THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2017: PROFESSIONAL EXAMINATION

FOUNDATION: ACCOUNTING

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

1. (a) State Seven (7) differences between a limited liability company and a partnership business (14 Marks)

   (b) State Three (3) differences between ordinary share capital and preference share capital. (6 Marks)
   (Total 20 Marks)

SOLUTION TO QUESTION 1

(a) Differences between Limited Liability Company and Partnership

	Limited Liability Company	**Partnership**
1.	Companies are separate legal entities from the owners	Partnerships are not
2.	Minimum number of members for private companies is 2 while public company is 7	Minimum number for partnership is 2
3.	Maximum number for private companies is 50 and there is no limit for public companies	Maximum number of Partners is 20 except professional firms
4.	Liabilities of members are limited to the amount of shares they agreed to take up	Liabilities of partners are unlimited
5.	Only shareholders who are Directors of the company can form part of the management team of the company	All partners may be involved in the management of the partnership business
6.	Activities of the company are regulated by Memorandum and Articles of Association	Activities of the partnership are regulated by Partnership Deed or Partnership Agreement
7.	Statutory audit of financial statements is required for companies	Statutory audit not required for partnership business.
8.	Capital of company is fixed by Memorandum and Articles of Association and can only be increased by passing a special resolution	Capital of the Partnership is fixed by the Partners and can be increased anytime they wish.
9.	Companies can sue or be sued in the company's name	Partnership firm cannot sue or be sued. Names of the Partners must be mentioned in any suit.
10.	Companies have perpetual succession i.e. they do not cease to exist upon the death of any of the shareholders	Partnership firm is dissolved upon the death of any of the Partners.

(b) Differences between ordinary and preference share capital are:

(i) Preference shareholders are entitled to fixed rate of dividend while Ordinary shareholders have flexible rate of dividend.

(ii) Preference shareholders are entitled to prior payment of dividend before Ordinary shareholders.

(iii) Preference shareholders have no voting right at the AGM whereas Ordinary shareholders have.

(iv) Preference shareholders are like lenders to the company. They are partly owners and partly lenders whereas Ordinary shareholders are the owners of the business.

(v) Preference shareholders may take their shareholding back where it is redeemable but Ordinary shareholders are not redeemable.

EXAMINER'S REPORT

The question tests candidates' understanding of the concept of Limited Liability Company and Partnership. The question was well attempted as over 99% of the candidates attempted the question. More than 95% of those who attempted the question scored more than 40% of the allocated marks.

2. (a) (i) What is prudency concept of accounting in the preparation of financial statements of an entity? (4 Marks)

(ii) Explain the usefulness of this concept. (2 Marks)

(b) On January 1, 2013, there was a balance of ₦50,000 in the provision for bad debts account of ABL Limited and it was decided to maintain the provision at 5% of the debtors at each year end.

Debtors on December 31 each year were as given below:

	₦
2013	120,000
2014	80,000
2015	60,000

You are required to show the necessary ledger entries for the three years ended 31 December, in respect of the following:

(i) Provision for Bad Debts Accounts. (9 Marks)

(ii) The Profit or Loss Accounts. (3 Marks)

(c) State Two (2) differences between bad debts and provision for bad debts. (2 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 2

(a) (i) Prudency Concept

This concept demands that great care should be taken in the recognition of profit, all known and anticipated losses should be adequately provided for. It means that accountants and managers of business should not recognize income until the income has been earned and that losses are fully written off when probable.

(ii) The essence of prudence concept are;
- To ensure that profit is not overstated in any accounting period;
- To ensure that information contained in any prepared financial report shows the true and fair position of the business; and
- To ensure that accounting information users get the proper and reliable facts about the business.

(b) **Provision for Bad Debts**

		₦			₦
31/12/2013	Bal. C/d	56,000	1/1/2013	Bal. B/d	50,000
			31/12/2013	P & L A/c	6,000
		56,000			56,000
31/12/2014	Bal. C/d	60,000	1/1/2014	Bal. B/d	56,000
			31/12/2014	P or L	4,000
		60,000			60,000
31/12/2015	Bal. C/d	63,000	1/1/2015	Bal. B/d	60,000
			31/12/2015	P or L	3,000
	63,000				63,000
			1/1/2016	Bal. B/d	63,000

Profit or Loss Account

		₦	₦
31/12/2013	Provision for Bad Debts	6,000	
31/12/2014	Provision for Bad Debts	4,000	
31/12/2015	Provision for Bad Debts	3,000	

(c) Differences between bad debts and provision for bad debts are:
- Bad debts are irrecoverable debts while provisions for bad debts are provisions made in advance for potential bad debts.
- Bad debts are completely written off from the business books, while provisions for bad debts are kept in the books.
- It is possible that in future, provisions for bad debts may no longer be necessary because the debts have been fully paid, however bad debt can no longer by recovered.

EXAMINER'S REPORT

The question tests candidates' knowledge of prudency concept and ledger posting of bad debts and provision for bad debts. More than 99% of candidates attempted the question. However about 40% score more than 40% of the marks allocated. Candidates' pitfall is that they are not familiar with the principles of accounting. Candidates are advised to cover all areas of the syllabus when preparing for future examination.

3. Mr. Gbajaville, a local merchant, based in Wukama area of Timbuktu State sets up a trading business, buying and selling goods. He contracted your service to record the following transactions which occurred during the first month of his trading, September 2015, in the relevant ledger accounts:

September 1	He introduced ₦1,250,000 into the business by paying money into a business bank account.
September 3	The business bought a Motor Van for ₦150,000. Payment was made by cheque.
September 6	The business bought some inventory for ₦75,000; paying by cheque.
September 9	The entire inventory purchased was sold for ₦125,000 in cash.
September 15	More inventory was purchased for ₦250,000 on credit.
September 18	Half (50%) of the inventory purchased on 15 September was sold for ₦200,000. All these sales were on credit.
September 19	A payment of ₦75,000 was made to a supplier for some of the purchases.
September 23	A payment of ₦100,000 was received from a customer for some of the sales on credit.
September 25	Mr. Gbajaville drew ₦25,000 from the bank account for his personal use.
September 26	He paid ₦5,000 for diesel for the Motor Van using a business cheque.
September 28	The business paid ₦37,500 by cheque for the premium on an insurance policy.
September 29	The business received a bank loan of ₦250,000 repayable in two years.

You are required to:

(a) Post all transactions to relevant ledger accounts. (15 Marks)

(b) Extract a Trial Balance as at the 30 September, 2015. (5 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 3

GBAJAVILLE

(a) **BANK**

		₦'000			₦'000
Sept. 1	Capital	1,250	Sept. 3	Motor Van	150
Sept. 23	Trade Receivables	100	Sept. 6	Purchases	75
Sept. 29	Bank loan	250	Sept. 19	Trade Payables	75
			Sept. 25	Drawings	25
			Sept. 26	Motor Expenses	5
			Sept. 28	Insurance	37.5
			Sept 30	Balance C/d	1,232.5
		1,600			1,600
1 Oct.	Balance B/d	1,232.5			

CAPITAL

		₦'000			₦'000

			Sept. 1	Bank	1,250
Sept. 30	Balance C/d	1,250			
		1,250			1,250
			Oct. 1	Balance B/d	1,250

MOTOR VAN

		₦’000			₦’000
Sept. 3	Bank	150			
			Sept. 30	Balance C/d	150
		150			150
Oct. 1	Balance B/d	150			

PURCHASES

		₦’000			₦’000
Sept. 6	Bank	75			
Sept. 15	Trade payables	250			
			Sept. 30	Balance C/d	325
		325			325
Oct. 30	Balance b/d	325			

SALES

		₦’000			₦’000
			Sept. 9	Bank	125
			Sept. 18	Trade receivables	200
Sept. 30	Balance C/d	325			
		325			325
			Oct. 1	Balance B/d	325

TRADE PAYABLES

		₦’000			₦’000
Sept. 19	Bank	75	Sept. 15	Purchases	250
Sept. 30	Balance C/d	175			
		250			250
			Oct. 1	Balance B/d	175

TRADE RECEIVABLES

		₦’000			₦’000
Sept. 6	Sales	200	Sept. 23	Bank	100
			Sept. 30	Balance C/d	100
		200			200
Oct. 14	Balance B/d	100			

DRAWINGS

		₦’000			₦’000
Sept. 25	Bank	25			
			Sept. 30	Balance C/d	25
		25			25
Oct. 1	Balance b/d	25			

