Act
3. Senate and House of Representative
4. Bye – laws
5. Decrees, Edicts
6. Insolvent
7. Necessaries
8. Court order
9. Legislation
10. Invitation to treat
11. A representative from each state of the federation
12. Debenture
13. Bailment
14. Federal High Court
15. Negligent misstatement
16. Ratio decidendi
17. Trade dispute
18. Constitution
19. Labour, Employment and Productivity
20. Natural Industrial Court
21. Fairness
22. Bankers
23. Counter offer
24. A promise which follows a completed act
25. Internal relations
26. Necessity
27. General partner
28. Official liquidator
29. Winding up
30. Ordinary and special

31. Incorporation number
32. Accrued in Nigeria
33. Outside Nigeria
34. 2½% or 2.5%
35. Tertiary education
36. Intention to create legal relations
37. Three (3)
38. Company is registered
39. Mediation
40. General partnership



# 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:

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

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

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

**Current liabilities:**

Trade payables	16,900	15,200
Income tax payable	<u>1,500</u>	<u>1,000</u>
	<u>18,400</u>	<u>16,200</u>
	<b><u>54,620</u></b>	<b><u>46,500</u></b>

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

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

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

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

**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**

<b>Cashflow from operating activities:</b>	<b>N'000</b>	<b>N'000</b>
Profit before taxation		4,200
<b>Adjustments:</b>		
Depreciation (w1)		<u>2,100</u>
		6,300
<b>Movement in working capital:</b>		
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)		<u>1,300</u>
Cash generated from operations		3,400
Income tax paid (w4)		<u>(1,000)</u>
<b>Net cash generated from operating activities:</b>		2,400
<b>Cashflow from investing activities:</b>		
Acquisition of Sister Ltd net cash acquired (w5)	(900)	
Purchase of property plant and equipt (w1)	<u>(2,200)</u>	(3,100)
<b>Cashflows from financing activities:</b>		
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)	<u>(40)</u>	
Net cash flow from financing activities		<u>960</u>
Net Cash and cash equivalent		260
Cash and cash equivalent at the beginning		<u>500</u>
Cash and cash equivalent at year end		<u>760</u>

**Working Notes****(w1) Property Plant & Equipment**

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

**(w2) Goodwill**

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

**(w3) Non-controlling interest**

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

**(w4) Income Tax**

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

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

	N'000
Cash consideration	1,000
Cash and cash equivalent	<u>(100)</u>
	<u>900</u>

- (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.

### **EXAMINER'S REPORT**

Part (a) of the question tests preparation of consolidated statement of cash flows using indirect method in accordance with IAS 7 while Part (b) tests candidates' knowledge of how to identify and account for an associate company using cost, fair value and equity method. It also tests the conditions under when a parent company is exempted from preparing and presenting consolidated financial statements.

Majority of the candidates attempted the question being and their performance was very poor in parts (a) and (bi) while the performance was above average part (bii).

Common pitfalls were the inability of the candidates to differentiate between statement of cash flow and statements of financial position. Also some of them were unable to differentiate between separate financial statements and consolidated financial statements.

Candidates are advised to do indepth study of group financial statements and to familiarise themselves with the provisions of IFRS 10 on consolidated financial statements when preparing for future examination.

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

<b>Suanu Limited</b>	
<b>Statement of comprehensive income for the year ended December 31, 2021</b>	
<b>₦</b>	
Turnover	116,500
Cost of goods sold	<u>(85,000)</u>
Gross profit	31,500
Distribution cost	(7,500)
Administration expenses	(8,400)
Other overhead expenses	<u>(3,100)</u>
Net profit	<u>12,500</u>

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

	₦	₦
<b>Non-current assets</b>		55,500
<b>Current assets:</b>		
Inventory	9,050	
Receivables	3,000	
Bank	<u>3,400</u>	<u>15,450</u>
<b>Total assets</b>		<b><u>70,950</u></b>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Share capital	40,000	
Retained earnings	<u>8,450</u>	48,450
<b>Non-current liability:</b>		
Loan notes		12,500
<b>Current liabilities:</b>		
Payables	7,000	
Accruals	<u>3,000</u>	<u>10,000</u>
<b>Total Equity and Liabilities</b>		<b><u>70,950</u></b>

