



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

STUDENTS' DELIGHT

OCTOBER 2011 TAXATION TECHNICIAN SCHEME EXAMINATION

TTS II
QUESTION AND SUGGESTED SOLUTIONS

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2011 TAXATION TECHNICIAN SCHEME

PART 2: MANAGEMENT INFORMATION SYSTEM

INSTRUCTION: ATTEMPT ALL QUESTIONS

TIME: 3 HOURS

1. a Enumerate five types of hazard in a data processing environment. 10 marks
b State four data input controls. 4 marks
c Mention two stand-by arrangements for power failure in a data processing environment. 2 marks
d What are the advantages of the two stand-by arrangements mentioned in (c) above to a data processing environment? 4 marks
(Total: 20 marks)
2. a Define data base and outline four benefits of a good data base. 5 marks
b State briefly some precautions against loss of data base . 5 marks
c Describe a real time processing system, highlighting two advantages and two disadvantages. 10 marks
(Total: 20 marks)
3. Write short notes on the following terms:
i. Pass word. 4 marks
ii. Computer virus. 4 marks
iii. Back up. 4 marks
iv. E-mail. 4 marks
v. Scanner. 4 marks
(Total: 20 marks)
4. a Describe the central processing unit (CPU) of a typical computer system with a clearly labeled diagram. 10 marks
b Give five examples of a computer peripheral. 10 marks
(Total: 20 marks)
5. a State five differences between flow chart and decision table as programming tools. 10 marks
b Describe five symbols used in flow charting. 10 marks
(Total: 20 marks)

PART 2: PERSONAL TAXATION

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

- 1 According to the Personal Income Tax Act, certain incomes of individuals are exempted from tax in Nigeria. List ten types of such income that are exempted from income tax in Nigeria.

(20 marks)

- 2 The profit and loss account of Mailafia Enterprises for the year ended 30th September 2010 is as follows:

Income:	₦	₦
Gross profit		460,875
Gross dividends		27,000
Profit on disposal of fixed assets		20,250
<i>Gross rent received</i>		<u>22,500</u>
		530,625
Expenditure:		
Salaries & wages	33,750	
Rent	90,000	
Telephone and electricity	5,625	
Hotel expenses	18,750	
Rates	9,000	
Fuel and lubricants	22,500	
Provision for depreciation	18,750	
Bad debts	7,500	
Provision for doubtful debts	26,250	
bank loan	7,500	Interest on
Motor vehicle repairs	15,000	
General expenses	30,000	
Building repairs	75,000	
Stationery and printing	9,750	
Legal expenses	<u>15,000</u>	<u>384,375</u>
Net Profit		<u>146,250</u>

Additional information:

- i. The rent reflected in the accounts included $\frac{1}{3}$ of the rent as the amount paid for the proprietor's private residence.
- ii. Legal expenses include ₦3,750 for the acquisition of a new lease and ₦1,250 for the renewal of old leases.
- iii. General expenses include:

	₦(a)	Office
cleaning expenses	9,000	
(b) Proprietor's private use of car		3,750
(c) Fine on proprietor's traffic offence		3,000
(d) Trade magazines		750
(e) Other magazines		500
(f) Christmas gifts (drinks) to customers		2,500
- iv. Repair to motor vehicle was incurred for the acquisition of fairly used gear in order to increase the life span of the company's vehicle.
- v. Building repairs expenses were incurred to restructure the building in order to create a new office for the Personal Assistant to Proprietor.

Required:

Ascertain the adjusted profit of the Malafia Enterprises for the relevant year of assessment.

- 3 a. With reference to Personal Income Tax in Nigeria, write short notes on the following terms:
- i. Tax evasion 2 marks
 - ii. Tax avoidance 2 marks
 - iii. Place of residence 2 marks
 - iv. Itinerant worker 2 marks
 - v. Earned income 2 marks
 - vi. Nigeria employment 2 marks
- b. State two actions that may be regarded as making incorrect tax returns with reference to Personal Income Tax. 4 marks
- c. What is the prescribed penalty due to a person found guilty of making incorrect tax returns? 4 marks
- (Total: 20 marks)

- 4 a. What is capital allowance? 2 marks
- b. List and briefly explain four types of capital allowances granted by tax authorities. 8 marks
- c. List five conditions that must be satisfied for a fixed asset to qualify for capital allowances. 5 marks
- d. List five categories of capital expenditure that qualify for the granting of capital allowances. 5 marks
- (Total: 20 marks)

- 5 On 1 January, 2010 Austin Jones secured a job with a company and was offered the following salary and allowances per annum:

	₦
Basic salary	800,000
Housing allowance	200,000
Transport allowance	75,000
Meal subsidies	20,000
Benefits in kind:	
Furniture and fittings	40,000
Stewards and cook	60,000
Gardeners	50,000
Incomes from other sources:	
Dividend from investment	125,000
Interest from fixed deposit	75,000
Expenditure:	
Life Assurance Premium on:	
Self and wife	40,000
Self and children	20,000
Wife and mother	15,000
National Housing Fund Contribution	25,000
Pension Contribution	20,000
Parents (Father and mother) allowances	100,000

Additional information:

Austin Jones is married with 2 children of school age.

PART 2: BUSINESS TAXATION

INTRUCTIONS: ATTEMPT ALL QUESTIONS. SHOW ALL WORKINGS.TIME: 3 HOURS

1 ‘Withholding tax’ is an advance payment of tax deducted at source on certain transactions.

- (i) Itemize five merits of withholding tax
- (ii) List five problems of withholding tax administration (20 marks)

2 Mr Amosa commenced business on 1st June 1995. The adjusted profit of the business for tax purpose is as follows:

	₦
Period to 31/10/95	48,000
Year ended 31/10/96	90,000
Year ended 31/10/97	95,000
Year ended 31/10/98	98,000

Required:

Prepare the assessable profit of Mr Amosa in such a way as to minimize his tax liability.

