



**CHARTERED INSTITUTE OF TAXATION OF NIGERIA**

**APRIL 2018: PROFESSIONAL EXAMINATION**

**FOUNDATION: ACCOUNTING**

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

1. (a) A Sole Trader may decide to earn regular salary or may alternatively decide to make periodic drawings.

State Four (4) differences between salaries and drawings. (4 Marks)

- (b) PAPAPA Ventures is a sole trading organization. The trial balance of the company for the year ended 31 December, 2017 is as follows:

|                              | <b>Dr</b>        | <b>Cr</b>        |
|------------------------------|------------------|------------------|
|                              | <b>₦</b>         | <b>₦</b>         |
| Revenue                      |                  | 2,448,000        |
| Inventory – 1 Jan. 2017      | 306,450          |                  |
| Purchases                    | 1,602,800        |                  |
| Salaries & Wages             | 499,625          |                  |
| Motor Vehicles               | 646,875          |                  |
| Furniture & Fittings         | 278,100          |                  |
| Motor Running Expenses       | 85,950           |                  |
| Insurance                    | 10,125           |                  |
| Office Expenses              | 27,900           |                  |
| Rent & Rates                 | 38,875           |                  |
| Electricity Expenses         | 21,475           |                  |
| Trade Receivables & Payables | 504,000          | 224,000          |
| Cash and Cash Equivalent     | 62,325           |                  |
| Drawings                     | 155,250          |                  |
| Share Capital                |                  | <u>1,567,750</u> |
|                              | <u>4,239,750</u> | <u>4,239,750</u> |

You are also provided with the following information:

- (i) Inventories as at 31 December 2017 was ₦381,150.
- (ii) Rent and Rates outstanding as at 31 December 2017, amounts to ₦7,775.
- (iii) Insurance expense include ₦1,575 meant for the next period up to 31 March 2018.
- (iv) Accrued Expenses on Electricity amounts to ₦4,175.
- (v) Depreciation provision are as follows:  
 Motor vehicle – 20%  
 Furniture & fittings – 10%
- (vi) 2½% allowance should be provided on receivables for doubtful debts.

**You are required to prepare:**

- (1) Statement of profit or loss for the year ended 31 December, 2017. (5 Marks)
- (2) Statement of financial position as at 31 December, 2017. (11 Marks)  
(Total 20 Marks)

## SOLUTION TO QUESTION 1

- (a) Differences between Salaries and Drawings
- Salaries are charge against profit while drawings is a withdrawal of Income.
  - Salaries reduces the amount of Net Income while drawings do not affect Net Income but only reduces equity or network.
  - Salaries may be constant and regular from month to month. Drawings are usually unregulated and they tends to fluctuate from month to month depending on the proprietor's personal commitment.
  - Salaries are subject to tax at source e.g. Pay As You Earn (PAYE) or personal Income tax while drawings are not subject to tax at source.
  - A common feature of drawings is that it may sometimes be taken in kind when the owner takes out some goods from the company for personal use while salaries on the other hand is usually taken in cash.

(i) **PAPAPA VENTURES**

Statement of Profit or Loss for the Year Ended 31 Dec. 2017

|                                  | N                | N                |
|----------------------------------|------------------|------------------|
| Revenue                          |                  | 2,448,000        |
| Opening Inventory                | 306,450          |                  |
| Add: Purchases                   | <u>1,602,800</u> |                  |
| Cost of goods available          | 1,909,250        |                  |
| Less: Closing Inventory          | <u>(381,150)</u> |                  |
| Cost of sales                    |                  | <u>1,528,100</u> |
| Gross Profit                     |                  | 919,900          |
| Less: Expenses:                  |                  |                  |
| Salaries and Wages               | 499,625          |                  |
| Motor Running Expenses           | 85,950           |                  |
| Insurance (10,125 – 1,575)       | 8,550            |                  |
| Office Expenses                  | 27,900           |                  |
| Rents and Rates (38,875 + 7,775) | 46,650           |                  |
| Electricity (21,475 + 4,175)     | 25,650           |                  |
| Depreciation: Motor Veh.         | 129,375          |                  |
| Furniture & Fittings             | 27,810           |                  |
| Allowance for Doubtful Debts     | <u>12,600</u>    | <u>(864,110)</u> |
| Profit for the year              |                  | <u>55,790</u>    |

