



CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2025: PROFESSIONAL EXAMINATION

PTX 1: FINANCIAL REPORTING

TUESDAY 14TH OCTOBER 2025

EXAM NO.....

TIME: 3 HOURS

INSTRUCTION

ANSWER QUESTION 1 AND ANY 2 QUESTIONS IN SECTION B AND ANY OTHER 2 QUESTIONS IN SECTION C

QUESTION 1

- a. International Financial Reporting Standards IFRS 10 - Consolidated Financial Statements states that a parent must prepare consolidated financial statements for the group as a whole.

Required:

Explain the exceptions to this rule according to IFRS 10.

(5 Marks)

- b. The following information relates to financial statements included in the annual report of Mojo Limited and Moyo Limited as at December 31, 2024. Mojo Limited acquired 80% of the ordinary shares of Moyo Limited for ₦1,200m on January 1, 2020:

	Mojo Limited	Moyo Limited
	₦m	₦m
Assets		
Non-current assets		
Property, plant and equipment	1,200	900
Investments	1,600	Nil

Current assets		
Inventories	320	300
Trade receivables	240	560
Cash and cash equivalents	<u>40</u>	<u>100</u>
Total assets	<u>3,400</u>	<u>1,860</u>
Equity and Liabilities		
Share capital	320	240
Share premium	80	40
Retained earnings	1,180	1,000
Non-current liabilities		
Loan notes	1,200	340
Current liabilities		
Trade payables	<u>620</u>	<u>240</u>
	<u>3,400</u>	<u>1,860</u>

Additional Information provided are:

- (i) At the date of acquisition, Moyo Limited retained earnings were ₦600m. Non-controlling interest fair value in Moyo Limited on the date of acquisition was ₦320m;
- (ii) Mojo Limited sold goods worth ₦200m to Moyo Limited during the year making 25% gross profit margin. 40% of the goods are still included in the inventories of Moyo Limited as at December 31, 2024; and
- (iii) The fair values of the net assets of Moyo Limited at the date of acquisition is the same as their carrying amount, with the exception of land and buildings. The cost of these land and buildings is ₦600m and it was estimated to have a fair value of ₦720m.

You are required to:

Prepare the consolidated statement of financial position for the Mojo Limited group as at December 31, 2024. **(10 Marks)**

- c. The following balances remained in the books of Lagbaja Plc at December 31, 2023 after determining the gross profit:

Share capital, authorised and issued:	₦'000
200,000,000 ordinary shares of ₦1 each	200,000
Cash at bank and in hand	500
Inventory at December 31, 2023	61,200
Trade receivables	18,005
Trade payables	15,009
Gross profit at December 31, 2023	128,942
Retained earnings	25,000
Salaries & Wages	28,430
Prepayments	600
Bad debts	500
Accrued expenses	526
Director's account (credit)	2,500
Finance cost on loan note (½ year to June 30, 2023)	600
Sundry expenses	4,100
Rates & insurance	1,520
6% Loan notes	20,000
Lighting & cooling	1,310
Postage, telephone and telegrams	800
Motor vehicle (cost ₦25million)	15,000
Office fittings and equipment (cost ₦65.5million)	42,350
Profit at January 1, 2023	22,300
Land and buildings at Cost	239,362

The following additional information is relevant:

- Office fittings and equipment are to be depreciated at 15% of cost, and Motor vehicle at 20% of cost.
- Provisions are to be made for:
 - Directors' Fees ₦6,000,000
 - Audit Fees ₦2,500,000
- The amount of insurance includes a premium of ₦600,000 paid in September 2023 to cover the company against fire for the period September 1, 2023 to August 31, 2024.
- A bill for ₦548,000 in respect of electricity consumed up to December 31, 2023 has not been posted into the ledger.

Required:

- i) Prepare the Statement of profit or loss for the year ended December 31, 2023; (6 Marks)
 - ii) The Statement of financial position as at December 31, 2023. (9 Marks)
- Total (30 Marks)**

SOLUTION 1

(a) A parent needs not prepare consolidated financial statements if (and only if) it meets all of the following conditions:

- (i) The parent is itself a wholly-owned subsidiary;
- (ii) The parent is a partially owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about it, and do not object to the parent not to present consolidated financial statements;
- (iii) Its securities (either debt or equity) are not publicly traded;.
- (iv) It is not in the process of issuing its securities in public securities market; and
- (v) Its ultimate (or intermediate) parent publishes consolidated financial statements that comply with International Financial Reporting Standards.

(b) Mojo Limited

Consolidated statement of financial position as at December 31, 2024

Non-current asset:	₺m	₺m
Property, plant & equipment (1,200 + 900 + 120)		2,220
Goodwill (Wk 3)		520
Other investments (1,600 – 1200)		<u>400</u>
Total non-current assets		3,140
Current assets:		
Inventories (320 + 300 – 20)	600	
Trade receivables (240 + 560)	800	
Cash and cash equivalents (40 + 100)	<u>140</u>	
Total current assets		<u>1,540</u>

Total assets		<u>4,680</u>
Equity & Liabilities:		
Equity attributable to owners of the parent:		
Share capital		320
Share premium		80
Retained earnings (Wk 6)		<u>1,480</u>
		1,880
Non-controlling interest (Wk 4)		<u>400</u>
Total equity		2,280
Non-current liabilities:		
Loan notes (1,200 + 340)	1,540	
Current liabilities:		
Trade payables (620 + 240)	<u>860</u>	
Total liabilities		<u>2,400</u>
Total equity and liabilities		<u>4,680</u>

Working Notes

Wk. 1: Group Structure	Mojo Limited :80%	Moyo Limited	NCI = 20%
Wk. 2: Net asset of subsidiary	At Rep. Date	At Acq. Date	Post-Acq.
	₦m	₦m	₦m
Share capital	240	240	-
Share premium	40	40	-
Retained earnings	1,000	600	400
Fair value surplus (720 – 600)	<u>120</u>	<u>120</u>	<u>-</u>
	<u>1,400</u>	<u>1,000</u>	<u>400</u>
Wk. 3: Determination of goodwill on acquisition		₦m	
Consideration transferred by parent		1,200	
NCI @ Acquisition		<u>320</u>	
		1,520	
Net assets of subsidiary at acquisition		<u>(1,000)</u>	
Goodwill		<u>520</u>	
Wk. 4: Valuation of NCI		₦m	
NCI at acquisition (Wk. 4)		320	

Share of post-acquisition profit (20% x 400)	<u>80</u>
	<u>400</u>
Wk. 5: Unrealised profit	₦m
40% x 200 x 25%	20
Wk. 6: Consolidated retained earnings	₦m
Mojo Limited	1,180
Share of post-acquisition profit (80% x 400)	320
Unrealised profit (Wk. 5)	<u>(20)</u>
Consolidated retained earnings	<u>1,480</u>

c. LAGBAJA PLC

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

	₦ '000	₦'000
Gross profit		128,942
Operating expenses:		
Salaries and wages	28,430	
Bad debts	500	
Sundry expenses	4,100	
Rates & Insurance (₦ 1,520 - (8/12* ₦ 600)	1,120	
Lighting & cooling (₦ 1,310+ ₦ 548)	1,858	
Postage, telephone & telegrams	800	
Directors fees	6,000	
Audit fees	2,500	
Depr. Of Office fitting & equip (15% x ₦ 65.5 million)	9,825	
Depr. Of motor vehicles (20% x ₦ 25 million)	<u>5,000</u>	
Total operating expenses		<u>(60,133)</u>
Profit from operation		68,809
Finance cost (6% x ₦ 20,000,000)		<u>(1,200)</u>
Profit before taxation		67,609
Income tax expenses		-
Profit for the year		<u>67,609</u>

LAGBAJA PLC

Statement of financial position as at 31 December, 2023

Assets

Non-Current Assets:	₦'000	₦'000
Property, Plant and Equipment		
Land and buildings		239,362
Motor vehicles		10,000
Fittings and equipment		<u>32,525</u>
Total Non-Current Assets		281,887
Current Assets:		
Inventory	61,200	
Trade Receivables	18,005	
Prepayment (600 + 400)	1,000	
Cash at bank and in hand	<u>500</u>	
Total Current Assets		<u>80,705</u>
TOTAL ASSETS		<u><u>362,592</u></u>

Equity and Liabilities:

Share capital 200,000,000 ordinary shares of ₦1 each		200,000
Retained Earnings		<u>114,909</u>
Total Equity		<u>314,909</u>

Non-Current Liabilities:

6% Loan notes		20,000
Current Liabilities:		
Accrued audit Fees	2,500	
Trade Payables	15,009	
Director's account (2500 + 6000)	8,500	
Accrued expenses (548 + 526)	1,074	
Accrued finance cost on loan notes	<u>600</u>	
		<u>27,683</u>
		<u><u>362,592</u></u>

Workings:

1.Non-current assets: Property, Plant and Equipment schedule

	Land & building	Motor Vehicle	Fittings & equipment
	₦'000	₦'000	₦'000
Cost b/f	<u>239,362</u>	<u>25,000</u>	<u>65,500</u>
Depreciation:			
Bal b/f	-	10,000	23,150
Charge for the year		<u>5,000</u>	<u>9,825</u>
Bal c/f		<u>15,000</u>	<u>32,975</u>
Carrying amount 31/12/2023	<u>239,362</u>	<u>10,000</u>	<u>32,525</u>

QUESTION 2

Lekki Nigeria Limited would like to acquire a suitable private limited liability company.

The board of directors of Lekki Limited engaged the service of a financial consultant to carry out a critical financial analysis of the two companies, Epe Limited and Olokola Limited. Both companies operate in the same industry and their management have indicated that they would be receptive to the acquisition.

The draft financial statements of the two companies are as follows:

Statements of profit or loss

	Epe Limited ₦'000	Olokola Limited ₦'000
Revenue	3,980	2,240
Cost of sales	<u>(2,640)</u>	<u>(1,588)</u>
Gross Profit	1,340	652
Operating expense	(496)	(300)
Interest expense	<u>(140)</u>	<u>(40)</u>
Profit before Taxation	704	312
Tax expense	<u>(260)</u>	<u>(100)</u>
Profit for the year	444	212

Statements of financial position

	Epe Limited	Olokola Limited
Non-current assets:	₦000	₦000
Property, plant & equipment	<u>3,060</u>	<u>1,640</u>
Current assets:		
Inventory	620	560
Trade receivables	680	1,580
Bank	<u>200</u>	<u>180</u>
	<u>1,500</u>	<u>2,320</u>
Current Liabilities:		
Trade payables	(940)	(1,200)
Other payables	<u>(520)</u>	<u>(500)</u>
	<u>(1,460)</u>	<u>(1,700)</u>
Net current assets:	<u>40</u>	<u>620</u>
Non-current liabilities:		
Loan notes	<u>(880)</u>	<u>(280)</u>
Net assets	<u>2,220</u>	<u>1,980</u>
Equity		
Ordinary share capital	1,800	1,760
Retained earnings	<u>420</u>	<u>220</u>
Financial assets	<u>2,220</u>	<u>1,980</u>

Required:

- a. As the Financial Consultant appointed to carry out the financial analysis, draft a report addressed to the chairman, board of directors of Lekki Limited to assess the financial performance and position of the two companies. The report should make use of the following specific ratios:
- (i) Profitability ratios: Gross profit percentage and net profit margin.
 - (ii) Liquidity ratios: Acid test ratio, current ratio, trade receivable period.
 - (iii) Long term financial stability ratios: Gearing ratio and proprietary ratio.
 - (iv) Efficiency ratios: Total asset turnover and non-current asset turnover.
- (12 Marks)
- b. Explain the limitations of ratio analysis and further information that may be useful to the board of directors of Lekki Limited when making the acquisition decision. (8 Marks)
- Total (20 Marks)**

Solution 2

GLITZ Consultants and Chartered Accountants

May 15, 2024

The Chairman
Board of Directors
Lekki Limited, Nigeria.

Dear Sir,

ANALYSIS OF FINANCIAL PERFORMANCE AND POSITION OF EPE LIMITED AND OLOKOLA LIMITED

From the computed ratios stated in the appendix. The financial performance of Epe Ltd, is better than that of Olokola Ltd as explained below: The profitability performance of the two companies shows that Epe Ltd is better in terms of gross profit percentage and net profit margin;

- The outstanding performance of Epe Ltd in terms of profitability may however be due to good assets turnover recorded by the company;
- However, the liquidity ratios of Olokola Ltd appears better than that of Epe Ltd which means that Olokola Ltd may be able to meet its current financial obligations better than Epe Ltd; and
- The two companies (Epe Ltd and Olokola Ltd) are lowly geared which are good indicators of strong long term financial stability by both companies.

Conclusion

However, in view of the fact that Epe Ltd will be capable of utilising its resources more efficiently and considering the fact that it is a highly profitable company with a fairly suitable liquidity position. We would advise that the directors of Lekki Ltd should acquire Epe Ltd.