MOTOR EXPENSES

		₦’000			₦’000

Sept. 26	Bank	5	Sept. 30	Balance C/d	5
		5			5
Oct. 1	Balance b/d	5			

CASH

		₦'000			₦'000
9/9/2015	Sales	125	30/9/2015	Balance c/d	125
		125			125
1/10/2015	Balance b/d	125			

INSURANCE

		₦'000			₦'000
Sept. 28	Bank	37.5	Sept. 30	Balance c/d	37.5
		37.5			37.5
Oct. 31	Balance b/d	37.5			

BANK LOAN

		₦'000			₦'000
Sept. 30	Balance C/d	250	Sept. 29	Bank	250
		250			250
			Oct. 1	Balance B/d	250

(b) MR GBAJAVILLE

Trial Balance As At 30th September, 2015

	Dr	Cr
	₦'000	**₦'000**
Cash	125	
Bank	1232.5	
Capital		1,250
Motor van	150	
Purchases	325	
Trade Payables		175
Trade Receivables	100	
Sales		325
Drawings	25	
Motor expenses	5	
Insurance	37.5	
Bank loan		250
	2,000	2,000

EXAMINER'S REPORT

The question tests candidates' knowledge of the basic principles of ledger posting. About 98% of the candidates attempted the question. Performance was below average. Candidates' commonest pitfall is inability to identify the correct account names where posting should be made. Candidates are advised to familiarize themselves with all areas of the syllabus when preparing for future examination.

4. The following information was extracted from the records of Deborah and Company Limited for the year ended 31 December, 2016.

	₦'000
Turnover	4,645
Cost of Sales	3,000
	1,645
Other Operating Income	980
	2,625
Salaries and Wages	(1,485)
Interest on Loans	(90)
Depreciation	(202)
Other Expenses	(375)
Profit Before Tax	473
Company Tax	(225)
Profit After Tax	248

Note: An interim dividend of ₦113,000 was paid during the year.

You are required:
To prepare the Company's Value Added Statement for the year ended 31 December, 2016. (20 Marks)

SOLUTION TO QUESTION 4

DEBORAH & COMPANY
VALUE ADDED STATEMENT
FOR THE YEAR END 31 DECEMBER 2015

	₦'000	**₦'000**	**%**
Turnover		4,645	
Add: Other Operating Income		980	
		5,625	
Less: Cost of goods & Services		3,375	
NET VALUE ADDED		**2,250**	**100**
APPLIED AS FOLLOWS:			
To pay Employees			
Salaries & Wages		1,485	66
To pay Employer of Capital			
Interest on loan	90		
Dividend to shareholders	113	203	9
To Pay Government			
Company Tax		225	10
For Growth and Expansion			
Depreciation	202		
Retained profit	135	337	15
		2,250	**100**

EXAMINER'S REPORT

The question tests candidates' knowledge of value added statement. About 99.5% of the candidates attempted the question. Performance was poor as only about 30% of the candidates scored 50% and above of the marks allocated. Candidates' are advised to study all areas of the syllabus when preparing for future examination.

5. Mr. Trumpy retired from the Local Government Service of Gbogwale State and decided to go into business in the month of March 2016.

The following are the transactions carried out in the month.

(i) 1/3 Started the business with a capital of ₦300,000.

(ii) 5/3 He purchased goods worth ₦60,000 from Efosa on credit.

(iii) 8/3 He paid cash to Moham for stationery costing ₦30,000.

(iv) 15/3 He sold goods valued ₦160,000 to Galadima on credit.

(v) 20/3 He received cash from Galadima ₦90,000.

(vi) 22/3 He purchased goods from Alani worth ₦60,000 on credit.

(vii) 27/3 He paid cash to Alani ₦60,000.

(viii) 29/3 He paid cash of ₦30,000 to Efosa.

(ix) 30/3 Opened an account with Zuru Bank with ₦105,000.

You are required to:

Journalise the above transactions. (20 Marks)

SOLUTION TO QUESTION 5

DATE	PARTICULARS	DEBIT	CREDIT
		₦	₦
1/3	Dr. Cash Account	300,000	
	Cr. Capital Account		300,000
	Being Capital introduced into the business by Trumpy		
5/3	Dr Purchases A/c	60,000	
	Cr. Efosa (Creditor) A/c		60,000
	Being purchased of goods on credit from Efosa		
8/3	Dr. Stationery A/c	30,000	
	Cr. Cash A/c		30,000
	Being payment of cash to Moham for stationery purchased		
15/3	Dr. Galadima (Debtor) A/c	160,000	
	Cr. Sales		160,000
	Being goods sold on credit to Galadima		
20/3	Dr. Cash A/c	90,000	
	Cr. Receivables (Galadima)		90,000
	Being part settlement of debt by cash		
22/3	Dr. Purchases A/c	60,000	

	Cr. Alani (Creditors) A/c		60,000
	Being purchase of goods on credit from Alani		
27/3	Dr. Alani's A/c	60,000	
	Cr. Cash A/c		60,000
	Being payment of cash to Alani for the settlement of purchases from him		
29/3	Dr. Efosa (Creditors) A/c	30,000	
	Cr. Cash		30,000
	Being payment of cash to Efosa in part settlement of money owed her.		
30/3	Dr. Bank	105,000	
	Cr. Cash		105,000
	Being cash used to open a bank account with Zuru Bank.		

EXAMINER'S REPORT

The question tests candidates' knowledge of principles of journal entries. This was well attempted as almost all the candidates attempted the question. Above 60% of them scored above 50% of the marks allocated.

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2017: PROFESSIONAL EXAMINATION

FOUNDATION: ECONOMICS

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

1. (a) Discuss the main branches of Economics as a course of study. (5 Marks)

(b) Explain the branch of economics that studies the allocation of economic resources. (5 Marks)

(c) Briefly compare a socialist with a capitalist economic system. (10 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 1

(a) The two main branches of economics are:

(i) Microeconomics; and

(ii) Macroeconomics

Micro economics deals with decision making behavior of individual consumers and firm in the markets. Macroeconomics focuses on the aggregated behaviour of all consumers and firms in an economy.

(b) Microeconomics is the branch of economics that studies the behavior of individual households and firms in making decision on the allocation of limited resources.In markets where goods or services are bought and sold, forces of demand and supply interact to determine equilibrium price and quantity. In this way economic scarce resources are efficiently allocated.

Decision are made by individual consumers or firm after a careful evaluation of the resources that are available, costs and tradeoffs.

(c) **Comparison of Socialist and Capitalist Economic System**

	Socialist Economic System	**Capitalist Economic System**
i.	Also known as centrally planned or command economy	Also known as Free Market/Enterprise or lai-sez-faire economy
ii.	Economic resources are publicly owned	Private ownership of factors of production
iii.	Decisions as to production and distribution of goods and services are taken by the central government.	Decisions about production and distribution of goods and services are made by individuals and firms.
iv.	No freedom of choice	Freedom of choice
v.	No profit motive but welfare motive	They are motivated by desire to make profit.
vi.	Allocation of resources are taken by central government	Allocation and distribution of economic resources through price mechanism

vii.	The central government performed most economic functions.	Functions of government are restricted to the provision of defense, laws and policy.

EXAMINER'S REPORT

The question tests Candidates' knowledge of the two branches of Economics. An explanation of how scarce resources are allocated in Microeconomics was required in section (b). Comparison of socialist and Capitalist Economic systems in (c).

Candidates' performance is well above average.

