THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2024: PROFESSIONAL EXAMINATION

PTE I: FINANCIAL REPORTING

WEDNESDAY OCTOBER 16, 2024 EXAM NO..............

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS.

TIME: 3 HOURS

SHOW ALL WORKINGS.

QUESTION 1

The trial balance of Yori-Yori Ltd as at June 30, 2023 is as follows:

	DEBIT	CREDIT
	₦ m	**₦ m**
Freehold land	4,800	--
Revaluation surplus (furniture & fittings)	--	64
Ordinary share capital (₦1 each)	--	800
Retained earnings		240
Dividend paid to ordinary shareholders	120	--
Inventories June 30, 2022	128	
Intangible assets	360	
Trade receivable/payables	384	240
Sundry expenses	316	
Furniture & fittings at cost	512	
Cash and bank balance	168	
10% loan notes		800
Purchases/revenue	1,560	7,520
Provision for Depreciation:		
Delivery van		96
Delivery van expenses	96	
Provision for Depreciation:		
Plant and machinery		329
Furniture & fittings		296
Delivery van at cost	392	
Plant and machinery at cost	604	
Allowance for receivables		170
Irrecoverable debts	117	

Plant & machinery (maintenance cost)	358	
Salaries and wages	640	
	10,555	10,555

Additional Information

(i) Inventories as at June 30, 2023 is ₦72million.

(ii) Prepaid salaries & wages were ₦80 million

(iii) Included in plant and machinery cost was depreciation of ₦118.4million.

(iv) The allowance for receivables are no longer required. The outstanding 10% loan notes was paid on June 30, 2023 and this has not been accounted for. The fair value of goods is ₦320million as the end of the year.

(v) The value in use of delivery van for the year June 30, 2023 is ₦248million. The prevailing market interest rate is 21% p.a. and discounting factor for this year is 0.8264.

(vi) The fair value of delivery van at an arm's length transaction as at June 30, 2023 was ₦224million and the cost to sell was ₦16million. All non-current assets were depreciated at 10% p.a. on reducing balance basis.

(vii) Current tax provision for the year is ₦1,320million.

(viii) The inventories as at June 30, 2022 are as follows:

	Units `000	**Unit price (₦)**	**₦ m**
Goods X	300	160	48
Goods Y	350	120	42
Goods Z	475	80	38
			128

The net realisable value of these goods per unit are as follows: Good X – ₦120, Goods Y – ₦160, and Goods Z – ₦64.

Required:

(a) (i) Identify any four (4) disclosure requirements for inventories in accordance with IAS 2. **(4 marks)**

(ii) Calculate the value of opening inventories to be included in the statement of profit or loss and other comprehensive income. **(3 marks)**

(b) Calculate the following in respect of the delivery van:

(i) The value in use **(1 mark)**

(ii) The fair value and recoverable amount. **(2 marks)**

(iii) The carrying amount and impairment. **(2 marks)**

(c) Prepare statement of profit or loss and other comprehensive income for the year ended June 30, 2023. **(12 marks)**

(d) Prepare statement of changes in equity as at June 30, 2023. **(6 marks)**

(e) Prepare statement of financial position as at June 30, 2023. **(10 marks)**

(Total 40 marks)

SOLUTION 1

(ai) Disclosure requirements for inventories in accordance with IAS 2

IAS 2 requires the following disclosures in notes to the financial statements.

i. The accounting policy adopted for measuring inventories, including the cost measurement method used.
ii. The total carrying amount of inventories classified appropriately (for manufacturers, appropriate classification include, raw materials, work-in-progress and finished goods).
iii. The amount of inventories carried at net realisable value.
iv. The amount of inventories written down in value and so recognised as an expense during the period.
v. Details of any circumstances that have led to the write down of inventories to net realisable value.
vi. The amount of any reversal of any write down that is recognised as a reduction in the amount of inventories recognised as expense in the period.
vii. The circumstances or events that led to the reversal of a write-down of inventories.

(aii) Value of Opening inventories in statement of profit or loss and other comprehensive income

Goods	Given Note (viii)	Units	Realisable unit cost	NRV	Inventory lower of NRV and Cost
	₦'m	**₦'000**		**₦'m**	**₦'m**
X	48	300	120	36.0	36
Y	42	350	160	56.0	42
Z	38	475	64	30.4	30.4
	128			122.4	108.4

Value of opening inventory is ₦108,400,000

(b) (i) The value in use of delivery van as at June 30, 2023 is ₦248million

(ii) Fair value of the delivery van is ₦224million

:. Fair value less cost to sell [224 – 16] = ₦208million

:. Recoverable amount is higher of value in use and fair value less cost to sell = ₦248million

(iii) carrying amount and impairment

Carrying amount	₦'m	₦'m
Delivery van at cost		392
Less: Accumulated depreciation		
Accumulated depreciation at 30/6/22	96	
Depreciation for the year end 30/6/22 [392- 96] x 10%	29.6	(125.6)
Carrying amount		266.4

Impairment:

	₦'m
Carrying amount	266.4
Recoverable amount	(248)
Impairment loss	(18.4)

(c)

Yori-Yori Ltd

Statement of profit or loss and other comprehensive income for the year ended June 30, 2023

	₦'m
Revenue	7,520.00
Cost of Sales (w1)	(1,596.40)
Gross profit	5,923.60
Personnel Cost [640m – 80m]	(560.00)
Depreciation (Amortisation and impairment(w2))	(188.00)
Admin, & other operating expenses	(598.60)
Operating profit	4,577
Finance cost	(80)
Profit before taxation	4,497
Income tax expense	(1,320)
Profit for the year	3,177

(d) **Yori-Yori Ltd**

Statement of changes in equity for the year ended June 30, 2023

	Ordinary share capital	Retained earnings	Revaluation surplus	Total
	₦'m	₦'m	₦'m	₦'m
Bal. b/fwd	800	240	64	1,104
Prior year adjustment (128 – 108)	--	(20)	--	(20)
Restated b/fwd	800	220	64	1,084
Profit for the year	--	3,177	--	3,177
Dividend paid	--	(120)		
	800	3,277	64	4,141

(e) **Yori-Yori Ltd**

Statement of Financial Position as at June 30, 2023

Non-current assets:	**₦'m**
Property plant & equipment (w4)	5,517
Intangible assets	360
	5,877
Current assets:	
Inventory [lower of ₦72m and ₦320m]	72
Trade & other receivables	384
Prepayment [prepaid salary]	80
Cash and cash equivalent	88
	624
Total assets	6,501
Equity and Liabilities:	
Equity:	
Ordinary share capital ₦1 each	800
Retained earnings	3,277
Revaluation surplus	64
Equity	4,141
Non-current liabilities:	
10% loan notes	800
Current liabilities	
Trade and other payables	240
Current Tax payables	1,320
	1,560
Total equity and liabilities	6,501

Workings

(w1) Cost of Sales

	₦'m
Opening inventory (as adjusted)	108.40
Purchases	1,560.00
Cost of goods available for sales	1,668.40
Closing inventories	(72.00)
Cost of sales	1,596.40

(w2) Depreciation Amortisation and Impairments

Depreciation:	
Plant & machinery	118.40
Delivery van (see bii)	29.60
Furniture & Fittings [512 – 296] x 10%	21.60
	169.60
Impairments:	
Impairment charge on delivery van (see 1biii)	18.40
	188

(w3) Admin and Other Operating Expenses

Plant & mach. mtce cost [358 – 118.4]	239.60
Sundry expenses	316.00
Irrecoverable debt	117.00
Reversal of allowance for receivables	(170.00)
Delivery van expenses	96.00
	598.60

(w4) Property, Plant and Equipment

	Cost ₦'m	Accm. Deptn ₦'m	Acc. Impairment ₦'m	Carrying amount ₦'m
Freehold land	4,800	--	--	4,800.00
Plant & machinery	604	(329)	--	275.00
Furniture & Fittings	512	(317.6)	--	194.40
Delivery Van	392	(125.6)	(18.4)	248.00
Carrying amount				5,517.40

EXAMINER'S REPORT

Part (a) of the question tests candidates' knowledge on the disclosure requirements for inventories in accordance with IAS 2 and the calculation of the value of opening inventories to be included in the financial statement. Part (b) tests computation of value-in-use, fair value, recoverable amount and, the carrying amount and impairment of a delivery van. Part (c) of the question tests preparation of statement of profit or loss and other comprehensive income; Part (d) tests the preparation of the statement of changes in equity while part (e) tests candidates' knowledge of preparation of the statement of financial position.

Majority of the candidates attempted the question and they demonstrated poor understanding of the requirements which made their performance to be poor.

Candidates' common pitfalls were their inability to calculate the value of opening inventories, the value-in-use, fair value, recoverable amount and, the carrying amount and impairment of an asset.

Candidates are advised to read widely, use the Institute's Study Pack, practice many questions in other to perform better in future examination.

QUESTION 2

The management of Kono Limited is considering the sale of an item of plant and machinery. The machine was acquired a few years ago and will be replaced by a new modern machine which is currently being manufactured. The management of Kono Limited intends to sell the machine as soon as it takes delivery of the new machine which is expected to be after the year end. Management is currently actively seeking a buyer for the existing machine, while an appointment has been booked with a service centre to refurbish the machine prior to its sale. The machine is carried in the books at ₦2.45million which approximates its fair value. The current machine is being marketed to potential buyers at ₦5 million. Management has classified the machine as held for sale under IFRS 5- Non-Current Assets Held for Sale and Discontinued Operations. A new product is currently being developed internally by the technology team at Kono Limited. The product is expected to be completed in four years with users' acceptance testing finalised. The management of Kono Limited is of the view that production phase will be in five years' time. Kono Limited owns an accessory used in the agricultural industry which could be sold in any market

Required:

Using the information above:

(a) Discuss whether the item of plant and machinery can be classified as held for sale under IFRS 5.
(5 Marks)

(b) A significant amount has been incurred in the current year on development of the new product by the technology team. Advise how the amount incurred should be treated in the year-end financial statements.
(5 marks)

(c) Determine the fair value of the accessory in accordance with IFRS 13 – Fair Value Measurement, as far as the information permits
(5 marks)

(Total 15marks)

SOLUTION 2

a) In accordance with IFRS 5- Non-Current Assets Held for Sale and Discontinued Operations, an asset could be classified as held for sale on the fulfilment of the following criteria:

i. Management is committed to a plan to sell the asset;
ii. The asset is available for immediate sale;
iii. An active plan to locate a buyer has been initiated by the management;
iv. The sale is highly probable, within 12 months of classification as held for sale;
v. The asset is being actively marketed for sale;
vi. The offer price to sell the asset is reasonable in relation to its fair value; and
vii. Actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn.

The above principles can be applied to Kono Limited as follows:

i. The management of Kono Limited is actively committed to the plan to sell the item;
ii. The machine is not available for immediate sale since the expected replacement of new machine is currently being manufactured;
iii. An active programme to locate a buyer is already initiated by the management but the machine may only be available for sale after the year-end. This time frame is dependent only on the delivery of the replacement machine;
iv. The sale is not highly probable within the next 12 months of classification because it could only be available after the year-end. When this time could be/is not specified in the narrative;
v. Whereas the fair price is ₦2.45million, the asset is being offered to potential buyers at ₦5million. The offer price at over 100% above the fair value is not considered reasonable; and
vi. The action required to complete the plan may indeed change if the replacement machine could not be delivered as expected for whatever reason.

Due to the reasons above, the item of plant and equipment cannot be classified as held for sale under IFRS 5.

b) The new product being developed internally by the technology team at Kono Limited falls within the ambit of internally developed intangible assets.

Under IAS 38 – Intangible Assets, an intangible asset arising from development must be capitalised if all the following can be demonstrated by the entity:

i. Existence of a market or, if to be used internally, the usefulness of the assets, that is, the economic benefits;
ii. The technical feasibility of completing the intangible assets. This is to ensure that it will be available for use or sale;
iii. Intention to complete and use or sell the asset;
iv. Ability to use or sell the asset;

v. Availability of adequate technical, financial and other resources to complete the asset; and
vi. The cost of the asset can be measured reliably.

If any of the above recognition criteria is not met, then, the expenditure must be charged to the statement of profit or loss as incurred. Note that if the recognition criteria have been met, capitalisation must take place.

Advice on the treatment of Kono Limited development costs

It appears that the company has fulfilled all the criteria to recognise the new product and capitalise the expenditure incurred in the current year. The amount incurred should therefore be treated as a capital item at the year-end as follows:

	₦'000	₦'000
Development cost – SOFP	XXX	
Bank		XXX

Being amount incurred in the current year on development of new product.

c) IFRS 13 – Fair Value Measurement, requires the assets to be sold in the principal market or the most-advantageous market where information is not available at the principal market.

In line with the above, the fair value of the accessory should be determined using the following principles:

i. The principal market is defined as the market with the highest volume and level of activity for the asset;
ii. The most advantageous market is defined as the market where the highest profit is made in the sale of asset; and
iii. The asset would be sold in the principal market.

EXAMINER'S REPORT:

Part (a) of the question tests candidates' knowledge of classification of assets as held for sale under IFRS 5. Part (b) tests the treatment of development of new product in the financial statements, while part (c) tests the determination of the fair value of an accessory in accordance with IFRS 13 – Fair Value Measurement.

About 20% of the candidates attempted the question and their performance was poor.

Majority of the candidates that attempted the question lacks clear understanding of the provision of IFRS 5 and IFRS 13 that were tested.

Candidates are advised to study and understand all the accounting standards that are examinable at this level for better performance in the future.

QUESTION 3

(a) IAS 10 on events after reporting period has two main objectives:

(i) To specify when a company should adjust its financial statements for events that occur after the end of the reporting period; and

(ii) To specify the disclosure that should be given about events that have occurred after the end of the operating period but before the financial statements were authorised for issue.

Required:

Discuss the following key concepts under IAS 10:

(i) Event after reporting period

(ii) Adjusting events

(iii) Non-adjusting events **(6 marks)**

(b) The following events took place in Aben Company Nig. Limited:

(i) Shortly after the financial year ended on June 30, 2023 but before the financial statements were authorised for issue, Aben Nigeria Limited's inventory was destroyed by a fire outbreak which resulted in a loss of ₦200 million.