(20 marks)

3 The Nigerian law allows certain expenses to be deducted from company’s income before taxes are imposed, based on the conditions that are “wholly, exclusively, necessarily and reasonably”.

- (i) Enumerate any five of such expense (5 marks)
- (ii) Explain the five main purposes of taxation (15 marks)

4 (i) A change in accounting date is a fact of business life. The tax law anticipated this, as there are aspects of of tax law, which governs change in accounting date.

Outline the position of the law and how in practice the Federal Inland Revenue Service will deal with the assessments in the event of a change of accounting date. (8 marks)

- (ii) Igbalaye Associated Haulage Company Limited has been making up its accounts to 31st July each year but by a policy decided to now make up its accounts to 31st December of each year. Its records shows its adjusted profit for the following periods:

	₦	Year
ended 31 st July, 2004	305,000	
Year ended 31 st July, 2005	421,000	
17 month’s ended 31 st December, 2006	641,000	
Year ended 31 st December, 2007	520,000	
Year ended 31 st December, 2008	648,000	

You are required to:

Compute the assessable profits for relevant tax years. Show all workings. (12 marks)

5 Lagos Forshow Limited, Aboderin Close, Lagos has submitted to the Revenue Authority the Following profit and loss statement for its accounting year ended 31st December 2009.

	₦	₦
Gross profit		900,000
Less:		
Salaries and wages	121,000	
Directors fees	156,000	
Rent and Rates	248,000	
Debenture Interest	24,000	
Loss on revaluation of fixed assets	12,000	
Repairs and maintenance	32,000	

Legal expenses	19,400	
Administrative expenses	72,000	
Company's income tax	51,200	
Bad debts	26,200	
Depreciation	<u>18,200</u>	
	<u>780,000</u>	
Net profit after tax		<u>120,000</u>

The following information relate to the company's accounts.

(i) Administrative expenses included:	₦
Travelling expenses	20,000
Stationery	20,000
Formation cost written off	10,000
Transfer to revenue reserve	12,000
Donation to Nigerian Red Cross Society	6,000
Donation to ICAN Building Fund	<u>4,000</u>
	<u>72,000</u>

(ii) Capital allowances agreed with the Tax Authorities at ₦50,000

You are required to compute:

- | | |
|---|----------|
| a) The Adjusted Profit | 12 marks |
| b) The company's tax liabilities for the relevant tax year. | 8 marks |

(Total: 20 marks)

PART 2: BUSINESS MANAGEMENT

INSTRUCTION: ATTEMPT ALL QUESTIONS

TIME: 3 HOURS

- There are various business organizations in the Nigerian economy. However, all organizations either big or small must have a management. Itemise ten functions of management.
10 marks
 - Briefly state the various incentives that can be introduced by the top management of Federal Inland Service (FIRS) to achieve optimum result.
10 marks

(Total: 20 marks)
- Discuss the various means by which an organization can select and recruit an employee. State the merits and demerits of each medium.
(20 marks)
- An official work or assignment can be carried out either manually or by the use of a computer. Which of them will you prefer and why will you make such a decision?
(20 marks)
- Identify and briefly discuss the various forms of business in Nigeria. 9 marks
 - State the relevant tax authorities applicable to each one. 3 marks
 - State the applicable and relevant tax laws to each form. 3 marks
 - List the taxes payable by each business form. 5 marks

(Total: 20marks)
- "Life is full of risks and all about risks".
Itemise "only" ten risks that may be associated with any business activity in Nigeria.
10 marks

SOLUTIONS

MANAGEMENT INFORMATION SYSTEM

SOLUTION TO QUESTION 1

(a) Five Types of Hazards in Data Processing Environment:

- I. Physical damage to Computer
- II. Theft
- III. System breakdown
- IV. Data piracy
- V. Temperature Problem
- VI. Humidity problem
- VII. Fire disaster
- VIII. Power failure
- IX. Virus infection
- X. Technical staff turnover
- XI. Hacking

(b) Control Over Input

- I. Harsh Total
- II. Check digit
- III. Range Check
- IV. Validity Check
- V. Existence Check
- VI. Key Verification
- VII. Completeness Check

(c) Two standby arrangements for power failure include:

- I. Standby electrical power generator.
- II. Uninterrupted power supply (UPS)
- III. Inverter (Solar)

(d) Advantages

- i. Continue usage of power
- ii. No break down of operation
- iii. No loss of data
- iv. System protection

SOLUTION TO QUESTION 2

(a) Data base can be defined as an organised collection of related data for access, storage and retrieval.

Benefits of good data base includes:

- I. Reduction of data duplication.
- II. Data sharing between different users and application
- III. Programs can be modified without affecting the data base structure.
- IV. Access control and security
- V. Data integrity
- VI. Provides back up and recovery services.

- VII. Foundation for data warehouse
- VIII. Provides multiple interface to different classes of users

(b) Real time processing can be described as on line processing technique in which a transaction undergoes all the data processing stages immediately on data capture 2marks

Advantages

- I. Immediate update of Master file
- II. Instantaneous availability of computer output.
- III. Timeliness provision of required information
- IV. Computer output can be used to influence decision on the transaction

Disadvantages

- i. Inadequate time for clerical checking and authorisation.
- ii. Increased risk of unauthorised access.
- iii. High set up and maintenance cost.
- iv. Complex to design, implement and maintain.