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**

<b>S/N</b>	<b><u>Ratios/Formulae</u></b>	<b><u>Company ratios</u></b>	<b><u>Industry average</u></b>
(i)	<b>Gross profit %:</b> $\frac{\text{Gross profit} \times 100}{\text{Turnover}}$ $\frac{\text{₦31,500} \times 100}{\text{₦116,500}}$	27.0%	29.8%
(ii)	<b>Net profit to sales %:</b> $\frac{\text{Net profit} \times 100}{\text{Turnover}}$ $\frac{\text{₦12,500} \times 100}{\text{₦116,500}}$	10.7%	12.5%

**(iii) Working capital ratio:**

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{\text{N15,450}}{\text{N10,000}} = 1.5:1 \quad 1.4:1$$

**(iv) Inventory turnover:**

$$\frac{\text{Cost of goods sold}}{\text{Average inventory}} = \frac{\text{N85,000}}{\frac{1}{2}(\text{N21,500} + \text{N9,050})} = 5.6 \text{ times} \quad 10.7 \text{ times}$$

**(v) Return on capital employed**

$$\frac{\text{Net profit} \times 100}{\text{Equity}} = \frac{\text{N12,500} \times 100}{\text{N48,450}} = 25.8\% \quad 20.2\%$$

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.  $(31,500 - \text{N}12,500) / \text{N}116,500$ ] 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.  $\text{N}116,500 / \text{N}48,500$ ) 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)**

**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)	<u>20,000</u>
Tax expense for the year	<u>1,067,500</u>

- 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 ₦1,047,500 (₦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.

## 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.
- (a) 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 processes:
- (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 'entitled' 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) distinct 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 ₦240,000 x %)
	₦	₦	₦
Handset	50,000	19.2	46,080
Network services (₦17,500 x 12)	<u>210,000</u>	<u>80.8</u>	<u>193,920</u>
Total	<u>260,000</u>	<u>100</u>	<u>240,000</u>

(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	<u>3,840</u>
	<u>20,000</u>

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:

	<b>₦'000</b>	<b>₦'000</b>
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	<u>26,200</u>	
and value in use ₦25m x 1.6257	<u>40,000</u>	
Hence , recoverable amount is		<u>40,000</u>
Impairment loss		<u>8,000</u>

- (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	<u>8,000</u>	<u>(80,000)</u>
Carrying amount December 31, 2021		<u>40,000</u>

- (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	<u>20,000</u>	
		<u>(100,000)</u>
Carrying amount December 31, 2022		<u>20,000</u>



# THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

## APRIL 2023: PROFESSIONAL EXAMINATION

### FOUNDATION: ECONOMICS

**WEDNESDAY APRIL 19, 2023**

**EXAM NO.....**

**PART I**

**MULTIPLE CHOICE QUESTIONS (MCQ)**

**(60 MARKS)**

#### **ATTEMPT ALL QUESTIONS**

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

1. In International trade, country specialises in the production of a commodity or group of commodities for which it has
  - a. A buoyant market
  - b. Plenty of raw materials
  - c. The greatest relative advantage
  - d. Executive manpower
  
2. In making choices, we assume that economic agents are.....
  - a. Insatiable
  - b. Unreliable
  - c. Rational
  - d. Irrational
  
3. In ranking of preferences,
  - i. Items of need to be satisfied are arranged in ascending order of importance
  - ii. Items of need to be satisfied are arranged in descending order of importance
  - iii. Items that will produce maximum satisfaction with minimum or least cost are identified
  - iv. The items on top of the list will tend to be satisfied first
  - a. iv
  - b. i
  - c. ii
  - d. ii, iii and iv
  
4. Which of the following is true at the quantity of output where average cost {AC} per unit has reached its minimum level?
  - a.  $AVC=FC$
  - b.  $MC=AVC$