(ii) The company's financial year that ended June 30, 2023 shows an amount of ₦60million that is due from one of its debtors, Mr. Okon. Aben Nigeria Limited provided for impairment at June 30, 2023 of ₦15million against the gross value of ₦60million due from Mr. Okon. On July 31, 2023 before the financial statements were authorised for issue, Mr. Okon was declared bankrupt and unable to pay the debt.

(iii) Aben Nigeria Limited was sued on June 30, 2023 but the judgment was only handed down on July 21, 2023. The Company was found liable for damages and cost amounting to ₦31million were awarded against it.

(iv) On July 22, 2023, Aben Nigeria Limited filed a claim with its insurers and on July 29, 2023, it was notified that the insurer would only cover ₦26 million of the loss.

Required:

Prepare a brief memorandum advising the directors of Aben Nigeria Limited. on the accounting treatment and/or disclosure required as a result of the events in (i) to (iii) after the reporting date.

(9 marks)

(Total 15 marks)

SOLUTION 3

(a)

i. Events after reporting period: These are events favourable or unfavourable which occur between the end of the reporting date and the date the financial statements are authorised for issue.

ii. Adjusting event: An adjusting event is an event which provides further evidence of a condition existing at the reporting date. An entity shall adjust the amounts recognised in its financial statements for the period just ended to reflect adjusting event after the reporting period.

iii. Non-adjusting event – An entity shall not adjust the amount recognised in its financial statements to reflect non-adjusting event after the reporting date. In this case, there was no condition existing at the reporting date, so no adjustment should be made. Disclosure should be made in note form in the financial statement for significant non-adjusting event after reporting date. – If a non-adjusting event means the going concern concept no longer applies to the entity, then the event should be treated as an adjusting event. i.e., the financial statements should not be prepared on going concern basis.

(b)

To: **Directors of Aben Nig. Ltd.**

From: **Consultants**

Subjects: **Events after reporting period**

The following accounting treatments and disclosures are recommended for the events highlighted:

i. **Inventory Destroyed by Fire Outbreak**

- This event is a 'non-adjusting event' as it is indicative of a condition (fire) that arose after the end of the reporting period.
- As this is a non-adjusting event, no adjustment will be made to the amount recognised in the financial statements of your company for the year ended June 30, 2023.
  This should, however, be disclosed in the notes to the financial statements.

ii. **Bankrupt Debtor – Mr. Okon**

This is an adjusting event and Aben Nigeria Ltd. should impair the amount receivable (N60 million) from Mr. Okon as at June 30, 2023. His bankruptcy after the end of the reporting period provides evidence of the fact that the amount receivables from the debtor was impaired at the end of the reporting period.

iii. **Judgement Debt**

This is an 'Adjusting event' – this is because the liability existed at the reporting date, but confirmation of the amount was only received on July 21, 2023.

- The financial statement should be adjusted to reflect the information received subsequently. Accordingly, provisions should be made for the entire amount of the judgement debt.

- The filing of the insurance claim only took place following the reporting date; hence no account should be taken of this at June 30, 2023. As confirmation of the success of the claim was received prior to the signing off date this should be disclosed in the notes to the financial statements of Aben Nigeria Ltd.

Conclusion.

You should not hesitate to contact me if you need further explanation.

Thank you.

Consultant

EXAMINER'S REPORT:

Part (a) of the question tests candidates' knowledge of the key concepts under IAS 10 like event after reporting period, adjusting events and non-adjusting events. Part (b) of the question tests candidates' knowledge on how to write memo to the management on the treatment and, or disclosure requirements of real-life situations relating to inventories destroyed by fire outbreak, bankruptcy of a debtor and a judgement debt.

About 95% of the candidates attempted the question and their performance was fair.

The common pitfalls of the candidates were their poor understanding of the classification of adjusting and non-adjusting events despite their understanding of the events. They also lacked knowledge of memo writing.

Candidates are advised to get familiar with memo writing and real-life examples of the application of accounting standards. They should use the Institute's Pathfinder and Study Packs to prepare for future examination.

QUESTION 4

(a) Explain Four (4) benefits to companies for adopting International Financial Reporting Standards (IFRS). **(4 marks)**

(b) The conceptual framework for financial reporting issued by the International Accounting Standards Boards (IASB) identify 'faithful representation' as a fundamental qualitative characteristics and 'comparability' as an enhancing qualitative characteristic of useful information.

Required:

Explain the terms faithful representation and comparability. **(8 marks)**

(c) Identify three (3) measurement bases of elements of financial statements in accordance with conceptual framework for financial reporting. **(3 marks)**

(Total 15 marks)

SOLUTION 4

(a) Benefits to companies for Adopting International Financial Reporting Standards

i. Improved standards of reporting worldwide as the standard sets a minimum reporting standard in all countries.
ii. Ensures comparability between financial statement issued by different countries as they are based on the same reporting standard.
iii. Decreases cost for multi-national companies as they only have to follow one set of reporting standards.
iv. Provides easier access to capital market as banks and other lending institutions are clearer on the financial reporting framework used.
v. There is less scope of disguising liabilities and holding than in other entities (i.e., less off balance sheet).
vi. Provides an overall framework for companies to produce financial statements to comply with local reporting requirements (i.e., to show true and fair view).
vii. Users of accounts such as analysts, investors and regulators can place greater reliance on the financial statements knowing that recognised accounting standards have been applied.

(b) Faithfull representation

- Financial report represents economic phenomena (economic resources, claims against the reporting entity and the effect of transactions and other events and conditions that change those resources or claims) by depicting them in words or figure.
- To be useful, financial information must not only represent phenomena but it must also faithfully represent the phenomena that it purports to represent.
- A perfectly faithful representation would have the following three characteristics. It would be:

- **Complete:**The depiction includes all information necessary for a user to understand the phenomena being depicted including all necessary description and explanation;
- **Neutral:** The depiction is without bias in the selection or presentation of the financial information; and
- **Free from Error:** Where there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process.

Comparability

- Comparability is an enhancing quality characteristic that enables users to identify and understand similarities in and differences among items.
- Information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date.
- Consistency is related to comparability but it is not the same. Consistency refers to the use of the same method for the same items either from period to period within reporting entity or in a single period across entities. Consistency help to achieve the goal of comparability.

(c) Measurement bases of elements of financial statements

i. **Historical cost:** Assets are measured at amount of cash paid or at fair value consideration given to acquire them.
ii. **Current cost or current value:** is the basis used in current value accounting/current cost accounting.
iii. **Realisable (or settlement value):** This method of measurement is relevant when an entity is not a going concern.
iv. **Present value:** Assets might be measured at the value of the future net cash flow that the item is expected to generate.

EXAMINER'S REPORT:

Part (a) of the question tests candidates' knowledge on the explanation of the benefits of adopting International Financial Reporting Standards (IFRS) to companies. Part (b) requires explanations of faithful representation and comparability as part of the conceptual framework for financial reporting issued by IASB, while part (c) tests identification of different measurement bases of elements of financial statements in accordance with the conceptual framework for financial reporting.

About 98% of the candidates attempted the question and their performance was above average.

Commonest pitfall of the candidates was their inability to explain clearly the concepts of faithful representation and comparability.

Candidates are advised to ensure they understand all International Financial Reporting Standards (IFRS), conceptual framework for financial reporting and measurement bases of elements of financial statements for better performance in future examination.

QUESTION 5

(a) IFRS is published subject to the appropriate level of IASB approval. This also includes the opinions of any dissenting IASB members and basis of IASB conclusions.

Required:

(i) Describe SIX steps involved in the process of issuing International Financial Reporting Standards (IFRS). **(3 marks)**

(ii) Explain any TWO enhancing characteristics of financial information. **(2marks)**

(b). IFRS 9 - Financial Instruments, prescribes principles for reporting, recognising and de-recognising financial instruments in the financial statements of an entity.

Required:

Explain TWO classes of financial instruments in accordance with IFRS 9. **(5 marks)**

(c) IAS 38 prescribes the requirements for reporting intangible assets in the financial statements of an entity.

Required:

(i) Explain FIVE conditions under which development costs can be recognised as intangibles in financial statements. **(2 ½ marks)**

(ii) Highlight FIVE conditions, which should be considered to determine the useful life in the amortisation of intangible assets in the financial statements. **(2 ½ marks)**

(Total 15 marks)

SOLUTION 5

(a)

(i) Steps involved in the process of issuing International Financial Reporting Standards (IFRS) are:

- A subject is identified as being appropriate for a new or revised standard;
- Consider the ways in which the IASB Conceptual Framework is applicable to the issue;
- National accounting rules and practice are studied and there is an exchange of views with national standards setters;
- An advisory group is established to give advice to the IASB;
- A discussion document is issued by the IASB for public comment;
- After receiving comments on the discussion document, the IASB issues an exposure draft (subject to the appropriate level of IASB approval). The Exposure Draft also includes the opinions of any dissenting IASB members, and the basis for the IASB's conclusions;
- All comments on the Exposure Draft and discussion documents are considered; and
- An approved IFRS is published (subject to the appropriate level of IASB approval).

(ii) **Enhancing characteristics of financial information**

- **Comparability:** Comparability is the qualitative characteristics that enables users to identify and understand similarities in, and differences among items. Information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date. Consistency is related to comparability but it is not the same. Consistency refers to the use of the same methods for the same items, either from period to period within a reporting entity or in a single period across entities. Consistency helps to achieve the goal of comparability.

- **Verifiability:** This quality helps assure users that information faithfully represents the economic phenomena it purports to represent.
  - Verifiability means that different knowledgeable and independent observers could reach consensus that a particular depiction is a faithful representation.
  - Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.

- **Timelessness:** This means having information available to decision-makers in time to be capable of influencing their decisions.

- **Understandability:** Information is made understandable by classifying, characteristics and presenting it in a clear and concise manner. Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently.

(b) Classifications of Financial Instruments in accordance with IFRS 9

(i) A Financial asset is measured at amortised cost if:

- The financial asset is held within a business model in which the intention is to hold financial asset to collect contractual cash flows;
- Each group or portfolio is being classified as held to collect and or to sell or other; and
- Assets are classified as being held to collect, if it evaluates the appropriateness of the classification through testing against past activities.

(ii) **Fair value through other comprehensive income:** within a business financial model, a financial asset is measured at fair value through other comprehensive income if:

- The assets are held when the objective of the business model is achieved by collecting contractual cash flows and selling financial assets; and
- The terms of the contractual agreement of the financial assets give rise to cash flows on a specified date that is wholly for payments of principal and interest outstanding on the principal.

(iii) **Fair Value through profit or loss**

- It is the normal default classification for financial assets, which are applicable to all financial assets except they are to be measured at amortised cost or fair value through other comprehensive income; and
- This classification includes financial assets held for trading purposes and derivatives unless they are properly designated for hedging arrangements.

(c)

i. Under IAS 38, the conditions under which development costs can be recognised as intangible assets in the financial statements are:

- It is technically feasible to complete the development project;
- The company intends to complete the development of the asset and then use or sell it;
- The asset that is being developed is capable of being used or sold
- Future economic benefits can be generated. This might be proved by the existence of a market for the asset's output or the usefulness of the asset within the company itself;
- Resources are available to complete the development project; and
- The development expenditure can be measured reliably (for example, via costing records).

ii. The following are the factors to be considered in determining the useful life for the amortisation of intangible asset, in the financial statement:

- The expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team;

- Typical product life cycles for the assets and public information on estimates of useful lives of similar assets that are used in a similar way;
- Technical, technological, commercial or other types of obsolescence;
- The stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;
- Expected actions by competitors or potential competitors;
- The level of maintenance expenditure required to obtain the expected future economic benefits from the asset and the entity's ability and intention to reach such a level;
- The period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and
- Whether the useful life of the asset is dependent on the useful life of other assets of the entity.

EXAMINER'S REPORT:

Part (a) of the question tests candidates' knowledge of the six steps involved in the process of issuing International Financial Reporting Standards (IFRS) and explanation of enhancing characteristics of financial information. Part (b) tests classification of financial instruments in accordance with IFRS 9 while Part (c) tests candidates' knowledge on IAS 38 – intangible assets on the following:

- explanation on the conditions under which development costs can be recognised as intangible assets and;
- the conditions which should be considered to determine the useful life in the amortisation of intangible assets in the financial statements.

About 90% of the candidates attempted the question but their performance was below average.

Commonest pitfall of the candidates was their inability to understand the requirements under IAS 38 – intangible assets.

Candidates are advised to use the Institute's Study Pack extensively, practice more past questions and use the Pathfinders for better performance in future examination.

QUESTION 6

(a) ABE Nigeria Plc acquired 80% of ESE Limited's equity shares since its incorporation about 10 years ago. The two companies' draft financial statements as at December 31, 2023 are as follows:

Statement of Profit or Loss for the year ended December 31, 2023

	ABE Nigeria Plc	ESE Limited
	₦ 000	₦ 000
Revenue	225,000	45,000
Cost of sales	(130,500)	(27,000)
Gross profit	94,500	18,000
Other expenses	(76,500)	(14,400)
Profit before taxation	18,000	3,600
Income tax expense	(5,850)	(1,125)
Profit for the year	12,150	2,475

Statement of Financial Position as at December 31, 2023

	ABE Nigeria Plc	ESE Limited
	₦ 000	₦ 000
Assets:		
Non-current Assets:		
Property, plant & equipment	86,400	9,000
Investment in ESE Limited	3,600	-
	90,000	9,000
Current Assets:		
Inventories	22,500	5,400
Trade receivables	29,250	1,800
Cash and cash equivalents	17,550	1,575
	69,300	8,775
Total Assets	159,300	17.775

Equity and Liabilities:		
Equity:		
Ordinary share capital	90,000	4,500
Retained Earnings	22,500	10,800
	112,500	15,300
Current liabilities:		
Trade payables	40,950	1,350
Current tax liabilities	5,850	1,125
	46,800	2,475
Total Equity and Liabilities	159,300	17,775

Additional information:

(i) On December 31, 2023 ABE Nigeria Plc dispatched goods which cost ₦3,600,000 to ESE Limited at an invoice price of ₦4,500,000. ESE Limited received the goods on January 2, 2024 and recorded the transaction on that date.

(ii) It is the group's policy to value non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's identifiable net assets.