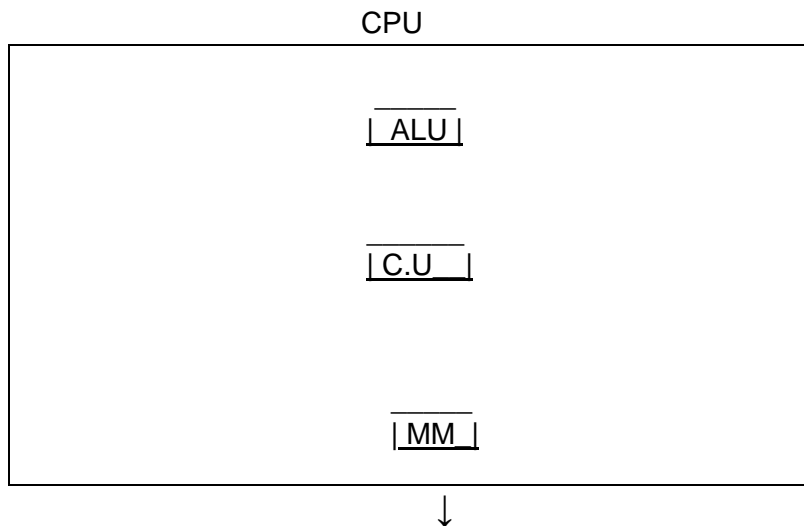
SOLUTION TO QUESTION 3

- i. Password is a code assigned to a computer user with the sole purpose of controlling access to system and application . With password unauthorised access to computer file is restricted to the owner of the password.
- ii. Computer Virus is a rogue software designed to have undesirable effect on a computer program, file or system. It attaches itself to other programs in order to spread.
Examples are stone virus, Jerusalem Virus etc. However antivirus program are used to detect and treat virus infection.
- iii. Back up is a process of making duplicate copy of programs, data and file. This is to provide check against data loss, theft, corruption, system malfunctioning and Break down
- iv. E- mail or electronic mail is used for sending and receiving electronic messages through the internet. This facility allows sending mail to more group of people, setting up mail list and sending attachment (audio, video, photographs etc). It is fast and cost effective but privacy of users data is not guaranteed.
- v. Scanner is a direct input device that is used to transmit data from source document without human intervention. This can be texts, photographs, and graphic information. It works like photocopier machine

SOLUTION TO QUESTION 4

- (a). The Central processing Unit (CPU) is the processing organ of the computer . The main function to interpret and execute instructions received.It is divided into three parts through which it performs its operation.These are:
- a) Arithmetic and logic unit (ALU)
 - b) Control Unit (CU) and
 - c) Main Memory

The diagram below shows a typical C.P.U of a computer system



- Arithmetic logic unit (ALU) is responsible for all the actual processing operations including arithmetic and logical calculations
- The C.U or control unit is responsible for coordinating all hardware operation and it consistently send signals to different parts of the system
- Main Memory (M.M) is also called internal and primary storage located inside the C.P.U. It holds data instructions and the result of processing

(b). Peripherals are computer hardware devices with the exception of the C.P.U such as input devices like: keyboard , mouse, output devices like printer, screen and auxiliary storage devices like harddisc, dvd, cds,

SOLUTION TO QUESTION 5

(a) Flowcharts versus Decision Table

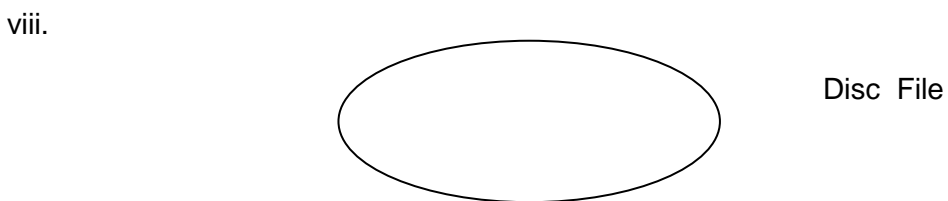
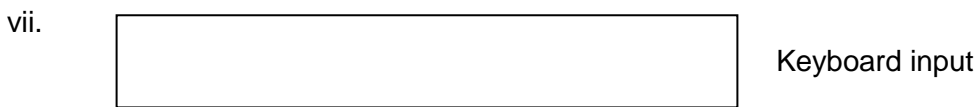
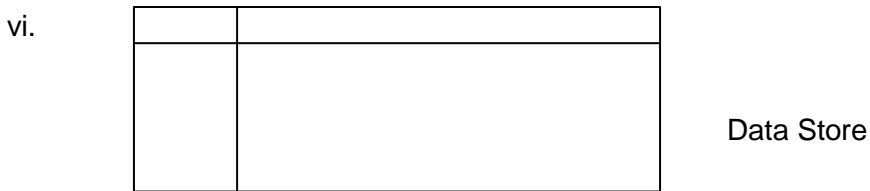
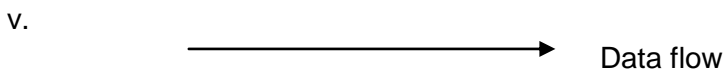
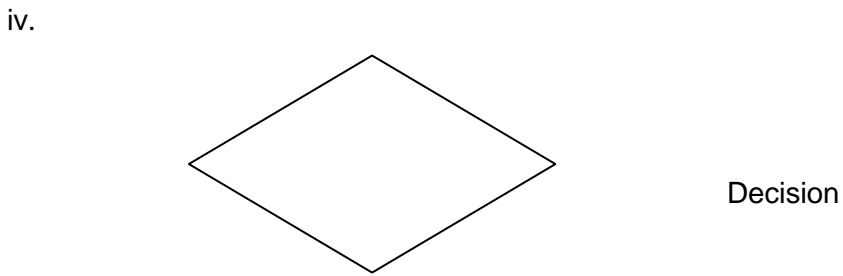
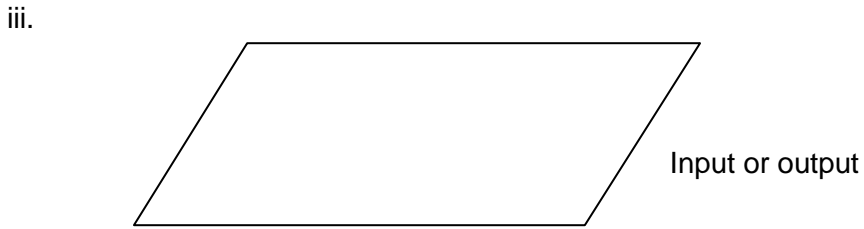
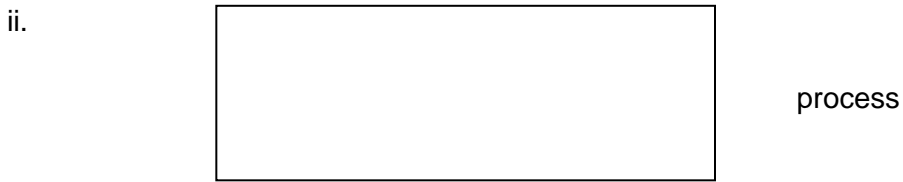
A flow chart is a diagrammatic representation of the steps involved in a process or program while Decision table is a form Truth Table that structures the logic of a problem into a simple YES or NO form

