THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2024: PROFESSIONAL EXAMINATION

PTE I: FINANCIAL REPORTING

WEDNESDAY, 17TH APRIL, 2024 **EXAM NO………………**

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS.

QUESTION 1

(a) IFRS 3 on Business Combination permits a non-controlling interest at the date of acquisition to be valued by one of two methods.

i. At its proportionate share of the subsidiary's identifiable net assets or

ii. At its fair value (usually determined by the directors of the parent company).

Required:

Explain the difference that the accounting treatment of these alternative methods could have on the consolidated financial statements, including where consolidated goodwill may be impaired. **(5 Marks)**

(b) Anchor Limited acquired 70% interest in the equity shares of Nest Limited for ₦3,000,000 on January 1, 2023. The abridged statement of financial position of both companies at the date of acquisition were as follows:

	ANCHOR LIMITED	NEST LIMITED
	₦ 000	₦ 000
Identifiable assets	32,800	8,000
Investment in Nest Limited	3,000	-
	35,800	8,000
	₦ 000	₦ 000
Equity	24,000	4,800
Identifiable liabilities	11,800	3,200
	35,800	8,000

The fair value of the identifiable assets of Nest Limited amounts to ₦11,200,000 and the fair value of its liabilities is ₦3,200,000. The non-controlling interest will be measured as a percentage of the net asset of the acquiree.

Required:

Calculate the gain on bargain purchase arising from the acquisition. **(3 Marks)**

(c) On January 1, 2023 Ship Plc acquired 45million of the equity shares of Boat Plc in a share exchange in which Ship Plc issued two (2) new shares for every three (3) shares it acquired in Boat Plc. This gave Ship Plc a holding of 90%, additionally on December 31, 2016, Ship Plc will pay shareholders of Boat Plc ₦1.76 per share acquired. Ship Plc cost of capital is 10% per annum.

At the date of acquisition, the shares in Ship Plc and Boat Plc had a market price of ₦6.50 and ₦2.50 respectively.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED SEPTEMBER 30, 2023

	SHIP PLC	**BOAT PLC**
	₦ 000	₦ 000
Revenue	323,000	190,000
Cost of sales	(256,000)	(130,000)
Gross profit	67,000	60,000
Distribution cost	(8,000)	(9,000)
Administrative expenses	(19,000)	(12,000)
Investment income	2,500	-
Finance cost	(2,100)	-
Profit before tax	40,400	39,000
Income tax expense	(14,000)	(8,000)
Profit for the year	26,400	31,000
Equity as at October 1, 2022:		
Share capital (₦1 per share)	300,000	75,000
Retained earnings	270,000	175,000

The following additional information is also relevant:

(i) At the date of acquisition the fair value of Boat Plc's assets and liabilities were equal to their carrying amount with the exception of two items:

- An item of plant had a fair value of ₦9million above the carrying amount. The remaining life of the plant at the date of acquisition was three (3) years. Depreciation is charged to cost of sales.
- Boat Plc had a contingent liability which Ship Plc estimated to have a fair value of ₦2.25million. This has not changed as at September 30, 2023.
- Boat Plc has not incorporated this fair value changes into its financial statements.

(ii) It is Ship Plc's policy to value non-controlling interest at fair value at the date of acquisition. For this purpose, Boat Plc share price at the date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.

(iii) Sales from Ship Plc to Boat Plc throughout the year ended September 30, 2023 had consistently been ₦4million per month. Ship Plc made a mark-up of 25% on these sales. Boat Plc had ₦7.5million of these goods in inventory as at September 30, 2023.

(iv) Ship Plc's investment income is a dividend received from its investment in a 40% owned associates which it has held for several years. The underlying earnings of the associate for the year ended September 30, 2023 were ₦10million.

(v) Although Boat Plc has been profitable since its acquisition by Ship Plc, the market for Boat Plc's product has been badly hit in recent months and Ship Plc has calculated that the goodwill has been impaired by ₦10million as at September 30, 2016.

Required:

(i) Calculate the goodwill on acquisition of Boat Plc. **(7 Marks)**

(ii) Prepare the consolidated statement of profit or loss and other comprehensive income for Ship Plc group for the year ended September 30, 2023. **(15 Marks)**

(d) The difference between debt and equity in an entity's statement of financial position is not easily distinguishable for preparers of financial statements. Debts and equity financial instruments may have similar characteristics, which may lead to inconsistency of reporting.

Required:

(i) Discuss the main distinguishing features in the presentation of debt and equity under International Financial Reporting Standards (IFRS) with clear examples. **(5 Marks)**

(ii) Explain why it is important for entities to understand the impact of the classification of a financial instrument as debt or equity in the financial statement. **(5 Marks)**

(TOTAL=40 Marks)

SOLUTION TO QUESTION 1

a) DIFFERENCES BETWEEN THE ACCOUNTING TREATMENT OF THE ALTERNATIVE METHODS

THE FIRST METHOD:

IFRS 3 allows, as an option, a non-controlling interest to be valued at its proportionate share of the acquired subsidiary's identifiable net assets.

Its effects on the statement of financial position is that the resulting carrying value of purchased goodwill only relates to the parent's elements of such goodwill and as a consequence the non-controlling interest does not reflect its value of the subsidiary's goodwill.

Any impairment of the goodwill under this method would only be charged against the parent interest as the non-controlling interest" share of goodwill is not included in the consolidated financial statement.

THE SECOND METHOD:

The second method of valuing non-controlling interest at its fair value would (normally) increase the value of the goodwill calculated on acquisition.

This increase reflects the non- controlling interest ownership of the subsidiary's goodwill and has the effect of grossing up the goodwill and the non-controlling interest in the statement of financial position, by the same amount.

Under this method any impairment of the subsidiary's goodwill is charged to both the controlling (parent share) and non-controlling interest in the proportion of their holding of share in the subsidiary.

b) GAIN ON BARGAIN PURCHASE

	₦'000
Consideration	3,000
Add:	
Non-Controlling Interest (8,000 x 30%)	2,400
	5,400
Less:	
Net identifiable assets of Nest Ltd (11,200 – 3,200)	8,000
Gain on bargain purchase	2,600

ALTERNATIVE SOLUTION

	₦'000
Fair value of identifiable net assets acquired by Anchor {70% x (11200-3200)	5,600
Fair value of consideration transferred	3,000
Gain on Bargain Purchase	2,600

c) (i) **CALCULATION OF GOODWILL**

	₦'000
Consideration transferred:	
Share capital = (45x2)/3= 30m shares x N6.50)	195,000
Deferred consideration: (45m shares x N1.76 x 1/1.1)	72,000
	267,000
Fair Value of NCI (5m shares x N2.50k)	12,500
	279,500

Fair Value of Assets:

	₦'000
Share capital	75,000
Retained earnings 175,000+(31,000x3/12)	182,750

Fair value adjustment to plant	9,000
Contingent liabilities	(2,250)
	264,500
Goodwill (279,500 – 264,500)	15,000

(ii) **SHIP PLC GROUP – CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	₦'000
Revenue 323,000+(190,000x9/12)- 36,000 (w2)	429,500
Cost of sales (256,000+130,000(9/12))-36,000 + 1,500 (w2) + 2,250 (w3)	(321,250)
Gross profit	108,250
Distribution cost (8000+9000x(9/12))	(14,750)
Administrative expenses (19,000+(12,000x9/12))+10,000	
(Good impairment)	(38,000)
Finance cost (w4)	(7,500)
Share of profit of associates (10,000 x 40%)	4,000
Profit before tax	52,000
Less: Income tax expenses (14,000+(8000x9/12))	(20,000)
Profit for the year	32,000
Profit attributable to:	
Owners of the parent	30,900
Non-controlling interest (w5)	1,100
	32,000

Working Notes

W1 Group structure

Total control	100%
Ship Plc interest	90%
Boat Plc interest	10%

Acquisition of subsidiary during the year 9 months before year-end.

W2 Intergroup Trading

		₦'000	₦'000	₦'000
(i)	Debit revenue (4,000 x 9 months)	36,000		
	Credit Cost of sales		36,000	
(ii)	Unrealised profit (7,500x(25/125))			
	Cost of sales	1,500		
	Group inventory (SFP)		1,500	

W3 Fair value adjustments

	₦'000	₦'000	₦'000
Plant (9,000/yearsx(9/12)	9,000	2,250	6,750

W4 Finance cost

	₦'000
Ship Plc per profit or loss	2,100
Discount on deferred consideration	5,400
	7,500

W5 NCI	₦'000
Profit for the year	23,250
Depreciation on fair value adjustment	(2,250)
Goodwill impairment	(10,000)
	11,000
NCI Share @ 10%	1,100

(d) (i)-IAS 32-Financial Instruments Presentation, establishes principles for presenting financial instruments as liabilities or equity. To determine whether a financial instrument should be classified as debt or equity, IAS 32 uses principles-based definitions of a financial liability and of equity. In contrast to the requirements of generally accepted accounting practice in many jurisdictions around the world, IAS 32 does not classify a financial instrument as equity or financial liability on the basis of its legal form. The key feature of debt is that the issuer is obliged to deliver either cash or another financial asset to the holder. The contractual obligation may arise from a requirement to repay principal or interest or dividends.

Such a contractual obligation may be established explicitly or indirectly through the terms of the agreement. For example, a bond which requires the issuer to make interest payments and redeem the bond for cash is classified as debt. In contrast, equity is any contract which evidences a residual interest in the entity's assets after deducting all of its liabilities. A financial instrument is an equity instrument only if the instrument includes no contractual obligation to deliver cash or another financial asset to another entity and if the instrument will or may be settled in the issuer's own equity instruments. For example, ordinary shares, where all the payments are at the discretion of the issuer, are classified as equity of the issuer. The classification is not quite as simple as it seems. For example, preference shares required to be converted into a fixed number of ordinary shares on a fixed date or on the occurrence of an event which is certain to occur, should be classified as equity.

A contract is not an equity instrument solely because it may result in the receipt or delivery of the entity's own equity instruments. The classification of this type of contract is dependent on whether there is variability in either the number of equity shares delivered or variability in the amount of cash or financial assets received. A contract which will be settled by the entity receiving or delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument. However, if there is any variability in the amount of cash or own equity instruments which will be delivered or received, then such a contract is a financial asset or liability as applicable.

For example, where a contract requires the entity to deliver as many of the entity's own equity instruments as are equal in value to a certain amount of cash, the holder of the contract would be indifferent whether it received cash or shares to the value of that amount. Thus this contract would be treated as debt.

Other factors, which may result in an instrument being classified as debt, are:

Redemption is at the option of the instrument holder;

There is a limited life to the instrument;

Redemption is triggered by a future uncertain event which is beyond the control of both the holder and issuer of the instrument; and

Dividends are non-discretionary; Similarly, other factors, which may result in the instrument being classified as equity, are whether the shares are non-redeemable, whether there is no liquidation date or where the dividends are discretionary.

(ii) **The importance of entities understanding the impact of the classification of a financial instrument as debt or equity in the financial statements.**

When an entity issues a financial instrument, it must determine its classification either as a liability (debt) or as equity. That determination has an immediate and significant effect on the entity's reported results and financial position.

Liability classification affects an entity's gearing ratios and typically results in any payments being treated as interest and charged to earnings.

Equity classification avoids these impacts but may be perceived negatively by investors if it is seen as diluting their existing equity interests.

Understanding the classification process and its effects is therefore a critical issue for management and must be kept in mind when evaluating alternative financing options.

This may in turn affect the entity's ability to pay dividends on its equity shares (depending upon the requirements of local law).

Equity classification avoids the negative impact that liability classification has on reported earnings and gearing ratios. It also results in the instrument falling outside the scope of IAS 39 Financial Instruments: Recognition and measurement, thereby avoiding the complicated ongoing measurement requirements of that standard.

QUESTION 2

Joromi Ltd operates its business in Nigeria having six (6) divisions in each of the six geopolitical zones of the country. The information below is the extracts from the draft financial statements of Joromi Ltd for year ended December 31, 2023.

Joromi Ltd

Statement of profit or loss for the year ended December 31, 2023

	₦000
Revenue	97,500
Cost of sales	(62,500)
Gross profit	35,000
Distribution costs	(7,500)
Admin expenses	(20,000)
Profit before taxation	7,500
Income tax expense	(2,250)
Profit for the year	5,250

Joromi Ltd
Statement of financial position as at December 31, 2023

	₦000	**₦000**
Non-current assets:		
Property,plant & equipment	47,500	
Intangible assets	1,000	48,500

Current assets:		
Inventories	8,750	
Trade & other receivables	4,750	
Cash and cash equivalents	2,250	15,750
		64,250
Equity and liabilities:		
Equity		
Share capital	15,000	
Retained earnings	42,500	57,500
Current liabilities:		
Trade and other payables	4,875	
Current tax payable	1,875	6,750
		64,250

On November 30, 2023 Joromi Ltd's board of directors decided to close down North East division due to the activities of Boko Haram terrorist. This division covers a separate major line of business. The public relation officer of the company immediately announced this decision to the press and to the work force. By the end of year 2023 a buyer was found.

Additional information:

(i) 15% of Joromis Ltd income and expenses for the year was attributable to North East Division of the company.

(ii) No tax is attributable to the North East division.

(iii) Property, plant and equipment of ₦12,750,000 and payables of ₦250,000 in the above statement of financial position relates to the North East division. The fair value less cost to sell of the property plant and equipment is ₦11,250,000.

Required:

Prepare revised financial statements of Joromi Ltd as at December 31, 2023 in accordance with provisions of IFRS 5. Non-current assets held for sale and discontinued operations.