Required:

Prepare ABE Group consolidated statement of profit or loss for the year ended December 31,2023. **(10 marks)**

(b) Explain the term "cash and cash equivalent" under IAS 7-Statement of Cash flows. **(2 marks)**

(c) IFRS 5-Non-current Assets held for Sale and Discontinued Operations requires firms to disclose additional information about discontinued operations which should be shown in notes to the financial statements of the company.

Required:

Identify THREE of such disclosure requirements in accordance with IFRS 5. **(3 marks)**

(Total 15 marks)

SOLUTION 6

(a) ABE NIGERIA LIMITED

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

	₦'000
Revenue (225+45-4.5)	265,500
Cost of sales (130.5+27-4.5+0.9)	(153,900)
Gross profit	111,600
Other expenses (76.5+14.4)	(90,900)
Profit before tax	20,700
Income tax expense (5.85+1.1125)	(6,975)
Profit for the year	13,725
Profit attributable to:	
Owners of parent company	13,230
Non-controlling interest (20% x N2475)	495
	13,725

Workings:

(i) Valuation of Non-controlling interest:

	₦'000
NCI at acquisition (20% × 4.5)	900
Add share of post-acquisition profit (20% × 10,800)	2160
	3,060

(ii) Consolidated retained earnings:

	₦'000
Abe Nigeria PLC	22,500
Add: Share of post-acquisition profit (20% × 10,800)	8,640
Less: Unrealised profit on inventory (4.5-3.6)	(900)
Consolidated Retained Earnings	30,240

(iii) Consolidated Inventories: ₦'000

Abe Nigeria PLC	22,500
Ese Limited	5,400
Goods in transit	4,500
Unrealised profit	(900)
Consolidated Inventories	31,500

(b) Cash and cash equivalents

- Cash – comprises cash in hand and demand deposits.
- Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of statement of cashflows, cash and cash equivalent are treated as being the same thing.

- Cash and cash equivalents are held in order to meet short-term cash commitment, rather than for investment purposes or other purposes. Examples of Cash and Cash equivalents are:

- A bank deposit where some notice of withdrawal is required; and
- Short term investments with maturity of three months or less from the date of acquisition.

(c) Additional disclosure as requirements in accordance with FIRS 5:

(i) A description of the division of the company to be disposed.

(ii) A description of the facts and circumstances that led to discontinuance of operations/ and subsequent close down of the Blue Bill division of the company.

(iii) A description of the facts and circumstances leading to the expected disposal and the expected manner and timing of the disposal.

(iv) Where some adjustments are classified separately in the discontinued operation, the nature and amount of the adjustments must be disclosed.

EXAMINER'S REPORT:

Part (a) tests candidates' knowledge on the preparation of consolidated statement of profit or loss. Part (b) tests explanation on cash and cash equivalents under IAS 7 – Statement of Cashflows, while part (c) tests the disclosure requirements in accordance with IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations.

About 80% of the candidates attempted this question and their performance was fair in all sections except in the preparation of the consolidated statement of profit or loss.

Commonest pitfall was inability of the candidates to prepare the consolidated statement of profit or loss.

Candidates are advised to get familiar with all sections of the syllabus and understand all the accounting standards in this syllabus for better performance in future examinations.

QUESTION 7

Eleme Plc. is a diversified company that has achieved its present size through vertical and horizontal acquisition. The directors have identified two potential target entities for acquisition. The first is Katsina Limited which is into cement business near Katsina, Katsina State. The second is Sokoto Limited which is also into cement business near Sokoto, Sokoto State. Eleme Plc has obtained copies of their audited financial statements. Extracts of these financial statements together with notes providing additional information are given below:

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

	Katsina Limited	**Sokoto Limited**
	₦ m	**₦ m**
Revenue	136,000	132,000
Cost of sales	(84,000)	(91,900)
Gross profit	52,000	40,100
Other operating expenses	(36,000)	(28,000)
Profit from operations	16,000	12,100
Finance costs	(6,000)	(8,000)
Profit before tax	10,000	4,100
Income tax expense	(3,000)	(2,000)

Net profit for the period	7,000	2,100

Statement of changes in equity for the year ended December 31, 2023

	Katsina Limited	Sokoto Limited
	₦ m	₦ m
Balance January 1, 2023	44,000	32,000
Surplus on revaluation of property	-	12,000
Net profit for the period	7,000	2,100
Dividend paid	(4,000)	(2,000)
Balance December 31, 2023	47,000	44,100

Statement of financial position as at December 31, 2023

	Katsina Limited		Sokoto Limited	
	₦ m	₦ m	₦ m	₦ m
Non-current assets				
Property, plant and equipment		64,000		70,100
Current Assets				
Inventories	12,000		14,000	
Trade receivables	24,000		20,000	
		36,000		34,000
		100,000		**104,100**
Equity				
Issued capital (₦1 ordinary shares)		32,000		24,000
Revaluation reserves		-		10,000
Retained earnings		15,000		10,100
		47,000		44,100
Non-current liabilities				
Long term borrowings		32,000		36,000
Current liabilities				

Trade payables	10,000	10,000
Income tax	3,000	2,000
Short term borrowings	8,000	12,000
	21,000	24,000
	100,000	**104,100**

Notes:

(1) Sokoto Limited revalued its non-current assets for the first time following the adoption of IFRS on January 1, 2023. The non-current assets of Katsina Limited are very similar in age and type to the non-current assets of Sokoto Limited. However, Katsina Limited has a policy of maintaining all its non-current assets at depreciated historical cost. Both entities charge depreciation of non-current assets to cost of sales. Katsina Limited has transferred the excess depreciation on the revalued assets from the revaluation reserve to retained earnings as permitted by IAS 16 - Property, plant and equipment.

Eleme Plc uses ratio analysis to appraise potential acquisition target and bases its judgement using four key ratios:

- Return on capital employed;
- Gross profit margin;
- Turnover on capital employed; and
- Leverage.

For the purpose of the ratio analysis, Eleme Plc computes capital employed as capital and reserves plus borrowings, long-term plus short-term.

Your assistant has computed the four key ratios for the two entities from the financial statements provided and concluded that Katsina Limited is a better target for acquisition than Sokoto Limited. However, you are not sure, given the information on the revaluation of its non-current assets as stated above.

Required:

(a) Compute and explain the adjustments that would be appropriate in respect of Note 1 on revaluation of property, plant and equipment to make the financial statements of Katsina Limited and Sokoto Limited comparable for analysis. **(5 marks)**

(b) Calculate the four ratios used by Eleme Plc for both Katsina Limited and Sokoto Limited after making the adjustments you have recommended in your answer to part (a).**(8 marks)**
(c) In the light of your analysis in (a) and (b) above, advise Eleme Plc which of the two

companies is a better target for acquisition based on the adjusted ratios. **(2 marks)**
(Total 15 marks)

SOLUTION 7

a) For comparison to be thorough, the basis of accounting of the two companies Sokoto Limited and Katsina Limited should be the same, hence Katsina Limited using historical cost and Sokoto Limited using IFRS should be harmonised.

(i) Reduce non-current asset assets by ₦10 billion

(ii) Reduce the revaluation reserves to NIL

(iii) Reduce the cost of sales by ₦2 billion for the excess depreciation as a result of the revaluation.

(iv) Increase gross profit by ₦2 billion

Based on the foregoing, the new figures for Sokoto Limited are as follows:

Item	**Old Figures**	**Adjustments**	**New Figures**
	₦'m	**₦'m**	**₦'m**
Non-current assets	70,100	(10,000)	60,100
Revaluation reserve	10,000	(10,000)	-
Cost of Sales	91,900	(2,000)	89,900
Gross profit	40,100	2,000	42,100
Profit before operations	12,100	2,000	14,100
Equity	44,100	10,000	34,100

b)

Ratios	**Formula**	**Sokoto Limited New Figures**	**Katsina Limited**
i. ROCE	PBIT/Capital employed	(14,000/82,100)×100/1	(16,000/87,000)×100/1
		=17.17%	=18.39%
		= 17.2%	= 18.4%
ii. Grossprofitmargin	(Grossprofit/Sales)×100	(42,100/132,000)×100/1	(52,000/136,000)×100/1
		= 31.89%	= 38.24%
		= 32%	= 38%

iii. Turnover on capital employed	Turnover/Capital employed	132,000/82,000 = 1.608 times = 1.6 times	136,000/87,000 = 1.563 times =1.6 times
iv. Leverage	Total debt/Equity	(48,000/82,100)×100/1	(40,000/87,000)×100/1
	(Long + Short-term borrowings) / Equity	= 58.5% = 59%	= 45.98% = 46%
or	Long-term borrowings / Equity + long term borrowings	32,000/79,000 = 40.5%	36,000/80,000 = 45%

(c) Katsina Limited is better off in terms of leverage, ROCE and gross profit margin compared with Sokoto Limited, consequently, Katsina Limited would be a better company for acquisition purposes.

The adjustment of revaluation which was carried out to make the financial statements of the two companies comparable makes it a bit more difficult to decide which entity Eleme Plc should target. After this adjustment, the asset turnover ratio of both companies appears to be the same at 1.6times, meaning none is more efficient than the other in the use of the assets to generate income.

Katsina Limited has a higher gross profit and return on capital employed when compared to Sokoto Limited. The main reason may be that Sokoto limited has a higher other operating expense than Katsina Limited. This is because the turnover figures for both companies are nearly identical.

Where Katsina Limited has an advantage over Sokoto Limited is in the leverage ratio. Leverage of both entities has increased but more so in the case of Sokoto Limited. The question is whether the directors will attach more importance to leverage in their investment decision.

Consideration as to whether this influences the directors' decision depends on whether they intend to change the financial structure of the company.
Overall, it would appear that Katsina Limited would be a better investment on account of profitability.
However, it will not make much difference a decision as to choose between the two entities given the close nature of their financial figures.

However, this exercise shows the importance of adjusting financial statements to achieve uniform accounting policies when making investment decisions. It is notable that Sokoto Limited's revaluation is permissible but can impact on ratios if not adjusted.

EXAMINER'S REPORT:

Part (a) of the question tests candidates' knowledge of the computation and explanation of the adjustments on revaluation of a non-current assets. Part (b) tests computation of ratios after making adjustments, while Part (c) tests interpretation and advice to management on the adjusted ratios for acquisition purposes.

About 20% of the candidates attempted the question and their performance was poor.

Commonest pitfall was poor understanding of the adjustment that would be appropriate in respect of revaluation of property, plant and equipment.

Candidates are advised to get acquainted with all aspects of the syllabus especially in the area of financial analysis and the interpretation thereon for better performance in future examination.

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2024: PROFESSIONAL EXAMINATION

PTE I: GOVERNANCE, RISKS AND ETHICS

TUESDAY, OCTOBER 15, 2024 **EXAM NO..................**

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS.

TIME: 3 HOURS.

Question 1:

Bolade Adewale was fortunate to inherit some money and decided he wanted to invest for the long-term in one or more investments so he would have a higher income on retirement. He was not an accountant and had little knowledge of how investments worked.

Bolade reviewed an investment website which suggested that he needed to be aware of the level of the risk in an investment and the various types or categories of risk.

When Bolade studied the financial history of some companies and the share listings in newspapers, he noticed that they were sub-divided into sectors (e.g., banks, pharmaceuticals, mining, and retails). One website suggested that the risk varies from sector to sector and are explained by the different types and categories of risks.

One website said that if a potential investor wanted to know about any given company as a potential investment, the company's most recent annual report was a good place to start. This was because, it said, the annual report contained a lot of voluntary information, in addition to the financial statements. Part of the information provided are two years comparison of figures and sometimes a 5-year financial summary are provided. All these will be helpful in helping him to decide whether or not to buy shares in company.

Required:

a. What do you understand by risk? (5 marks)
b. Explain what you understand by risk management process. (5 marks)
c. Identify the different types and categories of risk, and give example of risk in the different categories otherwise called "Risk Management Guidelines" (10 marks)

d. Distinguish, with examples, between mandatory and voluntary disclosure in annual reports, and assess the usefulness of corporate governance disclosure to Bolade in selecting his investments. (10 marks)
e. Explain "Risk Appetite and Risk Awareness" and discuss how Bolade's risk appetite might affect his choice of investment. (5 marks)
f. Differentiate between "Business Risk and Financial Risk". (5 marks)

(40 marks)

Solution 1:

a. Risk is the uncertainty or possibility of an event occurring that will have an impact on the achievement of objectives.
   Risk is measured in terms of impact and likelihood, effect of uncertainty on objectives. An effect may be positive, negative, or a deviation from the expected.
b. Risk management process can be referred to as the methodical process for identifying, assessing, managing, and controlling potential events or situation to provide reasonable assurance regarding the achievement of the organisation's objectives.
   It involves an iterative process consisting of well-defined steps which when taken in sequence, support better decision making by contributing a greater insight into risk and their impact.
c. (i) The different types and categories of risks are as listed as follows:
   - Strategic risks;
   - Compliance/Commercial/Legal risks;
   - Operational risks;
   - Technical risks; and
   - Financial & system risks

   (ii) Examples of risks in different categories

(Risks Management Guidelines)

S/N	Strategic	Knowledge & system	Financial	Operational
1	Loss of customers to competitors	Inadequate system, security/confidential information not adequately protected	Incorrect valuation of capital assets	Absenteeism

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

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

- ❖ Auditors Report;
- ❖ Statement of financial position;
- ❖ Statement of profit or loss and other comprehensive income; and
- ❖ Inventories to be valued at the lower of cost or Net Realizable Value (NRV). The First-in-First-out (FIFO) Inventory Valuation method to be adopted.

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

- ❖ 5 year financial summary;
- ❖ Use of pie charts and bar charts;
- ❖ Use of pictures of board members and management team members; and
- ❖ The branding of the annual report in the company's corporate colour.

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

- ❖ It is a form of public relations and covert marketing exercise for the company;

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

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

f. Business risks are strategic risks that threaten the health and survival of a business. Examples of business risks are:
   - Scarcity of raw material for production; and
   - Loss of customers to competitors etc.

   Financial risks are risks directly related to the finances or financing the daily operation of a company. Examples of financial risks are:
   - Working capital management issues; and
   - Cash flow and liquidity problems etc.

EXAMINER'S REPORT:

This is a compulsory question that tests the candidates' knowledge and understanding on risk. It specifically requires candidates to explain the term risk, risk management process, different types and categories of risks. Also, candidates are required to distinguish between Mandatory and Voluntary disclosure in annual reports.