- c.  $MC=AC$
  - d.  $AC=AFC$
5. If an increase in the demand for one commodity will reduce the demand for another commodity, this type of demand is called
- a. Composite demand
  - b. Elastic demand
  - c. Competitive demand
  - d. Inelastic demand
6. The term consumer's surplus refers to the difference between
- a. What the consumer would be willing to pay and what he actually pays
  - b. What the consumer would be willing to consume and what he actually consumes
  - c. What the consumer would be willing to pay and what the producer sells
  - d. What the consumer would be willing to consume and what he actually pays
7. An economic good is described as a good which is
- a. Limited in availability relatively to desired use
  - b. Useful and occupied a space
  - c. In high demand and transferable
  - d. Unlimited in supply
8. Inferior goods are defined in economics as goods
- a. Whose quality is low
  - b. Consumed by very poor people
  - c. Whose consumption falls when the consumers' incomes rise
  - d. Which satisfy only the basic needs
9. What is the relationship between value of money and prices?
- a. Inversely related
  - b. Positively related
  - c. No relationship
  - d. Symmetrically related
10. Consumer price index does NOT measure
- a. General price level
  - b. Inflation
  - c. Average change in price level
  - d. Income
11. Studying the effects that choices have on the individual markets within the economy is part of
- a. Microeconomics
  - b. Scarcity
  - c. Public finance
  - d. Macroeconomics

12. The fact that wants cannot be fully satisfied with available resources reflects the concept of
- Scarcity
  - The big tradeoff
  - The what tradeoff
  - Incentives
13. In a free market economy, available resources are more efficiently allocated by complete reliance on
- Development planning
  - Strategic planning
  - Capital budgeting
  - Price system
14. Which of these statements is false when describing factors of production?
- Economic scarce resources are also called factors of production
  - They include: the workers, equipment, raw materials, and organisers used to produce economic goods
  - They are limited in availability related to productive uses.
  - They cannot be exchanged through the market
- i only
  - i and iii
  - iv only
  - i only
15. Marginal cost is
- The lowest cost of producing goods
  - The cost of production of the most efficient firm in an industry
  - The cost of production of the most inefficient firm in an industry
  - The cost of production of the last or extra unit of goods produced by a firm
16. Under the indifference curve, consumer obtains maximum satisfaction at the point of tangency between the
- budget line and income
  - budget line and the relevant indifference curve
  - budget line and lowest indifference curve
  - the income line and budget line
17. When the general price level rises
- Investment rises as a result of the real wealth effect
  - Consumption increases as a result of the multiplier effect
  - Investment rises as a result of the multiplier effect
  - Consumption falls as a result of the real wealth effect
18. A rise in income will, *ceteris paribus*, bring about
- A movement along the demand curve
  - A leftward shift of the demand curve
  - A rightward shift of the demand curve
  - No effect of the demand curve

19. Given the table below, the marginal cost of the 3<sup>rd</sup> unit of output is

Units of output	Table cost
1	20
2	32
3	42
4	48
5	50

- a. 2
  - b. 6
  - c. 10
  - d. 12
20. With simple algebraic manipulations we can show that the marginal utility theory and the indifference curve theory gives
- a. Different results
  - b. Unknown results
  - c. Engel Curve result
  - d. Identical results
21. International trade is controlled for all, EXCEPT one of these reasons
- a. Raise revenue
  - b. Prevent dumping
  - c. Grow domestic economy
  - d. Encourage world growth
22. Economic growth refers to
- a. Positive change in pattern of living
  - b. Seeing new structures in place
  - c. The steady increase in aggregate output over time
  - d. Increase in aggregate investment.
23. Which of the following will cause the real interest rate to decrease in the money market?
- a. A decrease in tax
  - b. A decrease in money supply
  - c. An increase in money supply
  - d. An increase in aggregate demand
24. Given  $C = 3 + 0.8Y$ ,  $I = 15$ , determine the national income value
- a. 22.5
  - b. 60
  - c. 73
  - d. 90
25. The followings are the uses of National Income accounting, EXCEPT
- a. Use for international comparison
  - b. Use as revenue allocation