(Total 15 Marks)

SOLUTION TO QUESTION 2

Joromi Ltd

Revised statement of profit or loss for the year ended December 31, 2023

	₦'000
Continuing operations:	
Revenue	82,875
Cost of sales	(53,125)

Gross profit	29,750
Distribution cost	(6,375)
Admin expenses	(17,000)
Profit before taxation	6,375
Income tax expense	(2,250)
Profit for the year from continuing operations	4,125
Discontinued operations:	
Loss for the year from discontinued operations (w1)	(375)
Profit for year	3,750

Joromi Ltd
Revised statement of financial position as at December 31, 2023

	₦'000	₦'000
Non-current assets:		
Property plant and equipment (47,500 – 12,750)	34,750	
Intangible assets	1,000	35,750
Current assets:		
Inventories	8,750	
Trade and other receivables	4,750	
Cash and cash equivalent	2,250	15,750
Non-current assets held for sale		11,250
Total assets		62,750
Equity and liabilities:		
Equity:		
Share capital	15,000	
Retained earnings (42,500 – 1,500)	41,000	56,000
Current liabilities:		
Trade and other payable [4,875 – 250]	4,625	
Current tax payable	1,875	
Liabilities classified as held for sale	250	6,750
		62,750

Workings:

(w1)	**Continued operations**	**Discontinued operations**	**Total**
	₦'000	₦'000	₦'000
Revenue	82,875	14,625	97,500
Cost of sales	(53,125)	(9,375)	(62,500)
Gross of profit	29,750	5,250	35,000
Distribution costs	(6,375)	(1,125)	(7,500)
Admin. expenses	(17,000)	(3,000)	(20,000)
Impairment loss [12,750 – 11,250]	--	(1,500)	(1,500)
Profit before tax	6,375	(375)	6,000

Income tax expenses	(2,250)	--	(2,250)
Profit/loss for the year	4,125	(375)	3,750

QUESTION 3

Dukia Nig. Ltd was incorporated on January 1, 2022. The following information is relevant for the year ended December 31, 2023.

(i)

Capital transactions	Cost	Depreciation B/Fwd	Depreciation for the year
	₦ 000	₦ 000	₦ 000
Property plant & equipment	120,000	22,000	28,000
Capital allowance – B/Fwd	30,000		
Capital allowance for the year	32,000		

(ii) The accounting profit for the year was ₦250m

(i) During the year Dukia Nig. Ltd. paid fine of ₦12m. The fine is not tax deductible.

(ii) Interest Payable: On April 1 2023 the company issued ₦50m of 8% convertible loan notes. Interest is paid in arrears on September 30 and March 31. However, tax relief on interest is only given when interest is paid.

(iii) Interest Receivables:- On April 1, 2023 Dukia Nig. Ltd purchased bonds having nominal value of ₦8m. Interest at 15% per annum is received on September 30, and March 31. However the interest income is not taxed until cash is actually received.

(iv) Provisions for Warranty:- In preparing the financial statement for the year ended December 31, 2023 Dukia Nig. Ltd. has recognised a provision for warranty payment in amount of ₦2.4m. This has been correctly recognised in accordance with IAS 37 and the amount has been expensed. However, the tax relief on the warranty cost is only given when the expenses is actually paid.

(v) Tax rate is 30% and deferred tax liability as at December 31, 2022 is ₦2,400,000.

Required:

(a) Calculate the company income tax liability for the year ended December 31, 2023. **(5 Marks)**

(b) Calculate the deferred tax balance in the statement of financial position as at December 31, 2023. **(5 Marks)**

(c) Prepare notes showing movement on the deferred tax liability and notes to statement of profit or loss for the tax expense for the year ended December 31, 2023. **(5 Marks)**

(Total 15 Marks)

SOLUTION TO QUESTION 3

(a) Dukia Nig. Ltd.

Company income tax liability for the year ended December 31, 2013

	₦'000
Profit per account	250,000
Add:	
Depreciation	28,000
Interest payable (50m x 8% x 3/12)	1,000
Provisions	2,400
Fine	12,000
	293,400
Less: Capital allowance	(32,000)
Interest receivable (8,000 x 15% x 3/12)	(300)
Taxable profit	261,100
Tax payable @ 30%	78,330

(b) Deferred tax liability in statement of financial position as at December 31, 2023

	Carrying Amount	Tax Base	Temporary Difference
	₦'000	**₦'000**	**₦'000**
Property plant & equipment (120-22-28)	70,000		

Property plant & equipment tax base (120-30-32)		58,000	
	70,000	58,000	12,000
Interest payable (50,000 x 8% x 3/12)	(1000)	--	(1,000)
Interest receivable (8,000 x 15% x 3/12)	300	--	300
Provisions	(2,400)	--	(2,400)
	66,900	58,000	8,900
Deferred tax 30% x 8,900			2,670

(c) (i) Movement in deferred tax liability as at December 31, 2023

	₦'000
Balance b/fwd	2,400
Charged to P or L	270
Balance c/fwd	2,670

(ii) Notes to statement of profit or loss for the year ended December 31, 2023 for income tax expense

	₦'000
Current tax	78,330
Deferred tax	270
Income tax expense	78,600

QUESTION 4

Kokoro Ltd and Dankuwa Ltd operate in the same industrial sector but they carry out their business in South West and North West geopolitical zones of the country respectively. Their financial statements for the year ended December 31, 2023 are as follows:

Statement of Profit or Loss

	Kokoro Ltd	**Dankuwa Ltd**
	₦ 000	₦ 000
Revenue	11,520	13,760
Cost of sales	(8,960)	(10,736)
Gross profit	2,560	3,024
Operating expenses	(1,760)	(2,400)
Net profit before tax	800	624

Income tax expense	(320)	(240)
Net profit for the year	480	384

Statement of financial position

	Kokoro Ltd	Dankuwa Ltd
Equity and liabilities:	**₦ 000**	**₦ 000**
Ordinary share capital @ ₦1	4,800	1,600
Retained earnings	1,920	832
	6,720	2,432
Non-current liabilities:		
8% loan notes	--	960
Current liabilities:		
Taxation	320	240
Trade payables	1,440	2,752
Bank overdraft	--	336
Dividend payables	160	192
	1,920	3,520
Total equity and liabilities:	8,640	6,912
Non-Current Assets:		
Property,plant and equipment (cost)	5,280	4,160
Less: Accumulated depreciation	(1,600)	(1,280)
Carrying amount	3,680	2,880
Current Assets:		
Inventory	2,240	1,376
Receivables	2,640	2,592
Cash and bank	80	64
	4,960	4,032
Total assets	8,640	6,912

Required:

(a) Compute the following:

- (i) Current ratio
- (ii) Acid test ratios
- (iii) Payables payment period (days)
- (iv) Receivables collection period (days)
- (v) Earnings per share **(10 Marks)**

(b) Write a memo to your tax controller carrying out comparative analysis of the companies based on ratios computed in (a) above. **(5 Marks)**

(Total 15 Marks)

SOLUTION TO QUESTION 4

(a) Appendix A

	Ratios	**Formulae**	**Kokoro Ltd**	**Dankuwa Ltd**
(i)	Current ratio	CA/CL	4,960 1,920 = 2.58:1	4,032 3,520 = 1.15:1
(ii)	Acid test ratio	CA – INV CL	4,960 – 2,240 1,920 = 1.42:1	4,032 – 1,376 3,520 = 0.75:1
(iii)	Payables payment period	Creditors x 365 Cost of sales 1	1,440 x 365 days 8,960 = 59 days	2,752 x 365days 10,736 = 94 days
(iv)	Receivable collection period	Receivable x 365 Revenue	= 2,640 x 365 11,520 = 84 days	= 2,592 x 365 13,760 69 days
(v)	Earnings per share (EPS)	Profit after tax x 100 No of ord. shares 1	480 x 100 4,800 1 10k/share	384 x 100 1,600 24k/share

(b) Date: Memo

From: Tax Officer

To: Tax controller

Subject: Comparison of Kokoro Ltd and Dankuwa Ltd

Introduction:

Based on the ratio computed see appendix 'A' attached.

Report:

- In terms of working capital and liquidity Kokoro Ltd is in a better position to honour its obligation as they fall due because its current ratio and acid test ratio are higher than that of Dankuwa Ltd.
- Dankuwa Ltd payment period is better than that of Kokoro Ltd because Dankuwa Ltd use suppliers funds to finance its operation.
- Dankuwa Ltd collection period is also better than that of Kokoro Ltd. it extends shorter credit period to its customers than that of Kokoro Ltd.
- Dankuwa Ltd's credit policy is better than that of Kokoro Ltd. This is because there is a 25days (94 days less 60 days) difference between its payment period and collection period compared with Kokoro Ltd that had a higher collection period than its payment period.

- Also Dankuwa Ltd's EPS is better than that of Kokoro Ltd by 14k (24k less 10k). Therefore Dankuwa Ltd's shareholders will be happier than those of Kokoro Ltd.

CONCLUSION
Hope my analysis above is clearer as its appers that Dankuwa Ltd is a better company in terms of general performance than Kokoro Ltd.

Mr. ABC
Tax Officer

QUESTION 5

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

Required:
State the core principles described by IFRS 15 in the recognition of revenue and list the five steps to be followed in applying this core principles. **(5 Marks)**

(b) IAS 23 – Borrowing cost state that an entity shall capitalise borrowing cost that are directly attributable to the acquisition; construction or production of a qualifying assets as part of the cost of that assets. An entity shall recognise other borrowing cost as expense in the period in which it incurs them.

Required:
Explain the following in accordance with IAS 23:
(i) Borrowing cost eligible for capitalisation
(ii) Commencement date of capitalisation
(iii) Expenditure on a qualifying asset
(iv) Suspension of capitalisation
(v) Cessation of capitalisation

(10 Marks)
(Total 15 Marks)

SOLUTION TO QUESTION 5
a) IFRS 15

Revenue must be recognised in a manner that depicts the transfer of goods or services to customers and at an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services.

Five (5) Step Model
Step 1-Identify the contract with customers.
Step 2-Identify the separate performance obligation.
Step 3-Determine the transaction price
Step 4 - Allocate the transaction price to the performance obligation.
Step 5 - Recognise revenue when or as the entity satisfies performance obligation.

b) IAS 23

(i) **Borrowing costs eligible for capitalisation**

Borrowing cost eligible for capitalisation are:

- The cost directly attributable to the acquisition, construction or production of a qualifying assets that would have been avoided if the expenditure on the qualifying asset had not been made.
- The borrowing cost that directly relates to that qualifying assets when the entity borrows funds specially for the purpose of obtaining a particular qualifying assets.
- The entity shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of the borrowings.
- The entity shall determine the amount of borrowing costs eligible to capitalisation by applying capitalisation rate to the expenditure on the assets.

(ii) **Commencement date of capitalisation**

This is the date when the entity first meet all of the following conditions:

- It incurs expenditure of the assets;
- It incurs borrowing cost; and
- It undertakes activities that are necessary to prepare the assets for its intended use or sale.

(iii) **Expenditure on a qualifying asset**

These include only those expenditure that have resulted in:

- Cash payment;
- Transfer of assets; or
- The assumption of interest bearing liabilities.
- Expenditure is reduced by any progress payment received and grants received in connection with the assets.

(iv) **Suspension of Capitalisation**

An entity shall suspend capitalisation of borrowing cost during extended period in which active development is interrupted during this period, borrowing cost are recognised as an expense.

(v) **Cessation of Capitalisation**

An entity shall cease capitalisation of borrowing costs when:

- Substantially all the activities necessary to prepare the qualifying assets for its intended use or sales are complete; and
- When an entity complete the construction of a qualifying assets in parts and each parts is capable of being used while construction continues on the other parts.

QUESTION 6

(a) ABC Limited has a machine in its statement of financial position with a carrying amount of ₦300,000. The machine is used to manufacture the company's best-selling product range, but the entry of a new competitor into the market has severely affected sales. As a result, the company believes that the future sales of the product over the next three years will only be ₦150,000, ₦100,000 and ₦50,000. The asset will then be sold for ₦25,000. An offer has been received to buy the machine immediately for ₦240,000, but the company would have to pay shipping costs of ₦5,000. The risk-free market rate of interest is 10%. Market changes indicate that the asset may be impaired and so the recoverable amount for the asset must be calculated.

Required:

(i) Calculate the value in use. **(2 Marks)**

(ii) What is the recoverable amount of the asset? **(2 Marks)**

(iii) Calculate the impairment value. **(2 Marks)**

(iv) What amount should be reported thereafter? **(2 Marks)**

(b) IAS 36 states indicators/conditions for reversing an impairment loss. List three of these indicators/conditions from external sources and two from internal sources. **(3 Marks)**

(c) A company issues ₦10 million of 6% bonds at a price of ₦100.50 for each ₦100 nominal value with issue cost of ₦50,000. The bonds are redeemable after 4 years for ₦10,444,000. The effective annual interest rate for this financial instrument is 7%.

Required:

Calculate the amortised cost of the bond and show the interest income for each year to maturity. **(4 Marks)**

(TOTAL=15 Marks)

SOLUTION TO QUESTION 6

(a) ABC Limited

(i) Calculation of value in use:

Value in use is calculated using a discount rate of 10%. The discount formula is $1/(1+r)^n$.

Year	Value (₦)	Discount factor@10%	Discounted value(₦)
1	150,000	0.90909	136,364
2	100,000	0.82645	82,645
3	50,000+25,000	0.75131	56.348
	Value in use		275.357

(ii) The recoverable amount of the asset is the higher of the fair value less cost of disposal ₦240,000 - ₦5,000 = ₦235,000, and the value in use, ₦275,357 i.e. ₦275.357.

(iii) Impairment value is recoverable amount less carrying amount
₦300,000 - ₦275,357 = ₦24.643

(iv) The amount to be reported thereafter is the amount reduced by the impairment loss of ₦24,643 i.e. the recoverable amount of ₦275,357

(b) **Internal sources:** (i) Significant increase in the asset market value.
(ii) Significant favourable changes in the entity's operating technological, market, economic or legal environment during the period under consideration.
(iii) Decrease in the market interest rate which affects the discount rate used to calculate the asset's value in use.

External sources: (i) Significant favourable changes regarding the asset's use
(ii) Evidence of the possibility of improvement in the economic performance of the asset.

(c) The initial liability is ₦10 million x 100.50/100 - ₦50,000 = ₦10 million

		Interest Charged	Interest Paid	
Year 1	10,000,000	700,000	(600,000)	10,100,000
Year 2	10,100,000	707,000	(600,000)	10,207,000
Year 3	10,207,000	714,490	(600,000)	10,321,490
Year 4	10,321,490	722,510	(600,000)	10,444,000
		2,844,000	2.400.000	

The final interest payment of ₦722,510 contains a rounding adjustment of ₦6. Note that the difference between the interest charged and the interest paid is because the final payment of the redemption proceeds has not been shown. This contains a redemption premium of ₦444,000 which has already been recognised as an expense by the year end.