2. (a) With the aid of suitable diagrams, explain the likely economic consequences of fixing the pump price of diesel (AGO) below the equilibrium price. (8 Marks)

(b) Using appropriate graph show how consumer equilibrium is achieved. (5 Marks)

(c) (i) Distinguish between price elasticity of demand and income elasticity of demand. (3 Marks)

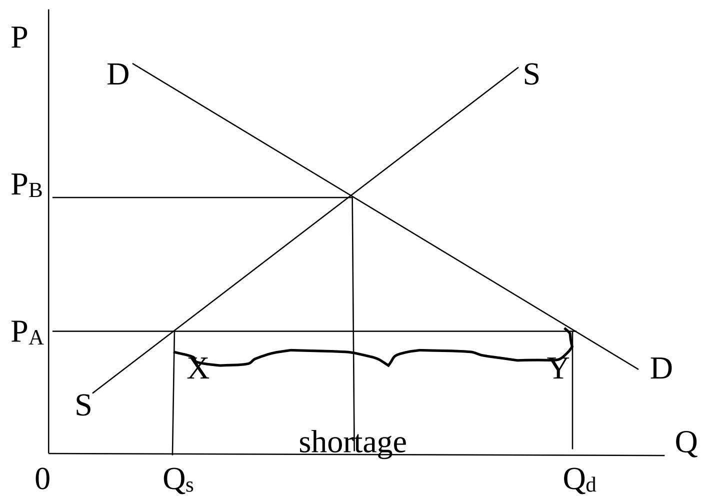
(ii) The price of an item decreased from ₦75,000 to ₦70,000 and the quantity supplied responded by falling from 40 to 37.5 units. Calculate price elasticity of supply and interpret your result. (2 Marks)

(iii) An increase in the price of a product from ₦400,000 to ₦440,000 resulted in the quantity supplied increasing from 600 to 660 units. Calculate the price elasticity of supply and interpret your result. (2 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 2

(a)



P_B = Equilibrium price for diesel; P_A = ceiling price

From the diagram above:

The quantity supplied is restricted to Q_s while the quantity demanded is Q_d. Shortage is shown by XY or the distance between Q_s and Q_d.

Consequences of Price Ceiling

(i) Demand will outstrip supply resulting in shortage and consequently, long queues and loss of man hours.

(ii) "Black Market" for the product will enlarge and this will encourage smuggling of the product.

(iii) Hoarding of the products by the marketers and consumers

(iv) Grey market or conditional sales will develop. This is a situation whereby the diesel will be sold with other petroleum products. E.g. oil

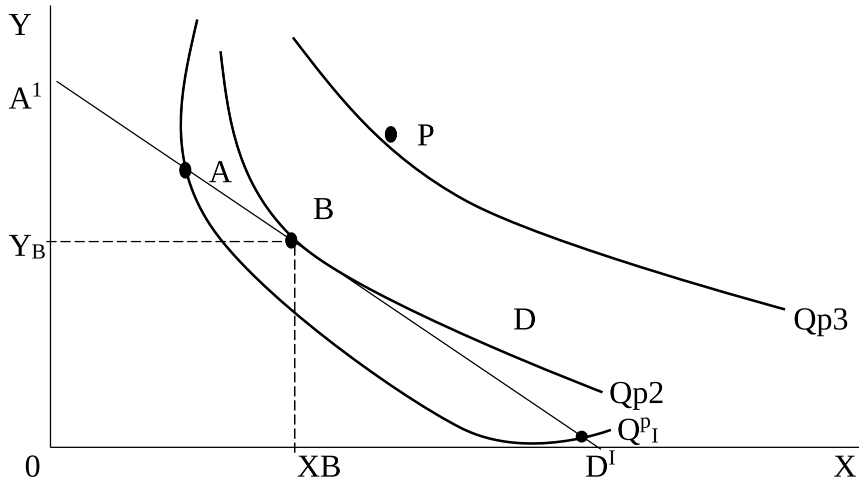
(v) Prices in the black market will be high resulting in excessive profiteering in the industry.

(vi) There will be rationing and favouritism

(vii) There will be adulteration of the diesel fuel by marketer/ sellers.

(viii) There would be heavy tax on the consumers or the poor who can hardly afford the product.

(b) The Graph below shows how consumer's equilibrium is achieved.



The consumer equilibrium is attained at point B where the indifference curve QP_2 is tangential to the budget line, A^lD^l. Therefore, at equilibrium, the consumer consumes YB of good Y and XB of good X.

The consumer can afford to buy any of the combinations of goods X and Y described by points A, B, D with all his money given the budget line A^lD^l. However, he prefers the combination on point B because it gives him greater utility than any of the combinations A and D. he should have preferred point P, but this is beyond the unit of his budget.

(c) Price elasticity of demand (PED) is the degree of responsiveness of the quantity demanded of a commodity to a change in its own price and measured as percentage change in quantity demanded divided by percentage change in the price of the commodity.

PED = $\frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$

Conversely, income elasticity of demand (IED) is the responsiveness of demand for a commodity to a change in consumer income and measured as percentage change in quantity demanded divided by percentage change in income.

(ii) IED = $\frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in income}}$

Δ P = ₦70,000 – ₦75,000 = ₦ – 5,000

Δ Qs = 37.5 – 40 = -2.5

PES = $\left(\frac{\Delta Qs}{\Delta P}\right)$ x $\left(\frac{P}{Qs}\right)$

= $\left(\frac{-2.5}{-5,000}\right)$ x $\left(\frac{75,000}{40}\right)$

= 0.9375

Since PES of 0.9375 is less than 1, it means that the supply of the product is inelastic.

(iii) ΔP = ₦440,000 – ₦400,000 = ₦ 40,000

ΔQs = 660 – 600 = 60

PES = $\left(\frac{\Delta Qs}{\Delta P}\right)$ x $\left(\frac{P}{Qs}\right)$

= $\left(\frac{60}{40,000}\right)$ x $\left(\frac{400,000}{600}\right)$

= 1

Since PES is equal to 1, it shows that the supply of the product is unitary elastic.

EXAMINER'S REPORT

The question tests candidates' knowledge of equilibrium price, and concept of elasticity.
Candidates' performance was generally poor, Candidates' commonest pitfall are:

- inadequate preparation
- inability to determine the impact of the question
- lack of professional presentation of answers required

Candidates are advised to prepare adequately for future examination.

3. (a) (i) What is an Indifference Curve? (2 Marks)

(ii) A typical indifference curve must have a number of axioms. Identify Four (4) of the axioms of Indifference Curve. (8 Marks)

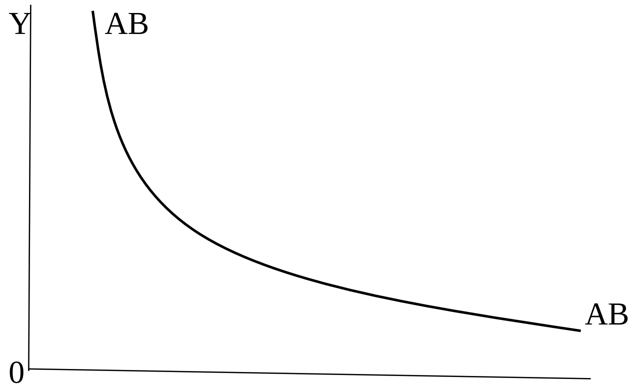
(b) Distinguish clearly between Balance of Trade and Terms of Trade. (5 Marks)

(c) What are the main uses of National Income Statistics of a Country? (5 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 3

(a) (i) An indifference curve is the locus of combinations of two goods (e.g X and Y) which a consumer consumes to maintain the same level of satisfaction. It is a geometrical device for representing consumers' ordering of preference.



(ii) The axiom (i.e assumptions) of an indifference curve include:

- Indifference curve is downward sloping from left to right;
- It is negatively sloped or the slope of indifference curve is negative;
- Indifference curves do not intersect;
- A higher indifference curve represents a higher level of satisfaction i.e the further away the indifference curve is from the origin, the higher the level of satisfaction;
- Indifference curve is everywhere dense i.e continuous (no break in its curve);
- An indifference curve is convex to the origin implying a diminishing marginal rate of substitution; and
- It obeys the axiom of transitivity i.e if X is preferred to Y, and Y is preferred to Z, then X is preferred to Z.

(b) **Balance of Trade and term of Trade.**
Balance of trade refers to the total value of goods sold and bought by a country during a given period – usually a year. When visible exports equal visible imports in monetary terms, we have balance of trade while Term of trade refers to the number of units of a country's export goods that can exchange for a unit of its import.

(c) **The main uses of national income statistics include the following:**

(i) To assess and compare standards of living in the same country over the years;

(ii) For international comparisons of living standards. The national income figures are also used for comparing standards of living of people in different countries;

(iii) To assist the government in economic planning. The different macroeconomic variables that are shown by national income figures can serve as a useful base for influencing improved performance of the economy;

(iv) To determine the effectiveness of government economic policies. A higher national income figure implies the effectiveness of government economic policies, while a lower figure means that the existing policies are defective and should be redesigned or be better implemented; and

(v) To assist public and private sector researchers in their research efforts.

EXAMINER'S REPORT

The question tests Candidates knowledge of indifference curve, balance of trade, terms of trade and National Income Statistics. Candidates' performance was poor, Candidates are advised to cover all the areas of the syllabus when preparing for future examination.

