THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2025: PROFESSIONAL EXAMINATION

PTX I: FINANCIAL REPORTING

TUESDAY, 15TH APRIL, 2025 EXAM NO……………….

YOU ARE REQUIRED TO ATTEMPT FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER

TIME: 3 HOURS.

SECTION A – COMPULSORY QUESTION

QUESTION 1

The following trial balance relates to Sapon Plc for the year ended 31 March, 2024

	Dr (₦000)	Cr (₦000)
Revenue		560,000
Cost of sales	196,000	
Trade receivables	60,000	
Trade payables		54,000
Bank overdraft		30,000
Distribution costs	88,000	
Administration expenses	110,000	
Factory premises at cost	80,000	
Acc dep of factory premises at 31 march, 2023		20,000
Investment properties at 31 march, 2023	66,000	
Retained earnings at 1 April, 2023	98,000	
Ordinary share at ₦1 each		254,000
Share premium		120,000
Inventory at 31 March, 2024	38,000	
Research and development cost	36,000	
Plant and equipment at cost	200,000	
Acc dep on plant and equipment at 31, March, 2023		72,000
Financial assets	120,000	
Equity investment reserve		8,000
Lease payments	20,000	
Taxation	6,000	
Total	**1,118,000**	**1,118,000**

Additional information:

i) On 1 April Sapon Ltd decided to revalue the factory premises for the first time to its market value of ₦100million. Prior to this revaluation, factory premises was being depreciated over its useful life of 40 years. The remaining useful life of the premises at 1 April, 2023 was estimated at 25years. Sapon depreciates premises on straight line basis.

ii) Sapon Ltd has adopted fair value model for measuring investment properties. In December, 2023 the central air condition in the investment properties was up graded at the cost of ₦10million. This cost was included in administration costs. The fair value of the investment properties at 31 March, 2024 was ₦80million.

iii) On I July, 2023 Sapon Ltd commenced research on a new product. On. 1 January, 2024 Sapon Ltd moved into the development phase of the product. By 31 March 2024 the company was still not confident of the commercial success of the product. Research and development were incurred evenly over the period.

iv) Depreciation of plant and equipment is charged at 20% per annum on a reducing balance basis. A full year depreciation is charged in the year of purchase and non in the year of sale. In October, 2023 sapon sold a piece of equipment that was purchased in March 2022. The equipment cost ₦20million and was sold for ₦14million. The sales proceeds was credited to revenue in the general ledger.

v) The financial assets represent an investment in equity shares, with the company electing to take gains and losses through other comprehensive income. Gain or losses are held in a separate reserve called 'Equity Investment Reserve'. At 31 March, 2024 the fair value of the financial assets was ₦110million.

vi) On 1 April, 2022 Sapon Ltd entered into a four – year leasing arrangement with Lafenwa Leasing Ltd (LLL) for a piece of factory equipment . At this date, the equipment had an estimated remaining useful life of six (6) years. Annual payment of ₦20million are required on 1 April each year. The rate of interest implicit in the lease is 10% and the first payment of ₦20million was made on 1 April, 2022.

vii) Sapon Ltd estimates that an income tax provision of ₦12million is required for the year ended 31 March, 2024. The taxation figure in the trial balance represent the under/over provision for the year ended 31 March, 2023.

Required:

a) Prepare the statement of profit or loss and other comprehensive income for Sapon Ltd for the year ended 31 March, 2024. (12marks)

b) Prepare the statement of changes in equity for Sapon Ltd for the year ended 31 March, 2024. (6marks)

c) Prepare statement of financial position for Sapon Ltd as at 31 March 2024. (12 marks)

Total (30 marks).

SOLUTION 1

a)

Sapon Ltd
Statement of profit or loss and other comprehensive income for the year ended 31 March, 2024

	₦000
Revenue (560,000-14000)	546,000
Cost of sales (196,000+ 4,000w1 + 36,000 + 23040(w4) + 17430(w6)	(276,470)
Gross profit	269,530
Distribution costs	(88,000)
Admin expenses (11,000- 10,000- 4,000)	(96,000)
Profit on disposal of plant (w4)	1,200
Finance cost 4,972 (w6)	(4,972)
Profit before tax	81,758
Income tax expense (w7)	(18,000)
Profit for the year	**63,758**
Other comprehensive income	
Revaluation gain(w1)	40,000
Fair value loss on equity instrument	(10,000)
Total other comprehensive income	**30,000**
Total comprehensive income for the year	**93,758**

b) **Sapon Ltd**
Statement of changes in equity for the year ended 31 March, 2024

	Ordinary shares	**Share premium**	**Fair value reserve**	**Revaluation reserve**	**Retained earnings**	**Total**
	₦000	**₦000**	**₦000**	**₦000**	**₦000**	**₦000**
Opening bal.	254,000	120,000	8,000		(98,000)	284,000
Revaluation gain (w1)				40,000		40,000

Fair value loss (w7)			(10,000)			(10,000)
Profit for the year					63,758	63,758
Closing bal.	254,000	120,000	(2,000)	40,000	(34,242)	**377,758**

Sapon Ltd

Statement of financial position as at 31 March, 2024

Assets	**₦000**
Non- current assets	
Property plant and equipment	240,450
Investment properties(w3)	80,000
Financial assets	110,000
C**urrent assets**	
Inventory	38,000
Trade receivables	60,000
Total assets	**528,450**
Equity and liabilities	
Equity	
Ordinary share capital	254,000
Share premium	120,000
Retained earnings	(34,242)
Revaluation reserve	40,000
Fair value reserve	(2000)
	377,758
Non- current liabilities	
Lease obligation liabilities	34,692
Current liabilities	
Trade payables	54,000
Bank overdraft	30,000
Lease obligation – current. (15,028 + 4972)	20,000
Income tax payable	12,000
	528,450

Working notes:

W1 – Factory premises.

As the revaluation occurs at the first day of the year, Sapon Ltd will revalue the factory premises to ₦100million and then depreciate this over its useful life of 25 years.

Revaluation gain/loss is as follows:

	₦000
Cost at start of the year (80,000- 20,000)	60,000
Revalued amount	100,000
Revaluation reserve	**40,000**

Journal entry required:

	Dr	Cr
Accm depr- SOFP	20,000	
Factory prem – SOFP (100,000 – 80,000)	20,000	
Revaluation reserve acct.		40,000

Depreciation charged for the year: (100,000/25 years) = 4,000

Journal entry required:

Cost of sales - SOPL 4,000DR
Accm depre factory prem- SOFP. 4,000CR.

W2. – PPE Factory

	₦000
Premises (100,000-4,000) (w1)	96,000
Plant and machinery (115,200- 23,040) (w3)	92,160
Right of use(w6) 69,720- 17,430 9W6)	52,290
	240,450

W3- Investment properties:

The upgrade of ₦10 million during the year should have been capitalised as part of investment properties and not expensed to admin expenses . the corrective journal is

Investment properties 10,000Dr
Admin expenses 10,000Cr.

Fair value gain/loss at year end

	₦000
Value at start of the year (inv properties)	66,000
Upgrade	10,000
Total	76,000
Fair value at year end	80,000
Fair value gain	4,000

Investment properties - SOFP 4,000Dr
FV gain- SOPL 4,0000Cr

W4- Plant and machinery
Profit or loss on disposal

	₦000
Cost	20,000
Dep year end 31/03/22 (20,000 x 20%)	(4,000)
Dep year end 31/03/23 (16,000 x 20%)	(3,200)
Cost at date of sale	12,800
Sales proceeds	(14,000)
Profit on disposal	**1,200**

Journal to correct record:
Revenue - SOPL 14,000Dr
Plant and equipt – SOFP 20,000Cr
Accm dep plant and equipment -SOFP 7,200Dr
Profit on disposal – SOPL 1,200 Cr

Depreciation charged for the year:

	₦000
Cost (200,000- 20,000)	180,000
Accm depretn (72,000-7200)	(64,800)
	115,200
Depreciation for the year (115,200 x 20%)	**23,040**

Journal required:

Cost of sales - SOPL 23,040 Dr
Accm deptn P&E – SOFP 23,040Cr

W5- Financial assets
The fair value loss of the current year is as follows:

	₦000
Opening bal	(120,000)
FV at year end	110,000

Journal required
FV loss OCI – OCI ₦10,000Dr
Financial assets -SOFP. ₦10,000Cr.

W6 – Leasing arrangement

Year	Cash flow	DF -10%	Present value (₦000)
1	20,000	0.909	18,180
2	20,000	0.826	16,520
3	20,000	0.751	15,020
Right of use of assets			49,720

	₦000
Payment in advance	20,000
Lease liabilities	49,720
	69,720

Journal entries:

Right of use of assets – SOFP ₦69,720Dr
Bank - SOFP 20,000Cr.
Lease liabilities-SOFP 49,720 Cr.

Depreciation charged for the year ₦69720/4years = ₦17,430
NOTE as this leasing arrangement relate to factory equipment the depreciation will be charged to cost of sales

W7-Income tax expense

Provision for tax for the year ₦18,000
Less over provision (₦6,000)
Closing balance ₦12,000

SECTION B:
YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION

QUESTION 2

Alimat Co is a manufacturer of domestic appliances. Its chairman is pleased with the results for the year ended 31 December 2024 as they show a continuing improvement over recent past performance. However, the finance director says that a better assessment of the company's performance would be made by a comparison to other companies in the same sector. The finance director has obtained some ratios for Alimat Co.'s business sector, based on a year end of 31 December 2024, which are:

Return on capital employed (ROCE)	18·5%
Net asset (total assets less current liabilities) turnover	1·8 times
Gross profit margin	21%
Operating profit margin	10·3%
Current ratio	1·6:1
Gearing (debt/equity)	36%

The summarised financial statements of Alimat Co are:
Statement of profit or loss for the year ended 31 December 2024

	₦000
Revenue	62,500
Cost of sales	(51,800)
Gross profit	10,700
Operating costs	(5,800)
Finance costs	(1,800)
Profit before tax	3,100
Income tax expense	(1,000)
Profit for the year	2,100

Statement of financial position as at 31 December 2024

	₦000	₦000
Assets		
Non-current assets		
Property		8,100
Owned plant		12,600
Leased plant		12,200
		32,900
Current assets		16,400
Total assets		49,300
Equity and liabilities		
Equity		
Equity shares of N1 each		9,000
Property revaluation surplus		4,000
Retained earnings		10,600
		23,600
Non-current liabilities		

10% loan notes	10,000	
Finance lease obligations	6,400	16,400
Current liabilities		
Finance lease obligations	2,100	
Other current liabilities	7,200	9,300
Total equity and liabilities		49,300

Required:

(a) A non-accountant friend of yours attended a seminar for non-accounting executives on interpretation of financial statements.

Though, he enjoyed the seminar especially the aspect on the uses of accounting ratios, he strongly believes that they have their limitations.
State and explain the limitations of ratios for the purpose of interpreting financial statements. (5marks)

(b) Prepare for Alimat Co the equivalent ratios to those of its sector.
Note: The finance lease obligations should be treated as debt in the ROCE and gearing calculations. (6marks)

(c) Analyse the financial performance and position of Alimat Co for the year to 31 December 2024 in comparison to the sector averages. (9 Marks)

Total (20 Marks)

SOLUTION 2

(a) Ratios are a powerful tool for analyzing and interpreting financial statements, but they do have limitations. The following are some of the key limitations:

i. Ratios can be affected by differences in accounting policies, methods, and industry practices, making it challenging to compare ratios across companies or industries;
ii. Ratios provide a simplified view of a company's performance, which may not capture the complexity of the business or the underlying factors driving the numbers;
iii. Ratios are based on historical data, which may not reflect future performance or trends. Companies can experience significant changes in their business environment, management, or strategy, which may not be reflected in historical ratios;

iv. Ratios can be influenced by industry-specific factors, such as seasonality, regulatory requirements, or technological changes. Companies in different industries may have different ratio profiles due to these factors;
v. Companies may engage in "window dressing" practices, such as manipulating accounting numbers or timing transactions, to present a more favorable ratio profile;
vi. Ratios can be misleading if not considered in context. For example, a high debt-to-equity ratio may be acceptable if the company has a stable cash flow and a low interest rate;
vii. Ratios can be influenced by differences in company size, structure, and complexity. Larger companies may have more complex financial structures, which can affect ratio analysis;
viii. Ratios can be affected by accounting policy choices, such as depreciation methods, inventory valuation, or revenue recognition;
ix. Ratios can be influenced by external economic and market factors, such as interest rates, inflation, or market trends; and
x. Ratios do not capture qualitative factors, such as management quality, brand reputation, or innovation capabilities, which can be important drivers of a company's success.

(b) Equivalent ratios for Alimat Co

		Alimat	Sector Average
Return on capital employed	{(3,100 + 1,800)/(23,600 + 16,400 + 2,100) x 100}	11·6%	18·5%
Net asset turnover	(62,500/40,000)	1·6 times	1·8 times
Gross profit margin	(10,700/62,500 x 100)	17·1%	21%
Operating profit margin	(4,900/62,500 x 100)	7·8%	10·3%
Current ratio	(16,400:9,300)	1·8:1	1·6:1
Gearing (debt/equity)	((16,400 + 2,100)/23,600)	78%	36%

Analysis of comparative financial performance and position

Financial performance

As measured by the return on capital employed (ROCE), Alimat Co.'s overall profitability does not compare well with its competitors, underperforming the sector average profitability by over 37% ((18·5% – 11·6%)18·5%). The component parts of overall profitability are asset turnover and profit margins and, on both of these, Alimat Co considerably underperforms the sector average. The underperformance is worse for profit margins than for asset utilisation and indeed it is the gross margin which is the main cause of the unfavourable comparison. This may be due to a deliberate policy of under-pricing competitors (to increase sales) or it may be due to inefficient manufacturing. Alimat Co.'s control of operating expenses, as shown by the difference between gross and operating profit margins, is relatively good (at 9·3% of revenue compared to 10·7% for the sector) which confirms that it is gross profit margin which is the problem area, assuming there are no differences in cost classification.

Alimat Co., is generating approximately 11% ((1·8 – 1·6)/1·8) less revenue from its assets compared to the sector average which (as already noted) is also contributing to overall lower profitability (ROCE). Apart from the obvious implication that Alimat Co. may be a less efficient manufacturer, there could also be a number of other reasons for the lower asset utilisation. Alimat Co. has revalued its property, whereas it is not known if its competitors have (without the revaluation Nonat Co.'s ROCE would be 12·9% ignoring additional depreciation). Some of Alimat Co.'s plant may have been recently acquired and therefore may not be up to full production capacity, meaning the current year's revenue does not contain sales for a full year in respect of production from this plant. The leasing of plant is usually more expensive than outright purchase (although the finance costs would not affect ROCE). Of course, other competitors may also experience some of these issues, the effects of which would be included in the sector average figures.