- c. Use for economic planning
  - d. Use for birth control
26. Inflation can be curbed by
- a. Increasing aggregate demand
  - b. Paying higher wages
  - c. Increasing government expenditure
  - d. Reducing aggregate demand
27. Economic models
- a. Are essentially different from those used in other Sciences.
  - b. Include all relevant facts.
  - c. Always use graphs.
  - d. Simplify reality
28. Which of these is NOT a property of Isoquant?
- a. No isoquant can touch either axis
  - b. Two isoquants cannot intersect each other
  - c. Isoquants are convex to the origin
  - d. Isoquants are concave to the origin
29. Goods and services are produced in any economy to
- a. Maximise profit
  - b. Satisfy human want
  - c. Become self-reliant
  - d. Create job opportunities
30. A rightward shift in the production possibility frontier may be due to
- a. Use of inferior input
  - b. Inefficiency
  - c. Improvement in production techniques and practices
  - d. Change in product mix
31. In a two-sector economic model where consumption expenditure,  $C = \text{N}25\text{m} + 0.35Y$  and Investment expenditure,  $(I) = \text{N}40\text{m}$ , the equilibrium national income,  $(Y)$  is
- a. N65m
  - b. N75m
  - c. N100m
  - d. N150m
32. The ratio of consumption (C) to disposable income ( $Y_d$ ) defines
- a. Average propensity to consume
  - b. Consumption function
  - c. Marginal propensity to consume
  - d. Average propensity to save
33. What would be the value of money multiplier if the cash reserve ratio is 25 per cent?
- a. 0.25
  - b. 4



- c. 5
  - d. 25
34. In order to encourage investment in an economy, the Central Bank may
- a. Increase monetary policy rate
  - b. Reduce cash reserve ratio
  - c. Increase liquidity ratio
  - d. Sell government securities in the open market
35. Which of the following financial institutions accepts deposits for lending purpose?
- a. Commercial Banks
  - b. Insurance companies
  - c. Development Banks
  - d. Central Bank
36. The ratio of total deposits which a money deposit bank statutorily keep with the Central Bank is called
- a. Liquidity ratio
  - b. Cash reserve ratio
  - c. Special deposit
  - d. Credit control
37. Quantitative methods of credit control EXCLUDE
- a. Open market operations
  - b. Monetary policy rate
  - c. Moral suasion
  - d. Cash reserve ratio
38. Which of the following regulates the capital market in Nigeria?
- a. Central Bank of Nigeria
  - b. Securities and Stock Exchange Commission
  - c. The Nigerian Exchange
  - d. Nigeria Deposit Insurance Corporation
39. Expansionary monetary policy entails which one of the followings?
- a. Purchasing government securities in Open market operations
  - b. Increasing legal reserve ratios
  - c. Reducing taxes and increasing government spending
  - d. Reducing liquidity ratio and increasing cash reserve ratio
40. The primary objective of taxation is to
- a. Increase consumption
  - b. Reduce capital formation
  - c. Raise public revenue
  - d. Increase production
41. The burden of direct taxes is borne by the
- a. Consumers

- b. Income earners
  - c. Employers
  - d. Sellers
42. In regressive tax, the rate of tax ----- as income increases.
- a. Increases
  - b. Remains constant
  - c. Decreases
  - d. Fluctuates
43. The pensions and salaries paid by the government are examples of
- a. Development expenditure
  - b. Capital expenditure
  - c. Social expenditure
  - d. Recurrent expenditure
44. Which of the following is NOT a purpose of government expenditure?
- a. Servicing of loans
  - b. Maintaining internal peace
  - c. Promoting external terrorism
  - d. Providing social amenities
45. The policy of the government which involves the use of tariffs, quotas and exchange control to regulate economic activities is called
- a. Monetary policy
  - b. Fiscal policy
  - c. Commercial policy
  - d. Income policy
46. Inflation caused by sustainable increase in aggregate demand is
- a. Demand-pull inflation
  - b. Demand-push inflation
  - c. Mark-up inflation
  - d. Cost-push inflation
47. The type of unemployment associated with recession and declines during economic expansion is
- a. Structural unemployment
  - b. Seasonal unemployment
  - c. Residual unemployment
  - d. Cyclical unemployment
48. Unemployment rate can be reduced by
- a. Encouraging rural-urban migration
  - b. Promoting population growth rate
  - c. Promoting labour-intensive policy
  - d. Increasing bank lending rate
49. A rise in per capita income coupled with improved distribution of material welfare is
- a. Economic development