4. (a) An economic research conducted on business activities in your country revealed that there has been a sharp increase in the inflation rate.

Required:

(i) State and explain Four (4) effects of inflation in an economy. (8 Marks)

(ii) Explain Three (3) measures that could be used to curb inflation. (6 Marks)

(b) Enumerate Four (4) cogent reasons why a country may restrict trade with other nations. (6 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 4

(a) (i) EFFECTS OF INFLATION IN AN ECONOMY

- Effect on Income Earners: Those on fixed incomes or have monetary assets lose. However, those on incomes which are directly related to the price level, real incomes, may remain relatively unchanged or may even increase.

- Effect on Profit: Generally, profits increase when the inflation is the demand pull type and decline when the inflation is the cost push type. During demand pull inflation the prices of final goods and services tends to be more flexible in an upward direction than many other prices.

- Effect on Lenders and Borrowers: Inflation tends to encourage borrowing and discourage lending. This is so because what is borrowed today which could have been used to purchase, say 10 tubers of yam today, would not enable the creditor to purchase the same tubers of yam when the loan is liquidated.

- Effect on Production: Demand pull inflation may lead to inefficiency in production since competitive pressures to improve both product and performance will be greatly reduced. Cost-push inflation however, puts a premium on efficiency.

- Effect on Foreign Trade: Running domestic prices can hurt exports. If domestic prices are rising faster than the rest of the world prices, export will fall and imports will tend to increase and this will affect our net exports and may have devastating balance of payment implications.

- Effect on standard of living: There would be a fall in the standard of living of citizenry.

- Savings are discouraged: This will lead to deficit balance of payment.

- Inflation discourages investment.

(ii) Measures to curb inflation are:
Price Control: Prices of some goods and services may be set by administrative decisions rather than determined in a free market.

Fiscal Policy: Reduction of government expenditure or increase in taxation to reduce aggregate demand in the economy.

Monetary Policy: Reduction of money supply and credit availability through:
- Selling government securities;
- Raising reserve requirements; and
- Raising Bank Rate.

Incomes Policy: Wage freeze to reduce money supply/aggregate demand.

Supply Side Policies: They could be used to control inflation, though it is a long term measure. The increase in aggregate supply may be achieved by the retraining of labour, improving technology, removing all structural rigidities e.g land tenure system, poor road infrastructure, etc.

(b) **Reasons for Trade Restrictions:**
(i) To protects infant industries;
(ii) To prevent dumping;
(iii) To stimulate employment opportunity;
(iv) To stimulate economic development;
(v) To change pattern of consumption;
(vi) Used to generate revenue (Tarrifs);
(vii) To improve balance of payment deficit;
(viii) Used as a retaliatory measures; and
(ix) To prevent importation of dangerous goods.

EXAMINER'S REPORT
The question tests the candidates' knowledge of "Inflation" and "International Trade". Candidates' performance was poor. Candidates are advised to prepare very well for future examination and ensure coverage of all the syllabus areas.

5. (a) Somoye Obiora Limited is a private organization whose maximum number of shareholders is 50. The scale of preference of the Company is as shown below:

	Cost **₦'000**
Air conditioners	800
Furniture	1,000
Photocopy Machine	1,800

Staff Bus (Coaster)	6,700
Computers	900
Office Complex Improvement	9,400

Assuming the Managing Director had been given an approval to spend ₦2,000,000.

(i) What should he spend it on? (2 Marks)

(ii) What is the opportunity cost of the item(s) purchased in (i) above? (2 Marks)

(iii) Assuming ₦10,300,000 is the approval mandate, what should he spend it on? (2 Marks)

(b) Differentiate between inductive and deductive methods of Economic Analysis. (4 Marks)

(c) What are the major differences between monopoly and perfect competition? (5 Marks)

(d) What are the effects of public expenditure on economic growth? (5 Marks)
(Total 20 Marks)

SOLUTION TO QUESTION 5

(a) (i) Managing Director would purchase the following items within the limit of the approval he had:

		₦'000	₦'000
-	Air conditioners	800	
-	Furniture	1,000	₦1,800

This is because his approved budget can only cover the first two items on his scale of preference.

(ii) The opportunity cost of the items purchased will be photocopies (₦1,800,00) that could not be made since this item is the next on his scale of preference. He had ₦2,000,000 approved for spending hence the alternative forgone is the opportunity cost of items purchased.

(iii) If the Managing Director had been authorized to spend ₦10,300,000 instead, he would be able to spend as follows:

	₦'000
Air-conditioner	800
Furniture	1,000
Photocopies	1,800
Staff Bars Coaster	6,700
The opportunity cost in this case will be:	
Computers	900
Office computer	9,400

10,300

(b) **Inductive and Deductive Methods**

Inductive Method of analysis draws conclusions from basic data or facts of an event rather than general principles already known. It is an empirical method that makes use of mathematical and statistical computations.

While the deductive method of analysis observes or studies economic phenomenon by taking some assumptions and deducing from these assumption. It involves economic behavior observations, conclusions, and verification of hypothesis or conclusion derived.

(c) **The Differences Between Monopoly And Perfect Competition**

(i) In Monopoly there is a single firm in the industry while perfect competition is made up of many firms in the industry.

(ii) Entry is blocked under monopoly while entry is free in perfect competition.

(iii) The products are heterogeneous under monopoly while they are homogeneous in a perfect competition.

(iv) Different prices rule the market under monopoly while the price is fixed in a perfect competition.

(v) There is a perfect knowledge in perfect competition whereas in monopoly knowledge is limited e.g price discrimination.

(vi) Customers are treated differently under monopoly while the same treatment applies in a perfect competition.

(vii) Transport cost is excluded in the price under perfect competition and included under monopoly.

(viii) Monopoly can make abnormal profits in the short and long runs while perfect competition can make abnormal profit only in the short run.

(d) **Effect of Public Expenditure on Economic Growth**

There are a number of ways in which public expenditure can accelerate economic activities; these include:

(i) Stimulation of investment activities;
(ii) Economic stabilization – public expenditure being used as an anti-cyclical tool;
(iii) Creation of human skills through education and training;
(iv) Attainment of a higher level of production;
(v) Reduction in regional disparity;
(vi) Development of social overhead;
(vii) Creation of infrastructure, communication and development;
(viii) Reduction of divergence between social and marginal productivity of certain investment;
(ix) Improved income and wealth distribution; and
(x) Reduction of unemployment.

EXAMINER'S REPORT

The question tests the candidates' knowledge of economic concepts and their applications. Candidates' performance was fairly good. The areas of pitfalls are on wrong methods of presenting the required answers. Candidates are advised to learn how to answer questions correctly in order not to lose valuable marks in future examination.

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2017: PROFESSIONAL EXAMINATION

FOUNDATION: GENERAL PRINCIPLES OF LAW

ATTEMPT ALL QUESTIONS. **TIME: 3 HOURS**

1. (a) "There are certain vitiating elements which may render a contract unenforceable, voidable or void".

   Explain those vitiating elements. (8 Marks)

   (b) Explain briefly how a simple contract can be discharged. (10 Marks)

   (c) What is "Tax Period" for the purpose of the Value-Added Tax Act? (2 Marks)

   (Total 20 Marks)

SOLUTION TO QUESTION 1

(a) VITIATING ELEMENTS OF A VALID AND ENFORCEABLE CONTRACT

(i) MISTAKE:- Mistake is a situation under which the intention or consent of the parties to enter into a contract is nullified by the existence of a condition or circumstance that was unknown to the parties at the time of entering into the contract.

This can be classified into common, mutual and unilateral mistake which can nullify or negate the agreement. At common law, a common mistake relates to the parties misunderstanding about the same thing i.e. as to the existence of the subject matter.

A mutual mistake exist where the parties are at cross purposes but neither is aware and this prevents the contracts from arising as there is no "consensus ad idem" i.e. meeting of minds).

A unilateral mistake arises where only one of the parties is laboring under the error or misunderstanding.

(ii) MISREPRESENTATION:- This is a false statement of fact which induces the other party to enter into the agreement. Generally speaking, such statements have to be made before the contract is entered into. The misrepresentation must have induced the other party to enter into the contract and the representation must have been a false statement. Misrepresentation may be innocent, negligent or fraudulent.