All the candidates attempted the question, and about 40% of them scored 40% and above of marks obtainable.

The common pitfall was the inability of most candidates to understand the requirements of the question.

Candidates are enjoined to endeavour to fully comprehend the instructions of each question before attempting them. They are also advised to make use of the Institute's Study Pack and other reference materials in their preparation for future examination.

Question 2:

At a recent conference on corporate social responsibility, one of the facilitators, Dr. Abdul-Azeez Babalola argued that professional codes of ethics for tax practitioners were not as useful as some have claimed because: "they assume tax practitioner to be rules-driven, when in fact most professionals are more driven by principles that guide and influence all aspects of professional behaviour, including professional ethics.

When quizzed from the audience about his views on the usefulness of professional codes of ethics, Dr. Abdul-Azeez suggested that the costs of writing, implementing, disseminating and monitoring ethical codes outweighed their usefulness. He said as long as professional tax practitioners personally observe the highest values of probity and integrity then there is no need for detailed codes of ethics.

Required:

a. Evaluate Dr. Abdul-Azeez Babalola's views on codes of professional ethics. Use examples of ethical codes, where appropriate. (5 marks)
b. With reference to Dr. Abdul-Azeez Babalola's comments, explain what is meant by "integrity" and assess its importance as an underlying principle in corporate governance. (5 marks)
c. Explain and contrast a deontological with a consequential list-based approach to business ethics. (5 marks)

(15 marks)

Solution 2:

a.

Dr. Abdul-Azeez Babalola is trying to affirm professional ethics as natural and imperative for all professionals. A professional needs to uphold this irrespective of the further breakdown and specificities by various professional bodies. Professional ethics as a dimension to ethics describes the moral principles and the values that governs behaviour in the context of a particular profession e.g., lawyers, doctors, architects, accountants and tax practitioners.

Examples of ethical codes are:

i. Taxation Profession – Chartered Institute of Taxation of Nigeria (CITN) code of ethics for tax practitioners.
ii. Medical Profession

iii. Legal Profession
iv. Accounting Profession.

b.

Integrity can be defined as the straightforwardness in dealing and rendering professional services to clients. It involves the demonstration of high moral character, principles, professionalism, honesty and trustworthiness. The importance and assessment of integrity in companies led to the separation of the board of directors to be headed by the chairman and the management team to be headed by the managing director.

c.

A Deontological approach to ethics is primarily concerned with the process of (duty motive) decision making on an act while a teleological approach to ethics is primarily concerned with the consequences of the decision taken on an action given the costs and benefits of the decision taken.

Contrast

A deontological approach to ethics emphasises duty or motive in the determination of an action whereas the teleological approach lays emphasises on the consequences of actions.

EXAMINER'S REPORT

The question tests the candidates' knowledge and understanding of Professional Codes of Ethics. It requires the candidates to evaluate their view on codes of professional ethics and also to explain the term "integrity", as well as, to contrast a deontological with a consequential list-based approach to business ethics.

About 60% of the candidates attempted the question, and about 10% of them scored 40% and above of marks obtainable.

The common pitfalls were the inability of many candidates to evaluate codes of professional ethics. They also find it difficult to explain and contrast a deontological with a consequential list-based approach to business ethics.

Candidates are enjoined to cover all areas of the syllabus and make use of the Institute's Study Pack and other reference materials in preparation for future examination.

Question 3:

a. What is meant by Globalisation?
b. Relate to the under listed. (3 marks)
i. Products. (4 marks)

ii. Organisation structure. (4 marks)
iii. Markets. (4 marks)
(15 marks)

Solution 3:

a. Globalisation is the process of interactional and integration among people, companies and governments worldwide leading to increased international influence and accelerated by advancements in transportation and communication technology.
b. 3 major areas this concept has direct impact on businesses are:
   - Products;
   - Organisation structure; and
   - Markets.

i. Globalisation on products can be perceived from the ever-increasing creation of new firm and dynamic products which its raw materials can be found in diverse countries and cultures beyond the traditional locations they are known for. Globalisation has also led to the integration and convergence of some products. e.g., Android phones that have television, radio, calculator, clocking etc., features that hitherto used to be produced as a single product.
ii. Globalisation has also definitely affected the organisation structure of firms and companies as they have to be proactive and reactive to the continuous advancement in the technology and the disruptions taking place globally as it affects the mobilisation of resources and its utilisation.
iii. Globalisation as it affects markets is about the greatest visibility and efficacy of the continuous information and communication technology (ICT) the world is undergoing. Globalisation has actually increased the forms, types, dimensions and dynamics of markets within a country, region, continents and the world. e.g., online market of products within and beyond Nigeria.

EXAMINER'S REPORT:

The question tests the candidates' knowledge and understanding of the term Globalisation. It requires the candidates to explain what it meant by Globalisation, as well as to explain major areas the concept has direct impact on businesses.

About 80% of the candidates attempted the question, and about 60% of them scored 40% and above of marks obtainable.

The commonest pitfall was the inability of some candidates to relate the impact of Globalisation on products, organisation structure and markets.

Candidates are advised to endeavour to cover every areas of the syllabus. They are also enjoined to make use of the Institute's Study Pack and Pathfinders of previous diets' examination.

Question 4:

Tucker's Five Question Model can be employed in training new tax professionals in ethics.

Required:
State and explain the issues covered by the Tucker's Five Question Model. (15 marks)

Solution 4:

Tucker's five question model involves asking five questions before making a business decision. If the answer to all the five questions is YES, the decision is ethically sound.

The five questions are:

(1) Is it profitable?
It is based on the view that the profit motive is justified, and the purpose of decision-making in business should be to make profit.
(2) Is it legal?
In order to be ethically correct, business decisions and actions should be legal. Activities outside the law by a business cannot be correct.
(3) Is it fair?
Business should be conducted in a fair way, without deception or other 'under-hand' acts.
(4) Is it right?
Profits should be made in an ethical way.
(5) Is it sustainable or environmentally sound?
Decisions should not be taken in business if they do not support sustainable business or could be damaging to the environment.

EXAMINER'S REPORT:

The question tests the candidates' knowledge and understanding of the Tucker's Five Question Model. It requires candidates to state and explain the issues covered by the Tucker's Five Question Model.

About 40% of the candidates attempted the question, and about 42% of them scored 40% and above of marks obtainable.

The commonest pitfall was the inability of some candidates to correctly state and explain the issues covered by the Tucker's Five Question Model.

Candidates are enjoined to make use of the Institute's Study Pack as well as to practice with the Pathfinders of the previous diets' examination.

Question 5:

Johnson and Scholes suggested that there is a cultural web within an organisation.

Required:

a. Discuss the idea of cultural web and its interrelated elements in a way that would assist a new Trainee-Tax Consultant in a Tax Advisory firm to understand this concept in a business organisation. (10 marks)
b. As a Tax Practitioner, explain any TWO ethical principles or requirements you would consider in deciding whether or not to keep a promise to maintain confidentiality with regards to information acquired from a client in the ordinary course of business. (5 marks)

(15 marks)

Solution 5:

a. Johnson and Scholes identified 6 distinct but interrelated elements which contribute to what they called the "Paradign" equivalent to the pattern of the work environment, or the values of the organisation.
   They are:
   - Stories and Myths;
   - Rituals and Routines;
   - Symbols;
   - Control System;
   - Organisation structure; and
   - Power structure.

   I. **<u>Stories and Myths:</u>**
      These are the previous events-both accurate and not, which are discussed by individuals within and outside the company. Which events and people are remembered by the company indicates what the company values and how it chooses to immortalise through stories.

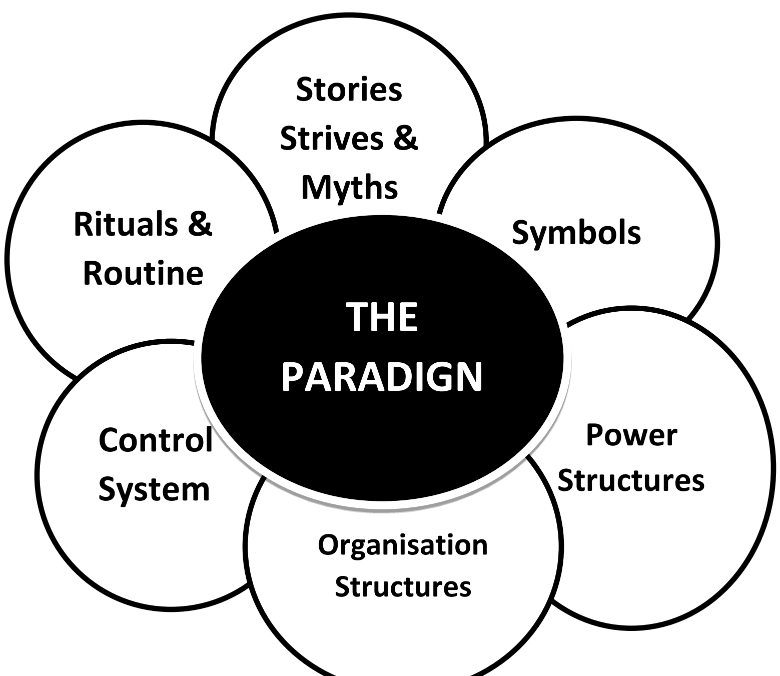
II. **Rituals and Routines:**
This refers to the daily actions and behaviour of individuals within the organisation. Routines indicate what is expected of employees on a day-to-day basis, and what has been either directly or indirectly approved by those in managerial positions.

III. **Symbols:**
This is the visual representation of the company, how they appear to both employees and individuals on the outside. It includes logos, office spaces, dress code and sometimes advertisements.

IV. **Control system:**
These are the system and pathways by which the organisation is controlled. This can refer to many things, including financial management, individual performance-based rewards (both measurement and distribution) and quality-control structures.

V. **Organisation structure:**
This refers to both the hierarchy and structure designated by the organisation. Alongside this, Johnson and Scholes also used it to refer to the unwritten power and influence some members may exert, which also indicate whose contributions to the organisation are most valued by those above them.

VI. **Power structures:**
This is the genuine power structures and responsible individuals within the organisation. It may refer to a few executives, the CEO, board members or an entire managerial division. These individuals are those who hold the greatest influence over decisions and generally have the final say on major actions or changes.



b. From among a lot of ethical theories, two major ethical principles that can be considered in deciding whether or not to keep a promise to, maintain confidentiality of client's information as a Tax practitioner are:
   - ❖ Deontological Approach
   - ❖ Teleological Approach (Consequentialism)

1. <u>Deontological Approach:</u>

This approach determines the ethics of an act by looking to the process of the decisions (the means). It holds that what makes an action right is not the sum of its consequences but the fact that it conforms to the moral law.

In relating this approach to the confidentiality of a client's information as a tax practitioner, the information are not kept confidential because of the possible damage the client may suffer as a result of that because it is against moral and professional law to disclose client's information except compelled by a court of law.

2. <u>Teleological Approach:</u>

These approaches to ethical decisions are explained as follows:

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

The application of the above to a tax practitioner is that the client's information is not confidential in itself but the importance of the information and the possible consequence to the client if the information is lost or manipulated.

EXAMINER'S REPORT:

The question tests the candidates' knowledge and understanding of Johnson and Scholes' idea of Cultural Web within an organisation. It requires candidates to discuss the idea of Cultural Web as well as to explain ethical principles in the ordinary course of business.

About 30% of the candidates attempted the question, and about 18% of them scored 40% and above of marks obtainable.

The commonest pitfall was the inability of some candidates to discuss the idea of Cultural Web in a business organisation.

Candidates are advised to cover every areas of the syllabus by making use of the Institute's Study Pack as well as other relevant reference materials when preparing for future examination.

Question 6:

What is Corporate Governance? Mention matters that must be communicated by people in governance of companies and mention the two features of stakeholder's influence as presented by Mendelow. (15 marks)

Solution 6:

Corporate governance is leading an entity, monitoring and controlling management decisions, in order to achieve its intended purpose and objectives.

Corporate governance is for all entities, including:

- Large quoted entities;
- Other commercial entities;
- Not-for-profit organisation;
- Public sector; and
- Non-governmental organisations.

Corporate governance issue matters to be communicated are the following:

- The role and responsibilities of the board of directors;
- The composition and balance of the board of directors;
- Financial reporting, narrative reporting and auditing;
- Directors' remuneration;
- Risk management and internal control;
- Shareholders' rights;
- Corporate social responsibility; and
- Business ethics.

A feature of corporate governance in any entity is the balance of power between the stakeholder groups and the relative power and influence of each group.

The **Mendelow framework identifies** two factors that make up the strength of a stakeholder's influence over a company's strategy, actions or decisions:

- The power the stakeholder is capable of exercising, and
- The interest that the stakeholder has in the particular issue, and how much the stakeholder cares about it.

Influence = Power + Interest

EXAMINER'S REPORT:
The question tests the candidates' knowledge and understanding of Corporate Governance. It requires the candidates to define the term Corporate Governance and state the features of stakeholder's influence as presented by Mendelow.

About 70% of the candidates attempted the question and about 10% of them scored 40% and above of marks obtainable.

The commonest pitfall was the inability of some candidates to correctly interpret the requirement of the question.

Candidates are advised to cover every areas of the syllabus by making use of the Institute's Study Pack as well as Pathfinders of the previous diets' examination.

Question 7:

Florence and Olabisi are part 4 students of the University of Nigeria in the department of Business Management. Both were involved in deep argument as to what is Corporate Social Responsibility (CSR), its perspectives and relevance to contemporary economics. Mojisola their roommate, also a part 4 student but in the department of Accounting met them shouting on top of their voices and before she could settle down Olabisi said: Mojisola can you tell us what CSR means and the steps to formulating CSR policy for an entity according to how you were taught in accounting department. Florence also requested further what the importance of CSR reporting means and its effect on company strategy.

Required:
Assume you are Mojisola, respond to Olabisi and Florence's questions. (15 marks)

Solution 7:

Corporate Social Responsibility (**CSR**)

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

Principle of CSR

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

The effect of CSR on company strategy

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

Steps to formulating a CSR policy for an entity

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

CSR reporting

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

EXAMINER'S REPORT:

The question tests the candidates' knowledge and understanding of the term Corporate Social Responsibility (CRS). It requires the candidates to explain the meaning of CSR and the steps to formulating CSR policy for an entity.