Financial position

The current ratio shows that the liquidity of Nonat Co. is within expected norms and compares well with its competitors. There may be an argument to exclude the current finance lease liability from the current ratio which would then put it at 2·3:1 (16,400:7,200) which is perhaps a little higher than expected norms (usually an upper limit of 2). Nonat Co.'s gearing is quite high at more than double that of its competitors. This obviously increases finance costs and with an interest cover of only 2·7 times (4,900/1,800), any downturn in profit may place Alimat Co. in a difficult position. That said, a finance cost of 10% on the loan notes (plus the finance costs of the lease obligations) is a lower percentage than the ROCE so shareholders are getting a (slight) benefit from the debt, but this is at considerable risk.

It is tempting to say that if Alimat Co. had not leased some of its plant, its gearing would be more in line with the sector average, but this begs the question of how else would it have financed the plant. Issuing a further loan note would leave Alimat Co. in a similar debt position as now; only a cash injection from a new share issue would reduce the gearing. Another possibility is that Alimat Co. could structure its plant leases such that they qualified as operating rather than finance leases. Indeed, it may be that Alimat Co. already has some operating leased plant, but this cannot be determined from the information provided.

Conclusion

Alimat Co. is considerably underperforming its sector averages and the finance director is correct to say that a comparison with its competitors is a better indication of Alimat Co.'s current performance than looking at the past trend of its own performance, subject to the definitions and accounting policies used by other companies in the sector.

The analysis indicates Alimat Co. may need to look at its pricing policy or manufacturing efficiency and also needs to investigate a strategy of reducing its gearing. **(9 marks)**

Total (20 marks)

Question 3

The following information were extracted from the books of Panseke Ltd for the year ended 31 March, 2024.

i) **CASH ACCOUNT**

	₦000	₦000
INCOME		
Bal. b/fwd		25,000
Revenue		17,500
Cash received from receivables		28,750
Issue of shares		6,000
Motor vehicles		4.850
Less : Expenses.		
Cash paid to suppliers	21,600	
Tax paid	500	
Salaries and wages	6,750	
Lease	3,500	
Interim dividend paid	250	
Other cash expenses	3,000	
Final dividend paid	500	(36,100)
Cash bal. c/fwd		**46,000**

ii) Movement in non-current assets

Motor vehicles	Accm. depreciation	Furniture and fittings
₦000		**₦000**
30,000	At 1 April, 2023	17,500
7,500	Charged for the year	3,250
(22,500)	Disposal	-
	Costs	
75,000	At 1 April, 2023	50,000
-	Acquisition	23,650
25,000	Disposal	-

Additional information

iii) During the year ended 31 March, 2024 profit after tax was ₦4,510,000

iv)

	1 April 2023	31 March , 2024
	₦000	**₦000**
Receivables	1,500	2,250
Payables	2,500	2,374
Inventory	7,500	8,500
Wages	376	476
Prepayment	500	748

v) The tax provision for the year was ₦2,000,000 and as at 1 April,2023 the unpaid balance was ₦500,000

vi) 3,000,000 ordinary shares of ₦1 each were issued for ₦2. On 1 June , 2023

vii) Interest embedded in the lease rental of ₦2,014,000 is included in the payment of the lease rental for the year ended 31 March, 2024 and is provided for in the financial statements.

Required:

a) Prepare statement of cashflows for Panseke Ltd using direct methods in accordance with the provisions of IAS 7. (14 marks)

b) Prepare reconciliation of operating profit to cashflows from operation. (6 marks)

Total (20 marks)

Solution 3

Panseke Limited
Statement of cash flows for the year ended 31 March, 2024

	N'000	**N'000**
Operating activities		
Cash received from cash sales	17,500	
Cash received from receivables	28,750	
Cash paid to suppliers	(21,600)	
Cash paid to employees	(6,750)	
Cash paid for other expenses	(3,000)	14,900
Tax paid		(500)
Net cash flow from operating activities		**14,400**
Net cashflows from investing activities		
Cash received from motor vehicle disposed	4,850	

Net cash flows from investing activities		4,850
Cash flows from financing activities		
Proceeds from issue of shares	6,000	
Cash paid on lease obligation	(3,500)	
Dividend paid (250 + 500)	(750)	
Net cash flow from financing activities		1,750
Net increase/decrease in cash and cash equivalent		21,000
Cash and cash equivalent at the beginning of the year		25,000
Cash and cash equivalent at year end		**46,000**

b) **Reconciliation of operating profit to net cash flow from operations**

	N'000	**N'000**
Net profit before taxation		6,510
Add: Depreciation (3250 + 7,500)	10,750	
Profit on disposal of motor. Vehicle (4,850- 2,500	(2,350)	
Interest exp. on lease	2,014	
		10,414
Changes in working capital		
Increase in receivables (2250 -1500)	(750)	
Increase in inventory (8500-7500)	(1000)	
Increase in prepayments (748 – 500)	(248)	
Decrease in payables (2374 – 2500)	(126)	
Increase in accrued wage (476 – 376)	100	
		(2,024)
Tax paid		(500)
Net cashflow from operations		**14,400**

Question 4

a) Explain the followings terms in accordance with the provisions of IAS 28:
   i) Associates;
   ii) Significant influence; and
   iii) Equity method of accounting. (6 marks)

b) On 31 October, 2020 Young Shall Grow Plc. paid ₦10,500,000 to acquire 40% interest in Gen-zee Ltd. The draft financial statements of the two companies for the year ended 31 October 2024 are as follows:

Statement of profit or loss and other comprehensive income
For the year ended 31 October, 2024

	Young Shall Grow Plc	Gen- Zee Ltd
	₦000	₦000
Operating profit	48,750	10,500
Dividend received from Gen-zee Ltd	1500	-
Profit before tax	50,250	10,500
Income tax expense	(12,750)	(2,250)
Profit for the year	37,500	8,250

Statement of financial position for the year ended 31 October, 2024

	Yong Shall Grow Plc	Gen- Zee Ltd
	₦000	₦000
Non- current assets		
Property plant and equipment	120,000	60,000
Investment in Gen- zee Ltd	10,500	-
Current assets	58,500	21,750
Total assets	**189,000**	**81,750**
Equity and liabilities:		
Equity		
Ordinary share capital	75,000	15,000
Retained earnings	90,750	54,000
	165,750	**69,000**
Current liabilities	23,250	12,750
Total equity and liabilities	**189,000**	**81,750**

Statement of changes in equity for the year ended 31 October, 2024.

	Young shall grow Plc	Gen- zee Ltd
	₦000	₦000
Balance 31 0ctober 2023	53,250	49,500
Profit for the year	37,500	8,250
Dividend paid	-	(3,750)
Balance 31, October 2024	**90,750**	**54,000**

Additional information:

i) The draft financial statements of Young shall grow Plc and Gen- zee Ltd. for the current year 2024 and the previous year were disclosed without the application of equity methods of accounting in accordance with provisions of IAS 28.

ii) The retained earnings of Gen- zee Ltd on 31 October, 2020 were ₦7,500,000 and all its assets and liabilities were carried at fair value. None of the companies has issued any shares since that date.

iii) During the year to 31 October, 2024 Young shall grow Ltd bought goods from Gen-zee Ltd for ₦2,250,000, which had cost Gen- zee Ltd ₦1,500,000. One - quarter of these goods were unsold by Young shall grow Plc as at 31 October 2024.

Required:
Prepare the following separate financial statement of Young shall grow Plc for year 2024:

(i) Statement of profit or loss and other comprehensive income;
(ii) Statement of changes in equity; and
(iii) Statement of financial position. Incorporating the results of the associates Gen-zee Ltd, using the equity methods of accounting in accordance with the provisions of IAS 28.

(14 marks)
Total (20 marks)

Solution 4

ai) **An Associate:** is an entity over which the investor has a significant influence.

ii) **Significant influence:**
Significant influence is the power to participate in the financial and operating policy Decisions of the investee but is not in control of those policies

- IAS 28 states that if an entity holds 20% or more of the voting power (equity) of another entity, it is presumed that significant influence exists, and the investment should be treated as an associates
- If an entity owns less than 20% of the equity of another entity, the normal presumption is that significant influence does not exits.
- Holding between 20% and 50% of the equity of another entity, therefore means that as a general rule that significant influence exits, but not control. Therefore the investment should be treated as an associate that it is not a joint venture.
- The 20% or more is a general guideline, however IAS 28 states specifically how significant influence may also arise. Usually this may be evidenced in one or more of the following ways:
    - Representation on the board of directors
    - Participation in policy making processes, including participation in decisions about distributions (dividends)

- Material transactions between the two entities
- Provision of essential technical information by one entity to the other.

iii) Equity method of accounting

This is the method of accounting whereby investment is initially recognised at cost and adjusted thereafter for the post acquisition changes in the investors share of the investee's net assets.

The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income include its shares of the investee's other comprehensive income.

Therefore Investment in associates is:

	₦
Cost of investment	X
Plus/less Parents share of profit/ (loss) of the associate since acquisition	X/(X)
Plus/less parents share of OCI of the associates since acquisition	X/(X)
Less Any impairment of the investment recognised	(X)
Investment in associate	X

bi) **Young shall grow Plc statement of profit or loss and other comprehensive income for the year ended 31 October, 2024**

	₦000	₦000
Operating profit		48,750
Share of associate profit (40% x ₦8,250)	3,300	
Unrealised profit (₦2,250 -₦1,500 x 40%) x 0.25	(75)	
		3,225
Profit before tax		51,975
Income tax exp. (₦12,750 + 40% x ₦2,250)		(13,650)
Profit for the year		**38,325**

ii) **Young Shall Grow Plc**
Statement of changes in equity for the year ended 31 October, 2024

	₦000
Balance b/fwd	53,250

Associate bal b/fwd (₦49,500- ₦7,500) x 40%	16,800
Profit for the year	38,325
Balance c/fwd	**108,375**

iii) **Young shall grow Plc**

Statement of financial position as at 31 October, 2024

Assets	**₦000**
Non-current assets	
Property plant and equipment	120,000
Investment in associates (W1)	30,600
Current assets (W2)	56,925
Total assets	**207,525**
Equity and liabilities	
Equity	
Ordinary share capital	75,000
Retained earnings	108,375
	183,375
Current liabilities (₦23,250 + (asso tax ₦2,250 x 40 %)	24,150
Total equity and liabilities	**207,525**

Working notes:

W1 **Investment in associates**

	₦000
Initial cost	10,500
Share of post acquisition profit (40 % x (₦49,500- ₦7,500)	16,800
Share of profit for the year (40% x ₦8,250)	3,300
Investment in associates	**30,600**

W2 **Current assets**

	₦000
Young shall grow per question	58,500
Adjustment: for dividend receivables	(1,500)
Unrealised profit (40% x ₦750) x 0.25	(75)

	56,925

EXAMINER'S REPORT:
Part (a) of the question tests candidates knowledge of the definition of an associate, significant influence and equity method of accounting under IAS 28. Part (b) tests how to prepare the following separate financial statements; statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position using equity method of accounting.

Few of the candidates attempted the question and their performance was below average.

The common pitfalls of the candidates were their lack of knowledge of the requirements of the question under IAS 28. Majority of the candidates do not understand the provisions of IAS 28 – Investments in associates and joint ventures.

Candidates are advised to carry out in-depth study to cover all areas of the syllabus, practice more past questions and pay attention to relevant accounting standards.

SECTION C:
YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION

Question 5

a) When preparing statement of profit or loss, it is necessary to calculate gross profit, which can only be estimated if the cost of sales is ascertained. There are two main methods of recording inventory so as to make the calculation of cost of sales possible. These are:
- Periodic inventory system
- Perpetual inventory system.

Required:

Explain the two (2) types of the inventory systems (4 marks)

b) Highlight any Three (3) disclosure requirements for inventory in the financial statements in accordance with IAS 2. (3 marks)

c) Aso Mountain Nigeria Ltd a trading company sells goods A B C. The information below relates to the opening inventory of the company as at 1 January, 2024:

	Units ('000)	Unit price (₦)	Amount (₦m)
Goods A	300	160	48
Goods B	350	120	42
Goods C	475	80	38
Total			**128**

The net realisable value of these goods per units are as follows: Goods A – ₦120, Goods B – ₦160, Goods C – ₦64.

Required:
Calculate the value of the opening inventory to be included in the statement of profit or loss. (4 marks)

d) On 1 December, 2024 Asejere Nigeria Ltd held 300 units of an item of finished goods inventory. These were valued at ₦22 each. During December 2024, three batches of finished goods were received into store from production department as follows:

Date	**Units**	**Production cost per unit (₦)**
	Received	
10 - December	400	23
20 - December	400	25
25 - December	400	26

Goods sold out of the inventory during December 2024 were as follows:

Date	**Unit sold**	**Sales price per unit (₦)**
14- December	500	31
21- December	500	33
28- December	100	32

Required:
Calculate the cost of sales and the inventory as at 31 December 2024 using First-in First-out (FIFO) method of valuation (4 marks)

Total (15 marks)

Solution 5

a) Periodic inventory system

Inventory count (stock take) are vital for the operation of periodic inventory system as it depends on closing inventory at the end of each period being recognised in the system of accounts this system is also referred to as" Period end system". Under this system closing inventory is recognised in the inventory account as an asset (a debit balance) and the other side of the entry is a credit to cost of sales. Cost of sales comprise of purchases in the period adjusted for movement in inventory level from start to the end of the period.

Perpetual inventory system
This is a system where inventory records are continuously updated, so that inventory values are always available.

When the perpetual inventory method is used, a record is kept for all receipts of items into inventory (at cost) and all issues of inventory to cost of sales.

Each issue of inventory is given a cost, and the cost of the items issued is either at actual cost of the inventory (if its practicable to establish the actual cost) or cost obtained using a valuation method.

Each receipts and issue of inventory is recorded in the inventory account. This means that a purchases account becomes unnecessary, because all purchases are recorded in inventory accounts.