QUESTION 7

(a) An extract from the non-current assets register of Manu Nigeria Limited at July 1, 2022 were as follows:

	Freehold Property	Office Equipment	Computer Software
	₦ 000	₦ 000	₦ 000
Cost/valuation	995,000	525,000	1,100,000
Accumulated depreciation/			
Amortization	(100,000)	(334,000)	(110,000)
Carrying amount	895,000	191,000	990,000

Other relevant information:

(i) The computer software licence was acquired from ZeeSoft Incorporated, USA on July 1, 2021 and has 10 years lifespan. In June 2023, a review of the sales of the computer software showed a very decline in patronage. As a result of the review, estimated recoverable amount of the licence as at June 30, 2023 was ₦333 million. The licence was amortised on a straight-line basis.

(ii) The freehold property consisted of land and buildings which were valued few years ago for ₦395 million attributable to the land, and ₦600 million to the buildings. On that date, the estimated remaining useful life of the building was 24 years. However, a second revaluation of the freehold property on July 1, 2022 attributed ₦410 million to land, and ₦560 million to buildings and 20 years as the estimated remaining useful life for buildings.

(iii) On January 1, 2023 an item of office equipment was purchased for ₦128 million and a further ₦22 million was spent on commission and installation. Annual depreciation is charged at the rate of 18 ½ % on cost and is appropriately apportioned on time basis as situation demands. There were no disposals on non-current assets during the year to June 30, 2023.

Required:

Prepare the comparative figures of statement of financial position (extract) of Manu Nigeria Limited as at June 30, 2023. Show relevant notes to the accounts for PPE and intangible assets. **(8 Marks)**

(b) In an in-house training for newly recruited trainee accountants in your organisation, a disagreement arose on the distinction between Change in Accounting Policies and Change in Accounting Estimates. Consequent upon the above, the Finance Director requested you as the head of Accounting Department to make a presentation on the subject matter.

Required:

Write a memo addressed to the Finance Director distinguishing between Changes in Accounting Policies and Changes in Accounting Estimates, highlighting also the accounting treatment of the Changes in Accounting Estimates. **(7 Marks)**

(TOTAL=15 Marks)

SOLUTION TO QUESTION 7

(a) **MANU Nigeria Limited**

Comparative Statement of Financial Position (extract) as at June

Assets:	**Notes**	2023	2022
Non-current Assets:		₦'000	₦'000
Property, plant and equipment	1	1,172,000	1,086,000
Intangible assets	2	333,000	990,000

Notes to the Accounts

(1) **Schedule of movement in PPE for the year ended June 20,2023**

	Freehold property	Freehold building	Office equipment	Total
Cost	₦'000	₦'000	₦'000	₦'000
Balance as at July 1,2022	395,000	600,000	525,000	1,520,000
Additions	-	-	150,000	150,000
Gain on revaluation	15,000	60,000	-	75,000
Balance as at June 30,2023	410,000	660,000	675,000	1,745,000
Accumulated depreciation:				

Balance as at July 1,2022	-	100,000	334,000	434,000
Depreciation for the year	-	28,000	111,000	139,000
Balance as at June 30,2023	-	128,000	445,000	573,000
Carrying amount:				
Balance as at June 30,2023	410,000	532,000	230,000	1,172,000
Balance as at July 1, 2022	395,000	500,000	191,000	1,086,000

(2) Schedule of movement in intangible assets for the year ended June 30,2023

	Computer software
	₦'000
Cost:	
Balance as at July 1, 2022	1,100,000
Additions	-
Balance as at June 30,2023	1,100,000
Accumulated amortisation and impairment:	
Balance as at July 1,2022	110,000
Amortisation for the year	110,000
Impairment loss recognised	547,000
Balance as at June 30, 2023	767,000
Balance as at June 30, 2023	333,000
Balance as at July 1, 2022	990,000

(b) **INTERNAL MEMORANDUM**

From: Head-Accounting Department Date: April 1st, 2024

To: Finance Director

Subject: Presentation on distinction between changes in accounting policies and changes in accounting estimates

Further to your request on the subject matter, this presentation aims at highlighting the distinguishing features between changes in accounting policies and changes in accounting estimates in accordance with IAS 8-Changes in Accounting Policies, Changes in Accounting Estimates and Errors.

Changes in accounting policies

i. An entity must apply consistent accounting policies in a period to deal with similar transactions, other events and circumstances so that they can identify trends in its financial performance or financial position.

ii. A change in accounting policies entails a deviation from the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting its financial statements. Frequent changes in accounting policies are therefore undesirable because they make comparisons with previous periods more difficult.

iii. A change in accounting policy can be established where there is a change in recognition, measurement or presentation criteria of transactions and other events in the financial statement. For example, an entity which previously used the cost model to measure investment properties but decided to use fair value model instead in the current accounting year, has changed its accounting policy. Changes in accounting policies most times require retrospective application.

Changes in accounting estimates

i. A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities.

ii. A change in accounting estimate may be needed if changes occur in the circumstances on which the estimate was based, or if new information becomes available. Therefore, change in accounting estimates is not the result of discovering an error in the way an item has been accounted for in the past and it is not a correction of an error.

iii. Any change in the estimated useful life of a non-current asset would result in a change in the amount of annual depreciation charged on the asset and this is a change in accounting estimate.

Accounting treatment of changes in accounting estimates

i. A change in accounting estimate is accounted for prospectively not retrospectively. This means that the effect of the change is recognised in the current period and the future periods affected by the change. That is, it is recognised by including it:

-In statement of profit or loss for the period in which the change is made, if the change affects that period only, or

-In statement of profit or loss for the period of change and future periods, if the change affects both. -To the extent that a change in estimate results in change in assets and liabilities, it should be recognised by adjusting the carrying amount of the affected assets or liabilities in the period of change.

Hope the above explanation would be found useful for the purpose required.

Thank you.

Signed ABC

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2024: PROFESSIONAL EXAMINATION

PTE I: INCOME TAXATION

TUESDAY 16TH APRIL, 2024 EXAM NO...............................

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS.

SHOW ALL WORKINGS. TIME: 3 HOURS.

QUESTION 1

XYZ Limited was incorporated on July 1, 2015, with an authorised share capital of ₦5,000,000. Based on its memorandum and articles of association, the company is into general trading.

It made up its accounts to December 31, up to year 2020 and recorded turnover of ₦102,500,000 and ₦113,000,000, for the years ended December 31, 2019 and 2020, respectively. Its adjusted profits for the two accounting years are as follows:

	₦
Year ended December 31, 2019	6,000,000
Year ended December 31, 2020	6,670,000

At the meeting of the directors held on June 30, 2020, it was decided that the company should discuss with the foreign supplier with a view to creating a mutually-beneficial business relationship. In response to the request of XYZ Limited, the foreign supplier insisted that the two companies must have the same accounting year – end, to facilitate the reconciliations of their accounting records. Based on the foregoing, XYZ Limited changed its accounting year – end to June 30, every year.

The statements of profit or loss of the company for the relevant periods are as follows:

		June 30, 2023 (12 months) N	June 30, 2022 (18 months) N
i)	**Net profit**		
	Turnover	145,500,000	182,500,000
	Cost of sales (note ii below)	(115,634,250)	(144,352,075)
	Gross profit	29,865,750	38,147,925
	Administrative expenses (note iii below)	(23,045,750)	(27,187,425)

Net profit	6,820,000	10,960,500

ii) Cost of sales

Opening inventory	4,250,000	3,602,075
Purchases	115,000,000	145,000,000
	119,250,000	148,602,075
Closing inventory	(3,615,750)	(4,250,000)
Cost of sales	115,634,250	144,352,075

iii) Administrative expenses

Salaries and wages	9,600,000	11,200,000
Office rent and rates	6,000,000	6,000,000
Motor running expenses	840,000	960,000
Printing, photocopying and stationery	124,000	148,000
Transport and travelling expenses	960,000	1,067,000
Donations and subscriptions	420,000	440,000
Custom duty and clearing charges paid on motor vehicle imported	0	1,045,000
Newspapers and periodicals	220,000	240,000
Repairs and maintenance	96,000	118,000
Postages and communication	286,000	321,800
Utilities- electricity, gas, etc	396,000	482,000
Allowance for doubtful debts	540,000	720,000
Legal and professional charges	1,200,000	1,400,000
Audit fees	1,000,000	1,000,000
Depreciation	1,363,750	2,045,625
	23,045,750	27,187,425

Additional information:

- Donations and subscriptions include:

Donation to the National Library	0	120,000
Donation to the Society for the Blind	150,000	100,000
Donation to the Nigerian Society for the Deaf and Dumb	200,000	150,000
Donation to Odopotu Social Club	70,000	70,000
	420,000	440,000

- Legal and professional charges comprise:

Legal expenses in respect of acquisition of:		
New lease	380,000	800,000
Court fine	220,000	0
Retainership fees	600,000	600,000
	1,200,000	1,400,000

- Additional property, plant and equipment were acquired on January 2, 2019, as follows:

Motor vehicle (landing cost at the port)	0	3,600,000
Office equipment	0	600,000
Office furniture	0	750,000
	0	4,950,000

Written down value of assets brought forward as at January 1, 2019, are as follows:

	₦
Motor vehicle	10
Office equipment	10
Office furniture	10

The Managing Director of the company received a notice from the State Internal Revenue Service (SIRS) intimating him of the penalty for failure of the company to file returns for the emoluments paid to the employees in its employment in the preceding years. He was worried that despite paying companies income tax, tertiary education tax, pay-as –you earn, and other levies, the SIRS still expected the company to file returns on emoluments paid to employees. As the company's Tax Manager, he sought your advice on the tax implications of non-filing of the annual returns of emoluments paid to employees in the preceding year.

Required:
For the relevant assessment years, write a report to the Managing Director, covering the:
a) Assessable profits **(16½ Marks)**
b) Capital allowances claimable **(6 Marks)**
c) Income tax liabilities payable **(7 Marks)**
d) Minimum tax payable, if any **(6 Marks)**
e) Tax implications of non-filing of a return with the relevant tax authority on or before January 31, each year, of all emoluments paid to employees by an employer in the preceding year **(4½ Marks)**

(Total 40 Marks)

SOLUTION TO QUESTION 1

XYZ Limited

Internal Memo

February 7, 2024

From: Tax Manager

To: Managing Director

RE: TAX MATTERS FOR ASSESSMENT YEARS 2020 – 2024

I refer to your request in respect of the above subject-matter. I wish to comment as follows:

a) **Computation of assessable profits**

When a company fails to make up its accounts to its normal year-end, for the year of assessment in which the failure occurs as well as the following two years, the assessable profits of the company are computed on such basis as the Board in its discretion may determine.

Given the fact that the old basis, that is, December year-end will result in a higher tax liability of ₦24,280,500, the Revenue will be favourably disposed to assess the company on the old basis. Please see Appendix (a) for the details.

b) Computation of capital allowances claimable

Capital allowances are a form of relief granted to any company which incurred qualifying capital expenditure for the purpose of a trade or business during a basis period in respect of property, plant and equipment that are in use at the end of the basis period. Capital allowances are granted in place of depreciation which is usually disallowed for income tax purposes.

A total of ₦5,994,970 will be granted as capital allowances during the relevant assessment years as shown as appendix (b).

c) **Income tax liabilities payable**

Based on the financial results of the company, ₦9,694,659 and ₦766,210 will be paid as companies income tax and tertiary education tax, respectively. Please see appendix (c) for the details.

I wish to advise that concerted efforts be made to ensure that these liabilities are paid on or before the due dates of payment.

d) **Minimum tax payable**

Please be informed that a company that has been in business for over 48 calendar months will be required to pay the minimum tax if this exceeds the companies income tax liability based on a specified percentage of total profit.

Based on the computed minimum tax liabilities which are lower than the companies income tax liabilities based on total profit, the minimum tax liabilities will not apply. Please se appendix (d) for details.

e) **Tax implications of non-filing of a return with the relevant tax authority on or before January 31,each year, of all emoluments paid to employees by an employer in the preceding year**

Not later than thirty first day of January of each year, an employer is required to file a return with the relevant tax authority of all emoluments paid to employees in the preceding year. The return in respect of the employees shall show the total emoluments of each employee during the year, the tax relief, and the total tax deducted from the employees.

The return specified above shall be accompanied by a statement and declaration on form H1 or any other form approved or prescribed by the relevant tax authority.

Any employer who contravenes the above provisions shall be liable on conviction to a penalty of ₦500,000 in case of a body corporate and ₦50,000 in case of an individual.

I sincerely believe that my comments will meet your expectations, however, if you still need explanation on any aspect of this report, please do not hesitate to contact me.

