



**THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA**  
(Chartered Institute by Act No. 76 of 1992)

# **STUDENTS' COMPANION**

**OCTOBER 2011 PROFESSIONAL EXAMINATION**

**PROFESSIONAL II**  
**QUESTION AND SUGGESTED SOLUTIONS**

# THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

## OCTOBER 2011 PROFESSIONAL EXAMINATIONS

### PE 2: TAX AUDIT AND INVESTIGATION

#### INSTRUCTION: ATTEMPT ALL QUESTIONS. TIME: 3 HOURS

1. Multinational Companies and E-commerce have special peculiarities which developing countries need to properly address in order to generate more revenue from taxation.
- i What is e-commerce? 6 marks
  - ii What are the audit peculiarities of e-commerce transaction? 8 marks
  - iii What are the main tax audit issues involved in multinational companies? 6 marks
- (Total: 20 marks)
2. The group Chief Operating Officer of Alafia Lagba Group, having companies located in different parts of the country, recently received letters of tax audit exercise on three of his companies from different Integrated Tax Offices of the Federal Inland Revenue Service. His conclusion was that Revenue Authority was against the group and the personalities involved. He is also of the view that the Revenue Authority was planning to collapse his businesses which provide employment to many Nigerians.
- a) As the Tax Manager of the Group, you are required to advise the Group Chief Operating Officer by itemising various reasons that could warrant the action taken by the Revenue Authority. 15 marks
  - b) What is materiality in relation to tax audit exercise? 5 marks
- (Total: 20 marks)
3. i. State eight (8) powers of Federal Inland Revenue Service Board as entrenched in the Federal Inland Revenue Service (Establishment) Act 2007. 8 marks
- ii List (6) tax laws which the Tax Appeal Tribunals have power to adjudicate on. 6 marks
- iii State three (3) enforcement methods being used by the Revenue Authority. 6 marks
- (Total: 20 marks)
4. Tax Audit is one of the key elements of a full self-assessment tax system.
- a) What are the qualities of a good tax audit exercise? 8 marks
  - b) State four (4) objectives of a tax audit exercise. 6 marks
  - c) List four (4) types of compliance risk associated with the Value Added Tax. 6 marks
- (Total: 20 marks)
5. a) What are the steps involved in a typical compliance verification in Value Added Tax (VAT) audit exercise. (15 marks)
- b) State and explain five common challenges you are likely to encounter in the VAT audit of a small enterprise. (5 marks)
- (Total: 20 marks)

## PE 2: OIL, GAS AND OTHER MINERALS TAXATION

**INSTRUCTIONS: ATTEMPT ALL QUESTIONS. SHOW WORKINGS. TIME: 3 Hours**

1. a. Write short notes on the following:
- i. Unitisation 3 marks
  - ii. Assignment of interest 3 marks
  - iii. Carry Agreements 4 marks
  - iv. Farm out agreements 4 marks
- b. What is meant by “accounting period” in relation to a Company engaged in Petroleum Operations?  
6 marks.
2. a. What do you consider are the major obstacles to gas exploration and utilisation in Nigeria? 10 marks
- b. List the existing policy frameworks that are put in place to remedy the situation. 10 marks
3. a. What is Natural Gas? 2 marks
- b. What is meant by Gas Utilisation? 3 marks
- c. Differentiate between associated gas and non-associated gas. 5 marks
- d. What are the incentives available to a Company engaged in gas utilisation in Nigeria? 10 marks
4. a. List any two agreements/arrangements that can affect the determination of the tax payable by exploration and production (E&P) Companies 5 marks
- b. List the regulatory agencies for mineral extractions in Nigeria 5 marks
- c. Discuss the functions of each regulating agency. 10 marks
5. a. Distinguished between estimated PPT returns and final PPT returns. 5 marks
- b. Upstream Nigeria Limited is in production sharing Contract with NNPC. The company produced the following data (extract) for 2008 production:
- | Water Depth  | Production in Barrels |
|--------------|-----------------------|
| 202 metres   | 20,000                |
| 576 metres   | 16,000                |
| 812 metres   | 19,500                |
| Inland Basin | 22,250                |
- Realisable price (RP) as advised by NNPC is \$74.1289.
- You are required to compute the Royalty payable by the company for 2008. 8 marks.
- c. Briefly state what constitutes “qualifying capital expenditure” for the purpose of claims for capital allowances in Petroleum Profit Tax? 7 marks

**PROFESSIONAL EXAMINATION 2: TAX PRACTICE AND BUSINESS MANAGEMENT**

**INSTRUCTION: ATTEMPT ALL**

**TIME ALLOWED: 3 HOURS**

1. (a) In accordance with the provision of Statement of Accounting Standards 11, define a lease. (2 marks)
- (b) State the features of both finance and operating leases. (5 marks)
- (c) What are the tax implications of a lease agreement as it relates to the lessor and lessee? (13 marks)

(Total: 20 marks)

2. A company was incorporated on 15<sup>th</sup> October, 2009, has not commenced business and has not filed any tax return. The Director of the company has approached you for a Tax Clearance Certificate.
- a) Give details of the basic information that must be supplied when registering a new corporate taxpayer. (10 marks)
- b) State precisely the contents of a valid Tax Clearance Certificate. (5 marks)
- c) State (10) ten uses of tax clearance certificate. (10 marks)

(Total: 20 marks)

3. *Tax Authority:* “Your company’s assessment notice for ₦40,000,000 tax liability in respect of years 2009 and 2010 is final as far as we are concerned”.
- Tax Payer:* “I beg, have mercy, our company is not making profit due to harsh economic environment”.
- Tax Authority:* “There is nothing we can do. It is the least expected from any company in the same industry with yours. You must pay within seven days after which we might enforce payment.”

On concluding the meeting, the Tax Payer went to his office dejected. He summoned courage to search for tax advisers through the internet. Your firm was shortlisted by the tax payer for advice and actions.