(ii) **PAPAPA VENTURES**

Statement of Financial Position As At 31 December, 2017

| <u>Non-Current Assets</u>    | N                | N              |
|------------------------------|------------------|----------------|
| Motor vehicle                | 646,875          |                |
| Accumulated Depreciation     | <u>(129,375)</u> | 517,500        |
| Furniture and Fittings       | 278,100          |                |
| Accumulated Depreciation     | <u>(27,810)</u>  |                |
|                              |                  | <u>250,290</u> |
|                              |                  | 767,790        |
| <u>Current Assets</u>        |                  |                |
| Inventories                  | 381,150          |                |
| Trade Receivables            | 504,000          |                |
| Allowance for Doubtful Debts | (12,600)         | 491,400        |
| Prepaid Insurance            | 1,575            |                |
| Cash and Cash Equivalent     | <u>62,325</u>    | 936,450        |

|                             |           |                  |
|-----------------------------|-----------|------------------|
| Current Liabilities         |           |                  |
| Trade Payables              | 224,000   |                  |
| Accrued Rent and Rates      | 7,775     |                  |
| Accrued Electricity Expense | 4,175     | (235,950)        |
| Working capital             |           | 700,500          |
|                             |           | <u>1,468,290</u> |
| <u>Equity</u>               |           |                  |
| Capital Account             |           | 1,567,750        |
| Profit for the year         | 55,790    |                  |
| Less: Drawings              | (155,250) |                  |
|                             |           | <u>(99,460)</u>  |
|                             |           | <u>1,468,290</u> |

### EXAMINER'S REPORT

The question tests candidates' knowledge of preparation of final accounts particularly the statement of profit or loss and the statement of financial position. About 98% of the candidate attempted the question and the performance was good as more than 85% of those that attempted the question scored above average.

Commonest pitfalls of candidates that scored below the average pass mark allocated to the question was their inability to correctly carry out necessary adjustments given in the question.

Candidates are advised to adequately practice with worked example while preparing for future examinations.

2. (a) (i) State any Four (4) basic features of Hire Purchase. (6 Marks)
- (ii) State the components of hire purchase price. (3 Marks)
- (b) Gap Farms Limited (GFL) purchased a tractor from Ocean Motor Dealers (OMD). The agreement terms for the transaction are as follows;

|                     |           |
|---------------------|-----------|
|                     | N         |
| Cost Price          | 6,000,000 |
| Hire Purchase Price | 8,400,000 |
| Deposit Payment     | 2,000,000 |
| Instalmental Period | 4years    |

You are required to record the above transaction in the books of GFL for four years. (Assuming that both the interest and instalmental payments are made equally over the years).

(11 Marks)

(Total 20 Marks)

### SOLUTION TO QUESTION 2

- (a) (i) Features of Hire Purchase
- It is a form of credit sales
  - It requires deposits payment while the balance of the purchase price is differed.
  - It requires payment of interest on the credit sale
  - The credit contract can be terminated by the seller
  - Hire purchase is backed with an Act
  - The terms of the Hire Purchase are predetermined.
  - It involves majorly two parties.

- (ii) The components of hire purchase price are:
- Cost of the assets
  - Hire Purchase interest
  - The profits element in the hire purchase price

Hire Purchase Tractor Account

|        |         | ₦                |          |         | ₦                |
|--------|---------|------------------|----------|---------|------------------|
| 1/1/10 | HPV     | <u>6,000,000</u> | 31/12/10 | Bal c/d | <u>6,000,000</u> |
|        |         | <u>6,000,000</u> |          |         | <u>6,000,000</u> |
| 1/1/11 | Bal b/d | <u>6,000,000</u> | 31/12/11 | Bal c/d | <u>6,000,000</u> |
|        |         | <u>6,000,000</u> |          |         | <u>6,000,000</u> |
| 1/1/12 | Bal b/d | <u>6,000,000</u> | 31/12/12 | Bal c/d | <u>6,000,000</u> |
|        |         | <u>6,000,000</u> |          |         | <u>6,000,000</u> |
| 1/1/13 | Bal b/d | <u>6,000,000</u> | 31/12/13 | Bal c/d | <u>6,000,000</u> |
|        |         | <u>6,000,000</u> |          |         | <u>6,000,000</u> |
| 1/1/14 | Bal b/d | <u>6,000,000</u> | 31/12/14 | Bal c/d | <u>6,000,000</u> |
|        |         | <u>6,000,000</u> |          |         | <u>6,000,000</u> |