Olu Richard

Tax Manager

WORKINGS / APPENDICES OF SOLUTION 1

a) **XYZ Limited**
Computation of adjusted profits

	₦	
Year ended December 31, 2019 (as given)		6,000,000
Year ended December 31, 2020 (as given)		6,670,000
Period ended June 30, 2022 (18 months) – As computed		13,595,500
Year ended June 30, 2023 – As computed		8,030,000

Computation of adjusted profits for

	Year ended June 30, 2023	Period ended June 30, 2022 (18 months)
	₦	₦

Net profit per accounts	6,820,000	10,960,500
Add: disallowable expenses:		
Donation to Odopotu Club	70,000	70,000
Custom duty and clearing charges on motor vehicle imported	0	1,045,000
Allowance for doubtful debts	540,000	720,000
Legal and professional charges:		
- Acquisition of new lease	380,000	800,000
- Court fine	220,000	0
Adjusted profit	8,030,000	13,595,500

Computation of assessable profits –

	Old basis		New basis	
A.Y	**Basis period**	**Assessable profit**	**Basis period**	**Assessable profit**
		₦		**₦**
2021	1/1/2020 – 31/12/2020	6,670,000	1/7/2019 – 30/6/2020	6,335,000
2022	1/1/2021 – 31/12/2021	9,063,667	1/7/2020 – 30/6/2021	7,866,833
2023	1/1/2022 – 31/12/2022	8,546,833	1/7/2021 – 30/6/2022	9,063,667
		24,280,500		23,265,500

Workings:

i) **Old basis**

	Assessable profits ₦	₦
2022 assessment year		
- 1/1/2021 – 31/12/2021 = $^{12}/_{18}$ x N13,595,500		9,063,667
2023 assessment year (1/1/2022 – 31/6/2022)		
- 1/1/2022 – 30/6/2022		

$^{6}/_{18}$ x N13,595,500	4,531,833	
- 1/7/2022 – 31/12/2022		
$^{6}/_{12}$ x N8,030,000	4,015,000	8,546,833
		17,610,500

ii) **New basis**

2021 assessment year (1/7/2019 – 30/6/2020)

- 1/7/2019 – 31/12/2019 = $^{6}/_{12}$ x N6,000,000	3,000,000	
- 1/1/2020 – 30/6/2020	3,335,000	6,335,000
$^{6}/_{12}$ x N6,670,000		

2022 assessment year (1/7/2020 – 30/6/2021)

- 1/7/2020 – 31/12/2020		
$^{6}/_{12}$ x N6,670,000	3,335,000	
- 1/1/2021 – 30/6/2021		
$^{6}/_{18}$ x N13,595,500	4,531,833	7,866,833

2023 assessment year (1/7/2021 – 30/6/22)

$^{12}/_{18}$ x N13,595,500		9,063,667
		23,265,500

Given the fact that the old basis will result in a higher tax liability of ₦24,280,500, the Revenue will be favourably disposed to assess the company on the old basis. Consequently, the final assessable profits will be as follows:

Assessment year	Assessable profits
	₦
2020	6,000,000
2021	6,670,000
2022	9,063,667
2023	8,546,833
2024	8,030,000

b) Computation of capital allowances
For assessment years 2020 to 2024

	Motor vehicle	Office equipment	Office furniture	Total
Initial allowance (%)	50	50	25	
Annual allowance (%)	25	25	20	
Assessment year 2020	**₦**	**₦**	**₦**	
W.D.V. b/f to A.Y. 2020	10	10	10	30
Additions – cost	4,645,000	600,000	750,000	5,995,000
	4,645,010	600,010	750,010	5,995,030
Initial allowance	(2,322,500)	(300,000)	(187,500)	2,810,000
Annual allowance	(580,628)	(75,000)	(112,500)	768,128
				3,578,128
Assessment year 2021				
W.D.V. b/f to A.Y. 2021	1,741,882	225,010	450,010	
Annual allowance	(580,628)	(75,000)	(112,500)	768,128
W.D.V c/f to A.Y. 2022	1,161,254	150,010	337,510	
Assessment year 2022				
Annual allowance	(580,628)	(75,000)	(112,500)	768,128
W.D.V. c/f to A.Y. 2023	580,626	75,010	225,010	
Assessment year 2023				
Annual allowance	(580,606)	(74,990)	(112,500)	768,096
W.D.V c/f to A.Y. 2024	20	20	112,510	
Assessment year 2024				
Annual allowance	(0)	(0)	(112,490)	112,490
W.D.V. c/f to A.Y. 2025	20	20	20	

c) XYZ Limited
Computation of income tax liabilities
For assessment years 2020 – 2024

Assessment year 2020	**₦**	**₦**

Assessable profit	6,000,000
Capital allowances	(3,578,128)
Total profit	2,421,872
Companies income tax (30% of total profit)	726,561.60
Tertiary education tax (2% of assessable profit)	120,000.00

Assessment year 2021

Assessable profit	6,670,000
Capital allowances	(768,128)
Total profit	5,901,872
Companies income tax (30% of total profit)	1,770,561.60
Tertiary education tax (2% of assessable profit)	133,400.00

Assessment year 2022

Assessable profit	9,063,667
Capital allowances	(768,128)
Total profit	8,295,539
Companies income tax (30% of total profit)	2,488,661.70
Tertiary education tax (2.5% of assessable profit)	226,591.68

Assessment year 2023

Assessable profit	8,546,833
Capital allowances	(768,096)
Companies income tax (30% of total profit)	2,333,621.10
Tertiary education tax (2.5% of assessable profit)	213,670.83

Assessment year 2024

Assessable profit	8,030,000

Capital allowances	(112,490)
Total profit	7,917,510
Companies income tax (30% of total profit)	2,375,253
Tertiary education tax (3% of assessable profit)	240,900

d) **XYZ Limited**
Computation of minimum tax payable

	Assessment year	**Accounting year ended**	**Turnover**	**Rate**	**Minimum tax**
		₦	**₦**	%	**₦ : K**
½	2020	December 31, 2019	102,500,000	0.25	256,250.00
½	2021	December 31, 2020	113,000,000	0.25	282,500.00
½	2022	December 31, 2021 (12/18 x N182,500,000)	121,666,667	0.50	608,333.34
½	2023	December 31, 2022			
		$(^6/_{18}$ x N182,500,000)	60,833,333	0.50	667,916.67
		$(^6/_{12}$ x N145,500,000)	72,750,000		
			133,583,333		
½	2024	June 30, 2023	145,500,000	0.50	727,500.00

e) Tax implications of non- filling of returns of emoluments paid to employees by an employer with the relevant tax authority

This is included in the body of the report.

QUESTION 2

a) Explain any five (5) functions of the Federal Inland Revenue Service as specified by the Federal Inland Revenue Service (Establishment) Act, 2007. **(5 Marks)**

b) Explain any five (5) conditions that must be fulfilled before the issuance of a tax clearance certificate. **(5 Marks)**

c) State any ten (10) business transactions which require the submission of a tax clearance certificate. **(5 Marks)**

(Total 15 marks)

SOLUTION TO QUESTION 2

a) Functions of the Federal Inland Revenue Service

Section 8 of the FIRSEA makes provisions for the functions of the Federal Inland Revenue Service. Under the section, the Service has responsibilities to:

i. Assess persons including companies, enterprises chargeable with tax;
ii. Assess, collect, account and enforce payment of taxes as may be due to the Government or any of its agencies;
iii. Collect, recover and pay to the designated account, any tax under any provision of the FIRSEA or any other enactment or law;
iv. Collaborate with the relevant Ministries and agencies, review the tax regimes and promote the application of tax revenues to stimulate economic activities and development;
v. Collaborate with the relevant law enforcement agencies, carry out the examination and investigation with a view to enforcing compliance with the provisions of the FIRSEA;
vi. Make, from time to time, a determination of the extent of financial loss and such other losses by Government arising from tax fraud or evasion and such other losses (or revenue foregone) arising from tax waivers and other related matters;
vii. Adopt measures to identify, trace, freeze, confiscate or seize proceeds derived from tax fraud or evasion;
viii. Adopt measures which include compliance and regulatory actions, introduction and maintenance of investigative and control techniques on the detection and prevention of non-compliance;
ix. Collaborate and facilitate rapid exchange of information with relevant national or international agencies or bodies on tax matters;
x. Undertake exchange of personnel or other experts with complementary agencies for purposes of comparative experience and capacity building;
xi. Establish and maintain a system for monitoring international dynamics of taxation in order to identify suspicious transactions and the perpetrators and other persons involved;
xii. Provide and maintain access to up to date and adequate data and information on all taxable persons, individuals, corporate bodies or all agencies of Government involved in the collection of revenue for the purpose of efficient, effective and correct tax administration and to prevent tax evasion or fraud;
xiii. Maintain database, statistics, records and reports on persons, organizations, proceeds, properties, documents or other items or assets relating to tax administration including matters relating to waivers, fraud or evasion;
xiv. Undertake and support research on similar measures with a view to stimulating economic development and determine the manifestation, extent, magnitude

and effects of tax fraud, evasion and other matters that affect effective tax administration and make recommendations to the Government on appropriate intervention and preventive measures;

xv. Collate and continually review all policies of the Federal Government relating to taxation and revenue generation and undertake a systematic and progressive implementation of such policies;

xvi. Liaise with the office of the Attorney-General of the Federation, all Government security and law enforcement agencies and such other financial supervisory institutions in the enforcement and eradication of tax related offences;

xvii. Issue taxpayer identification number to every taxable person in Nigeria in collaboration with States Boards of Internal Revenue and Local Government Councils;

xviii. Carry out and sustain rigorous public awareness and enlightenment campaign on the benefits of tax compliance within and outside Nigeria;

xix. Carry out oversight functions over all taxes and levies accruable to the Government of the Federation and as it may be required, query, subpoena, sanction and reward any activities pertaining to the assessment, collection of and accounting for revenues accruable to the Federation;

xx. Carry out such other activities as are necessary or expedient for the full discharge of all or any of the functions under the FIRSEA; and

xxi. In addition to the above, the Service may, from time to time, specify the form of returns, claims, statements and notices necessary for the due administration of the powers conferred on it by the FIRSEA.

b) **Conditions to be fulfilled before the issuance of TCC include:**

i. The taxpayer must file his tax returns up to date;

ii. The taxpayer must apply for the TCC;

iii. All taxes assessed on the taxpayer must be paid (income tax, education tax, capital gains tax, national information technology development levy, etc.) in the last three years;

iv. Evidence of payment of VAT in the last three years;

v. Evidence of remittances / payments of withholding tax (WHT) up to date;

vi. Penalties and interest raised have been paid; and

vii. There are no outstanding tax queries, audit or investigation.

c) Transactions for which a TCC are required

Section 101 (4) of CITA (as amended) provides that tax clearance certificate shall apply in relation to the following transactions:

i. Application for government loan for industry or business;

ii. Registration of motor vehicle;

iii. Application for firearms licence;
iv. Application for foreign exchange or exchange control permission to remit funds
outside Nigeria;
v. Application for certificate of occupancy;
vi. Application for award of contracts by government, its agencies and registered
companies;
vii. Application for approval of building plans;
viii. Application for trade licence;
ix. Application for transfer of real property;
x. Application for import or export licence;
xi. Application for agent licence;
xii. Application for pools or gaming licence;
xiii. Application for registration as a contractor;
xiv. Application for distributorship;
xv. Confirmation of appointment by government, as chairman or member of public board, institution, commission, company or to any other similar position made by the government;
xvi. Stamping of guarantor's form for Nigerian passport;
xvii. Application for registration of a limited liability or of a business name;
xviii. Application for allocation of market stalls;
xix. Appointment or election into public office;
xx. Change of ownership of vehicle by vendor;
xxi. Application for plot of land;
xxii. Stamping of statement of the nominal share capital of a company to be registered and any increase in the registered share capital of the company;
xxiii. Stamping of statement of the amount of loan capital; and
xxiv. Application for foreign exchange control permission to remit funds to a non-resident recipient, in respect of income accruing from rent, dividend, interest, royalty, fees or any other similar income, to the effect that tax has been paid on the fund in respect of which the application is sought or that no tax is payable, whichever is the case.

QUESTION 3

Papat, Dadat and Pikat (PDP) & Co. (Chartered Accountants) offers professional accountancy and taxation services.

Papat, Dadat and Pikat are partners sharing profit or loss equally. The statement of profit or loss of the firm for the year ended 31 December 2023 are as follows:

	₦'000	₦'000

Gross fees		626,400
Other income		76,000
		702,400
Staff salaries	181,600	
Office rent	56,000	
Depreciation	26,400	
Other admin. exp.	179,200	
		(443,200)
Net profit		259,200

The following additional information is relevant:

(i) Other income include:

	₦'000
Dividend received	42,400
Profit on sale of property, plant & equipment	8,000
Interest on drawings	25,600
	76,000

(ii) The partners are entitled to the following:

	Capital contribution	Salary	Passage cost	Rent
	₦'000	₦'000	₦'000	₦'000
Papat	80,000	40,000	14,400	5,600
Dadat	64,000	40,000	14,400	4,800
Pikat	60,000	40,000	14,400	6,800

Each partner received 5% as interest on capital

(iii) Administrative expenses include:

	₦'000
Partners passage cost	43,200
Partners rent	17,200
Partners telephone expenses	12,000
Partners car maintenance exp.	6,000
Partners medical expenses	22,400
Donation to social club	12,000
Interest on loan paid to Papat (gross)	18,000
End of year corporate gifts	8,800
Other allowable office overhead	39,600
	179,200

The agreed capital allowance claimable is ₦60million.

(iv) Dadat and Pikat are yet to marry but Papat is married with two boys and two dependent relatives.

You are required to:

(a) Calculate the divisible income of the partners of the firm. **(5 Marks)**

(b) Ascertain the partners assessable income. **(5 Marks)**

(c) Compute Papat's income tax liability payable for 2023 year of assessment. **(5 Marks)**

Total (15 Marks)

SOLUTION TO QUESTION 3

(a) Papat, Dadat Pikat (PDP) & Co. (Chartered Accountants) Determination of Divisible Income

	₦'000	₦'000
Net profit		259,200
Add: back:		
Depreciation	26,400	
Donations (Social/club)	12,000	38,400
		297,600
Deduct:		
Dividend	42,400	
Profit on sale of PPE	8,000	
		(50,400)
		247,200
Less:		
Capital allowance		(60,000)
Divisible income		187,200

(b) Partners Assessable Income

	Papat ₦'000	Dadat ₦'000	Pikat ₦'000	Total ₦'000
Divisible income				187,200

Partners salary	40,000	40,000	40,000	(120,000)
Interest on capital	4,000	3,200	3,000	(10,200)
Share of profit	19,000	19,000	19,000	(57,000)
Passage cost	14,400	14,400	14,400	--
Income from partnership	77,400	76,600	76,400	Nil
Benefit-in-kind	5,600	4,800	6,800	
Assessable income	83,000	81,400	83,200	

(c) Papat Personal Income Tax Liability for 2023 YOA

	₦'000	₦'000
Earned income:		
Income from partnership		83,000
Unearned income		
Interest on loan		18,000
		101,000
Less: **Relief and allowances**		
Consolidated relief allowance (20% x 101,000)	20,200	
(Higher of 1% or N200,000)	1,010	
		(21,210)
Taxable income		79,790

Calculation of Tax liability Payable

1st	300,000	7%	=	21,000
Next	300,000	11%	=	33,000
Next	500,000	15%	=	75,000
Next	500,000	19%	=	95,000
Next	1,600,000	21%	=	336,000
Above 3,200,000 =	75,590,000	24%	=	18,381,600
	79,790,000			18,941,600

QUESTION 4

(a) Withholding tax is a tax deducted at source from payment to a taxable person from the supply of goods and services.

