



THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2023: PROFESSIONAL EXAMINATION

FOUNDATION: BUSINESS LAW QUESTION

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. Which of the following is NOT true of a general contract?
 - (a) An agreement which the courts will enforce
 - (b) An agreement which is bereft of the meeting of minds or what is commonly known as *consensus ad idem*
 - (c) A promise or set of promises that the law will enforce
 - (d) A legally-binding agreement between two or more persons by which rights are acquired by one or more, to act or forbear from acting
2. Which of the following is NOT true of Alternate dispute resolution (ADR) in contradistinction to litigation?
 - (a) ADR proceedings are usually faster than court proceedings that are more prone to frequent adjournments
 - (b) When it comes to overall cost, ADR is cheaper than litigation as a means of resolving disputes
 - (c) ADR proceedings adopt the adversarial system and the verdict of the arbitrator is known as judgments
 - (d) Under ADR, parties thereto have opportunities to appoint an expert on the particular subject matter in dispute
3. Which of the following is NOT an invitation to treat?
 - (a) Tenders
 - (b) Auction advert
 - (c) Negotiations

- (d) Contract sum
- 4. The minimum membership prescribed for every limited liability partnership under CAMA is
 - (a) 2
 - (b) 12
 - (c) 20
 - (d) 22
- 5 ONE of the following is NOT an essential element of a contract
 - (a) Offer and acceptance
 - (b) Legal capacity
 - (c) Estoppel
 - (d) Consideration
- 6. The following are sources of Nigerian law except
 - a) Nigerian legislation
 - b) Judicial precedent
 - c) Law reports
 - d) Received English Law
- 7. The main function of the Tax Appeal Tribunal is to adjudicate over tax disputes between the Federal Inland Revenue Service and
 - a) State Internal Revenue Service
 - b) Federal Government
 - c) Limited Liability Companies
 - d) Appeal bodies
- 8. ----- is authorised personnel that reviews and verifies the accuracy of financial records and ensures that companies comply with tax norms.
 - a) A Chartered Accountant
 - b) A Stoke broker
 - c) An Auditor
 - d) A Director

9. A business deal where two existing, independent companies combine to form a new, singular legal entity is known as -----
- a) Merger
 - b) Acquisition
 - c) Take over
 - d) Business synergies
10. In International sales of goods law, a ----- is any legally binding agreement between state/countries
- a) Agreement
 - b) Treaty
 - c) Contract
 - d) Threat
11. Horizontal Equity in tax (levies)/ administration means
- a. Those in unequal circumstances should pay different amount of tax
 - b. Those in equal circumstances should pay an equal amount of tax
 - c. Those in equal circumstance should not pay an equal amount of tax
 - d. Those in equal circumstances should not pay tax at all
12. The main regulatory institution of the Nigerian capital market is
- a. Joint tax board
 - b. Federal Inland Revenue Services
 - c. Joint market tax board
 - d. Security and Exchange Commission
13. Which of this arm of government is responsible for interpreting the law
- a. Judiciary
 - b. Executive
 - c. Legislature
 - d. Separation of power
14. Pre incorporation contracts are contracts that -----
- a. The organisation enters into during incorporation
 - b. The organisation enters after incorporation
 - c. Promoters enters into before incorporation of company is effected
 - d. The organisation plans to enter into before incorporation is effected

15. The process of identifying, assessing and controlling threats to organisations capital and earnings is known as
- a. Risk management
 - b. Agency Relationship
 - c. Financial Uncertainties
 - d. Strategic Management
16. ONE of the following is an element of a valid contract
- (a) Undue influence
 - (b) Consideration
 - (c) Novation
 - (d) Chose in action
17. An offer in a contract could be terminated in any of the following ways EXCEPT by
- (a) Acceptance
 - (b) Failure of a condition precedent to the offer
 - (c) Death of one of the parties
 - (d) Lapse of time
18. Which of the following contracts is an infant NOT liable for?
- (a) Contract for educational advancement
 - (b) Contract for purchase of ostentatious goods
 - (c) Contract for medication
 - (d) Contract for necessities
19. Contracts that are forbidden by statutes or common law are regarded as
- (a) Mutual mistake contracts
 - (b) Common mistake contracts
 - (c) Inviolable contracts
 - (d) Illegal contracts
20. A situation where a breach of a term of contract gives rise only to an action for damages is known as
- (a) Condition

- (b) Warranty
 - (c) Guarantee
 - (d) Trustee
21. Which of the following is **NOT** a special court
- (a) Juvenile court
 - (b) Coroners court
 - (c) Tribunals
 - (d) State High Court
22. In a general partnership, all partners have implied authority to do all of the following **EXCEPT**
- (a) Sign cheques
 - (b) Engage and dismiss employees
 - (c) Give valid receipts
 - (d) Compete with the firm
23. Which of the following is NOT a source of Nigerian law?
- (a) Nigerian Constitution
 - (b) Hansard
 - (c) Nigerian legislation
 - (d) English law
24. The law that is supreme to all laws in the whole country is the
- (a) Grand law
 - (b) Ecclesiastical law
 - (c) Canon Law
 - (d) Constitution
25. Which of the following is **NOT** a tort
- (a) Injury to another's personal safety
 - (b) Injury to government
 - (c) Injury to another's property
 - (d) Injury to someone else's reputation

26. A sale of goods in which property in the goods is transferred immediately and unconditionally is a/an -----
- a. Conditional sale
 - b. Consumer sale
 - c. corporate sale
 - d. Outright sale
27. The businesses of a company are contained in the
- (a) Company's register
 - (b) Certificate of incorporation
 - (c) Articles of Association
 - (d) Memorandum of Association
28. The following chargeable gains are exempt from capital gains in Nigeria except?
- (a) gains accruing to an ecclesiastical, charitable, or educational institutions of a public character
 - (b) gains accruing to employees of a State or Local Government office
 - (c) gains accruing to professionals such as surveyors, valuers, auctioneers accountants, agents and legal advisers acting or have acted on behalf of the Federal Government of Nigeria
 - (d) gains which represent the cost of valuation apportionment required for computing the capital gains
29. An offer to make an offer is known as
- a. Counter offer
 - b. Invitation to treat
 - c. Consideration
 - d. Considerate offer
30. ----- is a type of contract that is valid and binding on infants
- a. Sales of goods
 - b. Contracts for supply of necessities
 - c. Contract with a drunken person
 - d. Contract with a minor
31. One of the duties owed to a company by its directors is
- (a) Ecumenical duties

- (b) Fiduciary duties
 - (c) Financial duties
 - (d) Empirical duties
32. The appointment of new directors and the re-election or rejection of serving directors is made by
- (a) the Board of directors
 - (b) members of the company at the annual general meeting
 - (c) members of the management committee of the company
 - (d) members of a Board Committee of the company constituted for the purpose
33. What organ of the company determines the remuneration of directors?
- (a) the company in general meeting
 - (b) the Board meeting of the company
 - (c) The Official Receiver of the company
 - (d) The Managing Director of the company
34. A director of a company can only be removed before the expiration of his period of notice, by
- (a) an ordinary resolution of the meeting where he is removed
 - (b) a notice under the hand of the chairman or vice-chairman of the board
 - (c) the board of directors
 - (d) an Executive director of the company
35. ONE of the following is NOT a responsibility of a promoter in the formation of a company:
- (a) to raise capital for a proposed or newly formed company
 - (b) to appoint directors and personnel for a proposed company
 - (c) to make profits from his promotion activities at the expense of the company
 - (d) to acquire properties on behalf of a proposed company
36. The study of tax laws is imperative for ONE of the following reasons:
- (a) To serve as deterrence for recidivists in the society
 - (b) To help in the classification of laws according to its functions

- (c) In other that their main objective, which is to ensure that sufficient revenue is raised for government to provide necessary infrastructure to its citizens is proclaimed
 - (d) To expose unwritten laws as laws that are not enacted by legislature
37. One of the constituents of Primary Sources of Law in Nigeria is
- (a) International Law
 - (b) Secondary sources of law
 - (c) Customary law
 - (d) Nigerian Legislation or Statutes
38. One of the Maxims of Equity is
- (a) Fairness and justness
 - (b) Equity will not suffer a wrong to be without a remedy
 - (c) Equity does not operate in isolation
 - (d) Whatever is affixed to the land belongs to it (*Quic quid plantatur solo solo cedit*)
39. Equity is a case law system developed by
- (a) The Court of Chancery in the United States
 - (b) The Constitution of the Federal Republic of Nigeria, 1999 (as amended)
 - (c) The Federal High Court of Chancery in Nigeria
 - (d) The Court of Chancery in England
40. The cut-off date for the extension to Nigeria of Statute of General Application that were in force, in England was
- (a) October 1, 1960
 - (b) January 1, 1990
 - (c) January 1, 1900
 - (d) July 4, 1776
41. A counter offer is a/an
- (a) induction of the offer
 - (b) affirmation of the offer
 - (c) rejection of the offer
 - (d) selection of the offer