About 80% of the candidates attempted the question, and about 45% of them scored 40% and above of marks obtainable.

The common pitfalls were the inability of some candidates to state the principle of CSR as well as the steps required to formulating a CSR policy for an entity.

Candidates are enjoined to cover every areas of the Syllabus and to make adequate use of the Institute's Study Pack as well as the Pathfinders of previous diets' examinations.

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2024: PROFESSIONAL EXAMINATION

PTE I: INCOME TAXATION

TUESDAY OCTOBER 15, 2024 **EXAM NO……………….**

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS.

TIME: 3 HOURS.

SECTION A: COMPULSORY QUESTION
QUESTION 1

(a) Consistent with the provisions of the Companies Income Tax Act Cap C21 LFN 2004 (as amended), distinguish between a resident and a non-resident company. (4 Marks)

(b) Explain the following concepts and how they apply to non-resident companies:
 (i) Fixed base (5 Marks)
 (ii) Turnkey projects (3 Marks)

(c) State the tax implications on a profit of a Nigerian subsidiary fully owned by a foreign parent company. (4 Marks)

(d) Agbat Nigeria Limited, Lagos, is a Nigerian subsidiary of a foreign company ABC Incorporated, Liverpool, United Kingdom (UK). The Nigerian company is a manufacturer of baby toys and accessories and is one of the foreign company's two subsidiaries located outside the United Kingdom. The other subsidiary is in Accra, Ghana.
The presentation currency of the group financial statement is in United Kingdom's Pound Sterling (£), but the parent company has consistently translates the group consolidated financial statements in the functional (local) currencies of the foreign subsidiaries.
The extracts from the group consolidated financial statements for the year ended December 31, 2022 reveal the following:

Statement of Profit or Loss for the year ended December 31, 2022

	UK ₦'000	Nigeria ₦'000	Ghana ₦'000	Total ₦'000
Gross turnover	650,300	305,300	288,700	1,244,300
Other income	25,500	10,000	4,100	39,600
Total income	675,800	315,300	292,800	1,283,900
Less: Direct production cost	305,440	150,710	135,320	591,470
Gross profit	**370,360**	**164,590**	**157,480**	**692,430**

Deduct expenses:				
Share of head office expenses	45,000	15,000	13,000	
Repairs and maintenance	12,800	6,600	3,530	
Allowance for bad debts	35,000	14,000	11,000	
Legal and professional fees	6,000	2,200	1,300	
Depreciation	15,300	8,700	4,800	
Other indirect personnel cost	45,600	32,900	30,400	
Bank charges	3,700	1,500	1,100	
Foreign taxes suffered	26,600	-	-	
Motor vehicle running expenses	12,900	2,800	2,900	
Foreign exchange loss provision	-	1,500	1,000	
Loss on revaluation of tangible assets	-	1,250	-	
General expenses	17,860	4,500	5,470	
Power and electricity	6,670	1,450	1,300	
Transport and traveling	5,980	2,100	2,500	
Interest on bank loans paid	-	1,640	4,200	
Total expense	233,410	96,140	82,500	412,050
Net profit	**136,950**	**68,450**	**74,980**	**280,380**

Additional information in respect of Nigerian subsidiary company

(i) Included in other income was income of ₦2,500,000 realised from sales made to the Ghanaian company (a member of the group). The transaction complied with the principle of arm's length.

(ii) **Allowance for bad debts**

	₦
Specific provision	6,200,000
General provision	9,300,000
Bad debts recovered	(1,500,000)
	14,000,000

(iii) **Legal and professional fees**

	₦
Court fine	200,000
Cost of tax appeal	300,000
Accountancy fee	1,700,000
	2,200,000

(iv) **General expenses**

	₦
End-of-the year gifts to customers	1,500,000
Subscription to the General Manager's social club	120,000
Sundries (all allowable)	2,880,000
	4,500,000

(v) Tax written down values of qualifying capital expenditure as at the end of 2022 assessment year are as follows:

Name of asset	Date of purchase	Amount
		₦
Industrial building	November 15, 2016	3,800,000
Non-industrial building	December 22, 2018	2,400,000
Furniture and fittings (10)	March 16, 2019	1,200,000
Motor vehicles (2)	December 15, 2020	2,500,000
Plant and machinery	July 1, 2021	1,800,000

(vi) During the year 2022, the company acquired the following assets:

Name of asset	Amount
	₦
Motor vehicle (1)	3,500,000
Furniture and fittings	900,000
Industrial building	5,400,000

(vii) Unutilised capital allowances brought forward was ₦1,950,000

Required:
Compute the tax liabilities (if any) of the relevant company that is liable to Nigerian tax for the relevant assessment year. (24 marks)

(Total 40 marks)

SUGGESTED SOLUTION TO QUESTION 1

(a) **Resident company**: A company is said to be resident if it is incorporated in Nigeria.

The global income is chargeable to tax.

Non-resident company: This is a company that is not incorporated in Nigeria but derives income from Nigeria.

Its income in Nigeria is subjected to tax in Nigeria.

(b)(i) **Fixed base of business**

* The fixed base of a non-resident company is the place from where it carries on its business or trade in Nigeria.
* The fixed base must be easily identifiable and must possess some degree of performance.

* A fixed base will include;

- facilities such as a factory, an office, a branch, a mine or an oil well;
- activities such as building construction, assembly or installation; and
- furnishing of services in connection with the activities above.

For an individual carrying on a trade or business in Nigeria through a fixed base its taxable profit shall be the profit attributable to that fixed base, specifically:

* if the business is through a dependent agent, the profit attributable to that agent;
* if the business involves turnkey projects, the profit from that contract; and
* as the business is through related parties, the profit determined on arm's length principle by the relevant tax authority.

(ii) Turnkey projects

This is a trade or business or activity which involves a single contract for the surveys, deliveries, installations or construction.

For the purpose of determination of tax payable in Nigeria, the profit from such a project is considered as derived from Nigeria.

Thus, it is fully chargeable to tax in Nigeria because no allowance would be given for the profit to be divided into Nigerian and offshore.

(c) The tax implications on a profit of a Nigerian subsidiary fully owned by a foreign parent company

(i) The subsidiary of the foreign parent company must be registered or incorporated in Nigeria.

(ii) The residence status of the subsidiary company cannot be affected irrespective of the foreign parent's share of ownership (whether fully owned or partly owned).

(iii) Dividends distributed by the Nigerian subsidiary company is regarded as franked investment income and shall be exempted from tax in the hands of the parent company. It will, however, be subjected to tax at 7.5% in Nigeria.

(d) **Agbat Nigeria Limited**

Computation of adjusted profit

For the year ended 31st December, 2022

	₦'000	₦'000
Net profit as per accounts		68,450
Add back: Disallowable items:		
Depreciation	8,700	
Foreign exchange loss provision	1,500	
Loss on revaluation of tangible asset	1,250	
General provision for debt	9,300	
Legal and professional fees:		
Court fine	200	
Cost of tax appeal	300	
General expenses (Social club subscription)	120	21,370
Adjusted profit		**89,820**

Agbat Nigeria Limited

Computation of Tax liabilities

For 2023 assessment year

	₦'000	₦'000
Adjusted/ Assessable profit		89,820.00
Deduct: Capital allowances:		
Unutlised b/f	1,950.00	
For the year (W1)	7,616.50	
Available for utilisation	9,566.50	
Utilised	(9,566.50)	(9,566.50)
Unutilised c/f	NIL	
Total profit		80,253.50
Companies income tax at 30%		**24,076.05**

Tertiary education tax at 2.5% of ₦89,820 **2,245.50**

Workings

(1): Capital allowances schedule

	Industry Building	Non-ind Building	Furniture &Fittings	Motor Vehicle	Plant & Machinery	Capital Allow
	IA 15% AA 10%	IA 15% AA 10%	IA 25% AA 20%	IA 50% AA 25%	IA 50% AA 25%	
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
2023 A/Y						
TWDV	**3,800**	**2,400**	**1,200**	**2,500**	**1,800**	
Addition	**5,400**	**-**	**900**	**3,500**	**-**	
IA	**(810)**	**-**	**(225)**	**(1,750)**	**-**	**2,785**
AA	**(1,409)**	**(400)**	**(735)**	**(1,687.5)**	**(600)**	**4,831.5**
						7,616.5

2023 Annual Allowances computations

Industrial building

Old: $\frac{3,800}{10 - 6}$ =₦950

New: $\frac{5,400 - 810}{10}$ =459

1,409

Non-industrial building

AA = $\frac{2,400}{10 - 4}$ = **₦400**

Furniture & fittings

Old: $\frac{1,200}{5 - 3}$ = ₦600

New:	$\frac{900 - 225}{5}$	= <u>135</u>
		<u>735</u>

Motor vehicle

Old:	$\frac{2,500}{4 - 2}$	= ₦1,250
New:	$\frac{3,500 - 1,750}{4}$	= <u>437.5</u>
		<u>1,687.5</u>

Plant & machinery

AA =	$\frac{1,800}{4 - 1}$	= **<u>₦600</u>**

EXAMINER'S REPORT:

Part (a) of the question tests candidates' knowledge of the provisions of the Companies Income Tax Act Cap C21 LFN 2004 (as amended) to distinguish between a non-resident company and a resident company. Part (b) tests explanation on how fiscal base aid Turnkey Projects Concepts apply to non-resident companies. Part (c) tests the tax implications on a profit of a Nigerian subsidiary fully owned by a foreign parent company, while Part (d) test computation of the tax liabilities of a company that is liable to Nigerian tax for relevant assessment year.

Majority of the candidates attempted the question being a compulsory one but their performance was below average.

Common pitfalls of the candidates were their lack of understanding of tax implications on a profit of a Nigerian subsidiary fully owned by a foreign parent company and inability to understand how to prepare the computation of adjusted profit.

Candidates are advised to have indepth study of all aspects of the syllabus, practice and keep abreast of the current issues in taxation though the finance Act for better performance in future examination.

QUESTION 2

In its quest to promote harmonisation of accounting and financial reporting with global standard, the Nigerian Federal Executive Council accepted the recommendations of the Committee on the Roadmap to the Adoption of International Financial Reporting Standards (IFRS) in Nigeria.

Furthermore, Sections 8, 52 and 53 of the Financial Reporting Council of Nigeria Act, 2011 gave effect to the adoption of International Financial Reporting Standards. This implies that audited accounts to be submitted to the Federal Inland Revenue Service must be IFRS compliant.

Required:

Discuss the tax effects of (a) IAS 21- *The Effects of Changes in Foreign Exchange Rates,* (6 marks)

(b) IAS 36- *Impairment of Assets* in the audited accounts to be forwarded by a corporate organisation to the Federal Inland Revenue Service. (9 marks)

(Total 15 marks)

SUGGESTED SOLUTION TO QUESTION 2

Requirements of IAS 21 - *The Effects of Changes in Foreign Exchange Rates*

(i) The presentation currency for the purposes of tax returns shall be the Nigerian currency (Naira) except as otherwise provided in the tax laws.

(ii) The currency for tax assessment shall be in line with the provisions of the relevant tax laws.

(iii) Exchange difference on statement of monetary items is a realised exchange difference, the loss shall be allowed while the gain is taxable under CITA.

(iv) Any form of unrealised gains or loss arising from foreign currency translation shall be disallowed for tax purposes.

(v) Reconciliation of exchange differences posted to income statement shall be provided by the taxpayer.

(vi) Exchange difference in respect of foreign operations accumulated in the Other Comprehensive Income but transferred to Statement of Profit or Loss on the disposal of the foreign operation shall be disallowed as expense for tax purpose.

Requirements of IAS 36 - *Impairment of Assets*

(i) All impairment losses charged to the company's Income Statement shall not be allowed for tax purposes.

(ii) No adjustment shall be allowed to the net asset in the financial statement for the purpose of computing minimum tax.

(iii) In case of revalued assets, the excess of the impairment loss over revaluation surplus transferred to Income Statement would not be allowed for tax purposes.

(iv) Capital allowances are not allowed on the re-valued amount but on the historical cost of the asset in line with the provisions of the tax laws.

(v) Taxpayers shall be required to make the following disclosures in their tax returns:

* Schedule and detailed computation of impairment losses recognised in profit or loss statement; and
* Schedule and detailed computation of impairment losses on re-valued assets recognised in other comprehensive income and income statement as the case may be.

(vi) Reversal of impairment loss is not taxable and should be adjusted for the purposes of determining the company's assessable profit.

(vii) Where there is reversal of impairment, no adjustment would be required to the net assets on the financial statements for the purpose of computing minimum tax.

(viii) The following shall accompany tax returns:

- Schedule and detailed computation of impairment losses reversed in the profit or loss statement; and
- Schedule and detailed computation of impairment losses on re-valued assets reversed in other comprehensive income statement.

EXAMINER'S REPORT:

Part (a) of the question tests candidates' knowledge of the tax effects of IAS 21 – The effects of changes in Foreign Exchange Rates, while Part (b) is on the tax effects of IAS 36 – Impairment of Assets in the audited accounts to be forwarded by a corporate organisation to the Federal Inland Revenue Service (FIRS).

About 60% of the candidates attempted the question and their performance was above average.

The commonest pitfall of the candidates was their inability to state the effect of changes in foreign exchange rates.

Candidates are advised to study more on the contemporary issues in taxation especially as it affects the accounting standards for better performance in future examination.

QUESTION 3

Mr. Ojo Raheem is the General Manager of a fast-growing construction company. He derived the following remuneration and benefits from his employment with the company:

	2021	2022
	₦	₦
Basic salary	3,600,000	4,200,000
Transport allowance	120,000	144,000
Utility allowance	70,000	75,000
Meal subsidy allowance	150,000	160,000
Entertainment allowance	80,000	100,000
Christmas bonus	180,000	210,000
Leave bonus	360,000	420,000

Other relevant information:

(i) Mr. Raheem took up accommodation in the company's guest house on July 1, 2022. The annual rating value of the building was ₦950,000 per annum. The company spent ₦1,500,000 to furnish the guest house to the taste of the occupant. Prior to this date, he was in receipt of housing allowance of ₦720,000.

(ii) The company provided him with an official vehicle effectively January 1, 2020. The cost of the vehicle when acquired by the company in 2020 was ₦3,500,000.

