THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2017: PROFESSIONAL EXAMINATION

PT 2: STRATEGIC RISK AND ETHICS

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

1. You have just been appointed the Principal Consultant of a Tax Consultancy Firm. On assumption of duties, you are billed to address the staff on the relevance of the evolution of appropriate strategy to drive the firm's progress to the next level.

Required:

(a) Briefly explain what you understand by "Strategy". (5 Marks)

(b) Discuss the relevance and importance of strategy to a consultancy firm like yours. (5 Marks)

(c) Identify the existing and potential stakeholders of the firm, and their respective claims or interest on the firm. (10 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 1

(a) The word strategy was coined from the Greek word "Strategy" with special peculiarity to the military but has now been imported into management (i.e. the business world) after the Second World War. Some of the management writers on Strategy are chandler, Drucker, Johnson, Scoles & Whittington etc.

There has been a different definition of strategy from different writers but one of those definitions that is comprehensive and contemporal is, "strategy is defined as a contemporal perspective to management which tends to analyze management activities and issue from the view point of uniquess and long-term effects towards the achievement of an overall objective".

From the above definition we can explain further that every organisation always has its overall objective of been in business and that the different approaches adopted over time which has continuous and long lasting effects on the organization could be said to its strategies.

(b) Strategy is very relevant and important to all organisations and our firm is not an exemption.

Its relevance and importance can be listed as follows:

- It will decide or influence the vision and mission of our firm;
- It will be useful in matching the firm's businesses or services to available resources and external realities;
- It will decide the products portfolio of our firm;
- It will be useful in matching the firm's services to shareholders expectation;
- It will be useful in matching the firm's services to partners' expectation;
- It identifies unique or peculiar positions, available choices and appropriate actions; and
- It recognizes the peculiar environment, capability of the firm and its expectations.

(c)

STAKEHOLDERS	**CLAIMS/INTEREST**
Partners	- Returns on Investment - Improved market share
Management Team	- Good welfare and remuneration - Options for possibility of being a partner
Managers	- Good welfare and Remuneration - Profit sharing incentive
Other Employees	- Good salaries and Welfare - Health and Safety at work
Clients	- Prompt service at reasonable fees - Information confidentiality
Suppliers/Creditors	- Prompt settlement of bills - Sustainable business relationship
Government	- Compliance to statutory rules - Payment of relevant taxes
Bankers/Financiers	- Fulfilling financial obligation - Good credit management policy
Host Communities	- Employment of citizens - Environmental protection
General Public	- Quality services at affordable fees - Maintaining and sustaining good professional conduct.

2. You got home to meet your younger brother in arguments with his friends on the concept of competitive advantage.

Required:

(a) Briefly explain what you understand by "Competitive Advantage". (5 Marks)

(b) Discuss the Porter's generic strategies to Competitive Advantage. (8 Marks)

(c) Enumerate the circumstances where competitors' rivalry can be strong as suggested by Porter. (7 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 2

(a) Competitive advantage is any advantage that an entity has over its competitors, that enables it to deliver more value to customers than the competitors.

Porter identified two factors that affect the profitability of companies and can enhance its competitiveness:

- Industry structure and competition within the industry.
- Achieving a sustainable competitive advantage through value addition for customers.

Competitive advantage arises from the customer's perception of value for money which will include the following:

- A low price;
- Real and imagine features of a product; and
- A combination of price and production features.

(b) Porter's generic strategy to competitive advantage includes:
- Cost leadership strategy;
- Differentiation strategy; and
- Focus strategy

Features of cost leadership strategy
- Lowest cost producer in the market.
- Sales of large quantities of product.
- Presence of excellent systems of control.
- It is similar to low price strategy.

Features of differentiation strategy
- It requires investment and innovation.
- It keeps cost under control and try to reduce costs.
- Products should give more benefits to the customer.
- Possibility of a higher transportation cost.

Features of Focus Strategy
- Peculiar to markets that are segmented or target market for its products
- Competitive advantage is achieved through:
  * Cost leadership within the market segment; or
  * Product differentiation within the market segment.

(c) Porter suggested the following circumstances where competitors' rivalry can be strong:
- When the viral firm are of roughly the same size and economic strength;
- When there are many competitors;
- When there is slow growth in sales demand in the market;
- When the products of viral firm are largely the same;
- When fixed cost in the industry are high and firms still make some profit at reduced prices;
- When supply capacity can only be increased in large incremental amounts; and
- When the cost of withdrawing from the industry are high.

3. (a) What do the acronyms PESTEL and SWOT stand for? (5 Marks)

(b) Outline Three (3) advantages and Three (3) disadvantages of PESTEL analysis. (6 Marks)

(c) Outline Five (5) of the common unethical tax practices in Nigeria and specify Four (4) ways these unethical tax practices can be minimized. (9 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 3

(a) Acronym of PESTEL

They are categories of environmental influence.

P – Politics
E – Economic
S – Social and Cultural
T – Technological
E – Ecological
L – Legal

Acronym of SWOT

S – Strength
W – Weaknesses
O – Opportunities
T – Threats

(b) ADVANTAGES OF PESTEL ANALYSIS

i. Simple framework
ii. Facilitates an understanding of the wider business environment
iii. Encourages the development of external and strategic thinking
iv. An organization to anticipate future business threats and take action to avoid or minimize their impact.
v. Enable an organization to spot business opportunities and exploit them fully.

DISADVANTAGES OF PESTEL ANALYSIS

i. To be effective, this process needs to be undertaken on a regular basis
ii. The best review requires different people to have different perspective.
iii. Access to quality external sources which can be time consuming and costly.
iv. The pace of change makes it increasingly difficult to anticipate developments that may affect an organization in the future.
v. The risk of capturing too much data which may lead to paralysis by analyses.
vi. The data used in the analysis may be based on assumptions that subsequently prove to be unfounded.

(c) Unethical tax practice in Nigeria are:

- Tax avoidance;
- Tax evasion;
- Delay in tax collection;
- Non remittance of all taxes collected;
- Non – accountability for tax revenue; and
- Double taxation issue.

The above unethical tax practices could be minimized by:

- Establishment of sound internal control system in organization;
- Ensuring that potential fraudster believes they will be caught;
- Screening new staff properly before engaging them and checking their referees; and
- Allowing employee take their vacation.

4. (a) Define corporate social responsibility. (3 Marks)

(b) Write short notes on each of the following risk management techniques:

(i) Diversification of risk (2 Marks)

(ii) Hedging risk (2 Marks)

(iii) Risk transfer (2 Marks)

(iv) Risk sharing (2 Marks)

(c) Distinguish between Risk Appetite and Retention. (3 Marks)

(d) (i) What is organizing? (2 Marks)

(ii) What are the reasons for organizing? (4 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 4

(a) Corporate Social Responsibility (CRS) refers to the responsibilities that a company has towards society. CRS means that a company goes further than making profit, but ensures that it treats employees fairly and with respect, respect human rights, sustains the environment in which it is operating for future generation and to be a responsible neighbor in the community.