**You are required to:**

- a. State the lines of actions, if any. (10 marks)
- b. When can an assessment be deemed as final and conclusive in the eyes of the law? (10 marks)
4. You are manager in the organisation where you are working. Motivation of subordinates is an important aspect of your work so as to be successful in your role.
- a. According to Herzberg’s motivation-hygiene theory, what are those factors leading to extreme satisfaction (motivators)? (9 marks)
- b. What steps will you take as a manager to motivate your subordinate? (10 marks)
- c. Apart from Frederick Herzberg’s theory, mention one other fellow that contributed to the theory of human motivation. (1 mark)

5. List and discuss five principles of management as propounded by Henry Fayol. 20 marks.

## **PROFESSIONAL EXAMINATION 2: CASE STUDY**

**INSTRUCTIONS: ATTEMPT ALL QUESTIONS. SHOW WORKINGS TIME: 3 HOURS**

### **ALASCO MANUFACTURING PLC**

#### **BACKGROUND AND CORPORATE STATUS**

ALASCO Manufacturing PLC was incorporated in 2001 as a private limited liability company. It was established pursuant to a Joint Venture Agreement between the Federal Government of Nigeria (FGN) and the then Dutch product of Germany, now Dutch Manufacturing A. G. of Germany.

The agreement was for the establishment of a manufacturing outfit in Nigeria for the production and marketing of tyres in various sizes. The agreement granted protection to the company through import restriction and expected the company to pursue a programme of gradual phase-out of imported materials until the tyres are produced 100% locally in local content by 2015.

The company is located on about 500,000 hectares of land at Jonathan Estate, Ibadan in Oyo State of Nigeria.

#### **DESCRIPTION OF ALASCO PRODUCTS / OPERATIONS**

The plant was commissioned on January 15, 2008 and has an installed capacity to produce 750,000 tyres of different sizes depending on the mould used. There are tyres for Ream 14, Ream 15, Ream 16, Ream 17, Ream 25 and Ream 30.

The emergence of Dr. Goodluck Ebele Jonathan in 2010 as the President of the Federal Republic of Nigeria gave a ray of hope and improved the business environment which in turn encouraged foreign direct capital investment into the country. Alasco, then decided to expand its operation by going into farming requiring about 10,000 hectares of land, Bag manufacturing, Cement manufacturing, Food and Beverages. Before now, the country used to experience capital flight from foreign investors thereby resulting in serious budget deficit for the country.

Foreign direct investment was sought for the expansion programme to provide sufficient capital and to enjoy Tax Incentives in Nigeria using various legal instruments.

As a result of improvement in macro economic performance, general growth rate was 7.3% in 2010, GDP rose by 9.7%, foreign reserve increased by 12% and the Central Bank of Nigeria (CBN) monetary policies led to reduction in inflation rate by 0.5% while consumer price index dropped by 8.26%.

This improvement led to overall increase in productivity and performance. Almost all the products of Alasco performed well in 2010 resulting in overall increase in profitability and shareholders' wealth. The company's employees too were motivated to higher performance as all entitlements (Leave, Meal, Entertainment, Utility allowances, etc.) are paid timely with various bonuses and benefits in cash and kind introduced.

#### **CHAIRMAN'S STATEMENT AT THE END OF 2010 FINANCIAL YEAR**

As part of the Chairman's statement for 2010 financial year, Alasco Farm Limited, a wholly owned subsidiary of Alasco Manufacturing Plc occupies about 10,000 hectares of land in Ibadan. A total land area of over 5,000 hectares is currently under dry land cultivation producing mainly Corn, Soya Beans, Rice and Cassava. Cultivation of Sugar Cane varieties under drip irrigation as seed cane for the sugar estate is a new development.

The Chairman believed that the farm will leverage on the technical expertise of the highly skilled farm management to make their venture into farming not only profitable and sustainable, but to contribute meaningfully to food sufficiency and food security in Nigeria.

Alasco Manufacturing Plc has 70% equity stake in Bagful, a publicly quoted company in the production of packaging bags for powdered products. It also increased its stake in Cement Company from 25% to 30%.

#### **TAX LIABILITIES AT BAGFUL**

As at the time of increasing investment in Bagful, there was a notice of discovery assessment from FIRS, which led to a liability of N50,000 on January 1, 2005, and an additional assessment of N10,000 was also served on January 25, 2005. The Accountant of Bagful objected the original assessment on January 30, 2005 and came up with N29,000 as liability. The additional assessment was not objected. On April 1, 2005, FIRS issued a Notice of Refusal to Amend (NORA) together with a Notice of Refusal to Amend in respect of the original assessment of N50,000 of January 1, 2005. On March 26, 2005, FIRS issued a Demand Notice in respect of the additional assessment of N10,000. On April, 30, 2005, the company filed a notice of appeal against the Notice of Refusal to Amend of April 1, 2005 and on April 20, 2005 the company appealed against the demand notice of March 26, 2005, contending that the assessment was invalid.

The Tax Appeal Tribunal on December, 14, 2005 confirmed the additional assessment but reduced the revised assessment to N30,000. The company was not satisfied with the decision of the Tax Appeal Tribunal and decided to appeal at the High Court on January 13, 2006. On April 30, 2006, the company paid N30,000 while the court upheld the appeal on June 1, 2006.

#### **SHAREHOLDING OF THE COMPANY**

The Analysis of the shareholding as at March 31, 2010 is as follows:

<b>RANGE</b>	<b>NO. OF SHAREHOLDERS</b>	<b>%</b>	<b>NO. OF SHAREHOLDING</b>	<b>%</b>
1 – 1,000	18,252	26.56	8,700,880	0.51
1,001 – 5,000	39,350	57.26	86,184,402	5.05
5,001 – 10,000	5,273	7.67	35,685,093	2.09
10,001 – 50,000	4,616	6.72	92,650,830	5.42
50,001 – 100,000	594	0.87	40,993,014	2.40
100,001 – 500,000	487	0.71	102,044,481	5.97
500,001 – 1,000,000	71	0.10	49,075,368	2.87
Above 1,000,000	75	0.11	1,293,039,266	75.69
<b>TOTAL</b>	<b>68,718</b>	<b>100.00</b>	<b>1,708,373,334</b>	<b>100.00</b>

#### **DONATIONS AND CHARITABLE GIFTS**

The following are significant donations and charitable gifts made during the year:

	N'000
Institute of Chartered Secretaries and Administrators of Nigeria	300
Nigerian Bar Association	400
Oluyole Local Government	2,000
National Institute of Marketing	100
Manufacturers Association of Nigeria	500
University College Hospital, Ibadan	500
International Cancer Centre Abuja	4,000
South – South Economic Summit	3,000
Jonathan / Sambo Campaign Office, Mapo, Ibadan	2,000
Chartered Institute of Taxation of Nigeria	1,000
Institute of Chartered Accountants of Nigeria	2,000
Federal Road Safety Commission, Ibadan Command	2,000

## **MARKETING OF ALASCO PRODUCTS**

Alasco manufactures tyres in large quantities with different sizes for various vehicles. Its products are well known to the extent that many customers already have developed 'Brand Loyalty' for them. Besides, marketing has gone as far as to the internet which makes access fairly easy for customers. Application packages have been developed by a Software Consultant for marketing of Alasco products and a permanent website created for that. In addition, salesmen recruited to cover all the six geopolitical zones of the country and major and minor distributors have been appointed with sizeable number of depots.