(iii) DURESS:- The parties to contract must enter into the contract willingly. The use of threat of force to induce a person to consent to be bound by an agreement renders a contract invalid. The will and intention of the parties are very important to the creation of a valid contract and parties must be clear as to the terms by which they intend to bind themselves. Consequently, where a party to the contract is “forced” to agree to terms which he would ordinarily not accept, the contract would be invalid.

(iv) **UNDUE INFLUENCE:-** This is similar to duress, but here the coercion is based on the relationship between the parties to the contract so that one of them exercises significant control over the decision – making process of the other in such a way as to vitiate the consent of the latter. Equity recognises that contracts may be set aside for undue influence whether actual or presumed. The remedy for undue influence is rescission.

(v) **INCAPACITY:-** Capacity to contract relates to the competence of the party to enter into a valid contract. Situations that affect capacity are infancy, soundness of mind and illiteracy. For example a person must have attained age of majority, be of sound mind and able to understand or appreciate the language of the contract before he can be held bound to it.

(vi) **ILLEGALITY:-** arises where a contract was made in violation or contrary to the law e.g. a contract to commit crime or civil wrong.

(b) DISCHARGE OF A CONTRACT

This occurs when the main obligations or responsibilities of a contract end.

(i) **PERFORMANCE:-** Performance is the fulfilment of a contractual obligations under the terms of the contract which must be in line with the requirements set out in the contract, that is, the contracting parties must perform the contract in its entirety. The contract comes to an end when both parties perform their contractual obligations.

(ii) **AGREEMENT:-** A contract comes into existence by agreement and the parties to the contract may also choose to terminate the contract by an agreement between them, that is, what has been effected by agreement can be undone by agreement. Where Parties to a contract decide to terminate the contract formed and to replace or vary the original one - this is called “Novation”. Secondly, where the parties agree mutually to release one another from the obligations under the original contract, and retain or add others it is called “Accord” and “Satisfaction”. Thirdly, the parties to the contract may decide by mutual agreement to abandon their individual rights to demand specific performance and end the contract based on the occurrence of some specified event.

(iii) **FRUSTRATION:-** Frustration of contract is a supervening event, that occurs without fault of either party to render the contract incapable of being performed, resulting in the obligations under the contract being radically different from those contemplated by the parties to the contract. For a contract to be frustrated, the supervening event or unforeseen circumstances must be such that make it practically impossible to perform the contract.

(iv) **BREACH:-** A Contract will be discharged by breach where there has been a material failure to perform its terms by one of the parties to the contract, either by acting contrary to the terms of the contract or by partial or non-performance. Breach may also occur by a wrongful repudiation of the contract.

(c) TAX PERIOD

For the purpose of the value added tax, Value Added Tax Act No 53 2007 by its section 46 defines a tax period as "one calendar month commencing from the beginning of the month to the end of that month".

2. (a) What is a Hire Purchase transaction? State the terms that would be regarded as void if included in a Hire Purchase Contract? (10 Marks)

(b) State the categories of persons that are disqualified from being a director of a Company. (6 Marks)

(c) Mention Four (4) rules governing the validity of consideration in a simple contract. (4 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 2

(a) HIRE PURCHASE TRANSACTION

(i) Definition:- A hire purpose transaction means the bailment of goods in pursuance of an agreement under which the bailee may buy the goods or under which the property in the goods will or may pass to the bailee.

(ii) VOID TERMS:- The terms under section 3 of the Hire Purchase Act 1965 that would be regarded as void if included in a Hire Purchase contract are:-

(a) Whereby an owner or a person acting on his behalf is authorised to enter upon any premises for the purpose of taking possession of goods.

(b) Whereby the right conferred on a hirer by the Act to determine the agreement is excluded or restricted or any liability in addition to the liability imposed by the act is imposed on a hirer by reason of the termination.

(c) Whereby a hirer, after determination of the hire purchase agreement is subject to a liability which exceeds the liability provided under the Act.

(d) Whereby any person acting on behalf of an owner or seller is treated as agent of the hirer or buyer.

(e) Whereby an owner or seller is relieved from liability for the acts or defaults of any person acting on his behalf in connection with the formation of the agreement.

(f) Whereby hirer or buyer is required to avail himself of the services, as insurer or repairer or in any other capacity of a person other than a person selected by the hirer or buyer in the exercise of his unfettered discretion.

(b) DISQUALIFICATION FROM BEING A COMPANY DIRECTOR

By virtue of section 257 of Companies and Allied Matters Act (CAMA), the following categories of persons are not eligible for appointment as directors:-

i. An infant, that is a person under the age of eighteen (18) years.

ii. A lunatic or person of unsound mind.

iii. A person disqualified under sections 253, 254, 258 of the CAMA on the ground of fraud, insolvency/bankruptcy or a convict.

iv. A corporation other than its representative appointed to the board for a given term.

(c) RULES GOVERNING THE VALIDITY OF CONSIDERATION

(i) Consideration must be sufficient or of value but need not be adequate.

(ii) Consideration must not be past.

(iii) Consideration must not be illegal or immoral.

(v) Consideration must move from the promisee but need not flow to the promisor.

3. "A Company may be limited or unlimited; and a Company may be limited by shares or by guarantee and a Company may either be a private company or a public company".

(a) Examine this statement. (12 Marks)

(b) State the requirements for registration of a company limited by guarantee and the characteristics of such company. (8 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 3

(a) TYPES OF COMPANIES

Essentially, an incorporated company, according to section 21 (1) of CAMA maybe:-

(i) A Company limited by shares: This is a type of company where the legal liability of its members and shareholders is limited to the amount if any, unpaid on the shares respectively held by them.

(ii) A Company limited by guarantee: This is a company having the liability of its members limited by the memorandum to such amount as the, members may respectively thereby undertake to contribute to the assets of the company in the event of its being wound up.

(iii) An unlimited company - is a type of company where the legal liability of its members and shareholders is not limited to the amount of shares owned by them.

It is further provided that a company of any of the foregoing types may either be a private company or a public company.

(iv) A Private Company, by virtue of section 22(1) is one:

(a) Which is stated in its memorandum to be a private company.

(b) By its articles restrict the transfer of its share

(c) The total number of members shall not exceed fifty.

(d) Prohibits invitation to the public to subscribe for any shares or debentures of the company.

(e) That will not accept deposit of money for fixed period or payable at call, whether or not bearing interest.

(f) Minimum number of member shall not be lower than two.

(v) A Public company according to section 24 is a company that is not a private company and its memorandum shall state that it is a public company.

(b) COMPANY LIMITED BY GUARANTEE

According to section 26 of CAMA, the following are the characteristics and requirements for the registration of a company limited by guarantee:

(i) It is formed and registered to promote commerce, art, science, religion, sports, culture, education, research, charity or other similar objects. Section 26 (1).

(ii) The income and property of the company are to be applied solely towards the promotion of its objects. Section 26 (1).

(iii) The company shall not be registered as a Company Limited by shares. Section 26 (1).

(iv) It shall not be incorporated with the object of carrying on business for the purpose of making profits for distribution to members. Section 26 (4).

(iv) It shall not be registered without the authority of the Attorney General of the Federation. Section 26 (5).

(v) The total liability of the members of a company limited by guarantee to contribute to the assets of the company in the event of its being wound up shall not at any time be less than ₦10,000. Section 26 (7).

(vi) The articles of association of a company limited by guarantee may provide that members can retire or be excluded from membership of the company. Section 26 (8).

4. (a) What are the characteristics of a bill of exchange? (5 Marks)

(b) State Five (5) differences between cheques and other bills. (5 Marks)

(c) Discuss the contractual obligations of a banker to customer and the limitations to those obligations. (10 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 4

(a) CHARACTERISTICS OF A BILL OF EXCHANGE

(i) The bill must be an unconditional order. It must be a command.
(ii) The order must be addressed by one person to another. Three parties involved are the drawer, the drawee and the payee.
(iii) The instrument must be signed by the drawer and the writing may be printing, tele – faxing or typing.
(iv) It requires the drawee to pay on demand or at a fixed determinable future time. It must not be based on uncertain event. It is acceptable if a bill of exchange states no date but provides information which aids the determination of payment day.
(v) The order must be for a certain sum of money.
(vi) A bill must contain an identifiable person to be paid.
(vii) The bill must be duly stamped.

(b) DIFFERENCES BETWEEN CHEQUES AND OTHER BILLS

(i) The drawee of a cheque is a Bank, but other bills may be drawn on individuals and institutions.