(b) (i) DIVERSIFICATION OF RISK: This is the process of investing in different line of business or build up a portfolio of different business activities in order to spread the risk of unwanted results, avoiding putting all eggs in one basket. Spreading risk in different business activities helps investors to overcome different risks associated with business, especially those usually faced during recession. This is true because some business might perform very well than others. The good performer's dividend will be used to offset the bad performers.

(ii) RISK HEDGING OR HEDGING RISK: Hedging risk means creating a position that offsets an exposure to another risk. Hedging risk is commonly associated with the management of financial risk such as currency risk.

(iii) RISK TRANSFER: This is the process of transferring or passing some or all of a risk on to someone else, so that the other person has exposure to the risk. A good example of risk transfer is insurance business. When you purchased insurance, risks are transferred to the insurance company, which will pay for any loss covered by the insurance policy.

(iv) RISK SHARING: This is the process of sharing risk jointly or is the process of collaborating with another person to share risk together. A good example is in partnership and joint ventures businesses.

(c) RISK APPETITE AND RISK RETENTION COMPARED

Risk appetite is the amount of risk that an entity is willing to accept by investing in business activities, in order to obtain the expected returns from the business.

Risk retention means accepting the risk. Once risks are retained, they should be managed to avoid unnecessary risk that are not taken and to maintain acceptable limits.

(d) (i) Organizing is the determination of the structure that would optimize the utilization of the corporate human and material resources in the achievement of its objectives. Organizing takes into consideration the cost effectiveness of the entire corporate activities.

(ii) The reasons for organizing are:
- To co-ordinate the different activities into a unified system;
- To allocate authority and design responsibility;
- To design appropriate unity of command; and
- To achieve pre-determined objectives.

5. (a) The Federal Government has been trying to stop money laundering activities in the country.

Mention Five (5) ways by which money laundering can be prevented by professional firms, in line with the Money Laundering Act. (10 Marks)

(b) Much as the government is fighting the act of money laundering, some unscrupulous people are still perpetrating the act.

State Five (5) red flags or signals through which money laundering can be detected. (10 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 5

PREVENTION OF MONEY LAUNDERING

(a) Money laundering may be prevented by professional firms through their contributions which include the following:

i. Customer identification, know your customer, professionals/firms are required to establish and verify the identity of a person and nature of business they do before entering into a business relationship;

ii. Record Preservation: Practitioner/Professional firms are required to maintain records of all transitions above threshold (₦500,000 for individuals and ₦2m for firms) for a period of at least ten years after severance of relations;

iii. Rendition of statutory reports:- Section 6 and 10 require all filing of Suspicious Transactions Report (STRS) and Currency Transaction Reports (CTRS) within seven days of any transaction, such reports should include:
   a. The name of the reporting entity/firm or practitioner;
   b. Full details of transaction and customers;
   c. Comprehensive statement of the issue giving rise to the suspicion (STRS) only.

iv. Internal controls/Designation of compliance officers: Money Laundering Act specified that firms of practitioners are required to designate compliance officers at management level and at every branch office. They are also to establish internal audit units to ensure compliance with relevant Anti Money Laundering (AML) laws as well as effectiveness of measures in their system.

v. Awareness Raising and Training: Regular training on AML program for staff;

vi. Limitations to making or accepting cash payment. Professional firms are not to make or accept cash payments in any single transitions in excess of ₦500,000 (individuals) and ₦2m (corporate bodies) or equivalent; and

vii. Registration with Special Control Unit against Money Laundering (SCUML). This is for regulatory purposes.

(b) DETECTION OR SIGNAL FOR MONEY LAUNDERING

Money laundering can be detected through the red flags or the signals below:

1. Large sums of cash not consistent with client's business;
2. Unwillingness to provide complete information about self or business;
3. Client prefers to always deal in cash instead of using bank;
4. Clients unwilling to reveal the identity of a third party on whose behalf he/she is acting;
5. Clients who change accountants or bookkeepers regularly without any justifiable reasons;
6. Companies always paying unusual consultancy fees to companies located off shore (not related to it);
7. Payments to subsidiaries that are not within the normal course of business;
8. Acquisition of assets which are not consistent with the ordinary business practice prevailing in that industry; and
9. When a customer always receives invoices from companies located in countries with loosed AML regime.

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OCTOBER 2017: PROFESSIONAL EXAMINATION

PT 2: TAX AUDIT AND INVESTIGATION

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

1. (a) Mr. Tijani Charles, the Managing Director of a construction company, has just received a letter of intention to carry out tax audit exercise on the company from Federal Inland Revenue Service (FIRS).

As a Tax Consultant, you are required to explain to the Managing Director, the meaning of Tax Audit and Tax Investigation, including their similarities and differences. (10 Marks)

(b) Good audit planning and audit programme are needed to ensure a thorough Tax Audit Exercise.

Explain the terms "Audit Planning and Audit Programme". (10 Marks)
(Total 20 Marks)

SOLUTION TO QUESTION 1

(a) TAX AUDIT AND INVESTIGATION

Tax Audit is an examination of a taxpayer's records in order to educate the taxpayer promote voluntary compliance and ensure that correct amount of tax(es) is/are assessed and settled.

Tax Audit may be desk Audit or field Audit.

Tax Investigation is a systematic and detailed search for facts in order to determine the truth of a matter. It is usually carried out with suspicion in mind that the taxpayer might have evaded taxes. It is therefore, logical to assume that some taxes should be recovered in the process.

However, a tax investigation should have an open mind in gathering facts, assembling and analyzing them before reaching a conclusion. An investigation is usually a reactive process. It may however, be pro-active occasioned by past experiences or knowledge of the industry or a particular taxpayer to engender suspicion.

SIMILARITIES

Both tax audit (field audit) and investigation are carried out in the premises of the taxpayer. Books and records of taxpayers are usually used to carry out both tax audit and investigation.

Penalty and Interest are imposed on additional taxes recovered through tax audit and tax investigation. Thorough planning and defined procedures techniques are applicable to both tax audit and tax investigation.

DIFFERENCES BETWEEN TAX AUDIT AND TAX INVESTIGATION

TAX AUDIT	TAX INVESTIGATION
This is a routine exercise	This is usually triggered by suspicion of frauds and other forms of evasion (it is required under certain circumstances).
Vouching under tax audit is not 100%	This is more intensive because of the need to gather sufficient evidence or facts to prove an offence.
Tax audit has essentially tax recovery as the outcome	Tax investigation has both tax recovery and prosecution as expected outcome.
There is materiality concept in tax audit exercise	There is no materiality concept in tax investigation exercise.
Tax audit has statute bar (6years)	Tax Investigation has no statute bar, that is, it may be carried out beyond statutory period of six years (it is wider in scope).
It is carried out on tax returns submitted by a taxpayer	Failure to submit is a tax fraud and therefore, subject to tax investigation.