GLITZ FINANCIAL CONSULTANTS AND CHARTERED ACCOUNTANTS

Appendix - Table of Ratios

(I) PROFITABILITY RATIOS:	Epe Ltd	Olokola Ltd
Gross profit margin		
Gross profit/ Revenue x 100/1	$1,340/ 3,980 \times 100$	$652/ 2,240 \times 100$
	= 33.7%	29.1%
Net profit margin		
Profit before Interest & tax/ Revenue x 100	$(704+140)/3,980 \times 100$	$(312+40) /2,240 \times 100$
	= 21.2%	15.7%

(II) LIQUIDITY RATIOS:

Current ratio =

Current assets/ Current liabilities	$1,500/ 1,460 \times 100$	$2,320/ 1700 \times 100$
	= 1.03:1	1.36:1

Acid Test Ratio

Current assets less inventory/ Current Liabilities	$(1,500-620)/1,460$	$(2,320-560) /1,700$
	= 0.60:1	1.04:1

Trade receivables period

Trade receivable/ Revenue x 365 Days	$\frac{680}{3,980} \times 365 \text{ days}$	$\frac{1,580}{2,240} \times 365$
	= 62 days	257 days

(III) LONG TERM FINANCIAL STABILITY RATIOS:

Gearing ratio

$\frac{\text{Long term borrowings}}{\text{Shareholders fund}} \times \frac{100}{1}$	$\frac{880}{2220} \times \frac{100}{1}$	$\frac{280}{1980} \times \frac{100}{1}$
	= 39.6%	14.1%

OR

$$\frac{\text{Long-term debts}}{\text{Long term debts + Shareholder fund}} \times \frac{100}{1} = \frac{880}{880+2,220} \times \frac{100}{1} = 28.4\%$$

$$\frac{280}{280+1980} \times \frac{100}{1} = 12.4\%$$

Proprietary ratio:

$$\frac{\text{Shareholders' funds}}{\text{Tangible assets}} = \frac{2,220}{3,060+1,500} = 0.49:1 \text{ or } 49\%$$

$$\frac{1,980}{1,640+2,320} = 0.50:1 \text{ or } 50\%$$

IV. EFFICIENCY RATIOS:

Total asset turnover

$$\frac{\text{Revenue}}{\text{Total assets}} = \frac{3,980}{3,060+1,500} = 0.87 \text{ times}$$

$$\frac{2,240}{1,640+2,320} = 0.57 \text{ times}$$

Non-current assets turnover

$$\frac{\text{Revenue}}{\text{Non-current assets}} = \frac{3,980}{3,060} = 1.3 \text{ times}$$

$$\frac{2,240}{1,640} = 1.37 \text{ times}$$

(b) Limitations of ratio analysis

Ratios are a powerful tool for analysing 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.
- 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.

Question 3

- a) Discuss the arguments for and against the use of the revaluation model under IAS 16, 'Property, Plant and Equipment'? **(4 Marks)**
- b) Explain how an investor accounts for a change in its ownership interest in a subsidiary, such that it loses control, as per IFRS 10? **(4 Marks)**
- c) Kuje Limited acquired 80% of Lugbe Limited's ordinary shares on January 1 2024. The company paid an immediate ₦5.00 per share and a further payment of ₦19,440,000 in cash. The company only recorded the cash consideration of ₦5 per share. The two statements of financial position as at December 31 2024 are stated below:

	Kuje Limited ₦'000	Lugbe Limited ₦'000
Non- current assets:		
Property, plant and equipment	75,600	57,600
Development costs	-	7,200
Investment	68,400	3,600
Current assets	<u>23,940</u>	<u>16,380</u>
Total assets	<u>167,940</u>	<u>84,780</u>

Equity and liabilities:		
Ordinary shares of ₦1 each	48,600	14,400
Share premium	14,400	7,200
Revaluation reserve	8,100	-
Retained earnings:		
January 1 2024	28,800	24,120
Year to December 31 2024	34,200	13,680
Non-current liability		
8% intercompany loan	-	10,800
Current liability	<u>33,840</u>	<u>14,580</u>
Total equity & liabilities	<u>167,940</u>	<u>84,780</u>

Additional information provided are:

- The parent company, Kuje Limited, value non-controlling interests (NCI) using the fair value at the acquisition date. The fair value of NCI at the acquisition date was ₦14,940,000. There is an impairment as at December 31 2024 resulting in the reduction of NCI to ₦14,220,000.
- Lugbe Limited revalued land and building using fair value which resulted in an increase of ₦3,600,000 at the acquisition date and a further ₦720,000 at December 31, 2024.
- Lugbe Limited have line of products with a brand name valued at ₦7,200,000 with an estimated life of 10 years as at January 1, 2024. The brand is not included in Lugbe statement of financial position on this date.
- A loan of ₦10,800,000 from Kuje Limited granted to Lugbe Limited at acquisition date was included in Kuje Limited investment. Loan interest is payable annually in arrears. Kuje Limited did not receive the interest due and paid by Lugbe for the year ended December 31, 2024 until after the year end. Therefore, Kuje Limited has not accounted for the Lugbe accrued interest.
- The development project of Lugbe Limited was completed on June 30, 2024 at a cost of ₦9,000,000. As at December 31, 2024, ₦1,800,000 had been amortised. Lugbe Limited had capitalised ₦3,240,000 at the acquisition date. However, the directors of

Kuje Limited are of the opinion that Lugbe Limited development costs cannot be recognised as an asset because it does not meet the requirement in IAS 38.

- Kuje Limited bought goods from Lugbe Limited. One third of the goods were still in the inventory of Kuje Limited at December 31, 2024. The goods were sold to Kuje Limited at a profit of ₦1,080,000.

Required:

Compute the figures to be included in the consolidated statement of financial position as at December 31, 2024 in respect of the following:

- i) Non- controlling interest **(2 Marks)**

- ii) Goodwill (show your calculations of net assets as at date of acquisition and date of consolidation) **(4 Marks)**

- iii) Consolidated reserves:
 - Share premium
 - Retained earnings
 - Revaluation reserve

(6 Marks)
Total (20 Marks)

SOLUTION 3

- a) Arguments For the Revaluation Model under IAS 16
 - i) Revaluation model reflects the current market value of assets, providing a more accurate picture of an entity's financial position.
 - ii) Revalued assets provide stakeholders with relevant information for decision-making.
 - iii) Revaluation can result in lower depreciation expenses, as the asset's carrying amount is adjusted to its fair value.

Arguments Against the Revaluation Model under IAS 16

- i) Revaluation requires estimating the fair value of assets, which can be subjective and complex.

- ii) Revaluation can introduce volatility in financial statements, as changes in fair value can result in significant gains or losses.
- iii) Revaluation model requires additional disclosures, which can increase the burden on preparers. **(4 Marks)**

b) According to IFRS 10, "Consolidated Financial Statements", an investor accounts for a change in its ownership interest in a subsidiary, such that it loses control, as follows:

Loss of Control

- i. Derecognize the subsidiary's assets, liabilities, and non-controlling interest.
- ii. Recognize a gain or loss on the loss of control, calculated as the difference between:
 - The aggregate consideration received (if any).
 - The carrying amount of the subsidiary's assets, liabilities, and non-controlling interest derecognized.
- iii. Adjust the consolidated financial statements retrospectively to reflect the subsidiary as an associate or joint venture, if applicable.

Accounting for Remaining Interest

- i. If the investor retains an interest in the former subsidiary, account for it as an associate or joint venture using the equity method (IAS 28).
- ii. If the investor retains a financial interest in the former subsidiary, measure it at fair value through profit or loss (IFRS 9).

Disclosure Requirements

- i. Disclose the nature of the transaction and the circumstances leading to the loss of control.
- ii. the gain or loss recognized on the loss of control.
- iii. Disclose the carrying amount and classification of the remaining interest in the former subsidiary.

c)

(i) Non controlling interest	₦'000
NCI value of acquisition	14,940
NCI shares of post acquisition reserves	
20% x (62,640 – 53,280)	<u>1,872</u>
	16,812

Impairment (Balancing figure)	<u>(2,592)</u>
	<u>14,220</u>

(ii) NCI at reporting date	
Goodwill	₦'000
Kuje Limited parent	
Investment at fair value	57,600
Cash (80% x 14,400 x N5)	
Deferred consideration	<u>19,440</u>
	77,040
NCI value at acquisition	<u>14,940</u>
	91,980
Net assets at acquisition (bii)	<u>(53,280)</u>
	38,700
Less: Impairment (2.592/0.2 x 0.8)	<u>(10,368)</u>
Goodwill	28,332

(ii) Net assets: Lugbe Limited

	At Acquisition	At Reporting
	1/1/23	31/12/23
	₦'000	₦'000
Share capital	14,400	14,400
Share premium	7,200	7,200
Retained Earnings	<u>24,120</u>	<u>37,800</u>
	45,720	59,400
Fair value adjustments:		
Brand	7,200	7,200
Amortisation of brand	-	(720)
Research and Development unrealised	(3,240)	(7,200)
Unrealised profit (1/3 x 1,080)	<u>-</u>	<u>(360)</u>
	49,680	58,320
Land and building – revaluation	3,600	3,600
“ “ - further revaluation	<u>-</u>	<u>720</u>
	<u>53,280</u>	<u>62,640</u>

f) consolidated reserves	₦'000
i. Consolidated share premium (parent company only)	<u>14,400</u>
	₦'000
ii. Consolidated retained earnings – parent	63,000
Add interest receivable (10,800 x 8%)	<u>864</u>
	63,864
Group share of post acquisition in subsidiary excluding revaluation on land and building taken to revaluation reserve 80% x (58,320 – 49,680)	6,912
Less impairment of investment & others 80% x (57,600 – 54,000) +12,960	<u>(15,840)</u>
	<u>54,984</u>
iii. consolidated revaluation reserve Parent	8,100
Group share of fair value of land and building 80% (3,600 + 720)	<u>3,406</u>
	<u>11,556</u>
N.B: (i) Cost of investment less Loan to subsidiary =	₦54,000

Question 4

- a) International Financial Reporting Standard (IFRS) permits several methods for recognising gains or losses on remeasurement of various types of assets recognised by different accounting standards.

Required:

Explain how gains or losses on remeasurement should be dealt with in the financial statements if an investment property is held under fair value model in accordance with the provisions of IAS 40. **(4 Marks)**

- b) Deep sea Nigeria Plc, financial year end is December 31. The company owns several investment properties which are carried at fair value, wherever possible. The properties are as follows:

Property X

This property was acquired on January 1, 2017. It cost ₦5million comprising, ₦2.5million for Land and ₦2.5million for buildings. The building has a useful life of 40 years. Deep sea Plc uses this property as its head office.

Property Y

This was acquired many years ago for ₦7.5million for its investment activities. On December 31, 2023 it had a fair value of ₦11.5million. By December 31, 2024 its fair value had risen to ₦13.5million. This property has a useful life of 40 years.

Property Z

This was acquired on June 30, 2018 for ₦10million for its investment activities. The directors believe that the fair value of this property was ₦15million on December 31, 2023 and ₦17.5 million on December 31, 2024. However due to the specialist nature of this property, these figures cannot be corroborated. The property has a useful life of 50 years.

Required:

- i) Explain how each of the above properties should be treated in the financial statement of Deep sea Plc for the year ended December 31, 2024.

(6 Marks)

- ii) Prepare property plant and equipment (PPE) schedule for the company showing the movement of the PPE as at December 31, 2024.

(10 Marks)

Total (20 marks)

Solution 4**a) TREATMENT OF GAINS OR LOSSES ON INVESTMENT PROPERTY UNDER FAIR VALUE MODEL - IAS 40.**

Under fair value model of IAS 40, all gains or losses on investment property should be taken to profit or loss account and subsequently transferred to retained earnings.

There is no revaluation surplus reserve as far as investment property is concerned, also no depreciation is charged on annual basis rather the investment property must be valued and the gains or losses charged to statement of profit or loss. Similarly, there is no difference between originating and reversing gains or losses under IAS 40.

bi) **Property X**

The property is used as Deep sea Plc's head office and therefore cannot be treated as Investment property. It will be stated at cost less accumulated depreciation in the statement of financial position. The depreciation for the year will be charged to statement of profit or loss.

Property Y

This property is held for investment activities by the company and should therefore be treated as investment property. It will be carried at fair value. It will be revalued at each year end and any resultant gain or loss will be accounted for in the statement of profit or loss. Therefore, the gain of ₦2million (₦13.5m – 11.5m) will be credited to statement of profit or loss.

Property Z

This property is held for investment activities and should therefore be treated as an investment property. However, since its fair value cannot be arrived at reliably it will be held at cost less depreciation in the statement of financial position. The depreciation for the year will be expensed in the statement of profit or loss. This situation provides an exception to the rule where all investment properties must be held at fair value.

bii)

**DEEP SEA PLC
PROPERTY PLANT AND EQUIPMENT SCHEDULE AS AT 31 DECEMBER, 2024**

	Land & buildings (X)	Investment property held at fair value (Y)	Investment property held at cost. (Z)	Total
Cost/valuation	₦	₦	₦	₦
1 January 2024	5,000,000	11,500,000	10,000,000	26,500,000
Revaluation		2,000,000		2,000,000
31 December 2024	5,000,000	13,500,000	10,000,000	28,500,000
Accum depreciation				
1 January, 2024	437,500	-	1,100,000	1,537,500
Charged for the year	62,500 (w1)	-	200,000(w2)	262,500
31 December 2024	500,000	-	1,300,000	1,800,000
Carrying amount				
31 December 2024	4,500,000	13,500,000	8,700,000	26,700,000
31 December 2023	4,562,500	11,500,000	8,900,000	24,962,500

Working notes:

W1 – Depreciation for property X

$$\text{Bal/fwd} = \text{N}2,500,00/40 \times 7 = \text{N}437,500$$

$$\text{Charged for the year 2024} = \text{N}2,500,000/40 = \text{N}62,500$$

W2 – Depreciation for property Z

$$\text{Bal/fwd} = \text{N}10,000,000/50 \times 5.5 = \text{N}1100,000$$

$$\text{Charged for the year} = 10,000,000/50 = \text{N}200,000$$

Question 5

The International Accounting Standard Board (IASB) conceptual framework discusses the elements of financial statement. The framework also requires that entities should comply with certain accounting concepts and underlying assumptions for the purpose of preparing financial statements

Required:

a) Explain the term general purpose financial statements. **(2 Marks)**

b) Identify and explain five (5) elements of financial statements. **(5 Marks)**

c) Explain briefly the following accounting concepts:

i) Going concern

ii) Materiality

iii) Substance over form

iv) Comparability

(8 Marks)

Total (15 Marks)

Solution 5

a) General purpose financial statements

General purpose financial statement is a statement that is intended to meet the needs of users who are not in a position to demand information that are tailored to their needs.

Such information is useful to existing and potential investors.