(ii) The drawee need not accept cheque in order to become liable to pay. Banks will pay once the customer has sufficient funds in his account to meet up his request. However, the drawee of other bills must accept the bills before they become payable.
(iii) The drawer of a cheque will not be discharged from liability by reason of the holder's failure to present the cheque for payment within a reasonable time of its issue. Whereas where the holders of other bills refused to present the bills on the due date the drawee may refuse to pay.
(iv) A cheque drawn "payable to bearer on demand" is valid but bills drawn "payable to bearer on demand" is absolutely void and illegal.
(v) Cheques are always payable on demand, while other bills are not.
(vi) The provisions relating to "crossing" applied only to cheques, because a bills cannot be crossed.
(vii) A cheque is payable to the bearer on demand as opposed to other bills which may be drawn payable on demand or on the expiry of a certain period after date or sight.
(viii) Stamp is not required in cheque. However, a bill of exchange must be properly stamped.
(ix) The drawer and payee are always different in the case of a cheque but the drawer and the payee are the same persons in the case of a bill of exchange.
(x) A cheque does not need "acceptance" whereas a bill needs to be accepted by the drawee.

(c) CONTRACTUAL OBLIGATIONS OF BANKER TO ITS CUSTOMERS

(i) Duty to honour customers' cheques.
(ii) Duty to receive cash and collect cheques for customers.
(iii) Duty to pay in accordance with the customer's mandate, that is, duty to follow customer's institutions.
(iv) Duty of secrecy: This is a duty not to divulge information concerning the customer's account to a third party without the consent of the customer.
(v) Duty not to pay countermanded cheque
(vi) Duty to maintain proper records
(vii) Duty to treat its customers fairly and with respect
(viii) Duty to communicate information to its clients in a clear, fair and respectful manner.

LIMITATIONS OF CONTRACTUAL OBLIGATIONS OF BANKER TO CUSTOMERS

The limitations on the obligations exists:-
(i) When the banker has notice of the customer's insanity.
(ii) Service of a garnishee order on the banker attaching the customers' balance, even though it is for an amount less than the credit balance in the customer's account.
(iii) Notice of the presentation of a bankruptcy petition against the customer or notice of the winding up of a corporate customer.
(vi) Reason of insufficient funds in the customer's account.
(v) Injunction or court order restraining the banker from making payments.
(vi) Notice that the customer is an undischarged bankrupt

5. The Trade Dispute Act Cap 78 LFN 2004 stipulated the procedure for settlement of Trade Disputes in Nigeria.

Briefly discuss this procedure. (20 Marks)

SOLUTION TO QUESTION 5

PROCEDURE FOR SETTLEMENT OF TRADE DISPUTES IN ACCORDANCE WITH THE TRADE DISPUTE ACT CAP 78 LFN 2004

(i) Where there exists any agreed means for settlement of dispute between the organisation and the workers an attempt shall be made to settle it by such means.

(ii) Where the means or attempt fails, the disputants (the organisation and the workers or their representatives) shall meet within 7 days of such failure, under the Presidency of a mediator mutually agreed upon or jointly appointed or appointed on their behalf with a view to an amicable settlements of the disputes.

(iii) If dispute is not settled within 7 days after appointment of a mediator, it shall be reported to the Minister of Labour by or on behalf of either of the parties within 3 days after the 7 days.

(iv) The report is to be in writing and to state the steps already taken by the parties.

(v) If the Minister is not satisfied, he will issue a notice directing the parties to comply with the provisions of section 4 (on procedure before dispute is reported) and section 6 (on reporting of dispute if not amicably settled) of the Act within a specified period.

(vi) If the Minister is still not satisfied at the expiration of the time limit, he will within 14 days following the expiration of the time limit proceed to exercise such of his powers under sections 8, 9, 17 and 33.

The provisions of these sections are:

(1) Section 8:- Appoint a conciliator for the purpose of effecting a settlement of the dispute.
(2) Section 9:- Refer the dispute to industrial Arbitration Tribunal, if conciliation fails.
(3) Section 17:- Reference to National Industrial Court.
(4) Section 33:- Appoint Board of Inquiry.

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA
OCTOBER 2017: PROFESSIONAL EXAMINATION
FOUNDATION: PRINCIPLES OF TAXATION

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

1. (a) (i) What is Tax? (3 Marks)

(ii) What is Taxation? (3 Marks)

(iii) Enumerate Eight (8) features or characteristics of Tax. (8 Marks)

(b) (i) What is Double Taxation? (4 Marks)

(ii) The Executive Chairman of Federal Inland Revenue Service (FIRS) shall be appointed by the President subject to confirmation of the Senate. Who appoints members of the Tax Appeal Tribunals? (2 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 1

(a) (i) Tax is a compulsory payment made by individuals or organisations to the Government in accordance with established condition for which no direct or specific benefit is received.

OR

The term ''Tax'' is defined in **Sec. 69 FIRS (Establishment) Act 2007** as:

"Includes any duty, levy or revenue accruable to the Government in full or in part under this Act, the laws listed in the First Schedule to this Act or any other enactment or law.''

OR

Defined in Paragraph 1.2 **Revised National Tax Policy (2016)-**

"Tax is any compulsory payment to government imposed by law without direct benefit or return of value or a service whether it is called a tax or not".

OR

New Webster's Dictionary of the English Language (College Edition)

'tax includes any charge imposed by governmental authority upon property, individuals including companies or transactions to raise money for public purposes.'

OR

New Lexicon Webster's Encyclopedic Dictionary of the English Language (Deluxe Edition) Tax as "a charge on a person's income, or property, *direct tax,* or on the price of goods sold, *indirect tax* made by a government to collect revenue."

OR

Longman Dictionary of Contemporary English

The amount of money that you must pay to the government according to your income, property or goods etc. that is used to pay for public services.

(ii) Taxation is the process through which money is compulsorily transferred as payments for goods and services from individuals, institution or groups to the government.

OR

- The transfer of real economic resources from the private sector to the public sector to finance public sector activities.

OR

- The means by which governments finance their expenditure by imposing charges on citizens and corporate entities.

OR

A system of raising money by taxes

(iii) Features or characteristics of Tax

- Tax is used by Government to provide facilities like roads, hospitals, schools etc.

Taxes are collected by a defined Tax Authority at the Federal, State and Local Governments levels.

- In Nigeria, taxes are imposed by the National Assembly.
- It is backed by Law. A tax must be backed up by a valid statute by which it is imposed.
- **It is an "enforced/compulsory contribution, exacted pursuant to legislative authority"**
- Sanctions or penalties are provided for in the tax laws.
- There are time limits for compliance.
- Tax is not a voluntary payment or donation.
- A tax does not guarantee a direct relationship between the amount contributed and services rendered.
- Tax is usually a monetary charge on a person's or entity's income, property or transaction.
- A tax is not a debt.
- Tax is assessed in accordance with some reasonable rule of apportionment on persons or property within a particular tax jurisdiction.

- **Taxes may be direct or indirect and may be imposed on individual, entities, assets and on transactions.**

(b) (i) Double Taxation:

- is the imposition of similar taxes in two or more states on the same taxpayer in respect of the same base and for identical periods.

  OR
- occurs where income is taxed both by the taxpayers' country of residence and in another country where the income arises.

  OR
- two taxes imposed on the same property by the same governing body during the same taxing period and for the same taxing purpose.

  OR
- occurs when the same transaction or income source is subject to two or more taxing authorities.

(ii) Appointment of Tax Appeal Tribunal (TAT) Commissioners is done by the Minister of Finance.

EXAMINER'S REPORT

The question tests the candidates' knowledge and understanding of tax, taxation and appointments of the Executive Chairman of Federal Inland Revenue Service (FIRS), the features or characteristics of double taxation and appointment of members of the Tax Appeal Tribunals.

They displayed good knowledge of tax and features or characteristics of tax.

The commonest pitfall was that some of the candidates took multiple taxation for double taxation.

Candidates are advised to put in more efforts while preparing for future examination by reading relevant tax laws.