- b. Economic planning
  - c. Economic growth
  - d. Population growth
50. Which of the following is NOT a characteristic of developing countries?
- a. High rate of employment
  - b. Low per capita income
  - c. High population growth rate
  - d. Wide income inequalities
51. Economic growth is stimulated by the following factors EXCEPT
- a. High level of capital formation
  - b. Presence of natural endowments
  - c. Low ratio of labour force to total population
  - d. Advanced technological progress
52. Capital account and Current account are components of
- a. Balance of trade
  - b. Balance of payments
  - c. Bill of payments
  - d. Bill of credit
53. What happens when the value of imported goods exceeds that of exported goods?
- a. Trade barrier
  - b. Trade Surplus
  - c. Trade deficit
  - d. Balance of payment deficit
54. Suppose from the year 2018 to 2021 the export price index of a country rose from 100 to 150 and the corresponding import price index rose from 100 to 120, the country's terms of trade is
- a. 40%
  - b. 80%
  - c. 120%
  - d. 125%
55. Which of the following is NOT an example of items in the current account components of balance of payments?
- a. Transportation
  - b. Cocoa
  - c. Petroleum
  - d. Machinery
56. The following policies are favourable in correcting balance of payments EXCEPT
- a. Flexible exchange rate
  - b. Export promotion
  - c. Currency revaluation
  - d. Import restrictions
57. Which of the following is NOT an assumption of the comparative cost advantage?

- a. Labour is heterogeneous
  - b. Perfect mobility of labour
  - c. Free trade between the countries
  - d. Only two countries in the world
58. One of the principal objectives of World Trade Organisation (WTO) is to
- a. Promote free trade through removal of trade barriers
  - b. Integrate the monetary systems of member countries to expand bilateral trade
  - c. Provide loans and equity capital to private enterprises
  - d. Assist economic development of member countries by providing long-term loans
59. Which of the regional integration agreements allows free trade among its members and a common external trade tariffs?
- a. Free Trade Area
  - b. Customs Union
  - c. Common Market
  - d. European Union (EU)
60. An economic integration established to promote trade among its member countries in Africa is
- a. African union (AU)
  - b. General Agreement on Tariffs and Trade (GATT)
  - c. Economic Community of West African States (ECOWAS)
  - d. Africa Development Bank (AfDB)

**PART II**

**SHORT ANSWER QUESTIONS (SAQ)**

**(40 MARKS)**

**ATTEMPT ALL QUESTIONS**

1. When everybody who wants to work is employed, then there is ..... in the economy.
2. In Economics, the term '*ceteris paribus*' means .....
3. The satisfaction that consumers receive from consumption of a product or service is measured in units called .....
4. Payment made by government to producer to reduce the cost of production of home made goods in order to reduce their price to consumer is called .....
5. Money becomes a very poor store of value in a period of ..... in an Economy.
6. When a commodity is sold outside the country at a price lower than that in the producing country, it is called .....
7. Gains derived from entrepreneurship is called .....
8. The relationship between consumer's income and demand for a normal good is described by..... curve
9. When maximum output is obtained from available resources at the lowest cost, then the firm is said to be ..... in production
10. As a factor of production, all natural resources are classified as .....
11. Given the short-run total cost (₦) function of firm as:  $C = 140 + 20Q$ , the total variable cost for output of 15 units is .....

12. An international cartel formed primarily to regulate supplies of oil in the world market and stabilise oil prices is .....
13. An economy in which both the public and the private sectors contribute substantially to the growth of output is referred to as.....
14. The cost which a firm will incur whether it is in production or not is known as.....
15. Another name for the law of Variable Proportions is .....
16. The relationship between a firm's physical inputs and outputs produced at a given time period based on a given state of technical knowledge is depicted by a....
17. From this consumption expenditure function,  $C = 100m + 0.75Y_d$ , the coefficient of  $Y_d$ , 0.75 measures what?
18. If an indifference curve lies above and to the right of another one, it represents .....
19. Name the two major categories of unemployment.
20. State two methods a country willing to restrict her import can use.
21. The monetary value of all goods and services produced within the geographical boundary of a country for a period of time is .....
22. The amount by which aggregate demand exceeds aggregate output at a full employment level is known as .....
23. A country with a population of 200 million people has a per capita income of \$2,500, the Gross national product (GNP) is .....
24. The proportion of disposable income that is NOT consumed is called .....
25. The market that deals with short term loans is known as .....
26. Lenders of last resort is one of the functions of the .....
27. Demand for money which is directly related to the level of income and for financing daily purchases of goods and services is called .....
28. The development bank primarily established to develop the housing sector in Nigeria is called .....
29. The burden of taxation on commodity whose price elasticity of demand is perfectly elastic is borne by the .....
30. The excess of estimated government expenditure over estimated revenue is called .....
31. Total amount of a country's contractual obligations or liabilities to individuals, institutions, countries and other creditors is known as .....
32. Debt management strategy which involves the procurement of a new loan to pay off an existing debt is called .....
33. The ratio of unemployed persons to number of labour force expressed in percentage is .....
34. Inflation caused by rising cost of inputs is called .....
35. Unemployment resulting from technological changes is known as .....
36. A sustained increase in a country's per capita output over a period of time is called .....
37. A development plan ranging from an average period of 2 years to 5 years is called ..... plan
38. The theory of comparative cost advantage was developed by a famous British economist called .....
39. Market in which currencies are traded is known as .....
40. What are the two major branches of economics?