Therefore, general purpose financial statements provide information about:

- The financial position of the entity, that is information about economic resources and claims against them; and
- Changes in its financial position which could be due to financial performance and/or other events or transactions.

Elements of financial statements

i) Assets

Assets are the present economic resources controlled by the entity as result of past events. An economic resource is a right that has the potential to produce economic benefits.

Assets are recognised in the statement of financial position.

ii) Liabilities

Liabilities are a present obligation of the entity to transfer economic resources as a result of past events. For liabilities to exist three criteria must be satisfied:

- The entity has an obligation;
- The obligation is to transfer an economic resource; and
- The obligation is a present obligation that exists as a result of past events.

Liabilities are recognised in the statement of financial position

iii) Equity

Equity is the residual interest in an entity after the value of all its liabilities has been deducted from the value of all its assets.

Equity is recognised in the statement of changes in equity.

iv) Income

Income is increase in assets or decrease in liabilities, that results in increase in equity, other than those relating to contributions from holders of equity claims.

The concept of income includes both revenue and gain.

Revenue is income arising in the course of ordinary activities of the entity. It includes sales, fee income, royalties income, income from investment (interest and dividend). Revenue is recognised in the statement of profit or loss.

Gain represents other items that meet the definition of income. Gain may be recognised in the statement of profit or loss or statement of other comprehensive income. Example of gain is gain on disposal of non- current assets.

v) **Expenses**

Expenses are decrease in assets or increase in liabilities that results in a decrease in equity, other than those relating to distributions to holders of equity claims.

Expenses include the following, operating costs, cost of sales, depreciation of non- current assets etc. They also include losses.

Expenses are recognised in the statement of profit or loss, or statement of other comprehensive income.

ci) **i) Going concern**

The going concern concept assumes that an entity will be in operational existence in the foreseeable future time and that it has no intention to scale down its operation significantly, except otherwise stated. Financial statements are usually prepared on going concern basis.

If however an entity can no longer continue as a going concern then, subsequent financial statements should be prepared on breakup basis. That is the assets should be restated at fair value less cost to point of sale (net realisable value), rather than cost less depreciation.

ii). **Materiality**

An item is considered material if its inclusion or misstatement will have fundamental effect on the financial statements as a whole and affects the economic decisions of the users. The requirement of the framework is that items which are material in nature to an entity should be accorded separate recognition, presentation and disclosure. While those that are immaterial (small or unimportant) should be aggregated or added up, if permissible by relevant accounting standards.

iii) **Substance over form**

Substance over form refers to the impact which a transaction or event has on the reporting entity, and this determines the accounting treatment. Substance over form indicates that transactions and events should be reported in the financial statements in accordance with their economic realities or their commercial intent. In applying substance over form, IASB financial framework requires entity to adopt this concept objectively.

iv). **Comparability**

This states that financial statements of a given year should have comparative

figures of the past or previous year or period. This helps to evaluate the performance of the entity and the trend analysis over time. It also helps to assess the comparability on consistent application of accounting policies over time.

Question 6

- a) After a general review of the financial statements of one of your corporate tax payers (Ajantala Nigeria Ltd) the Head of Tax audit has forwarded the financial statement of the company to you as the Team Lead for detailed review before the commencement of your field work as he suspected that the financial statement might have been manipulated by the tax payer.

Required:

Identify and explain any four (4) manipulations through creative accounting that can be discovered when carrying out detailed review of the financial statements of Ajantala Nigeria Ltd (Tax payer). **(8 Marks)**

- b) One of the most serious limitations of traditional financial statements is that they only reflect the financial effects of transactions. Non-financial Items are not recognised unless they can be measured reliably in monetary terms.

Required:

Draft a report addressed to the Head of Tax Audit stating five (5) useful non-financial information that could be included in the financial statements of an entity.

(7 Marks)

Total (15 Marks)

Solution 6

- a. Manipulation through creative accounting that can be discovered when carrying out detailed review of the financial statements of Ajantala Nigeria Ltd:**

i) Revenue recognition manipulation

This occurs when a company understates or overstates its revenue by suspending revenue already earned or by inflating its revenue by recognising revenue prematurely. When revenues are under-recognised, it might be with the intention of paying lower taxes by recording lower net profit.

ii) Understatement of liabilities and overstating expenses

Company may deliberately omit or understate liabilities (e.g. contingent liabilities). The company may also overstate their expense with the intention of suppressing net profit, thereby paying less taxation.

iii) Overstatement of assets value

Company may also overstate their assets value e.g. property plant and equipment with the aim of claiming high capital allowances in order to reduce their taxable income. The overstatement of assets can be done using unrealistic accounting policies and failing to account for impairment.

iv) Misclassification of expenses

The company may intentionally misclassify operating expenses as capital expenditure or vice versa in order to manipulate the company's profit or assets value to the advantage of the tax payer.

v) Window dressing of the year-end financial position

The company may window dress some financial information with the intention of increasing their liabilities, reducing their profits, reclassifying their expenses and incomes to gain advantage of the tax laws.

vi) Changes to accounting policies or accounting estimates

The company can revalue its assets by changing from cost model to revaluation model; rate of depreciation can also be manipulated in order to suppress the profit and eventually the tax payable by the company.

vii) Inappropriate transaction recordings

The company can engage in inappropriate transactions recording as a means of manipulating information in the financial statement.

b)

MSTO MEMO

FROM: Tax officer

TO: Head of Tax Audit

DATE: Year 2025

SUBJECT: Useful non- financial information that can be included in the financial statements

Further to your request, please find below the following non-financial information that can be included in the financial statements of an entity:

i) Description of the business, objectives and strategies of the entity;

- ii) A narrative review of the performance of the business during the period;
- iii) Details of any significant events or factors that may have impact on the entity's performance in future;
- iv) Details of significant factors or events that may have impact on the entity's cashflows in future;
- v) A description of main risks and uncertainty facing the entity and how to mitigate the risks;
- vi) Additional information of amount included in the financial statements where appropriate (for example where figures are based on estimates or judgments);
- vii) Information about the entity's policies in relation to environmental matters and in relation to employees and corporate social responsibilities.

Thank you

Mr XYZ
Tax officer.

Question 7

- a) As Artificial intelligence (AI) now increasingly handles many routine tasks traditionally performed by accountants and tax practitioners, these professionals can refocus their time and skills on offering personalised services to their clients.

Required:

Identify and explain three (3) ways through which AI can support the shift to advisory services by professionals. **(6 Marks)**

- b) Professional bodies all over the world normally prescribes ethical behaviour for their members as well as fundamental principles and threats to these fundamental principles.

Required:

Explain briefly what is meant by professional behaviour and outline any four (4) threats that could affect the work of a professional accountant and chartered tax practitioner.

(9 Marks)

Total (15 Marks)

Solution 7

a) **Ways through which AI can support professionals to shift to advisory services**

- i) **Automating compliance tasks:** AI reduces the burden of manual work related to tax preparation, transaction classification and reconciliations. This gives the tax practitioners and professional accountants the opportunity to focus on helping the clients with business growth, financial planning and risk management.
- ii) **Offering data analysis and insights:** AI tools can sift through large data sets and generate valuable insights, which tax professionals and accountants can use to offer clients detailed reports and forecasts. This allows the tax professionals, accountants and other professionals to provide forward-looking data driven advice that supports better business decision-making.
- iii) **Enabling real-time financial monitoring:** AI system can continuously monitor client data and alert accountants and other relevant professionals of anomalies or potential opportunities in real time situations. This enables the professionals to proactively engage with clients and offer timely advice, moving beyond reacting to issues that have already occurred.
- iv) **Transforming tax research.** By synthesising expertly written guidance and analysis, an AI- Powered tax research solution draws on thousands of primary sources and expert editorial commentaries to make available relevant summaries in everyday language, complete with citations.

Therefore, in conclusion by transforming process and unlocking data analytics and expert insights, AI enables accountants and tax practitioners to elevate their roles from compliance professionals to trusted business advisers.

- b) **Professional behaviours** denote that members must comply with relevant extant laws and regulations of their Institutes or professional bodies, and such members should avoid any action which discredit the professions.

Members should behave with courtesy and consideration towards all with whom they come in contact in a professional capacity.

Fundamental threat to the principles

- i) **Self interest threat:** This may occur as a result of the financial or other interests from family members or immediate close friends;
- ii) **Self- review threats:** Occur when a previous judgement needs to be re-evaluated by members responsible for that judgement, that is where a member maintains books of account of an entity, he may not be willing to find fault with the financial statement derived from those records.
- iii) **Advocacy threats:** These threats come up when a chartered accountant or chartered tax practitioner needs to promote the entity's position by providing financial information or relevant information to defend a tax payer. However as long as the information provided is neither false nor misleading, such actions would not create advocacy threat. Therefore, advocacy threat occurs when a chartered accountant or chartered tax practitioner provides false or misleading information.
- iv) **Familiarity threat:** occurs when a chartered accountant or chartered tax practitioner becomes sympathetic in the course of carrying out his professional duty as a result of interest from family members and close associates; and
- v) **Intimidation threats:** occur when a member in the process of performing his professional duties is intimidated or influenced by fear, such a member entertains fear when he or she works with an aggressive client.



CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2025: PROFESSIONAL EXAMINATION

PTX 1: TAXATION OF INDIVIDUALS

TUESDAY 14TH OCTOBER 2025

EXAM NO.....

TIME: 3 HOURS

INSTRUCTION

ANSWER QUESTION 1 AND ANY 2 QUESTIONS IN SECTION B AND ANY OTHER 2 QUESTIONS IN SECTION C

SECTION A: COMPULSORY

QUESTION 1

Silver, Diamond and Gold are trading partners in the sales and distribution of Jewelries with its headquarters located in Victoria Island, Lagos. On 1st January 2022, they decided to adopt SD & Co. as its trading name and make up their accounts to 31st December of every year. The Statement of Profit or Loss for the year ended 31st December 2023 is as shown below:

	₦'000	₦'000
Gross Profit for the year		200,850
Partners' salaries	45,000	
Travelling Expenses	25,000	
Donations	2,000	
Interest on Loan and Bank overdraft	16,200	
Repairs & Maintenance	3,000	
Interest on Capital	2,650	
Medical expenses	1,550	
Depreciation	6,250	
Rent & Rates	5,600	
Provision for Bad debts	1,850	

Professional charges	2,300	
Office Electricity	1300	
Staff Training & Development	1,250	
		(113,950)
Net Profit for the year		86,900

From the records, the following additional information are available:

(i) Partner's salaries were as follows:

	₦
Silver	18,000,000
Diamond	16,000,000
Gold	<u>11,000,000</u>
Total	<u>45,000,000</u>

(ii) Interest on Capital were as follows:

	₦
Silver	1,000,000
Diamond	900,000
Gold	<u>750,000</u>
Total	<u>2,650,000</u>

(iii) Travelling Expenses included an amount of N6,200,00 spent by Gold on personal trip to Canada .

(iv) An amount of N650,000 of the donation was for the yearly carnival of the headquarters Community Youth while the balance was expended on equal basis for the fund raising of Christian Elites Forum and Moslem Development Association.

(v) Interest on loan and Overdraft breakdown are as follows;

	₦
Interest on Business Term Loan	4,000,000
Interest on Loan to Mrs Diamond	1,500,000
Interest on bank overdraft used to import merchandise items for the firm	10,000,000
Interest on Loan for Mr Gold's son	<u>700,000</u>
Total	<u>16,200,000</u>

- (vi) Capital Allowances were agreed to be ₦ 7,500,000 for the year.
- (vii) Profit Sharing ratio was: 3:2:1
- (viii) Medical expenses were for the staff of the firm while partners took care of their medical expenses through their personal NHIS.
- (ix) Contribution by the partners to the Pension scheme were 8% of their salaries.
- (x) Life assurance premiums paid by each of the partners were as follows:

Silver	1,500,000
Diamond	1,200,000
Gold	1,250,000
- (xi) Repairs and Maintenance included ₦1,800,000 spent on purchase of a new Engine to one of the business Vehicles.