## **PENDING LITIGATION IN COURT**

One of the Salesmen of Alasco has a private company where he manufactures 'Zobo Drink' which he usually markets alongside Alasco products. Although different leaflets are printed for the 'Zobo Drink' advertisement, sales are made together and paid for together many times. Each customer has access to the two (2) leaflets, one from Alasco and the other from Jobisco (a company belonging) to Detolu, the Salesman. The range of Alasco products are regularly advertised on the Television and two (2) prominent National Newspapers. The mass distribution and total marketing strategy is adopted to ensure grass root coverage.

Detolu collected a single cheque in the sum of N5 million in his personal name from Madam Titilolu, a customer. This has been his usual mode of operation. He was supposed to cash the cheque and pay to the company's account or collect bank drafts in the name of the company.

However, Detolu used all cash collected for his personal business but could not meet up with the supply of Zobo Drinks which accounted for N2 million out of the N5 million collected. He eventually diverted from the route to Madam Titilolu's shop as a result of his inability to meet with the supply. The customer decided to take a legal action against Alasco Manufacturing Plc.

Madam Titilolu sued Alasco for N50 million for failure to supply 20 cartons of Zobo Drinks. The case went on for six (6) months. It was estimated that a liability of not less than ₦10 million may arise from this and the company's Accountant advised that a provision be made for contingent liability.

## **CORPORATE SOCIAL RESPONSIBILITY**

During the past years, the company put in place necessary framework, logistics and resources to advance their corporate responsibility initiatives. The focal points are in the area of health services, educational support and sponsorship, security, social welfare and infrastructure development.

As part of the efforts at improving social welfare, conditions of the society and saving lives, the company donated a ventilator life support machine to the Teaching Hospital in Ibadan (FGN Hospital). The machine helps patients in danger to breathe properly and comfortably. Welfare, logistics and financial support were also rendered to some local government primary Health Care Centres in form of medical equipment, fire extinguishers, generating sets and supports to Traffic Wardens to facilitate traffic flow.

## **ALASCO BUSINESS PERFORMANCE**

As a result of the diversification, the business of Alasco got boosted and successes were recorded. Each of the products under the subsidiaries performed very well. The synergistic effect of mergers through substantial acquisition was also achieved. Although, some negative results were recorded in some areas since challenges are part of life which do not necessarily lead to death, but lessons learnt in those negative years were capitalized on as a catalyst for future better performance.

The Bag unit has the following trading results:

### **PROFIT / LOSS (ASSESSABLE)**

N

Year to 31/12/2003	1,200,000
Year to 31/12/2004	(840,000)
Year to 31/12/2005	1,420,000
Year to 31/12/2006	984,000

## FIXED ASSETS

DATE	DETAILS	NO. (QTY)	N
31/12/2003	Office Furniture and Fittings	10	180,000
	Motor Vehicles	5	400,000
31/12/2004	Plant and Machinery	20	800,000
31/12/2005	Office Furniture and Fittings	8	160,000
	Motor Vehicles	2	640,000
31/12/2006	Equipment	10	220,000
	Plant and Machinery	1	180,000

On the other hand, the cement unit with its capital intensiveness has the following extractions from the financials in respect of fixed assets acquisition which resulted into huge profitability.

## FIXED ASSETS ACQUISITIONS (As at 30/06/2004)

DETAILS	N
Industrial Buildings	5,000,000
Plant and Machinery	1,750,000
Motor Vehicles	3,500,000

## FIXED ASSETS DISPOSAL

Plant and machinery acquired 30<sup>th</sup> June 2002 for N2 million, was disposed for N1.5 million on 30<sup>th</sup> June 2004

## QUALIFYING CAPITAL EXPENDITURE AS AT 01/07/2003

DETAILS	N
Industrial Buildings (5 years more)	10,000,000
Plant and Machinery (2 years more)	2,000,000
Motor Vehicles (2 years more)	3,000,000

## QUESTIONS:

- From the description of Alasco products and the expansion programme, list five (5) instruments that can be used to enjoy Tax Incentives by Alasco Manufacturing Plc. 5 Marks
  - Briefly discuss the strategy for the use of instruments listed in 1(a) above to entice foreign direct capital investment into various favoured sectors of the economy. 15 Marks

- From the company's operations, it was mentioned that employees are motivated by settlements of all entitlements.

With reference to relevant tax laws, clearly state the provisions of the law in respect of:

- Leave Allowance
- Meal Subsidy
- Utility Allowance
- Touring Allowance
- Pension Contributions
- Interest on Deposit accounts in the banks

- Dividends
- Death Gratuities
- Interest on Domiciliary accounts
- Entertainment Allowance

14 marks

- (b) From the case study, what do you understand by:
- (i) Capital Flight?
  - (ii) Foreign Direct Investment?
  - (iii) Profitability and wealth?
- 6 Marks
3. Review the tax liabilities of Bagful in the case study, stating clearly the provisions of the law regarding each step taken, assuming interest is payable at 20%. 20 marks
4. (a) From Alasco marketing strategy of computerization, compare Application packages to the System packages. 2 marks
- (b) What are the effects of computerized marketing strategy? 2 marks
- (c) What do you understand by 'Brand Loyalty'? 2 marks
- (d) Discuss the tax implication of the list of donations and charitable gifts by Alasco Manufacturing Plc. 2 marks
5. (a) Advise on the litigation from Madam Titilolu. 7 Marks
- (b) From the case study, what is a contingent liability? 1 mark
- (c) What are its implications on financial reporting and taxation 2 marks
- (Total: 10 marks)
6. (a) Calculate the total profits for the relevant tax years in the Bag unit 10 Marks
- (b) Will the company qualify for capital allowances at the Cement unit? If yes, how much? 10 Marks
- (Total: 20 marks)

### APPENDIX I

#### STATEMENT OF ACCOUNTING POLICIES

- a) Basis of preparation of financial statements:

The financial statements are prepared under the historical cost convention as modified by revaluation of certain property, plant and machinery.

- b) Turnover:

Turnover represents the value of beverages, ready-to-drink and yoghurt dispatched to third parties inclusive of excise duty but exclusive of Value Added Tax (VAT) and net of trade discounts and volume rebates.