- A decision table does not give a comprehensive view of the entire process like a flowchart.
- A decision table is easier to explain for non –technical staff than a flow chart.
- Decision table is easy to update while flowchart require re-drawing.
- Decision table is easy to learn and use unlike flow chart
- Both flowcharts and decision table are visuals tools of communication. But flow chart cannot handle complex logic like decisiontables

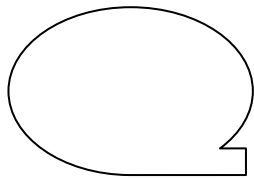
SOLUTION TO QUESTION 5

(b) Five symbols used in flow charts.

-  Start or end

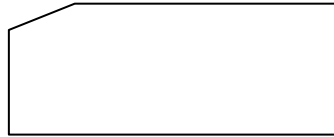


ix.



Tape file

x.



Paper output

PERSONAL TAXATION

SOLUTION TO QUESTION 1

1. Types of income that are exempted from income tax in Nigeria are:

- (i) Official emoluments of the President and the State Governors,
- (ii) Official emoluments of the Vice President and Deputy Governors of States
- (iii) The emoluments payable from United Kingdom Funds to members of visiting or other forces
- (iv) All consular fees received on behalf of a foreign state
- (v) Interest accruing to a person who is not resident in Nigeria
- (vi) The income of a national of the United States of America from employment by the International Cooperation Administration or the International Development Services
- (vii) The income of an individual from employment by the Ohio University of Anthens Ohio, as agent for the international cooperation administration
- (viii) Any income from provisions of the Diplomatic Immunities and privileges
- (ix) Income of any ecclesiastical, charitable or public educational institution
- (x) Wound and disability pensions granted to members of the Armed Forces
- (xi) Pension granted to a person under the provisions of the Pension Act relating to Widows and orphans
- (xii) The income of a trade Union registered under the Trade Unions Act
- (xiii) Gratuities paid to an employee for services rendered to the employer
- (xiv) The income of a statutory or registered friendly society
- (xv) The income of a cooperative society registered under the Cooperative Society Decree of 1993
- (xvi) Interest accruing on foreign currency domiciliary account
- (xvii) Death gratuity or consolidated compensation for death or injury.

SOLUTION TO QUESTION - 2

Mayowa Enterprises

Adjusted Profit for 2011 Year of Assessment

	₦	₦
Net Profit per Accounts		146,250
Add:		
Rent (1/3 x ₦ 90,000)3	30,000	
Legal Expenses (₦ 3,750 + 1,250)	5,000	
General Expenses:		
Private use of business car	3,750	

Fine on proprietor's traffic offence	3,000	
Other magazines	500	
Christmas gifts (drink)	2,500	
Provision for Depreciation	18,750	
Provision Doubtful Debts	26,250	
Repair to Motor Vehicles	15,000	
Building repairs	<u>75,000</u>	
	<u>179,750</u>	326,000
Deduct:		
Rent received	22,500	
Dividend received	27,000	
Profit on disposal of fixed assets	<u>20,250</u>	
		<u>69,750</u>
		<u>256,250</u>

SOLUTION TO QUESTION - 3

- a)
- (i) Tax evasion is the deliberate act of the tax payer not to pay tax by criminally understating income and overstating expenses. It is an illegal act against the tax laws.
 - (ii) Tax avoidance is the legal act taken by taxpayer to reduce tax liability by taking advantage of the loopholes in the tax laws.
 - (iii) Place of residence. A place available for individual domestic use in Nigeria on a relevant day, and does not include any hotel, rest-house or other place at which he is temporarily lodging unless no more permanent place is available for his use on that day.
 - (iv) Itinerant worker. An individual who works at any time during a year of assessment (other than a member of the armed forces) for a daily wage or customarily earns his livelihood in more than one place in Nigeria and whose total income does not exceed a specified amount ₦600 per day.
 - (v) Earned Income. This is income derived by individual from trade, business, profession, vocation or employment.
 - (vi) Nigeria Employment. Is any employment, not being a foreign employment, the duties of which are wholly or partly performed in Nigeria.
- (b) A person who, without reasonable excuse, makes an incorrect tax returns by:-
- (i) Omitting or understating any income liable to tax under Personal Income Tax Act
 - (ii) gives an incorrect information in relation to a matter or thing affecting the liability to tax of taxable persons.
- (c) Penalty for making incorrect returns is a fine of 10% of the correct tax and double the amount of tax which has been undercharged in consequence of the incorrect return or information, or would have been so undercharged if the return or information had been accepted as correct.