(iii) Raheem derived income from other sources as follows:

	2021	2022
	₦	₦
Dividends (net)	405,000	540,000
Rent	700,000	750,000
Interest from fixed deposits	230,000	280,000
Profit from farming business	920,000	990,000

(iv) He spent ₦50,000 and ₦55,000 to maintain his building that generated the rental income in 2021 and 2022, respectively.

(v) He is married with four wives and ten children (all under 16 years).

(vi) He took up a life assurance policy for capital sum of ₦6,000,000 and pays annual premium of ₦400,000.

(vii) He contributes 2½% of his basic salary to the National Housing Fund.

(viii) He has an aged mother on whom he spent ₦20,000 per month to take care of her. Her mother had no income of her own during the last five years.

(ix) Capital allowances on his building were ₦10,000 and ₦12,000 for 2021 and 2022, respectively.

Required:

Compute the income tax payable by Mr. Raheem for 2022 assessment year. **(15 Marks)**

SUGGESTED SOLUTION TO QUESTION 3

Mr. Ojo Raheem

Personal income tax for 2022 assessment year

	₦	₦
Earned income:		
Basic salary	4,200,000	
Transport allowance	144,000	
Utilities allowance	75,000	
Meal subsidy	160,000	
Entertainment allowance	100,000	
Christmas bonus	210,000	
Leave bonus	420,000	
Accommodation (1/2 of ₦950,000)	475,000	
Housing allowance (1/2 of ₦720,000)	360,000	
Benefits-in-kind:		
Vehicle (5% of ₦3,500,000)	175,000	
Furnishing of apartment (5% of ₦1,5000,000)	75,000	**6,394,000**
Unearned income:		
Dividends (gross) 405,000/0.9	450,000	
Rental income (700,000 – 50,000 – 10,000)	640,000	
Interest	210,000	
Profit from farming business	920,000	2,220,000
Total income		**8,614,000**
Less: Franked investment income		(450,000)
		8,164,000
Less: Tax exempt items:		
NHF contribution (2½% of ₦4,200,000)	105,000	
Life assurance premium	400,000	(505,000)
Gross income		**7,659,000**

Consolidated relief allowance	
(₦200,000 or 1% of gross income + 20% of ₦7,659,000)	1,731,800
Chargeable income	**5,927,200**

Computation of tax payable by Mr. Raheem for 2022 assessment year

	₦
First ₦300,000 at 7% =	21,000
Next ₦300,000 at 11% =	33,000
Next ₦500,000 at 15% =	75,000
Next ₦500,000 at 19% =	95,000
Next ₦1,600,000 at 21% =	336,000
Next ₦2,727,200 at 24% =	654,528
Tax payable	**1,214,528**

EXAMINER'S REPORT:

This question tests candidates' knowledge of computation of personal income tax payable for a relevant year of assessment.

About 50% of the candidates attempted the question and their performance was average.

The commonest pitfall was their inability to compute accurately the income tax payable for the relevant assessment year.

Candidates are advised to study very well to know the current tax rates and its application on the chargeable income of individuals for better performance in future examination.

QUESTION 4

Mallam Ibrahim is gainfully employed earning Gross salary of ₦24,485,220. Apart from being an employee of MOKLANDS Cement Limited, he is a workaholic and was also involved in "active activities" and "passive activities" leading to Active income and Passive income as detailed in other income below;

	₦
Consultancy	1,187,500
Rent	1,080,000
Hiring out equipment to users	11,902,500

Management fees-Skill Acquisition Centre	4,066,000
Dividend	579,708

Additional information:

Other incomes were received "net of Withholding Tax".

Required;

a. Briefly distinguish "active income" from "passive income" with an example in each case. (3 marks)

b. Compute gross:(i) total active income and (ii) total passive income. (3 marks)

c. What do you understand by - receiving payment "net of Withholding Tax" **and** the tax implications. (3 marks)

d. Determine the total WHT deducted and total gross income received in the year. (6 Marks)

(Total 15 Marks)

SUGGESTED SOLUTION TO QUESTION 4

4. (a) **Active income** is money received from a job, enterprise or business that requires activity or physical participation or physically worked for e.g., wages, salary, as income received where someone participate materially in managing a business.

Passive income is money received from a business where one has not put in any physical efforts. e.g., investing in securities, rent received from garage or house rented out. Where someone put money in a business and he does not participate in the operation of the business yet, receives return/income from the business

(b) Computation: (i) Total Active income and (ii) Total Passive income

	Active income	**Passive income**	**Total**
	₦	**₦**	**₦**
Salary	24,485,220	-	
Consultancy	1,250,000	-	
Rent	-	1,200,000	
Hiring out Equipment	-	13,225,000	
Management fees	4,280,000	-	

Dividend	-	644,120	
Total	**30,015,220**	**15,069,120**	**45,084,340**

(c) Receiving payment "net of Withholding Tax" and the tax implications

This is one of the features of withholding as an advance tax and deducted at source. It means that payment received by the beneficiary is less the withholding tax charged because withholding tax would have been deducted at source before payment is made (i.e., net or balance paid)

The tax implication is that as an advanced tax and in order not to tax twice, withholding tax charged can be used to offset PAYE tax liability payable by a taxpayer that has suffered withholding tax deduction.

(d) Determination of;

(i)Withholding Tax deducted and Total Gross Income in the year

	Activity performed	Received net amount (₦) (a)	Rate (%) (b)	WHT deducted (₦) (c) = a/(1-b)	Gross amount (₦) d= (a+c)
1	Consultancy	1,187,500	5	1,187,500/0.95 = 62,500	1,187,500+62,500 = 1,250,000
2	Rent	1,080,000	10	1,080,000/0.90 = 120,000	1,089,000+120,000 =1,200,000
3	Hiring of equipment	11,902,500	10	11,902,500/0.90 = 1,322,500	11,902,500+1,322,500 =13,225,000

4	Management fees-Skill Acquisition Centre	4,066,000	5	4,066,000/0.95 =214,000	4,066,000+214,000 =4,280,000
5	Dividend	579,708	10	579,708/0.90 =64,412	579,708+64,412 =644,120
	TOTAL	18,815,708	(i)	1,783,412	20,599,120
	Add;GROSS SALARY				24,485,220
	TOTAL GROSS income (a)		(ii)		45,084,340

EXAMINER'S REPORT:

Part (a) of the question tests candidates' knowledge of the difference between active income and passive income, and the examples of each. Part (b) tests computation of gross total active income and gross total passive income from a given set of data. Part (c) tests the candidates understanding of the concept of receiving payment "net of withholding tax" and the tax implications, while Part (d) tests determination of the total withholding tax deducted and total gross income received in the year.

About the 60% of the candidates attempted the question and their performance was average.

The commonest pitfall was that candidates did not know how to apply the percentage rate and the computation of WHT that has been previously deducted.

Candidates are advised to study more on all areas of the syllabus, practice more questions, and use the Institute Study Packs for better performance in future examination.

QUESTION 5

Nigeria as a nation practices constitutional democracy. The Nigeria Constitution 1999 (as amended) imposes on the National and State Assemblies powers to pass laws regarding the imposition of taxation on both corporate entities and individuals. These legislations confer necessary powers on the taxing authorities.

Required:

(a) State the composition and functions of the State Board of Internal Revenue. (10 Marks)

(b) What constitutes a quorum of members when a meeting of the SBIR is to be held? (2 Marks)

(c) What roles does the Technical Committee of the State Board of Internal Revenue performs in Nigerian tax administration system? (3 Marks)

(TOTAL 15 MARKS)

SUGGESTED SOLUTION TO QUESTION 5

State Board of Internal Revenue (SBIR)

Section 87 of PITA 2004 establishes the State Board of Internal Revenue whose operational arm is known as The State Internal Revenue Service (SIRS).

(a) Composition of the SBIR)

The Board of Internal Revenue for each State comprises:

(i) The executive head of the State Internal Revenue Service as Chairman;

(ii) The Directors and Heads of Departments within the State Internal Revenue Service;

(iii) A Director from the State Ministry of Finance;

(iv) The Legal Adviser to the State Internal Revenue Service;

(v) Three other persons nominated by the Commissioner for Finance, on their personal merit; and

(vi) The Secretary of the State Internal Revenue Service, who shall be an ex-officio member.

Functions of the State Board of Internal Revenue

The State Board of Internal Revenue shall be responsible for:

(i) Ensuring the effectiveness and optimum collection of all taxes and penalties due to the Government under the relevant laws;

(ii) Doing all such things as may be deemed necessary and expedient, for the assessment and collection of the tax and shall account for all sums so collected, in a manner to be prescribed by the Commissioner;

(iii) Making recommendations, where appropriate, to the Joint Tax Board (JTB) on tax policy, tax reform, tax legislation, tax treaties and exemptions as may be required, from time to time;

(iv) Generally controlling, the management of the State Service on matters of policy, subject to the provisions of the law setting up the State Internal Revenue Service; and

(v) Appointing, promoting, transferring and imposing discipline on employees of the State Internal Revenue Service.

(vi) The State Board may, by notice in the Gazette or in writing, authorise any person to:

* Perform or exercise on behalf of the State Board, any function, duty or power conferred on the State Board; and

* Receive any notice or other document to be given or delivered to it or in consequence of this Act or any subsidiary legislation made under it.

(b) Any ***five (5) members*** of the State Board of Internal Revenue, of whom one shall be the ***Chairman or a Director***, shall constitute a quorum {Section 87 (3)}

(c) Technical Committee of the State Board of Internal Revenue

In order to assist the State Internal Revenue Board in the performance of its duties, PITA also established a committee of the Board, known as "The Technical Committee".

Functions of the Technical Committee of the State Board of Internal Revenue

The Technical Committee shall:

(i) Have powers to co-opt additional staff from within the State Service, in the discharge of its duties;

(ii) Consider all matters that require professional and technical expertise and make recommendations to the State Board;

(iii) Advise the State Board on all its powers and duties; and

(iv) Attend to such other matters as may, from time to time, be referred to it, by the Board.

EXAMINER'S REPORT:

The question tests the composition and functions of the State Board of Internal Revenue; the figure that constitutes a quorum of members when a meeting of the SBIR is to be held; and the roles that the Technical Committee of the State Board of Internal Revenue perform in Nigeria tax administration system.

About 90% of the candidates attempted the question and their performance was above average.

The common pitfall of most candidates was their inability to state the composition of the SBIR as they could not differentiate between the FIRS and SBIR.

Candidates are advised to study all relevant tax laws relating to both corporate entities and individuals. They should be able to apply these laws for better performance in future examination.

QUESTION 6

A corporate organisation is at liberty to change it's accounting date if for any reason it found it necessary to do so and this action is supported by Nigerian tax laws.

Julietayo Nigeria Limited has been in operations as a manufacturer of baby products for over ten years. The company had for many years prepared its accounts to March 31 each year, but in 2018 the Board of the company decided to change the company's financial year end to September 30 each year.

The following are the company's adjusted profits in recent years:

	₦
Year ended March 31, 2017	10,900,000
Year ended March 31, 2018	12,800,000
Period ended September 30, 2018	8,400,000
Year ended September 30, 2019	23,600,000
Year ended September 30, 2020	29,700,000
Year ended September 30, 2021	32,900,000

Required:

(a) State any TWO circumstances that may necessitate a company to change its accounting date. (2 Marks)

(b) Compute the assessable profits arising from the above results in line with the provisions of Companies Income Tax Act 2004 (as amended) and the practice of the tax officials. (13 Marks)

(TOTAL 15 MARKS)

SUGGESTED SOLUTION TO QUESTION 6

(a) Circumstances that may necessitate a company to change its accounting date include:

(i) Where a subsidiary company wants to adopt the accounting date of the parent company;

(ii) Where a company wants to change to the government fiscal date so as to avoid unnecessary tax dispute; and

(iii) Where a company emerges from merger and acquisition schemes and the new company adopts an accounting date different from that of the two companies involved in the merger.

(b) **Julietayo Nigeria Limited**
Computation of assessable profits
For the relevant assessment years

2018 assessment year

Basis period (PYB) 1/4/16 – 31/3/17

Assessable profit (given)	**₦10,900,000**

The year of change is 2019; hence, 2019; 2020; and 2021 assessments will be made using both the old and the new dates

Old accounting date

2019 assessment year

Basis period (PYB) 1/4/17 – 31/3/18

Assessable profit (given)	**₦12,800,000**

2020 assessment year

Basis period (PYB) 1/4/18 – 31/3/19

Profit for 6 months ended 30/9/18	₦8,400,000

Profit for 6 months (1/10/18 – 31/3/19)	
= 6/12 x ₦23,600 =	11,800,000
Assessable profit	**20,200,000**
2021 assessment year	
Basis period (PYB) 1/4/19 – 31/3/20	
Profit for 6 months (1/4/19 – 30/9/19)	
= 6/12 x ₦23,600 =	₦11,800,000
Profit for 6 months (1/10/19 – 31/3/20)	
= 6/12 x ₦29,700 =	14,850,000
Assessable profit	**26,650,000**

New accounting date

2019 assessment year	
Basis period (PYB) 1/10/17 – 30/9/18	
Profit for 6 months (1/10/17 – 31/3/18)	
= 6/12 x ₦12,800 =	₦6,400,000
Profit for 6 months ended 30/9/18	8,400,000
Assessable profit	**14,800,000**

2020 assessment year	
Basis period (PYB) 1/10/18 – 30/9/19	
Assessable profit (given)	**₦23,600,000**

2021 assessment year	
Basis period (PYB) 1/10/19 – 30/9/20	
Assessable profit (given)	**₦29,700,000**

Summary of assessable profits

Assessment year	Old accounting date	New accounting date
	₦	₦
2019	12,800,000	14,800,000
2020	20,200,000	23,600,000
2021	26,650,000	29,700,000
	59,650,000	68,100,000

The practice of the tax authority is to pick the higher of the two accounting dates' assessable profit. Hence, the assessment for 2019; 2020; and 2021 will be based on the new accounting date (total assessable profits of ₦68,100,000 as against old accounting date of ₦59,650,000). Thereafter, the company will be allowed to change to its new date.

2022 assessment year

Basis period (PYB) 1/10/20 – 30/9/21

Assessable profit (given) **₦32,900,000**

EXAMINER'S REPORT:

This question tests the circumstances that may necessitates a company to change its accounting date and the computation of assessable profits in line with the provisions of Companies Income Tax Act 2004 (as amended) and the practice of the tax officials.