- c) Income Tax:

Income tax expenses / credits are recognized in the profit and loss account.

Current income tax is the expected amount of income tax payable on taxable profits for the year determined in accordance with the Companies Income Tax Act (CITA) using statutory tax rates at the balance sheet date and any adjustment to tax payable in respect of previous years.

Education and Capital Gains taxes are assessed in line with relevant tax laws.

d) Deferred Taxation:

Deferred taxation, which arises from differences in the timing of recognition of items in the accounts and by tax authorities, is calculated using the liability method. Deferred tax is provided on all timing differences at the rates of tax likely to be in force at the time of reversal.

## SOLUTIONS

### TAX AUDIT AND INVESTIGATION

#### SOLUTION TO QUESTION 1

i. E- Commerce

E- Commerce refers to commercial transactions carried out electronically. It is internet or intranet based and involves less use of paper documents, Documentations are usually in digital or electronic form. It is flexible as it uses an electronic market that opens 24hrs a day and seven days a week.

II Audit peculiarities of e- commerce transactions;

- a) Lack of sufficient audit trail
- b) It has high probability of incidence of tax evasion and fraud
- c) Audit emphasis is usually focused on internal control system
- d) There is need to enact special tax laws to address the tax issues involved

III Multinationals are organisations operating across international border. They are usually operated as a group made up of a parent company, subsidiaries and associates located in different parts of the world.

These are usually skilled in tax base shifting to take advantage of the varying tax regimes including tax rates operating in their various countries of operation.

The main tax issues of a multinational organisation

- a) Transfer pricing - usually inter group prices are transferred at terms not at arm's length.
- b) Fictitious intergroup commission is charged purposely for tax advantage
- c) Back to back loans ie intra group loans that are artificial in substance but appearing real in form
- d) Thin capitalisation ie carrying heavy loan capital vis-a-vis equity capital purely for tax advantage.
- e) Head office overheads are artificially made to reduce overall group's tax burden

#### SOLUTION TO QUESTION 2

a The advice of the Tax Manager to the Group Chief Operating officer on reasons behind action of Revenue Officer centred on the criteria (reasons) for selection Tax Audit Cases. These are itemised below:

- I. Report from risk profiling unit showing the companies not returning taxes when compared with companies within the same industry

- II. Taxpayers with very low tax adequacy ration
- III. Taxpayer continuously declaring heavy losses – this could be a pointer that excessive private withdrawals are being taking as operating expenses or Assets or fund transferred out of business.
- IV. The Tax Audit selection could also be on routine industry checks or sector audit (project audit)
- V. Intelligence Report: Information reports received from third parties either within the tax authority or from external sources e.g media report
- VI. When it is noted that the taxpayer engages in serious tax planning schemes.
- VII. When transfer pricing/thin capitalisation arrangement is respected
- VIII. Large fixed assets/huge capital allowances claim carried forward.
- IX. Tax Refund claims
- X. Non- filing of Tax returns
- XI. Excessive withholding Tax Credits after offsetting the self assessed tax
- XII. Merger and acquisitions
- XIII. Post Pioneer Period audit: This is necessary to confirm the Loss/Profit position of the company and certification assets after pioneer period.
- XIV. Claims under Double Taxation agreement (DTA)
- XV. Suspicion of inter-company dealings - not within the arm's length

b). Materiality Concept

Materiality is the concept that views certain amount under review as more significant than others. It is often expressed as percentage.

There are no set rules with regard to whether an item is material or not . The level of materiality to chose depend on some factors as stated below:

- I. The objective of the tax and its exercise.
- II. Size of the taxpayer's operation.
- III. Circumstances surrounding the particular item.
- IV. The type of audit being carried out.

### **SOLUTION TO QUESTION 3**

Power of Federal Inland Revenue Service under FIRS ( Establishment) Act, 2007

- I. Power to administer all the enactment listed in the first schedule to the Act - Sec 25
- II. Power to call for returns, books, documents and information from the tax payers – Sec 26
- III. Power to call for further returns and payment of tax due – Sec 27
- IV. Power to investigate or cause investigation to be conducted to ascertain any violation of any tax law – see 35(2)
- V. Power to pay reward - Sec. 37
- VI. Power to compound offence - sec 48
- VII. Power to employ its own legal officers who shall have power to prosecute any of the offence in the Act subject to the power of the Attorney- General of the Federation

(b) Tax Laws which the Tax Appeal Tribunal has power to adjudicate on Paragraph 11(1) of third schedule to FIRS (Establishment Act), 2007 State the taxes as follows;

- I. Company Income Tax Act
- II. Personal Income Tax Act
- III. Petroleum Profit Tax Act
- IV. Valued Added Tax Act
- V. Capital Gains Tax Act

- VI. Any other law contained in or specified in the first schedule to this Act or other laws made or to be made from time to time by the National Assembly.
- (c) Three enforcement methods being used by the Revenue Authority:
- I. Search and seizure method.
  - II. Distraint on property.
  - III. Prosecution of the tax payer.

#### SOLUTION TO QUESTION 4

(a) Qualities of a good tax audit exercise

- I. Good audit plan - and if plan –commenced with good audit plan
- II. Risk assessment: it is preceded with good risk assessment that identifies specific area of focus.
- III. The taxpayers books and records were sufficiently reviewed to reach supportable conclusion on identified risk areas.
- IV. Appropriate tests were carried out on the specific areas of focus
- V. The audit is professionally conducted with full regards to both taxpayers' and tax auditors' rights and obligations.
- VI. The processes and conclusions reached are well documented in simple and clear language.
- VII. The taxpayer is assessed appropriately based on the conclusion reached at the end of the exercise.
- VIII. The taxpayer is fully educated on the areas of its short comings with the view to encouraging of voluntary compliance.
- IX. The audit is completed within the planned time frame.