### **MULTI CHOICE QUESTIONS (MCQ) SOLUTION**

1. C
2. C

3. D
4. C
5. C
6. A
7. A
8. C
9. A
10. D
11. A
12. A
13. D
14. C
15. D
16. B
17. D
18. C
19. C
20. D
21. D
22. C
23. C
24. D See workings
25. D
26. D
27. D
28. D
29. B
30. C
31. C See workings
32. A
33. B See workings
34. B
35. A
36. B
37. C
38. B
39. A
40. C
41. B
42. C
43. D
44. C
45. C
46. A
47. D
48. C
49. A
50. A
51. C
52. B

- 53. C
- 54. D See workings
- 55. A
- 56. C
- 57. A
- 58. A
- 59. B
- 60. C

**Question 24**

$$Y = C + I$$

$$Y = 3 + 0.8Y + 15$$

$$0.2Y = 3 + 15$$

$$Y = \frac{3 + 15}{0.2} = \mathbf{90 \text{ Ans. D}}$$

**Question 31**

Equilibrium national income  $Y = C + I$

$$Y = 25 + 0.35Y + 40$$

$$Y = 65 + 0.35Y$$

$$(1 - 0.35)Y = 65$$

$$0.65Y = 65$$

$$Y = 65/0.65$$

$$= \mathbf{\$100m \text{ Ans. C}}$$

**Question 33**

Money multiplier  $K = 1/r$ ; where  $r =$  cash reserve ratio  $= 25\%$   
 Therefore,  $K = 1/25\%$   
 $K = 1/0.25 = 4 = \mathbf{4 \text{ Ans B}}$

**Question 54**

Terms of Trade  $= \frac{P_{Xn}/P_{X0}}{P_{Mn}/P_{M0}}$

Where  $P_{Xn} =$  Current year Export price (150);  $P_{X0} =$  Base year Export price (100)  
 $P_{Mn} =$  Current year Import price (120);  $P_{M0} =$  Base year Import price (100)

$$TOT_{2021} = \frac{150/100}{120/100} \times 100\%$$

$$= \mathbf{125\% \text{ Ans D}}$$

**SHORT ANSWER QUESTIONS (SAQ) SOLUTION**

- 1. Full Employment
- 2. Other things being equal
- 3. Utils
- 4. Subsidy
- 5. Inflation
- 6. Dumping
- 7. Profit
- 8. Engels curve
- 9. Efficient
- 10. Land
- 11. ~~N~~300 ( $VC = TC - FC = (440 - 140 = 300)$ )

12. OPEC
13. A mixed economy
14. Fixed Cost
15. The law of Diminishing Returns
16. Production Function
17. Marginal propensity to consume
18. High level of satisfaction/utility
19. (a) Open involuntary unemployment  
(b) Disguised unemployment
20. Import restrictions involving the use of such measures as:
  - i. Tariffs or import duties
  - ii. Quotas and Import licensing
  - iii. Foreign exchange controls
  - iv. Outright ban or embargo
21. Gross Domestic Product (GDP)
22. Inflationary gap
23. \$500 billion

**Working**

$$PI = \frac{GNP}{Population}$$

$$GNP = Population \times PI$$

$$GNP = 200 \times 2,500 = \text{\$500 billion Ans.}$$

24. Average Propensity to Save (APS)
25. Money market
26. Central Bank
27. Transaction demand for money
28. Federal Mortgage Bank of Nigeria (FMBN)
29. Producer/Seller
30. Deficit budget
31. Public debt/National debt
32. Debt refinancing
33. Unemployment rate
34. Cost push inflation
35. Structural unemployment
36. Economic growth
37. Medium term
38. David Ricardo
39. Foreign Exchange Market
40. (a) Microeconomics  
(b) Macroeconomics