About 70% of the candidates attempted the question and their performance was average.

The commonest pitfall of the candidates was their inability to determine the basis period.

Candidates are advised to ensure they understand how to determine the basis period and the practice of tax officials for better performance in the Institute future examinations.

QUESTION 7

(a) Eleyi limited purchased landed properties on November 30, 2019 at a cost of N220m and spent additional ₦8m and ₦12m for sand-filing and title documentation respectively.

Part of the land was sold on 15/1/2020 for ₦150m incurring ₦3m as expenses incidental to this disposal.

The market value of the remaining land is N200m as ascertained by a renowned professional valuer who charged N15m for the professional services rendered.

Required:

(a) (i) Compute the capital gain tax for the parts disposed (8 Marks)

(ii) Determine the new cost of remaining land (2Marks)

(b) Explain how the following shall be treated by the relevant tax authorities in the hands of the parties involved:

(i) Damages awarded by court for wrongful termination of appointment. (1 Mark)

(ii) Contributory Pension (1 Mark)

iii) Compensation for loss of office (1 Mark)

iv) Penalty for non-compliance with tax laws and provisions. (1 Mark)

v) Penalty for traffic offence committed by company driver on official duty. (1 Mark)

(Total 15 Marks)

SUGGESTED SOLUTION TO QUESTION 7

7. ELEYI LTD

(i) Computation of capital gain tax (part disposal)

	₦	₦
Sale proceeds of part sold		150,000,000
Les: attributable selling expenses		
-incidental expenses	3,000,000	
-professional fees charged	15,000,000	18,000,000
Net sales proceed		132,000,000
Less: cost of part sold (wk1)		(102,857,143)
Taxable gain		29,142,857
Capital Gain Tax at 10%		2,914,285.70

Workings:

1. Determination of cost of part sold

$$\frac{\text{Sale proceeds of part sold}}{\text{Sale proceeds of part sold + Market value of remaining part.}} \times \text{Cost of land (WN2)}$$

$$\frac{150{,}000{,}000}{150{,}000{,}000 + 200{,}000{,}000} \times 240{,}000{,}000 \text{ (WN2)}$$

=₦102,857,142

2 Cost of land

	₦'m
Purchase cost	220
Add; sand filling	8
Tittle documents	12
	240

(ii) New cost of remaining land

Original cost of land – cost of disposed part.

₦240,000,000 (WN2) – ₦102,857,143 (WN1) = ₦137,142,857

(i). Damages awarded for by Court for wrongful termination of appointment

Parties concerned:

1). Employer – It will be treated as an allowable expense to be charged to the profit or loss account

2). Employee -It will be treated as a Capital gain which is chargeable to tax

(ii). Contributory Pension:

Parties concerned:

1). Employer – The part contributed by the business will be treated as a period expense and an allowable expense to be charged to the Profit or loss account

2). Employee - The part contributed by the employee shall be used to reduce his PAYE tax liability.

(iii) Compensation for loss of office – It is a redundancy lump sum paid to a worker as a result of his being forced to retire before the expiration of the service contract. An example is a worker who is compulsorily retired when his company is merged with another company.

1) Employer – the amount paid to the employee will be allowed by tax authority as an allowable expense as part of emolument to the employee.
2) Employee – the compensation will also be tax free in the hands of the employee.

(iv) Penalty for non-compliance with tax laws and provisions;

Party involved – Taxpayer only - It will be treated as non-allowable expense and where it has been charged to profit or loss account, it will be added back as a disallowable expense.

(v) Penalty for Traffic offence committed by company driver on official duty

Employer - The company bears the loss (vicarious liability) and therefore, it will be treated as a disallowable expense and where it has been charged to the profit or loss account it would be added back.

Employee – No tax implication as the company pays for engage the services of a careless driver (vicarious liability).

EXAMINER'S REPORT:

Part (a) of the question tests candidates' knowledge of the computation of capital gain tax for the part of an assets disposed and the determination of the new cost of the remaining assets. Part (b) tests explanation of the treatment by the relevant tax authorities in the hand of the parties involved the following:

- Damages awarded by court for wrongful termination of appointment;
- Contributory pension;
- Compensation of loss of life;
- Penalty for non-compliance with tax laws and provisions; and
- The penalty for traffic offence committed by company driver on official duty.

About 40% of the candidates attempted the question and their performance was very poor.

The common pitfalls of the candidates were their inability to compute correctly the capital gain tax and they did not have clear understanding of how the real-life situations are to be treated in the hands of the parties involved.

Candidates are advised to study more to cover all areas of the syllabus for better performance in future examination.

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2024: PROFESSIONAL EXAMINATION

PTE I: INDIRECT TAXATION

WEDNESDAY, OCTOBER 16, 2024 **EXAM NO..................**

ATTEMPT QUESTION ONE AND ANY OTHER FOUR QUESTIONS.

TIME: 3 HOURS.

SECTION A: COMPULSORY QUESTION
QUESTION 1

Question 1

You are working as Tax Officer with the Lagos Area Office of the Federal Inland Revenue Service and you are part of the team that have been sent to audit Adelab Nigeria Limited, a manufacturer of soft drinks. The team leader has assigned you to reconcile the company's VAT Accounts and come up with relevant figures to determine the company's overall VAT liability for 2023 year of assessment. The company's year end is 31 December.

The company's Head of Accounts informed you that they normally operate two accounts in their ledger for VAT purposes, these are VAT Input Account and VAT Output Account. Extracts from the two accounts are shown below:

VAT Input Account

Date	Transaction	Debit	Credit	Balance
		₦	₦	₦
23/3/23	VAT paid on Plant and Machinery	28,450,000		28,450,000
25/6/23	VAT paid on bank charges	3,125,841		31,575,841
20/7/23	VAT paid on pet bottles purchased	15,000,000		46,575,841
13/8/23	VAT paid on office furniture	512,215		47,088,056
5/9/23	VAT paid on concentrate for soft drinks	36,254,833		83,342,889
2/10/23	VAT paid on office stationaries	15,542		83,358,431
2/10/23	VAT paid on bottle caps	5,056,215		88,414,646
18/10/23	VAT paid on chemicals for production	3,050,751		91,465,397
23/10/23	VAT paid on factory staff uniform	32,512		91,497,909
8/11/23	VAT paid on security staff uniform	5,125		91,503,034
15/11/23	VAT paid on spare parts for plant maintenance	10,152,813		101,655,847
1/12/23	Federal Inland Revenue Service	46,563,393		148,219,240

VAT Output Account

Date	Transaction	Debit	Credit	Balance
		₦	₦	₦
23/3/23	VAT on products transferred to Depot		25,550,000	25,550,000
25/6/23	VAT on products transferred to agents on sale or return basis		22,500,000	48,050,000
20/7/23	VAT on goods invoiced to head office customers		75,251,850	123,301,850
13/8/23	VAT on goods invoiced to depot customers		22,500,000	145,801,850
5/9/23	VAT on goods sold to staff		25,125	145,826,975
2/10/23	VAT on goods invoiced to corporate customers		12,251,550	158,078,525
2/10/23	VAT on samples given to prospective customers		15,500	158,094,025
18/10/23	VAT on goods donated to motherless babies' homes		125,215	158,219,240

Required:

a. Explain the treatment you will give to each of the entries in the VAT Input and VAT Output accounts in accordance with the provisions of the VAT Act, as amended. (20marks)

b. Reconcile the two accounts and state the amount payable to the Federal Inland Revenue Service during the year. (13marks)

c. Explain how Adelab ought to have treated other VAT paid during the year you have not considered as input VAT. (7marks)

(Total 40 marks)

Solution 1

Treatment of entries on the VAT accounts:

VAT Input account:

i. VAT paid on Plant and machinery: According to the provision of the VAT Act, as amended, this will be added to the cost of the plant and machinery and should not to be treated as an input VAT;

ii. VAT paid on bank charges: This is a VAT on expenses and should be added to the expenses, according to the provisions of the VAT Act, as amended and not an input VAT;

iii. VAT paid on pet bottles purchased: The company manufactures soft drink, so VAT on bottles will be treated as an input VAT because pet bottle is an essential input in the production process. It will be deducted from the output VAT to arrive at VAT payable to the tax authority;

iv. VAT paid on office furniture: This will form part of the cost of the furniture and be treated as a non-current asset, according to the VAT Act, and will not be considered as an input VAT;
v. VAT paid on concentrate for soft drinks: Concentrate is a major ingredient in the production of soft drink, so VAT on concentrate is an input VAT and will be deducted from the output VAT to arrive at VAT payable to the tax authority;
vi. VAT paid on office stationaries: Office stationaries form part of the company's expenses, so VAT on stationaries will be added to the cost of the stationaries and charge to the income statement by the company;
vii. VAT paid on bottle caps: Bottle caps form part of the materials needed in the production of soft drink, so VAT on bottle caps is an input VAT and will be deducted from the output VAT to arrive at VAT payable to the tax authority;
viii. VAT paid on chemicals for production: VAT on production chemical is an input VAT, because the chemical is used in the production process, so it will be deducted from the output VAT to arrive at VAT payable to the tax authority;
ix. VAT paid on factory staff uniform: Factory staff uniform is not a material for the production of soft drink, it forms part of the overhead expenses and so VAT on staff uniform will be added to the cost of the uniform and be treated as production overhead expenses. It is not regarded as an input VAT;
x. VAT paid on security staff uniform: VAT on security uniform will be added to the cost of the uniform and be charged as an expense on the income statement. It is not an input VAT;
xi. VAT paid on spare parts for plant maintenance: Spare parts for plant maintenance is treated as part of production overhead expenses, so VAT on spare parts for plant maintenance will be added to the cost of the spare parts and be charged to production overhead as plant maintenance expenses when used. It is not an input VAT; and
xii. Federal Inland Revenue Service: This represents VAT paid to the tax authority, Federal Inland Revenue Service. It will be removed from the final VAT liability to determine the VAT liability outstanding against the company.

VAT output account

i. VAT on products transferred to Depot: Products transferred to depot are not sales to customers, but an inter-company movement of goods for sale to customers. VAT is not due until the products are sold to customers, so it will not be treated as part of the output VAT. It will be neglected;
ii. VAT on products transferred to agents on sale or return basis: Products transferred to customers on sale or return basis are not actual sales to customers, but movement of products between the company and its sales agent. Output VAT is not due on the products until sold to customers, therefore, the VAT will be neglected;
iii. VAT on goods invoiced to head office customers: This is an output VAT and will be paid to the tax authority after removing appropriate input VAT;
iv. VAT on goods invoiced to depot customers: This is also an output VAT and will be paid to the tax authority after adjusting for an appropriate input VAT;
v. VAT on goods sold to staff: This is also a VAT on sale and will be paid to the tax authority after removing an appropriate input VAT;

vi. VAT on goods invoiced to corporate customers: This is an output VAT which must be paid to the tax authority after adjusting for an appropriate input VAT;
vii. VAT on samples given to prospective customers: This is not a sale but sample giving out to induce sales. It will be ignored; and
viii. VAT on goods donated to motherless babies' homes: This is not a sale but a donation. It is not an output VAT, it will be ignored.

b**. Reconciliation of VAT Accounts**

Output VAT:	
VAT on goods invoiced to head office customers	75,251,850
VAT on goods invoiced to depot customers	22,500,000
VAT on goods sold to staff	25,125
VAT on goods invoiced to corporate customers	12,251,550
	110,028,525
Less input VAT:	
VAT paid on pet bottles purchased	15,000,000
VAT paid on concentrate for soft drinks	36,254,833
VAT paid on bottle caps	5,056,215
VAT paid on chemicals for production	3,050,751
	59,361,799
VAT Payable in 2023	50,666,726
Less VAT already paid in 2023	46,563,393
Balance payable to Federal Inland Revenue Service	4,103,333

c. Treatment of other VAT paid during the year not considered as input VAT

i. VAT paid on Plant and machinery: This is not an input VAT, it forms part of the cost of the plant and machinery. The entry should be reversed and debited to plant and machinery account.
ii. VAT paid on bank charges: This is not an input VAT, but a finance expenses. The entry should be reversed and debited to bank charges expenses account.
iii. VAT paid on office furniture: This forms part of the cost of the furniture and not an input VAT. The entry should be reversed and debited to Office Furniture account.
iv. VAT paid on office stationaries: This is part of the stationary's expenses, not an input VAT. The entry should be reversed and debited to stationaries expenses account.
v. VAT paid on factory staff uniform: This should form part of the cost of uniform and not a VAT input. The entry should be reversed and debited to uniform expenses account and form part of the production overhead expenses.
vi. VAT paid on security staff uniform: This should form part of the cost of uniform and not a VAT input. The entry should be reversed and debited to uniform expenses account and form part of the administrative expenses.
vii. VAT paid on spare parts for plant maintenance. This is not a VAT input and should be reversed and added to the cost of spare parts inventory. This will be

charged to the plant maintenance overhead expenses account when it is used for plant repairs.

Examiner's Report:

This is a compulsory question that tests the candidates' knowledge and understanding of the treatment of entries on the VAT accounts. It required the candidates to explain the treatment of VAT input, VAT output account entries, as well as reconciling VAT accounts and other VAT payable but not considered as input VAT.

All the candidates attempted the question. Performance was low as about 20% of them scored 40% and above of marks attainable.

The commonest pitfall was in the inability of some candidates to interpret correctly the requirement of the question.

Candidates are advised to cover all areas of the syllabus. They are also enjoined to make use of the Institute's Study Pack and previous diets' Pathfinders.

<u>Question 2</u>

In Nigeria, stamp duties are collectible by both the Federal and State governments and stamp duties generate high revenue to both.