(b) Objectives of a Tax Audit:

- I. To ascertain taxpayer's proper tax liability.
- II. To improve compliance culture so that a taxpayer transits to voluntary compliance.
- III. To ascertain the taxpayer's state of record keeping to meet its tax obligations.
- IV. The conduct of tax audit exercises on some companies within the same industry encourages more compliance on others.
- V. To further educate the taxpayers on tax laws and records keeping which are essential for tax compliances by others.
- VI. To review a tax payer's tax strategy
- VII. To detect and penalise act of non – compliance

(c) Four types of Compliance Risks associated with Value Added Tax:

- I. Registration Risk – Risk of company not register for Value Added Tax
- II. Filling Risk – Risk of not filling VAT returns
- III. Reporting Risk – Risk of under reporting of income and overstating input tax
- IV. Payment Risk –Risk of non –payment of assessed VAT tax liability

#### SOLUTION TO QUESTION 5

a Steps involved in a typical Compliance Verification of VAT

The question is indirectly asking for VAT audit process. The audit process of a particular type of audit is guided by the type of the intended audit resulting from the risk profiling. However, a typical compliance verification audit has the following steps:

- I. Identification of the case – This could be as a result of risk profiling, third party information, routine audit plan, excessive claiming of input tax or under reporting of vatable income.
  - II. Notification of taxpayer on the intending VAT audit. It is normally done by way of an audit notification letter physically delivered to the key officer of the company.
  - III. Entry meeting: Usually carried out in the company's premises with the key officer of the company, Tax Auditors, and Company's Tax Representative in attendance. The purpose is to explain the purpose and agree on the modalities of conducting the audit exercise.
  - IV. Actual audit: This involves verification of the company's records with emphasis on the identified risk areas. This could be verifying correctness of the vatable income receiving third party documents for input tax claimed, checking the appropriateness of exempted and zero rated goods and services, etc.
  - V. Reconciliation meeting – After the communication of the audit findings, the company and its tax representative meet the audit team either on the field or in the tax office to review the audit findings and tax computations.
  - VI. The scheduled officer on the case prepares the letter of notification of the additional VAT due together with the appropriate interest and penalty and pass it for raising of assessments. If it is a refund case, the report will go to the management of the revenue Authority to review and approve the refund.
  - VII. Case Reporting – The report is written by the scheduled officer and approved by the Head of Audit for onward forwarding to the appropriate top management.
- (b) Five Common Challenges likely to encounter in the VAT audit of a small enterprise.
- I. No fixed place of business.
  - II. Poor Record keeping and lack of ICT.
  - III. Risk assessment problem.
  - IV. Informal trade practice and culture.
  - V. False claim of input tax.

## PE 2 OIL & GAS TAXATION

### SOLUTION TO QUESTION 1

(a)

#### I. Utilization

This is an agreement between two or more exploration and production companies to jointly fund the working of two or more oil concessions where hydrocarbon deposits straddle the boundaries between the concessions held by different parties.

The companies involved will usually appoint one of them to work on the concessions as a unit.

The overriding objectives of the concept are operational efficiency, risk and cost minimization and gain in tax savings.

Government can compel unwilling parties to unitize their operations to achieve operational efficiency.

#### II. Assignment of Interest

Assignment of interest occurs when a company assigns its license or interest to another company for a consideration either in cash or overriding royalty interest which allows the assignor to share in the production proceeds.

Assignment of interest must be approved by DPR to be operational. Gains arising from assignment of interest are subject to Capital Gains Tax at 10%.

#### III. Carry Agreement

Carry agreements refer to an arrangement involving two parties who already own individual interest in a concession or where one party owns 100% interest in the concession.

The carrying party (or the assignor) finances the exploration and development activities and is entitled to recoup his carried cost from the carried party's (the assignor) share of production proceeds.

A production sharing contract is a form of carry agreement which the contractor is the carrying party (assignee) while NNPC is the carried party (assignor).

The carrying party usually recoups his expenses after payment of royalty (using royalty oil) but before payment of PPT (using tax oil). The parties have a share in the profit oil.

#### **IV. Farm Out Agreement**

A farm out usually arises when a license holder does not have the resources to carry out exploration and development activities by which the concession holder (farmor) assigns it to another party (farmer) to explore.

The farmer bears the cost of exploration and development. The farmer is entitled to a pre-determined percentage of both the cost and production proceeds.

- (b) Accounting period in relation to a company engaged in petroleum operations means: -
- I. a period of one year commencing from 1st January and ending 31<sup>st</sup> December of the same year.
  - II. a shorter period commencing on the day the company first makes a sale or bulk disposed of chargeable oil under a programme of continuous production and sale, domestic, export or both and ending on 31<sup>st</sup> December of the same year.
  - III. any period of less than a year being a period commencing on 1<sup>st</sup> January of any year and ending on a date in the same year when the company ceases to be engaged in petroleum operations.

#### **SOLUTION TO QUESTION 2**

- a) The factors that have accounted for low exploration and utilization of gas in Nigeria include the following.
- I. There is absence of ready market for gas internally and externally.
  - II. The non-deregulation of the gas sub-sector especially in relation to appropriate pricing of gas to the public utilities and domestic uses.
  - III. Gas resources are difficult and expensive to harness especially associated gas.
  - IV. There is no guarantee for gas supplies from the Niger Delta as a result of the militant activities in the region.
  - V. Government is pre-occupied with political rather than economic issues in the allocation of resources.
  - VI. The fiscal terms put in place to attract investors into gas exploration, development and utilization are not attractive enough.
  - VII. The process for gas gathering, storage and transportation is very expensive. Pipelines are needed for transmission, transportation and distribution of Gas from point of storage to utilization points.
  - VIII. Tax free during the tax free holiday

#### **b) Remedial Policy Framework**

Government has put in place fiscal incentives and policy measures to encourage investment in gas exploration and utilization. These include:

- I. Government has exempted the Nigeria LNG, its contractors and sub-contractors from customs duties, taxes, levies in respect of imports pertaining to the projects.
- II. The Nigeria LNG also enjoys a 10-year tax relief period as a pioneer company.
- III. The Condensate Project Act provides for the recovery of National gas liquids from an offshore field for processing and export.
- IV. The Condensate Project Act also permits NNPC to borrow money in any currency for the project

- V. Companies engaged in gas utilization are taxed under CITA which is more favourable to company than under PPTA.
- VI. Exemption from tax of all dividends during the tax holiday period where:
  - a. Investment for the business was in foreign currency,
  - b. The imported plant and machinery in the period was not less than 30% of the company's equity share capital.
- VII. Accelerated capital allowance after the tax holiday
  - a 90% annual allowance for investment in plant and machineries
  - b 15% annual allowance which will not reduce the value of the asset.
- VIII. All investment necessary to separate gas from reservoir into usable products are now to be treated as part of oil field development.
- IX. Capital investment to deliver associated gas in usable form at utilization or designated custody transfer points is to be treated as part of oil field development.