Gap Farms Limited

Hire Purchase Vendor Account

|          |         | ₦                |        |                     | ₦                |
|----------|---------|------------------|--------|---------------------|------------------|
| 1/1/10   | Bank    | 2,000,000        | 1/1/10 | HPTA (Assets)       | 6,000,000        |
| 3/12/10  | Bank    | 1,600,000        |        | Hire Purchase Int'l | 2,400,000        |
| 3/12/10  | Bal c/d | <u>4,800,000</u> |        |                     |                  |
|          |         | <u>8,400,000</u> |        |                     | <u>8,400,000</u> |
| 31/12/11 | Bank    | 1,600,000        | 1/1/11 | Bal b/d             | 4,800,000        |
| 31/12/11 | Bal c/d | <u>3,200,000</u> |        |                     |                  |
|          |         | <u>4,800,000</u> |        |                     | <u>4,800,000</u> |
| 31/12/12 | Bank    | 1,600,000        | 1/1/12 | Bal b/d             | 3,200,000        |
| 31/12/12 | Bal c/d | <u>1,600,000</u> |        |                     |                  |
|          |         | <u>3,200,000</u> |        |                     | <u>3,200,000</u> |
| 31/12/13 | Bank    | 1,600,000        | 1/1/13 | Bal b/d             | 1,600,000        |
|          |         | <u>1,600,000</u> |        |                     | <u>1,600,000</u> |

Hire Purchase Interest Suspense Account

|             | ₦                |         | ₦                |
|-------------|------------------|---------|------------------|
| Hire Vendor | 2,400,000        | P and L | 600,000          |
|             |                  | Bal c/f | <u>1,800,000</u> |
|             | <u>2,400,000</u> |         | <u>2,400,000</u> |
| Bal b/f     | <u>1,800,000</u> | P and L | 600,000          |
|             |                  | Bal c/f | <u>1,200,000</u> |
|             | <u>1,800,000</u> |         | <u>1,800,000</u> |
| Bal b/f     | 1,200,000        | P and L | 600,000          |
|             |                  | Bal c/f | <u>600,000</u>   |
|             | <u>1,200,000</u> |         | <u>1,200,000</u> |
| Bal b/f     | <u>600,000</u>   | P and L | <u>600,000</u>   |

Workings –

|                                    | ₦                |
|------------------------------------|------------------|
| (i) Hire Purchase Price            | 8,400,000        |
| Less Cost Price                    | 6,000,000        |
| Hire Purchase Interest             | 2,400,000        |
| <br>                               |                  |
| (ii) Hire Purchase Price           | 8,400,000        |
| Less Deposit payment               | 2,000,000        |
| Balance to be paid over<br>4 years | 6,400,000        |
| <br>                               |                  |
| (iii) Instalmental payments:       |                  |
|                                    | 6,400,000/4 =    |
|                                    | <u>1,600,000</u> |

### EXAMINER'S REPORT

The question tests candidates' understanding of hire purchase theory and its accounting treatment. The theory aspect on features and components of hire purchase transaction was well understood while the accounting treatment aspect was poorly treated hence the poor performance as less than 10% of the candidates scored above 50% of the marks allocated.

Candidates commonest pitfalls was their inability to open proper books of accounts to record hire purchase transactions in the (b) part of the question.

Candidates are advised to make use of relevant textbooks that treat this aspect of the syllabus and also use the Pathfinder while preparing for future examination.

3. (a) State any Two (2) reasons that may lead to the dissolution of a partnership. (2 Marks)
- (b) Explain briefly any Four (4) of the following terminologies: (8 Marks)
- (i) Lessor
  - (ii) Lessee
  - (iii) Actual royalty
  - (iv) Dead rent
  - (v) Short workings
  - (vi) Sub-Lease
- (c) Ekaete, Umaru and Bankole have been partners for over five years, making up their accounts to 31 December of each year. Their statement of financial position as at 31 December, 2017 is as follows:

|                           | ₦'000         | ₦'000        |
|---------------------------|---------------|--------------|
| <b>Non-Current Asset:</b> |               |              |
| Leasehold Properties      |               | 13,750       |
| Motor Vehicles            |               | 5,500        |
| Furniture & Fittings      |               | <u>3,750</u> |
|                           |               | 23,000       |
| <b>Current Assets:</b>    |               |              |
| Inventories               | 10,500        |              |
| Receivables               | <u>8,750</u>  |              |
|                           | <u>19,250</u> |              |

**Current Liabilities:**

|                |               |               |
|----------------|---------------|---------------|
| Payables       | 9,750         |               |
| Bank Overdraft | <u>2,275</u>  |               |
|                | <u>12,025</u> | <u>7,225</u>  |
|                |               | <u>30,225</u> |

## Financed by:

## Capital at 1 January 2017:

|                    |              |               |
|--------------------|--------------|---------------|
| Ekaete             | 5,625        |               |
| Umaru              | 5,000        |               |
| Bankole            | <u>6,875</u> | 17,500        |
| Current Account:   |              |               |
| Ekaete             | 2,175        |               |
| Umaru              | 1,500        |               |
| Bankole            | <u>1,425</u> | 5,100         |
| Loan from Jubrilla |              | <u>7,625</u>  |
|                    |              | <u>30,225</u> |

The partners share profits or losses in the ratio of 2:2:1 for Ekaete, Umaru and Bankole respectively. On 31 December, 2017 they agreed to dissolve the partnership. Ekaete took over one of the vehicles which had a book value of ₦2,000,000 at a valuation of ₦3,750,000. Mr. Bankole took over half of inventory for ₦6,250,000. The leasehold properties, the remaining vehicle, fixtures and fittings realized ₦18,000,000 Receivables realized ₦8,000,000. After settling the payables in full, the partners received the monies due to them on capital account or paid what was due to the firm from them.