Required:

- a. Compute the Adjusted Profit of the business for the year ended 31st December 2023 **(8 marks)**
- b. Determine Gross Income of each of the partners for the period **(6 marks)**
- c. Compute Income Tax liability of the partners for the relevant year of Assessment. **(16 marks)**

Total 30 marks

SOLUTION TO QUESTION 1

SD & CO

a) COMPUTATION OF ADJUSTED PROFIT FOR THE YEAR ENDED DECEMBER 31,2023

	₦'000	₦'000
Net profit for the year		86,900
Add: Disallowable expenses:		
Partners' Salaries	45,000	
Interest on Capital	2,650	
Depreciation	6,250	
Travelling Expenses	6,200	
Donations	2,000	
Interest on Loan & Bank Overdraft	2,200	
Repairs and Maintenance (Engine)	1,800	

General Provision for bad debts	1,850	67,950
Adjusted Profit		154,850
Deduct:		
Interest on Capital		2,650
Partners' salaries	45,000	(47,650)
		107,200
Capital allowances		(7,500)
Adjusted Profit		99,700

b. COMPUTATION OF GROSS INCOME OF EACH OF THE PARTNERS

	Silver N'000	Diamond N'000	Gold N'000	Total N'000
Share of computed income	49,850	33,233	16,617	99,700
Interested on capital	1,000	900	750	2,650
Salaries	<u>18,000</u>	<u>16,000</u>	<u>11,000</u>	45,000
Gross income	<u>68,850</u>	<u>50,133</u>	<u>28,367</u>	<u>147,350</u>

6 marks

c. COMPUTATION OF INCOME TAX LIABILITY OF EACH PARTNER

	Silver N'000	Diamond N'000	Gold N'000	Total N'000
Gross income	68,850	50,133	28,367	147,350
Consolidated Relief Allowance	<u>(14,458.5)</u>	<u>(10,527.93)</u>	<u>(5,957.07)</u>	<u>(30,943.5)</u>
(Higher of N200,000 OR 1% of)	54,391.5	39,605.07	22,409.93	116,406.5
Gross income + 20% of Gross income				
Tax exempt items:				
Pension Fund	(1,440)	(1,280)	(880)	(3,600)
Life assurance premium	<u>(1,500)</u>	<u>(1,200)</u>	<u>(1,250)</u>	<u>(3,950)</u>
Chargeable Income	<u>51,451.5</u>	<u>37,125.07</u>	<u>20,279.93</u>	<u>108,856.5</u>

TAX LIABILITIES

	Diamond	Silver	Gold
First N300,000 @ 7%	21,000	21,000	21,000
Next N300,000 @ 11%	33,000	33,000	33,000
Next N500,000 @ 15%	75,000	75,000	75,000
Next N500,000 @ 19%	95,000	95,000	95,000
Next N1,600,000 @ 21%	336,000	336,000	336,000
Next N48,251,500 @ 24%	11,580,360		
Next N33,925,070 @ 24%	8,142,016.8		
Next N17,079,930 @ 24%	4,099,183.20		
Tax liability of each partner	<u>12,140,360</u>	<u>8,702,016.8</u>	<u>4,659,183.20</u>

16 Marks

SECTION B: ATTEMPT ANY TWO (2) QUESTIONS FROM THIS SECTION

QUESTION 2

Akorede, Emma and Olumide have been partners in their haulage services business for about six (6) years. The performance of the partnership operations for the year ended December 31, 2024 was as follows:

	₦	₦	₦
Gross Profit			18,750,000
Salaries and Wages		1,875,000	
Transport and Travelling		580,500	
Insurance		147,500	
Rent and Rates		700,000	
Office Expenditure		554,500	
Professional fees		187,500	
Allowance for doubtful debts		551,250	
Staff loan written off		137,500	
Depreciation		1,500,000	
Interest on loan - Akorede		312,500	

Interest on Capital Accounts:

Akorede	275,000		
Emma	287,500		
Olumide	<u>312,500</u>	<u>875,000</u>	<u>(7,421,250)</u>
Net Profit for the year			<u><u>11,328,750</u></u>

Further relevant information are as follows

- (i) Office expenditure includes a donation of ₦130,625 to an old people`s home.
- (ii) Capital allowance as agreed with the Relevant Tax Authority (RTA) was ~~₦~~812,500
- (iii) Inclusive in the salaries was ₦68,750 being reimbursement of travelling expenses to Emma when he went for an official Partnership business trip.
- (iv) Also, inclusive in the office expenditure was ₦100,000 being paid as fine for traffic offence.

(v) Rent and Rates also included ₦187,500 being paid for Rent, the property of which privately belonged to Olumide.

(vi) Salaries were equally earned by Akorede, Emma, and Olumide as partners.

(vii) Profits/Losses were shared by the Partners in similarity to the share of Interest on their respective capital accounts.

(viii) The three partners, Akorede, Emma, and Olumide paid an annual premium of ₦200,000; ₦218,750; and ₦210,000 on their life assurance policy respectively.

Required:

(a) Compute the Adjusted Profit of the Partnership for the relevant year of assessment. (5marks)

(b) Compute the Tax Payable by each partner for the relevant year assessment. (15marks)

Total 20 marks

SOLUTION 2

(a)

Computation of the Adjusted Profit of the Partnership of Akorede, Emma, and Olumide for the relevant year of assessment:

₦	₦	
Net Profit per accounts		11,328,750
Add: Disallowable Expenses:		
Depreciation	1,500,000	
Allowance for doubtful debts	551,250	
Donation	130,625	
Traffic offence	100,000	
Staff loan written off	<u>137,500</u>	<u>2,419,375</u>
13,748,125		
Less: Capital Allowance as agreed with RTA		<u>(812,500)</u>
Adjusted Profit		<u><u>12,935,625</u></u>

Share of Profit:

Akorede: $275,000 \div 875,000 \times 12,935,625 = \text{N}4,065,482.14$

Emma: $287,500 \div 875,000 \times 12,935,625 = \text{N}4,250,276.79$

Olumide: $312,500 \div 875,000 \times 12,935,625 = \text{N}4,619,866.07$

Total Adjusted Profit Shared = $\text{N}12,935,625$

(b) Computation of the Tax Payable by each Partner for the relevant year of assessment:

	Akorede	Emma	Olumide	Total
	₦	₦	₦	₦
Share of profit	4,065,482.14	4,250,276.79	4,619,866.07	12,935,625
Interest on Capital	275,000	287,500	312,500	875,000
Interest on Loan	312,500			312,500
Rent			187,500	187,500
Salaries (wk1)	602,083.33	602,083.33	602,083.34	1,806,250
Total Income	5,255,065.47	5,139,860.12	5,721,949.41	16,116,875
Less: Tax Exempt:				
Premium on Life Ass. Policy	(200,000)	(218,750)	(210,000)	(628,750)
Gross Income	5,055,065.47	4,921,110.12	5,511,949.41	15,488,125
Less: Tax Reliefs:				
Consolidated Relief Allo.(wk2)	(1,211,013.09)	(1,184,222.02)	(1,302,389.88)	(3,697,624.99)
Chargeable Income	3,844,052.38	3,736,888.10	4,209,559.53	11,790,500.01

Tax Band Rate:	Akorede	Emma	Olumide
	₦	₦	₦
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 ₦1,600,000 @21%	336,000	336,000	336,000
Next ₦644,052.38 @24%	154,572.57	-	-
Next ₦536,888.10 @24%	-	128,853.14	-
Next ₦1,009,559.53 @24%	-	-	240,294.29
Tax Liability	714,572.57	688,853.14	800,294.29

Workings:

(wk1) Salaries:

$$\text{₦}1,875,000 - \text{₦}68,750 = \text{₦}1,806,250$$

Shared equally:

$$\text{Akorede: } \text{₦}1,806,250 \div 3 = \text{₦}602,083.33$$

$$\text{Emma: } \text{₦}1,806,250 \div 3 = \text{₦}602,083.33$$

$$\text{Olumide: } \text{₦}1,806,250 \div 3 = \text{₦}602,083.34$$

(wk2): Consolidated Relief Allowance (CRA):

Formular: 20% of Gross Income plus Higher of ₦200,000 and 1% of Gross Income

$$\text{Akorede: } 20\% \times \text{₦}5,055,065.47 \text{ plus } \text{₦}200,000 = \text{₦}1,211,013.09$$

$$\text{Emma: } 20\% \times \text{₦}4,921,110.12 \text{ plus } \text{₦}200,000 = \text{₦}1,184,222.02$$

$$\text{Olumide: } 20\% \times \text{₦}5,511,949.41 \text{ plus } \text{₦}200,000 = \text{₦}1,302,389.88$$

QUESTION 3

A partnership agreement defines the rights, duties, responsibilities and interests of the partners in a business. Moreover, like any other form of enterprise, a partnership may also incur losses during its operations.

Required:

- a) State five (5) Responsibilities and five (5) Interests of Partners. **(6 marks)**
- b) Explain the treatment of such losses for tax purposes in a partnership **(2 marks)**
- c) Olawale and Oladele are partners in a business, sharing profits and losses in the ratio of 2:3 respectively. For the year ended December 31, 2024, the partnership's financial statements reported a profit of ₦1,000,000 after charging the following:

Particulars	Olawale	Oladele
	₦	₦
Salaries	600,000	450,000
Interest on Capital	250,000	190,000
Bonus	55,000	46,000

Additional Information:

- Depreciation charged during the year amounted to ₦400,000.
- A donation of ₦280,000 was made to Surplus Social Clubs
- Olawale's rent of ₦200,000 was included in the partnership's expenses.
- Capital allowance agreed with the Revenue was ₦250,000.

Required:

- Compute the adjusted (taxable) income of the partnership. **(6 marks)**
- Determine the tax liabilities of each partner. **(6 marks)**

Total – 20 MARKS

SOLUTION 3

a)

Responsibilities of Partners:

- Participating in decision making and management
- Ensuring compliance with legal and regulatory requirements
- Settling the firm's debts and liabilities jointly and severally
- Representing the firm in dealing with third parties
- Contributing capital or resources as agreed.

Interests of Partners:

- Right to share profits of the firm
- Right to fair treatment and equal opportunities in decision-making
- Right to dissolve the partnership in accordance with the deed/law
- Right to withdraw or transfer their interest subject to agreement
- Right to access books of account and financial records

b) Partnership losses incurred by the partnership are shared amongst partners in their profit/loss sharing ratio or in accordance with the partnership deed and thereafter set off against the income of individual partners. Any unrelieved loss is carried forward and set off against future profits of the partners.

c) (i) **Olawale & Oladele Partnership**
Computation of Adjusted (Taxable) Income

Particulars	₦
Net profit per accounts	1,000,000
Add back:	
Depreciation (disallowed)	400,000
Donation to Surplus Social Club (non-qualifying)	280,000
Barry's personal rent charged to partnership	200,000
Total (add-backs)	880,000
Adjusted profit before capital allowance	1,880,000
	(250,000)
Less: Capital allowance (agreed)	
Computed income (taxable at partnership level)	1,630,000
Share of adjusted profit:	
Olawale $2/5 \times$ (₦1,630,000)	652,000
Oladele $3/5 \times$ ₦1,630,000	978,000

ii) **Olawale & Oladele Partnership**
Computation of partners tax liabilities for 2024 year of assessment

	Olawale	Oladele
	₦	₦
Share of profits	652,000	978,000
Salary	600,000	450,000
Interest on	250,000	190,000
Bonus	<u>55,000</u>	<u>46,000</u>
Income from partnership	1,557,000	1,664,000
Less tax-exempt items:		
Pension contribution	0	0
NHF	0	0
NHIS	0	0
Premium life assurance policy	<u>0</u>	<u>0</u>
Gross/Assessable income	1,557,000	1,664,000
Less: consolidated relief allowance (CRA)		
200,000 + (20% of Gross Income)	<u>511,400</u>	<u>532,800</u>
Chargeable Income	1,045,600	1,131,200
Application of Tax Table:		
First ₦300,000 @7%	21,000	21,000
Next ₦300,000 @11%	33,000	33,000
Next ₦445,600 & 500,000 @ 15%	66,840	75,000
Next ₦31,200 @ 19%	<u>-</u>	<u>5,928</u>
Tax Liability	120,840	134,928

QUESTION 4

Mr. Alex, before his death, created a trust fund from his rental income for the upkeep of his children. After his death, the trustee continues to manage the properties and receives the rents on their behalf. The trustee is chargeable to income tax on the income of the trust or settlement.

a). State the basis of assessment of estates, trusts and settlements and the person chargeable to income tax under trusts or settlements. **(8 marks)**

b). Late Mrs. Agnes Bello who had 5 children left her business with trustees. The following was provided by the trustee in respect of the deceased estate.

i. Income from other sources:

	2022	2023	2024
₦'000	₦'000	₦'000	
Interest (gross)		165	157
			168

Rent (net)	185	278	376
Other income	600	450	1,200

ii. Profits of the business are as follows: N'000

Year ended 31 st December 2022	8,500
Year ended 31 st December 2023	5,500
Year ended 31 st December 2024	12,000

iii. Agreed capital allowances for the business for the relevant years of assessment are:

2022	N850,000
2023	N860,000
2024	N1,800,000

Additional information:

- i) The trustee is empowered to make yearly discretionary payments to the five children as follows: Beste N119,000; Katy N106,000; Maya N108,000; Joe N165,000 and Mason N96,000.
- ii) Each child is entitled to 1/5 of half the net distributable income.
- iii) Fixed annuity to the beneficiary is N195,000 to be shared equally.
- iv) The fixed remuneration of the trustee for 2024 was N600,000.
- v) Other expenses in respect of year ended 2024 amounted to N225,000.
- vi) The sum of N450,000, N500,000 and N570,000 for 2022, 2023 and 2024 respectively was charged for depreciation.

Required:

- i. Compute the net computed income of the trust **5 marks**
 - ii. Determine the amounts due to each beneficiary **5 marks**
 - iii. Compute the taxable income of the trustee for 2024 year of assessment. **2 marks**
- Total 20 marks**

SOLUTION 4

a). Basis of assessment and the person chargeable to income tax of estates, trusts and settlements are as follows:

The basis year for determining the assessable income of a trustee, executor or a beneficiary of a settlement, or trust for any tax year is the preceding year basis.

The persons liable to pay tax due in respect of income from an estate, trust or settlement are:

- i. The beneficiaries, including any annuitant on their proportionate share in the estate, trust or settlement's income;
- ii. The trustees or executor on the remainder, if there are any, after deducting all amounts apportioned to the beneficiaries;
- iii. The trustee or executor where the beneficiaries are infants; and
- iv. The settlor or person creating the trust where" the settlor or person can direct the disposition of the capital or income.