Inventory count are also important to operate perpetual inventory system in other to ascertain the differences between the balance in the inventory account and the actual physical quantity of the inventory.

b) Disclosure requirements for inventory in the financial statements

i) The accounting policy for measuring inventories, including the cost measurement method used.

ii) The total carrying amount of inventories, classified appropriately (e.g. raw materials, work- in- progress and finished goods)

iii) The amount of inventory carried at net realisable value or NRV.

iv) The amount of inventory written down in value and so recognised as an expense during the period.

v) Details of any circumstances that has led to write- down of inventories to NRV

vi) The amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expenses in the period.

c) Opening inventory of Aso Mountain Nigeria Ltd as at 1 January, 2024

Goods	Inventory total cost (₦m)	Units ('000)	Realisable cost per unit (₦)	NRV (₦m)	Inventory (lower of cost and NRV) (₦m)

A	48	300	120	36	36
B	42	350	160	56	42
C	38	475	64	30.4	30.4
Total	128			122.4	108.4

Value of opening inventory is **N108,400,000.**

d) **Cost of sale and inventory of Asejere Nigeria Ltd as at 31 December, 2024**

1st method

Date	**Units issued**	**Issued Unit cost (₦)**	**Total cost issued (₦)**	**Cost of sales (₦)**
14 December	300	22	6,600	
	200	23	4,600	11,200
21 December	200	23	4,600	
	300	25	7,500	12,100
28 December	100	25	2,500	2,500
Closing inventory	400	26	**10,400**	
Cost of sales				**25,800**

OR – 2nd method

Particulars	**Units**	**Unit cost (₦)**	**Total (₦)**
Opening inventory	300	22	6,600
Purchases	1,200		29,600
Closing inventory	(400)	26	**(10,400)**
Cost of sales	1100		**25,800**

EXAMINER'S REPORT:

Part (a) of the question tests candidates' knowledge of the explanation of periodic and perpetual inventory systems. Part (b) tests candidates' knowledge of the disclosure requirements for inventory while, part (c) tests how to calculate the value of the opening inventory.

Few of the candidates attempted the question and their performance was below average.

The common pitfalls of the candidates were their inability to interpret the question correctly, they could not clearly state the disclosure requirements for inventory and they do not know how to calculate the value of the opening inventory.

Candidates are advised to familiarize themselves with all aspects of the syllabus and pay special attention to all accounting standards in the syllabus.

Question 6

a) IFRS 15 – Revenue from contract with customers, is based on core principles that requires an entity to recognise revenue.

Required:

State the core principles prescribed by IFRS 15, in the recognition of revenue and highlight five (5) steps to be followed in applying the core principles.

(5 marks)

bi) Explain how performance obligation are identified when deciding how to account for contract to supply goods and services in accordance with IFRS 15.

(5 Marks)

bii) Jitalex Engineering Ltd manufactures and sells machines and has 31 December year end.
Customers are required to pay a deposit of 10% on order. The remaining 90% is paid on delivery.

Machines are delivered to customers by third party. Within one week after delivery, Jitalex employees install the machine on customers premises. The installation required is not complex and is capable of being performed by several alternative service providers. Installation costs is 1% of the transaction price.

A fee for a three (3) year servicing contract amounting to 6% of the transaction price are included in the final invoice.

Required:
Identify and explain the performance obligations that exist in the above contract.

(5 marks)

Total (15 marks)

Solution 6

6a) IFRS 15 is based on a core principle that requires an entity to recognise revenue:

-In a manner that depicts the transfer of goods or service to customers; and

-at an amount that reflects the consideration the entity expect to be entitled to in exchange for those goods or services.

The five (5) steps to be followed in applying the core principles are as follows:

Step 1: Identify the contract(s) with the customer;

Step2: Identify the separate performance obligations;

S**tep 3:** Determine the transaction price;

Step 4: Allocate the transaction price to the performance obligations; and

Step 5: Recognise revenue when or as the entity satisfy performance.

bi) **Identification of performance obligations**

A contract may contain a number of performance obligations. IFRS 15 requires that suppliers of goods and services must identify the separate performance obligations in a contract for supply of goods and services.

A performance obligation is a promise to transfer goods or services that is distinct or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service is distinct if both of the following criteria are met :

i) It must be capable of being distinct – in order words the customer is able to benefit from goods or service (either on its own or together with other resources that are readily available to it); and

ii) It must be distinct in the context of the contract, meaning that the goods or services must be separately identifiable from other promises in the contract.

Once the performance obligations have been identified, the next step is to allocate the transaction price to those obligations. In this way the revenue is then recognised as the performance obligations are satisfied. This may be over time or at a point in time depending on the circumstances.

bii) The following are the performance obligation in the Jitalex Engineering Ltd's contract:

i) Supply of the machine;

ii) Installation of the machine; and

iii) The servicing contract.

Each of the above is capable of being distinct and is distinct in the context of the contract.

The customers can benefit from the machine on its own together with other readily available resources (e.g. installation service of the machine is available from alternative service providers)

Also, the customer can benefit from the installation service together with other resources that the customer will readily have because the customer will have the control of the machine before the installation service is performed
The customer will also clearly benefit from the servicing contract.

Question 7

a) IAS 37 - applies to all provisions and contingencies apart from those covered by specific requirement of other standards.

Therefore, provisions differ from other liabilities because there is uncertainty about timing of amount of the future cash flow required to settle the liability.

Required:
Explain the criteria for recognition of provisions in the financial statements and distinguish between provisions and contingent liabilities. **(9 marks)**

b) Sakasaka Nigeria Ltd is a manufacturing company that has sold 10,000 units of its product for the year ended 31 December, 2024. The sales of the company accrue evenly over year.

The management of the company estimated that for every 100 items sold the following repairs will be needed:

- 20 items will require small repairs at a cost of ₦100 each
- 10 items will require substantial repairs at a cost of ₦400 each

- 5 items will require major repairs or replacement at the cost of ₦800 each.

The needs for repairs or replacement of the company's product will only become apparent six (6) months after the sale has been made hence provision has to made for the sales of the second half of the year in the financial statement for the year ended 31 December, 2024.

Required:
Calculate the provisions for the second half of the year to be incorporated in the financial statements for the year ended 31 December 2024. **(6 marks)**
Total (15 marks)

Solution 7

a) **Criteria for recognition of provisions**

A provision should be recognised when:

- A company has a present obligation (legal or constructive) as a result of past events;
- It is probable that cash flow of economic benefit will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

Please note if one of these conditions is not met then provision cannot be recognised.

Differences between provisions and contingent liabilities

Provisions: are recognised as liabilities (assuming that a reliable estimate can be made) because they present obligations and it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation.

Contingent liabilities: are not recognised as liabilities because they are either:

- Possible obligations;
- Present obligation that do not meet recognition criteria for provisions because either:
- It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- A sufficiently reliable estimate of the amount of the obligation cannot be made due to uncertainty.

b)

Repairs	**Estimate**	**Cost of repairs (₦)**	**Provisions (₦)**
Small	20% x5000= 1000	100	100,000
Substantial	10% x 5000 =500	400	200,000
Major	5% x 5000 = 250	800	200,000
Total provisions			500,000

Note: Since sales accrue evenly over the year, therefore the sales in the second half of the year (six months) will be 5,000 units (that is 10,000units/2)**.**

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2025: PROFESSIONAL EXAMINATION

PTX I: TAXATION OF INDIVIDUALS

TUESDAY, 15TH APRIL, 2025 **EXAM NO………………**

YOU ARE REQUIRED TO ATTEMPT FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER

TIME: 3 HOURS.

SECTION A – COMPULSORY QUESTION

QUESTION 1

Mrs. Alia Bajee is an Accountant working in an oil servicing company in River's State. In January 2023, she was appointed Finance Director by the company. Before now, she served in one of the branch offices of the company outside the state capital. The following details relate to her new role:

	₦
Monthly basic salary	650,000
Monthly utility allowance	50,000
Monthly transportation allowance	80,000
Half yearly dressing allowance	300,000
Christmas bonus	300,000

Other information includes:

i) Mrs Bajee was assigned an official car which costs ₦8,000,000.
ii) in addition, she occupied an official residence given to her by her employer on which she pays no rent. The annual ratable value of the house is ₦1,500,000.
iii) the house was finished by the employer at the cost of ₦2,000,000.
iv) the company also specifically employed 3 domestic workers to serve her. The gardener, cook and driver earned a monthly income of ₦30,000, ₦27,000, and ₦32,000 respectively.
v) Mrs Bajee has 4 teenage children and an aged mother as dependents.
vi) she contributes ₦63,000 monthly to an approved pension fund and also makes a monthly contribution of two and half percent of basic salary to National Housing Fund; and

vii) Mrs Bajee was also paid the sum of ₦150,000 to enable her move her belongings to the state capital to perform her new role.

In addition to her employment income, she was engaged in running a retail store where she sells ladies attire, children's clothes and other accessories. Details of her business operations for 2022 are as follows:

i) the profit for the period was ₦2,600,000
ii) capital allowance agreed with the tax authority was ₦400,000
iii) depreciation charge for the year was ₦150,000.
iv) during the period, her driver employed for the retail store was fined ₦40,000 for a traffic offense and this was charged to the business.
v) Mrs. Bajee made a donation of ₦100,000 to her worship place and this was charged to the business.

Finally, in 2021 and 2022, Mrs Bajee earned gross interest income of ₦50,000 and ₦60,000 respectively.

Required:

a) Compute the adjusted profits of her business **(3 Marks)**
b) Compute Mrs Alia Bajee's tax liability for the relevant year of assessment (**14 Marks)**
c) Compute Mrs Bajee's minimum tax liability **(1 Mark)**
d) Differentiate between a contract of employment and contract for employment **(4 Marks)**
e) State the conditions under which employment income may not be subject to tax in Nigeria **(3 Marks)**
f) What are the functions of the State Internal Revenue Service? **(5Marks)**

Total (30 marks)

Solution 1

a) Mrs Alia Bajee

Computation of adjusted business income for 2023 year of assessment

	₦
Reported profit	2,600,000
Add disallowed expenses:	
depreciation	150,000
Donation	100,000
Traffic fine	40,000

Total Less capital allowances Adjusted profits	2,890,000 (400,000) 2,490,000 **(3 marks)**

b) Mrs Alia Bajee

Computation of income tax liabilities for 2023 year of assessment

	₦	₦
Earned Income:		
Salary	7,800,000	
Utility allowance	600,000	
Transport allowance	960,000	
Dressing allowance	600,000	
Christmas bonus	300,000	
Benefit in Kind:		
Use of official car	400,000	
Accommodation	1,500,000	
Furniture	100,000	
Domestic staff	89,000	
Business profits	2,490,000	14,839,000
Total earned income		
Unearned income:		
Interest (gross)	60,000	60,000
Total income		14,899,000
Less tax-exempt items:		
Pension	756,000	
NHF contribution	195,000	(951,000)
Gross Income		13,948,000
Less consolidated relieve allowance (CRA)		(2,989,600)
Chargeable Income		10,958,400
Tax rates		
First N300,000@ 7%		21,000
Next N300,000 @ 11%		33,000
Next N500,000 @ 15%		75,000
Next N500,000 @ 19%		95,000
Next N1,600,000@ 21		336,000
N7,758,400@24%		1,862,016
Total tax liability		2,422,016

(14 marks)

c) Minimum tax liability

1% of total income = 0.01 x 14,899,000 = ₦148,990**. (1 mark)**

Workings

Salary 650,000 x 12 months = ₦7,800,000
Utility allowance ₦50,000 x 12 months = ₦600,000
Transportation allowance ₦80,000 x 12 = ₦960,000
Dressing allowance ₦300,000 x 2 = ₦600,000

Accommodation
7 1/2/12 x 850,000 = ₦531,250

Official Vehicle Use
5% x ₦8,000,000 = ₦400,000

Furniture 5% x ₦2,000,000 = ₦100,000

Pension = ₦63,000 x 12 = ₦756,000
NHF = 0.025 x ₦7,800,000 = ₦195,000

Consolidated relieve allowance = 20% of Gross income plus the higher of (i) ₦200,000 and (ii) 1% of gross income
= 0.2 (13,948,000) + ₦200,000
= ₦2,989,600

Domestic staff	₦
Gardener	30,000
Cook	27,000
Driver	32,000
Total	89,000

d) A contract for employment is an agreement whereby a person is engaged as an independent contractor, such as a self-employed person or vendor engaged for a fee to carry out an assignment or a project for the company. In a contract for employment, there is no employer-employee relationship in the contract and the self- employed person is not covered by the Labour Act. An individual under a contract of employment is commonly referred to as an employee, while an individual under a contract for employment is referred to as an independent contractor or self-employed person. The following distinctions can be drawn between a contract of employment and a contract for employment:

(i) An individual under contract of employment earns remuneration while an individual under contract for employment earns a profit.

(ii) An individual under contract of employment is assessed to tax on actual year basis, while an individual under a contract for employment is assessed to tax on preceding year basis;

(iii) An individual under a contract for employment is required to register for value added tax, while an employee is not required by law to do so;

(iv) An employee has the right not to be unlawfully dismissed and to receive redundancy payment and other employment rights, while a self employed person has no such rights. **(1 mark each = 4 marks)**

e) The conditions under which employment income may not be liable to Nigerian tax include:

- the employee must be resident in Nigeria for less than 183 days inclusive of annual leave or temporary period of absence;
- the employer of the individual must not be resident in Nigeria; and
- the income of the individual must conform with the subject to tax principle.

(1 mark each = 3marks)

f) The State Internal Revenue Board shall be responsible for:-

- ensuring the effectiveness and optimum collection of all taxes and penalties due to the Government under the relevant laws;
- doing all such things as may be deemed necessary and expedient for the assessment and collection of the tax and shall account for all amounts so collected in a manner to be prescribed by the Commissioner: “Provided that an amount of not less than 5% of revenue collected as may be approved by a State House of Assembly shall be retained by the State Board of Internal Revenue to defray cost of collection and administration”;
- making recommendations, where appropriate, to the Joint Tax Board on tax policy, tax reform, tax legislation, tax treaties and exemption as may be required, from time to time;
- generally controlling the management of the State Service on matters of policy, subject to the provisions of the law setting up the State Service; and

- appointing, promoting, transferring and imposing discipline on employees of the State Service. **(5 marks)**

(**Total 30 marks)**

EXAMINER'S REPORT:
The question tested candidates understanding on adjusted profits of an individual and tax liability of an employee. It also tested candidates understanding of minimum tax, contract of employment, contract for employment and also functions of State Revenue Service.

Percentage Attempt: 80% of the candidates attempted the question.
Performance of the Candidates: Candidates' performance was below average.
Commonest Pitfall: Candidates did not understand the tax laws governing taxation of employment and business of individuals. Many of them did not make use of the table, postings were just listed, however, a few of them did very well.

Advise to Candidates: Candidates should read the study text in and out.

SECTION B:
YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION

Question 2
Tijai Savvy Limited is a small company located in city of Port Harcourt, River State, Nigeria. The company was involved in the following transactions during the month of November 2024. The transactions include:

November 2 ₦4,300,000 was paid for the supply of goods used in the ordinary course of business
November 5 ₦4,000,000 was paid to Tory Limited for purchase of goods used in the ordinary course of business of Tijai Savvy Limited
November 6 Eddy Consult Limited was paid ₦2,200,000 as fees for training staff

November 7 ₦2,400,000 paid for the services of Electrical Enterprises for electrical installation at the factory.
November 10 ₦350,000 was paid to their auditor for professional services rendered
November 13 ₦1,900,000 was paid for technical services provided by Mr. Olu
November 16 Joe Enterprises contract supplies and was paid ₦1,900,000

November 17 paid ₦300,000 Insurance premium to XANY Insurance Limited for its plant
November 23 paid ₦2,200,000 for contract supply to Sabi Limited
Sazzy Limited also made supplies worth ₦1,700,000 and was paid

November 26 Sanny Enterprise supplied plumbing materials and was paid ₦300,000

November 28 paid ₦2,100,000 for installation of fittings at the warehouse to Consults Limited
November 28 paid ₦1,800,000 to Mr. Gabriel for his Technical services in the warehouse.
November 28 Home Consults Limited was paid a professional fee of ₦1,500,000

Additional information:

- All the transactions in November were carried out with businesses that had duly registered with the relevant tax authority and obtained their TIN numbers except for Mr Gabriel, Joe Enterprises, Sazzy Limited and Home consults.