42. To be an agency by ratification, the
- (a) Agent must be chummy with the principal
 - (b) Agent must be dexterous in his work
 - (c) Principal must have been in existence at the time the act was done
 - (d) Principal must be influential
43. The following are the duties of an agent EXCEPT:
- (a) duty to perform his obligations
 - (b) duty of skill and diligence
 - (c) duty to delegate or authorise another person to act on his behalf
 - (d) duty not to make secret profit
44. The principal purpose of a contract for sale of goods is to
- (a) transfer ownership
 - (b) negotiate the price
 - (c) retain customers
 - (d) act in friendly manner to customer
45. In contractual transactions the phrase *caveat emptor* means
- (a) Let the seller pass good title
 - (b) Let the buyer empty his pockets
 - (c) Let the buyer negotiate the price well
 - (d) Let the buyer beware
46. The following categories of people are exempted by the Personal Income Tax Act by the tax authority of a State:
- (a) Persons under obligation to pay personal income tax in respect of the Pay-As-You-Earn (PAYE) system
 - (b) Every resident of the Federal Capital Territory, Abuja
 - (c) Persons subject to payment of tax under the Direct taxation (self-Assessment) system
 - (d) Individuals subject to payment of the Withholding tax
47. Taxes and levies to be collected by the Local Government include the following:
- (a) Pools betting and lotteries, gaming and casino taxes

- (b) Road taxes
 - (c) On and Off liquor licence fees
 - (d) Officers of the Nigerian foreign service
48. The income or profit of a company is taxable under the
- (a) Fiscal Responsibility Act
 - (b) Companies and Allied Matters Act
 - (c) The Code of Corporate Governance, 2008
 - (d) The Companies Income Tax Act
49. Under the incidence of company's income tax, one main group of people who bears part of the burden of corporation tax is
- (a) Shareholders and employees of a company
 - (b) Employees of the Federal Inland Revenue Service
 - (c) Tax Appeal Commissioners
 - (d) Members of the Board of the Federal Inland Revenue Service
50. The following profits components of a company are exempted from the tax payable by a company
- (a) Dividends distributed by a private company limited by shares
 - (b) Dividends distributed by a Unit Trust
 - (c) Profits of a public company limited by shares
 - (d) Profits of any company in possession of an offshore oil prospecting licence
51. The following is exempted from taxation under the PITA
- (a) National Health Insurance Scheme
 - (b) Money spent on holidays
 - (c) Community Development Levies
 - (d) Vehicle Licence and Motor Insurance fees
52. For the purposes of capital gains, a disposal of an asset occurs in ONE of the following circumstances
- (a) the asset that is the subject matter of transfer transaction is a luxury good
 - (b) the sale proceeds of an asset is less than "tax written-down" value of the asset
 - (c) transfer of beneficial title to the asset from one person to another

- (d) profits and losses from sale assets are brought into account to determine business profits
53. Where there is a part disposal of an asset, the formula for determining chargeable gain of the asset is
- (a) the apportionment of cost of asset between disposal and the undisposed part of asset
 - (b) the cost of severing the part of asset from the whole asset in order to facilitate a sale transaction
 - (c) the assets disposed in a sale transaction are floating as opposed to a fixed asset
 - (d) the assets disposed are a major component of the transferor's business profit
54. In an artificial and fictitious asset disposal transaction, ONE of the following group of persons are regarded as connected persons
- (a) a trustee of a settlement and the settler or relatives and spouses
 - (b) two companies where they have common control
 - (c) an employer and employee in a labour relationship
 - (d) an apprentice and her master in an apprenticeship contract
55. Under section 31 Capital Gains Tax Act, "Nigeria government securities" for the purposes of exemption from chargeable gains under the capital gains tax include one of the following
- (a) stock and bonds held in a private company registered under Nigerian laws such as the Companies and Allied Matters Act.
 - (b) security held in an offshore company by a Nigerian diplomat on foreign mission
 - (c) securities held in a public company trading on the floor of the Stock Exchange established under the Investment and Securities Act
 - (d) Nigerian savings certificates and premium bonds issued under the Savings, Bonds and Certificates Act, 2004
56. The hirer, in a contract of hire-purchase, has the following rights **EXCEPT**
- (a) repossess the goods
 - (b) quiet possession of the goods
 - (c) use the goods
 - (d) take reasonable care of the goods

57. Which of the following is a partnership
- (a) A business by two or more persons for profit-making and sharing
 - (b) Joint tenancy
 - (c) receipt of a portion of the profit
 - (d) receipt of annuity payment from business profit
58. Which among the following terminates a general partnership automatically?
- (a) Non-participation of a general partner in the management of the firm's business
 - (b) Ill-will and animosity among the partners
 - (c) Bankruptcy of a partner
 - (d) Disagreement of partners on management procedure
59. Who among the following is NOT eligible to be a secretary of a public company?
- (a) a member of the Institute of Chartered Secretaries and Administrators
 - (b) a legal practitioner
 - (c) an Accountant
 - (d) a banker
60. What is the minimum number of directors that a company must have?
- (a) 2
 - (b) 3
 - (c) 4
 - (d) 5

SOLUTION MCQ

- 1. B
- 2. C
- 3. D
- 4. A
- 5. C
- 6. C
- 7. C
- 8. C
- 9. A
- 10. B

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

54.A
55.D
56.A
57.A
58.C
59.D
60.A

PART II SHORT ANSWER QUESTIONS (SAQ)
ATTEMPT ALL QUESTIONS.

(40 MARKS)

1. Under the rules and procedures guiding the Tax Appeal Tribunals, the body saddled with the hearing of appeals in the jurisdiction or zone assigned to that Tribunal are the _____.
2. A method of Alternative Dispute Resolution (ADR) whereby a negotiation is facilitated by a neutral third party is known as _____.
3. The legislative list that contains matters that both the Federal and State governments have control in defined premises is called the _____.
4. The authority exercised to legitimately assess natural or artificial persons to tax by its own laws is known as _____.
5. Companies' income tax is one of the categories of taxes to be collected exclusively by the _____.
6. The responsibility for the monitoring and collection of education tax under the Tertiary Education Trust Fund Act, 2011 by the Federal Inland Revenue Service and the transfer to the Fund, is vested in _____.
7. A person guilty of a first offence under the Tertiary Education Trust Fund Act, 2011 shall be liable to a fine of _____ or _____ or both.
8. The responsibility under the Tertiary Education Trust Fund Act, 2011, for the day-to-day administration of the Fund, including keeping proper records of proceedings of the Board of Trustees, is vested in the _____.
9. The membership of the Tax Appeal Tribunal who are appointed by the Minister of Finance are also known as _____.
10. The power of a federating State within Nigeria to impose tax does not extend to taxes which fall within the _____.
11. What is a Tariff?
12. The written acknowledgement of the indebtedness of a company setting out the terms and conditions of a loan is known as -----
13. ----- arises where the ownership and the possession of goods become vested in different persons.
14. Judicial proceedings for the winding up of a company must be commenced before the

15. Careless statements that causes financial and economic loss to a person or an entity is known as _____
16. A chargeable person is any person from whom _____ is to be collected.
17. Tax may be imposed on an individual and collected by the State Inland Revenue Service of the State in which the individual is deemed to be _____
18. Any person who makes an incorrect return by omitting or understating any income liable to tax under the Personal Income Tax Act is liable upon conviction to a fine of _____
19. Any tax deducted under the Personal Income Tax Act, by any person or body corporate, shall be remitted within _____ from date of deduction or the time the duty to deduct arose.
20. Tax due from a taxable person shall carry interest on annual basis at _____ from the date when tax becomes payable until it is paid.
21. The relationship which arises out of the authority of one person to another to perform certain task on his behalf is called _____.
22. As a general rule, domestic agreements lack _____ .
23. Goods not identified and agreed upon at the time of the contract of sale of goods are called _____.
24. A contract that restricts or limits the right of parties to trade freely with one another is referred to as a contract in _____.
25. A company that restricts the right to transfer its share by its articles of association is a _____.
26. Money consideration is called -----
27. A breach of contract that goes to the root of the contract is known as -----
28. ----- mistake arises when both parties are mistaken about the same thing and with same intention.
29. Full meaning of CRA is _____
30. ----- is defined as the unreasonable interference with a person right over his property or land.
31. An agreement between two or more persons recognised and enforceable under the law is _____.
32. In a hire purchase transaction, there is no agreement to buy the goods until _____.

33. An incidental statement made "by the way" by a judge while delivering a judgment of the court is called _____.
34. When a partner acts to conduct the business of the firm in the usual way, he is an agent of the _____.
35. The charge of tax under the Companies Income Tax Act, is imposed on _____ and _____ of a corporate body.
36. Where the sale proceeds of a used asset is in excess of original purchase price of the asset, the excess will constitute _____.
37. Where an asset disposal transaction is artificial or fictitious, such transaction are regarded as not done at _____.
38. Where a group of persons control two companies, the latter is regarded as _____, for the purposes of chargeable gains under the subject matter of capital gains tax.
39. The emblem of a company which shall serve as identification of the company for the purposes of corporate income tax is the _____ of a company.
40. The Nigeria Export Processing Zones Act is one major example of a _____.

SHORT ANSWER SOLUTIONS

1. Tax Appeal Commissioners
2. Mediation
3. Concurrent legislative list
4. Taxing powers
5. Federal Government
6. The Board of Trustees
7. N1million and imprisonment for six months
8. Executive secretary
9. Appeal Commissioners
10. Exclusive Legislative List
11. A tax or duty to be paid on a particular class of imports or export
12. Debenture
13. Bailment
14. Federal High Court
15. Negligent misstatement
16. Tax
17. Resident/living
18. N20,000
19. 30 days

20. Bank based lending
21. Agency
22. Intention to create legal relation
23. Unascertained goods
24. Restraint of trade
25. Private company
26. Price
27. Fundamental Breach
28. Common mistake
29. Alternative Dispute Resolution
30. Nuisance
31. Contract
32. Hirer exercises option to buy
33. Obiter dictum
34. Firm/partnership
35. Incomes and Profits
36. Capital gains
37. Arm's length
38. Connected persons
39. Incorporation number
40. Special tax incentive.