Required:

(i) Discuss four (4) of the features of withholding tax. **(4 Marks)**

(ii) Differentiate between value added tax (VAT) and withholding tax (WHT). **(4 Marks)**

(b) Effective 1 July 2021 the use of withholding tax (WHT) credit for settlement of companies income tax liability and granting of request for WHT refund was based on WHT credit in the taxpayers accounts with the Federal Inland Revenue Service. Withholding tax credit notes not validated as at 30 June 2021 was therefore deemed by FIRS as forfeited.

Required:
Highlight the process for validating withholding tax credit notes submitted for validation by tax payers. **(4 Marks)**

(c) Ajan Nig. Ltd engaged the service of Hexalink Consulting Associates (HCA) for specific corporate financing and restructuring consultancy. A professional fee of ₦13million was paid for the assignment but no withholding tax was deducted from the professional fee.

Required:
What is the tax implication of this action? **(3 Marks)**

(Total 15 Marks)

SOLUTION TO QUESTION 4

(a) (i) Features of withholding tax

The man features of withholding tax include the following:

(i) Payment of withholding tax is statutory on a person making the payments;

(ii) Withholding tax credit cannot be used to off-set tax liabilities of prior years;

(iii) It is an advance payment of income tax which is utilised as tax credit against income tax liability of the years to which the income relates; and

(iv) Withholding tax represents the final tax on franked investment income, in the hand of the recipients.

(ii) Differences between VAT and WHT

VAT	**WHT**
(i) This is an indirect tax	(i) This is a direct tax
(ii) Imposed at 7.5%	(ii) Rate applicable depends on type of transactions

(iii)	Backed by VAT Act 2004 (as amended)	(iii)	Backed by certain sections of CITA and PITA (as amended)
(iv)	Is governed by Federal Inland Revenue Services	(iv)	Governed by both State Internal /Federal Inland Revenue Services
(v)	VAT is shared by the 3tiers of governments	(v)	WHT is not shared by the 3 tiers of governments

(b) Validation of the WHT Credit notes

(i) Verify the genuiness of the WHT credit notes by confirming that it was duly issued by the tax office.

(ii) Verify the ownership of the WHT credit note by ensuring that the name on the credit note agrees with the requesting taxpayers name.

(iii) Verify the availability of the WHT credit by reviews the K-card and other records of the taxpayer to ensure that such credit note has never been utilised.

(iv) Verify the integrity of the WHT credit by confirming that the income that gave rise to the credit has been correctly and completely reported.

(v) Where the income has not been reported, additional assessment should be raised based on the income before validation of the credit note.

(c) Tax implication to Ajanaku Nig. Ltd

- The tax implication is that Ajanaku Nig. Ltd will be liable to a penalty of 10% of the tax withheld or not remitted.
- In addition to payment of the tax itself specifically this would be:

(a)	Payment of penalty (10% x N1.3million)	=	₦ 130,000
(b)	Payment of tax held is (10% x N13million)	=	₦1,300,000
	Total payments to be made is	=	₦1,430,000

QUESTION 5

In the usual income tax computations, profits or losses on disposal of non-current assets are excluded by means of adjustments to the relevant accounting results. At the same time, balancing adjustments would be made in the income tax computations in respect of the difference between the proceeds of disposal and tax written down values of such assets.

With the promulgation of Finance Acts 2019, 2020, 2021 and 2023, in Nigeria, the Federal Government in its wisdom, made certain changes to the Capital Gains Tax Act Cap. C1 LFN 2004 (as amended).

Required:

In respect of the recent changes by the relevant Finance Acts, explain the:

a) Treatment of compensation for loss of office **(1 Mark)**

b) Responsibility of a taxpayer relating to the remittance of capital gains tax in respect of compensation for loss **(1 Mark)**

c) Conditions that must be met before assets transferred or sold in business reorganisation and restructuring are exempted from capital gains tax **(2 Marks)**

d) Tax treatments of gains accruing to a person from the disposal of Nigerian government securities and shares of a company registered under the Companies and Allied Matters Act, 2004 (as amended) **(8 Marks)**

e) Any three (3) allowable deductions in the computation of capital gains tax **(3 Marks)**

(Total 15 Marks)

SOLUTION TO QUESTION 5

a) Treatment of compensation for loss of office

With implementation of Finance Act, 2019, compensation for loss of office below ₦10 million is now exempted from capital gains tax.

b) Responsibility of a taxpayer relating to the remittance of capital gains tax in respect of compensation for loss of office

Also, Finance Act, 2020 states that compensation for loss of office up to ₦10m should be exempted from capital gains tax and tax due on excess above ₦10m is to be deducted by the payer and remitted within the time specified under the Pay As You Earn (PAYE) Regulations.

c) Conditions that must be met before assets transferred or sold in business reorganization and restructuring are exempted from capital gains tax

Section 32 of Capital Gains Tax Act (CGT), states that "where a trade or business carried on by a company is sold or transferred to a Nigerian company for the purposes of better organisation of that trade or business or the transfer of its management to Nigeria, and any asset employed in such trade or business is sold or transfer, no tax shall apply under this Act to the sale or transfer of the assets to the extent that one company has control over the other or both are controlled by some other person or are members of a recognised group of companies and have been so for a consecutive period of at least 365 days prior to the date of re-organisation:

Provided that if the acquiring company were to make a subsequent disposal of the assets acquired within the succeeding 365 days after the date of transaction, any concession enjoyed under this subsection shall be rescinded and the companies shall be treated as if they did not qualify for the concessions stipulated in this subsection as at the date of initial re-organisation".

d) Tax treatment of gains accruing to a person from the disposal of Nigerian government securities, and shares of any Nigerian company registered under the Companies and Allied Matters Act

Finance Act, 2021, which amends section 30 of the Capital Gains Tax Act, states that:

"(i) Gains accruing to a person from disposal by it of Nigerian government securities shall not be chargeable gains under the Act;

(ii) Without prejudice to any other applicable law, the gains accruing to a person on disposal of the shares in any Nigerian company registered under the Companies and Allied Matters Act shall be chargeable gains under this Act except where:

- The proceeds from such disposal are reinvested within the same year of assessment in the acquisition of shares in the same or other Nigerian companies;

  Provided that the tax shall accrue proportionately on the portion of the proceeds which are not reinvested in the manner stipulated in the subsection.

- The disposal proceeds in aggregate, is less than ₦100,000,000 in any 12 consecutive months provided that the person making the disposals shall render appropriate returns to the Service on an annual basis; or

- The shares are transferred between the approved borrower and lender in a Regulated Securities Lending Transaction as defined in the Companies Income Tax Act;

(iii) Without prejudice to the provision of section (b) above, the rate of capital gains tax on disposal of shares under the section shall be 10%;

(iv) The tax due in respect of the disposal under this section shall be paid for:

- Individuals, to the relevant tax authority in line with the provisions of the Personal Income Tax Act; and
- Companies to the Federal Inland Revenue Service.

e) Deductions allowable (Section 14) are:

i. Cost of acquisition or purchase price, including all costs incidental to the purchase,

ii. Improvement costs wholly, exclusively and necessarily incurred,

iii. Cost wholly, exclusively and necessarily incurred in establishing, preserving or defending the owner's title to a right over the asset; and

iv. Incidental costs of disposal. These include:

- Fees, commissions or remuneration paid for professional services of surveyor or valuer; auctioneer, accountant; agent and or legal adviser;
- Cost of transfer or conveyance (including Stamp Duties);
- Advertisement cost to find a seller/buyer; and
- Cost reasonably incurred to make any valuation or apportionment required for the purpose of computing the capital gains including expenses in ascertaining market value where required.

QUESTION 6

a) Section 12 (2a) of the National Information Technology Development Agency Act, 2007, (as amended), provides for a levy of 1% (one percent) of the profit before tax of companies and enterprises enumerated in the Third Schedule of the Act with an annual revenue of ₦100,000,000 and above.

Required:

i) Identify any four (4) specified companies liable to the payment of the levy. **(4 Marks)**

ii) State the relevant tax authority and the due date of payment. **(1 Mark)**

iii) State the penalty for non-compliance. **(1 Mark)**

iv) Explain when the levy is tax deductible for income tax purposes. **(1 Mark)**

b) Appic Nigeria Limited is a telecommunication company with its head office in Lagos. As the company's tax consultant, you have been provided with an extract of the statement of profit or loss for the year ended December 31, 2023, which revealed the following:

	₦
Gross turnover	125,400,000
Gross profit	52,300,000
Net profit before tax and National information technology development levy	11,500,700
Assessable profit	7,400,800
Losses brought forward	2,310,400
Balancing charge	1,120,300
Capital allowances	960,000

Required:

i) Compute the income taxes payable. **(7 Marks)**

ii) Compute the National information technology development levy payable. **(1 Mark)**

(Total 15 Marks)

SOLUTION TO QUESTION 6

a) **(i)** Section 12 (2a) of the National Information Technology Development Agency Act, 2007(as amended), provides for a levy of one percent (1%) of the profit before tax of companies and enterprises enumerated in the Third Schedule to the Act with an annual revenue of ₦100,000,000.

The specified companies liable to pay the levy include:

- Cyber companies and internet providers;
- GSM service providers and all telecommunication companies;
- Pension managers and pension related companies;

- Banks and other financial institutions; and
- Insurance companies.

(ii) The levy is assessed by the FIRS and it is payable within 60 days of service of a notice of assessment.

(iii) The penalty for non-compliance is 2% of the levy payable.
Furthermore, any company, agency or organisation that fails within two months after a demand note, to pay the levy, commits an offence and is liable on conviction to a fine of not less than ₦1,000,000 and the chief executive officer of the company, agency or organisation shall be liable to be prosecuted and punished for the offence in like manner as if he had himself committed the offence, unless he proves that the act or omission constituting the offence took place without his knowledge, consent or connivance.

(iv) The levy when paid is tax deductible for companies income tax purposes.

b) **(i) Appic Nigeria Limited**
Computation of tax liabilities and National information technology development levy (NITDL)
For 2024 assessment year

		₦
Assessable profit		7,400,800
Losses brought forward		(2,310,400)
		5,090,400
Balancing charge		1,120,300
		6,210,700
Capital allowances		(960,000)
Total profit		5,250,700
Companies income tax	(30% of total profit)	= ₦1,575,210
Tertiary education tax	(3% of assessable profit)	=₦ 222,024

National information technology development levy (NITDL)

(1/101 x ₦11,500,700) = ₦113,368.32

QUESTION 7

The following information is extracted from the books of Elle-Icon Limited in respect of acquisition and disposal of qualified capital assets at different periods

	Ind. Building	Motor vehicle	Plant and machinery	Funiture and fitting
Purchase cost (₦ m)	120	7.8	32.25	12

Sales proceed (₦ m) 150 8 12.20
10

Additional information:

i. Sales proceed is the amount received at the time of disposal of asset and is inclusive of commission payable to sales agent.
ii. The standard policy of the company is to pay 10% of sales proceeds as commission to sales agent

iii. Tax Written Down Value (TWDV) of the assets at the time of disposal are;

Industrial building	₦51m
Motor vehicle	₦1.95m
Plant & Machinery	₦14.45m
Furniture & Fitting	₦9m

Required:

a) Explain balancing charge and balancing allowance and how they are treated for tax purposes.

(4 Marks)

b) For each of the assets;

(i) Determine the maximum capital allowance already claimed at the time of disposal **(4 Marks)**

(ii) Determine the balancing charge or allowance as the case may be (justify your decision with a working note). **(7 Marks)**

Total (15 Marks)

SOLUTION TO QUESTION 7

Elle-Icon ltd

a. **(i) Balancing charge** – This occurs when a profit is made on disposal of a qualifying capital asset/expenditure (QCE) whereby the sale proceed on disposal of QCE exceeds or is more than the Tax Written Down Value (TWDV) of the asset as at the time of disposal.

The tax implication is that (as a profit), balancing charge is treated as an additional taxable income to be subjected to tax and therefore added back.

Note

The amount of **balancing charge to be added should not exceed the total capital allowance previously claimed** on the QCE at the point of disposal.

(ii) Balancing allowance –This occurs where the sales proceed on disposal is less than the TWDV of the asset at the time of disposal. (This implies that there is a loss on disposal of QCE).

The tax implication is that as a loss, balancing allowance is treated as an additional allowance that can be used in reducing the profit to be subjected to tax.

b. (i) Determination of Maximum capital allowance,

	Industrial Building	**Motor vehicle**	**Plant & Mach.**	**Furniture & Fittings**
	₦'m	**₦'m**	**₦'m**	**₦'m**
Purchase cost	120	7.8	32.25	12
Less; TWDV	(51)	(1.95)	(14.45)	(9)
Max C.A claimed	**69**	**5.85**	**17.8**	**3**

(ii) **Determination of Balancing charge and Balancing allowance**

	Industrial Building	**Motor vehicle**	**Plant and Mach.**	**Furniture & Fittings**
	₦'m	₦'m	₦'m	₦'m
Sales consideration	150	8	12.20	10
Less; Tax Written down value	51	1.95	14.45	9
Balancing charge	99	6.05	-	
Balancing allowance	-	-	2.25	

Note:

Since balancing charge cannot be more than the capital allowance claimed on the assets, the balancing charge would be:

Industrial Balance	Motor Vehicle
69	5.85

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2024: PROFESSIONAL EXAMINATION

PTE I: INDIRECT TAXATION

WEDNESDAY 17TH APRIL, 2024 **EXAM NO………………**

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS.

TIME: 3 HOURS.