Required:

(a) Compute the withholding tax payable to the relevant tax authority. **(12 Marks)**

(b) Discuss the circumstances under which refund of withholding tax suffered will be admissible by the tax authority (**4 Marks)**

(c) State the conditions that small companies are to meet before they can be granted exemption from the requirement to deduct at source under the 2024 deduction at source regulations. (**4 Marks)**

Total (20 Marks)

Solution 2

(a) Tijai Savvy Limited
Computation of Withholding tax payable for the month of November 2024

Date	Transaction	Amount	Rate	WT (N)	
		₦	%	FIRS	RSIRS
Nov 2	Goods supplied for use in the ordinary course of business	4,300,000		-	-
Nov 5	Purchase of goods used in the ordinary course of business from Lory Limited	5,000,000		-	-
Nov 6	Paid Training fees to Eddy Consult Ltd.	2,200,000	10	220,000	

Nov 7	Paid for electrical installations by Sammy electrical Enterprises	2,500,000	10		250,000
Nov 10	Paid professional fees of auditor	300,000	10	-	-
Nov 13	Paid for technical services provided by Mr. Olu	1,800,000	10		-
Nov 17	Paid insurance premium to Rainy insurance Limited	300,000	-	-	-
Nov 16	Paid for contract supplies in favour of Joe Enterprises	1,900,000	10	-	190,000
Nov 23	Paid for Contract supplied by Rabi Limited	2,200,000	10	220,000	-
	Paid for supplies by Sazzy Limited	1,700,000	10	170,000	
Nov 26	Paid for plumbing materials supplied by Sanny Enterprise	300,000	10	-	-
Nov. 28	Paid for installation of fittings by Sattle Limited	2,100,000	10	210,000	-
	Paid for Technical services in favour of Mr. Gabriel	1,800,000	10	-	180,000
	Home consults Ltd was paid professional fees	1,500,000	10	150,000	-
Total				970,000	620,000

Note: the transactions of November 10, 13 and 26 met the requirements of exemption. The businesses involved are duly registered and have TIN numbers and the transactions are below ₦2,000,000. The transactions involving Mr. Gabriel, Joe Enterprises, Sazzy limited and Home Consult Ltd. Suffered withholding tax because the businesses have not been duly registered with relevant tax authority even though the transactions were all below ₦2,000,000.

(12 Marks)

(b) Circumstances where withholding tax deduction suffered may be admissible by the tax authority:

(i) Where a person who suffered withholding tax, deduction is not liable to income tax for the year **(2 marks)**

(ii) where the tax withheld is in excess of tax assessed. **(2 marks)**

(c) Conditions to be fulfilled before small companies can be granted exemption from the requirement to deduct at source

(i) the supplier has a valid tax identification number (**2 marks)**

(ii) the value of the transaction is ₦2,000,000 or less during the relevant calendar month. (**2 marks)**

(Total 20 marks)

EXAMINER'S REPORT:

Candidates were tested on WHT payable to relevant tax authority, circumstances for refund and conditions small companies will meet to be granted exemption.

Percentage Attempt: About 60% of the students attempted the question
Performance: The performance was very poor.
Commonest Pitfall: Candidates were unable to properly decipher the import of the question. Though the table was not prepared by many of the students. A few computed but did not indicate if certain item was meant for FIRS or RSIRS.
Advice to Candidates: Candidates should pay attention to details by covering all aspect of the syllabus.

QUESTION 3

In personal taxation determination of residence is as vital for the purpose of identifying the relevant tax authority of a taxpayer. The First Schedule of PITA provides details for the determination of residence.

Required:

Explain the following terms:

a) Resident individual **(5 Marks)**
b) Non-resident individuals **(5 Marks)**
c) Residence and nationality **(5Marks)**
d) Place of residence **(5 Marks)**

(Total 20 Marks)

Solution 3

a) Resident individual

An individual is registered as resident in Nigeria in an assessment year if he:

i) is domiciled in Nigeria;

ii) sojourns in Nigeria for a period or periods in all amounting to 183 days or more as a 12-month period; and
iii) serves as a diplomat or diplomatic agent of Nigeria in a country other than Nigeria

(5 marks)

b) **Non-resident individual**

A non-resident individual is a person who is not a domicile in Nigeria or who stays in Nigeria for less than 183 days in a 12-month period but derives income or profit from Nigeria

A non-resident individual becomes liable to tax in Nigeria from say he commences to carry on trade, business, vacation or profession in Nigeria. In the case of employment income he is liable to tax in Nigeria when he becomes a resident

(5 marks)

c) **Residence and nationality**

Residence should not be confused with nationality. The Nigerian tax laws attach importance to residence and not nationality.

Therefore, whether you are a citizen of Nigeria or a citizen of another country the same tax laws apply to an individual who is not resident in Nigeria whether he is a Nigerian or a foreigner national. **(5 marks)**

d) **Place of residence**

"place of residence in relation to an individual, means a place available for his domestic use in Nigeria on a relevant day and does not include any hotel, rest-house or other place at which he is temporarily lodging, unless no more permanent place is available for his use on that day. **(5 marks)**

(Total 20 marks)

EXAMINER'S REPORT:

The question tested candidates on Residency, Nationality and place of Residence.
Percentage Attempt: About 90% of the candidates attempted the question.
Performance: Majority performed very well by using the appropriate terms expected.
Commonest Pitfall: A few of the candidates did not understand the import of the question.
Advice to Candidates – Indept knowledge of key areas of the syllabus is required.

QUESTION 4

Rose, Pas and Peggy have been in partnership for about six years. The operational performance of the partnership for the year ended December 31, 2023 was as follows:

	₦	₦	₦
Gross profit			15,000,000
Salaries and wages		1,500,000	
Transport and travelling		464,400	
Insurance		118,000	
Rent and rates		560,000	
Office expenditure		443,600	
Professional fees		150,000	
Allowance for doubtful debts		441,000	
Staff loan written off		110,000	
Depreciation		1,200,000	
Interest on loan by Rose		250,000	
Interest on capital accounts:			
Rose	220,000		
Pas	230,000		
Peggy	250,000	700,000	(5,937,000)
Net profit for the year			9,063,000

Other relevant information:

i) Office expenditure includes a donation of ₦104,500 to an old people's home.

ii) Capital allowance agreed with the(revenue) authority was ₦650,000.

iii) Included in salaries was the sum of ₦55,000 which was reimbursement of travelling expenses to Pas when he undertook a business trip for the partnership.

iv) Included in office expenditure was the sum of ₦80,000 paid as fine for traffic violation.

v) Rent and rates included the sum of ₦150,000 paid for rent. The property belonged to Peggy.

vi) Salaries were earned equally by the partners.

vii) Their share of profits/losses was similar to the share of interest on their capital accounts.

viii) All the partners have a life assurance policy on which annual premiums paid are as follows: Rose ₦160,000; Pas ₦175,000; Peggy ₦168,000

Required:

(a) Compute the adjusted profits of the partnership for the relevant assessment year **(5 Marks)**

(b) Compute the tax payable by each partner for the relevant assessment year. **(15 Marks)**

Total (20 Marks)

Solution 4

(a) Determination of adjusted profits

	₦	₦
Net profit per accounts		9,063,000
Add disallowed expenses:		
Depreciation		1,200,000
Allowance for doubtful debts		441,000
Donation		104,500
Traffic offense		80,000
Staff loan written off		110,000
		10,998,500
Less Capital allowance		(650,000)
Adjusted profits		10,348,500
Share of profits:		
Rose 220,000/700,000 x 10,348,500		3,252,385.71
Pas. 230,000/700,000 x 10,348,500		3,400,221.43
Peggy 250,000/700,000 x 10,348,500		3,695,892.86
		10,348,500

(5 marks)

(b) Rose, Pas and Peggy
Determination of tax liability of partners for 2024 year of assessment

	Rose	Pas	Peggy	Total
	₦	₦	₦	₦
Share of profits	3,252,386	3,400,221	3,695,893	10,348,500
Interest on capital	220,000	230,000	250,000	700,000
Interest on loan	250,000	-	-	250,000
Rent	-	-	150,000	150,000
Salaries	481,666.67	481,666.67	481,666.66	1,445,000
Total income	4,204,052.67	4,111,887.67	4,577,559.66	12,893,500
Less tax-exempt item: premium on life assurance policy	(160,000)	(175,000)	(168,000)	(503,000)
Gross income	4,044,052.67	3,936,887.67	4,409,559.66	12,390,500
Less tax reliefs:				
Consolidated relief allowance	(1,008,811)	(987,378)	(1,081,912)	(3,078,101)
Chargeable income	3,035,241'67	2,949,509.67	3,327,647.66	9,312,399
Tax rate				
First ₦300,000@7%	21,.000	21,.000	21,.000	
Next ₦300,000@11%	33,000	33,000	33,000	
Next ₦500,000@15%	75,000	75,000	75,000	
Next ₦500,000@19%	95,000	95,000	95,000	
Next ₦1,435 242 @ 21%	301,401	-	-	
Next ₦1,349 510 @ 21%	-	283,397		
Next ₦1,600,000 @ 21%	-		336,000	
Next ₦127,648 @ 24%			30,636	
Tax Liability	525,401	507,397	590,636	

(15 marks)

Workings:
Salaries
₦1,500,000 -₦55,000 = ₦1,445,000
Shared equally ₦1,445,000/3 =₦481,666.67
Rose ₦481,666.67
Pas ₦481,666.67
Peggy N481,666.67

EXAMINER'S REPORT:

The question tested candidates' knowledge on Taxation of Partnership.
Percentage attempts: Less than 40% of the candidates attempted the question
Performance: Very poor performance
Commonest pitfall: Candidates lack complete understanding of the question. They did not understand how to calculate the tax liabilities of partners.
Advice to Candidates: Candidates to read the study pack very well and digest it properly.

SECTION C:
YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION

QUESTION 5

Jerry and Sons' Enterprises decided to disposed of a duplex in Port Harcourt, Rivers State, a property that was acquired in 2017 for ₦3,600,000. Previous tenants of the property vacated it in January 2010. A security man and gardener were then engaged to look after the property until it was disposed of. The property was eventually disposed of in June 2020 and the following details were extracted from the financial records of the enterprise:

.

Sales proceeds of duplex	₦8.5 million
Cost of advertising the sale of the property	₦55,000
Insurance premium against the risk of damage of the property	₦160,000
Depreciation of property (Jan -June 2020)	₦400,000
Security guard and gardener's wages (Jan to June 2020)	₦70,000
Cost of renovation (Feb 2020)	₦420,000
Fees and commissions paid to the professional	
Services of legal advisers, estate valuers and auctioneers	₦250,000
Transfer and conveyance fees	₦65,000

The proceeds from the sale were then applied to purchase a similar property for the sum of ₦4.5 million in July 2020 and professional fees of ₦180,000 was paid.

Furthermore, on 1 January 2022, Jerry and Sons Enterprises sold the asset to Chief Nda for the sum of ₦7.5 million and the sales agreement provided for an initial deposit of ₦4.55 million on the day of sale and the balance of ₦2,950,000 payable in three equal instalments on July 1, 2022, January 1, 2023 and July 1, 2023. Details of the transactions are stated below:

Date	Amount (₦)
1/1/2022	4,550,000
1/7/2022	983,333.33
1/1/2023	983,333.33
1/7/2023	983,333.34

You are required to compute:

a) the capital gains and the rollover relief, if any **(9 Marks)**

b) the capital gains tax payable by Jerry and Sons for 2022 year of assessment. **(4 Marks)**

c) the amount of capital gains for each year of assessment under the sales agreement **(2 Marks)**

(Total 15 Marks)

Solution 5

a) Jerry and Sons Enterprises

Computation of capital gains tax payable 2020 year of assessment

	₦	₦	₦
Sales proceeds			8,500,000
Less incidental cost of disposal:			
Advertising		55,000	
Security/gardener		70,000	
Insurance		160,000	
Renovation		420,000	
Fees and commissions		250,000	
Transfer and conveyances		65,000	1,020,000
Net proceeds			7,480,000
Less cost of acquisition			(3,600,000)
Capital gains			3,880,000
Deduct lower of:			
Sales proceeds	7,480,000		
Amount reinvested	4,320,000	4,320,000	
Less cost of acquisition		(3,600,000)	
Amount rolled over			(720,000)
Net capital gains			3,160,000
CGT @10%			316,000

(Total 9 marks)

b) Jerry and Sons Enterprises

Computation of capital gains tax payable 2022 year of assessment

	₦
Consideration received	7,500,000
Deduct: cost of acquisition	4,320,000
Chargeable gains	3,180,000
Capital gains @ 10%	318,000

(4 marks)

Analysis of consideration received by instalments

Instalment	Amount ₦	Date of payment	Year of assessment	Total for each year of assessment (₦)
1st	4,550,000	1/1/2022		
2nd	983,333.33	1/7/2022	2022	5,533,333.33
3rd	983,333.33	1/1/2023	2022	
4rd	983,333.34	1/7/2023	2023	1,966,666.67
			2023	

c)

Computation of capital gains for each year of assessment

2022 year of assessment ₦5,533,333.33/7,500,000 x 318,000 = ₦234,613.33
2022 year of assessment ₦1,966,666.67/7,500,000 x 318,000 = ₦83,666.67

(2 marks)
(Total 15 marks)

EXAMINER'S REPORT:
The question tested candidates understanding on Capital Gains Tax
Percentage Attempt: Less than 20% of the candidates attempted the question.
Performance Candidates: Performance very poor.
Commonest Pitfall: Candidates inability to have a grasp on the import of the question. They got it right postings of the figures/items, however cogent areas in summation were wrongly done in deriving the Capital Gains.
Advice to Candidates: Candidates should pay attention to details. This area of the syllabus should be tested once again.