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OCTOBER 2023: PROFESSIONAL EXAMINATION

FOUNDATION: ECONOMICS

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. Which of these means of financing fiscal deficit has more inflationary potential?
 - A. Printing of currency notes and coins
 - B. Sales of government securities
 - C. Borrowing from IMF
 - D. Borrowing from bilateral creditors
2. A society that operates below the production possibility curve is using its productive resources
 - A. Optimally
 - B. efficiently
 - C. inefficiently
 - D. maximally
3. Economic resources signify....
 - A. Economic agents
 - B. Output produced in an economy
 - C. Buildings and machineries produced
 - D. Inputs to produce goods and services
4. The supply curve of cocoa is greatly influenced by
 - A. seasonal condition
 - B. the efficacy of fertilizer used
 - C. price of cocoa
 - D. The availability of close substitutes
5. Average cost is
 - A. the total cost of production
 - B. the extra cost of producing one additional unit of output

- C. the cost of producing a unit of output
 - D. variable cost
6. Absence of barriers in international trade is known as
- A. balance of payment
 - B. balance of trade
 - C. free trade
 - D. Trade embargo
7. The following are motives behind the demand for money except one
- A. Ulterior motive
 - B. precautionary motive
 - C. speculative motive
 - D. transactionary motive
8. Suppose in a national income model $Y = C + I + G$, where $C = a + cY^d$, $Y^d = Y - T$, $T = T_0 + tY$. Find the autonomous tax multiplier.
- A. $-1/1-ct$
 - B. $-c/(1-c + ct)$
 - C. $1/1-ct$
 - D. $c/1-ct$
9. The price mechanism
- A. regulates supply and demand
 - B. rations the consumers
 - C. rewards the producers
 - D. allocates scarce resources
10. An economic problem arises when
- A. manufactured goods are in short supply
 - B. money is in short supply
 - C. sellers are few
 - D. scarcity and choice are involved
11. Which of these is not correct about a market economy?
- A. Most economic decision making is done through voluntary transactions according to the laws of supply and demand.
 - B. Entrepreneurs have the freedom to pursue profit by creating outputs that are more valuable than the inputs they use up,
 - C. It produces better economic outcomes,
 - D. It presents needed incentives for central planning that is best for a nation's long-term wellbeing.
12. The following are functions of the WTO except:
- A. Implementation and Monitoring Agreements

- B. Dispute Settlement
 - C. Technical assistance and training for developing countries
 - D. Mobilise resources for economic and social development of African countries
13. Which of these is not correct about oil glut?
- A. Many non-OPEC countries are now major suppliers of oil
 - B. Britain, Russia and Norway as major suppliers of oil reduces quantity supplied
 - C. Disagreements among OPEC nations regarding production ceilings results in oil glut
 - D. Oil conservation tactics employed by the consuming nations.
14. If a consumer planned to spend 120k on four oranges but spent 80k, his consumer surplus is
- A. ₦1.50
 - B. ₦ 1.00
 - C. ₦ 0.40
 - D. ₦ 2.00
15. If $P = \frac{1}{2} (Q_s + 15)$, what is the quantity supplied at ₦9.00?
- A. 3.0
 - B. 33.0
 - C. 1.5
 - D. 12.0
16. The law of demand states that an increase in the price of a good
- A. Increases the supply of that good
 - B. Decreases the quantity demanded for that good
 - C. Decreases the demand for that good
 - D. Increases the quantity supplied of that good
17. Entrepreneurs do all of the following EXCEPT
- A. Bear risk from business decisions.
 - B. Own all the other resources.
 - C. Come up with new ideas about what, how, when and where to produce.
 - D. Organise labour, land, and capital.
18. International trade arises because of the following EXCEPT
- A. One country has more abundant resources than other country
 - B. One country has the technology to produce the commodity whilst the other has not
 - C. One country has the maximum comparative advantage or minimum comparative disadvantage in the production of a commodity over the other country
 - D. One country competes with others countries.
19. In a perfectly competitive market we have:
- A. Firms that set their own prices
 - B. Only one seller

- C. Many buyers and sellers
 - D. At least a few sellers
20. Market Equilibrium is a state where
- A. Imbalance exists
 - B. Change occurs
 - C. Unrest persists
 - D. There is tendency to change.
21. All of these topics are within the scope of Microeconomics EXCEPT
- A. The effect of increasing the money supply on inflation.
 - B. The purchasing decisions that an individual consumer makes.
 - C. Why Kathy will buy less orange juice.
 - D. The hiring decisions that a business makes.
22. The effect of changes in demand on a demand schedule when the price is constant is
- A. Movement along the demand curve
 - B. Deflation of the demand curve
 - C. Hyperbola formation by the demand curve
 - D. Shift of the demand curve
23. Labour intensive strategy for industrialisation emphasises the use of
- A. Steam energy in the process of production
 - B. Manual method of production
 - C. Synthetic raw materials
 - D. Hydro-electric power
24. Which of the following is not a function of money?
- A. Unit of account
 - B. Medium of exchange
 - C. Standard of living
 - D. Measure Of value
25. Any payment to a factor of production in excess of what is necessary to keep that factor in its present employment is known as
- A. Real income
 - B. Profit
 - C. Economic rent
 - D. Real wage
26. What will be the contribution of national savings when national income is N40 and saving function is given as $S = -5 + 0.4Y$?
- A. 16
 - B. 21
 - C. 11
 - D. 22

27. A production possibility curve shows
- A. The different combinations of output that can be produced given current resources and level of technology
 - B. The rate of inflation
 - C. The rate of unemployment in the economy
 - D. The various combinations of two commodities that can be produced
28. Economic agents make choice/s because economic resources are.....and.....
- A. Scarce and limited in supply
 - B. Scarce and have alternative uses
 - C. Scarce and have opportunity costs
 - D. Scarce and insatiable
29. To control inflation, the monetary authorities of a country can
- A. Reduce taxes
 - B. Advise government to increase its expenditure
 - C. Engage in expansive monetary policy
 - D. Engage in restrictive monetary policy
30. Which of the following statements is TRUE of the effect of changes in demand and supply on price?
- A. Decrease in supply will lead to a fall in price and a fall in the quantity bought and sold
 - B. An increase in demand will lead to a fall in price and in the quantity bought and sold
 - C. A decrease in demand will lead to a rise in price and in the quantity bought and sold
 - D. An increase in supply will lead to a fall in price and a rise in the quantity bought and sold
31. Given the value of GDP of a particular country to be \$364 billion, consumption of fixed capital of \$30 billion and the net factor income from abroad of \$28 billion, the GNP is
- A. \$336 billion
 - B. \$362 billion
 - C. \$366 billion
 - D. \$392 billion
32. In a two-sector circular flow of income model, the factors of production are provided by the
- A. Firms
 - B. Households
 - C. Government

- D. Both the firms and households
33. The method of measuring national income which excludes transfer payments is
- A. Product method
 - B. Expenditure method
 - C. Income method
 - D. Net factor method
34. The following are problems associated with national income computation EXCEPT
- A. Depreciation
 - B. Adequate statistical information
 - C. Subsistence economy
 - D. Net income from abroad
35. Given the Gross domestic product of an economy $GDP = \$900$ billion, household consumption expenditures $C = \$350$ billion, investment expenditures $I = \$200$ billion and government expenditures $G = \$100$ billion, the net exports $(X - M)$ value is
- A. \$650 billion
 - B. \$550 billion
 - C. \$370 billion
 - D. \$250 billion
36. If the consumption expenditure function is expressed as $C = 25 + 0.85Y_d$, the marginal propensity to save is
- A. 0.15
 - B. 0.25
 - C. 0.85
 - D. 25.0
37. Which of the following is the corresponding saving function, given the consumption function $C = 20 + 0.72Y$?
- A. $20 - 0.28Y$
 - B. $-20 + 0.28Y$
 - C. $80 - 0.72Y$
 - D. $-80 + 0.72Y$

38. The function of money that provides the yardstick for measuring the value of goods and services is
- A. Medium of exchange
 - B. Store of value
 - C. Standard for deferred payment
 - D. Unit of account
39. The demand for money to finance unforeseen expenditures in an economy is
- A. Transactions
 - B. Precautionary
 - C. Speculative
 - D. Budgeting
40. At the level of interest rate, where the demand for money is perfectly interest elastic, defines
- A. Liquidity preference
 - B. Assets preference
 - C. High-powered money
 - D. Broad money
41. The quantity theory of money was first developed by an economist called
- A. Irving Fisher
 - B. Lionel Robbins
 - C. Alfred Marshall
 - D. Adam Smith
42. Which of the following is a legal tender?
- A. Cheque
 - B. Treasury bill
 - C. Gold
 - D. Currency note
43. The functions of Central bank in any country include the following EXCEPT
- A. Banker to the government
 - B. External reserves management
 - C. Accepting of deposits