Question 1

Adcom Nigeria Limited is a manufacturer and importer of wines and spirits in Apapa Industrial Estate, Lagos. The details of the transactions entered into by the company in 2023 are as follows:

Sales of wines and Spirits:		
Scottish whiskey	120,000centilitres	@₦5,000 per 25centilitres
Cognac	80,000centilitres	@₦4,000 per 25centilitres
Gin	180,000centilitres	@₦3,500 per 25centilitres
Vodka	60,000centilitres	@₦4,500 per 25centilitres
Spanish Red wine	150,000centilitres	@₦2,500 per 25centilitres
Spanish White wine	180,000centilitres	@₦2,500 per 25centilitres
Sparkling non-alcoholic red wine	75,000centilitres	@₦1,800 per 25centilitres
Sparkling non-alcoholic white wine	60,000centltres	@₦1,800 per 25centilitres
Importation of wines and spirits:		
Scottish whiskey	150,000centilitres	@$1.50 per 25centilitres
Cognac	100,000centilitres	@$1.10 per 25centilitres
Spanish Red wine	175,000centilitres	@$0.80 per 25centilitres
Spanish White wine	200,000centilitres	@$0.80 per 25centilitres
Wines and Spirits manufactured:		
Gin	200,000centilitres	@₦2,750 per 25centilitres
Vodka	75,000centilitres	@₦3,250 per 25centilitres
Sparkling non-alcoholic red wine	100,000centilitres	@₦780 per 25centilitres
Sparkling non-alcoholic white wine	100,000centilitres	@₦780 per 25centilitres

Other importations:

Concentrate for the manufacturing of spirits	$20,000
Concentrate for the manufacturing of wines	$5,000
Plant and machinery	$25,000

Other local transactions:

Bank charges, inclusive of VAT	₦1,075,000
Purchases of bottles for spirits and wines	₦375 per bottle
Other local materials for spirits	₦150 per bottle
Other local materials for wine	₦120 per bottle
Rent of warehouse	₦5,000,000

Custom/Excise duties were paid on the imported goods as follows:

Custom duty:

Spirits	250%
Wines	200%
Concentrates	50%
Plant and machinery	10%
Surcharge:	7.5%
VAT:	7.5%

Excise duty:

Gin:	₦3/centilitre
Vodka:	₦3/centilitre
Sparkling non-alcoholic Red Wine:	₦2/centilitre
Sparkling non-alcoholic White Wine:	₦2/centilitre

The average exchange rate during the year is ₦750 to $1

Required:

You are required to calculate the following:

a. Input VAT claimable by the company in 2023. **(12 Marks)**

b. VAT paid by the company during in 2023. **(12 Marks)**

c. Excise duty payable by the company in 2023. **(4 Marks)**

d. Show the balance in the company's VAT account at the end of the year and what it represents. **(5 Marks)**

e. Output VAT in 2023. **(4 Marks)**

f. Output VAT in inventory**.** **(3 Marks)**

Total (40 Marks)

SOLUTION TO QUESTION 1

a. Calculation of input VAT claimable in 2023

Products	Quantity sold		Input vat per bottle	Total input vat
	Centilitres	Bottles		
Scottish Whiskey	120,000	4800	311.13	1,493,424.00

Cognac	80,000	3200	228.16	730,112.00
Red wine	150,000	6000	141.75	850,500.00
White wine	180,000	7200	141.75	1,020,600.00
Gin	180,000	7200	196.62	1,415,664.00
Vodka	60,000	2400	196.62	471,888.00
Non-alcoholic red wine	75,000	3000	91.18	273,540.00
Non-alcoholic white wine	60,000	2400	91.18	218,832.00
				6,474,560.00

Workings

1. **Calculation of input VAT per unit on imported products**

Products	Quantity	Value	Cost per unit	Custom duty				
				Total	Per unit	Surcharge per unit	Cost/duty/ surcharge	Vat (7.5%)
Scottish Whiskey	6,000	6,750,000	1,125	16,875,000	2,812.50	210.94	4,148.44	311.13
Cognac	4,000	3,300,000	825	8,250,000	2,062.50	154.69	3,042.19	228.16
Red wine	7,000	4,200,000	600	8,400,000	1,200.00	90.00	1,890.00	141.75
White wine	8,000	4,800,000	600	9,600,000	1,200.00	90.00	1,890.00	141.75

2. **Calculation of input VAT per bottle of manufactured products**

	Quantity		Cost of Production per bottle				
	Centilitres	Bottles	Concentrate	Bottle	Other	Total	Input vat per bottle
Spirits	275,000	11,000	2,096.59	375.00	150.00	2,621.59	196.62
Wine	200,000	8,000	720.70	375.00	120.00	1,215.70	91.18

3. Calculation of cost of imported materials

	CIF	Exc Rate	₦	Duty rate	Duty	Surcharge	Total	Per bottle
Spirits	$20,000.00	₦750	15,000,000	50%	7,500,000	562,500	23,062,500	2096.59
Wines	$5,000.00	₦750	3,750,000	50%	1,875,000	140,625	5,765,625	720.70

b. VAT paid by the company during in 2023

VAT on imported products					
Products	Quantity in bottles	Input VAT per bottle	Total		
Scottish Whiskey	6,000	311.13	1,866,796.88		
Cognac	4,000	228.16	912,656.25		
Red wine	7,000	141.75	992,250.00		
White wine	8,000	141.75	1,134,000.00		4,905,703.13
VAT on products manufactured					
Gin	8,000	196.62	1,572,954.00		
Vodka	3,000	196.62	589,857.75	2,162,811.75	
Non-alcoholic red wine	4,000	91.18	364,720.00		
Non-alcoholic white wine	4,000	91.18	364,720.00	729,440.00	2,892,251.75
VAT on plant and machinery	CIF	Duty	Surcharge	Total	
Cost	25, 000				
Rate of exchange	750				
Naira value	18,750,000	1,875,000	140,625	20,765,625	
VAT at 7.5%					1,557,421.88
Other VAT paid					
Bank charges	1075000/107.5*7.5%				75,000.00

VAT paid in 2023	**9,430,376.76**

c. Excise duty payable by the company in 2023

Product	Quantity	Excise duty rate (₦)	Excise duty
Gin	200,000	3.00	600,000.00
Vodka	75,000	3.00	225,000.00
Non-alcoholic red wine	100,000	2.00	200,000.00
Non-alcoholic white wine	100,000	2.00	200,000.00
Excise duty payable			**1,225,000.00**

d. Balance in the company's VAT account at the end of the year and what it represents

Balance on the company's VAT account

	Dr ₦	Cr ₦
VAT paid on imports products	4,905,703.13	
VAT paid on materials - Imported	2,162,811.75	
VAT paid on materials - Local	729,440.00	
VAT collected from sales		8,664,000.0
Balance on the account	866,045.13	
	8,664,000.00	8,664,000.00
Balance		866,045.13

This balance represents:

Input VAT on unsold inventory	1,323,369.08	
VAT payable on Products sold		2,189,414.20
Balance as above	866045.12	

2,189,414.20	2,189,414.20

Working 3: Input VAT on product sold	
Total input vat paid in 2023	7,797,954.88
Input VAT on closing inventory	1,323,369.08
Input VAT on products sold	6,474,585.80

Working 4: VAT payable on product sold	
Output VAT on sales	8,664,000.00
Less input VAT on sales	6,474,585.80
VAT payable to FIRS	2,189,414.20

e. Calculation of output VAT

Products	Quantity	Sales Selling price	Value	Output VAT in 2023
Scottish Whiskey	120,000	5,000/25cl	24,000,000	1,800,000.0
Cognac	80,000	4,000/25cl	12,800,000	960,000.0
Red wine	150,000	2,500/25cl	15,000,000	1,125,000.0
White wine	180,000	2,500/25cl	18,000,000	1,350,000.0
Gin	180,000	3,500/25c/	25,200,000	1,890,000.0
Vodka	60,000	4,500/25cl	10,800,000	810,000.0
Non-alcoholic red wine	75,000	1,800/25cl	5,400,000	405,000.0
Non-alcoholic white wine	60,000	1,800/25cl	4,320,000	324,000.0

115,520,000	**8,664,000.0**

f. Calculation of output VAT in inventory

Products	Quantity/cl	Quantity/bottle	Input VAT	Total VAT
Scottish Whiskey	30,000	1,200	311.13	373,359.38
Cognac	20,000	800	228.16	182,531.25
Red wine	25,000	1,000	141.75	141,750.00
White wine	20,000	800	141.75	113,400.00
Gin	20,000	800	196.62	157,295.40
Vodka	15,000	600	196.62	117,971.55
Non-alcoholic red wine	25,000	1,000	91.18	91,177.50
Non-alcoholic white wine	40,000	1,600	91.18	145,884.00
				1,323,369.08

QUESTION 2

The Cash Bank Plc presented the following transactions to you as their tax consultant for the purpose of evaluating the correct amount of stamp duty payable

i. Loan agreement between the bank and Mr Diallo for the sum of ₦500,000,000.00
ii. Legal mortgage facility of ₦300,000,000.00 granted to Value Enterprises Limited
iii. Lease agreement of the bank's estate at the sum of ₦3,000,000.00 per building for 300 tenants. The lease period is for 22 years.
iv. Mr Diallo had used a total of 1,000 bank cheque leaflets to withdraw the loan from his bank account.
v. Bill of sale submitted by Mr Fofana for the export of cocoa from Ijebu ode to Togo valued $14,500 (USD) at an exchange rate of ₦500 to $1.00 (USD).

Required:

a. Evaluate the correct amount of stamp duty payable **(5 Marks)**

b. With e-stamping, manual adjudication seems to be irrelevant, briefly explain e-stamping, e-payment, adjudication and its importance. **(10 Marks)**

Total (15 Marks)

SOLUTION TO QUESTION 2

a.

1. ₦500,000,000.00 X 0.125% = ₦625,000.00
2. ₦300,000,000.00 X 0.375% = ₦1,125,000.00
3. ₦3,000,000.00 X 300 tenants X 6% = ₦54,000,000.00
4. ₦1.00 X 50,000 leaflets = ₦50,000.00
5. $14,500 X ₦500 X 1.5% = ₦108,750.00

b.

E-stamping is the process in which documents/instruments are stamped electronically, while E-payment is the process where payment for duty on such instrument is done online. Under the stamp duties context, both processes are carried out concurrently. Payment of Stamp duty and stamping of documents/instruments are done together when stamped electronically.

The benefits of paying Stamp Duties.

a. Payment of stamp duties provides sustainable finance and funding for governance.
b. Provides funds for the provision of social services and economic development.
c. A dutiable transaction/instrument is deemed to be a legal document and will be admissible in any court of law.
d. Compliance with stamp duty will enable law-abiding citizens avoid the consequences, penalties and sanctions of non-compliance.

Adjudication and its importance.

This is the process of determining the correct amount of duty, usually convincingly, by the commissioner of Stamp Duties.

(a) It satisfies the statutory requirement.

(b) Where the instrument is duly stamped under the adjudication process, the instrument is admissible for all purposes not withstanding any objection as to the duty required to be paid.

QUESTION 3

One of the functions of the Niger Delta Development Commission is to tackle ecological and environmental problems that arise from the exploration of oil mineral in the Niger Delta region and advising the Federal Government and the member states on the prevention and control of oil spillages, gas flaring and environmental pollution.

Required:

a. Explain ten (10) mandates of the Commission. **(10 Marks)**
b. State five (5) applications of the fund of NDDC **(5 Marks)**
(Total 15 Marks)

SOLUTION TO QUESTION 3

a. Mandates of NDDC

The mandates of the Commission are to:

a) Formulate policies and guidelines for the development of the Niger Delta area;
b) Provide conception, planning and implementation, in accordance with set rules and regulations, of projects and programs for sustainable development of the Niger Delta area in the field of transportation including roads, jetties and waterways, health, employment, industrialization, agriculture and fisheries, housing and urban development, water supply, electricity and telecommunications;
c) Undertake Survey of Niger Delta in order to ascertain measures necessary to promote its physical and socio-economic development;
d) Prepare master plans and schemes designed to promote the physical development of the Niger Delta region and the estimation of the member states of the Commission;
e) Implement all the measures approved for the development of the Niger Delta region by the Federal Government and the states in the area;
f) Identify factors inhibiting the development of the Niger Delta region and assisting the member states in the formulation and implementation of policies to ensure sound and efficient management of the resources of the Niger Delta region;
g) Assess and report on any project being funded or carried out in the region by oil and gas companies and any other company, including non-governmental organizations, as well as ensuring that funds released for such projects are judiciously utilized;
h) Tackle ecological and environmental problems that arise from the exploration of oil mineral in the Niger Delta region and advising the Federal Government and the member states on the prevention and control of oil spillages, gas flaring and environmental pollution;
i) Liaise with the various oil mineral and gas prospecting and producing companies on all matters of pollution, prevention and control; and
j) Execute other functions, which in the opinion of the Commission are required for the sustainable development of the Niger Delta region and its people.

b. Application of the fund

The Act provides that the Commission shall apply the proceeds of the fund established pursuant to section 14 of the Act as follows:

i. Defray the cost of administration of the Commission;
ii. Pay salaries, fees, remuneration, allowances, pensions and gratuities payable to the members of the Board specified in section 6 of this Act or any committee of the Board and the employees of the Commission;

iii. Pay for all contracts, including mobilisation, fluctuations, variations, legal fees and cost on contract administration;
iv. Pay for all purchases made; and
v. Undertake such other activities as are connected with all or any of the Functions of the Commission under this Act.

QUESTION 4

Tax practitioners perform different types of services for their clients, apart from representing their clients at the revenue authorities. Sometimes, they are consulted on their clients' tax planning strategies. Unfortunately, some of these clients use unethical strategies for tax avoidance, this generally put the practitioner in a dilemma. Sometimes, some clients submit false or erroneous tax returns.

Required:

a. Discuss four ways a company may submit false or erroneous tax returns. **(4 Marks)**

b. What is the responsibility of the tax practitioner on clients' tax avoidance practices? **(3marks)**

c. Discuss the roles and responsibilities of tax practitioners with respect to clients' tax planning, policies and strategies. **(8 Marks)**

(**Total 15 Marks)**

SOLUTION TO QUESTION 4

a. Filing of false or erroneous tax return

A false or erroneous tax return could arise from the following:

i. "Cooking the books" with a view to concealing vital information so as to reduce tax liability;
ii. Creating records to support input tax which was not paid by the taxpayer;
iii. Collection of VAT from customers but failed to remit same to FIRS;
iv. Diversion of sales proceeds into personal accounts of directors, relations, etc;
v. Collection of value added tax by VAT exempt taxpayers but failed to remit same to FIRS; and
vi. Non-registration for tax purposes.

b. Although, tax avoidance is unethical, but not illegal. Tax avoidance can make a company vulnerable to accusations of greed and selfishness, thereby damaging its reputation and destroying the public's trust. It has been branded by some as immoral and unethical practice that undermines the very integrity of a tax system.
Avoiding tax by "binding" the rules of a tax system is not illegal, but it is seen by many as operating within the letter rather than the spirit of the law.