QUESTION 6

Mr. James Okpoko, an employee of XYZ Nigeria Limited, provided the following information for the year ended December 31, 2022;

i) Annual basic salary - ₦13,000,000
ii) The company paid for domestic servants and a night guard as follows:
Night guard - ₦480,000
Domestic servants (2) - ₦ 300,000 each
iii) Received the sum of ₦96,000 during the year as reimbursement of travelling expenses for official assignments
iv) Lived in a company house rented for ₦1,500,000 per annum
v) Used an official car purchased at a cost of ₦12,000,000 by the company
vi) He is married with 4 children of school age
vii) He has an aged mother whom he maintained with ₦500,000 per annum
viii) Paid the sum of ₦96,000 as life assurance premium
ix) The rateable value of his residence is ₦480,000

x) Dividends received (net of withholding tax) from shares in ABC Limited are as follows:

	₦
Paid June 6, 2021	120,000
Paid July 12, 2021	130,000
Paid June 7, 2022	140,000
Paid December 5, 2022	170,000

Required:

Compute the tax payable for the relevant assessment year.

(15 Marks)

Solution 6

Mr. James Okpoko

Computation of personal income tax liability for 2022 assessment year

	₦	₦
Earned income		13,000,000
Salary		
Benefits-in-kind:		
Domestic servants (₦300,000x2)	600,000	
Night guard	480,000	
Accommodation	480,000	
Company's car (₦12,000,000x5%)	600,000	2,160,000
		15,160,000
Unearned income:		
Dividend gross (₦250,000/0.9)		277,778
Total income		15,437,778
Dividend gross		(277,778)
Tax exempt item:		
Life assurance premium		(96,000)
		15,064,000
Consolidated relief allowance (CRA)		
(₦200,000x20% of ₦15,064,000)		(3,212,800)
Chargeable income		11,851,200

Computation of personal income tax payable

	₦
Ist ₦300,000 @ 7%	21,000
Next ₦300,000 @ 11%	33,000
Next ₦500,000 @ 15%	75,000
Next ₦500,000 @ 19%	95,000
Next ₦1,600,000 @ 21%	336,000
Next ₦8,651,200 @ 24%	2,076,288
11,851,200	
Personal income tax payable	2,636,288

(Total 15 marks)

QUESTION 7

The administration of taxation in Nigeria is vested in various tax authorities depending on the type of tax under consideration.

Broadly there are three tax authorities, namely;

i) Federal Inland Revenue Service;
ii) State Board of Internal Revenue; and
iii) The Local Government Revenue Committee

The enabling law in respect of each type of tax will normally contain a provision as to the body charged with the administration of the tax.

Required:

a) Explain the composition of the State Board of Internal Revenue (SBIR)
(7 ½ Marks)

b) Discuss the powers and functions of the Federal Inland Revenue Service Board
(7 ½ Marks)
(Total 15 Marks)

Solution 7

a) Composition of the State Board of internal Revenue (SBIR)
The State Board of Internal Revenue for each state of the federation comprises:

i) the chairman of the State Internal Revenue Service as chairman of the State Board who shall be a person experienced in taxation and a member of a relevant recognized professional body appointed by the State Governor, subject to information by the state house of assembly;
ii) the Directors from within or outside the State Service;
iii) a director from the state ministry of finance;
iv) the legal Adviser to the State Internal Revenue Service;
v) three other persons appointed by the State Governor on their personal merit are each representing a Senatorial District of the State; and
i) the secretary of the State Internal Revenue Service **(7 ½ marks)**

b) Powers and function of the Federal Inland Revenue Service Board
The Board shall:
ii) provide the general policy guidelines relating to the functions of the Service;
iii) manage and superintend the policies of the service on matters relating to the administration of the revenue assessment collection and accounting system under the Act or any enactment or law;
iv) review and approve the strategic plans of the service;
v) employ and determine the terms and conditions of the service, including disciplinary measures of the employees of the service;
vi) stipulate remuneration allowances, benefits and pensions of staff and employees in consultation with the national salaries, income and wages, commission; and
vii) do such things which in its opinion are necessary to ensure the efficient performance of the functions of the service under the Act.

(7 ½ marks)
(Total 15 marks)

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2025: PROFESSIONAL EXAMINATION

PTX I: TAXATION OF COMPANIES

WEDNESDAY 16TH APRIL, 2025 **EXAM NO..................**

YOU ARE REQUIRED TO ATTEMPT FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER

TIME: 3 HOURS.

SECTION A – COMPULSORY QUESTION

QUESTION 1

Nothing spoil Limited, a natural juice producing Company located in Ota focused on production of tigernuts, orange and pineapple juices, was granted a pioneer certificate by the Federal Government on May 1, 2017, for an initial period of three years. As a result of unfavourable business climate (which resulted in poor financial performances); and several interference by Government officials, particularly on issues relating to dividend policy, treatment of losses, and capital allowances, the company did not apply for an extension to the pioneer status. The company had the following statements for the first three years of operations:

(i) Year ended	April 30, 2018	April 30, 2019	April 30, 2020
	N'000	**N'000**	**N'000**
Net loss	(28,700)	(25,500)	(20,200)
After charging:			
Salaries and wages	15,300	16,100	17,360
Transport and traveling	1,100	1,700	1,820
Depreciation	6,800	7,530	8,600
Rent and rates	1,200	1,400	1,500
Donations to social clubs	100	0	250
Allowance for doubtful debts:			
Specific	1,400	1,200	1,500
General	1,850	1,750	1,800
General expenses	1,650	1,820	1,900

(ii) The following qualifying capital expenditure (QCE) items acquired during the pioneer period were certified by the Federal Inland Revenue Service (FIRS) as at the end of the pioneer period:

QCE	Number of Items	Amount N'000
Non-industrial building	1	10,000

Industrial building	1	25,600
Manufacturing industrial plants	2	12,600
Furniture and fittings	8	3,400
Motor vehicles	2	4,000

Additional QCEs acquired:

QCE	**Number of Items**	**Amount**	**Date of Acquisition**
		N'000	
Furniture and fittings	2	500	June 12, 2020
Motor vehicles	1	2,200	March 7, 2021

(iv) Operational result:

During the year ended April 30, 2021, the company' s records revealed the following:

	N'000	**N'000**
Turnover	102,500	
Dividend income (grossed up)	1,200	
Other operating income	800	
	104,500	
Deduct:		
Salaries and wages	39,600	
Repairs and maintenance	3,500	
Depreciation	15,300	
Rents and rates	6,800	
General and administrative expenses	9,970	
Legal fees	2,500	
Audit and accountancy fees	3,200	
Allowance for doubtful debts	6,600	
Bank charges	2,100	89,570
Net profits		14,930

The following additional information in respect of the operational result was provided:

(v) Dividend income was from equity shares acquired from a Nigerian listed company.

(vi) Repairs and maintenance was made up of:

	N'000
Repairs of manufacturing industrial plant	1,500
Maintenance of motor vehicles	800
Improvement to non-industrial building	1,200

	3,500

(vii) General and administrative expenses comprised:

	N'000
Transport and traveling	3,750
Advertisement	4,920
Transfer to revenue reserve	1,300
	9,970

(viii) Legal fees consisted of:

	N'000
Collection of trade debts	1,100
Fine for late filing and payment of tax	50
Legal expenses on new issue of shares	1,350
	2,500

(ix) Allowance for doubtful debts included:

	N'000
Bad debts written off	2,800
Specific provision	2,500
General provision	3,700
Bad debts recovered	(2,400)
	6,600

Required:
As the company's newly employed Tax Manager, you are required to prepare a memo to the Managing Director stating the:

a. Adjusted profits for the relevant periods (13 Marks)
b. Tax liabilities payable for the relevant assessment year (11 Marks)
c. Provisions of the Industrial Development (Income Tax Relief) Act 2007 (as amended) in respect of a pioneer company's:
i. Dividend payment (2 Marks)
ii. Losses made during the pioneer period (2 Marks)
iii. Capital allowances for qualifying capital expenditure acquired during the pioneer period
(2 Marks)
(Total 30 Marks)

Solution 1

Internal Memo

Date: 10th April, 2025
To: The Managing Director
From: Tax Manager

Re: Computation of adjusted profits, tax liabilities and other matters

I hereby present a report in response to your request on computation of Company's adjusted profits, tax liabilities and other tax matters.

a. Adjusted profits

During the pioneer period (2018, 2019 and 2020), the company made a total adjusted loss of N45,720,000 (see attached Appendix 1). The adjusted profit for the year ended April 30, 2021, was N36,630,000 (see appendix 2).

b. Tax liabilities payable for 2022 assessment year with nil total profit, the company is not liable to pay any companies income tax. However, payment of tertiary education tax, which is 2.5% of the assessable/adjusted profit, N915,750, is to be paid to the Federal Inland Revenue Service (FIRS). Given the fact that the company is not up to 48 calendar months in business, the company is exempted from paying minimum tax. The Management is advised to immediately file its annual tax returns and accompany it with a cheque of N915,750 in favour of FIRS.

c. Provisions of the Industrial Development (Income Tax Relief) Act 2007 (as amended) in respect of:

i. Dividend payment

- Dividends can only be made out of profit.
- Dividends declared out of pioneer profit are not taxable (that is, free of withholding tax)
- Also, there is a limitation on a distribution of company's dividends. No dividends may be distributed in excess of a certain balance on its profit and loss account.

ii. Losses made during the pioneer period

- The pioneer company shall be deemed to have set up and commenced a new trade or business on the day next following the end of its tax relief period.
- Thus, any losses made during the pioneer period and certified by the Federal Inland Revenue Service may be available for relief during the new trade. The practice of the Service is to restrict the relief to the first year of the new trade
- Any unrelieved losses outstanding at the end of the first year of the new trade will be deemed to have been lost permanently.

iii. Capital allowances for qualifying capital expenditure (QCE) acquired during the pioneer period

- Any qualifying capital expenditure incurred during the pioneer period will be aggregated and assumed to have been incurred on the first day of the new trade.
- These QCEs will now qualify for both initial and annual allowances as from the first assessment year of the new trade.

Please do not hesitate in calling on me if you need any further clarification on the above subject.

Kind regards,

Tax Manager

Appendix 1:

Adjusted profits during pioneer period (for the year ended April 30, 2018, 2019 and 2020)

	Year ended 30/4/2018		Year ended 30/4/2019		Year ended 30/4/2020		Total
	N'000	**N'000**	**N'000**	**N'000**	**N'000**	**N'000**	**N'000**
Net loss as per accounts		(28,700)		(25,500)		(20,200)	(74,400)
Add back:							
Depreciation	6,800		7,530		8,600		
Donations	100		0		250		
General allowance for doubtful debts	1,850		1,750		1,800		
		8,750		9,280		10,650	28,680
Adjusted profit/ (loss)		(19,950)		(16,220)		(9,550)	(45,720)

Appendix 2:

Adjusted profit for the year ended April 30, 2021

	N'000	N'000
Net profit as per accounts		14,930
Add back: Repairs and maintenance (improvement)	1,200	
Depreciation	15,300	
General and admin expenses (reserve)	1,300	
Legal fees: Fine for late filing of returns	50	
Expenses on new issue of shares	1,350	
Allowance for doubtful debts (general provision)	3,700	22,900
		37,830
Less: Income not taxable		
Dividend Income (grossed up)		1,200
Adjusted profit		36,630

Appendix 3:

Computation of tax liabilities for 2022 Year of Assessment

	N'000	N'000
Adjusted/Assessable profit		36,630
Deduct Loss Relief		
Loss brought forward	45,720	
Loss relieved	(36,630)	(36,630)
Unrelieved loss (Lapse)	9,090	

Capital allowance for the year (Working 1)	23,218	
Relieved Capital allowance	-	
Unrelieved Capital allowance c/f	23,218	
Total profit		Nil
Companies income tax @ 30%		Nil
Tertiary education tax @ 2.5% of Assessable Profit (i.e. 2.5% of N36,630,000)		₦915,750

Working 1:
Computation of Capital Allowances

QCE	Non-ind Building	Industrial Building	Manuf Ind. Plant	Furniture & Fittings	Motor Vehicle	Total
Capital allowance Rates (%)	15:10	15:10	50:20:10	25:20	50:25	
	N"000	N"000	N"000	N"000	N"000	N"000
Cost @ 1/5/2020	10,000	25,600	12,600	3,400	4,000	
Additions	1200	-	-	500	2,200	
Total	11,200	25,600	12,600	3,900	6,200	
Initial Allowance	(1,680)	(3,840)	(6,300)	(975)	(3,100)	15,895
AA	(952)	(2,176)	(1,575)	(585)	(775)	6,063
Investment Allowance	-	-	-	-	-	1,260
Total Capital Allowance						23,218
TWDV c/f to 2023 YOA	8,568	19,584	4,725	2,340	2,325	

SECTION B:
YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION

QUESTION 2

(A) Under the Capital Gains Tax Act CAP C1, LFN, 2004 (as amended), explain what constitutes a transaction between connected persons. (3 Marks)

(B) Kester Nigeria Limited is a private company located in Warri, Delta State. The company is into manufacturing of sanitary wares and the products are fast moving in Nigeria.

While reviewing the activities of the company for the first quarter ended 31 March 2024, the Chief Executive Officer of the company stated that the increase in fuel prices and general inflation in the country is adversely affecting the company's operation.

The management of the company decided to relocate the company to Abeokuta, Ogun State in June 2024 due to negative impact of unrest in its area of operation in Warri, Delta State. This decision involved the disposal and re-acquisition of some fixed assets needed for the purpose of the business.

The following transactions took place between September and November, 2024:

(a) The property (land and building) in Warri, which was acquired in 2004 for ₦16,000,000 was sold for ₦63,000,000. The following incidental cost were incurred:
- Renovation expenses – ₦1,700,000
- Advertisement Fee – ₦5,000,000
- Estate Valuer's Fee – ₦1,650,000

A new property was acquired in Abeokuta for ₦80,000,000.

(b) A generator which cost ₦1,250,000 was sold to Obinna Nigeria Limited, a company having the same owner with Kester Nigeria Limited for ₦16,500,000. The market value of the generator sold to Obinna Nigeria Limited was ₦20,000,000.

(c) Product Packing machines purchased for ₦3,500,000 was sold for ₦2,900,000. Another product packing machine was acquired for ₦8,500,000

(d) Factory cleaning equipment acquired in 2010 at ₦1,300,000 was disposed for ₦1,900,000 and another machine was acquired for ₦5,000,000

Required:

As the company's Tax Manager, you are required to:

(i) Compute the capital gains tax (if any) (7 Marks)

(ii) Compute the roll-over relief (if any) (7 Marks)

(iii) Determine the cost at which capital allowances will be granted to the company by the tax authorities on the newly purchased fixed assets. (2 Marks)

(iv) Due dates for the payment of capital gains tax on the transactions (1 Marks)

(Total 20 Marks)

Solution 2

(A) In line with the Capital Gains Tax Act CAP C1, LFN 2004 (as amended), connected persons transactions are transactions between persons that are related who are not likely to deal with one another at arm's length. Such transactions are deemed fictitious or artificial. The tax authority will therefore disregard such transaction and make necessary adjustment to counteract the reduction in tax liability.
For the purpose of capital gains tax where there is a transaction between connected person and the market value is higher than the sales proceed, the market value shall be taken as the consideration.