Late Mrs. Agnes Bello

Computation of net computed income for 2024 tax year

	₦
Profits	5,500,000
Add depreciation	570,000
Less: capital allowance	<u>(1,800,000)</u>
Assessable profits	4,270,000
Interest (gross)	157,000
Rent (gross)	308,889
Other income	<u>1,200,000</u>
Total income	5,935,889
Less allowable expenses:	
Discretionary payments:	(119,000)
Beste	(106,000)
Katy	(108,000)
Maya	(165,000)
Joe	(96,000)
Mason	(195,000)
Fixed annuity	(600,000)
Fixed remuneration	<u>(225,000)</u>
Other expenses	<u>4,546,889</u>
Net distributable income	454,689
Distribution of income to beneficiaries:	454,689
Bestie 1/5 x 2,273,445	454,689
Katy 1/5 x 2,273,445	454,689

Maya. $1/5 \times 2,273,445$	
Joe. $1/5 \times 2,273,445$	
Mason. $1/5 \times 2,273,445$	

COMPUTATION OF AMOUNTS DUE TO EACH BENEFICIARY

Bestie

	₱
Share of computed income	909,378
Fixed annuity (195,000/5)	39,000
Discretionary income	119,000
Total	1,067,378

Katy

	₱
Share of computed income	909,378
Fixed annuity(195,000/5)	39,000
Discretionary income	106,000
Total	1,054,378

Maya

	₱
Share of computed income	909,378
Fixed annuity	39,000
Discretionary income	108,000
Total	1,056,378

Joe

	₱
Share of computed income	909,378
Fixed annuity	39,000
Discretionary income	165,000
Total	1,113,378

Mason	₦
Share of computed income	909,378
Fixed annuity	39,000
Discretionary income	96,000
Total	1,044,378

Income tax payable by Trustee

	₦
Net distributable income	4,546,889
Less amount distributed to beneficiaries	
Taxable income in the hands of the Trustee	<u>(2,273,445)</u>
	<u>2,273,445</u>

SECTION C: ATTEMPT ANY TWO (2) QUESTIONS IN THIS SECTION

QUESTION 5

Mr. Michael Akinsola, an employee of Focus Nigeria Limited, provided the following information for the year ended December 31, 2024:

- (i) Basic salary annual -~~₦~~18,200,000.
- (ii) The company paid for domestic servants and a night guard as follows:
 - Night guard -~~₦~~672,000
 - Domestic servants-(2) at ~~₦~~420,000 each.
- (iii) Received the sum of ~~₦~~134,400 during the year of assessment as reimbursement for travelling officially.
- (iv) ~~₦~~2,100,000 was paid as rent by Focus Nigeria Ltd in favour of Mr. Mr. Akinsola per annum.
- (v) His official car was purchased at a cost of ~~₦~~16,800,000 by the company.
- (vi) Mr. Michael Akinsola is married with 4 children of school age.
- (vii) With ~~₦~~700,000 per annum, Mr Akinsola maintained his aged mother.
- (viii) Also, he paid ~~₦~~134,400 as premium to his life assurance company.
- (ix) His residence is of ~~₦~~672,000 rateable value.
- (x) Net of withholding tax dividends received from shares in XYZ Ltd are as follow:

Paid June 6, 2023	₦ 168,000
-------------------	----------------------

Paid July 12,2023 ₦182,000
 Paid June 7,2024 ₦196,000
 Paid December 5,2024 ₦238,000.

Required:

Compute the Tax Payable by Mr. Michael Akinsola for the relevant year of assessment to the Relevant Tax Authority. (15marks)

SOLUTION 5

Mr. Michael Akinsola

Computation of Tax Payable for 2024 year of assessment:

Earned Income:	₦	₦
Salary		18,200,000
Benefit-In-Kind:		
Domestic Servants (420,000 x 2)	840,000	
Night guard	672,000	
Accommodation	672,000	
Company`s Car (₦ 16,800,000x5%)	<u>840,000</u>	3,024,000
Unearned Income:		
Dividend Gross (₦ 350,000/0.9) wk1		388,889
Total Income		21,612,889
Less: Dividend Gross		<u>(388,889)</u>
		21,224,000
Less: Tax Exempt item:		
Life Assurance Premium		(134,400)
Gross Income		21,089,600
Less: Consolidated Relief Allowance wk2		<u>(4,428,816)</u>
Chargeable Income		<u><u>16,660,784</u></u>

Tax Band Rates: ₦

First N 300,000 @7%	21,000
Next N 300,000 @11%	33,000
Next N 500,000 @15%	75,000
Next N 500,000 @19%	95,000
Next N 1,600,000 @21%	336,000
Next N 13,460,784 @24%	<u>3,230,588.16</u>
Tax Payable	<u>3,790,588.16</u>

WK1: Computation of Dividend Gross:

Dividend paid on 06/06/2023 = ~~N~~168,000

Dividend paid on 12/07/2023 = ~~N~~182,000

Total = ~~N~~350,000

WK2: Consolidated Relief Allowance:

Formula: 20% of Gross Income plus the higher of ~~N~~200,000 and 1% of Gross Income.

20% of ~~N~~21,089,600 + 1% of ~~N~~21,089,600 = ~~N~~4,217,920 + ~~N~~210,896 = ~~N~~4,428,816

QUESTION 6

a. Zadi & Co. is engaged in the production of goods for both local consumption and exports. The following financial statements show the company's transactions for the year ended December 31, 2022:

	N'000
Sales	39,000
Cost of sales	<u>(21,000)</u>
	18,000
Other income	7,300
Operating expenses	<u>(13,500)</u>
Interest charges	<u>(780)</u>
Profit before tax Taxation	11,020
Taxation	<u>(1,400)</u>
Profit after tax	9,620
Dividend	<u>(6,500)</u>
Retained profit	<u>3,120</u>

Additional information provided in respect of the financial statements presented are:

i) sales comprise: • export - ~~₦~~16,000,000; and • local - ~~₦~~23,000,000.

ii) cost of sales consists of:

- opening inventory (VAT inclusive) - ~~₦~~4,200,000;
- closing inventory (VAT inclusive)- ~~₦~~7,530,000;
- purchases of raw materials - ~~₦~~16,500,000;
- freight charges - ~~₦~~3,540,000; and
- other direct materials - ~~₦~~2,360,000.

iii) the company purchased plant and machinery amounting ~~₦~~4,000,000 and the amount was VAT inclusive.

iv) VAT and WHT remitted during the period amounted to ~~₦~~296,000 and ~~₦~~265,000 respectively.

Required:

Compute the net VAT payable to the tax authority for the relevant assessment year.

10 marks

b. Late Professor Jacky who had 4 children left his business with trustees. The following information was made available by the trustees in respect of his estate:

i) Adjusted profits from the business:

Year ended December 31, 2019 - ~~₦~~9,500,000

Year ended December 31, 2020 - ~~₦~~10,200,000

Year ended December 31, 2021 - ~~₦~~12,450,000

ii) Capital allowances for the business for the tax years are as

follows:

2019 - ~~₦~~2,000,000

2020- ~~₦~~2,500,000

2021 - ~~₦~~3,000,000

2022 - ~~₦~~3,500,000

iii) Other information in relation to year ended December 2021:

- Each of the children is entitled to 1/5 of the net distributable income
- Fixed annuity to beneficiary is ~~₦~~140,000

- Trustee fixed remuneration ₦120,000
- Other expenses ₦90,000
- Under the terms of the trustee deed, the trustee made discretionary payment to the children as follows:

Samuel - ~~₦~~55,000

Joy - ~~₦~~60,000

Daniel - ~~₦~~58,000

Betty - ~~₦~~52,000

Required:

Compute the income tax payable by the trustee for 2022 year of assessment.

10 marks
Total 15 Marks

SOLUTION 6

Zaddy & Co.

Computation of VAT payable to the tax authority

For the year ended December 31, 2022

VAT output	₦	₦
Local sale (₦ 23,000,000 x 7.5%)		1,725,000
Less: VAT input on cost of goods sold		
Opening inv. (₦ 4,200,000 /1.075)	3,906,977	
Purchase of raw materials	16,500,000	
Freight charges	3,540,000	
Other direct materials	<u>2,360,000</u>	
26,306,977		
Less closing inv. (₦ 7,530,000/1.075)	<u>(7,004,651)</u>	
Cost of goods sold		
Input VAT (7.5% x ₦ 19,302,326)	1,447,674	

VAT input attributable to local sale	
N23,000,000/N39,000,000 x N1,447,674	<u>(853,756)</u>
VAT payable	871,244
Less amount of VAT already remitted	<u>(296,000)</u>
Net VAT payable	<u>575,244</u>

b.

Prof Jacky

Computation of income tax payable by the trustee

For 2022 year of assessment

N	N	
Adjusted profit		12,450,000
Less capital allowance		<u>3,500,000</u>
	8,950,000	
Less allowable expenses:		
Fixed annuity	140,000	
Trustee's remuneration	120,000	
Other expenses	<u>90,000</u>	<u>350,000</u>
Computed income		8,600,000
Deduct discretionary payments:		
Samuel	55,000	
Joy	60,000	
Daniel	58,000	
Betty	52,000	<u>225,000</u>
Net computed income		8,375,000

Distribution to beneficiaries:

Samuel – 1/5 x N 8,375,000	1,675,000	
Joy. – 1/5 x N 8,375,000	1,675,000	
Daniel. – 1/5 x N8,375,000	1,675,000	
Betty. - 1/5 x N 8,375,000	1,675,000	<u>6,700,000</u>
		1,675,000

Less reliefs:

Consolidated relief allowance N (200,000 + 20% of 1,675,000)	<u>535,000</u>
Chargeable income	<u>1,140,000</u>

Tax rates:

First N300,000 @ 7%	21,000
Next N300,000 @ 11%	33,000
Next N500,000 @15%	75,000
Next N40,000@ 19%	<u>7,600</u>

Tax payable **136,600**

QUESTION 7

Mrs. Garuba, a sole proprietor in the city of Lagos, earned the following at the end of year 2024:

Business profit = ~~N~~6,000,000

Dividend received from a Nigerian company = ~~N~~800,000

Rent received = ~~N~~1,200,000

Compensation for personal injury claim = ~~N~~500,000

Pension received = ~~N~~400,000

She also deducted ~~N~~150,000 withholding tax (**WHT**) from a contractor and ~~N~~200,000 PAYE from staff salaries but has not remitted them.

You are required to:

- a. Compute the taxable income of Mrs. Garuba for the relevant year of assessment. **5 marks**

- b. State her obligations regarding the deducted taxes. **3 marks**
c. List seven tax-exempt incomes as listed in paragraph (2) of the sixth schedule of PITA. **7 marks**

Total 15 Marks

SOLUTION 7

a) **MRS. GARUBA**

Computation of Taxable Income for 2025 Year of Assessment

Business profit = ₦6,000,000

Rent = ₦1,200,000

Dividend = ₦800,000 (Exempt)

Compensation = ₦500,000 (Exempt)

Pension = ₦400,000 (Exempt)

Total Taxable Income = ₦7,200,000

(b) **Remittance Obligations**

₦150,000 WHT deducted from contractor must be remitted to the relevant tax authority (FIRS/SIRS depending on the nature of contract) within 30 days.

₦200,000 PAYE deducted from employees must be remitted to the State Internal Revenue Service (SIRS) by the 10th day of the following month.

Failure to remit attracts penalties, interest, and possible prosecution under the Personal Income Tax Act.

(c) Tax-exempt Income:

- (i) Consular Fees – Received on behalf of foreign states (except Nigerian consular staff).
- (ii) Diplomatic Income – Covered under Diplomatic Immunities and Privileges Act.
- (iii) Government Income – Local Government or Government Institutions.
- (iv) Public Institutions – Ecclesiastical, charitable, or educational of public character.
- (v) Military Pensions – Wound/disability pensions for Armed Forces/defense members.
- (vi) Statutory Pensions – Granted under any law in force.
- (vii) Trade Unions – Income of registered trade unions.
- (viii) Gratuities – Retirement gratuities received.
- (ix) Cooperative Societies – Income of cooperatives.
- (x) Friendly Societies – Income of statutory/registered friendly societies.

- (xi) Approved Pension/Retirement Benefits – Withdrawals from approved schemes.
- (xii) Technical Assistance Income – Earnings of non-Nigerians in approved schemes.
- (xiii) Certain Interest Income – Accruing to non-residents on government loans, foreign currency deposits, or UK loans.



CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2025: PROFESSIONAL EXAMINATION

PTX 1: TAXATION OF COMPANIES

WEDNESDAY 15TH OCTOBER 2025

EXAM NO.....

TIME: 3 HOURS

INSTRUCTION

ANSWER QUESTION 1 AND ANY 2 QUESTIONS IN SECTION B AND ANY OTHER 2 QUESTIONS IN SECTION C

SECTION A: COMPULSORY

QUESTION 1

Prudence Nigeria Limited, commenced business on May 1, 2020, and headquartered in Jigawa State, is a rapidly expanding manufacturing company focused on producing domestic and industrial consumables. Its flagship product, *Prudence Brown Sugar*, is derived from sugarcane sourced locally from Jigawa and neighboring states, ensuring reliable input supply while boosting the livelihoods of local farmers. In addition to sugar, the firm produces a range of other consumables for household and industrial use, positioning it as a significant player in Nigeria's Agro-processing industry.

The company was founded by Dr. Ubale Olawale Famous, a Food Engineering PhD graduate from the Universidade de São Paulo, Brazil. Leveraging his expertise, he secured a \$50 million loan from Prudence South Africa in April 2021, a sister company of Prudence Nigeria Limited, with quarterly repayments of Principal ₦30million and interest ₦9million effective July 31, 2021. This financing provided the capital to expand production, acquire modern processing equipment, and strengthen distribution networks across Nigeria and beyond.

While serving Nigeria's household and industrial markets, Prudence exports about 20% of its annual output to neighboring African countries under AfCFTA, reinvesting export proceeds into local sugarcane sourcing to sustain a circular value chain. The firm also operates warehouses in Jigawa and Accra, Ghana,

used for product storage and third-party rentals. This logistics infrastructure enhances supply chain efficiency, timely delivery, and customer satisfaction.

The Board of Directors of Prudence Nigeria Limited agreed to meet in Dutse, Jigawa State, to review the financial results for the year ended April 30, 2022. Your firm of tax consultants has been invited to provide an independent opinion, with special focus on the \$50 million loan obtained from Prudence South Africa among other things.

The Statement of Profit or Loss for April 30, 2022 has been submitted by the company's accountant for your review. Your role is to assess the figures, ensure compliance with tax, and advise the Board on the financial and tax implications of the sister-company loan and other key transactions.