- D. Promoting monetary stability
44. Instruments of fiscal policy EXCLUDE
- A. Taxation
 - B. Government expenditure
 - C. Moral suasion
 - D. Public debts
45. Increasing the economic activities in an economy through expansionary fiscal policy entails.
- A. Reduction of taxes and increasing government spending
 - B. Increasing taxes and reducing government spending
 - C. Reduction of taxes and government spending
 - D. Reduction of reserve requirements
46. Which of the following is NOT a source of financing deficit budgets?
- A. Loans
 - B. Sales of government properties
 - C. Increasing revenue base
 - D. Increasing government expenditure
47. The following are negative effects of taxation EXCEPT
- A. Reduces disposable income
 - B. Increases general price level
 - C. Savings are discouraged
 - D. Achieves income equality
48. Public expenditure on Agriculture and Manufacturing are classified as
- A. Social services
 - B. Economic services
 - C. Community services
 - D. Administration
49. The policy of the government that uses taxes and expenditure to stimulate economic activities is called
- A. Monetary policy
 - B. Trade and commercial policy

- C. Fiscal policy
 - D. Income policy
50. Abdul, a civil servant, earns ₦40,000 and pays ₦1,600 as income tax while his colleague in the same department who earns ₦30,000 pays an income tax of ₦1,500. What type of tax system does this illustrate?
- A. Progressive tax
 - B. Proportional tax
 - C. Regressive tax
 - D. Geometric tax
51. A fixed percentage of the value of a traded commodity is called -----
- A. Ad-Valorem tax
 - B. Specific tax
 - C. Value-Added tax
 - D. Capital gain tax
52. Which of the following policies can be used to reduce the effect of inflation caused by sustained increase in aggregate demand?
- A. Restrictive fiscal policy
 - B. Expansionary monetary policy
 - C. Expansionary fiscal policy
 - D. Unregulated interest rate policy
53. Unemployment affecting people with mental and physical disabilities is called
- A. Residual unemployment
 - B. Structural unemployment
 - C. Frictional unemployment
 - D. Seasonal unemployment
54. Quantitative and qualitative descriptions of current economic potentials of a country with specific objectives, policies and macroeconomic projections are contained in
- A. Annual budget
 - B. Economic summit
 - C. Development plan

- D. Government white paper
55. The problems facing development planning in Nigeria EXCLUDE
- A. Fluctuation of crude oil prices
 - B. Reliable statistical data
 - C. Political instability
 - D. Inadequate manpower resources
56. Government policy that regulates exports and imports is called
- A. Exchange rate policy
 - B. Finance policy
 - C. Fiscal policy
 - D. Commercial policy
57. Bilateral trade can be beneficial to the countries involved if the cost ratios of goods are
- A. Equal
 - B. Decreasing
 - C. Different
 - D. Undetermined
58. World output is maximised in international free trade arrangement when countries
- A. Impose various taxes
 - B. Engage in perfect competition with other regions
 - C. Contravene international business laws and conditions
 - D. Specialise in production of goods they are best suited for
59. The full meaning of the acronym UNCTAD is
- A. United Nations Council on Tariffs and Development
 - B. United Nations Conference on Trade and Development
 - C. United Nations Committee on Trade and Development
 - D. United Nations Conference on Tariffs and Duties
60. Which of the following international financial institutions is primarily established to maintain stable exchange rate among member nations?
- A. International Monetary Fund (IMF)

- B. International Bank for Reconstruction and Development (IBRD)
- C. Multilateral Investment Guarantee Agency (MIGA)
- D. International Finance Corporation (IFC)

SOLUTIONS TO MCQ

- 1. A
- 2. C
- 3. D
- 4. C
- 5. C
- 6. C
- 7. A
- 8. B
- 9. D
- 10. D
- 11. D
- 12. D
- 13. B
- 14. C
- 15. A
- 16. B
- 17. B
- 18. D
- 19. C
- 20. D
- 21. A
- 22. D
- 23. B
- 24. C
- 25. C
- 26. C
- 27. A
- 28. B
- 29. D
- 30. D
- 31. D See working
- 32. B
- 33. C
- 34. B
- 35. D See working
- 36. A See working

- 37. B See working
- 38. D
- 39. B
- 40. A
- 41. A
- 42. D
- 43. C
- 44. C
- 45. A
- 46. D
- 47. D
- 48. B
- 49. C
- 50. C See working
- 51. A
- 52. A
- 53. A
- 54. C
- 55. D
- 56. D
- 57. C
- 58. D
- 59. B
- 60. A

WORKINGS

Question 31

GNP = GDP + Net factor income from abroad

Given GDP = \$364b and Net factor income = \$28b

Then, GDP = \$364b + \$28b

GDP = **\$392 Ans D**

Question 35

Expenditure National income method is expressed as $GDP = C + I + G + (X-M)$, where $X-M$ = Net Export

Given that GDP = \$900b, C = \$350b, I = \$200b, G = \$100b

Then, Net export = $900 - (350 + 200 + 100)$

Net export = $900 - 650$

= **\$250b Ans D**

Question 36

$C = a + bY_d$, where a = autonomous consumption, b = MPC; and $MPS = 1 - b$

Given that b = 0.85

$MPS = 1 - 0.85$

= **0.15 Ans D**

Question 37

$Y = C + S$

$$\begin{aligned}
 S &= Y - C \\
 &= Y - (20 + 0.72Y) \\
 &= Y - 0.72Y - 20 \\
 &= (1 - 0.72) Y - 20 \\
 S &= -20 + 0.28Y \text{ Ans B}
 \end{aligned}$$

Question 50

$$\text{Abdul tax rate} = \frac{1600}{40000} \times \frac{100}{1} = 4\%$$

$$\text{Colleague's tax rate} = \frac{1500}{30000} \times \frac{100}{1} = 5\%$$

From the above, Abdul earns higher income and pays lower tax rate. Thus, the tax system is **Regressive tax Ans C**

PART II SHORT ANSWER QUESTIONS (SAQ)

(40 MARKS)

ATTEMPT ALL QUESTIONS.

1. If a consumer will always prefer bundles of goods that include more quantities of commodities, the consumer is said to be....
2. What is the resultant effect of having the equilibrium national income above the full employment level of income?
3. Variables measured over a period of time are called
4. The headquarters of World Trade Organisation (WTO) is in ...
5. When cost of production decreases as output increases, the firm is said to be enjoying.....
6. The regional organisation created to foster greater cooperation and remove obstacles to free movement of persons, services and capital among West African countries is
7. Any arrangement where two or more parties engage in series of transactions is known as what.....
8. Two theories that have been used to explain inflationary process are:
9. The relationship between changes in scale and changes in output is called
10. The process of transferring ownership and control of publicly owned enterprises from government to individuals and companies is referred to as
11. An operating period in which all factors of production are variables is called
12. If the tax rate is the same irrespective of the magnitude of the tax base, then the tax is said to be
13. The disadvantages of large-scale production, leading to increases in the unit cost of producing larger output are referred to as.....

14. The responsiveness of demand for a commodity to a change in consumer income is known as.....
15. A situation in which prices are not rising at all is called.....
16. The absence of involuntary unemployment in an Economy is referred to as
17. The branch of economics that deals with optimal allocation of scarce resources of individual economic agent is called
18. A set of indifference curves on a graph is referred to as.....
19. Visible trade refers to.....
20. A situation where by the governments planned expenditure is greater than its estimated revenue for the year is referred to as.....
21. The method of measuring national income expressed by the equation $GDP = C + I + G + (X - M)$ is called -----
22. Anything that is generally acceptable as a medium of exchange and in the settlement of debts is called -----
23. Given the marginal propensity to consume $MPC = 0.7$ and an increase in disposable income from ₦400.00 to ₦900.00, the change in consumption is -----
24. An economic policy designed to regulate the supply of money in an economy is called -----
25. If the initial deposit in the banking system were ₦50 million and the total amount created were ₦200 million, all things being equal, the cash reserve ratio would be ---

26. The characteristic of money that fulfills all functions of money is called -----
27. The revenues generated from the use of land for exploration and exploitation of mineral resources are referred to as -----
28. The proportion of the tax base paid as tax is called -----
29. The principle of taxation that recommends pay-as-you-earn system (PAYE) is ----
30. The study of government revenue, spending and debt management to ensure the welfare of the citizens is the primary concerned of -----
31. The inverse relationship between inflation and unemployment rates describes ---
32. A situation where workers are unemployed at certain time of the year is referred to as -----
33. The price of a country's currency in terms of another country currency is called --
34. Taxes imposed on imports are called -----
35. The practice of selling goods at prices less than prevailing prices in domestic market is -----
36. The ratio of index of export prices to index of import prices expressed in percentage is called -----
37. The policy of the government which does NOT allow importation of goods is called
38. A deliberate policy of the government to reduce the value of her currency in relation to other foreign currencies is called -----

39. In trade by barter system, the principle that requires each party of the transaction to want what the other has to offer is called -----
40. The headquarters of Africa Development Bank (AfDB) is at -----

SOLUTIONS TO SAQ

1. Rational
2. An inflationary gap
3. Flow
4. Geneva, Switzerland
5. Economies of Scale
6. The Economic Community of West African States (ECOWAS)
7. A market
8. (a) The demand-pull theory
(b) The cost-push theory.
9. Returns to scale
10. Privatisation
11. Long run
12. Proportional
13. Diseconomies of scale.
14. Income elasticity of demand
15. Zero inflation
16. Full employment
17. Microeconomics
18. An indifference map
19. import and export of goods
20. Deficit budget
21. Expenditure method
22. Money
23. N350