### SOLUTION TO QUESTION 3

- (a) Natural gas is a naturally occurring flammable gas produced on its own (as non-associated gas NAG) or in association with crude oil (associated gas AG). It consists mainly of methane, ethane, propane, butane and other heavier hydrocarbon.
- (b) Gas utilization means the marketing and distribution of natural gas for commercial purpose and includes power plants, liquefied natural gas (LNG), gas to liquid (GTL) plants, gas transmission distribution pipelines and fertilizer plants.
- (c) Associated gas is natural gas that occurs in the same reservoir with crude oil. Associated gas is produced in association with crude oil. It is the gas that is mostly flared by oil companies because the technology they adopted was for crude oil production and not for gathering of natural gas. Non- Associated gas are natural gas that occur of its own in the gas reservoirs and not in association with crude oil.
- (d) The incentives available to a company engaged in gas utilization include:
  - i. The granting of an initial tax holiday of three years which may be renewed for additional two years subject to satisfactory performance of the business.
  - ii. As an alternative to (i) above, an additional investment allowance of 35% which shall not reduce the value of the asset shall be granted.
  - iii. Accelerated capital allowance after the tax free period as follows:-
    - Annual allowance 90% with 10% retention for investment in plant and machinery
    - An additional investment allowance of 15% which shall not reduce the value of the asset
  - iv. Tax free dividend during the tax free period where investment was in foreign currency or the introduction of imported plant and machinery during the period was not less than 30 percent of the equity share capital of the company.
- V Interest payable on any loan obtained with the approval of the Minister for gas project shall be deductible, in this case, the Minister of Petroleum Resources.

### SOLUTION TO QUESTION 4

- (a)
  - i. Memorandum of Understanding (MOU)
  - ii. Production Sharing Contracts (PSC)
- (b)
  - i. Ministry of Petroleum Resources.
  - ii. Nigerian National Petroleum Corporation (NNPC).
  - iv. Department of Petroleum Resources (DPR).
  - iv. Federal Inland Revenue Service (FIRS).
  - v. Central Bank of Nigeria (CBN).
  - vi. Ministry of Finance (Oil & Gas Office).
  - vii. Accountant General of the Federation (AGF).
  - viii. Nigerian Extractive Industries Transparency Initiative (NEITI).
- c NEITI
  - An initiative of the Federal Government in 2004 to ensure transparency and accountability and due process.

- Ensure due process when making payments to government by expatriate companies in the industry
- Ensure the success of the government
- Conduct comprehensive audit in all the companies in the industry
- Ensure that stakeholders in the industry embrace transparency both in the payment and utilization of resources and taxes in the industry
- Ensure that government guidelines in the industry are strictly followed by all the stakeholders.

#### NNPC

- Established in 1977 from MPR & NNOC
- Construct pipelines, manage pump stations and oil depots
- Manage refineries – Kaduna, Warri, Port Harcourt
- Manage the subsidiaries to ensure easy flow of petroleum products.

#### DPR

- Created in the 50s as a section of the ministry of Corporate Affairs
- Became fully fledged in 1977
- Supervises all operations in the petroleum industry which are carried out under licence and leases
- Enforce both safety and environmental regulation in the industry
- Ensure that business in the industry is conducted in line with acceptable standards
- Ensure adequate and timely payments of royalties and rents by operators
- Monitors and ensure compliance with the indigenization policy of the Federal Government in the industry.

#### FIRS

- Ensure that adequate tax is paid by operators
- Advises the government on tax policies and regulations as it affects the operators in the Industry
- Punish offenders of tax offences in the industry
- Provide adequate incentives to companies that comply with the relevant tax law.

#### CBN

- Manages the government fund accrued from petroleum operation
- Ensure that funds from the sector are not diverted to other areas of waste
- Sees to the numbers of barrels of crude sold and the transfer of proceeds into government purse
- Advises the government on regulatory matters or policies in the industry.

### SOLUTION TO QUESTION 5

a.

- I. Estimated PPT returns are returns made by exploration and production companies for the year to advise the amount that will be paid in 12 instalments. Estimated returns can be revised as often as circumstances demand. The first estimate is expected to reach FIRS on or before 28<sup>th</sup> February of the year following the year of operations. Payment for the first estimate should be made on or before 31<sup>st</sup> March of the year following the year of operations.
- II. Final PPT returns are the statutory actual returns to be filed by exploration and production companies at the end of the financial year (usually 31<sup>st</sup> December). The returns are expected to be filed on or before 31<sup>st</sup> May of the year following the year of operation. It will disclose the amount of PPT due, the 13<sup>th</sup> instalment after payment of 12 estimated instalments where applicable or refund due to the company if there was over-payment.

b. Upstream Nigeria Limited

Computation of Royalty Payable

<u>Water Metres</u>	<u>Rate</u>	<u>Production</u>	<u>RPS</u>		<u>Dollar Value</u>
202 metres	12%	20,000	74.1289	=	177,909.36
576	8%	16,000	74.1289	=	94,885.00
812	4%	19,500	74.1289	=	57,820.55
Inland Basin	10%	22,250	74.1289	=	<u>164,936.81</u>
Royalty Payable					<u>\$495,551.72</u>

c. Paragraph 1 (Interpretation) to the second schedule of the PPT Act defined “qualified expenditure” for the purpose of capital allowance as:

- (i) Qualifying plant expenditure as capital expenditure incurred on plant, machinery and fixtures
- (ii) Qualifying pipeline and storage expenditure as expenditure incurred on pipelines and storage tanks
- (iii) Qualifying building expenditure which is expenditure incurred on the construction of buildings, structures, or works of permanent nature.
- (iv) Qualifying drilling expenditure which are expenditure incurred in connection with petroleum operations in view of :
  - (a) Acquisition of rights on petroleum deposits
  - (b) Searching for or discovering and testing petroleum deposits or winning access thereto
  - (c) Construction of temporary structures for petroleum operations.

PE 11 TAX PRACTICE AND BUS MANAGEMENT

**SOLUTION TO QUESTION 1**

(a) SAS 11 defines lease as “a contractual agreement between an owner (The Lessor) and another party (The Lessee) which conveys to the lessee the right to use its leased assets for consideration usually periodic payments called rents”. There are two classes of lease – Finance or Capital Lease and – Operating Lease.

(b) Finance Lease is a lease in which risks and rewards of ownership are transferred to the lessee, who is under obligation to pay such costs as insurance maintenance and similar charges on the asset in addition to periodic lease rentals

In most cases, a finance lease agreement is non-conceivable and the lessee has option to buy the asset for a nominal amount at the expiration of the lease term. The agreement usually provides for the payment of periodic rentals to cover capital repayment and interest computed at specific rate.

Operating lease is any other lease other than a finance lease. Under such an arrangement the lessor, while granting the lessee the right to use the leased property, retains ownership of the property, risks, obligations and benefits associated with ownership in addition to the lease rentals that he or she receives.