Extract from the financial statements for the year ended April 30, 2022 reveals:

	₦000	₦000
Gross Turnover:		
Domestic sales	480,160	
Export sales	120,040	
Other income	<u>50,000</u>	
Total Gross Turnover		650,200
Cost of Sales		<u>(200,000)</u>
Gross Profit		450,200
Expenses:		
Salaries and wages	50,890	
Rent paid	4,200	
Transport and Travelling	5,100	
Repairs and Maintenance	17,000	
Donations	5,700	
Utilities – electricity, gas, water, etc	2,010	
Allowance for doubtful debts	5,500	
Bad debts	2,000	
Income Tax provision	25,000	
Printing, photocopying and stationery	7,100	
General expenses	9,000	
Legal and other Professional charges	17,000	
Audit fees	10,000	
Finance Cost	48,000	
All associated costs of export sales	20,000	
Depreciation	70,000	<u>(298,500)</u>
Net Profit		<u>151,700</u>

The following additional information is available:

a) The export sales were made to a major distributor in Accra, Ghana and export proceeds used in buying inputs in Jigawa State for the firm.

b) Other income:	₦000
Dividend Gross	6,000
Profit on sale of investment property	4,000
Rental Income-Accra Warehouse brought in through CBN	30,000
Rental Income-Jigawa Warehouse	<u>10,000</u>
	<u>50,000</u>

c) Repairs and maintenance:	₦000
Improvement of Accra and Jigawa Warehouse	5,000
Expansion of Jigawa Warehouse	2,000
Repair of office premises in Jigawa	<u>10,000</u>
	<u>17,000</u>

d) The rent paid was in respect of the accommodation of the General Manager in Duste whose basic salary is N3,000,000.

e) Legal cost and Professional charges	₦000
Cost of income tax appeal	10,000
Cost of acquiring new lease	5,000
Cost of debt collection	<u>2,000</u>
	<u>17,000</u>

f) Allowance for Doubtful debts:	₦000
Specific provisions	500
General provisions	<u>5,000</u>
	<u>5,500</u>

g) Finance Cost	₦000
Repayment of Interest to Prudence South Africa	36,000
Repayment of Interest to local creditors	<u>12,000</u>
	<u>48,000</u>

h) 20% of the donation was made to a fund set up by Federal Government to cater for victims of insurgency from Northeast.

i) Schedule of Qualifying capital expenditure incurred:

Date of acquisition	Asset type	Amount ₦000
July 8, 2020	Research and development	7,000
April 30, 2020	Plantation equipment	4,500
May 1, 2020	Industrial building	15,000
May 1, 2020	Non-industrial building	10,000
June 1, 2020	Motor vehicles (3)	8,500
June 30, 2020	Furniture and fittings (10)	2,000
February 14, 2021	Motor vehicles (2)	6,600
June 12, 2022	Furniture and fittings (5)	1,500

j) Capital allowance and assessable profit for 2022 tax year are ₦4,912,500 and ₦90,000,000 respectively.

Required:

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

- a)** Treatment of interest in respect of loan from Prudence South Africa **(5 marks)**
- b)** Treatment of export sales income and the reason for such treatment **(3 marks)**
- c)** Adjusted profits for the relevant period **(12 marks)**
- d)** Tax liabilities payable for the relevant years of assessment year **(10 marks)**

SOLUTION 1

Answer (a &b)

Date.....
The Managing Director,
Prudence Nigeria Limited,
22, Ismael Street,
Jigawa.
Jigawa State.

Dear Sir,

Re: Tax Implication of transactions and Tax Liability for 2022 and 2023 Year of Assessment

We write in respect of the brief received from your organisation in respect of the tax implications of the transactions and tax liabilities for the companies.

Treatment of interest in respect of loan from Prudence South Africa

Schedule 7 of CITA 2004 as amended restrict interest paid to foreign connected person. The Act specifically state that the interest should be lower of Actual foreign interest and 30% of earnings before interest, taxes, depreciation and amortization (EBITDA). From the appendix, the actual foreign interest is ₦36,000,000 and 30% of EBITDA is N88,410,000. Hence, the foreign interest is allowed.

Treatment of export sales income and the reason for such treatment

Under the **Companies Income Tax Act (CITA)**, particularly Section 23(1)(q), **profits from goods exported from Nigeria are exempt from tax** under certain conditions.

- i. **Profits of a company from exports are exempt from tax, provided** that the export proceeds are **repatriated into Nigeria** through an authorized channel (e.g., Central Bank of Nigeria or a licensed commercial bank).
- ii. And used for the purchase of raw materials, spare parts, or **capital goods** (like machinery), **whether for export production or otherwise**.

The export sale will be exempted from Tax since it is brought in through an appropriate channel and used for input buying.

Company Income Tax Liability payable for 2022 and 2023 tax years

For the 2023 year of assessment, the company is liable to pay a tax of ₦38,483,250, which is computed based on its taxable income of ₦128,227,500. Similarly, for the 2022 year of assessment, the company is required to pay a tax amounting to ₦21,588,750 derived from its taxable income of ₦62,962,500.

We trust that the above explanation meets your requirements. Should you require any further information or clarification, please do not hesitate to contact us.

Yours faithfully,

Sign -----

Victoria Okpaga
Managing Partner

c and d.

Prudence Nigeria Limited					
Computation of Assessable/Adjusted Profit					
For 2023 Year of Assessment					
		#000		#000	
Net Profit				151,700.00	
Add back					
Improvement of Accra and Jigawa Warehouse		5,000.00			
Expansion of Jigawa Warehouse		2,000.00			
Cost of income tax appeal		10,000.00			
Cost of acquiring new lease		5,000.00			
Allowance General Provision		5,000.00			
Income tax provision		25,000.00			
All associated costs of export sales		20,000.00			
Depreciation		70,000.00		142,000.00	
Deduct					
Rental Income-Accra Warehouse brought in through CBN		30,000.00			
Profit on sale of investment property		4,000.00			
Dividend		6,000.00			
Export Sale		120,040.00		(160,040.00)	
Adjusted Profit				133,660.00	
Tax Liability FOR 2023					
Capital Allowance				5,382.50	
Taxable profit				128,277.50	12
CIT @ 30%				38,483.25	3
TET @ 3%				4,009.80	
TOTAL TAX FOR 2022					
	2022				
Assessable Profit				90,000.00	
Capital Allowance				27,037.50	
Taxable Profit				62,962.50	6
CIT @ 30%				18,888.75	1
TET @ 3%				2,700.00	
TOTAL TAX DUE FOR 2023					

Computation of Capital Allowance										
QCE	Plantation Equipment	Industrial Building	Non-Industrial Building	Motor Vehicle 1	Furniture and Fitting	Motor Vehicle	Research and Dev	Furniture and Fittings 2	Industrial Building Warehouse	Total
Rate	95/nil N'000	15/10 N'000	15/10 N'000	50/25 N'000	25/20 N'000	50/25 N'000	95/nil N'000	25/20 N'000	15/10 N'000	
2022 (1/5/20-30/4/21)										
Cost/TWDV	4,500.00	15,000.00	10,000.00	8,500.00	2,000.00	6,600.00	7,000.00			
I.A	(4,275.00)	(2,250.00)	(1,500.00)	(4,250.00)	(500.00)	(3,300.00)	(6,650.00)			22,725.00
AA	0	-1275	-850	-1062.5	-300	-825	0			4,312.50
In.A	0	0	0	0	0	0	0			27,037.50
2023 (1/5/21-30/4/22)										
Cost/TWDV	225.00	11,475.00	7,650.00	3,187.50	1,200.00	2,475.00	350.00	1,500.00	2,000.00	
I.A	-	-	-	-	-	-	-	(375.00)	(300.00)	675.00
AA	-	(1,275.00)	(850.00)	(1,062.50)	(300.00)	(825.00)	-	(225.00)	(170.00)	4,707.50
In.A	0									5,382.50
	225.00	10,200.00	6,800.00	2,125.00	900.00	1,650.00	350.00	900.00	1,530.00	

SECTION B: ATTEMPT ANY TWO (2) QUESTIONS FROM THIS SECTION

QUESTION 2

VAT as a consumption tax is globally accepted by many countries, including Nigeria, due to its ease of administration. It is a multi-stage levy collected at every stage of production, sale of goods and rendition of services.

The Finance Act stipulates the offences and penalties associated with VAT.

CJC Ltd is a production company based in Abuja. In 2023, the company produces VATable goods and sold the item for N5,950,000 to the wholesaler, Bosede Trading Ltd. who sold it to the retailer, Sanusi Enterprises Ltd for N6,700,000, who finally sold it to consumers for N7,200,000

Assume there was no closing inventory at each stage of the transactions. Sales are VAT exclusive

Required:

(a) Compute total VAT payable to the Federal Inland Revenue Service by the parties (9 marks)

(b) Explain the penalties associated with the following:

(i) Failure to register for VAT returns. (2 marks)

- (ii) Failure to notify the FIRS of change of address, or cessation of trade or business. (2 marks)
- (iii) Failure to submit VAT return. (2 marks)

(c) Explain the merits and demerits of VAT. (5marks)

Total (20 marks)

SOLUTION 2

CJC LIMITED

a. Computation of total VAT payable to the Federal Inland Revenue Service

Stage	Computation	₦	VAT payable ₦
I	Manufacture: sales value Gross VAT @7.5%	<u>5,950,000</u>	446,250
ii	Wholesaler: sales value Gross VAT @7.5% Less input VAT VAT to be remitted to FIRS	<u>6,700,000</u> 502,500 <u>(446,250)</u>	56,250
iii	Retailer: sales value Gross VAT @7.5% Less input VAT	<u>7,200,000</u> 540,000 <u>(502,500)</u>	37,500
	Total VAT payable to FIRS		<u>540,000</u>
	Check: $(0.075/1.075) \times 7,200,000 = 540,000$		

b. Failure to register for VAT returns

- i. Failure to register for VAT returns.
In accordance with Section 8 of VAT Act (as amended), a taxable person who fails to register for VAT is guilty of an offence and liable on conviction to a penalty of ₦50,000 for the first month in which the failure occurs and ₦25,000 for each subsequent month in which the failure continues.
- ii Failure to notify the FIRS of change of address, or cessation of trade or business

As contained in Section 28 of VAT Act, a person who fails to notify the FIRS of the change of address is guilty of an offence and liable to pay a penalty of ₦50,000 for the first month in which the failure occurs and ₦25,000 for each subsequent month in which the failure continues.

- iii. In accordance with Section 35 of VAT Act (as amended), a taxable person who fails to submit VAT returns to FIRS is guilty of an offence and liable on conviction to a penalty of ₦50,000 for the first month in which the failure occurs and ₦25,000 for each subsequent month in which the failure continues.

c. Merits of VAT

- i. Reliable source of revenue to government
- ii. It eliminates the narrow scope of company income tax and boosts the effects of sales tax.
- iii. It is a consumption tax, hence it is very easy to collect.
- iv. Fairness is established because consumers pay the tax in line with their consumption of goods and services received.
- v. It can be used as a tool of fiscal policy. The rate can be changed to achieve specific economic objective.

Demerits of VAT

- i.. High administrative cost on the part of the government.
- ii. High cost of keeping records by the companies.
- iii. Injustice in the distribution of the VAT proceeds.
- iv. Corruption of the tax officials can render VAT administration ineffective.
- v. Problem of inadequate information can make VAT administration ineffective.

QUESTION 3

Dynamic International Limited is a Nigerian company importing goods from a company in Germany. They make up their accounts to June 30, every year.

Based on the problem of reconciling and balancing accounts, Dynamic International Limited decided to change their accounting year end to September 30, every year. The adjusted profits for the following periods are as follows:

	#	
Year ended June 30, 2014		3,800,000
Period ended September 30, 2015		4,800,000
Year ended September 30, 2016		4,200,00
Year ended September 30, 2017		3,600,000

You are given the following additional information:

i.	Income were overstated as follows:	
ii.	- June 30, 2015	#320,000
	- September 30, 2016	#430,000
iii.	- Expenditures were understated as follows:	
	- June 30, 2014	#160,000
	- September 30, 2017	#150,000

Required:

- | | | |
|----|---|-------------------|
| a. | Discuss the provisions of the tax law when a business decides to change its accounting year end | (5 marks) |
| b) | Explain the practice of the Revenue in relation to the provisions of the law? | (5 marks) |
| c) | Compute the assessable profits for all the relevant years of assessment affected by the change of accounting date rules, taking into consideration the provisions of the law and the practice of the revenue. | (10 marks) |
| | Total | (20 marks) |

SOLUTION 3

DYNAMIC INTERNATIONAL LIMITED

- a) A company can change its accounting year-end date under certain conditions, which vary depending on jurisdiction, regulatory requirements, and tax authorities. Generally, the circumstances include:

i. Business or Operational Reasons

- Aligning the financial year with the parent company's reporting period.
- Matching the accounting year with seasonal business cycles (e.g., retail companies aligning with peak sales periods).
- Adapting to changes in business structure, mergers, or acquisitions.

ii. Regulatory or Tax Authority Approval

- In many jurisdictions (e.g., Nigeria – FIRS, UK – HMRC, US – IRS), approval from tax authorities is required before changing the year-end.
- Some authorities may only allow the change once in a specified period (e.g., once in five years).

iii. Compliance with Company Law

- The company's board of directors must approve the change.
- Shareholders may also need to approve if required by the company's articles of association or governing documents.

iv. Restrictions

- The change must not be for the sole purpose of tax avoidance.
- The new accounting period cannot exceed the maximum length allowed by law (e.g., 18 months in many jurisdictions).

v. Required Filings

- Notify relevant authorities, for example, the Federal Inland Revenue Service and the Corporate Affairs Commission in Nigeria within the stipulated time.
- Update financial statements to reflect the transitional period (which may be shorter or longer than 12 months).

b) In Nigeria, the Federal Inland Revenue Service (FIRS) regulates corporate tax matters, including approval for changing a company's accounting year-end. The way the FIRS exercises its discretion in practice is as follows:

- i. Determine the year of assessment in which the company failed to make up accounts to its normal year end.
- ii. Identify the two years of assessment next following (i) above.
- iii. Compute the assessable profits for the three years of assessment in (i) and (ii) above using the existing accounting date, that is, the old accounting date.
- iv. Compute the assessable profits for the three (3) years of assessable in (i) and (ii) above using the new accounting date.
- v. Obtain the sum of assessable profits for the three (3) years for each of the computations in (iii) and (iv) above; and
- vi. Choose the higher of the assessable profits for the 3 years, in (v) above.

c. Computing assessable profits of Dynamic International Limited for all relevant years of assessment affected by the change of accounting date rules, taking into consideration the provisions of the law and the practice of the Revenue.