Working

$$\text{Given that MPC} = \frac{\Delta C}{\Delta Y_d} = 0.7$$

$$0.7 = \frac{\Delta C}{900-400} = \frac{\Delta C}{500}$$

$$\therefore \Delta C = 500 \times 0.7 = \mathbf{N350 \text{ Ans.}}$$

24. Monetary policy
25. 25%

Working

$$\text{Amount created} = \frac{\text{Initial Deposit}}{CRR}$$

$$200 = \frac{50}{CRR}$$

$$CRR = \frac{50}{200} \times 100\%$$

$$CRR = \mathbf{25\% \text{ Ans}}$$

- 26. Acceptability
- 27. Royalties
- 28. Tax rate
- 29. Principle of equity
- 30. Public Finance
- 31. Philips curve
- 32. Seasonal unemployment
- 33. Exchange rate
- 34. Tariffs
- 35. Dumping
- 36. Terms of trade
- 37. Embargo
- 38. Devaluation
- 39. Double coincidence of wants
- 40. Abidjan (Cote D'Ivoire)



THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2023: PROFESSIONAL EXAMINATION

FOUNDATION: FINANCIAL ACCOUNTING

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 trial balance extracted from the books of Peter Enterprises as at December 31, 2022 includes the following balances:

Trade receivables=₦1,200,000

Allowance for doubtful debts=₦25,000

Additional information:

Bad debts to be written off is ₦5,000 and allowance for doubtful debts is to be 3% of good trade receivables.

What is the amount of trade receivables to be reflected in the statement of financial position as at December 31, 2022?

- (A) ₦1,057,000
- (B) ₦1,059,000
- (C) ₦1,059,150
- (D) ₦1,159,150

- (2) Assets are revalued when there is a change in partnership because

- (A) The law insists upon it
- (B) The agreement favours new partners
- (C) Inflation affects all values
- (D) It helps prevent injustice to some partners

- (3) Which of the following is included in cash and cash equivalent in the statement of financial position of a company?

- (A) Bank cheques
- (B) Loan notes
- (C) Equity shares
- (D) Fixed deposits

- (4) A faulty good costing ₦97,690 were returned but this was recorded as ₦97,960 in the ledger accounts. The journal entry necessary to correct the error is
- (A) Dr Purchase returns ₦270 Cr Payables ₦270
 - (B) Dr Suspense ₦270 Cr Purchases ₦270
 - (C) Dr Purchases ₦270 Cr Payables ₦270
 - (D) Dr Payables ₦270 Cr Purchase returns ₦270
- (5) Which of the following will involve movement of cash?
- (A) Credit sales
 - (B) Bonus issue of shares
 - (C) Forfeiture of shares
 - (D) Rights issue of shares
- (6) In line with classification by nature, which of the following must be disclosed on the face of the statement of comprehensive income?
- I- Income tax expense
 - II- Depreciation
 - III- Finance cost
 - IV- Dividends paid
- (A) I and II
 - (B) I and III
 - (C) I, II and III
 - (D) I and IV
- (7) Which of the following should be recognised in the statement of profit or loss?
- (A) Dividends paid to ordinary shareholders
 - (B) Dividends paid to both preference and equity shareholders
 - (C) Effects of change in accounting policy
 - (D) Deficit on revaluation of Property, Plant and Equipment
- (8) Which of the following is NOT suffered by a limited partner in a partnership?
- (A) He cannot withdraw any part of his capital
 - (B) He cannot take part in the management
 - (C) He cannot dissolve the partnership by giving notice
 - (D) He cannot share in the profit of the partnership without increasing fixed liability
- (9) Which of the following double entry represents a situation where goodwill is not retained in partnership accounts?
- I – Dr Goodwill Cr Capital account in old ratio
 - II- Dr Capital account in old ratio Cr Goodwill account
 - III- Dr Goodwill account Cr Capital account in new ratio
 - IV – Dr Capital account in new ratio Cr Goodwill account
- (A) I and II
 - (B) I and III
 - (C) I and IV
 - (D) II and IV

- (10) The difference between a statement of profit or loss and an income and expenditure account is that
- (A) An income and expenditure account is another name for statement of profit or loss.
 - (B) Statement of profit or loss is prepared for a profit-oriented entity while an income and expenditure account is prepared for a not-for-profit organisation.
 - (C) A statement of profit or loss is prepared for a business while an income expenditure account is prepared on a cash flow basis.
 - (D) Statement of profit or loss is prepared on accrual basis while income and expenditure account is prepared on cash basis
- (11) Which of the following is NOT a purpose of the conceptual framework for financial reporting?
- (A) To assist national standard setting bodies in developing national standards
 - (B) To assist preparers of financial statements in applying IFRS in dealing with topics that are yet to form the subject of an IFRS
 - (C) To assist auditors in forming an opinion on whether financial statement comply with IFRS
 - (D) To define standards for measurement or disclosure
- (12) Bola Boat Shop bought a ₦70,000 electric hoist to lift engines out of boats. The boat shop paid ₦20,000 in cash for the hoist and signed a note to pay the balance in 90 days. This transaction will cause
- (A) The boat shop's assets to increase by ₦70,000 and liabilities to increase by ₦50,000
 - (B) No change in owner's equity but a ₦50,000 increase in both assets and liabilities
 - (C) Assets to increase by ₦50,000 and owner's equity to decrease by the same amount
 - (D) No change in total assets but a ₦50,000 increase in liabilities
- (13) At the end of the year, Barisi makes a charge against the profit for electricity consumed but not yet paid for. This adjustment is in accordance with the
- (A) Consistency concept
 - (B) Objectivity concept
 - (C) Materiality concept
 - (D) Accruals concept
- (14) At the end of the financial period, the statement of profit or loss of a company showed a profit of ₦2,400,000. It was, however, discovered that revenue of ₦240,000 was recorded as expenses while expenses of ₦80,000 had been recorded as revenue. What should be the correct profit for the period?
- (A) ₦2,080,000
 - (B) ₦2,560,000
 - (C) ₦2,640,000
 - (D) ₦2,720,000

- (15) Which of the following elements is directly related to the measurement of an entity's financial position?
- (A) Performance, income and expenses
 - (B) Income, expenses and equity
 - (C) Assets, liabilities and equity
 - (D) Assets, liabilities and performance
- (16) A cheque payment recorded in the cashbook but not yet reflected in the bank statement is
- (A) Uncredited cheque
 - (B) Dishonoured cheque
 - (C) Standing order
 - (D) Unpresented cheque
- (17) Which of the following is NOT an enhancing qualitative characteristics of useful financial information?
- (A) Understandability
 - (B) Relevance
 - (C) Timeliness
 - (D) Comparability
- (18) Debase Computers Limited recently bought ten computers by cash for its use. Which of the following is the correct method of recording this transactions?
- (A) Debit Computers Account and Credit Cash Account
 - (B) Debit Purchases Account and Credit Cash Account
 - (C) Debit Cash Account and Credit Purchases Account
 - (D) Debit Cash Account and Credit Computers Account
- (19) Which of the following is NOT the definition of a current asset?
- (A) Assets held for use for more than one year
 - (B) Assets which is used for production and services within a year
 - (C) Assets that are expected to be realised within normal operating cycle
 - (D) Assets that are expected to be realised within a year
- (20) Jepther Limited has authorised capital of ₦1,000,000 ordinary shares of 50 kobo each. The company issued enough shares at par to raise ₦900,000. What is the number of shares in the Company's Memorandum of Association?
- (A) 900,000 shares
 - (B) 1,000,000 shares
 - (C) 1,600,000 shares
 - (D) 2,000,000 shares
- (21) The double entry for Partners' drawings is to
- (A) Debit Appropriation Account and Credit Drawings Account
 - (B) Debit Partners' current Account and Credit Cash Account
 - (C) Debit Cash Account and Credit Appropriation Account

(D) Debit Partners' current Account and Credit Appropriation Account

- (22) Which of the following is NOT an operating activity?
- (A) Cash receipts and cash payment of an insurance entity premium on claims, annuities and other policy benefits
 - (B) Cash advances and loans made to other parties
 - (C) Cash payments or payments from contracts held for dealing or trading purposes
 - (D) Cash receipts from the sale of goods and rendering of services
- (23) What accounting concept is violated when ₦60,000 cost of electricity consumed during the first year of operation of a business was not charged as expense for the year?
- (A) Accrual
 - (B) Materiality
 - (C) Historical cost
 - (D) Business entity
- (24) If opening capital was ₦125,000, closing capital was ₦137,000, the owner's withdrawals were ₦123,000 the amount of profit or loss for the period was _____
- (A) Loss of ₦139,000
 - (B) Loss of ₦135,000
 - (C) Profit of ₦111,000
 - (D) Profit of ₦135,000
- (25) A motor van was purchased on 1 January 2020 at a cost of ₦2,000,000 and was depreciated at 25% on cost. It was disposed off on December 31, 2022 for ₦1,400,000. Full-year depreciation was charged in the years of purchase and disposal. Determine the profit or loss on the disposal.
- (A) ₦500,000 loss
 - (B) ₦500,000 profit
 - (C) ₦900,000 loss
 - (D) ₦900,000 profit
- (26) The source of data for the recording of sales day book of a business enterprises is
- (A) Returns inward note
 - (B) Return outwards note
 - (C) Payment voucher
 - (D) Invoice
- (27) A vehicle was bought on January 1, 2020 at a cost of ₦250,000. It has an expected useful life of 8 years with ₦10,000 scrap value at the end of its useful life. The annual depreciation charge using straight line method is
- (A) ₦30,000
 - (B) ₦45,000
 - (C) ₦60,000
 - (D) ₦75,000