The responsibility of the tax practitioner is to ensure that, at all times, he advises his clients on the need to file correct tax returns. In case of errors on returns filed, the tax practitioner must advise the client promptly of the fact of such error or omission.

c. **Involvement of a tax practitioner in tax planning issues**

The following are the responsibilities of tax practitioners concerning their clients' tax planning strategies:

i. As a professional rule, a tax practitioner should never be involved in any tax evasion arrangement. Tax evasion is where any arrangements violate or otherwise fall short of the provisions of the law. Such arrangements often involve non-disclosure or understatement of tax base on the one hand or overstatement of deductions, tax reliefs or allowances on the other hand with the intention of wilfully deceiving tax authorities or suppressing facts from it;
ii. A member should not perform impermissible actions of tax avoidance or be involved at all in any abusive avoidance schemes, such as artificial or contrived arrangements, with little or no actual economic impact upon the taxpayer, that are usually designed to manipulate or exploit perceived "loopholes" in the tax laws in order to achieve results that conflict with or defeat the intention of the legislation;
iii. A member should carefully consider and document the merits of any tax planning strategy, which may be considered impermissible tax avoidance;
iv. A member should not be involved in the structuring of transactions with respect to any client's planning arrangement having a potential for tax evasion;
v. A member should explain to his client the material risks of the tax planning or tax positions and the basis on which the advice is given;
vi. A member should not recommend tax planning which he does not consider to be appropriate or otherwise does not align with his own business principles and ethics;
vii. A member should ensure that the client is made aware of the risks, implications and rewards of any planning arrangement. It is advisable to ensure that the basis for recommended tax planning is clearly identified in documentation; and
viii. Members are required to maintain the confidentiality of their employer and clients. They should not disclose information to a third party without the employer or client's permission unless there is a legal obligation to do so.

QUESTION 5

Boby Nigeria Limited is a company in the business of importation of plumbing materials into the country. The company has been in business for a long time and has earned a reputation for the sales of high quality plumbing materials.

In October 2023 the Company imported the following items from China

Item	Quantity	Pries per Unit($)	Cost of frieght($)
Coppper	20,000	25	3,500

PVC	8,000	20	3,000
CPVC	12,000	30	3,000
PEX	15,000	35	1,800

You are also provided with the following additional information

i. The exchange rare was ₦790 to $1.

ii. The rates of import duty are as follows

Copper	15%
PVC	15%
CPVC	25%
PEX	20%

iii. The Insurance cost was 1.5% of imported items

Required:

Compute the import duties payable to the Nigerian Custom Services by Boby Nigeria Limited **(15 Marks)**

SOLUTION TO QUESTION 5

BOBY NIGERIA LIMITED

COMPUTATION OF IMPORT DUTY PAYABLE TO THE NIGERIAN CUSTOMS SERVICE FOR IMPORTS

IN THE MONTH OF OCTOBER, 2023

ITEM	QTY (UNITS)	COST PER $	UNIT COST	INSURANCE $	FREIGHT $	FREE ON BOARD $	EXCHANGE RATE N	COST IN NAIRA	RATE IMPORT DUTY (%)	IMPORT DUTY PAYABLE
COPPER	20,000	25	500,000	7,500	3,500	511,000	790	403,690,000	15	60,553,
PVC	8,000	20	160,000	2,400	3,000	165,400	790	130,666,000	15	19,599,
CPVC	12,000	30	360,000	5,400	3,000	368,400	790	291,036,000	15	72,759,
PEX	15,000	30	525,000	7,875	1,800	534,675	790	422,393,250	15	84,476,
			1,545,000	23,175	11,300	1,579,475		1,247,785,250		237,389,

The import duty payable Is ₦237,389,050

QUESTION 6

One of the exports promotion incentives in Nigeria is the duty drawback scheme. The purpose is to encourage export businesses in Nigeria.

You are required to explain:

a. The Duty Drawback Scheme incentives in Nigeria **(5 Marks)**
b. Duty drawback facilities **(5 Marks)**
c. Persons for financial assistance under the scheme**.** **(5 Marks)**

(Total 15 Marks)

SOLUTION TO QUESTION 6

a. Duty Drawback Scheme

Duty Drawback scheme is an export-oriented incentive introduce by the Federal Government to encourage export businesses in Nigeria. Duty Drawback scheme provides for refunds of duties/sur-charges on raw materials including packing and packaging materials used for the manufacture of products upon effective exportation of the final products. The new Duty Drawback scheme provides for an automatic refunds of 60% on duties paid on raw materials used in producing export products, on initial screening by the Duty Drawback Committee and upon the presentation of bond from a recognised bank, insurance company or other financial institutions.

The bond will cover 60% of the refund to be made to the exporter. At the end of the processing of exporters claims, the Duty Drawback Committee shall grant any balance where applicable or request for refunds for any over payment made.

b. Duty Drawback Facilities

The scheme provides for fixed drawback and individual drawback facilities. The fixed drawback facility is for those Exporters/Producers whose export products are listed in the fixed drawback schedule to be issued from time to time by the Duty Drawback Committee. When the import content of the export produce is more or less constant, and import prizes (including exchange rate), tariff rates and technology used are relatively stable or "fixed", it is possible to calculate a standard Input-Output Co-efficient Schedule (ICS) for these category of products on the basis of which a fixed drawback rate can be computed to be rebated per unit of export product.

Whereas the individual drawback is for producers/exporters who do not qualify under the fixed drawback facilities, it is therefore a straight forward traditional drawback mechanism under which duty is paid on all imported inputs. The duties are subsequently, rebated on inputs used for export production. As a general case, the final export/producer can apply for the Scheme.

For the same export product defined in an export entry documents, all inputs used to produce a given export article should be treated as part of a single application and therefore, cannot be divided into separate duty drawback applications.
If imported inputs, registered in a single import entry document are sub-divided and used for production of more than one export consignment, the import entry document should include information on the production of inputs and the balance remaining to be used**.**

c. Persons for financial assistance under the duty drawback scheme.

Financial assistance is made available for export businesses as Export Expansion Grant (EEG).

The Scheme provides financial assistance to private sector exporting companies to cover part of their initial expenses in respect of the following export promotion activities:

i. Participation in training courses, symposia, seminars and workshops in all aspects of export promotion;
ii. Advertising and publicity campaigns in foreign markets;
iii. Export market research and studies;
iv. Production design and consultancy;
v. Participation in trade missions, buyer-oriented activities, overseas trade fairs, exhibitions and sales promotion;
vi. Cost of collecting trade information; and
vii. Backing up the development of export oriented industries.

QUESTION 7

In order to ensure transfer of technology and development of local capacities in the oil and gas industry which is being dominated by foreign companies, the Federal Government enacted the Local Contents Act. The objective of the Local Content Act as stated in Sections 3, 7 and 11 of the Local Content Act is to promote the use of local materials and services for the development of the Oil and Gas Industry.

Required

In accordance with the provisions of the Local Contents Act on local contents surcharge imputed on transactions in the oil and gas industry, you are required to:

a. Explain what constitute local contents and the provisions of the Act on how to ensure it is implemented (**8 Marks)**
b. Explain the operation and power of the Nigerian Contents Development and Monitoring Board. **(3 Marks)**
c. Who are Operator and Partner in the oil and gas industry as defined by the Act? **(4 Marks)**

(15 Marks)

SOLUTION TO QUESTION 7

a. Local contents in the Local Content Act and procedures for its implementation

The Local Content Act describes **local content** as **"the quantum of composite value added to or created in Nigeria through utilisation of Nigerian resources and services in the petroleum industry resulting in the development of indigenous capability without compromising quality, health, safety and environmental standards".**

The policy on local content is as a result of the consciousness that the multinational or international companies had significantly dominated the petroleum sector. The purpose of the Act is to enable Nigerian Companies to contribute immensely to the growth of the Nigerian economy by inspiring value addition, job opportunities, and award of various oil contracts and projects.

What constitute local contents in the Act are described as the development of local skills, oil and gas technology transfer, and use of local manpower and local manufacturing companies. And a Nigerian company is defined as **"a company formed and registered in Nigeria in line with the provisions of the Companies and Allied Matters Act with not less than 51% equity shares by Nigerians".**

Section 3 of the Local Content Act gives the following provisions on how to ensure local contents requirement is implemented:

i. **Nigerian independent operators shall be given first consideration in the award of oil blocks, oil field licences, and oil lifting licences and in all projects for which contract is to be awarded in the Nigerian oil and gas industry subject to the fulfilment of such conditions as may be specified by the Minister;**
ii. **There shall be exclusive consideration to Nigerian indigenous service companies which demonstrate ownership of equipment, Nigerian personnel and capacity to execute such work to bid on land and swamp operating areas of the Nigerian oil and gas industry for contracts and services contained in the Schedule to this Act; and**
iii. **Compliance with the provisions of this Act and promotion of Nigerian content development shall be a major criterion for award of licences, permits and any other interest in bidding for Oil exploration, production, transportation and development or any other operations in Nigerian Oil and Gas industry.**

b. The Nigerian Content Development and Monitoring Board (NCDMB): Operation and power

To fulfil the objective of the Local Contents Act, Section 4 of the Local Content Act established The Nigerian Content Development and Monitoring Board (NCDMB). The Local Content Board is charged it with the responsibility **of putting in place a procedure that guides, monitors, coordinates and implements the provisions of the Act.** The Local Content Board monitors the activities of the operators, all alliance partners and contractors.

c. Under the Act, Operator and Partners are defined as follows:
'Operator' is the Nigeria National Petroleum Company (NNPC), its subsidiaries and joint venture partners and any Nigerian, foreign or international Oil and Gas Company operating in the Nigerian Oil and Gas industry under any petroleum arrangement. 2mks

A **Partner** is any foreign company working on any project in a partnership or as a major contractor to an operator.

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2024: PROFESSIONAL EXAMINATION

PTE I: GOVERNANCE, RISK & ETHICS

TUESDAY, 16TH APRIL, 2024 **EXAM NO……………..**

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS.

QUESTION 1

Adept Foods Processing Company Plc. is a company in Nigeria engaged in the production of food products and confectioneries. Some of the products are Kunu beverages, Zobo, food seasoning and biscuits. Since inception, the company sources most of its raw materials from a West African country. It currently produces 10 different products from different production facilities. The company is also structured along functional lines.

As part of its corporate strategy to consolidate and improve on its competitive position, the Board of Directors has resolved to integrate backwards. This, according to Board members, has become necessary due to current challenges encountered with its suppliers of cocoa, the most important raw material that the company uses. Due to the Corona Virus outbreak, supplies from other West African sources have become erratic.

This situation, coupled with activities of competitors, has drastically reduced the volume of supplies of Sorghum from local suppliers. In order to address this issue, the company decided to set up Sorghum plantations and a processing plant in Western Nigeria.

To effectively implement this strategy, the management of the company also decided to redesign its organisational structure to support the backward integration strategy and improve organisational effectiveness.

Required:

A. Identify and explain the types of organisational structures that Adept Foods Processing Company Plc. can adopt. **(20 Marks)**

B. Advise the company on which of the organisational structures identified will best suit its new strategy, giving reasons for your advice. **(10 Marks)**

C. Explain what you understand by Competitive Strategy. **(10 Marks)**

(Total 40 Marks)

SOLUTION TO QUESTION 1

A. The following are organisational structures that Adept Foods Processing Company Plc. can adopt:

- An entrepreneurial organisation structure
- A functional structure
- A divisional structure
- A matrix organisation.
- A conglomerate organisation structure
- Project based and team based structures.

I. Entrepreneurial organisation

An entrepreneurial organisation is an entity that is managed by its entrepreneurial owner. It has the following features:

- The entrepreneur takes all the main decisions, and does not delegate decision-making to anyone else
- The entity is therefore organised around the entrepreneur and there is no formal management structure
- Operations and processes are simple, and the entity sells a small numbers of products.

II. Functional organisation structure

In a functional organisation structure, decision-making authority is delegated in a formal arrangement, and responsibilities are divided between the mangers of different functions.

III. Divisional organisation structure

As entities grow still further, and develop their business operations into different product-makers, a divisional structure might become appropriate. A division is an area of operations, defined by:

- Markets in different geographical areas (e.g. Lagos, Abuja, Kano)
- Different products (e.g. logistics and bus division of a transport company)
- Different customers (e.g. industrial products and consumer products).

IV. Matrix organisation structure

A matrix organisation has been defined as: "any organisation that employs a multiple command structure but also related supports mechanisms and an associated organisational culture and behavior pattern" (Davis and Lawrence 1977).

In a matrix organisation, the traditional vertical command structure has an overlay of horizontal authority or influence. The difference between a matrix organisation structure and a project organisation is that with a project organisation, the project management comes to an end when the project ends. With matrix organisation, the matrix structure of authority and command is permanent.

V. **Conglomerate organisation structure**
A conglomerate is an organisation structure consisting of two or more companies operating in entirely different industries, but which are part of the same group and under the same control. They usually have parent company and subsidiaries.

VI. **Project-based and team-based structures**
Project teams are usually assembled to accomplish a specific task, such as introducing a new system or a new process. The team should consist of members from different disciplines or functions to achieve a wide range of skills.

B. Though management writers believe there is no one best organisational structure, rather it depends on a lot of factors like:

- The nature of business or businessline
- Is it a mono or multiple products producing company?
- The simplicity or complexity of its operations
- The business and socio-political environment it is operating in.
- The owner(s) local or foreign and their philosophy.

Based on the narratives the company that has 10 different production facilities, it is advised that it uses the matrix organisational structure. This structure will create 2 responsible officers for each facility:

- A Facility Manager similar to Project Manager, who will be responsible for the efficient management of the facility in achieving the installed capacity or set target.
- A Production Manager who is responsible for the content and quality of products produced.