Accounting year	2014	2015	2016	2017
	₦	₦	₦	₦
Adjusted profit	3,800,000	4,800,000	4,200,000	3,600,000
Deduct overstated income	-	(320,000)	(430,000)	
Understated expenditures	<u>(160,000)</u>	=	=	<u>(290,000)</u>
Revised adjusted profit	3,640,000	4,480,000	3,770,000	3,310,000

Computation based on old accounting date

Year of assessment	Basis period	Assessable profit
		₦
2016	01/07/14 – 30/06/15	
	12/15 x 4,480,000	3,584,000
2017	01/07/15 – 30/06/16	
	(3/15 x 4,480,000 + 9/15 x 3,770,000)	
	(896,000 + 2,262,000)	3,158,000

2018	01/07/16 – 30/06/17	
	(3/12 x 3,770,000 + 9/12 x 3,310,000)	
	(942,500 + 2,482,500)	3,425,000
		<u>10,167,000</u>

Computation based new accounting date

Year of assessment	Basis period	Assessable profit ₦
2016	01/10/14 – 30/09/15	
	(12/15 x 4,480,000)	3,584,000
2017	01/10/15 – 30/09/16	3,770,000
2018	01/10/16 – 30/09/17	3,310,000
		<u>10,664,000</u>

The tax authority will assess 2016 to 2018 assessment years using the new accounting date as the computed total of assessable profits which amounted to ₦10,664,000 which is higher than the on old accounting basis totaling ₦10,167,5000.

QUESTION 4

- (a) Discuss the objectives of the National Information Technology Development Levy (NITDL) as stipulated in the NITD Act, 2007. How does the levy contribute to national development in Nigeria?
(5 Marks)
- (b) Identify the categories of companies liable to pay the Information Technology Development Levy in Nigeria and explain the conditions that trigger the obligation to pay.
(5 Marks)
- (c) ABC Ltd was granted pioneer status under the Industrial Development (Income Tax Relief) Act for 3 years. The company earned the following profits before tax:
- Year 1: ₦120 million
 - Year 2: ₦150 million

- Year 3: ₦180 million
- Year 4: ₦200 million

Corporate income tax rate = 30%.

Required:

- (i) Compute the tax savings of ABC Ltd due to pioneer status. (5 Marks)
- (ii) Determine the company's tax liability in Year 4 when the pioneer period has expired. (5 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 4

(a) The National Information Technology Development Levy (NITDL) is to be imposed as provided in Section 12 of the NITD Act, 2007. Its primary objectives include:

- i. **Funding IT Development:** The levy is used to provide sustainable funding for information technology development in Nigeria;
- ii. **Capacity Building:** To finance training and manpower development in ICT for both public and private sector growth;
- iii. **Research and Innovation:** To support IT-related research, development of indigenous software, and innovation hubs;
- iv. **Digital Infrastructure:** To enhance ICT infrastructure in government institutions and educational establishments; and
- v. **Global Competitiveness:** To promote Nigeria's competitiveness in the global digital economy.

Through these objectives, the levy supports digital literacy, e-government initiatives, IT-based start-ups, and innovation-driven entrepreneurship, thereby contributing to national socio-economic growth.

(b) According to the **NITD Act 2007 (Section 12)**, the following categories of companies are liable to pay the levy:

- i. **GSM Service Providers and Telecommunication Companies** operating in Nigeria.
- ii. **Cyber Companies and Internet Providers.**
- iii. **Pension Fund Administrators, Banks, and Other Financial Institutions.**
- iv. **Insurance Companies.**

Condition to Pay:

- i. Any company in the above sectors with an **annual turnover of ₦100 million and above** is liable;

- ii. The levy is charged at **1% of the profit before tax (PBT)** as stated in the audited financial statements; and
- iii. The levy is collected by the **Federal Inland Revenue Service (FIRS)** on behalf of NITDA.

Thus, companies falling into these categories and meeting the turnover threshold are obligated to pay.

(c) ABC LIMITED

Step 1: Profits under pioneer period (Years 1–3)

- Year 1: ₦120m → exempt
- Year 2: ₦150m → exempt
- Year 3: ₦180m → exempt

Total exempt profit = ₦450 million

Tax savings = 30% × ₦450m = ₦135 million

Step 2: Year 4 (no exemption)

- Profit = ₦200m
- Tax liability = 30% × ₦200m = ₦60 million

Final Answer:

- (i) Tax savings due to pioneer status = **₦135 million**
- (ii) Tax liability in Year 4 = **₦60 million**

SECTION C: ATTEMPT ANY TWO (2) QUESTIONS FROM THIS SECTION

QUESTION 5

- (a) Withholding Tax is the deduction of tax at source from payments made to a taxable person. Ordinarily, dividend payments to shareholders are subject to withholding tax. However, some dividend payments are exempt from withholding tax in accordance with the provisions of the Companies Income Tax Act, as amended to date.

Required:

State three dividend payments exempted from withholding tax. (5 Marks)

- (b) Mr. Ajani died in 2023, leaving all his property in trust for his three children. The following information was made available to you in 2025 for the purpose of preparing the income tax computation and tax payable by the trustees and the children - Shola, Bimbo, and Tiwa.

₦

Profit (Year ended 31/12/24)	14,000,000
Capital allowances	3,000,000
Rent	8,000,000

Remuneration of the trustees has been fixed at ₦18,000 monthly. The sums of ₦60,000, ₦72,000, and ₦80,000 were paid towards the university education of the children. Expenses incurred by the trustees in administering the estate amounting to ₦116,500 were paid. The trust created an annuity of ₦178,000 in favour of the motherless babies' home. The children are to share 30% of the annual net income in the ratio of 3:2:1, respectively. The trustee has the power to make discretionary payments.

Required:

Compute the amount due to the beneficiaries for the 2025 year of assessment. (10 Marks)

(Total 15 Marks)

SOLUTION TO QUESTION 5**(a) Dividends Exempted from Withholding Tax**

These include:

- (i) Dividends paid out of pioneer profit;
- (ii) Dividends paid by issue of bonus shares;
- (iii) Dividends from small companies in the manufacturing sector in the first five years of operation;
- (iv) Dividends paid out of taxed petroleum profits; Dividends from petroleum companies subjected to the provisions of PPTA;
- (v) Dividends from companies engaged in petrochemical and liquefied natural gas;
- (vi) Dividends received from investments in wholly export-oriented businesses;

- (vii) Dividends received by a company from a country outside Nigeria and brought into Nigeria through government-approved channels; and
- (viii) Dividends distributed by Unit Trust.

(b) Mr. Salami's Trust

Computation of Amounts Due to the Beneficiaries for 2025 Year of Assessment

	Shola	Bimbo	Tiwa	Motherless	Total
	₦	₦	₦	₦	₦
Ratio	3	2	1	-	6
Share of distributable					
Income	2,741,625	1,827,750	913,875	0	5,483,250
Fixed Annuity				178,000	178,000
Discretionary Payment	<u>60,000</u>	<u>72,000</u>	<u>80,000</u>	<u>0</u>	<u>212,000</u>
Amounts due for the Beneficiaries		<u>2,801,625</u>	<u>1,899,750</u>	<u>993,875</u>	<u>178,000</u>
		<u>5,873,250</u>			

Workings

Mr. Ajani's Trust

Computation of Distributable Income for 2025 Year of Assessment

	₦	₦
Profit for the year ended		14,000,000
Capital Allowances	<u>(3,000,000)</u>	11,000,000
Add; Rent	<u>8,000,000</u>	19,000,000
Allowable expenses:		
Remuneration of Trustees (N18,000 by 12)	216,000	
Trustee's administrative expenses	116,500	
Annuity	<u>178,000</u>	<u>(510,500)</u>
Computed Income		18,489,500
Discretionary payments (Univ. Education ₦60 + ₦72 + ₦80)		<u>(212,000)</u>
Distributable Income		18,277,500
30% share of distributable income amongst the beneficiaries		<u>(5,483,250)</u>
Net distributable income in the hand of the Trustee (70%)		<u>12,794,250</u>

QUESTION 6

a. Explain the following concepts and how they apply to non-resident companies:

- i. Fixed Base (5 Marks)
- ii. Turnkey Projects (3 Marks)

b. State the tax implications on a profit of a Nigerian subsidiary fully owned by a foreign parent company.

(7 marks)

(Total 15 Marks)

SOLUTION TO QUESTION 6

a i. Fixed Base of business

- The fixed base of a non-resident company is the place from where it carries on its business or trade in Nigeria.
- The fixed base must be easily identifiable and must possess some degree of permanence.
- A fixed base will include;
 - facilities such as a factory, an office, a branch, a mine or an oil well;
 - activities such as building construction, assembly or installation; and
 - furnishing of services in connection with the activities above.

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

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

a ii. Turnkey Projects

This is a trade or business or activity which involves a single contract for the surveys, deliveries, installations or construction and others. For the purpose of determination of tax payable on turnkey projects in Nigeria, the profit from such a project is considered as derived from Nigeria and so taxable in Nigeria.

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

b. The tax implications on a profit of a Nigerian subsidiary that is fully owned by a foreign parent company:

- (i) The subsidiary of the foreign or parent company must be registered or incorporated in Nigeria and thus become a Nigerian company.

- (ii) The residence status of the subsidiary company cannot be affected irrespective of the foreign parent's share of ownership (whether fully owned or partly owned).
- (iii) Dividends distributed by the Nigerian subsidiary company is regarded as franked investment income and shall be exempted from tax in the hands of the parent company.

QUESTION 7

(a) ABC Nigeria Ltd presents the following information for the year ended 31st December 2023:

- Turnover: ₦800,000,000
- Cost of Sales & Operating Expenses (all allowable): ₦620,000,000
- Capital Allowances: ₦50,000,000
- Balancing Charge: ₦10,000,000
- Qualifying Donations (approved): ₦15,000,000

Required:

Compute the **Companies Income Tax (CIT)** and **Tertiary Education Tax (TET)** payable. (8Marks)

(b) Discuss the treatment of Capital Allowances under the Companies Income Tax Act (CITA) and explain how it affects the computation of Tertiary Education Tax. (7 Marks)

SOLUTION TO QUESTION 7

(a) **ABC NIGERIA LIMITED**

Computation of Company Income Tax for 2024 Year of Assessment

	₦	₦
Turnover		800,000,000
<u>Less: Allowable expenses</u>		

Cost of sales		<u>620,000,000</u>
		180,000,000
Add: Balancing charge		<u>10,000,000</u>
Less: Donation (Maximum of 10% of Adjusted Profit)		
10% of ₦190,000,000	19,000,000	
Allowable Donation	<u>15,000,000</u>	<u>15,000,000</u>
		175,000,000
Less: Capital Allowance		<u>50,000,000</u>
Total Assessable profit		<u>125,000,000</u>
CIT @ 30%		<u>37,500,000</u>
Education Tax 3%		<u>3,750,000</u>

(b)

- Under **CITA (Cap C21, LFN 2004, as amended)**, Capital Allowances are deductions granted to companies for qualifying capital expenditures (e.g., plant, machinery, building, etc).
- They replace accounting depreciation, which is not tax deductible.
- For CIT, Capital Allowances reduce Assessable Profits to arrive at Total Profits, which is the tax base for CIT.
- For TET, however, the law specifies that it is charged on Assessable Profits before Capital Allowances.
- **Implication:** Even if Capital Allowances reduce taxable profit to zero for CIT purposes, TET is still payable provided the company has Assessable Profits before Capital Allowances.



CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2025: PROFESSIONAL EXAMINATION

PTX 1: Information Technology and Digital Taxation

TUESDAY 14TH OCTOBER 2025

EXAM NO.....

TIME: 3 HOURS

INSTRUCTION

ANSWER QUESTION 1 AND ANY 2 QUESTIONS IN SECTION B AND ANY OTHER 2 QUESTIONS IN SECTION C

SECTION A: COMPULSORY

Question 1

The Economic Community of West African States (ECOWAS) is promoting the harmonization of tax systems across member states to facilitate cross-border trade and investment. One of the key initiatives is the development of a standardized tax administration system that can be adopted by all ECOWAS member states.

The ECOWAS Secretariat has selected a consulting firm, "TechTax Solutions", to develop and implement this harmonized tax system. Your team at TechTax Solutions is responsible for choosing the most appropriate system development technology, ensuring data privacy and security, and addressing the unique challenges of implementing such a system across diverse countries with varying levels of IT infrastructure and expertise. A major political issue is data security. Each country wants the security of its data to be a priority and does not trust external data management systems.

Require:

- a) Compare and contrast the System Development Life Cycle (SDLC), Structured Systems Analysis and Design Methodologies, and Agile systems development methodologies in the context of developing the harmonized tax system for ECOWAS. Which methodology would you recommend and why?
(71/2Marks)
- b) Discuss the data privacy and data protection principles that should guide the development and implementation of the harmonised tax system. How can TechTax Solutions address the concerns of individual ECOWAS member states regarding the protection of their taxpayer data and ensure compliance with regional data protection regulations?
(71/2 Marks)
- c) Describe the organisational and managerial frameworks for security and control that TechTax Solutions should establish to protect the harmonised tax system from system vulnerabilities and abuses. How will these frameworks ensure accountability, promote security awareness, and facilitate incident response across different ECOWAS member states?
(71/2 Marks)
- d) Identify and discuss the key challenges posed by information systems security and control in the context of the harmonized tax system. What management solutions would you recommend to address these challenges and ensure the long-term security and sustainability of the system?
(71/2 Marks)
(Total 30 Marks)

Solution 1

- a) Systems Development Methodologies:

SDLC: Rigid, time-consuming, and not suitable for the diverse needs and changing requirements of ECOWAS member states.