2. (a) Under the Personal Income Tax (Amendment) Act 2011, what do you understand by the term "An assessment is final and conclusive"? (5 Marks)

(b) Where an assessment has been declared "final and conclusive", what are the options available to the taxpayer? (5 Marks)

(c) What does Principal Place of Residence mean to the following:

(i) A taxpayer with pension as the only source of income. (5 Marks)

(ii) A taxpayer with source of earned income other than pension in Nigeria. (5 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 2

(a) <u>Assessment final and conclusive</u>

Section 58 (1) of the Personal Income Tax Act (PITA) provides that a taxpayer disagreeing with an assessment, is expected to, within 30 days of notice of the assessment, object to the assessment. Failure to object within this period makes the assessment final and conclusive. Three principal tax laws namely the CITA, PITA and PPTA provide that where no valid objection or appeal has been lodged within the stipulated time limit against an assessment, as regards the amount of total profits assessed, the accounts shall be final and conclusive and if the full amount of the assessment is not paid within the appropriate period, the provisions relating to recovery of tax and penalty shall apply. Thus, once an assessment is final and conclusive, the taxpayer loses its right of appeal to the tax authority and the latter's right to begin recovery and enforcement of tax due is activated.

Once a case becomes final and conclusive, issues that have been agreed through queries or settled through appeal cannot be re-opened. However, the fact that an assessment has become final and conclusive does not preclude the tax authorities from re-opening the case on the grounds of fraud or deliberate concealment of income/profit.

In summary, an assessment becomes final and conclusive when a taxpayer fails to:
(i) lodge a valid objection to the notice of disputed assessment
within 30 days from the date of filing; or
(ii) file a Notice of Appeal to the Tax Appeal Tribunal within 30 days of receipt from the tax authority of a Notice of Refusal to Amend; or
(iii) file a Notice of Appeal with the State High Court
within 30 days from the date of receiving judgment of the TAT; and
(iv) obtain judgment in his favour at the court of
higher jurisdiction.

In addtion, any tax assessment that is not in line with the law under which it was issued cannot be final and conclusive. This was pronounced in the case of Star Deep Water Petroleum Ltd v. Lagos State Internal Revenue Service, where the Tax Appeal Tribunal (TAT) Lagos division held that an assessment that is not compliant with the law cannot become final and conclusive.

(b) Options available to the taxpayer if an assessment is declared final and conclusive are:

- to settle all outstanding tax liabilities;
- to settle the undisputed portion of the tax liabilities and appeal thereafter;
- appeal to Tax Appeal Tribunal;
- appeal to Federal High Court;
  appeal Court of Appeal, and
- appeal to Supreme Court, which is the final option.

.

(c) **(i)** A Taxpayer with Pension as the only source of Income

- An individual whose only source of earned income arising on the 1st day of January in a year of assessment was pension, and who had no place of residence on that day, shall be deemed to be resident for the year in the territory in which that place or principal place of residence was situated on that day.

  An individual whose only source of earned income arising in Nigeria on January 1, in a year of assessment was Pension and who had no place of residence on that day, shall be deemed to be resident for that year:

- if the Pension is a Nigerian Pension wholly payable by the Government of a territory, not being a Nigerian Pension in respect of which the subsection(1)(b) of Section 2 of PITA applies ,in that territory.

- if the Pension is not a Nigerian Pension, in the territory in which the principal office in Nigeria of the Pension fund or other person authoring payment of the pension is situated.

  An individual whose only source of earned Income arising in Nigeria on the 1st day of January, in a year of assessment was a Nigerian pension and who had no place of residence on that shall, if the pension is payable by more than one government or if there are two or more pensions arising in different territories to the individual on that day, shall be administered by the Federal Inland Revenue Service.

(ii) A taxpayer with source of earned income other than Pension in Nigeria.

An Individual (other than a corporation sole or body of individuals) who has a source of earned income in Nigeria for a year of assessment, other than an employment or a pension, shall be deemed to be resident for that year in the territory in which he had a place or principal place of residence of the 1st day of January in that year or where first establishes a place of residence.

Provided that

- if the source of the income is first acquired by individual during the year of assessment, and he had no place of residence on the first day of that year, he shall be deemed to be resident for that year in the territory where he first establishes a place of residence during that year and

- in any other case, the individual shall be deemed to be resident for that year in any territory from which any part or the whole of his earned income arising in Nigeria is derived ,if the income is derived from more than one territory.

EXAMINER'S REPORT

The question tests the candidates' knowledge of principles of final and conclusive assessment in (a) & (b) part while part (c) tests the treatment of pension as the only source of income of a taxpayer and source of earned income other than pension as it affects principal place of residence. Candidates demonstrated little understanding of the question hence the poor performance as most of them recorded less than 50% of the mark allocated.

The major pitfalls is their inability to express themselves properly as required by the demand of the question i.e lack of adequate points to be able to earn good marks.

They are advised to put in more efforts to cover the syllabus when preparing for future examination.

3. A prominent Tax Consultant recently remarked: "The human society comprises of people who have resources to take care of themselves and their family members and those who do not have these resources". Those who do not have must be taken care of by the government, otherwise they may create problem to the society. Tax payment is therefore part of the price to be paid for living in an organized and orderly society.

In view of the above assertion, you are required to:

(a) Explain Four (4) principles of an ideal Tax System (8 Marks)

(b) Distinguish between Direct and Indirect Taxes (2 Marks)

(c) Give Three (3) examples each of Direct and Indirect Taxes (6 Marks)

(d) State Four (4) sources of Nigerian Tax Laws (4 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 3

(a) Principles of an ideal tax system

(i) **Equity:** Every person should be taxed according to his ability. The rich should pay more while the poor pay less.

(ii) **Certainty:** The time of payment, the manner of payment, the amount to be paid should be certain and clear to the taxpayer. It should not be arbitrary or left to whims and caprices of tax officials.

(iii) **Convenience:** The social, political and economic standing of the person must be taken into consideration .The time of payment should not inconvenient the taxpayer.

(iv) **Administrative Efficiency:** The process of levying and collection must be administratively efficient, transparent and must not cause economic distortion. The administrative costs should not be higher than the revenue to be realized. Cost of collection must be low relative to the yield.

(v) **Productive:** The tax system should be such that brings in sufficient revenue to the government.

(vi) **Incentives & Economic Efficiency:** An ideal tax system should have important effects on incentives and opportunity to save, to invest in capital development, to use resources efficiently and to allocate their uses which best serve the needs of the community.

(vii) **Distributional Effects:** There should be no discrimination at the same level of income within the same system.it must also be capable of being used for vertical re-distribution from those who are better off to those who are worse off in such a way as not to discourage those who are well off.

(viii) **Simplicity:** For a tax system to be embraced willingly by the people, it must be simple to understand and less costly to be administered.

(ix) **Flexibility and Stability:** An ideal tax system should be flexible enough for changes to be effected by any government in power. This flexibility objective must be balanced with the need to have a stable system.

(b) (i) **Direct Tax:** This is levied directly on the person who is expected to pay the tax. It is difficult for the taxpayer to shift the burden of the tax to another person. Direct taxes are taxes on income/profit. The burden falls directly on taxpayer and cannot be shifted. Direct taxes refer to those taxes that are paid by the people or organizations on whom they are imposed. In direct taxes, the incidence of the tax or tax burden falls on the taxpayer as he has nobody to pass it on to.

(ii) **Indirect Taxes**: This is a tax that is borne by a person other than the one from whom the tax is collected. It is usually levied on the manufacturers but paid by the consumer. The incidence of Indirect tax is usually passed to the final consumer. By contrast, the cost of indirect taxes is borne by someone other than the person responsible for paying the taxes. Indirect taxes are sometimes described as hidden taxes because the purchaser of goods or services may not be aware that a proportion of the price is going to the government. Indirect taxes are transaction taxes.

(c) Examples of Direct Taxes

- Personal Income Tax.
- Companies Income Tax.
- Capital Gains Tax.
- Tertiary Education Tax.
- Petroleum Profits Tax.

Examples of Indirect Taxes

- Excise duties on manufactured products.
- Value Added Tax (VAT).
- Stamp duties.
- Custom duties.
- Sales tax.
- Goods and services tax.
- Goods and sales tax.
- All consumption taxes are indirect taxes.
  - EXPENDITURE TAX
  - TOBACCO TAX
  - LIQUOR OR ALCOHOL TAX
  - PER UNIT TAX
  - CIGARRETE TAX
  - FUEL TAX

(d) Sources of Nigerian Tax Laws

(i) Legislation (e.g. Personal Income Tax Act, Companies Income Tax Act, etc).
(ii) Constitution (e.g. Constitution of Federal Republic of Nigeria 1999).
(iii) Court Judgments.
(iv) Information Circulars issued by the Federal Inland Revenue Service and any other Relevant Tax Authority(though information circulars are not enacted tax laws).
(v) Opinions of tax experts.
(vi) Budget statements and pronouncements of relevant Ministries.
(vii) Decided Tax Cases.
(viii) Law reports e.g. Nigerian law reports.
(ix) Supreme Court Reports.
(x) The Act of Parliament.
(xi) Judicial precedents.
(xii) Customs and Conventions.
(xiii) Legal pronouncements of the Courts**.**
(xiv) English Common Law where both provisions are similar.