**FEATURES OF FINANCE LEASE**

- It is non conceivable and
  - (a) Lease terms covers substantially (80% more) of the useful life of the assets or present value of the lease at inception, the minimum lease payments and implicit interest rates
  - (b) The lease has a purchase option which is likely to be exercised.
- Ownership risks and records are transferred to the lessee
- The Lessee is under obligation to pay cost as insurance, maintenance and similar charges on the asset.
- The Lessee is to claim capital allowances

**FEATURES OF OPERATING LEASE**

- The risk and ownership of the assets remains with the Lessor
- The lease is for a shorter period of time than in a finance lease though the life span of the lease may not be known at the beginning.
- The lease may be cancelled or renewed as may become necessary
- The Lessor is under obligation to pay such cost as insurance, maintenance and similar charges on the asset.
- The Lessor is entitled to the claim of capital allowances

#### OPERATING LEASE

Tax issues for the Lessee

#### COMPANIES INCOME TAX (CIT).

- The total lease rental received or unreceivable by the Lessor is income and it is wholly taxable
- The Lessor is entitled to claim capital allowance on the leased assets

#### WITHHOLDING TAX (WHT)

- Withholding tax computed on the total lease rental must be deducted from the sums due from the Lessee. The withholding tax due is 10% of the rental income due on the lease.

#### VALUE ADDED TAX (VAT)

The lease rental income is liable to value added tax. The Lessor is to include VAT at 5% on its invoice to the Lessee.

#### TAX ISSUES FOR THE LESSEE

#### COMPANIES INCOME TAX (CIT)

- The rental charges and other associated expenses are allowable deductions for tax purposes.
- Capital allowance should not be claimed by the Lessee on assets under operating lease.

#### WITHHOLDING TAX (WHT)

- The lessee shall withhold tax at 10% from the rental payment to the lessor and remit same to the relevant tax authority

#### VALUED ADDED TAX (VAT)

VAT charged by its lessor on the lease rental charge is not an input tax to the lessee, it is to be charged to the profit and loss account

#### 1 c FINANCE (CAPITAL) LEASE

Tax issues for the Lessor

##### i. Companies Income Tax (CIT)

- The interest portion of the rent earned by the Lessor constitutes a taxable income in his hands.
- Capital portion is a repayment of initial investment and has no tax implication
- The lessor is not entitled to claim capital allowances on the leased assets only the lessee is entitled to make such claims.

##### ii. Withholding tax (WHT)

Withholding tax is computed only on the interest portion of the total lease payment due from the lessee. The lessor will receive lease rent less 10% withholding tax. The credit note will be issued in name of the lessor who can use it to offset his income tax liability for the relevant period

##### iii. VALUE ADDED TAX (VAT)

Interest earned by the Lessor on finance lease is a return on investment and is not liable to VAT.

##### iv. CAPITAL GAINS TAX (CGT)

If the asset is disposed at the expiration of the lease period, any capital gain realised would be subjected to CGT of 10% in the hands of the Lessor.

## TAX ISSUES FOR THE LESSEE COMPANIES INCOME TAX (CIT)

- The interest portion of the periodic lease rent and other related expenses such as insurance, maintenance cost are deductible expenses for income tax purposes
- The lessee is entitled to claim capital allowance on the capital portion of the value the leased-assets

## WITHHOLDING TAX (WHT)

The Lessee has a duty to withhold tax at 10% on the interest portion of the lease rental and remits same to FIRS

## VALUED ADDED TAX (VAT)

The input tax incurred on purchase of the assets is to be capitalised with the cost of the assets.

## CAPITAL GAINS TAX (CGT)

CGT will not be applicable to the Lessee unless the gain arose from the sale of his interest in the lease. However, he will be liable to CGT if the leased asset was sold by him after exercising the purchase option.

## **SOLUTION TO QUESTION 2**

### (a) INFORMATION REQUIRED FOR REGISTRATION OF A NEW COMPANY WITH FEDERAL INLAND REVENUE SERVICE:

- Certificate of incorporation together with original copy for sighting by designated FIRS official-
- Certified Copy of Memorandum and Articles of Association
- Copy of form CO2 and C07
- Nature of business
- Registered address of the company
- Business address of the company
- Accounting Date of the company
- Names and addresses of the Directors
- Shareholding structure of the Company
- Names and addresses of the Statutory Auditors
- Names and addresses of the Tax Advisers
- Names and addresses of Company Secretary
- Names and addresses of the Bankers
- Letter appointing Tax consultants on the company letter head paper
- Duly completed VAT form 001 for registration so as to get TIN & VAT number
- Proposed date of commencement of business.

To obtain tax clearance certificate, the company would have to prepare a statement of affairs, and pay pre-operational levy of N20,000. Payment could only be made if TIN has been issued by the FIRS.

### 2. b CONTENTS OF VALID INCOME TAX CLEARANCE CERTIFICATE

- The name of the company with the incorporation number.
- Address of the company
- File reference number ITIN
- Information in respect of the last 3years

Showing the following information

- I. Turnover
- II. Assessable Profit (loss)
- III. Total profits or chargeable income
- IV. Tax paid

- V. Receipt Number with dates
- Nature of Assessment
  - i. Best of Judgment (BOJ)
  - ii. Self Assessment
  - iii. Minimum tax
  - iv. Pre-Operation Levy (POL)
  - v. Other (specify)
  - vi. Sources of income
  - vii. Expiry Date

- 2. c
  - 1. Application for government loan for industry or business
  - 2. Registration of motor vehicle
  - 3. Application for firearms licence
  - 4. Application for foreign exchange or exchange control permission to remit funds outside
  - 5. Application for certificate of occupancy
  - 6. Application for award of contract by Government, its agencies or registered companies.
  - 7. Application for trade or business licence.
  - 8. Application for approval of building plans.
  - 9. Application for transfer of real property.
  - 10. Application for import or export licence.
  - 11. Application for plot of land.
  - 12. Application for agent licence.
  - 13. Application for pools or swimming licence.
  - 14. Application for registration as a controller.
  - 15. Application for distributorship.
  - 16. Application for registration of a limited liability company or a business name.
  - 17. Application for allocation of market stalls.
  - 18. Stamping of the statement of the nominal shares of a company to be registered or any case increase in the registered share capital of any organisation.