- (28) A ledger containing details of capital account, drawing accounts, loan account and investment account could be classified as a -----
(A) Sales ledger
(B) Equity ledger
(C) Purchases ledger
(D) Private ledger
- (29) A, B and C are partners with capital contributions: ₦2,000,000, ₦3,000,000 and ₦5,000,000 respectively. They share profits or losses in the ratio 1:2:3 after salaries and interest on capital have been paid. B is entitled to a salary of ₦1,000,000 per annum and partners are entitled to a 10% interest on capital. The profit for the year ended December 31, 2021 was ₦4,000,000. What is the current account balance of partner B?
(A) ₦1,111,110
(B) ₦1,553,333
(C) ₦1,666,667
(D) ₦2,000,000
- (30) A cash deposit made by a business appears on the bank statement as a-----entry.
(A) Debit
(B) Single
(C) Credit
(D) Contra
- (31) The business accounting equation is $\text{assets} = \text{equity} + \text{liabilities}$, where $\text{assets} = \text{₦202,500}$; $\text{equity} = \text{₦82,500}$ and $\text{liabilities} = \text{₦120,000}$. Inventory worth ₦22,500 included in the assets is sold for ₦30,000 cash. What is the impact of this transaction on the accounting equation?
(A) Increase in assets by ₦7,500 and increase in equity by ₦7500
(B) Decrease in assets by ₦7,500 and decrease in equity by ₦7500
(C) Increase in assets by ₦22,500 and increase in equity by ₦22,500
(D) Decrease in assets by ₦22,500 and decrease in equity by ₦22,500
- (32) Tom Limited spent the following amounts at different times in a period on an old vehicle: ₦25,420, ₦75,442 and ₦16,245. The second expenditure improved the capacity and life span of the vehicle on which it was spent. How much of these costs should be charged to the statement of profit or loss for the period?
(A) ₦41,665
(B) ₦59,197
(C) ₦91,684
(D) ₦100,862
- (33) Which of the following may have been recorded in the cash book and NOT reflected in the bank statement?
(A) Bank charges and commission

- (B) Cheques issued, presented and cashed
 - (C) Debit alert credited in cash book
 - (D) Bank lodgments
- (34) A transaction on which an entity receives income in advance is classified as
- (A) Accrual
 - (B) Accrued income
 - (C) Liability
 - (D) Prepayment
- (35) The necessary accounting entries to correct a sum of ₦66,000 paid for wages that was recorded in the cash book without corresponding entry is
- (A) Dr suspense account with ₦66,000; Cr profit or loss account with ₦66,000
 - (B) Dr suspense account with ₦66,000; Cr wages account with ₦66,000
 - (C) Dr wages account with ₦66,000; Cr suspense account with ₦66,000
 - (D) Dr cash book with ₦66,000; Cr wages account with ₦66,000
- (36) In 2022, Toke Ltd had total receivables of ₦100,000 and wishes to have allowance for doubtful receivables of 4%. The allowance for doubtful receivables brought forward is ₦3000. What figure would appear in the statement of profit or loss in respect of the doubtful receivable?
- (A) ₦1,000 debit
 - (B) ₦1,000 credit
 - (C) ₦3,000 debit
 - (D) ₦4,000 debit
- (37) A sole trader that uses the end-period inventory system takes some inventory for personal use. Which of the following accounting entries is appropriate to record the transaction in the main ledger?
- (A) Dr Drawings account; Cr Inventory account
 - (B) Dr Drawings account; Cr Purchases account
 - (C) Dr Purchases account; Cr Drawings account
 - (D) Dr Inventory account; Cr Purchases account
- (38) The profit earned by a company for a period would increase
- (A) Retained earnings
 - (B) Share capital
 - (C) Share premium
 - (D) Revaluation reserve
- (39) A partner's current account was debited with ₦260,000 and the sales account credited with the same amount. What is the reason for this transaction?
- (A) Goods were returned to the partners
 - (B) Good have been purchased from the partner
 - (C) Good have been sold to the partner
 - (D) The partner withdrew inventory

- (40) End of period adjustment entries are made in order to satisfy the
- (A) Going concern principle
 - (B) Entity principle
 - (C) Double entry principle
 - (D) Matching principle
- (41) Which of the following depreciation is required to arrive at the carrying amount of PPE in the statement of financial position?
- (A) Accumulated depreciation
 - (B) Depreciation for the current year
 - (C) Depreciation relating to disposal of property, plant & equipment
 - (D) Provision for depreciation for two years
- (42) Which of the following is NOT posted to the credit side of the trade receivables control account?
- (A) A cash refund to customers
 - (B) Cash received from customers
 - (C) Discount allowed
 - (D) Dishonoured cheque
- (43) Which of the following cash transactions will result in cash outflow?
- (A) The company sells a machine
 - (B) The company increases inventories
 - (C) The company receives a bank loan
 - (D) Proceeds from issue of debenture
- (44) Given the following information, calculate the company's non-current liability.
- Current assets- ₦130,000
 Current liabilities- ₦80,000
 Carrying amount of PPE- ₦250,000
 Total equity- ₦200,000
- (A) ₦50,000
 - (B) ₦100,000
 - (C) ₦285,000
 - (D) ₦375,000
- (45) In which of the following financial records or documents will trade discount be recorded?
- (A) Cash book
 - (B) Purchases day book
 - (C) Journal voucher
 - (D) Invoices
- (46) For a not-for-profit organisation, the excess of income over expenditure is
- (A) Added to drawings
 - (B) Added to bank overdraft
 - (C) Added to accumulated fund

(D) Added to the receipts and payments

- (47) In a bank reconciliation statement, which of the following would be added to the balance as per bank statement?
- (A) Service charge
 - (B) Direct transfer
 - (C) Unpresented cheques
 - (D) Uncredited cheques
- (48) The following relate to Efosa limited:
Rates paid in advance December 31, 2021= ₦100,000
Rates paid during the year 2022- ₦80,000
Rates paid in advance December 31, 2022- ₦16,000
The amount of rates taken to the statement of profit or loss for the year ended December 31, 2022 is
- (A) ₦16,000
 - (B) ₦36,000
 - (C) ₦96,000
 - (D) ₦164,000
- (49) Which of the following statements is correct?
- (A) A trial balance reveals whether double entry principle has been complied with
 - (B) A trial balance will always balance
 - (C) A trial balance reports the financial position of a business
 - (D) A trial balance reports the profit or loss made by a business
- (50) Tamuno Trading Company sold a transistor radio at ₦250,000 to a customer at cost plus a markup of 20%. How much profit did the company make from the sale?
- (A) ₦25,000
 - (B) ₦41,600
 - (C) ₦41,667
 - (D) ₦50,000
- (51) Which of the following is NOT a non-current asset?
- (A) Assembly plant
 - (B) Computer hardware
 - (C) Finished products
 - (D) Delivery vans
- (52) Which of the following users is likely NOT to be interested in the financial statements of a sole trader and a partnership business?
- (A) The Federal Government, State and the Local tax authorities
 - (B) Banks and insurance companies
 - (C) Employees and proprietors of the business
 - (D) Nigerian Stock Exchange

- (53) Which of the following equations calculates the profit of a sole trader?
 (A) Closing net assets + Drawings + capital introduced - opening net assets
 (B) Closing net assets - Drawings + capital introduced - opening net assets
 (C) Closing net assets + Drawings - capital introduced - opening net assets
 (D) Closing net assets - Drawings - capital introduced - opening net assets
- (54) The following is an information extract from the books of accounts of Okoro Enterprises, a sole trader:
 Trade receivables balance for the period - ₦1,300,000
 The chance of collecting 2% of the trade receivables figure is remote
 It is virtually certain that 95% of the balance of the receivables is collectible.
 What is the net amount of trade receivables recognised in the statement of financial position?
 (A) ₦1,110,000
 (B) ₦1,201,000
 (C) ₦1,210,300
 (D) ₦1,274,000
- (55) Which of the following is NOT a book of prime entry?
 (A) Cash book
 (B) Purchases journal
 (C) Trial balance
 (D) Returns inwards day book
- (56) An accounts officer extracted a trial balance for the year ended October 31, 2022 and discovered that the debit side exceeded the credit side by ₦30,000. Which of the following could explain the reason for the imbalance?
 (A) Sales of ₦30,000 was omitted from the sales journal
 (B) Returns inwards of ₦15,000 was posted to the debit side of the trial balance
 (C) Discount received of ₦15,000 were posted to the credit side of the trial balance
 (D) The bank ledger account did not agree with the bank statement by a debit of ₦30,000
- (57) The following explains the imprest system of operating petty cash EXCEPT
 (A) Weekly expenditure cannot exceed a set amount
 (B) The exact amount of expenditure is reimbursed at intervals to maintain a fixed float
 (C) The petty cashier collects revenue on behalf of the organisation
 (D) A petty cashier receives cash, makes expenses of relatively small amount and maintains records for the transactions
- (58) In which of the following segments of the statement of financial position of the Chartered Institute of Taxation of Nigeria is students' subscription received in advance recognised?
 (A) Non-current assets
 (B) Fictitious assets
 (C) Current assets