EXAMINER'S REPORT

The question tests candidates knowledge of an ideal tax system, differences between direct and indirect systems with example and sources of Nigerian Tax Laws.

Candidates demonstrated good understanding of the questions and performance was above average as most of them scored above average of the marks allocated.

The major pitfall is their inability to demonstrate enough knowledge of sources of Nigerian Tax Laws.

They are advised to make the use of relevant text books on Taxation while preparing for future examination.

4. (a) In taxation, residence of an individual plays an important role in the determination of the tax authority to which the individual would be liable to pay his tax.

In line with the provisions of the first schedule to the Personal Income Tax (Amendment) Act 2011, you are required to write short notes on the following:

(i) Resident Individual (5 Marks)

(ii) Non-resident Individual (5 Marks)

(iii) Principal Place of Residence (5 Marks)

(b) Mr. Emmanuel Okoko, an indigene of Tamale, Ghana, has been in Nigeria for over twenty years. He is married to two Nigerian women and with ten (10) children. He is a businessman. He lives in Kubwa, FCT, Abuja with his eldest son, and travels every weekend to see his first wife and four (4) children in Abeokuta, Ogun State. He also visits and stays with his second wife and five (5) children in Benin City, Edo State on Thursdays and Fridays of every week.

Required:
You are required to determine the tax authority to which Mr. Okoko would pay his tax in a year of assessment. (5 Marks)
(Total 20 Marks)

SOLUTION TO QUESTION 4

(a) The Nigerian Tax Law (PITA) defines a resident in terms of physical presence in Nigeria. Residence connotes the idea of settling in a place for a fairly long period. In Nigeria, residence is used to determine liability to personal income tax.

Resident Individual:

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

- is domiciled in Nigeria
- sojourns in Nigeria for a period or periods in all amounting to 183 days or more in a 12-month period, inclusive of annual leave and temporary leave of absence
- serves as a diplomat or diplomatic agent of Nigeria in a country other than Nigeria.
- if on the first day of January in an assessment year, he has a place or principal place of residence in that state where he has a source of earned income in Nigeria.

- A resident Individual pays tax on his global income irrespective of whether or not he has branch offices outside Nigeria. He pays tax on income from Business, Trade, Profession and Vocation from whichever source (within or outside Nigeria).
    - A resident individual is assessable on his global income. This means that the taxpayer is liable to tax on the income or profits "accruing in, derived from, brought into, or received in Nigeria" by him.

(ii) **Non-Resident Individual**:

A non-resident individual is a person who is not domiciled in Nigeria or who stays in Nigeria for less than 183 days (inclusive of annual leave or temporary period of absence) in a 12-month period but derives income or profit from Nigeria. The reckoning is done on a year by year basis such that if an individual stays in Nigeria for 180 days in a year for 10 years consecutively, he would still not be deemed a resident.

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

Principal place of residence:

"Principal place of residence" in relation to an individual with two or more places of residence on a relevant day, not being both within any one territory means:

- in the case of an individual with no source of income other than a pension in Nigeria, that place or those places in which he usually resides;
- in the case of an individual who has a source of earned income other than a pension in Nigeria, that place or places which on a relevant day is nearest to his usual place of work;
- in the case of an individual who has a source or sources of unearned income in Nigeria, that place or those places which he usually resides; and
- in the case of an individual who works in an office or operational site of a company or other body corporate, the place of which the branch office or operational site is situate, provided the operational site shall include oil terminals, oil platforms, flow station, factories, quarries, construction sites with a minimum of 50 workers.

(b) Our tax laws attach importance to residency and not to nationality. Mr. Okoko, a Ghanaian, who works in Nigeria is expected to pay tax in Nigeria. However, it is obvious that Mr Okoko has three places of residence (FCT, Abeokuta and Benin city) that are not within the same state. Therefore, there would be the need to establish his principal place of residence for tax purpose. Mr Okoko's principal place of residence would be the place nearest to his place of employment, which in this case is Kubwa, FCT, Abuja.

EXAMINER'S REPORT

The question tests candidates' understanding of residency rules in personal income tax.

Candidates' performance was fair as about 50% of the candidates scored 50% and above of the allocated marks.

The commonest pitfall of the candidates is their inability to mention the correct number of days a foreigner can stay in the country before he could be treated as resident in the country.

Candidates are advised to always endeavour to learn by memory important details of the tax laws for better performance in future examination

5. (a) Distinguish between Income and Expenditure. (2 Marks)

(b) Mr. Olympus Oworu left his former employment as an Accountant in 2012 to start up a business outfit, Oworu Manufacturing Company Ltd, producing plastic products.

The operating results for the year ended 31 December 2015 were as follows:

	₦'000	**₦'000**
Turnover		32,128
Cost of sales		19,720
Gross profit		12,408
Deduct:		
Salaries and wages	2,050	
Transport and travelling	126	
Fines for traffic offence	50	
Audit fees	400	
Depreciation	1,750	
Printing and stationery	415	
Rent	960	
Entertainment	280	
Subscriptions	75	
Bank charges	128	
Newspapers and periodicals	80	
Bad debts	1,380	
Penalties for late returns	35	
Donations	320	
Other Administrative expenses	200	
		8,249
Net Profit		4,159

Other details include:

(i) One-third of the company's apartment was privately used by the Director, Mr. Oworu.

(ii) Entertainment expenses included the sum of ₦40,000, being cost of foodstuffs and drinks bought for the domestic consumption of Mr. Oworu and his family members.

(iii) The breakdown of bad debts:

	₦'000
Specific provision	1,260
General provision	1,250
Bad debt recovered	(1,130)
	1,380

(iv) Donations were made to the following bodies:

	₦'000
Ijebu Social Club	40
Political Party (Sure Peoples' Party)	155
Red Cross Society (for victims of Boko Haram in Borno State)	125
	320

(v) Agreed Capital allowance for the relevant year is ₦1,250,000

Required:

(i) Compute the company's Adjusted Profit for the year ended 31 December, 2015. (12 Marks)

(ii) Determine the Tax Payable by the Company for the year ended 31 December, 2015. (6 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 5

(a) (i) Income is money an individual or an organization earns by selling merchandise, providing services or both, while expenditure is disbursement or payments or costs or charge for goods purchased or services enjoyed.

(ii) Income can be operating income (revenue) e.g. sales proceed or capital income, disposal of fixed assets. Expenditure can be operating expenditure e.g. purchase of raw materials, salaries and wages or capital expenditure e.g. purchase of fixed assets.

(iii) Both income items and expenditure items are linked together to arrive at an organizations financial performance through statement of profit or loss that is, income statement.

(b) **(i) OWORU MANUFACTURING COMPANY LTD**
COMPUTATION OF ADJUSTED PROFIT FOR THE YEAR ENDED 31ST DECEMBER, 2015

	₦'000	₦'000
Net profit as per account		4,159
Add back disallowable items:		
Fines for traffic offence	50	
Depreciation	1,750	
Rent (1/3 x ₦960,000)	320	
Entertainment	40	
Bad debts (Gen. provision)	1,250	
Penalties for late returns	35	
Donations (₦40,000 + ₦155,000)	195	3,640
Adjusted profit		7,799

Adjusted profit for the year ended 31st December, 2015 is ₦7,799,000.

(ii) Computation of Tax Payable for 2016 year of Assessment.

	₦'000
Adjusted profit (as above)	7,799
Less: Capital Allowance	1,250
Total Profit/Taxable Profit	6,549
Tax Payable @ 30% of ₦6,549,000	1,964.7

The relevant tax year is 2016 year of assessment.

EXAMINER'S REPORT

The question tests candidates' understanding of income and expenditure, computation of adjusted profit and tax payable.

Performance was very good as most of the candidates scored above 50% of the allocated marks.

The commonest pitfall of the candidates is their inability to distinguish between income and expenditure.

Candidates are adjusted to cover all aspects of the syllabus when preparing for future examination.