SOLUTION TO QUESTION 4

- (a) Capital Allowance is a relief granted to any person or corporate organization that incurred qualifying capital expenditure during a basis period in respect of fixed assets in use for the purpose of a trade or business at the end of the basis period.
- (b) The types of Capital Allowances granted by tax authority are:
- (i) Initial Allowance. This is a relief granted in the year of assessment in the basis period of which the qualifying capital expenditure is incurred. In effect, it is granted once in the life of any fixed asset for as long as it is beneficially owned and used by the same owner.
 - (ii) Annual Allowance. It is granted every year on the residual or written down value of expenditure on fixed asset until it is fully written off. With effect from 1985, annual allowance

is computed on straight line basis, i.e. the qualifying capital expenditure less initial allowance and residual value is spread over the life of the asset.

- (iii) **Balancing Allowance.** This is the excess of tax written down value over and above the sale proceeds on eventual disposal of asset.
- (iv) **Investment Allowance.** This is an additional allowance granted on plant and equipment used for a business at the rate of 10% on the Cost. Investment allowance is also available to business located in areas that are more than 20km away from normal facilities, e.g. electricity, tarred road, pipe borne water and telephone.

(c) The following conditions must be satisfied for a fixed asset to qualify for Capital Allowances:

- (i) Expenditure must have been incurred of the fixed asset.
- (ii) The fixed asset must be owned by the person making the claim.
- (iii) The fixed asset must be used for the purpose of the trade, business, profession or vocation generating taxable profit.
- (iv) The fixed asset must be in use at the end of the relevant accounting year. Periods of temporary dis-use are ignored.
- (v) A claim must be in writing by the tax payer.

(d) Five categories of capital expenditure that qualify for the granting of Capital Allowances are:

- (i) Qualifying industrial and non-industrial building expenditure
- (ii) Qualifying mining expenditure
- (iii) Qualifying plant expenditure
- (iv) Qualifying furniture and fittings expenditure
- (v) Qualifying motor vehicle expenditure

SOLUTION TO QUESTION - 5

AUSTIN JONES

COMPUTATION OF TAX DUE FOR THE 2009 TAX YEAR

	N	N	
Earned Income			
Basic Salary	800,000		
Housing Allowance (N 200,000 - 150,000)	50,000		
Transport Allowance (N 75,000 - 20,000)	55,000		
Meal Subsidies (N 20,000 - N 5,000)	15,000		
Benefit in Kind:			
Furniture & Fittings (N 40,000 x 5%)	2,000		
Steward & Cook	60,000		
Gardners	<u>50,000</u>		
		1,032,000	
Unearned Income:			
Dividends from Investment	125,000		
Interest from Fixed Deposit	<u>75,000</u>		
		<u>200,000</u>	
Statutory Total Income		1,232,000	
Less: Statutory deductions:			
NHF (2.5% x N 800,000)	20,000		
NSITF	<u>20,000</u>		
		<u>40,000</u>	
Income		<u>1,187,000</u>	Total
Less: Personal Allowance (20% x N1,032) + N5,000	211,400		
Children Allowance (N 2,500 x 2)	5,000		
Dependant Relative Allowance (N 2,000 x 2)	4,000		
Insurance Premium N 40,000+(N 20,000 x 1/3) +			
(N 15,000 x 1/3)	<u>54,167</u>		
	<u>274,567</u>		
		<u>917,433</u>	Chargeable Income

Tax Born

First	N30,000 at 5%	1,500
Next	N30,000 at 10%	3,000
Next	N50,000 at 15%	7,500
Next	N50,000 at 20%	10,000
Balance of	N757,433 at 25%	<u>189,358</u>
		<u>211,358</u>

Notes:

- 1 Steward, Cook and Gardner salary should be added in full to his income.
- 2 Life assurance policies. The law only permits the insurance policy of self and wife, but not in Respect of others where no direct interest is obtained. Hence, 1/3 of self and 2 children is granted ½ of wife and mother is granted
3. Contribution to NSITF is granted in full.

BUSINESS TAXATION

SOLUTION TO QUESTION 1 OCTOBER 2011

1. A (i) FIVE MERITS OF WITHHOLDING TAX

The merits of withholding tax are numerous and these have made taxation more and more attractive. They include the following:

- It helps to strengthen the tax machinery by engaging ex-gratia, numerous officials of collection agents in tax work despite the fact that they are not government workers.
- As a result of the point above, tax collection becomes cheaper.
- It helps to bring obscure transactions into tax net.
- It helps to bring unknown tax payers into the tax net.
- It helps broaden the base of taxation and increase the quantum of collection.
- It ensures a regular flow of tax revenue to the coffers of the government.
- It makes tax payment less cumbersome to the tax payer who may not bother going to the tax office in order to pay his tax.
- It reduces the incidence of tax evasion.
- It helps educate the tax payer and the tax agent about taxation.
- It enhances voluntary compliance.

(ii) There are many problems that are associated with the administration of withholding tax. These include:

- Non-deduction – some organizations pay their contractors without deducting either
 - i. to help them or
 - ii. out of ignorance or
 - iii. as a result of order from above

This is a very serious offence against the law

- Non-remittance: Some tax agents deduct and fail to remit but rather prefer to employ the money in their operations.
- Wrong Rates: wrong rates are often applied either ignorantly or to help the tax payer whose money is being deducted.
- Credit notes are not dispatched hence the taxpayer are not given credit for tax withheld.
- Incomplete or Incorrect information on the payment schedule may result in the issuance of a defective credit note.