Required

Discuss the following as they relate to stamp duty:

a. Procedures at the stamp duty office. (5marks)
b. Manner of denoting duty. (5marks)
c. Mode of denoting (5marks)

(Total 15Marks)

Solution 2

a. Procedure at the stamp duties office

When documents are submitted at the stamp duty office, for stamping, the following are the procedures at the stamp duty office:

i. The documents are assessed to determine duty payable: The original of the instrument and copies are presented to the stamp duties office for assessment of the duty payable, based on value of the transaction reflected in the instrument. stamp duties office will retain one of the copies;

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

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

b. Manner of Denoting Duty

The following are the manner of denoting stamp duty on instruments, according to the Stamp Duty Act:

i. Where stamp is denoted by adhesive stamps, postage stamps may, subject to the provisions of any Act or regulation, be used for the purpose;
ii. Every instrument written upon stamped material shall be written in such a manner, and every instrument partly or wholly written before being stamped shall be so stamped, that the stamp shall appear on the face of the instrument and cannot be used or applied to any other instrument written upon the same piece of material;
iii. No impressed or embossed stamp or stamps made by means of a die shall be used in any manner except upon the document upon which it was originally impressed, embossed or stamped; and
iv. The amount of the duty upon any instrument may be denoted by several stamps, and stamps of greater value than is required may be used upon any instrument.

c. Modes of denoting stamp duties

The stamping of duties can be effected through any of the following modes:

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

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

Examiner's Report:
The question tests the candidates' knowledge and understanding of stamp duties. It requires candidates to discuss the procedures at the stamp duty office, the manner of denoting duty and mode of denoting.

Many candidates attempted this question, while 45% of those that attempted scored 40% and above of the marks attainable.

The common pitfall was their inability to differentiate between the manner of denoting duty from the mode of denoting. This affected their performance.

Candidates are advised to ensure they understand the requirements of any question before attempting it. The candidates should make use of the relevant study materials, especially the Institute's Study Pack to prepare well for subsequent examination.

<u>Question 3</u>
The Niger Delta Development Commission (NDDC) was set up by the Federal Government to accelerate development in the oil producing areas in Nigeria.

Required:
i. Discuss five sources of funding of the NDDC (5marks)
ii. Discuss the management of the funds of NDDC (5marks)
iii. Describe five of the applications of the funds (5marks)

Solution 3

a. NDDC Fund

The sources of funding of the Niger Delta Development Commission, as provided in the Niger Delta Development Commission (Establishment) (Amendment) Act 2017 are as follows:

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

ii. 3 per cent of the total annual budget of any oil producing company operating, on shore and off shore, in the Niger-Delta Area; including gas processing companies;
iii. 50 per cent of monies due to member States of the Commission from the Ecological Fund;
iv. Such money as may from time to time, be granted or lent to or deposited with the Commission by the Federal or a State Government, any other body or institution whether local or foreign;
v. All money raised for the purposes of the Commission by way of gifts, loan, grants-in-aid, testamentary disposition or otherwise; and
vi. Proceeds from all other assets that may, from time to time, accrue to the Commission.

b. Management of the Fund

The Act further provides that the fund shall be managed as follows:

i. The fund shall be managed in accordance with the rules and regulations made by the Board, and without prejudice to the generality of the power to make rules under this subsection; the rules shall in particular contain provisions;
ii. Specifying the manner in which the assets or the fund of the Commission are to be held, and regulating the making of payments' into and out of the fund; and
   iii. Requiring the keeping of proper accounts and records for the purpose of the fund in such form as may be specified in the rules.

c. 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.

Examiner's Report

The question tests the candidates' knowledge and understanding of the Niger Delta Development Commission (NDDC). It requires the candidates to discuss sources of its funding, the management and application of the funds.

About 80% of the candidates attempted the question, and about 40% of them scored 40% and above of the marks attainable.

The commonest pitfall was the inability of the candidates to grasp the requirement of the question which resulted in their poor performance.

Candidates are enjoined to cover every areas of the syllabus and also make use of the relevant reference books as well as the Institutes Study Pack in their preparation for future examination.

<u>QUESTION 4</u>

Section 9 of the Hotel Occupancy and Restaurant Consumption Law, Cap H8, Laws of Lagos State, 2015 (referred to in these Regulations as the Principal Law) requires every receipt/invoice generated by the Electronic Fiscal Device to contain, in addition to the mandatory information requirements specified in the invoicing, specific items showing the description of both the agent and the transaction.

Required:

a. Describe Electronic Fiscal Device (5 marks)
b. State ten (10) items of electronic physical devices (10 marks)
(Total 15 marks)

SOLUTION 4

(a) An electronic fiscal device (EFD) is a specialised piece of hardware used to ensure accurate & secure tax collection. It is essentially a digital cash register that is connected to government's tax administrative system. Examples EFDs are Electronic Cash Registers (ECRs), Point of Sale (POS) systems and Fiscal Printers.

(b) Ten items of electronic physical devices

i. The name and address of the collecting agent.
ii. The Consumption Tax Registration number of the collecting agent.
iii. The name of the person operating the Electronic Fiscal Device.
iv. The means of payment (cash, card, cheque, transaction account, and others).

v. The unique cheque receipt number.
vi. The description, quality, price and value of sales of the goods and services in question.
vii. The date and time of issue of the receipt.
viii. Any discounts, marks-up, changes or corrections.
ix. The amount of tax payable.
x. The total amount payable inclusive of tax.

Examiner's Report:

The question tests the candidates' knowledge and understanding of Electronic Fiscal Device. It specifically requires the candidates to describe Electronic Fiscal Device and also state items of electronic physical devices.

About 70% of the candidates attempted the question, and about 20% of them scored 40% and above of marks attainable.

The commonest pitfall was the inability of some candidates to correctly interpret the question.

Candidates are enjoined to always endeavour to study the questions to know the requirement of the question. They should make use of the Institute's Study Pack and familiarise themselves with Pathfinders of the previous diets' examination.

Question 5

A tax practitioner is expected to ensure morality and high ethical standard in his relationships with taxpayers and third parties involved in tax practice.

Required

a. Discuss the four ethical standards expected from a tax practitioner. (7marks)
b. Explain the responsibilities of a tax practitioner in providing information to his tax professional body. (6marks)
c. Explain what constitutes conflict of interest in tax practice. (2marks)

(Total 15 marks)

Solution 5

a. The ethical standards that a tax practitioner requires in his relationship with taxpayers and third parties are based on principles which include:

i. Fairness and Equity: The tax practitioner must be fair in his dealings with both his clients and the tax authorities. He is expected to uphold the principle of equity in all his dealings;

ii. Transparency: The tax practitioner must strive to be transparent and open in his relationship with his clients and the tax authority;
iii. Integrity: The tax practitioner must be honest and be consistent in his words. He must not withhold any information that is essential to his work as a tax consultant;
iv. Accountability: The tax practitioner must account for the client's fund in his care and must not divert his client's fund but use it as intended by the client.

A tax practitioner should ensure that he uses common sense with a view to ensure that he makes the most ethical decision in any scenario that might arise in tax practice.

b. Provision of Information to the CITN

A member must provide such information as is reasonably requested by the CITN without unreasonable delay. A member must reply to correspondence from the CITN which requests a response and again must do so without an unreasonable delay.
A member must promptly inform the CITN if he:

i. Is convicted of a criminal offence (other than a 'summary only' road traffic offence);
ii. Is notified of disciplinary action initiated against him by another professional body to which the member belongs;
iii. Has a bankruptcy order made against him;
iv. Enters into a voluntary arrangement with his creditors; and
v. Is disqualified as a director or enters into a disqualification undertaking.

c. Conflicts of Interest in Tax Practice

A tax practitioner may be faced with a conflict of interest when undertaking a professional activity. A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:

i. The tax practitioner undertakes a professional activity relating to a particular matter for two or more clients whose interests with respect to that matter are in conflict; or
ii. The interests of the tax practitioner with respect to a particular matter and the interests of a client for whom the tax practitioner undertakes a professional activity related to that matter are in conflict.

Examiner's Report
The question tests the candidates' knowledge and understanding of ethical standard. It requires candidates to discuss ethical standards expected from tax practitioners; their responsibilities in providing information to their professional body and causes of conflict of interest in tax practice.

About 70% of the candidates attempted the question, and about 20% scored 40% and above of marks obtainable.

The common pitfalls were the inability of many candidates to correctly explain the term "ethical standard", and also in stating the responsibilities of tax practitioners in providing information to their professional body.

Candidates are enjoined to cover every areas of the syllabus. They must ensure that they make adequate use of the Institute's Study Pack and Pathfinders of previous diets' examinations.

<u>QUESTION 6</u>
The Supreme Court in the case of I. T. I. V. ADEREMI (1999) 6 SCNJ 1, held that there are two stages to alienation of interest in land and they are:

i. The holder may enter into a contract of sale of his right; at that stage, he does not need the Governor's consent;
ii. The second stage is that of alienating the right, that is, the stage when he assigns his right by a deed of assignment, to now vest the legal estate in the purchaser, and he needs the Governor's consent to make the transaction valid. Mr Gbedu decided to assign his right by a deed of assignment on his land situated at Ijamido Village along Lekki-Epe Express Road, Epe, Lagos State to his partner Mrs. Sekere. He was advised to obtain a Governor's consent for the validation of the transaction.

Required:
Explain succinctly the process of obtaining the Governor's consent for the assignment of the land Mrs. Sekere.

(Total 15 marks)

SOLUTION 6
IN LAGOS The application should be made on Land Form 1C obtainable at the Lands Registry, and the form should be signed by the purchaser and the vendor.
The application form should be submitted with the following:

i. A covering letter addressed to the Director of the Department of Lands and Housing, Lagos State;
ii. A certified cheque made payable to Lagos State Government for an amount equal to 15 percent of the consideration (stated on the deed)

passing between the two parties. This is an initial deposit for consent because after the property has been inspected and valued, the actual sum payable will be demanded as consent fee if the deposit does not cover the amount;

iii. Current tax clearance certificate of the two parties. In the case of a mortgage, only that of the mortgagor is required;
iv. Where one of the parties is a corporate body, the corporate body must supply the revenue certificate papers for its staff remitted to government and the current tax clearance certificates for the directors;
v. In the case of a developed property, there shall be a requirement for the building plan;
vi. Six (6) copies of the Deed of Assignment for which consent is sought;
vii. Evidence of up-to-date payment of ground rent and legal charges;
viii. Receipt of payment of Economic Development Levy of the vendor and purchaser;
ix. Receipt of payment of charting fees, receipt of endorsement fees; and
x. A Certified True Copy (CTC) of the assignor's land document obtainable for the Lands registration.

Documents for securing governor's consent

These include:

i. Covering letter of application;
ii. Five (5) copies of duly executed deed;
iii. Photocopy of Certified True Copies of prior deed(s);
iv. Deposits on consent fees, charting, endorsement fee;
v. Current three (3) years Tax clearance certificate of the parties;
vi. Where a corporate body is involved, then the evidence of PAYEE returns;
vii. Evidence of payment of tenement rate (if developed); or statement in lieu in the case of undeveloped property.
viii. Evidence of payment of land use charges; and
ix. Receipt of payment of Development levy.

Examiner's Report:

The question tests the candidates' knowledge and understanding on stages of alienation of interest on land. It requires the candidates to explain the process of obtaining Governor's consent for the assignment of land, and to state the documents needed for securing the Governor's consent.

About 60% of the candidates attempted the question, and about 15% of them scored 40% and above of marks attainable.

The commonest pitfall was the inability of the candidates to list the documents to be submitted with the application form.

Candidates are advised to always endeavour to cover the entire areas of the syllabus. They should make adequate use of the Institute's Study Pack as well as Pathfinders of previous diets' examination.

<u>Question 7</u>

VAT has become a major source of revenue to the government in Nigeria, therefore, there have been various amendments to the original Value Added Tax Act 1995. The purpose is to correct some defects noticed in the original Act and to widen the tax base for VAT.

Required

a. Discuss vatable person as defined by the VAT Act 1995 and the relevant Finance Acts. (5 marks)
b. Discuss what constitute taxable goods and services under the VAT Act as amended by the Finance Acts. (10 marks)

(Total 15 marks)

Solution 7

a. Definition of Vatable Person

VAT Act defines a vatable person as a person who trades in vatable goods and services for a consideration. The person can be a sole proprietor (e.g., a trader), a professional (e.g., Tax Consultant), a partnership (e.g., Ibrahim and Mike & Co,) a Limited Liability Company (e.g., Topmost Consulting Services Limited, Adeoye and Company Limited, Adetico Nigeria Limited), a Club, Association or a Charity. A taxable person who in the course of a business has made taxable supplies or expects to make taxable supplies, the value of which, either singularly or cumulatively in any calendar year, is twenty-five million (₦25,000,000) naira or more, shall register with the Revenue and remit VAT monthly. The registration is to cover all the business activities of the vatable person.

A non-resident, who performs services in Nigeria, needs to register with the relevant tax office to fulfil his/her VAT obligations.

b. Taxable Goods and Services.

According to Section 44 of the Finance Act 2020, which is an amendment of section 46 of VAT Act, "Goods" for the purposes of this Act, means all forms of tangible properties, movable or immovable, but does not include, land and building, money or securities. While the same section defines services as, anything, other than goods, or services provided under a contract of employment; and includes any intangible or incorporeal (product, asset or property) over which a person has ownership or rights or from which he derives benefits, and which can be transferred from one person to another, excluding interest in land and building, money or security.

However, section 46 of the Finance Act, 2019, an amendment of section 46 of the VAT Act explains taxable supplies as "any transaction for sale of goods or the performances of a service, for a consideration in money or money's worth".

Also, in accordance with section 33 of the Finance Act, 2019, goods and services shall be deemed to be supplied in Nigeria if:

i. In respect of goods: the goods are physically present in Nigeria at the time of supply, imported into Nigeria for use by a person, assembled in Nigeria, or installed in Nigeria;
   Or
   the beneficial owner of the rights in or over the goods is a taxable person in Nigeria and the goods or right thereof is situated, registered or exercisable in Nigeria**.**

ii. In respect of services: the services are rendered in Nigeria by a person physically present in Nigeria at the time of service provision;
   or
   the services are provided to a person in Nigeria, regardless of whether the services are rendered within or outside Nigeria.

Examiner's Report:
The question tests the candidates' knowledge and understanding of the Value Added Tax. It requires the candidates to discuss vatable person and what constitute taxable goods and services under the VAT Act, as amended.

About 10% of the candidates attempted the question, and about 5% of them scored 40% and above of marks attainable.

The commonest pitfall was their inability to correctly explain the term vatable person as well as in stating what constitute taxable goods and services under the VAT Act.

Candidates are enjoined to make effort to cover all areas of the syllabus. They should endeavour to use the Institute's Study Pack as well as the Pathfinders of previous diets' examination.