(B) Kester Nigeria Limited

Computation of Capital Gains Tax for 2024 Year of Assessment
(b) (i & ii) Disposal of property (Land and Building)

	₦	₦
Sales Proceeds		63,000,000
Less incidental costs:		
- Renovation expenses	1,700,000	
- Advertisement fees	500,000	
- Estate valuers	1,650,000	
Net sales proceeds		3,850,000
		59,150,000
Deduct cost of acquisition		(16,000,000)
Capital Gains		43,150,000
Roll-over Relief:		
The lower of amount reinvested/sales proceeds		
Sales proceed	63,000,000	
Less original cost of acquisition	(16,000,000)	
Roll-over relief (Restricted to Capital Gains)		(43,150,000)
Net Capital Gains		NIL
Capital Gains Tax @ 10%		NIL

(b) (i & ii) Disposal of Generator to Obinna Nigeria Limited

	₦	₦
Sales Proceeds (Market value)		20,000,000
Less cost of acquisition		(1,250,000)
Capital Gains		18,750,000
Capital Gains Tax @ 10%		1,875,000

No roll-over relief since the proceed was not reinvested.

(c) (i & ii) Disposal of Product packing machine

	₦	₦
Sales Proceeds		2,900,000
Less cost of acquisition		(3,500,000)
Capital loss		(600,000)

No roll-over relief for fixed assets sold at loss

(d) (i & ii) Disposal of cleaning equipment

	₦	₦
Sales Proceeds		1,900,000
Deduct cost of acquisition		(1,300,000)
		600,000
Roll-over Relief:		
The lower of sales proceeds/		
amount reinvested	1,900,000	
Less original cost of acquisition	(1,300,000)	
Roll-over relief		600,000
Net Capital Gains		NIL
Capital Gains Tax @ 10%		NIL

B (iii) Cost at which capital allowances will be granted by the tax authority on the newly purchased assets are:

- Property in Abeokuta – ₦80,000,000
- Product packing machine – ₦8,500,000
- Factory cleaning equipment – ₦5,000,000

B (iv) The due date for the payment of ₦1,875,000 capital gains tax due is 31 December, 2024

QUESTION 3

VAT is a consumption tax that has been embraced and adopted by many nations across the globe. From the perspective of the seller, it is a tax only on the value added to a product, material, or service while from an accounting point of view, by the stage of its manufacture or distribution. It is levied on the value-added that results from each exchange. It is an indirect tax collected from someone other than the person who bears the burden of the tax.

As a requirement for new Tax Professionals joining the group you are required to go through the scenerio below and answer the questions that follows

Calabar Kitchen & Hotel Limited is a group of company located in many parts of South-South Nigeria providing Indoor and outdoor catering services. It renders its returns at the end of each month in accordance with the Value Added Tax Act 2004 (as amended).

The following are the details of the transactions for the month of July 2023: N

	N
VAT on outdoor catering services	500,000
VAT on food	360,000
VAT on drinks	240,000

VAT on other vatable hotel services 270,000
VAT on drinks purchased 150,000
VAT on foodstuff purchased 210,000
VAT on kitchen equipment 480,000
VAT on professional services 240,000

You are also provided with the following additional information:
(i) 30% of outdoor catering services were on credit
(ii) 20% of food and drinks were on credit
(iii) Other vatable hotel services were paid for in full.
(iv) 25% VAT on drinks and foodstuff purchased were on credit.
(v) VAT on kitchen equipment and professional services were paid for in full.
Required:
a. Compute the VAT remittable to the Federal Inland Revenue Service in respect of July 2023 transactions (8 Marks)
b.i) Explain who is a taxable Person (4 marks)
ii) What are the VAT goods exempt and service exempt? (8 marks)
(Total 20 Marks)

Solution 3

(a) Calabar Kitchen & Hotels Limited VAT remittable to the Federal Inland Revenue Service (FIRS) In respect of July 2023 transactions

Output VAT	**N**	**N**
VAT on outdoor catering (70% of N500,000)	350,000	
VAT on drinks (80% of N360,000)	288,000	
VAT on foodstuff (80% of N240,000)	192,000	830,000
Less Input VAT		
VAT on drinks (75% of N150,000)	112,500	
VAT on foodstuff (75% of N210,000)	157,500	(270,000)
Amount remittable		560,000

NOTE Based on the provisions of the Finance Act, 2019, VAT remittance is now “cash based” as against “invoice based”.

bi.
Taxable Person

A taxable person under Vat is a person that deals in VATable goods and services. A taxable person is obliged to register with the FIRS for VAT collection "within six months of the commencement of the Act or within six months of the commencement of business, whichever is earlier." Failure to register attracts a penalty of N50,000.00 for the first month in which the failure occurs; and N25,000.00 for each subsequent month. Since a period of six months has elapsed after the promulgation of the Act, it presupposes that every taxable person is now obliged to register as soon as it commences business and this is supported by Finance Act 2019. VAT can only be lawfully collected after registration; it means that until then the taxable person will not have any output VAT against which the input tax can be offset.

Meanwhile, Section 10 mandates a non-resident company, carrying on business in Nigeria to register for VAT by using the address of the person with whom it has a subsisting contract. A non-resident company shall include the tax in its invoice while the person to whom the goods and services are supplied shall remit tax in the currency of the transaction.

ii) Exemption of goods and services from VAT

Outright exemption of VAT on some goods and services entails that there is no obligation of VAT and no attempt at charging VAT from the outset. Exempted goods and services attract neither input nor output VAT. Therefore, the deduction of the former from the latter, and remittance of the difference to FIRS does not arise. VAT exempt items are outlined in Parts I and II of the First Schedule to the Act. According to the VAT Act, exempted goods and services are as follows:

Goods Exempt

1. All medical and pharmaceutical products.
2. Basic food items.
3. Books and educational materials.
4. Baby products.
5. Locally produced fertilizer, agricultural and veterinary medicine, farming machinery and farming transportation equipment.
6. All exported goods.
7. Plant and machinery imported for use in the Export Processing Zone.
8. Plant, machinery, and equipment purchased for the utilization of gas in downstream petroleum operations.
9. Tractors, ploughs, agricultural equipment and implements purchased for agricultural purposes.
10. Locally manufactured sanitary towels, pads and tampons.
11. Commercial aircraft, commercial aircraft engines commercial aircraft spare parts.

Services Exempt

1. Medical services;

2. Services rendered by Microfinance Banks, People's Banks, and Mortgage Institutions;
3. Plays and performances conducted by educational institutions as part of learning; and
4. All exported services.
5. Tuition relating to the nursery, primary, secondary and tertiary education.
6. Airline transportation tickets issued and sold by commercial airlines registered in Nigeria.
7. Hire, rental or lease tractors, ploughs and other agricultural equipment for agricultural purposes.

QUESTION 4

a) The Managing Director of XYZ Limited attended an FIRS Stakeholder engagement workshop where he heard that Chartered Tax Practitioners are expected to have a deep understanding of the Tax system to compute Companies Income Tax, Tertiary education tax and levies of specialized businesses.

You have just been employed and the Managing Director is highly impressed to know you are a qualified tax Professional. Your first assignment is to prove your expertise to the Board of Directors.

You are presented with the following information relating to XYZ Limited which commenced operations September 1st ,2021:

Adjusted Profit	**(₦)**
Period to 31st December,2021	6,937,500
Year ended December ,2022	9,300,500

The following assets were also acquired:

	₦
September 1, 2021- Land and Building	6,000,000
September 1, 2021 -Motor Vehicle	10,000,000
October 15,2021- Machinery	4,375,000
February 28,2022 – furniture	3,458,000
May 1,2022 – Delivery Van	4,750,000

You are required to:

a. State the Basis periods for Qualifying expenditure and assessable profits (2 marks)

b. Compute the Capital Allowances for the relevant years of assessment (8 marks)

b) You are the Managing Partner of Prime Tax Consultants known for topnotch tax consultancy services by most organizations operating in Abuja. Your firm has been the tax Consultants for over two decades to Games Nigeria Limited, a company owned by a royal family of Indian origin. You submitted the company's income tax returns for 2020 year of assessment to the Federal Inland Revenue Service, Abuja Small Medium Tax Office on 25 June 2020. Your client makes up account to 31 December each year. On 15 July 2020, the company forwarded to your office an assessment notice served on it on 14 July 2020 but dated 10 June 2020 and numbered LC/00444/2020. The computations which you submitted on behalf of your client showed income tax liability of N20,500,000 as payable but the assessment notice showed a total profit of N83,000,000 and tax payable of N24,900,000.

The assessment which is for the 2020 year of assessment was described as "**Administrative Assessment**." As a tax practitioner with over two decades of experience, you are required to:

(a)Write a letter of objection to the tax authority on the assessment (5 Marks)

(b). How would you advise your client on the necessary actions to take should the Federal Inland Revenue Service reply your letter and insist that your client must pay the assessment of ₦24,900,000 because it had been raised before you submitted the tax returns (5 Marks)

(Total 20 Marks)

Solution 4

a(i) **XYZ LIMITED**

Basis Periods for Qualifying Capital Expenditure (QCE)

Year of assessment	Basis Period
2022	1/9/2021 - 31/12/2021
2023	1/1/2022 – 31/12/2022

Basis Periods for Assessable Profit

Year of assessment	Basis Period
2022	1/9/2021 - 31/12/2021
2023	1/1/2022 – 31/12/2022

a(ii) Determination of Capital Allowances for 2022 and 2023 Assessment years

YEAR OF ASSESSMENT		LAND& BUILDING	MOTOR VEHICLE	MACHINERY	FURNITURE	DELIVERY VAN	CAPITAL ALLOWANCES
		₦	₦	₦	₦	₦	₦
	INITIAL ALLOWANCE	15%	50%	50%	25%	50%	
	ANNUAL ALLOWANCE	10%	25%	25%	20%	25%	
	INVESTMENT ALLOWANCE			10%			

2022 (SEPT 1-DEC 31,2021	COST	6,000,000	10,000,000	4,375,000			
	INITIAL ALLOWANCE	(900,000)	(5,000,000)	(2,187,500)			8,087,500
	ANNUAL ALLOWANCE	(170,000)	(416,667)	(182,292)			768,959
	INVESTMENT ALLOWANCE	-	-	(437,500)			437,500
WRITTEN DOWN VALUE c/f to YEAR OF ASSESSMENT 2023		4,930,000	4,583,333	2,005,208			9,293,959
	COST				3,458,000	4,750,000	
	INITIAL ALLOWANCE				(864,500)	(2,375,000)	3,239,500
	ANNUAL ALLOWANCE	(510,000)	(1,250,000)	(546,875)	(518,700)	(593,750)	3,419,325
							6,658,825
WRITTEN DOWN VALUE C/F TO YEAR OF ASSESSMENT 2024		**4,420,000**	**3,333,333**	**1,458,333**	**2,074,800**	**1,781,250**	

b(i) PRIME TAX CONSULTANTS

B5-7CANDEL PLAZA,A.E.EKUKINAM STREET,UTAKO,ABUJA

15 July 2020
The Chairman
Federal Inland Revenue Service
114, Government Road, AMAC
Abuja
Dear Sir/Madam,

Games Nigeria Limited TIN Number: 38561365 – 0001

Objection to Best of Judgement assessment numbered LC/00444/2020 for N25,000,000

We refer to your letter and the notice of assessment that was served on our above named client and wish to inform you that although the notice of assessment was dated 10 June 2020, it was received by our client on 14 July 2020. The details of the assessment notice are stated below for ease of reference:
Assessment number: LC/00444/2020
Year of assessment: 2020
Date of assessment: 10/6/2020
Total profits: N83,000,000
Tax payable: N24,900,000
We hereby give notice of objection on the following grounds:

i. The assessment was based on estimated sum.
ii. The assessment was arbitrary and excessive and not in line with our client's records.
iii. The accounts for the year ended 31 December 2019 which formed the basis of the 2020 year of assessment together with the relevant capital allowances and income tax computations were filed with your office on 25 June 2020. Please find attached the acknowledged copy for ease of reference
iv. In line with the returns submitted to your office, our client's tax payable for 2020 year of assessment was N20,500,000 which was paid and payment evidence submitted when the returns were filed.

In view of the foregoing grounds of objection, we plead that you kindly discharge the above assessment, but instead raise a revised assessment based on the returns submitted and update our client's tax records accordingly.

We thank you for your usual co-operation and understanding.

Yours faithfully,
For: Prime Tax Consultants
Baban Gusau
Managing Partner

CC: The Managing Director
Games Nigeria Limited
994 Aminu Kano Crescent, Wuse II, Abuja

b(ii) On receipt of a notice of refusal to amend the assessment from the Federal Inland Revenue Service ("the Board"), I will advise my client to appeal to the Tax Appeal Tribunal. The appeal will be in the form of notice to the secretary of the Tribunal and must be made within 30 days after the date of service of notice of the refusal of the Board to amend the assessment. The notice of appeal against the assessment will contain the following:

i. The official number of assessment and the year for which it was made;
ii. The amount of tax charged by the assessment;

iii. The amount of total profits upon which the tax was charged;
iv. The date the notice of refusal was served;
v. An address for service of the notice of appeal.

Should the Tax Appeal Tribunal refuse my appeal on points of law, I will appeal such decision to the Federal High Court. If the Federal High Court disagrees with my grounds of appeal, we have opportunity to recourse to the court of appeal. And if the Court of Appeal disagrees with our grounds of appeal, we shall further appeal to the Supreme Court which is the final arbiter in this case.

SECTION C:
YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION

QUESTION 5
The Legal basis for assessing companies to tax in Nigeria is Companies Income Tax Act, Cap C21. LFN, 2024 as amended.

Required:
(a) *Discuss how the tax obligations of Nigerian companies differ from those of foreign companies under the Companies Income Tax Act (CITA), and (8 Marks)*
(b) *What factors determine a company's residency status for tax purposes? (7 Marks)*

(Total 15 Marks)

Solution 5
(a) The tax obligations of Nigerian companies differ significantly from those of foreign companies under the Companies Income Tax Act (CITA), primarily based on the residency status of the company, the source of income, and the method of assessment used for taxation. These distinctions are crucial as they define the scope of taxable income and the applicable tax rates. Understanding the differences requires an in-depth exploration of the tax treatment for both Nigerian and foreign companies, as well as the criteria that determine a company's residency status for tax purposes.

Tax Obligations of Nigerian Companies

- **Scope of Taxation:** Nigerian companies are taxed on their worldwide income, meaning that all income earned both within and outside Nigeria is subject to taxation under CITA. This applies regardless of whether the income is earned from business activities carried out in Nigeria or from foreign sources. The taxable base for Nigerian companies includes income from trading, dividends, interest, and other passive incomes, all of which are subject to the corporate income tax (CIT) rate of 30% for most companies.