(b) AUDIT PLANNING:

An Audit planning is the specific guideline to be followed when conducting an audit. It sets the direction for the audit, describes the expected scope and conducts of the audit. It also facilitates the development of the audit programs. It enables the auditor to keep audit time at a reasonable level and avoid disruption of taxpayer's business. Audit plan is carried out immediately after completing the taxpayer's file review and risk assessment. It enables the auditor to establish any critical areas that will attract special attention. The audit plan will form part of the working papers and serve as a guide to the progress of the audit exercise.

A good audit plan will:

- List the items intended to audit;
- Summarize the reason for the audit of the items; and
- Outline steps to be taken for the audit exercise.

While the audit plan will vary in length and complexity based on the unique circumstances of the contents of the taxpayer's file, there are a number of characteristic that should apply to every audit plan.

Audit plan should:

- Relate directly to the results of the risk assessments that you have undertaken;
- Include targets for the hours and days required to complete the audit;
- Focus on items that are deemed material;
- Cross-reference by your working papers; and
- Be reviewed and approved by a supervisor when possible.

AUDIT PROGRAMME

Audit programme is a sequenced schedule of audit works expected to be performed on each item of the accounts to be audited such as income or turnover, expenditure, assets and liabilities etc. The main objective of audit programme is to determine the correct taxes payable for each transaction type by each taxpayer.

Tax audit programme is simply a list of work to be done during tax audit exercise. It is usually prepared before the commencement of the tax audit exercise.

Benefits to be derived from tax audit programme are:

- To provide details of work to be carried during the tax audit exercise;
- It provides a record of the work actually done during the audit exercise and by who;
- It contains records or evidences of work done which could be used in defending action for negligence;
- It ensures continuity of audit work;
- It enables the team leader to allocate audit staff productively and efficiently;
- It provides information on outstanding work; and
- It facilitates audit supervision and control.

EXAMINER'S REPORT

The question tests candidates' understanding of:

a) Distinction between Tax Audit and Investigation and;
b) Audit planning and Audit programme.

About 75% of the candidates that attempted the question scored above 50% of the total marks allocated.

2. You are the Tax Consultant of Take-It-Easy Nigeria Limited. The Chairman of the company has invited you to a meeting in his office to explain to him what is "tax enforcement" as contained in the letter he just received from the Federal Inland Revenue Service (FIRS). At the meeting, the Chairman inquired to know more about "Enforcement and Distraint". In view of the above, you are required to:

(a) Explain the meaning of "Power of Distraint". (4 Marks)

(b) State Six (6) information contained on the "Form of Distraint". (6 Marks)

(c) The FIRS may co-opt the assistance and co-operation of any of the law enforcement agencies in the discharge of its enforcement duties.

List any Five (5) of such agencies. (5 Marks)

(d) There are several enforceable powers of the tax authority.

Enumerate any Five (5) of such powers. (5 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 2

(a) Power of Distraint for non-payment of tax is the power to seize properties of a tax debtor to enforce tax collection. It is an effective weapon for recovery of owed taxes. Any time tax due is not settled within the time specified by the tax laws, the authority is empowered by law to distrain or seize the taxpayer's goods or other personal chattel.

Power of Distraint is the authority given to tax administrators to prevent a defaulting taxpayer from the free use of his property for failure to pay tax liabilities.

(b) A form of Distraint contained the following:
1. Name of tax officer authorized to execute warrant;
2. Name of the taxpayer;
3. Tax identification number (TIN);
4. Place of business;
5. Amount of tax outstanding;
6. Year(s) of Assessment;
7. Signature of executive chairman of the relevant tax authority; and
8. Date of signing.

(c) Yes, it is possible to visit the taxpayer for enforcement with the following Government agencies. They are:
- The Nigerian Police Force (NPF);
- Nigerian Customs Service (NCS);
- Economic and Financial Crime Commission (EFCC);
- Nigeria State Security Service (SSS);
- Corporate Affairs Commission (CAC); and
- Central Bank of Nigerian (CBN).

(d) The other enforcement powers of the tax authority are:
- Power to access lands, buildings, books and documents (S.29 FIRSEA);
- Power to remove books and documents;
- Power of substitution (S.31 of FIRSEA);
- Power to impose penalty and interest and enforce payment (S.32 of FIRSEA);
- Power to deny the taxpayer, whenever he applies for tax clearance certificate (TCC); and
- Power to compound offences (S 48 of FIRSEA).

EXAMINER'S REPORT

This question tests candidates' knowledge of Enforcement and Distraint power of the FIRS concerning defaulting tax Payers. All the candidates attempted the question and more than 70% of the candidates scored above 50% of the marks allocated.

3. A good tax audit or investigation exercise is usually completed with facts and observations presented in support of the assignment carried out. This is called evidence.

(a) What are the qualities of a good tax audit evidence? (7 Marks)

(b) Discuss Four (4) techniques of obtaining audit evidence. (8 Marks)

(c) Explain briefly the underlisted two categories of Tax Investigation.

(i) Reactive Tax Investigation and ($2^1/_2$ Marks)

(ii) Proactive Tax Investigation. ($2^1/_2$ Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 3

(a) There is need for tax auditors to have documentary evidence to report his work rightly. Qualities of good tax audit evidence are determined in relation to its Relevance, Reliability and Sufficiency.

i. **Relevance:-** Good audit evidence must be relevant to the matter under consideration. The evidence may satisfy other qualities and still be useless, if it is not related to the subject matter. Audit evidence is relevant when it assists the auditor in forming his opinion on the subject matter or area being considered.

ii. **Reliability:-** This refers to the extent to which the tax auditor can base his opinion on the evidence.

The following rules apply in relation to audit evidence reliability:
- External evidence is more reliable than the internal one;
- Documentary evidence is more reliable than oral;
- Auditors self-generated evidence is more reliable than those of others;
- Original evidence is more reliable than photo copies of documents; and
- Multiple coordinated evidence is better than single evidence.

Sufficiency: The tax auditor must determine the level of evidence that suffices for the formation of his opinion. This judgment will depend on:
- How persuasive the evidence is;
- The tax auditor’s knowledge of the entity’s business;
- The level of audit risk involved; and
- The level of reliability the tax auditor has on the accounting and internal control systems of the entity/taxpayer.