(D) Current liabilities

- (59) Which of the following represents members' interest in a society or club?
- (A) Recurrent Fund
 - (B) General Reserve Fund
 - (C) Working Capital Fund
 - (D) Accumulated Fund
- (60) Which of the following information CANNOT be directly revealed by a statement of cash flow?
- (A) The entity's short-term solvency
 - (B) Operating cash position
 - (C) Financial position of the entity
 - (D) Liquidity position of the entity

MCQ SOLUTIONS

1. D

Trade receivable account	₦
Balance b/d	1,200,000
Less bad debts	<u>(5000)</u>
Balance c/f	<u>1,195,000</u>

Provision for doubtful debts:

Balance b/d	25,000
Profit or loss account	<u>10,850</u>
	<u>35,850</u>

$$3\% \times \text{₦}1,195,000 = \text{₦}35,850$$

$$\text{Statement of Financial Position} = \text{₦}1,195,000 - \text{₦}35,850 = \text{₦}1,159,150$$

2. D

3. D

4. A

5. D

6. C

7. D

8. D

9. C

10. B

11. D

12. A

13. D

14. D

Determination of current profit for the period:

	₦
Reported net profit	2,400,000
Add: revenue treated as expenses (₦ 240,000 × 2)	480,000
Less: expenses treated as revenue (₦ 80,000 × 2)	<u>160,000</u>

Corrected profit for the year 2,720,000

15.C

16.D

17.B

18.A

19.A

20.D

21.B

22.B

23.A

24.D

Determination of profit for the period

₦

Closing capital 137,000

Add: drawings 123,000

260,000

Less: opening capital 125,000

135,000

25.D

Determination of profit on disposal

Dates	Details	Amount
-------	---------	--------

₦

1/1/2020	Cost	2,000,000
----------	------	-----------

31/12/2022	Accumulated depreciation (25% × ₦2,000,000 × 3 years)	<u>(1,500,000)</u>
------------	--	--------------------

31/12/2022	Carrying amount	500,000
------------	-----------------	---------

31/12/2022	Proceeds from disposal	<u>1,400,000</u>
------------	------------------------	------------------

31/12/2022	Profit on disposal	<u>900,000</u>
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26.D

27.A – Depreciation = Cost – Residual value/Estimated useful life
= ₦ (250,000 – 10,000)/8 = ₦30,000

28.D

29.C

₦'000

Current account of B's salary 1000

Share of profit $\frac{2}{3} \times \text{₦}2,000,000$

(₦4,000,000 - ₦1,000,000 - ₦1,000,000) = 666,667

1,666,667

30.C

31.A

32.A = (₦25,420 + ₦16,245) = ₦41,665

33.D

34.C

35.C

36.A

37.A

- 38.A
 39.C
 40.D
 41.A
 42.D
 43.B
 44.B = $\text{N}250,000 + \text{N}130,000 - \text{N}200,000 - \text{N}80,000 = \text{N}100,000$
 45.D
 46.C
 47.D
 48.D = $\text{N}100,000 + \text{N}80,000 - \text{N}16,000 = \text{N}164,000$
 49.A
 50.C = $20/120 \times \text{N}250,000 = \text{N}41,667$
 51.C
 52.D
 53.C
 54.C =

N	N	
	Trade receivables balance	1,300,000
	Allowance for irrecoverable debt ($\text{N}1,300,000 \times 2\%$)	26,000
	Allowance for bad debt ($\text{N}1,300,000 - \text{N}26,000 \times 5\%$)	<u>63,700</u>
	Amount recognised in profit or loss account	<u>89,700</u>
	Amount recognised in the statement of financial position	<u>1,210,300</u>

- 55.C
 56.A
 57.C
 58.D
 59.D
 60.C

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

ATTEMPT ALL QUESTIONS.

- (1) Two standard headings in statement of cash flows are the _____ and _____
- (2) The relationship that exists between two or more persons carrying on business with a view to making profit is called _____
- (3) The concept which assumed that a business entity will continue for the foreseeable future is regarded as _____

- (4) The books in which transactions are first recorded before being posted to the ledger is called _____
- (5) Akpata introduced a capital of ₦200,000 (using cheque) to start a confectionary business on February 2, 2022. The double entry for this transaction is Dr _____ and Cr _____
- (6) The expenditure incurred for acquiring non-current asset for use by the entity is known as _____
- (7) Cheques deposited in the business bank account and not yet recorded in the bank statement as at the time of preparing bank reconciliation statement is called _____
- (8) The term given to an allowance of a percentage reduction in full invoice price made to a customer is called _____
- (9) An amount allowed to a customer so that he can pay promptly is called _____
- (10) A written authorisation used in approving a transaction for payment is called _____
- (11) The following transactions were extracted from the financial statements of Kane enterprises:

Insurance premium	30,000
Motor vehicle maintenance	100,000
Discount received	20,000
Discount allowed	15,000
Bank loan	500,000
Trade creditors	50,000

The items that will be posted in the statement of financial position are: (i).....
(ii).....

- (12) The period over which an asset is expected to be available for use by the business entity is known as-----
- (13) An account containing the summary of all trade receivable is known as the ----- control account
- (14) An item of machinery having a depreciation amount of ₦500,000 per year, a salvage value of ₦100,000 and a useful life of 10 years was purchased at a cost price of---

- (15) What is the source document by which a bank reconciliation officer can identify an uncredited lodgement?
- (16) The art of recording all monetary transactions of an entity to ascertain the financial position is called-----
- (17) What is the main difference between the income statement of a partnership and that of a sole trader?
- (18) The gratuitous receipt from members and non-members of a not-for-profit organisation is called-----
- (19) The amount agreed to be paid by a tenant to a landlord for the use of his property for economic reasons is known as-----
- (20) The excess of current assets over current liabilities is referred to as-----
- (21) A decrease in allowance for doubtful debt is ----- to the income statement and -
----- to the allowance for doubtful debt account

- (22) An asset has a useful life span of 5 years with no residual value. Using the sum-of-the-year digit method of depreciation, what proportion of the asset cost will have been written off at the end of year 3?
- (23) An intangible business asset which relates to reputation, customers' loyalty and popularity garnered over the years and due to the expertise of the business owner or quality of goods produced and services rendered is called -----
- (24) The income tax account of Wilfred Limited showed a balance of ₦50,000 on January 1, 2021. Tax paid during the year was ₦45,000 and the estimated tax based on current year's account is ₦60,000. What is the amount to be debited to company's statement of profit or loss as income tax for the year ended December 31, 2021?
- (25) The profits of XYZ partnership firm for 5 years ended December 31, 2022 were as follows:

Years	Profits
	₦'000
2018	15,000
2019	9,000
2020	4,500
2021	7,500
2022	10,500

The firm intends to admit a new partner on 1 January 2023. What is the value of goodwill where the partners have decided to value of goodwill at 4 year's purchase of the average super profit over the last 5 years based on normal profits of ₦3,000,000 per annum?

- (26) Goods taken by the proprietor of a firm for his consumption is classified as -----
- (27) Goods sold on cash and carry basis is treated in the account by debiting ----- and crediting -----
- (28) At January 1, 2021, the capital structure of Abednego plc was as follows:

₦	Issued share capital:	
	10,000,000 Ordinary shares of ₦1.00 each	10,000,000
	Share Premium account	500,000

On September 1, 2021, the company made a fresh issue of 500,000 shares at ₦1.30 each. What will be the balances in the share capital account and share premium account at December 31, 2021?

- (29) The amount of ₦600,000 for maintenance of the factory machine was debited to the plant and machinery account after crediting bank account with the same amount. The error committed is called -----
- (30) The following data relate to an equipment acquired by an enterprise:

Cost - ₦435,000

Expected useful life – 4 years

Annual depreciation - ₦100,000

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

- (31) The accounting basis maintained in recording transactions in receipts and payments account of not-for-profit organisations is ----
- (32) What is the effect of overstating closing inventory on net income?

- (33) A firm paid rent of ₦9 million to cover the eighteen months period ending June 30, 2023. How much rent should be charged to the statement of profit or loss as rent expense for the year ended December 31, 2022?
- (34) A non-current asset with an original cost of ₦500,000 and accumulated depreciation of ₦400,000 was disposed off for ₦80,000. What is the profit or loss on disposal?
- (35) A detailed list of account balances extracted from the ledger at a particular date is called.....
- (36) The starting point for the preparation of final accounts from incomplete records is --
- (37) Excess of expenditure over income in an income and expenditure account of a not-for-profit organisation is called ----
- (38) A sole trader took some goods costing ₦1000 from inventory for his own use. What is the double entry posting required?
- (39) The portion of called-up share capital which has been received from the subscribers to a company's ordinary or preference shares is called-----
- (40) Two of the qualitative characteristics that enhance the usefulness of financial information are____ and _____.