- **Filing and Reporting Obligations:** Nigerian companies are required to file tax returns annually, detailing their income, deductions, and expenses for the relevant financial year. They must keep accurate books of accounts and submit audited financial statements along with the tax returns. These companies are also required to comply with various tax obligations, such as the payment of education tax, withholding tax on certain payments, and value-added tax (VAT), where applicable.

Tax Obligations of Foreign Companies

- **Scope of Taxation:** Foreign companies are subject to taxation in Nigeria on income derived from Nigerian sources. This is in contrast to Nigerian companies, which are taxed on their worldwide income. Foreign companies are only liable to tax in Nigeria on profits generated through a Permanent Establishment (PE) within Nigeria or through income derived directly from business activities carried out in the country. Examples of taxable income for foreign companies may include:
  - Income from Nigerian contracts
  - Profits from the sale of goods or services in Nigeria
  - Rental income from property in Nigeria

  However, income earned by foreign companies outside of Nigeria (e.g., interest, dividends, or royalties received from abroad) is not subject to Nigerian tax unless the company has a PE in Nigeria or the income is otherwise sourced from Nigeria.

- **Withholding Tax and Other Levies:** Foreign companies are subject to withholding tax (WHT) on certain Nigerian-source income such as dividends, royalties, and interest. The applicable rates are typically 10% for interest and royalties, and 7.5% for dividends, depending on whether a tax treaty exists between Nigeria and the company's home country. Additionally, foreign companies may be subject to other levies, such as the National Information Technology Development Agency (NITDA) levy, depending on the nature of their business activities.
- **Filing and Reporting Obligations:** Foreign companies that have a Permanent Establishment (PE) in Nigeria are required to register with the Federal Inland

Revenue Service (FIRS) and file annual tax returns. If the foreign company does not have a PE in Nigeria but earns income from Nigerian sources, the tax authorities may require them to appoint a tax representative or agent in Nigeria to comply with the tax filing and payment obligations.

(b) Factors Determining a Company's Residency Status for Tax Purposes

The determination of a company's residency status is one of the most critical aspects of distinguishing between Nigerian and foreign companies under CITA. The following factors play a significant role:

- **Place of Incorporation:** A company is considered a Nigerian company if it is incorporated in Nigeria. This includes companies formed under the Companies and Allied Matters Act (CAMA) and registered with the Corporate Affairs Commission (CAC).
    - **Foreign Companies:** Conversely, a foreign company is any company that is not incorporated in Nigeria but may be carrying on business or earning income in Nigeria.

- **Central Management and Control:** A company's residency status is also determined by the place where the company's central management and control is exercised. This refers to the location of the company's decision-making process, where key strategic decisions are made, and where the board of directors meets to make important decisions about the company's operations.
    - **Nigerian Companies:** A company incorporated abroad but managed and controlled in Nigeria may be treated as a Nigerian company for tax purposes.
    - **Foreign Companies:** Conversely, a company incorporated in Nigeria but managed and controlled outside Nigeria could be considered a foreign company for tax purposes. However, such a company may still be liable to tax on its Nigerian-source income.

- **Permanent Establishment (PE):** A Permanent Establishment (PE) refers to a fixed place of business through which a company conducts its business operations in a foreign country. For a foreign company to be subject to CIT in Nigeria, it must have a PE in the country. A PE can be a branch office, a subsidiary, or any physical presence, such as a factory or office. If a foreign company operates through a PE in Nigeria, its profits from Nigerian activities are taxable under CITA.
    - **PE and Tax Liabilities:** Foreign companies without a PE in Nigeria are generally not subject to CIT on income earned from Nigerian sources. However, when a foreign company has a PE in Nigeria, it will be taxed on the profits attributable to the PE in Nigeria, and it is required to file tax returns as a resident entity.

Summary of Key Differences

Criteria	Nigerian Companies	Foreign Companies
Scope of Taxation	Taxed on worldwide income	Taxed only on Nigerian-source income
Source of Income	Worldwide income, including foreign income	Only Nigerian-source income
Tax Filing Obligations	Must file annual returns with FIRS and maintain financial records	Must file returns if they have a PE in Nigeria or appoint a tax representative
Tax Rate	30% on taxable profits (standard rate)	10% withholding tax on dividends, interest, royalties, and other passive income
Tax Residency	Incorporated and managed in Nigeria	Incorporated outside Nigeria but may be taxed on Nigerian-source income if they have a PE in Nigeria
Permanent Establishment (PE)	Not relevant as the company is a Nigerian entity	Only taxable in Nigeria if a PE exists in Nigeria

QUESTION 6

Companies Income Tax Act, Cap C21, LFN 2004 (**"CITA"**) is the general income-tax administrative framework for companies in Nigeria.

However, due to the peculiarity of the insurance business, **Section 16 of CITA** is particularly dedicated to companies operating in the insurance sector. Section 16 of CITA explicitly addresses the specific income-tax administrative needs of the insurance companies.

Required:

i) What are the 2 major classifications of Insurance Business? Explain each and state their difference? (5 Marks)

ii) Explain the basis for determining taxable profit for the two major classifications of the insurance businesses? (10 Marks)

(Total 15 Marks)

Solution 6

i.The Amendment Act classified insurance business into "Life insurance company" and "General insurance company"..

Life insurance gives financial protection to the policyholder's family/beneficiary in case of the insured's demise. It also acts as savings, as you receive the lump sum amount at maturity upon survival.

General insurance provides coverage for damages or losses to assets such as a home, car, or business.

Life insurance and general insurance are two different types of insurance. While general insurance covers any other risk except for life-risk of the policyholder, life insurance covers mainly the life-risk of the insured person.

ii.**The Basis of Determining Taxable Profit**:

Taxable profit for General Insurance Company is gross premium and other receivables, less reinsurance, and unexpired risk. While for Life Insurance business, is investment income derived from the investment of shareholder's fund, less management expense (including commission).

- **Taxation of Dividend Distribution Arising from Revaluation**:

Dividend distribution arising from revaluation (including actuarial valuation of unexpired risks) is taxable and constitutes parts of taxable profit. The insurance company is also required to provide details of revaluation and revaluation certificate within three months following such valuation.

- **Treatment of Hybrid Insurance Company**:

The amendment Act also requires hybrid insurance Companies (companies carrying out both life and non-life insurance business) to keep separate accounting records and file separate Companies Income Tax (**"CIT"**) returns for each line of business. Moreover, unrelieved losses from one line of business cannot be utilized against the other line of business.

- **Allowable Deductions for Life and General Insurance Company**:

To further buttress the provisions highlighted in 'Basis of Determining Taxable Profit' in (2 above), apportioned reserve for unexpired risk and all utilized outgoing claims are allowable deductions against premium for General insurance business. While For life insurance, revaluation on 'reserve, funds, and liabilities on policies' are allowable deductions against investment income.

More also, all regular allowable deductions, as well as the higher of '*1% of gross premium*' and '*10% of the profit of any special reserve fund*' (subject to being a statutory minimum paid-up capital) are also allowable deductions from income of a life insurance business.

- **Allowable Deduction for Reinsurance Company**:

As for Reinsurance company, 'up to 50% of annual profit' where general reserve fund is lesser than initial statutory minimum authorized share capital, and 'up to 25% of annual gross profit' where funds are not less than initial statutory minimum authorized share capital is allowed as a deduction against gross profit, provided it was credited to general reserve.

- **Taxation of Services Rendered by Insurance Agent, Broker, and Loss Adjuster**:

Companies that use insurance agents, loss adjusters, or insurance brokers, are required to include a schedule of relevant disclosing of such service in their annual tax return. Required disclosure includes name, address, date of commencement and termination of service, and payments for such service.

- **Minimum Tax**

This is calculated on Gross turnover in respect to Sec.33 of CITA. However, for the general insurance business, gross turnover refers to 'gross premium (total premium written, received and receivable, excluding premium returned to the insured and unearned premium) as well as other income, excluding frank investment income.

On the other hand, gross income for life insurance business is the Gross turnover (encompassing all income including investment income, fees, commission, etc, excluding frank investment income and premium received/claim paid by re-insurers.

QUESTION 7

a. Discuss the key terminologies associated with Real Estate Investment Schemes (REIS), such as "property," "rent," and "taxes payable." How do these concepts contribute to the overall structure and functioning of a REIS?
(7 Marks)

b. Explain the nature of the business activities conducted by Real Estate Investment Schemes (REIS) and the regulatory framework that governs their operations. (8 Marks)

(Total 15 Marks)

Solution 7

a. Key Terminologies in REIS

Real Estate Investment Schemes (REIS) involve various key terminologies that are fundamental to understanding the structure and operation of these schemes.

- **Property**: In the context of REIS, property refers to real estate assets, which may include residential, commercial, or industrial properties. These properties are acquired, developed, and managed with the aim of generating income for investors through rents or capital appreciation.
- **Rent**: Rent is the income generated by leasing out properties owned by the REIS. REIS schemes typically involve generating rental income from real estate assets, which is then distributed to investors as returns.
- **Taxes Payable**: Taxes payable refer to the various tax liabilities that a REIS must meet under the relevant tax laws. This includes property taxes, income taxes on rental income, capital gains taxes on asset disposals, and any other applicable taxes. REIS are typically structured in a way that minimizes the tax burden on investors by utilizing exemptions or special tax regimes.

These concepts are integral to REIS because they determine how the scheme generates returns for its investors and the regulatory compliance required in its operations.

b. Nature of the Business of REIS and Regulatory Framework

The nature of the business of a Real Estate Investment Scheme (REIS) revolves around pooling funds from investors to acquire, manage, and profit from real estate assets. The goal is to provide investors with an opportunity to benefit from the real estate market without directly owning and managing properties themselves.

Key activities of REIS businesses typically include:

- Acquiring properties through investment.
- Leasing or renting out properties to generate steady income.
- Managing properties to ensure optimum utilization.
- Selling properties for capital appreciation.

Regulatory provisions for REIS ensure transparency, protect investors, and maintain market stability. In Nigeria, the regulatory framework governing REIS often includes laws such as the **Securities and Exchange Commission (SEC)** regulations and the **Companies and Allied Matters Act (CAMA)**. These regulations require REIS to disclose their activities, report financial statements regularly, and adhere to certain operational standards.

Moreover, REIS are also subject to tax regulations, including the **Companies Income Tax Act (CITA)**, which provides tax exemptions on dividends and rental income under certain

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

APRIL 2025: PROFESSIONAL EXAMINATION

PTX I: INFORMATION TECHNOLOGY & DIGITAL TAXATION

WEDNESDAY 16TH APRIL, 2025 **EXAM NO..................**

YOU ARE REQUIRED TO ATTEMPT FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER

TIME: 3 HOURS.

SECTION A – COMPULSORY QUESTION

QUESTION 1

The tax ecosystem is changing in recognition of the impact of digital economy. Tax legislations are also being amended to catch up with the pace of digitalisation.

As a tax consultant of several years of experience, your firm have been engaged to advise Swift E-Services Inc., a global digital service provider based in Germany that offers its services to Nigerian consumers but does not have a physical presence in Nigeria on its tax obligations.

You are required to prepare a report to the company:

(i) To identify taxes applicable to them in Nigeria. (18 Marks)

(ii) Provide a compliance strategy based on local tax laws. (12 Marks)

(Total 30 Marks)

SOLUTION 1

AA & Co. Tax Practitioner
22, Ikorodu Road, Lagos

4 April, 2025

The Managing Director
Swift E-Services Inc.,
Hamburg, Germany.

Dear Sir,

Re: Advise on Nigerian Tax Matters

We refer to the e-mail from your Chief Operating Officer and subsequent zoom meeting held on 20 March, 2025 with respect to the subject. Please find below our comments on the matters referred to us for your consideration.

(a) Your Tax Obligation in Nigeria

1. **Value added tax (VAT) on digital services:**

Even without a physical presence, if Swift E-Services Inc. has a significant Social Economic Presence **(SEP)** in Nigeria it must register for VAT. The company needs to update its invoicing systems to incorporate VAT on all local taxable transactions and remit the tax to the Federal Inland Revenue Service (FIRS). Under the Finance Act (2020) and the VAT Act, digital services provided to Nigerian consumers are subject to VAT at a rate of 7.5%.

2. **Withholding Tax on Cross-Border Transactions:**

   Payments for digital services provided by Swift E-Services Inc. to Nigerian consumers are subject to withholding tax. Detailed documentation is essential to ensure that Nigerian clients correctly deduct the appropriate tax at source. According to the Companies Income Tax Act (CITA) and FIRS guidelines, Nigerian payers must withhold tax on payments made to non-resident service providers.

3. **Digital Services Tax (DST):**

   Swift E-Services Inc. renders paid borderless digital online services to resident Nigerians and have significant economic presence in Nigeria are bound to comply with Nigerian tax laws. Local tax laws mandate them to remit 6% of their annual turnover (generated from business activities transacted online within Nigeria's digital space) as income tax to the FIRS

4. **Data Protection and Cybersecurity:**

   Swift E-Services Inc. must implement robust cybersecurity measures in Compliance with NDPR by safeguarding data and maintaining consumer trust. The Nigeria Data Protection Regulation (NDPR, 2019) sets strict standards for protecting personal data

5. **E-Filing and Digital Record-Keeping:**

   Swift E-Services Inc. must integrate its IT systems with FIRS-approved e-filing platforms (TaxproMax) to ensure real-time, accurate reporting of all digital transactions. This supports both tax compliance and potential audits. FIRS mandates the use of e-filing and the issuance of digital tax receipts as part of its digitalisation initiative.

(b) Compliance Strategy

1. **VAT and DST Registration and System Integration**

- Register for VAT and DST with FIRS in accordance with the Finance Act (2020) and current DST guidelines.
- Upgrade the accounting system to automate the calculation of VAT (7.5%) and DST (6%), ensuring that digital tax receipts are generated accurately.

2. **Management of Withholding Tax**

- Develop robust protocols to clearly segregate revenue generated from Nigerian consumers from other international revenue.
- Provide comprehensive documentation to Nigerian payers to facilitate the correct deduction of withholding tax as required under CITA.

3. **Enhancement of Digital Record-Keeping and E-Filing**

- Integrate IT systems with FIRS TaxproMax to maintain real-time, accurate records of all digital transactions.
- Regularly file returns to comply with FIRS directives.

4. **Strengthening Data Protection and Cybersecurity**

- Invest in advanced cybersecurity measures including state-of-the-art encryption, periodic security audits, and comprehensive employee training on NDPR compliance.

Conclusion
Swift E-Services Inc. must navigate a complex digital tax landscape in Nigeria despite lacking a physical presence. These strategies not only meet the legal requirements under the Finance Act (2020), VAT Act, CITA, and NDPR but also acknowledges the critical importance of establishing and maintaining an effective Social Economic Presence in Nigeria's dynamic digital economy.

We hope the above meet your requirement.

Please do not hesitate to contact the undersigned should you require further clarification on the subject.