(b) The generally accepted techniques for obtaining tax audit evidence include:
- **Observation:-** The tax auditor witness the performance of the tasks, functions and operation of the entity, as evidence to confirm the activity on data provided;
- **Enquiry and Confirmations:-** The tax auditors requests for evidence from knowledgeable and competent person in and outside the organization and/or sends letter, questionnaires to obtain information or confirm matters with relevant third parties, e.g. confirmation of debtors’ balances etc;
- **Computations:-** This has to do with independent calculations by the tax auditors. It also include casting and cross casting to check and confirm the correctness and arithmetical accuracy of the data, records, statistics and financial and / or tax information/computations;
- **Inspection:-** This is the review or physical examination of tangible assets, records, documents etc, with a view to ascertaining facts directly, including existence, ownership, and other relevant conditions and deductions from such inspection; and
- **Analytical Review Procedures**:- This entails the auditor’s review of ratios, industry trend, comparison with past financials and comparable firm with audited entity to check fairness of items presented or the need for additional explanations for some unusual features in the financial statements. It is used in identifying consistencies and predicted patterns or significant fluctuations and unexpected relationships and the result of the investigation thereof.

(c) (i) REACTIVE TAX INVESTIGATION

Reactive Tax Investigation: This means that an offence has been committed and investigators attempts to identify and find those responsible for the crime, gather all available evidence and institute a prosecution against them.

(ii) PRO-ACTIVE TAX INVESTIGATION

Pro-active Tax Investigation: The investigation takes place when it is known or strongly suspected that an offence is about to take place and where there is opportunity to identify those planning the offence, investigate steps to be taking toward the criminal act and prevent the crime from taking place.

EXAMINER'S REPORT

The question tests candidates' understanding of Audit Evidence. More than 98% of the candidates attempted the question. The performance was just average as only about 50% of the candidates scored above 40% of marks allocated. Candidates are advised to prepare adequately for future examination and ensure complete coverage of the syllabus.

4. You have been invited to give a short presentation to some new staff in your office on audit techniques. Prepare your notes for this presentation, setting out as a Tax Auditor/ Investigator, what should be checked for on each of the items listed below:

(a) Turnover. (5 Marks)

(b) Cost of Sales. (5 Marks)

(c) Equity and (5 Marks)

(d) Directors' Current Accounts. (5 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 4

Documents to be checked in respect of the following tax audit or Investigation purpose are:

(a) TURNOVER

i. Check price against official price lists and check posting to cash accounts, accounts receivable ledger and general ledger.

ii. Review copies of sales invoices posted for numerical and date sequence. Obtain explanations for missing numbers or dates.

iii. As part of cut-off adequacy tests, review sales transactions before and immediately after the end of the year for their correctness in the period they relate.

iv. Agree the sales/turnover figure as per the Published Accounts with the General Ledger.

v. Obtain an analysis of sales for the period by type or source and test for evidence that all income earned from all sources have been captured and reported in the sales/turnover for the period.

vi. Compare the chart of accounts captions relating to sales with the schedule to ensure that all sales accounts have been correctly reflected. Where some sales captions in the chart of accounts have nil balances in the general ledger obtain explanations from those in charge.

vii. Review the entire product list or service to see that no product or service has been omitted from the sales for the period.

viii. Compare current year sales figures with previous years and obtain explanations for any unusual variations.

ix. Compare the amount of sales disclosed in the financial statements with the amount stated in the management accounts, year end Trial Balance, Sales Ledger, Sales Day Book, and Sales figure stated in the Board of Directors minutes as well as total sales reported Via Value Added Tax (VAT) returns.

x. Obtain a list of all debits made to sales accounts in the general ledger and verify the reason for the adjustments. Where the accounting system is computerized, raise appropriate queries to list unusual items or adjustments for verification. If no satisfactory explanations are available, ensures such debits are added back to the sales of the period via appropriate audit adjustments.

xi. Review the output VAT account to ensure that all sales have been subject to VAT and the appropriate amount credited to the output VAT account.

xii. Review the diversion of product for sale to personal use or consumption of the owner/shareholders that may have income tax and VAT implication.

xiii. Obtain information on discounts and commission given on sales, if any, check that these have been properly authorized and where they appear unusually high or irregular ensure that proper adjustments are made to include them in the sales for the period via appropriate adjustment journal entries.

(b) COST OF SALES

To verify cost of Sales, carry out the following audit steps:

i. Perform an overall reconciliation of the cost of goods sold figure. In this regards, add the opening stocks balance, the purchases or the cost of goods sold/manufactured during the period and deduct the closing stock figure;

ii. Agree this figure with the cost of goods sold figure in the accounts;

iii. Agree opening stocks figure with the stocks control account and the purchases figure in the general ledger;

iv. Compare current year cost of sales figure with the previous year and obtain explanations for unusual variation (check cost of sales percentage and compare it with percentages for the industry or other taxpayers doing the same business).

v. Review cost of sales figures for items that are not of a trading nature or which do not relate to the cost of goods sold and ensure that they are added to the profit figure for the period for tax purposes, as such items are not tax deductible.

(c) EQUITY

i. Agree the balance on the capital account with the general ledger.

ii. Compare the nominal and paid up Capital figures with previous year and obtain explanation for any variation noted.

iii. Where the nominal share capital has been increased, see evidence that appropriate stamp duties have been paid. Compare the nominal share capital of the previous year with the current year and where there is an increase, compute the stamp duties accruable and compare with the amount paid as per copy of tax authority receipt or bank paying-in-slip in respect of the stamp duties paid by the taxpayer.

iv. Where the amount paid is less than the figure computed above, raise appropriate audit adjustment for additional stamp duties.

v. Where additional capital was raised during the year in form of a private or public offer, pull together all the costs incurred (legal, accountants, valuers underwriters etc).

vi. Ensure that all costs referred to in (v) above were added back to assessable profit for the year in the tax computation.

Where this has not been done, propose an adjustment as appropriate since the cost of raising capital is not tax deductible.

(d) DIRECTORS' CURRENT ACCOUNT

1. Compare balances on directors current account with the previous year and obtain explanation for unusual variations.

2. Agree balances in the account with the general ledger.
3. Reconcile the directors' current account balance as follows:- add to the opening balance on the account to all amounts accrued and credited to the account less payments made to arrive at the current balance. Obtain explanations for any difference(s).
4. Agree opening balance with the previous year's closing balance.
5. Test the amounts accrued during the year with director's service contract and other supporting document.
6. Carefully review all amounts credited to the account and ensure that they have been made for bonafide expenses of the taxpayer.
7. Review all director's none monetary benefits to ensure that they have been provided in accordance with the provisions of director's service contracts.
8. Check that appropriate withholding taxes have been withheld from all directors fees and remitted to appropriate tax authority.
9. Test amounts paid as directors' fees with supporting documents and agree with cash book entries.
10. Where the amounts due from directors have been written off, ensure that they have been added back to assessable profit for the period in the tax computations since such write-offs or provisions are not trade debts.