C. Competitive strategy is a long-term action plan of a company which is directed to gain competitive advantage over its rivals after evaluating their strengths, weaknesses, opportunities and threats in the industry and compare it with your own.

QUESTION 2

In January 2014, Mr. Emeka Nduka Elvis the Managing Director of Jobar Energy Resources Limited, constituted a Strategic Planning Committee to coordinate the development of a five-year strategic plan for the company. This is the first time a formal strategic plan is being attempted in the company. After several meetings of the Strategic Planning Committee, Mr. Chinedu Protus, the Chairman of the Strategic Planning Committee, presented what he described as a road map to actualize the objectives of the company. Several sub-committees were constituted to work on different aspects of the strategic plan. Mrs. Adaramaja is the Chairperson of the sub-committee assigned to articulate and draw up the mission statement of the company. The Chairman of the Strategic Planning Committee took particular interest in the work of this sub-committee because, according to him, an appropriate mission statement would set the tone of the strategic plan, galvanize energies of the entire workforce and set a clear direction for the company.

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

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

Required:

A. As a member of the Sub-Committee on mission statement, state any five fundamental questions that it should answer.

B. What is the relevance of the mission statement?

(15 Marks)

SOLUTION TO QUESTION 2

A. Drucker suggested that the mission statement should answer the following:
   (1) What is our business?
   (2) What is our value to the customer?
   (3) What will our business be?
   (4) What should be the role of our employees?
   (5) What should be the ethics of our entity?

B. The relevance of the mission statement
   - To provide a basis for consistent strategic planning decisions.
   - To assist with translating broad intentions and purposes into corporate objectives.
   - To provide a common purpose for all groups and individuals within the organisation.
   - To inspire employees.
   - To establish goals and ethics for the organisation
   - To improve the understanding and support for the organisation from external stakeholder group and the public in general.

QUESTION 3

Distinguish between the following pairs:

A. Intended strategy and realized strategy. **(5 Marks)**
B. The rational model of strategy making, and the concept of emergent strategies. **(5 Marks)**
C. Strategic and non-strategic decisions. **(5 Marks)**

(Total 15 Marks)

SOLUTION TO QUESTION 3

A. Intended strategy could be defined as that set of decisions, activities or steps articulated and documented on a course of action or product which is hoped to be executed at a near future date. For example, having a new product launched in 2023 but everything about it has been completed in 2022.

   Realised strategy could be defined as that part of the intended strategy that the firm continues to pursue overtime and actually executed on products, opportunities or actions.

B. (i) The rational model of strategy making is a structured and sequenced approach to strategies making within the corporate agenda of an organisation. It usually commences with objectives and elements defined before the strategy proper.

   (ii) Emergent Strategies are type of business strategies that are not the results of pre-planning, but rather emerges over-time in response to changes in the environment.

C. Strategy decisions are the decisions that are related to the whole environment in which an organisation operates, the entire resource, human and otherwise utilized in the achievement of the organisational objective.

   Non-strategic decisions are the decisions that are not related to the whole environment in which an organisation operates nor its entire resources whether human or otherwise.

QUESTION 4

The University of Lagoon has just created an additional faculty referred to as the faculty of Procurements and Supply-Chain Management Studies. As one of the Internal Auditors of the University, you have been instructed by the Chief Internal Auditor to lead the first Internal Audit assignment of the new faculty.

Required:

A. What is the main objective of the audit assignment? **(4 Marks)**
B. Develop and enumerate the Audit program and procedures. **(11 Marks)**

(Total 15 Marks)

SOLUTION TO QUESTION 4

The main objective of audit assignment is to assess and, when necessary, improve by recommendation the effectiveness of internal controls, risk-management plans and overall businesses.

The audit program and procedures for the new faculty of procurements and supply-chain management of the University of Lagoon will include the following:

- **Internal Audit Initiation**
  This process involves contacting the "Auditee" (i.e. the process owner, functional head, project manager, chief executive, etc.) of a particular assignment, in this case, the new faculty. This ensures someone is responsible for successful execution of the assignment and providing evidences.

- **Conduct Pre-Audit (i.e. Opening Meeting)**
  This actually signifies the commencement of the audit. This is to reiterate to the auditees that the audit assignment is neither a surprise one nor impromptu. It is to verify conformance rather than find fault. It fosters common understanding among all parties involved as regards the scope and extent of the particular audit.

- **Documents Review**
  The next thing is to gather and assemble all documents and information available. This is to ascertain the efficiency, adequacy and relevance of documents and information that will assist the accomplishment of the audit objective.

- **Develop the Audit Plan**
  The documents and information so gathered and assembled will assist execution of the assignment in terms of:
  i. The experience and professional level of staffers or officers to conduct the assignment
  ii. The time and scheduling of the audit and the complimentary tasks and activities

- **Assigning Task to the Team**
  This is the further breakdown of the assignment into a number of activities and tasks and assigning different members of the audit team signifying that no two members of the team will do same thing.

- **Working Paper Preparations**
  This is the systematic documentation and arrangement of the purpose, observation, work done and evidences secured to corroborate tasks flow are easier and identify the interest and internal control weaknesses.

- **Audit Sequence Determination**
  This is the authentication of the specific audit task or activities from the pre-audit meeting to the final rendering of audit report. It makes the audit flow easier and identifies the inherent internal control weaknesses

- **Generate Audit Findings**
  Towards the completion of the verification and examination exercise, observation and findings are articulated and collated to determine the corrective actions needed and the extent of effect of such on the operations of accounts before rendering the final reports.

- **Presentation of Findings & Conclusions**
  In most cases in practice the findings and possible conclusions there on are presented to the management or process owner or audit assignment sponsor at a closing meeting.

- **Formal Reporting & Distribution**
  The final conclusions after the closing meeting are formally written and distributed to stakeholder.

- **Follow-up on Actions**
  It could be the most important step. It involves following up on identified intended actions to ensure remedial actions are taken to complete audit assignment.

QUESTION 5

A. Explain Ansoff's product/marketing matrix and discuss how this can be used in assisting an organisation in determining its risk strategy. **(10 Marks)**
B. Discuss the extent to which the size of an organisation affects its strategy. **(5 Marks)**

(Total 15 Marks)

SOLUTION TO QUESTION 5

A. Growth vector analysis: Ansoff

Ansoff (1957) argued that when a firm is planning its growth strategies, there should be a link between its current products and markets and its future products and markets. This link is necessary so that outsiders (for example, investors) can see in which direction the entity is moving. It also provides guidance to the entity's own management.

The strategic direction a company can take is to move into new markets for its products or to develop new products.

Ansoff summarized the potential strategies for production-market development with a 2 x 2 matrix. It is sometimes referred to as Ansoff's growth vector matrix or product mission matrix.

Market penetration strategy

With a market penetration strategy, an entity seeks to sell more of its current products in its existing markets. This strategy is a sensible choice in a market that is growing fast. With the fast growth, all the companies competing in the same market can expect to benefit from the rising sales demand.

A market penetration strategy is more difficult to implement when the market has reached maturity, or is growing only slowly.

Kotler suggested that market penetration calls for aggressive marketing, and that there are three ways in which this strategy might be successful:

- Persuade existing customers to use more of the product or services, and so buy more. This is a strategy based on trying to increase total market sales demand.
- Persuade individuals who have not bought the product in the past to start buying and using the product. Marketing tactics for attracting new users might include advertising or special promotional offers. This is another strategy based on trying to increase total market sales demand.
- Persuade individuals to switch from buying the products of competitors. This is a competitive strategy based on winning a bigger market share. This strategy has the obvious risk, however, that competitors will retaliate with their own marketing initiatives to win customers.

Market development strategy

Market development involves opening up markets for existing products.

Kotler suggested two ways of pursuing the strategy:

- The entity sells its product in new geographical markets (i.e. regional, national, or international, expansion).
- The entity can try to attract customers in new market segments, by selling differentiated versions of its existing products, or by making them available through different distribution channels.

Product development strategy

Product development is a strategy of producing new products for an existing market. Reasons for choosing this strategy:

- The business entity might have a strong brand name for its products, and it can extend the goodwill of the brand name to new products.
- The entity might have a strong research and development department or a strong product design team.

- ❖ The entity has to react to new technological developments by producing a new range of products or product designs.
- ❖ The market has growth potential provided that new products are developed.
- ❖ The entity wants to respond to a strategic initiative by a major competitor, when the competitor has developed new product.
- ❖ Customer needs might be changing, so that new product development is essential for the survival of the business.

Diversification strategy

Diversification is a strategy of selling new products in new markets. A distinction can be made between:

- ❖ **Concentric diversification** (also called **related or horizontal diversification)** which means that the new product-market area is related in some way to the entity's exiting products and markets.
- ❖ **Conglomerate diversification,** which means that the new product-market area is not related in any way to the entity's existing products and markets.

Both forms of diversification are normally achieved in practice by means of an acquisition strategy (in other words, buying companies that already operate in the new product-market areas).

B. The extent to which the size of an organisation affects its strategy are as follows:

- ❖ There is a limit to the rate of growth a business entity can achieve with its internal resources;
- ❖ The necessity of investment in new capacity to expand business beyond current capacity;
- ❖ If there is an element of diversification, then internal growth presents some risks; and
- ❖ The need to change its organisation and management structure, to handle the growth in the business.

QUESTION 6

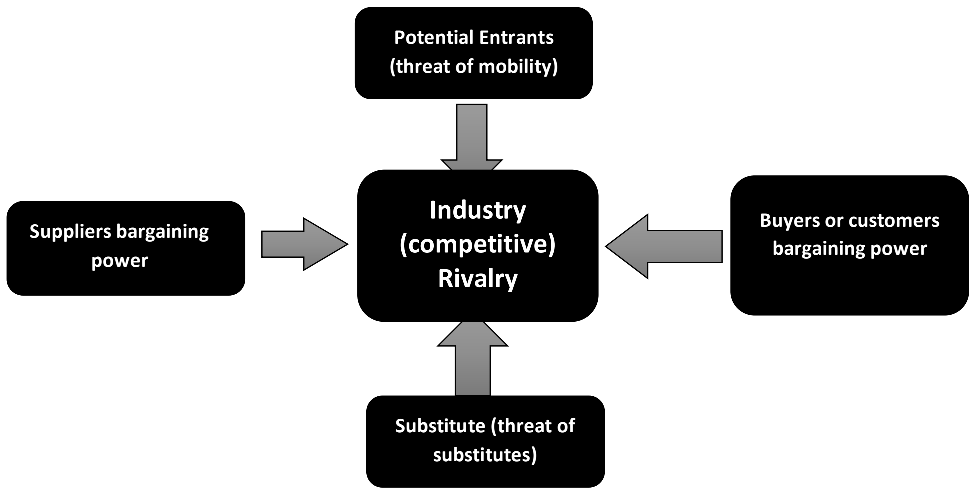
Explain Michael Porter's model of the five forces in an organisation's competitive environment. **(15 marks)**

SOLUTION TO QUESTION 6

Professor Michael Porter of Harvard University identified five 'forces' that determine the strength and nature of competition in an industry or market. These are:

- Threats from potential entrants;
- Threats from substitute products or services;
- The bargaining power of customers;
- The bargaining power of suppliers; and
- Competitive rivalry within the industry or market.

The five forces model is shown below:



I. Threat from potential entrants

This is dependent on the costs and practical difficulties of entering a market called 'barriers to entry' which can be viewed from two perspectives:

- When barriers to entry are low; and
- When barriers to entry are high.

II. Threat from substitute products

The threat from substitutes varies between markets and industries, and examples of substitutes are:

- Domestic heating systems. Consumers might switch between gas-fired, oil-fired and electricity-fired heating systems;
- Transport. Customers might switch between air, rail, and road transport services; and
- Food and drink products. Consumers might switch between similar products, such as coffee and tea.

III. Bargaining power of suppliers

Porter wrote: 'suppliers can exert bargaining power over participant in an industry by threatening to raise prices or reduce the quality of purchased goods or services.

Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own prices.

IV. Bargaining power of customers

Porter suggested that buyers might be particularly powerful in the following situations:

- ❖ When the volume of their purchases is high relative to the size of the supplier;
- ❖ When the products of rival suppliers are largely the same ('undifferentiated');
- ❖ When the costs of switching from one supplier to another is low;
- ❖ When the buyer's product is not affected significantly by the quality of the goods that it buys; and
- ❖ When the buyer has full information about suppliers and prices.

V. Competitive rivalry

Competition within an industry is obviously also determined by the rivalry between the competitors.

Porter suggested that competitor rivalry might be strong in any of the following circumstances:

- ❖ When the rival firms are of roughly the same size and economic strength;
- ❖ When there are many competitors;
- ❖ When the costs of withdrawing from the industry are high, so that even unprofitable companies are reluctant to leave the market;
- ❖ When there is only slow growth in sales demand in the market;
- ❖ When the products of rival firms are largely the same ('undifferentiated');
- ❖ When fixed costs in the industry are high, so that firms still make some contribution to profit even when they cut prices; and
- ❖ When supply capacity can only be increased in large incremental amounts.

QUESTION 7

A. What is a safeguard? **(5 Marks)**

B. Explain the safeguards available to a professional Tax practitioner in the course of performing his professional duty. **(10 Marks)**

(Total 15 Marks)

SOLUTION TO QUESTION 7

Safeguards can be said to mean all forms of encouragement and protection given to professionals against any form of threat in the course of their professional duty. These protections usually take the form of legal or institutional frameworks and professional codes of ethics.

The safeguards can be created externally, by legislation, recognition or the Taxation profession. Safeguards can be established internally within the work environment.

The safeguards available to a professional Tax practitioner will include the following:

- Tax practitioners should avoid tax consultancy engagements of individuals or companies where there might be a treat to their compliance with fundamental ethical principle or codes e.g. Tax consultancy for a wife's or relatives company.
- A Tax practice must institute relational partner management and professional staff rotational management system. This will mean rotating the leadership of the firm every 5years and also making a Tax manager or supervisor not being in charge of a particular or group of clients for more than 5years.
- There must be strong institutionalization and application of internal controls.
- A senior tax professional to review the work of a junior colleague in the course of his own normal duty.
- Engaging the board and management of their clients in discussion on ethical issues as it relates to their operations and also on the appointment of tax consultant and execution tax consultancies assignments.