Yours faithfully,
For: AA & Co Tax Practitioners

Amadi Chukwu
Senior Partner

SECTION B:
YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION

QUESTION 2
"ShopLocal," a small business based in Country B, sells handcrafted goods through an e-commerce platform and also utilises a social media platform to sell goods. The business outfit has limited technical expertise and rely on third-party services for payment processing and website hosting.
As one of the key personnel in the IT Section, you are to submit a write up to your immediate superior to:

(a) Describe the key features of the e-commerce model utilised by ShopLocal, including the technologies it is likely use to support her operations (8 marks)

(b) Explain the various payment systems that ShopLocal likely uses, outlining the key features and potential risks of each (6 marks)

(c) Discuss the potential tax benefits and tax challenges that ShopLocal might face as an e-commerce business (6 marks)

(Total 20 Marks)

SOLUTION 2

(a) E-commerce Model and Supporting Technologies

i. E-commerce Model:
- ShopLocal utilises a hybrid e-commerce model that incorporates
- Online Marketplace: Selling goods through a third-party e-commerce platform.
- Social Media Commerce: Selling directly through social media platforms, which also have built in payment systems.
- Direct-to-Consumer: By using third party platforms, they are in effect bypassing traditional retail channels to sell directly to consumers.

ii. Supporting Technologies:
- E-commerce Platform: An online platform (e.g., Shopify, Etsy) that hosts their storefront, manages product listings, and facilitates sales transactions.
- Social Media Platforms: They use platforms like Instagram and Facebook for product showcasing, customer engagement, and direct sales.
- Payment Gateways: Third-party payment gateways (e.g., PayPal, Stripe) are used to process online payments, handle secure financial transactions, and provide payment processing functionality.
- Website Hosting: Using a third-party service to host their online presence which allows customers to directly view and buy goods from their site.

(b) Payment Systems

i. Credit/Debit Card Processing:
- Using a third-party payment gateway to process payments made by customers using credit or debit cards.

ii. Features:
- Widely accepted, convenient for consumers, secure with encryption and tokenisation.

iii. Risks:
- Processing fees, chargebacks, and potential fraud.

iv. Digital Wallets:
- Customers may use digital wallets (e.g., Apple Pay, Google Pay) which offer secure payment through mobile devices and also provide convenience.
- Features: Fast and convenient, secure, and increasingly popular with consumers.
- Risks: Reliance on technology and requires customer adoption.

v. Mobile payments:
- Customers may pay directly through the social media platform (e.g. Facebook pay) which may require them to link a bank account or card for payments.
- Features: Fast and seamless payment experiences.
- Risks: Security and data privacy of customer information.

(c) Tax benefits and challenges

- Potential tax benefits:
  i. Lower operating costs:
     - Reduced overheads as ShopLocal avoids costs of traditional retail, such as renting a physical store.
  ii. Potential for tax deductions:
     - Can potentially deduct expenses related to website maintenance, hosting, and online marketing, reducing their overall taxable profits.

- Tax challenges:
  i. VAT/GST compliance:
     - If selling to customers in multiple jurisdictions, ShopLocal may face varying VAT/GST rates and reporting obligations.
  ii. Record-keeping:
     - The need to maintain accurate records of all online sales transactions and expenses to ensure compliance and accurate tax filings.
  iii. Jurisdictional issues:
     - Sales to customers across borders raise issues of which jurisdiction has the right to tax those transactions.

QUESTION 3

a. Discuss e-business and e-commerce models (5 Marks)
b. Describe the technologies used for e-business and e-commerce (10 Marks)
c. Describe the payment systems used by e-commerce businesses (5 Marks)
(Total 20 Marks)

SOLUTION 3

a.

E-busines encompass all aspects of running a business online, including internal processes like supply chain management, customer relationship management (CRM) and enterprise resource planning (ERP) alongside external activities like e-commerce focuses on overall operational efficiency and value creation.

e-commerce Models:

a) **Business-to-Consumer (B2C)** – Businesses selling directly to consumers. E.g Jumia, SLOT, Konga

b) **Business-to-Business (B2B)** – Companies selling goods/services to other businesses. E.g vconnect
c) **Consumer-to-Consumer (C2C)** – Individuals selling to other individuals. E.g Jiji.ng
d) **Consumer-to-Business (C2B)** – Individuals offering services to businesses. E.g content creators, Fiverr
e) **Government-to-Business (G2B) & Government-to-Consumer (G2C)** – Government transactions with businesses and individuals. E.g TaxproMax

b.

(a) **Technologies for E-Commerce**

- E-Commerce Platforms: Online stores like Jumia Nigeria and Konga use platforms such as Shopify, WooCommerce, and Magento to manage product listings, orders, and customer transactions.
- Payment Gateways: Secure payment processing is crucial for online businesses. Platforms like Paystack, Flutterwave, and Remita enable businesses to accept payments through cards, bank transfers, and mobile money.
- Logistics and Inventory Management Systems: To efficiently track stock levels and deliveries, e-commerce companies use software like TradeGecko or SAP Business One. Companies like GIG Logistics provide tech-driven delivery solutions for online sellers.
- Cybersecurity Technologies: Secure Sockets Layer (SSL) encryption, fraud detection software, and two-factor authentication (2FA) help protect customer data and transactions from cyber threats. Nigerian fintech firms, such as Opay, rely on these measures to secure their platforms.

(b) **Technologies for E-Business**

- Digital Marketing Tools: Social media marketing, email campaigns, and search engine optimisation (SEO) platforms like Google Ads and Facebook Business Manager are essential for promoting services and engaging with customers.

- Cloud Computing: Many e-businesses use cloud platforms like Amazon Web Services (AWS) or Microsoft Azure to store data, host applications, and provide online services like cloud storage and e-learning platforms.

- Enterprise Resource Planning (ERP) Systems: These integrate different business processes, such as accounting, inventory management, and customer relations. Companies like Interswitch use ERP solutions to streamline their operations.

- Customer Relationship Management (CRM) Software: Platforms like Salesforce and HubSpot help businesses track customer interactions, manage support requests, and improve marketing strategies. Nigerian banks and fintech companies use CRM tools to enhance customer engagement.

c.

Describe the payment systems used by e-commerce businesses

1. Card Payments

- **Debit and Credit Cards**: Visa, Mastercard, and Verve cards are commonly used for online purchases. Nigerian banks, such as GTBank and Zenith Bank, issue these cards, and payment processors like Paystack facilitate secure transactions.

2. Bank Transfers

- Many e-commerce platforms allow direct bank transfers for payments. Services like Opay and Paga integrate with Nigerian banks to provide smooth fund transfers.

3. Mobile Money and USSD Payments

- Mobile wallets like MTN MoMo and Airtel Money allow customers to pay using their mobile phones, even without internet access. Unstructured Supplementary Service Data (USSD) codes, such as *737# from GTBank, enable quick payments.

4. Digital Wallets and Payment Gateways

- Platforms such as Flutterwave, Remita, and Paystack offer digital wallets and integrated payment processing for online businesses. Customers can store funds and pay for products seamlessly.

5. Cash on Delivery (COD)

- Some Nigerian e-commerce businesses, like **Jumia**, still offer cash on delivery, allowing customers to pay when they receive their items. However, this method is becoming less common due to security concerns.

QUESTION 4

"CVcomms-Go," a multinational technology company, operates various online platforms, including a search engine, a video-sharing platform, and an online marketplace. Its operations in recent times span many countries. CVcomms-Go's headquarters and most IP are located in a neighbouring African country which is a low tax jurisdiction.

You are required to:

(a) Describe the various e-business and e-commerce models that CVcomms-Go employs and assess their implications for tax purposes (8 marks).

(b) Explain the key challenges that tax authorities face when trying to establish tax jurisdiction over CVcomms-Go's diverse global operations (8 marks).

(c) Discuss the concept of "trans-border e-transactions" and how this applies to the operations of CVcomms-Go, including the applicable tax types (4 marks).

(Total 20 Marks)

SOLUTION 4

(a) E-Business and E-commerce Models

i. Search Engine Platform: This functions as an e-business model, providing a free service to users, while revenue is generated through online advertising, representing a B2B e-commerce element. This involves indirect revenue generation for search engine services.

ii. Video-Sharing Platform: This platform combines elements of e-business, providing free services to users, with B2B e-commerce through advertising, as well as B2C e-commerce from paid content and subscription services, as well as B2B commerce for those who are using the platforms for advertising.

iii. Online Marketplace: This is a pure e-commerce model, facilitating online sales transactions between sellers and consumers, generating revenue through commissions and advertising, and also providing for a number of B2B transactions to take place.

- Tax Implications:

i. Nexus Issues: The company’s diverse revenue streams from multiple platforms and jurisdictions complicate determining where value is created and where taxable presence exists, particularly given its minimal physical presence outside of Country C.
ii. Transfer Pricing: The internal transfer of intangible assets and services between different parts of TransExtended are complex and challenging to value, leading to potential for profit shifting.
iii. Digital Services Tax (DST): Countries may impose DSTs on TransExtended’s revenue from advertising or online platform services, increasing its tax burden and complexity.

(b) Challenges for Tax Authorities

i. Lack of Physical Presence: Traditional tax jurisdiction relies on physical presence, which is difficult to establish for digital companies like TransExtended.
ii. Location of Value Creation: Difficulty in determining where value is created, as it is based on intangible assets, user data, and network effects, rather than physical assets.
iii. Mobile User Base: Users of TransExtended's platforms are spread globally, complicating the determination of where the services are consumed, and therefore, which jurisdictions have the right to tax them.
iv. Permanent Establishment Avoidance: The company is able to deliberately structure its operations to avoid creating a permanent establishment in countries where it may have significant revenue or user bases.
v. Data Privacy: Concerns about data privacy and protection, and the way that data is used for advertising purposes.

(c) Trans-border E-Transactions and Applicable Tax Types

i. Trans-border E-Transactions: Refers to cross-border digital transactions between parties in different countries. This is applicable to TransExtended as its platforms enable sales, provision of services, advertising, and data collection across many different borders.
ii. Applicable Tax Types:
    - VAT/GST: Applicable to sales of goods and services made to customers in various jurisdictions (such as services for advertisers), though this can be complex to calculate and comply with across borders.
    - Sales Tax: Potentially applicable on certain online sales, though this varies from jurisdiction to jurisdiction, creating complexity.
    - Digital Services Tax (DST): As previously mentioned, this is applicable in some jurisdictions, especially where they impose a tax on digital advertising or marketplace revenues.

SECTION C:
YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION

QUESTION 5
a) Discuss the role of Digital Technology in today's tax administration and how they contribute to efficiency of Tax agencies. Mention key areas where this transformation is evident (10 Marks)
b) Why is data protection and privacy essential in Nigerian tax administration? (5 Marks)
(Total 15 Marks)

SOLUTION 5

a. Digital Technology has significantly improved efficiency, transparency and compliance in Nigeria. The FIRS and State Tax Authorities have embraced digital solutions to improve Tax collection, streamline filing processes and reduce fraud.

   The use of these technologies has helped reduce paperwork, increased filing compliance and significantly enhanced revenue collection through automated tracking. Returns and payments are now being processed faster, tax evasion reduces through better data integration.
   Some evident use of Digital Technology in current times are:

- **TaxproMax –** A digital filing and payment platform introduced by FIRS that allows Taxpayers to register, file returns and make payments online.
- **Digital Tax Identification Number (TIN) Registration**
- **State Revenue Portals:** Many states have introduced digital tax collection platforms e.g LIRS e-Tax systems)
- **Remita** – Remita enables direct tax remittances
- **Integrated Tax Database:** This allows access to taxpayer information across government agencies

b. **Data Protection and Privacy in Tax Administration** is crucial to maintaining public trust by safeguarding millions of taxpayer information which if breached could lead to financial loss and legal issues and also to prevent fraud and theft identity and to ensure compliance in line with Nigeria's Data Protection Act 2023, Nigeria Data Protection Regulation (NDPR) 2019 and with global best practices.

QUESTION 6
The Lagos State Internal Revenue Service (LSIRS) is seeking to enhance its tax administration processes using modern technology. LSIRS faces significant challenges such as inefficient manual processes, increasing non-compliance, and a lack of integration between different departments and systems. They have decided to implement a new Integrated Tax Management System (ITMS) which they hope will help address all these

issues. This system will need to handle tax registration, filing, payments, and auditing, all while being secure and compliant.

As a tax manager in the compliance and monitoring section of the Revenue Service, you are to:

a. Discuss three specific practical applications of technology that LSIRS should include in its new ITMS to improve its efficiency and effectiveness. Explain how these applications will solve the challenges currently faced by LSIRS. (8 Marks)

b. Identify two specific information technology tools that are essential for this project, and explain how each tool will be used in LSIRS's new ITMS to streamline and improve the tax administration process, with clear examples. (7 Marks)

(Total 15 Marks)

SOLUTION 6

i. Online Tax Filing and Payment Portal:
   - Implementation of a secure online portal where taxpayers can register, file their tax returns electronically, and pay taxes online. This will address the current challenges of manual filing, reduce human error, and improve the speed and convenience of tax filing and payment for taxpayers, as well as improve collections.

ii. Automated Tax Assessment and Audit Selection:
   - Incorporating an automated tax assessment system that uses predefined rules, tax laws and data, to automatically assess tax liability. Additionally, use data analytics to select higher risk taxpayers for audit. This will improve the efficiency and fairness of the process and make it faster, fairer, and more transparent, while also freeing up tax officers.

iii. Centralised Data Management System:
   - Implementation of a centralized database to store all taxpayer information in one place and enable easy access across various departments. This will improve internal coordination, data security and decision making, and improve accountability. It also helps to eliminate data silos, ensuring all staff are accessing the same data.

QUESTION 7

Explain the impact of **Emerging Technology** on tax administration in Nigeria.

(15 Marks)

SOLUTION 7:

- **Cloud Computing** allows tax authorities to store large volumes of personal and transactional data securely while making tax processes seamless and more accessible to taxpayers. Example is the FIRS' TaxproMax Solution. This supports real-time tax reporting and helps meet regulatory requirements such as filing mandates issued by the FIRS. Cloud computing also reduces the need for expensive on-premise IT infrastructure, a key benefit noted in government policies encouraging digital transformation (NDEPS 2020-2023)

- **Blockchain Technology** is a modern way of storing data that enables Tax authorities share information in a transparent manner, this makes it easier to verify tax liabilities, simplifies audit trails and reduce tax evasion.
- **Artificial Intelligence (AI)** is used to detect anomalies and patterns in financial transactions, enhancing fraud detection capabilities. This makes it easier to flag discrepancies in tax returns and discover tax evasion patterns.
- **Big Data Analytics** is able to enhance understanding of Taxpayers behaviour and transaction patterns. This allows for more precise predictions of revenue.
- **Video Conferencing** allows continuous communication, consultation, stakeholder engagement, remote audit between Tax Practitioners, Taxpayers and Tax Authorities which align with governments emphasis on remote service delivery.