EXAMINER'S REPORT

The question tests candidates understanding of audit requirement in audit of turnover, cost of sales, equity and Directors' current accounts. Performance was generally poor as about 80% of the candidates scored below 40% of marks allocated. Candidates are advised to cover all areas of the syllabus when preparing for future examination.

5. A lot of irregularities were discovered from the tax returns of Show-Show Nigeria Plc submitted to Federal Inland Revenue Service (FIRS) for the 2016 Year of Assessment. Details of the irregularities are as follows:

(a) The turnover figure stated in the Chairman's report in the Financial Statements was ₦18,500,000 while ₦12,000,000 was recorded as the sales figure in the Trading and Profit or Loss Accounts.

(b) The company had earlier claimed enhanced initial allowance of 95% for a truck bought in 2015 year of assessment and is now claiming annual allowance at the rate of 25%.

(c) The education tax computed by the company was at the rate of 2% of Net Profit.

(d) A cursory look at the staff costs revealed that an amount of ₦500,000 represents payment of school fees for 2 children of the Finance Controller.

(e) Stamp duty of ₦750,000 paid for increase in Authorised Share Capital was only treated as a deduction from income in the Profit or Loss Accounts.

(f) The total of expenses in the income statement was recorded as ₦6,850,000 instead of ₦6,550,000.

(g) Additional income tax of ₦512,500 arising from desk examination for 2012 year of assessment and settled was treated as an expense in the income statement.

(h) An amount of ₦32,000 being interest paid on loan utilized to purchase a showroom building was charged as an expense in the income statement.

(i) The Company deals in VATable and Non-VATable goods. It has deducted input VAT of ₦68,350 in respect of Non VATable item sold, from the Output VAT account.

(j) A withholding tax credit note for the sum of ₦10,000 was issued in favour of the company by FIRS. The paying company was Jeunjeje Limited. The listings of the turnover was checked and the amount received from Jeunjeje Limited was not listed.

You are required to state the tax treatments that will be carried out on items (a) to (j) at the end of your tax audit exercise. (20 Marks)

SOLUTION TO QUESTION 5

SHOW-SHOW NIGERIA PLC

a. The difference between ₦18,500,000 – ₦12,000,000 = ₦6,500,000 will be added to profit for tax purpose as undisclosed income. This is after checking the general ledger, Sales Day Book, Sales Ledger, Chart of Accounts and the Trial Balance.

b. The company is not entitled to annual allowance after the initial claim of 95%. Consequently, the amounts claimed as Annual Allowance shall be withdrawn from the total Capital Allowances to be granted to the company.

c. The Education Tax will be correctly calculated on the assessable profit (revised) at the rate of 2%. A revised assessment notice will be raised for the additional Education Tax.

d. The payment of ₦500,000 as school fees for children of the Finance Controller will be added back to profit for tax purpose, as it is not tax deductible.

e. The stamp duty of ₦750,000 is a capital expenses and therefore not to be allowed as an expenses for tax purpose.
However, stamp duty is not a qualifying Capital Expenditure; as such capital allowance cannot be claimed on it.

f. The difference of ₦300,000 (₦6,850,00 – ₦6,550,000) will be added to profit as this had earlier been understated.

g. Taxes are not allowable expenses for tax purpose. The additional income tax (₦512,500) for 2012 year of assessment will be disallowed as an expense for tax purpose

h. The input VAT of ₦68,350 will not be allowed as deduction from the Output VAT. This is because the company has not charged any Output VAT to match the input VAT. The Input VAT should be treated as part of purchase cost in the Income Statement.

i. The amount on the credit note (₦10,000) will be grossed up to arrive at the amount of income ₦10,000/0.10 = ₦100,000 to be added to profit for tax purposes. This is because the income had not earlier been reported.

j. The interest was incurred for a capital expenses and therefore not tax deductible. The interest should be added to the cost of the show room building for capital Allowance.

EXAMINER'S REPORT

The question tests candidates' understanding of Tax Audit Approach to various identified inadequacies in tax payers' returns to FIRS. About 40% of candidates attempted the question out of which less than 25% scored above 40% marks allocated. Candidates are advised to prepare adequately for future examination.

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2017: PROFESSIONAL EXAMINATION

PT 2: INTERNATIONAL TAXATION

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

1. Write short notes on:

(a)	Diplomatic Channel	(2 Marks)
(b)	Passive Income (give examples)	(4 Marks)
(c)	Portfolio Investment and Direct Investment	(4 Marks)
(d)	The Principle of Attribution	(4 Marks)
(e)	Force of Attraction	(6 Marks)
		(Total 20 Marks)

SOLUTION TO QUESTION 1

(a) **Diplomatic Channel**:- Diplomatic channel is an official medium of communication or exchanging information between countries through their diplomat or authorized representatives. The Ministry of Foreign Affairs is regarded as "diplomatic channel" through which the Contacting States exchange information.

(b) **Passive Income:-** A passive income (Unearned income) is an income received on regular basis from rental activity or trade or business activities in which the receiver is not materially participating in the management of such an organization. It is simply referred to as investment incomes.

Examples of such incomes are:

(i) Rent
(ii) Interest
(iii) Dividend, e.t.c

(c) **Portfolio Investment and Direct Investment:-**

Portfolio Investment is an investment in securities that is intended for financial gain only and does not create a lasting interest in or effective management control over an enterprise.

Direct Investment also for financial gain, but allows an investor to exercise a certain degree of management control over the company.

(d) **The Principle of Attribution:-** This principle states that the profit or income of a non-resident company is taxable in Nigeria only to the extent that it is deemed to be derived from Nigeria and not attributable to any part of the operations carried on outside Nigeria. In other words, it is the profit or income attributable to a Permanent Establishment in Nigeria that is liable to tax in Nigeria.

(e) **Force of Attraction:-** This principle is an anti-avoidance provision to counter the split of profits through the creation of several Permanent Establishments (PEs) within a jurisdiction. Under the principle, the profits of these other PEs would be attracted to those of the main PE and all would be aggregated for tax purposes in as much as the products or activities are the same as, or similar to, those effected through the main PE. Once a non-resident company has a PE in the other State, all the business activities that are "the same or similar" to those carried on through the PE will be deemed to be carried on through the PE. In other words, the income from these other outlets would be attracted to the PE.

2. Explain the following concepts in relation to the Transfer Pricing regulations in Nigeria:

(a) Transactional Net Margin Method (4 Marks)

(b) Transactional Profit Split Method (4 Marks)

(c) Resale Price Method (4 Marks)

(d) Cost Plus Method (4 Marks)

(e) Comparable Uncontrolled Transaction (4 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 2

(a) Transactional Net Margin Method means comparing the net profit margin relative to the appropriate base including costs, sales or assets that a person achieves in a controlled transaction with the net profit margin relative to the same basis achieved in a comparable uncontrolled transaction.