- Payment to wrong Tax Authorities - there have been cases of SIRS and those collected from individuals being remitted to the FIRS.
- Cases of Lumping : In some cases, deductions from both individuals and corporate bodies are lumped together in the cheque and paid to either the FIRS or SIRS.
- Wrong classification of activities - where the rates of tax deduction are different, wrong classification of activities can result in either overpayment or underpayment
- Dishonoured cheques - incidents of dishonoured cheques have become the exception rather than the rule now that that treasury receipts are not issued unless payments are manifested as cleared
- Failure to co-operate is one other serious problem. Tax officials need to go from time to time to monitor the extent of co-operation by tax collection agents.

SOLUTION TO QUESTION 2 OCTOBER 2011

MR. AMOSA

COMPUTATION OF ASSESSMENT FOR RELEVANT YEARS OF ASSESSMENT WITHOUT ELECTION

TAX YEAR	BASIS PERIOD	ASSESSMENT (₦)
1995	1/6/95 – 31/12/95 (working 1)	63,000
1996	1/6/95 – 31/5/96 (working 2)	100,500
1997	1/11/95 – 31/10/96	90,000
1998	Year ended 31/10/97	95,000
1999	Year ended 31/10/98	98,000

WITH ELECTION

TAX YEAR	BASIS PERIOD	ASSESSMENT (₦)
1995	1/6/95 – 31/12/95	63,000
1996	1/1/96 – 31/12/96 (working 3)	90,833
1997	1/1/97 – 31/12/97 (working 4)	95,500

WORKINGS

1.	1/6/95 – 31/12/95		₦
	1/6/95 – 31/10/95	48,000	
	1/11/95 – 31/12/95 ($\frac{2}{12} \times 90,000$)	<u>15,000</u>	
			<u>63,000</u>

2.	1/6/95 – 31/5/96		
	1/6/95 – 31/10/95	48,000	
	1/11/95 – 31/5/96 ($\frac{7}{12} \times 90,000$)	<u>52,500</u>	
			₦100,500

3.	1/1/96 – 31/12/96		
	1/1/96 – 31/10/96 ($\frac{10}{12} \times 90,000$)	75,000	
	1/11/96 – 31/12/95	<u>15,833</u>	
			₦90,833

4.	1/1/97 – 31/12/97		
	1/1/97 – 31/10/97 ($\frac{10}{12} \times 90,000$)	79,167	

Summary

	WITHOUT ELECTION (₦)	WITH ELECTION (₦)
1996	100,500	90,833
1997	90,000	95,500
	190,500	186,333

Difference: ~~₦~~4,167

Mr. Amosa is advised to exercise his right of election in order to minimize his tax liability. The total assessment calculated for the second and the third year on actual basis is ~~₦~~186,333 against ~~₦~~190,000 for the two years without election, showing a difference of ~~₦~~4,167. In order to save tax payable on ~~₦~~4,167, he should exercise his right of election.

SOLUTION TO QUESTION 3

- 2 (i) Expenses deductible from company's income before taxes are imposed are:
- Legal expenses incurred in defending the right of a business to its assets
 - Legal expenses incurred in connection with renewal of short term leases.
 - Bad debt written off and specific provision for doubtful debt
 - Contribution under the widow and orphans ordinance or to NISTI or Staff retirement scheme approved by the JTB.
 - Repairs or any other expenses on premises or assets used for the purpose of trade or business.
 - Rent paid in respect of Staff Quarters.
 - Interest on money borrowed and used as Capital.
- (ii) Purposes of Taxation are.
- Redistribution of Income and wealth: The mechanism for the redistribution of income and wealth by the use of transfer payments and benefits to those members of the society who are less well-off promotes social equality. Governments are becoming increasingly socially aware and are seeking to reduce poverty and promote social welfare through income redistribution.
 - To promote Social and Economic welfare; Government often assumes a paternalistic role by providing merit goods such as health and education unlike public goods can be provided privately but if left completely to market forces, merit goods would be under consumed and so there is some benefit in the state providing such goods and everyone benefits from living in a healthy and educated society there are external benefits in the provision of merit goods.
 - Economic stability. The government is responsible for avoiding high levels of inflation and unemployment in order to promote economic stability and sustainable growth.
 - Regulation - Legislation and regulatory controls imposed on producers in order to protect Consumers, employees and the general public are the responsibilities of any socially aware government.
 - To provide public goods - A pure public good is one that displays the following characteristics:
 - i. Zero marginal cost, that is no extra cost is incurred in supplying the good to more than one person
 - ii. Individuals cannot be excluded from consuming the good, even if they have no desire for it.

A good example of a pure public good is defence. The provision of national defence protects all members of the society from external hostilities at zero marginal cost. No individual can be excluded and it cannot be rejected by those who disagree in principle.

SOLUTION TO QUESTION 4

- (i) In the event of a change in accounting date which occasions making up of accounts to a date other than its normal year end, the following rules applies – the year of assessment in which the company fails to make up accounts to the old date together with the following two years should be identified

while assessable profits of the company for those years are computed on such basis as the Board may in its discretion decides.

The Board exercises its discretion in practice as follows:

- It determines the first year of assessment in which the company did not make up its account to the end of the accounting date.
- It then computes the assessable profit for three years of assessment identified in first bullet point above on the old basis, on the assumption that the company has in fact not changed its accounting date
- It then computes the assessable profit for the same three years identified in first bullet point above on the basis that there is the assumption here that the company has always prepared accounts to the new accounting date.
- The assessable profits for the three years are aggregated for computations in second and third bullet above.
- The Revenue Board in practice chooses the basis period that gives the high aggregate assessable profits in fourth bullet point above.