SAQ SOLUTIONS

- 1) Operating activities, Investing activities and financing activities (Any two)
- 2) Partnership Business
- 3) Going concern
- 4) Subsidiary books/books of prime entry/books of original entry
- 5) DR Bank and CR Capital
- 6) Capital expenditure
- 7) Uncredited cheques/lodgments
- 8) Trade discount
- 9) Cash discount
- 10) Approved payment voucher
- 11) Building- ₦500,000; Equipment -₦200,000; Bank loan - ₦500,000; Trade creditors/payables - ₦50,000
- 12) Expected useful life or useful life
- 13) Sales ledger/trade receivables control
- 14) ₦5,100,000=

Depreciation/year = cost – salvage value/estimated useful life

$$₦500,000 = \text{Cost} - ₦100,000/10 \text{ years}$$

Cross multiplying, we have

$$₦500,000 \times 10 = \text{cost} - ₦100,000$$

$$₦5,000,000 + ₦100,000 = \text{Cost}$$

$$= ₦5,100,000 = \text{Cost}$$
- 15) Bank statement
- 16) Book-keeping
- 17) Profit or Loss Appropriation Account
- 18) Donation
- 19) Rent or Tenancy fee
- 20) Net current assets or working capital

- 21) Credit; debit
- 22) 4/5 or 0.8 or 80%
- 23) Goodwill
- 24) ₦60,000

Tax payable account

₦		₦	
Bank	45,000	Balance b/d	50,000
Balance c/d	<u>65,000</u>	Income statement	<u>60,000</u>
<u>110,000</u>			
	<u>110,000</u>	Balance b/d	65,000

- 25) ₦25,200,000 =
 Total profits for 5 years = ~~₦46,500,000~~
 Average profits = ~~₦46,500,000~~ / 5 = ~~₦9,300,000~~
 Super profits = ~~₦9,300,000~~ - ~~₦3,000,000~~ = ~~₦6,300,000~~
 Goodwill = ~~₦6,300,000~~ × 4 = ~~₦25,200,000~~
- 26) Drawings
- 27) Cash; sales
- 28) Share capital = ₦10,500,000
 Share premium = ₦650,000
 Working: Share Capital = ₦10,000,000 + ₦500,000 = ₦10,500,000
 Share premium = ₦500,000 + ₦150,000 = ₦650,000
- 29) Error of principle
- 30) Residual Value = ~~₦35,000~~

	₦
Cost	435,000
Accumulated depreciation (₦100,000 × 4)	<u>400,000</u>
Residual value	<u>35,000</u>

- 31) Cash basis
- 32) Net income is overstated/Net income is increased
- 33) ₦6,000,000 =
 12/18 × ~~₦9,000,000~~ = ~~₦6,000,000~~
- 34) ₦20,000 loss =
 i.e. ~~₦500,000~~ - ~~₦400,000~~ - ~~₦80,000~~ = ~~₦20,000~~ loss
- 35) Trial balance
- 36) Statement of Affairs
- 37) Deficit
- 38) DR Drawing account CR Purchases account
- 39) Paid-up share capital
- 40) Comparability, verifiability, timeliness; and understandability (any two).



THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2023: PROFESSIONAL EXAMINATION

FOUNDATION: PRINCIPLES OF TAXATION

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 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 Federal Inland Revenue Service
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 operation 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 reason for collection of taxes in Nigeria?
 - A. To redistribute income
 - B. To provide social amenities
 - C. To correct favourable balance of payment
 - D. To maintain general administration
 7. Who is the person appointed by the court to administer the estate of an intestate?
 - (a) Accountant.
 - (b) Administrator.
 - (c) Trustee.
 - (d) Beneficiary.
 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. _____ is the tax based on an assumed income of a taxpayer.
- (a) Preliminary Tax
 - (b) Presumptive Tax
 - (c) Poll Tax.
 - (d) Property Tax
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 Trade and 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 has applied 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 (Amendment), 2011 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
- (a) An Administrative assessment
 - (b) Best of judgement.
 - (c) A Revised assessment.
 - (d) A Provisional assessment.
41. The power to assess, collect and administer taxes on Business Enterprises under the Personal Income Tax Act 2004 (as amended) is vested in the
- (a) Joint Tax Board
 - (b) State Board of Internal Revenue
 - (c) Joint State Revenue Committee
 - (d) Local Government Revenue Authority
42. Which of the following is NOT an example of an Indirect Tax?
- (a) Personal Income Tax
 - (b) Value Added Tax
 - (c) Excise Duty
 - (d) 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?
- (a) 60 days from the date on the assessment notice
 - (b) 90 days from the date on the assessment notice
 - (c) 30 days from the date of the service of assessment notice
 - (d) 30 days from the date on the assessment notice
44. Income derived from employment, business, profession or vocation is known as
-
- (a) Legitimate income
 - (b) Unearned income
 - (c) Statutory Total Income
 - (d) Earned Income
45. The following are the conditions for allowing donations as a deductible expense EXCEPT:
- (a) It should not be of a capital nature
 - (b) It must be made to one of bodies listed in Schedule 5 of Companies Income Tax Act

- (c) It could be made whether the company made profit or not.
 - (d) It must be made out of profit.
46. What tax concept can be used to describe the imposition on 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
 - (d) Deferred transaction
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 the 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 2004 (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 the 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

SOLUTIONS MCQ

- 61. B
- 62. D
- 63. B
- 64. C
- 65. D
- 66. B
- 67. C
- 68. A
- 69. A
- 70. B
- 71. B
- 72. B
- 73. B
- 74. A
- 75. C
- 76. C
- 77. D
- 78. A
- 79. A
- 80. A
- 81. B
- 82. B
- 83. C
- 84. C
- 85. B

- 86. D
- 87. B
- 88. B
- 89. D
- 90. B
- 91. D
- 92. B
- 93. A
- 94. C
- 95. C
- 96. C
- 97. D
- 98. D
- 99. C
- 100. A
- 101. B
- 102. A
- 103. C
- 104. D
- 105. C
- 106. A
- 107. A
- 108. C
- 109. C
- 110. B
- 111. C
- 112. A
- 113. D
- 114. C
- 115. B
- 116. D
- 117. D
- 118. D
- 119. B
- 120. D

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:

Name of taxpayer	Income (₦)	Tax paid (₦)
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 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 a 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. On what condition can the relevant tax authority deny the 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 classification of tax in accordance with the person that bears the burden of tax.
 18. State any two examples of revenue receipts.
 19. List any two (2) merits of indirect taxation.
 20. List any two (2) demerits of direct Taxation.
 21.occurs when the rate of tax reduces as income increases.
 22.is a tax used for redistribution of income from the rich to the poor.
 23. Out of the three categorisations according to basis of variation in tax rate,.....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.is imposed on manufactured goods within the Government territory collected by the Nigeria Customs service.
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.is 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.
33. List any two (2) members of the Joint State Revenue Committee (JSRC).
34. Profits from non-pioneer business are taxable after.....years of pioneering status.
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. Mention any two(2) demerit of indirect tax.
39. The appointment of the Secretary to the Joints Tax Board (JTB) is usually done by.....
40.was the first Finance Act in Nigeria.

SAQ SOLUTIONS

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.
 - (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. *Economic growth facilitator;
 - *Tolerable tax burden;
 - *Minimum sacrifice;
 - *Highly canonical;
 - *Economic stimulator,
 - *Common good;
 - *Maximum social advantage
 17. The classification of tax in accordance with the person that bears the burden of tax are:
 - * Direct taxes and
 - * Indirect taxes
 18.
 - Income from sales or services rendered
 - Discount received from creditors or suppliers
 - Sale of scrap
 - Interest earned
 - Dividend received

- Rent received
19. Merits of indirect taxation are:
 - * Easy to pay;
 - * Difficult to evade;
 - * Highly productive;
 - * Social impact;
 - * Promotes Capital Formation;
 - * Protect Domestic Industries; and
 - * Discrimination
 20. Demerits of Direct Taxation are:
 - * Disincentive to work;
 - * Easy to evade;
 - * Disincentive to Foreign Investment;
 - * Unpopular and painful; and
 - * Unpleasant to Entrepreneurs
 21. A Regressive Tax
 22. A Progressive Tax
 23. Progressive
 24. BIK is Earnings usually from employment other 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. (a) The Chairman of the State Internal Revenue Service as Chairman;
 (b) The Chairman of each of the Local Government Revenue Committee;
 (c) A representative of the Bureau of Local Government Affairs not below the rank of a Director;
 (a) A representative of Revenue Mobilisation Allocation and Fiscal Commission (RMAFC), as an observer;
 (b) The State Sector Commander of the Federal Road Safety Commission (FRSC), as an observer;
 (c) The Legal Adviser of the State Internal Revenue Service; and
 (d) The Secretary of the Committee who shall be a staff of the State Internal Revenue Service.
 34. 3 years or 5 years where there is an extension
 35. A state or federal capital territory
 - 36.

- He resigns his appointment as a member of the Board by notice, under his hands addressed to the President;
 - He becomes of unsound mind;
 - He becomes bankrupt or makes a compromise with its creditors;
 - He is convicted of felony or of any offence involving dishonesty or corruption;
 - He becomes incapable of carrying on the functions of his office either arising from an infirmity of mind and body;
 - 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;
 - He has been found guilty of contravening the Code of Conduct Bureau and Tribunal Act or gross misconduct in relation to his duties;
 - In the case of a person possessing professional qualification, he is disqualified by a competent authority; and
 - 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. Demerits of indirect taxation are
- (a) Regressive in nature;
 - (b) Unfavourable to industries;
 - (c) Raises the price of commodities;
 - (d) Does not raise civil consciousness.
39. The Chairman of the Federal Civil Service commission.
40. Finance Act 2019.