(b) Transactional Profit Split Method measures the net operating profits realised from controlled transactions. It compares the profit level of the controlled transactions to the profit level realised by independent enterprises that are engaged in comparable transactions.

(c) Resale Price Method means comparing the resale margin that a purchaser of good, property or service in a controlled transaction earns from reselling the property in an uncontrolled transaction with the resale margin that is earned in a comparable uncontrolled purchase and resale transaction.

(d) Cost Plus Method means comparing the mark up on the costs directly and indirectly incurred in the supply of goods, property or services in a controlled transaction with the mark up on those costs directly or indirectly in the supply of goods, property or services in a comparable uncontrolled transaction.

(e) Comparable Uncontrolled Transaction: This method compares the transaction of property or services transferred in a controlled transaction to the transaction of property or services transferred in a comparable uncontrolled transaction in comparable circumstances.

3. Do good Nigeria Ltd, a Nigerian Company has taxable profits of ₦8,000,000 and ₦10,000,000 in 2014 and 2015 tax years respectively from its business operations in Nigeria. In those respective years, the company also derived taxable incomes of €2,000

and €4,000 from its branch in Belgium, which qualifies as a permanent establishment in Belgium.

The tax rate in Belgium is 30% for taxable income below €4,000 and 40% for €4,000 and above, while Nigeria imposes tax at the rate of 30%.

Nigeria and Belgium have Advance Taxation Agreement, with Article 23 of the agreement providing for the use of ordinary credit method for the elimination of double taxation. Exchange rate for Euro to Naira is ₦320: €1.

You are required to:

(a) Compute the tax payable by Do Good Nigeria Ltd. in both jurisdictions in 2014 and 2015 tax years. (12 Marks)

(b) Advise the company on the conditions for qualification for treaty benefits. (8 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 3

(a) DO GOOD NIGERIA LTD
COMPUTATION OF TAX PAYABLE IN BELGIUM AND NIGERIA FOR 2014 AND 2015 TAX YEARS

YEAR 2014			
Tax payable in Belgium			
Income	£2,000		
Tax rate	30%		
Tax payable	2,000 x 0.3	=	£600
Tax payable in Nigeria			
Worldwide income	(₦8,000,000 + (2,000 x ₦320)) =		₦8,640,000
Tax rate	30%		
Tax computed	(₦8,640,000 x 0.3)	=	₦2,592,000
Double Taxation relief	(£2,000 x ₦320 x 0.3) =		₦192,000
Net tax payable in Nigeria	(₦2,592,000 – ₦192,000)		₦2,400,000
YEAR 2015			
Tax payable in Belgium			
Income	£4,000		
Tax rate	40%		
Tax payable	£4,000 x 0.4	=	£1,600
Tax payable in Nigeria			
Worldwide income	(₦10,000,000 + (£4000 x ₦320)) =		₦11,280,000
Tax rate	30%		
Tax computed	₦11,280,000 x 0.3	=	₦3,384,000
Less: Double Taxation relief	£4,000 x ₦320 x 0.3	=	£384,000
Net tax payable	₦3,384,000 – ₦384,000 =		₦3,000,000

The total credit that may be given in Nigeria is based on the rate of tax applicable to the foreign income in Nigeria.

(b) The conditions required for qualification for treaty benefits are as follows:
   (i) The taxpayer must be resident
   (ii) The tax must be covered by the treaty
   (iii) The taxpayer must be subject to tax on the income, and
   (iv) The benefit must not be specifically excluded by the provision of the treaty

4. (a) What is Exchange of Information? (5 Marks)

   (b) What are the requirements for effective Exchange of Information? (5 Marks)

   (c) List Five (5) legal or administrative instruments that may be used for Exchange of Information? (5 Marks)

   (d) What are the benefits derivable from Exchange of Information? (5 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 4

(a) Exchange of Information (EOI) is the process of giving and receiving information on tax matters between tax authorities of a nation (Intra-jurisdictional) or between tax jurisdictions of different nations (Inter-jurisdictional), in a confidential, tailored to request and timely manner.

It is simply the collaborative process where countries/tax authorities/stakeholders share information to assist in the determination of tax cases and enforcement of tax laws. Tax treaties make it obligatory for the competent authorities of Contracting States to exchange such information which is foreseeably relevant for carrying out of the provisions of the treaty and enforcement of domestic tax laws. The information shared range from taxpayer identity information, bank, business ownership, accounting, trade and commerce, import and export related information. etc

(b) For the process of EOI to lead to effective tax administration, the following three requirements must be met.
   (i) Availability of Information: There is obligation that information particularly accounting, bank and ownership information are kept.
   (ii) Access to Information: There are sufficient power (Legal and administrative) to access and obtain the information.
   (iii) Exchange of Information: Legal and administrative tools to empower the exchange of the accessed information must be in place.

(c) The Five (5) legal instruments that may be used for exchange of information are:
   i. The domestic laws of intending jurisdiction
   ii. Double Taxation Agreement (DTA)
   iii. Tax Information Exchange Agreement (TIEA)
   iv. OECD multilateral convention on mutual Administrative Assistance in Tax matters
   v. ATAF Multilateral Administrative Tax Assistance Agreement
   vi. Multilateral Competent Authority Agreement on country – by – country reporting and
   vii. Multilateral Competent Authority Agreement on Automatic Exchange of Information.

(d) The following are the inherent benefits of the effective exchange of information process:
- (i) It is used to tackle suspected cases of tax avoidance or evasion thereby helping to combat the two major sources of tax revenue leakage to developing countries,
- (ii) It promotes international cooperation in tax matters through exchange of information,
- (iii) Access to valuable tax information from other tax jurisdictions required for effective tax administration, to address transfer pricing and thin capitalization issues,
- (iv) It helps to fight against corruption and money laundering,
- (v) It enhances the ability of the domestic tax system to achieve improved tax revenue yields,
- (vi) It promotes better relationship between Nigeria and her treaty partners and this could lead to increase in tax revenues in both countries,
- (vii) It provides tax auditors with a channel to request and obtain information needed for effective desk or field audits
- (viii) It assists contracting parties in administering and enforcing its domestic tax laws
- (ix) It aids special investigation
- (x) It can be used to confirm the accuracy of returns filed
- (xi) It can be used to assist in curbing the erosion of nation's tax base and fiscal evasion
- (xii) It can be used to ascertain facts relating to tax issues
- (xiii) It can be used to enhance simultaneous Tax Administration
- (xiv) It can be used to assist in tax collection
- (xv) It can be used to assist in criminal tax cases

5. The Company Income Tax Act provides three (3) tests for determining whether the profit of a non-resident company from any trade or business shall be deemed to be derived from or accrue in Nigeria.