2 (ii) IGBALAYE ASSOCIATED HAULAGE COMPANY LIMITED

Computation of Assessable Profit on A Change of Accounting Date

OLD BASIS PERIOD		ASSESSABLE	PROFIT
YOA	BASIS PERIOD	(N)	
2006	(1/8/2004 – 31/7/2005)		421,000
2007	(1/8/2005 – 31/7/2006)		
	$\frac{12}{17} \times \text{N}641,000$		452,471
2008	(1/8/2006 – 31/7/2007)		
	$\frac{5}{17} \times \text{N}641,000 = 188,529$		
	$\frac{7}{12} \times \text{N}520,000 = 303,333$		<u>491,862</u>
			<u>1,365,333</u>

NEW BASIS PERIOD		ASSESSABLE	PROFIT
YOA	BASIS PERIOD	(N)	
2006	(1/1/2005 – 31/12/2005)		
	$\frac{7}{12} \times \text{N}421,000 = 245,583$		
	$\frac{5}{17} \times \text{N}641,000 = 188,529$		434,112
2007	(1/1/2006 – 31/12/2006)		
	$\frac{12}{17} \times \text{N}641,000$		452,471
2008	(1/1/2007 – 31/12/2007)		<u>520,000</u>
			<u>1,406,583</u>

The practice of the Board would be to assess the company on the new basis period which is an aggregate of assessable profit of N1,406,583 as against N1,365,333 on the old basis period.

Thus the assessable profits are as follows:

YEAR OF ASSESSMENT (YOA)	ASSESSABLE (₦)	PROFIT
2006		434,112
2007		452,471
2008		520,000

SOLUTION TO QUESTION 5

a) LAGOS FORSHOW LIMITED

Computation of Adjusted Profit for the Year ended 31st December 2009

	₦	₦
Net Profit after tax as per account		120,000
Add Back : Disallowable		
Loss on revaluation of fixed asset	12,000	
Company 's Income Tax	51,200	
Formation Cost written Off	10,000	
Transfer to Revenue Reserve	12,000	
Donation to ICAN	4,000	
Improvement to Office Building	5,600	
General Provision for doubtful debts	114,000	
Fine for late payment of Tax	54,000	
Legal Expenses on new issue of share	8,000	137,800
Adjusted Profit		257,800

b) LAGOS FORSHOW LIMITED

Computation of Tax Liability for 2010 Tax Year

	₦	₦
Adjusted Profit	257,500	
Less Capital Allowance	50,000	
Taxable Profit	207,800	
Tax Liability at 30 % of ₦207,800	62,340	
Education Tax at 2 % of ₦257,800	5,156	

BUSINESS MANAGEMENT

SOLUTION TO QUESTION 1

A. The foundation of management are:

- (i) **Planning – Settling of targets and goals of the business**
- (ii) **Organizing – Efficient and effective allocation and utilization of organization's resources**
- (iii) **Controlling – Check performance with plan**
- (iv) **Motivation – Incentives to make staff perform**
- (v) **Leading/Supervision - Supervision of sub-ordinates activities**
- (vi) **Coordinating - Overall check and control of business activity**
- (vii) **Communication – Among staff, management and outsiders**

- (viii) **Forecasting - Project Periodic Results/Performance**
- (ix) **Marketing - Making known the products and goods to the public**
- (x) **Training - Formal and informal training for all categories of staff.**

B. The following incentives are put in place for the FIRS staff so as to motivate them to efficiently perform:

MANAGEMENT

- **Good salary/remuneration package.**
- **Regularity and timely pay**
- **Loan and credit facility**
- **Management developmental programmes and schemes**
- **Provision of benefit in kind, examples car, driver, etc**
- **Sponsorship of and participation in Local, Foreign and International conferences and seminars**
- **Regular promotion**
- **Good working environments**
- **Provision of adequate infrastructural facilities at offices**
- **Financial Aids**
- **Bonuses**
- **Retirement benefit scheme – personal gratuity**
- **Annual leave**
- **Job enlargement, rotation, enrichment.**

JUNIOR STAFF

- **Good salary/remuneration package.**
- **Regularity and timely pay**
- **Good working environments**
- **Provision of adequate infrastructural facilities at offices**
- **Bonuses**
- **Retirement benefit scheme – personal gratuity**
- **Annual Leave**
- **Transport provision (Bus) at reduced price/rate**
- **Regular trainings for staff**
- **Availability of benefits in kinds – Housing Allowance, etc**
- **Sponsorship of staff educational programmes**
- **Overtime pay.**

SOLUTION TO QUESTION 2

The various methods or channels of communication available for the recruitment and selection of an employee in Nigeria are:

- **Electronic - Internet**
- **The Press - The Print and Electronic**
- **Internal memo**
- **Handbills and Posters**
- **Verbal memo/communication**

ELECTRONIC - INTERNET

The internet provides a reliable means of obtaining information about prospective employees.

Advantages:

It is cost effective , fast , prompt and highly reliable
It has a very large audience/widest reach
It also allows global participation.

THE PRESS

This includes the Print, such as the weekly, daily and monthly Newspapers; Journals/Magazine, Business & Job (special) and Technical/Professional magazines, eg. Punch, Guardian, Business Times, Financial Standard, etc. The electronics such as radio and television broadcasting stations, foreign and local ones. The internet also has a press web.

Advantages:

It is reliable, effective and prompt
It has a large audience
It has National and International coverage for participants.

THE INTERNAL MEMO represents a medium of communicating vacancies to people by posting or attaching the memo to Board(s) at strategic locations in the organization.

Advantages:

It is very cheap, fast and prompt
It is relatively reliable
It allows local participation (domestic)

Handbills and Posters – At strategic locations within a territory

Advantages:

It is cheap, relatively fast and prompt
It is reliable
It allows community participation

VERBAL COMMUNICATION: By telling/speaking to known people – about opportunities opened in the organisation, e.g. Staff, customers, credits, etc. But not in documentary form.