## PE 11 CASE STUDY

### SOLUTION TO QUESTION 1 ALASCO CASE

- 1 (a) The instruments that can be used to enjoy tax incentives by Alasco are;
  - I. Tax holidays for new products
  - II. Low tax rate
  - III. Accelerated Capital Allowances
  - IV. Investment Tax credit
  - V. Joint Venture
  - VI. Production sharing
- (b) The strategy for the use of the above instruments to entice foreign capital flight into various favoured sectors of the economy are:
  - i. Spare Part fabrication – 25% investment tax credit on the qualifying capital expenditure is available to a company engaged wholly in the fabrication of spare parts, tools and equipment for local consumption and export.
  - ii. Export – the profits from the supply of intermediate products for the manufacturing of goods for export are exempted from tax.
  - iii. Export processing zone – approved enterprise operating within a zone could be exempted from all Federal, State, and Local government taxes, levies and rates.
  - iv. Gas Industry – the incentives include the charges of expenditure under the PPTA and the tax under CITA generous capital allowance concession and tax holiday.

- V Mining of Solid Minerals – a new investment in the minisolid minerals to enjoy a 3-year tax exemption.
- Vi Petroleum operation – the incentives which are available to operators under Joint Venture Contract (JVC) and Production Sharing Contract (PSC) regime.
- Vii Research and Development – expenses (R & D) – expenses on R &D undertaken for commercialisation purpose are to be capitalised and Investment Credit of 20% can be claimed in addition to the initial 95% Capital Allowance allowed under under the 2nd schedule of CITA.
- Viii Tourism – 25% of foreign exchange earning from tourist are to be exempted from tax if reserved and utilised on tourism development in areas of building or expansion of new hotels , conference centre new facilities

## SOLUTION TO QUESTION 2

1. Leave Allowance ( Exemption): Up to 1998=7,500 p.a and from 1998 to date = 10% of Annual Basic Salary
  2. Meal Allowance (Exemption): From 1999 = ₦'5,000 p.a
  3. Utility Allowance (Exemption): From 1999 = ₦' 10,000 p.a
  - 4 Touring Allowance (Exemption)
  - 5 Pension Contribution (exemption): All benefits as on the approved schemes of the JTB
  - 6 Interest on deposit account in the Bank: All interest below 50%
  - 7 Dividends:
    - Dividend out of pioneer profit
    - Dividend from Petroleum company
    - Dividend from Unit Trust Scheme
    - Dividend from Petrochemical and liquiefied
    - Dividend from Natural Gas company
    - Dividend from company with a turn over from companies with turnover
    - Dividend less than ₦500,000
    - Dividend Paid as franked investment income
    - Dividend paid as bonus
    - Dividend income from income of exampled profit
  - 8 Death Gratuities: All exempted
  - 9 Interest on domicilliary Account: All account on or before January 1980
  - 10 Entertainment Allowance: From 1999 is ₦6,000 p.a
- I. Capital flight is the movement of business fund in and out of a country. In this case, capital flight refers to movement of business fund into Alasco in Nigeria by outside investors who reside outside in Nigeria.
  - II. Foreign Direct Investment is investment in capital assets by investors residing outside a country. It involves investment in fixed and immovable assets by foreign residents. This generally leads to economic growth and development through the real sector.
  - III. Profitability is the excess generated by turnover less the cost of production and sales, while wealth is the transformation of profitability and liquidity to increase earning capacity of sharholders which comes in form of earnings per share.

## SOLUTION TO QUESTION 3

- I. As at 25 March 2005, the Demand Note of ₦15,000 would carry a debt of ₦15,000 and a penalty of ₦1,500
- II. Since the interest accrues when the tax is paid, interest is not chargeable in this case.
- III. With the refusal of FIRS to amend the assessment of ₦50,000, this is charged and the revised assesement of ₦40,000 is served on the company
- IV. The company chose the option of filling a notice of appeal against the ₦50,000 on 30 April 2005, but the amount of ₦29,000 which was not in dispute became payable on 29 May 2005 but unpaid till 30/04/06

- V. The liability to be reflected in the Demand Note would be  $\text{N}29,000 + 10\% \text{N}29,000 + 20\%$  for 336 days =  $\text{N}37,239$
- Vi With the determination of the appeal on 14 December 2008, the notice of reviewed assessment liability of  $\text{N}40,000$  is discharged and a notice of Amended Assessment for  $\text{N}30,000$  is served on the company
- Vii The balance of  $\text{N}1,000$  was payable on 14 December 2005 but this was not paid till 30 April 2006 for 120 days.
- Viii Liability due =  $\text{N}1000 + 10\%$  of  $\text{N}1000 +$  interest for 120 days =  $1000 + 100 + 65.75$   
=  $\text{N}1,165.75$
- iX With the court decision of 01 June 2006 and the subsequent discharge of 25 March 2005 for  $\text{N}15,000$ , a Remission Order is issued in respect of the penalty. Penalty of  $\text{N}1,500$  imposed on 25 March 2005
- X Payment made on 30 April 2006 =  $\text{N}30,000$

#### TAX POSITION

Additinal Assessment of 25 January 2001		15,000.00
Penalty due		1,500.00
Undisputable amount of 29 May 2005		
Penalty + interest		37,239.00
Balance of tax payable on 14 December 2005		
∞ penalty ∞ interest		1,165.75
<b>TOTAL LIABILITY</b>		<b>54,904.7</b>
Less Discharge 25 March 2006	15,000	
Remissions 25 March 2006	8239	
Payment 30 April 2006	30,000	53,239
Balance Payable		1,665.75

#### SOLUTION TO QUESTION 4

- (a) Systems packages are the machine readable program/Instructions provided by computer/machine provider/vendor, while Application packages are customer required packages provided by computer experts for run on the machine/hardwares. The packages can either be off-shelf or customised depending on the need and requirement of the users,
- (b) – faster information communication  
- under coverage  
- competitiveness  
- IT compliance
- (c) Brand loyalty is the behaviour of customer of certain products creating special love for such products and stick into its consumption without prejudice to taste.
- (d) Allowable.

#### SOLUTION TO QUESTION 5

- a. The salesman Detolu acted
  - I. Ultra Vires.
  - II. Alasco is different from Jobisco.
  - III. Customer have enough information though leaflets and regular advertisement. Regular advertisement of a range of products by Alasco on TV and National Newspapers.
  - IV. The case can only be against Detolu as an individual not against the company
  - V. No vicarious liability by the company.
  - V11. Madam Titilolu cannot succeed against the Company but she can against Detolu.
- b. Contingent liability is a liability that may or may not occur (litigation)  
It may alter the balance sheet if substantial but always showed by way of note to the balance sheet.