(a) List the Three (3) tests. (3 Marks)

(b) Explain in details the meaning and implications of each test on liability to tax of a non-resident company. (17 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 5

(a) The three tests are:
- (i) Fixed base test
- (ii) The agency test
- (iii) The turnkey contract test

(b) FIXED BASE OF BUSINESS SECTION 13(2)(a)

The fixed base of a non – resident company is the place from where it carries on its business or trade in Nigeria. The fixed base must be easily identifiable and must possess some degree of permanence.

A fixed base will include:-
- (a) Facilities such as factory, an office, a branch, a mine or an oil well,
- (b) Activities such as building, construction, assembly or installation, and

(c) Furnishing of services in connection with activities above. It is important to note that the following cannot be considered as a fixed base.

- Facilities used solely for storage or display of goods or merchandise.
- Facilities used solely for the collection of information.

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

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

AGENCY OPERATION SECTION 13 (2)(b)

Where a non – resident does not have a fixed base in Nigeria but **(a)** habitually operate a trade or business through a person in Nigeria or authorise any person in Nigeria to conclude contracts on its behalf or on behalf of some other companies controlled by it, or which has controlling interest in it, or **(b)** Habitually maintains a stock of goods or merchandise in Nigeria from which deliveries are regularly made by a person on behalf of the company, then an agency arrangement is deemed to have arisen. The profit deemed to have been derived from Nigeria is the profit attributable to the business or trade activities carried on through the agents, where the agent is of a dependent agent status.

(a) An independent agent

An agent is regarded as an independent agent when it deals on behalf of a non – resident in its ordinary course of its own business. The implication of this arrangement is that the agent carries on its own trade along with his function as an agent of the non – resident company. Therefore, if the non – resident company stops trading in Nigeria, the independent agent is not materially affected as it will continue in its own business.

(b) Dependent agent

This occurs where the agent devotes his activities wholly or almost wholly on behalf of the non – resident company. Where the dependent agent makes an isolated sale of goods on behalf of the principal, such a profit may not necessarily be subjected to tax in Nigeria. Where however, the sale of goods on behalf of the principal is on a regular basis, then the agent is deemed to trade habitually in the goods and the profit derived therefore is chargeable to tax in Nigeria.

TURN KEY PROJECTS SECTION 13(2)(c)

This is a trade or business which involves a single contract for surveys, deliveries, installation or construction.

For Nigerian income tax purpose, the profit from such a turnkey project in considered derived from Nigeria. Consequently, it is fully chargeable to tax in Nigeria because no allowance would be given for the profit to be divided into Nigeria and offshore activities.

THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA

OCTOBER 2017: PROFESSIONAL EXAMINATION

PT 2: TAXATION OF E-COMMERCE

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

1. Recent advancements in information technology have revolutionalised international business through effective communication and accessibility to information. Electronic Business can be described as any kind of business or commercial transaction carried out through the internet.

(a) (i) State Five (5) examples of e-businesses. (5 Marks)

(ii) Briefly discuss Three (3) of the tax implications of doing e-business. (9 Marks)

(b) Business Integration is known to be a process of combining different business and management systems so that they can interact with one another with a view to enhancing enterprise business strategy.

Identify those systems that may be focused on and integrated in e-business transactions. (6 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 1

(a) (i) Five examples of e-businesses are:

- Online banking;
- Online trading and lending;
- Online recruiting;
- Online news;
- Online travel booking;
- Online entertainment;
- Online learning;
- Online service providers;
- Online shopping;
- Online automobile sales;
- Information marketing; and
- Affiliate marketing.

(ii) Three tax implications of e-business are discussed as follows:

- **Taxable Presence**
  E-business is conducted virtually instantaneously around the globe and around the clock hence the determination of taxing authority becomes very crucial. Transaction that may be legal and valid in one jurisdiction may not be enforceable in others. Creation of wealth through cyber space would also entail the use of "off-shore" financial institution to store this wealth; certainly this constitutes an elaborate and often untraceable form of tax avoidance.

- Indirect Taxes
  E-business transaction have thrown up some challenges to tax administrators due to the absence of physical documents on which taxes can be charged. E-commerce brings with it a paperless environment hence many traders may not be issuing paper invoices therefore, such transaction may not be traceable. No audit trail is left and compliance checking and monitoring of transaction are made too complex for a taxation authority to handle.

- Withholding Taxes
  E-business transaction also have thrown up a number of difficulties to tax administrators in various jurisdiction. Withholding tax is a collection strategy in which tax is deducted from interest, rent, royalty and other incomes by a paying agent and remitted to the relevant tax authorities. For transactions across the internet it may be difficult for such to be traceable by the tax administrators.

(b) The various system that may be focused on and integrated in e-business transaction are:

(i) Supply Chain Management (SCM) System;
(ii) Customer Relationship Management (CRM) System; and
(iii) Enterprise Resource Planning (ERP) System.

- Supply Chain Management (SCM) is the oversight of materials, information and finances as they move in a process from supplier to manufacturer, to wholesaler, to retailer and to consumer.
  Supply Chain Management involves co-ordinating and integrating these flows both within and among companies.

- Customer Relationship Management is a term that refers to practices, strategies and technologies that companies use to manage and analyse customer interactions and data throughout the customer life cycle with the goal of implementing business relationships with customers which assists in customer retention and driving.

- Enterprise Resource Planning (ERP) is business process management software that allows an organization to use a system of integrated application to manage the business and automate many back office functions related to technology, services and human resources.

2. Discuss the following as they affect e – commerce.
   (a) Non – Resident Corporation. (4 Marks)

   (b) To what extent are non – resident individuals liable to Income Tax? (4 Marks)

   (c) Mr. John Wood is an employee of IART Nigeria. He arrived in Lagos on January 1, 2016, with the following working conditions:

      1. Mr. John Wood is a British citizen who receives £1,000 per annum as part of his salary in London less UK Income Tax.

2. The Nigerian Company is to pay Mr. John Wood another ₦800,000 per annum and this should be subject to Nigerian income tax in view of the double taxation agreement between UK and Nigeria. The UK tax paid on the £1,000 is £100. The exchange rate is ₦500/£1. He is entitled to Compound Relief on the present tax rate. The Double Taxation Relief rate applicable is 7.72%.

Required

(i) Calculate the chargeable Income, and (8 Marks)

(ii) The credit to be given to Mr. John Wood on his United Kingdom Income. (4 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 2

(a) Non-Resident Corporation
This is a company that is not incorporated or registered in Nigeria but which derives income from Nigeria.

Every company is liable to tax in Nigeria on income derived from Nigeria whether registered or not.

(b) Non-Resident individuals are liable to tax in Nigeria on the income or profits accruing, derived from, brought into or received in Nigeria.

A non-resident individual is a person who is not domiciled in Nigeria or who stays in Nigeria for less than 183days but derives income or profits from Nigeria.