Advantages

It is the cheapest.

SOLUTION TO QUESTION 3

MANUAL METHOD

Manual method is the execution of an office assignment through the use of physical efforts and human energy, e.g. writing of a letter, reports, preparation of accounts, etc by hand.

Benefits of Manual Method

- It is simple and easy
- It is very cheap
- The output result and physical input data could be seen, i.e. they are visible
- Audit Trail is easy, thereby reducing fraud tendencies
- Storage is done in files and output is well secured.

Disadvantages of Manual Method

- It is cumbersome, stressful, and time consuming
- It is laborious and as success requires more energy
- There is a great restriction to output that could be generated

- It is highly error prone
- Consistencies may be very hard to accomplish in a monotonous work scenario
- Data storage and recovery is slow and may, at times, impossible to recover.
- The rate at which output is generated is low, slow and has the lowest global reach (audience wise).

COMPUTER METHOD

The use of computer in the accomplishment of an office activity is called Electronic data processing.

Advantages of Use of Computer

- It is fast, prompt (rate)
- It is time efficient, reliable, consistent and has a high degree of flexibility in application
- It has the widest/broadest reach depending on the Network and connection to networks
- There is provision for good storage and recovery system
- It is the necessity of the current modern time.

Disadvantages

- It is expensive when compared to the manual method
- It requires huge capital outlay at the beginning
- It requires technical skills and training
- Security risk and threat is a major concern in the application of electronic device – fraud, intentional disruption and hijacking of highly sensible and confidential information is prevalent
- Huge loss of money may result as a result of application of computer and ICT eg. Bank ATMs, Cyber Café crimes
- There are many cases in legal jurisprudence because of Fraud relating to use of computers
- Life and properties may be lost occasioned by conflicts and quarrel on computer frauds.

CONCLUSION

For highly confidential, personal, sensible data and information which are not too large in size. The Manual method still stands out to the computer method.

However, for very voluminous, regular and mass processing activities, the computer method will be preferred.

Finally, the digital age and internet is the current phenomenon.

SOLUTION TO QUESTION - 4

(a) There are basically three forms of business in Nigeria namely:

- Sole proprietorship
- Partnership
- Companies or incorporated legal entities

SOLE PROPRIETORSHIP

This is the type of business in which an individual (one man) sets up a business in order to make profit e.g. buying and selling - Trading. John Stev Trading, Smith Jones & Co., etc. This is found in both trading and services ie. Professionals also have businesses set up and managed by them, e.g. Lawyers, Medical Doctors, Architects, etc.

PARTNERSHIP

This is a form of business where two or more people come together under binding agreements (PARTNERSHIP DEED) to setup and manage a business for profit. The Net Profit after all expenses are expected to be shared among the people ie, the owners called partners based on the agreed terms. Where there is no codified term (written/oral) then the Net Profit after all expenses are expected to be shared in equal ratio among members.

Example, Price WaterHouse Corpers (Chartered Accountants).

COMPANY

A company is a group of people which comes together under a binding contractual relationship to form a single legal entity with a unique name. It is an association of people which do business together under a single business name. There are various types of companies depending on the activities of the business and many other factors. Companies could be Private, Public, Big, Small, Medium size; Local/Domestic, Regional, National, International or Foreign.

Companies could be quoted and unquoted companies. Companies could be limited or unlimited by shares, or guarantee, eg. 7Up Plc, Vitafoam Plc, Accesss Bank Plc, Fate Foundation, etc.

SOLUTION TO QUESTION B

C

D

BUSINESS FORM	RELEVANT TAX AUTHORITY	APPLICABLE TAX LAWS	TAXES PAYABLE
i) Sole Proprietor	S.I.R.S	P.I.T Act WHT Stamp Duty Act CGT Act	PAY AS YOU EARN –PAYE WHT Stamp Duty Capital Gains Tax
ii) Partnership	S.I.R.S	P.I.T Act WHT Act Stamp Duty Act CGT Act	PAYE WHT Stamp Duty CGT
iii) Companies	F.I.R.S	CIT Act VAT Act WHT Stamp Duty Act CGT Act Petroleum Profit Tax Act Education Tax Act National Information Development Levy 2007	Company Tax VAT WHT Stamp Duty CGT PPT Education Tax National Information Development Levy 2007

iv) Sole proprietor	F.I.R.S	VAT Act	VAT
v) Partnership	F.I.R.S	VAT Act	VAT

KEYS:

- S I R S** - **State Internal Revenue Service**
- F I R S** - **Federal Inland Revenue Service**
- PIT Act** - **Personal Income Tax Act**
- VAT Act** - **Value Added Tax Act**
- WHT** - **Withholding Tax**
- CGT Act** - **Capital Gains Tax Act**
- CIT Act** - **Companies Income Tax Act**

SOLUTION TO QUESTION - 5

- A. Life including businesses and individuals can not do without risk in their day to day activities – Examples of such risks are:**
- i) Political Risk**
 - ii) Environmental (Physical) risk**
 - iii) Social risk**
 - iv) Security risk**
 - v) Financial risk**
 - vi) Operational risk**
 - vii) Market and Liquidity risk**
 - viii) Legal and compliance risk**
 - ix) Strategic risk**
 - x) Reputational risk**
 - xi) Capital risk**
 - xii) Systems risk.**
- B. A Supervisor is a person in the management hierarchy of a business entity who controls, leads and guides his subordinates – i.e., groups of people under him in the carrying out of the business activity effectively. It is always used in service industry e.g., Banks, Insurance companies, etc. Also it could be used in the manufacturing and production companies.**

A foreman in the other hand is a person in the manufacturing company who supervises, controls and guides his/her subordinates in the performance of their day to day activities.