Structured Systems Analysis and Design: It is also too rigid for this project.

Agile: Most suitable due to its flexibility, iterative development, and ability to incorporate feedback from diverse stakeholders.

Recommendation: Adopt an Agile methodology (e.g., Scrum) with a focus on collaboration and continuous feedback to ensure the system meets the unique needs of each ECOWAS member state.

b) Data Privacy and Data Protection Principles:

Data Protection Principles:

Lawfulness, Fairness, and Transparency: Ensure data collection and processing are lawful, transparent, and fair to taxpayers in all ECOWAS member states.

Purpose Limitation: Use data only for the intended purposes (e.g., tax administration) and not for unauthorised uses.

Data Minimisation: Collect only the necessary data.

Accuracy: Ensure data accuracy and completeness.

Storage Limitation: Retain data only for as long as necessary.

Integrity and Confidentiality: Implement security measures to protect data.

Addressing Member State Concerns: Implement data localization measures to store taxpayer data within the borders of each ECOWAS member state.

Establish separate databases for each member state, with strict access controls to prevent cross-border data sharing.

Utilise encryption to protect data both in transit and at rest.

Ensure compliance with data protection regulations in each member state.

c) Organisational and Managerial Frameworks:

i. Establish a centralized security governance structure with representatives from each ECOWAS member state.

ii. Develop a comprehensive security policy and procedures manual.

iii. Implement a security awareness training program for all staff.

iv. Establish a centralized incident response team with members from each country.

v. Conduct regular security audits and penetration testing.

d) Challenges and Management Solutions:

Challenges:

- i. Diverse IT infrastructure and expertise across ECOWAS member states.
- ii. Cultural and linguistic differences.
- iii. Political sensitivities and data sovereignty concerns.
- iv. Limited resources for security investments.
- v. Evolving security threats.

Management Solutions:

- i. Provide extensive training and support to IT staff in each member state.
- ii. Develop a user-friendly interface that supports multiple languages.
- iii. Involve stakeholders from each country in the system development process.
- iv. Allocate resources for security investments and ongoing maintenance.
- v. Implement a continuous monitoring and improvement program to address evolving threats.

Question 2

Despite best efforts to secure data, breaches may still occur. A well-defined data breach response plan is essential for tax administrations to mitigate the impact of breaches and restore public trust.

Required:

- a) Explain five (5) elements of a data breach response plan. **(5 Marks)**
- b) Discuss the importance of having a data breach response plan. **(3 Marks)**
- c) With logical reasoning, identify and explain the elements of information system suitable for a tax office. **(12 Marks)**

(Total 15 Marks)

SECTION B: ATTEMPT ANY TWO (2) QUESTIONS FROM THIS SECTION

Solution 2

- a) The following are five (5) elements of a data breach response plan:
- i) Preparation: Availability of adequate policies, an incident response team (IRT), workable tools, and sufficient staff training at the level of preparation.
 - ii) Identification and Detection: Spontaneous identification of threats and proactive detection of vulnerabilities; and correlation to detect anomalous behavior and confirm breaches.
 - iii) Containment: Short-term isolation of affected hosts, and long-term containment, apply patches, and change credentials to prevent spread
 - iv) Eradication and Recovery: To remove malware/backdoors, restore systems from clean backups, validate integrity, and return to business operations.
 - v) Communication and Post-Incident Review: To ensure Internal & external notifications (legal/regulatory), public relations, reporting to authorities where required, and lessons learned to improve controls.
- b) The importance of having a data breach response plan
- i. It minimises damage and service downtime: The Ability to ensure quick response reduces operational and financial impact.
 - ii. It ensures legal and regulatory compliance: Timely notification to regulators and affected parties may be required by law.
 - iii. It preserves public trust and reputation: Effective and transparent communication and remediation reduce reputational harm.
- c) The elements of an information system suitable for a tax office include:
- i. Hardware: Devices like desktops, servers, scanners, secure storage, and redundant power, like UPS, generators.
 - ii. Software: Software like tax return processing software and management Information System software are also needed.
 - iii. Database: A centralised and secure Database Management System (DBMS) for taxpayer records with auditing and backup is essentially needed.
 - iv. Network: Secure Local Area Network, Wide Area Network are important. Also, a Virtual Private Network is needed for remote offices with a secure internet gateway for all.
 - v. People: adequately trained staff, IT administrators, tax officers, helpdesk, and security analysts will be of assistance to the tax office operations.

- vi. Procedures and Policies: Availability of Standard Operating Procedures (SOP), access control policies, data retention, and encryption standards will assist the operations of the tax office.
- vii. Security Controls and Auditability: Logging, and based access control, encryption, backups, and periodic audits will improve the tax office activities.

Question 3

Cryptocurrency, blockchain and other emerging technologies make transactions faster and seamless for many international businesses.

Required:

- a) Explain the challenges associated with the taxation of cryptocurrency and blockchain transactions. **(10 Marks)**
 - b) What technological and legal solutions could be implemented to address these challenges? **(10 Marks)**
- (Total 20 Marks)**

Solution 3

- a) The taxation of cryptocurrency and blockchain transactions presents several significant challenges, including:
 - i. Volatility: The fluctuating value of cryptocurrencies makes accurate valuation for tax purposes difficult.
 - ii. Anonymity: Blockchain's pseudonymous nature can hinder tracking of transactions and identifying taxpayers for tax purposes.
 - iii. Cross-Border Nature: Crypto transactions often cross national borders, creating jurisdictional ambiguities.
 - iv. Technological Complexity: Understanding the intricacies of blockchain technology and its implications for tax is complex for both tax authorities and taxpayers.
 - v. Lack of Standardized Regulations: A lack of globally consistent regulations makes international tax compliance difficult.
- b) The technological and legal solutions that could be implemented to address the challenges include:
 - i. Development of Standardized Valuation Methods: Establishing clear guidelines for valuing cryptocurrencies at the time of transaction.

- ii. Enhanced Tracking and Monitoring Technologies: Working with blockchain developers to create tools that allow tax authorities to track transactions without compromising privacy.
 - iii. International Cooperation: Collaborating internationally to create consistent tax rules for crypto transactions.
 - iv. Education and Training: Providing education to both tax professionals and taxpayers on the tax implications of cryptocurrencies and blockchain.
 - iv. Leveraging Blockchain Technology for Tax Compliance: Ironically, the transparency and immutability features of blockchain could be leveraged to enhance tax compliance by creating a secure, auditable record of transactions.
- v.

Question 4

The rapid expansion of e-commerce has introduced significant tax administration challenges for developing nations.

Required:

- a. Identify and elaborate on four challenges Nigeria faces in taxing the digital economy. **(12 Marks)**
- b. Suggest three strategies that FIRS could adopt to improve voluntary compliance by digital service providers. **(8 Marks)**

(Total 20 Marks)

Solution 4

- a. Four Challenges Nigeria Faces in Taxing the Digital Economy
 - i. Absence of Physical Presence (Nexus Problem): Many digital service providers operate in Nigeria without a physical office, making it difficult for FIRS to establish taxing rights under traditional tax rules.
 - ii. Profit Shifting and Base Erosion: Multinational companies often shift profits to low-tax jurisdictions, leaving Nigeria with little or no taxable income despite significant sales in the country.
 - iii. Weak Digital Infrastructure and Capacity: Limited technological tools, lack of skilled manpower, and inadequate data analytics capability hinder FIRS from effectively tracking and taxing e-commerce transactions.
 - iv. Low Taxpayer Awareness and Compliance: Many digital service providers, especially SMEs and informal online vendors, lack adequate knowledge of tax obligations, resulting in non-compliance and widespread evasion.

c. Three Strategies FIRS Could Adopt to Improve Voluntary Compliance

- i. Simplified Digital Tax Framework: Develop user-friendly e-filing and e-payment systems tailored for digital businesses, ensuring ease of compliance with minimal administrative burden.
- ii. Awareness and Stakeholder Engagement: Conduct targeted campaigns, seminars, and digital outreach to educate online vendors and multinational platforms on their tax obligations in Nigeria.
- iii. Collaboration with Financial Institutions and Platforms: Partner with banks, payment processors, and e-commerce platforms (e.g., Jumia, Flutterwave, Paystack) to track transactions and facilitate automatic tax withholding or reporting.

Question 5

- a. Identify and explain four ethical challenges that arise from the use of technology in taxation. **(12 Marks)**
 - b. Outline three major components of an information system within a tax office. **(3 Marks)**
- (Total 15 Marks)**

SECTION C: ATTEMPT ANY TWO (2) QUESTIONS FROM THIS SECTION

Solution 5

a) Four Ethical Challenges that Arise from the Use of Technology in Taxation

- i. Data Privacy and Confidentiality Risks: Taxpayers' personal and financial information is stored digitally. Breaches, leaks, or misuse of such sensitive data raise ethical concerns regarding confidentiality.
- ii. Cybersecurity and Integrity of Information: Hackers may manipulate tax data or gain unauthorised access, leading to false assessments or fraudulent refunds. This undermines trust in the tax system.
- iii. Digital Exclusion and Equity Issues: Taxpayers without digital literacy or internet access may be unfairly disadvantaged, creating inequality in compliance opportunities.
- iv. Potential Misuse of Artificial Intelligence: AI algorithms used in auditing may unintentionally discriminate, target specific groups, or lack transparency in decision-making, raising ethical accountability concerns.

b) Three Major Components of an Information System within a Tax Office

- i. Hardware – Physical devices such as servers, computers, and networks that support tax data processing.
- ii. Software – Applications and programs (e.g., e-filing systems, data analytics tools) used to manage taxpayer information and compliance activities.
- iii. People/Users – Tax administrators, IT professionals, and taxpayers who interact with the system to input, process, and interpret information.

Question 6

The Lagos State Internal Revenue Service (LSIRS) is implementing an online tax filing system to improve taxpayer compliance and reduce administrative costs. However, many taxpayers, particularly small business owners and elderly citizens, lack the digital literacy skills to use the system effectively.

Required:

- (a) Discuss the challenges that the LSIRS might face in implementing this online tax filing system, considering the digital divide in Nigeria. **(7 Marks)**
 - (b) What strategies can the LSIRS adopt to address the digital literacy gap and ensure that all taxpayers can access and use the online tax filing system? **(8 Marks)**
- (Total 15 Marks)**

Solution 6

- (a) Challenges of implementing online Tax Filing System:
 - i. Digital literacy gap: Many taxpayers lack the basic computer skills and internet access needed to use the online tax filing system.
 - ii. Infrastructure limitations: Limited internet access and unreliable electricity supply in some areas can make it difficult for taxpayers to file their taxes online.
 - iii. Security concerns: Taxpayers may be hesitant to share their financial information online due to concerns about data security and privacy.
 - iv. Resistance to change: Some taxpayers may be resistant to change and prefer to file their taxes using traditional methods.
 - v. Language barriers: Taxpayers who are not fluent in English may find it difficult to navigate the online tax filing system.

(b) Strategies to address digital literacy gap

- i. Provide training and support: Offer free training workshops and online tutorials to help taxpayers develop the digital literacy skills they need to use the online tax filing system.
- ii. Establish help centers: Set up physical help centers where taxpayers can receive assistance from trained staff.
- iii. Offer multiple filing options: Continue to offer traditional filing options, such as paper forms, for taxpayers who are unable to use the online system.
- iv. Simplify the online system: Design the online tax filing system to be user-friendly and easy to navigate.
- v. Provide multilingual support: Offer the online tax filing system in multiple languages to accommodate taxpayers who are not fluent in English.
- vi. Partner with community organisations: Collaborate with community organisations to reach out to underserved populations and provide them with digital literacy training and support.
- vii. Invest in infrastructure: Work with government agencies to improve internet access and electricity supply in underserved areas.

Question 7

A tax authority is using social media analytics to identify individuals who may be underreporting their income. The system analyses social media posts, photos, and other publicly available information to identify individuals who appear to be living beyond their reported means.

Required:

(a) Discuss the legal and ethical challenges associated with using social media analytics for tax enforcement purposes. **(7 Marks)**

(b) What safeguards should the tax authority implement to ensure that it is using social media analytics responsibly and ethically? **(8 Marks)**

(Total 15 Marks)

Solution 7

(a) Legal and Ethical Challenges associated with using social media analytics for tax enforcement purposes include:

- i. Privacy concerns: Using social media analytics to collect information about individuals raises significant privacy concerns.
- ii. Data accuracy: Social media data can be inaccurate or misleading, which could lead to false accusations of tax evasion.

- iii. Bias: Social media algorithms can be biased, which could lead to unfair targeting of certain groups or individuals.
 - iv. Freedom of expression: Using social media analytics to monitor individuals' online activity could chill freedom of expression.
 - v. Due process: Individuals have a right to due process before being accused of tax evasion. Using social media analytics as the sole basis for accusing someone of tax evasion could violate this right.
 - vi. Legal authority: The tax authority may not have the legal authority to collect and use social media data for tax enforcement purposes.
- (b) Safeguards to be implemented by the tax authority to ensure that it is using social media analytics responsibly and ethically include:
- i. Legal authority: Ensure that the tax authority has the legal authority to collect and use social media data for tax enforcement purposes.
 - ii. Transparency: Be transparent about how the tax authority is using social media analytics and what information it is collecting.
 - iii. Data accuracy: Verify the accuracy of social media data before using it to make decisions about individuals.
 - iv. Human review: Subject all decisions based on social media analytics to human review.
 - v. Limited scope: Limit the scope of social media analytics to specific cases where there is a reasonable suspicion of tax evasion.
 - vi. Data security: Protect the security of social media data and prevent unauthorized access.
 - vii. Data retention: Establish clear data retention policies to ensure that social media data is not retained for longer than necessary.
 - viii. Independent oversight: Establish independent oversight to ensure that the tax authority is using social media analytics responsibly and ethically.