(c) **JOHN WOOD**
COMPUTATION OF CHARGEABLE INCOME FOR 2016 YEAR OF ASSESSMENT

	₦	₦
Salary in Nigeria	800,000	
Salary in London	500,000	
Statutory Total Income	1,300,000	
Compound Relief	(460,000)	
Chargeable Income	840,000	

(d) Calculation of credit accruable to Mr. John Wood.

Double Taxation Relief: Foreign Income x Double Taxation Relief Rate
₦500,000 x 7.72%
₦38,600

Workings

(i) UK Income = ₦500 x €1,000 = ₦500,000

(ii) Compound Relief Calculation gross income = ₦1,300,000 x 20% 260,000
Add 200,000
460,000

(iii) Nigerian Tax and Income Tax Applicable

	Nigerian Tax Rate
1^{st} 300,000 @ 7% =	21,000
2^{nd} 300,000 @ 11% =	33,000
3^{rd} 240,000 @ 15% =	36,000
	90,000

Rate of Nigerian Tax.

$$\frac{₦90{,}000}{₦1{,}300{,}000}$$

= 0.07 x 100 = 7%

(iv) Tax Rate of Common Wealth

$$\frac{\text{Tax Paid}}{\text{Total Income}} \times 100 = \frac{€100}{€1{,}000} \times 100 = 10\%$$

3. (a) Explain the concept and objectives of Double Taxation Relief. (4 Marks)

(b) Identify Four (4) types of Incomes exempted from Double Taxation Relief. (8 Marks)

(c) Differentiate between Hardware, Software and give Two (2) examples of each. (8 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 3

(a) The concept of Double Taxation Relief is grounded in the aim of the government of various countries to enter into bilateral agreements with other countries in other to ensure the smooth flow of investments by granting tax exemptions for certain classes of income that have already been subjected to tax in another country i.e. to prevent a particular income being excessively taxed.

(b) Incomes exempted from Double Taxation Relief.

(i) Any government pensions except where the recipient is ordinarily resident in Nigeria.

(ii) Profits derived from any shipping or aircraft.

(iii) Any dividend received by a Nigerian resident from a United Kingdom Company provided the Nigerian has no permanent establishment in the United Kingdom.

(iv) Any payment received by a student or apprentice during his full time education training in Nigeria.

(v) Any remuneration of a professor or teacher who is resident for not more than two years in a foreign country for the purpose of teaching.

(vi) Any income of a UK resident provided he is not resident in Nigeria for more than 183days and the services are rendered to a UK employer.

(c) Hardware refers to the physical computer components that can be touched, while software refers to programmes or instructions given to the computer to carry out its operations and tasks.

Examples of Hardware include Hard Disk, Keyboard, Printer, Monitor etc.

Software includes operating software and application software like Banking Software, Accounting Software, Microsoft Office suite programs etc.

4. (a) Define the following:
   (i) Decision support system (DSS)

   (ii) Executive support system (ESS)

   (iii) Transaction processing system (TPS)

   (iv) Internet

   (v) Database (10 Marks)

   (b) Identify and describe three important roles of information system in an organization. (6 Marks)

   (c) Give Two (2) examples of Electronic Payment Channels. (4 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 4

(a) **(i) DSS – DECISION SUPPORT SYSTEM**

This is an interactive computer system that can be used by managers without help from computer specialists. It provides managers with necessary information for decision making e.g. Group decision support system.

(ii) ESS – EXECUTIVE SUPPORT SYSTEM

This is a tool that allows organization to turn data into useful summarized reports. It enhances decision making for executives. It helps executives to find data according to user-defined criteria.

(iii) TPS – TRANSACTION PROCESSING SYSTEMS

This helps to handle large volume of routine, recurring transactions e.g. payroll systems, stock control system.

(iv) INTERNET

This is the global system of interconnected computer networks that uses the internet protocol suite (TCP/IP) to link devices worldwide.

(v) DATABASE

This is a collection of information that is organized so that it can be easily accessed, managed and updated. It is usually managed by Database Management System (DBMS).

(b) Three important roles of information system in an organization are:
   (i) Information storage and analysis;
   (ii) Assist with making decisions; and
   (iii) Assist with business processes.

(i) Information Storage and Analysis

Many companies have migrated from use of manual registers and hard copy formats to use of sophisticated and comprehensive database that consist all company data.

Information systems store, update and analyze data to solve current & future problems. This can be done by integrating data from various sources within and outside the organisation.

(ii) Assist with making decisions

An organisation's management team uses information system to formulate strategic plans and make decisions. Information system helps in analyzing and comparing market trends.

(iii) Assist with Business Processes

Information systems aid's business to develop a larger number of value added systems e.g. information systems can be integrated with manufacturing cycle to ensure compliance with quality standards, information systems simplifies business processes, removes unnecessary activities, add controls to employee processes, removes repetitive tasks, increase accuracy, lead to better project planning and implementation through effective monitoring and comparison against established standard.

5. (a) What is Information? Identify Three (3) categories of information used in an organisation in terms of the different positions, functions and frequency of reports required. (8 Marks)

(b) Identify Four (4) effects of the use of Information Technology on management processes. (8 Marks)

(c) Give Two (2) examples of storage media used with computers. (4 Marks)

(Total 20 Marks)

SOLUTION TO QUESTION 5

(a) Information is a processed and meaningfully interpreted data, which is meaningful to the user for decision making or a processed data subjected to analysis, validation and comparison with other data and serve a useful purpose.

Categories of information used in an organization in terms of the different positions, functions and frequency of reports required are:

- **Strategic Information:** Strategic information is concerned with long term policy decisions that define the objectives of a business and checks how well these objectives are met, for example, acquiring a new plant, a new product, diversification of business etc. comes under strategic information;

- **Tactical Information:** Tactical information is concerned with the information needed for exercising control over business resources, like budgeting, quality control, service level, inventory level productivity level etc.; and

- **Operational Information:** Operational information is concerned with plant/business level information and is used to ensure proper conduction of specific operational tasks as planned/intended. Various operator specific, machine specific and shift specific jobs for quality control checks comes under this category.

Strategic information is used by senior executives, tactical information is used by middle managers; and operational information is used by junior level workers.

Strategic information require long term reports 3-5yrs, tactical information require short term reports (annual) and operational information require daily and weekly reports.

(b) Some of the effects of the use of information technology on management processes include:
- (i) Participation in the decision-making process system is accessed by different people in the organization regardless of position.
- (ii) Intelligence problems – Monitoring of products and services for sales volume, production, efficiency etc.
- (iii) Increases speed and quality of describing based on reel time data available.
- (iv) Storage of organizational information in database for organizational memory.
- (v) Information used as an essential tool in developing business strategy.

(c) Examples of storage media used on computers include:
- (i) CD;
- (ii) DVD;
- (iii) Hard Disk; and
- (iv) Flash Disk.