You are required to:

- (i) Show the Realization Account.
- (ii) Partners Capital Accounts.

(10 Marks)  
(Total 20 Marks)

**SOLUTION TO QUESTION 3**

## (a) Dissolution of Partnership

The reasons may include the following

- The death of a partner
- The bankruptcy of a partner
- The lunacy of a partner
- The withdrawal or resignation of a partner
- Mutual agreement of the partners.

- (b) (i) Lessor: This is the owner of the legal right to a property, product, work or material etc
- (ii) Lessee: This is the person allowed by the owner to enjoy or exercise the right.
- (iii) Actual Royalty: This is the amount of royalty calculated on the actual level of activity or utilization.
- (iv) Dead rent: This is the minimum amount of royalty payable by the lessee irrespective of the level of activity or utilization. The lessee may pay royalty in excess of the minimum but he cannot pay less than the minimum.
- (v) Shortworkings: The excess of minimum royalty over actual royalty where the actual royalty is less than the minimum, the lessee must make-up the shortworkings.
- (vi) Sub-Lease: The lease agreement between the lessee and a third party. The sub-lease agreement is normally entered into with the prior approval of the lessor.

(c) **REALISATION ACCOUNT**

|                        | <b>₦'000</b>  |                     | <b>₦'000</b>  |
|------------------------|---------------|---------------------|---------------|
| Sundry Assets:         |               |                     |               |
| Leasehold Properties   | 13,750        | Capital Accounts:   |               |
| Motor Vehicles         | 5,500         | Ekaete              | 3,750         |
| Furniture and Fittings | 3,750         | Bankole             | 6,250         |
| Accounts Receivables   | 8,750         |                     |               |
| Inventories            | 10,500        | Bank:               |               |
|                        |               | Sundry Assets       | 18,000        |
|                        |               | Account Receivables | 8,000         |
|                        |               | Capital accounts    |               |
|                        |               | Ekaete              | 2,500         |
|                        |               | Umaru               | 2,500         |
|                        |               | Bankole             | <u>1,250</u>  |
|                        | <u>42,250</u> |                     | <u>42,250</u> |

**PARTNER'S CAPITAL ACCOUNTS**

|                   | Ekaete<br>₦'000 | Umaru<br>₦'000 | Bankole<br>₦'000 |                 | Ekaete<br>₦'000 | Umaru<br>₦'000 | Bankole<br>₦'000 |
|-------------------|-----------------|----------------|------------------|-----------------|-----------------|----------------|------------------|
| Assets taken over | 3,750           |                | 6,250            | Balance b/d     | 5,625           | 5,000          | 6,875            |
| Realization       | 2,500           | 2,500          | 1,250            | Current account | 2,175           | 1,500          | 1,425            |
| Bank              | 1,550           | 4,000          | 800              |                 |                 |                |                  |
|                   | <u>7,800</u>    | <u>6,500</u>   | <u>8,300</u>     |                 | <u>7,800</u>    | <u>6,500</u>   | <u>8,300</u>     |

**EXAMINER'S REPORT**

The question tests candidates' knowledge of dissolution of partnership, explanation of some terminologies as it relates to Royalty accounts, the preparation of realization account on dissolution and Partners Capital Account. About 80% of the candidates attempted the question and performance was above average as most of them scored above average. Candidates showed a good understanding of the question.

Candidates are advised to make use of relevant textbooks that treat the topic in the syllabus and practice with worked examples for future examination.

4. (a) State any Two (2) features of a suspense account. (2 Marks)
- (b) The Trial Balance of Handbag Company Ltd failed to agree as the debit side is in excess by ₦62,970 and the difference was posted to a suspense account. An investigation into the books revealed the following:
- (i) A sum of ₦1,400 paid for wages was recorded only in the cash book.
  - (ii) A balance of ₦1,560 on sales day book was carried forward as ₦5,160.
  - (iii) A payment of ₦8,400 made by Mallam was credited to Nullam's account.
  - (iv) An amount of ₦8,000 posted to machinery account included ₦600 for machine repairs.
  - (v) Purchases Day Book was overcasted by ₦4,400.
  - (vi) A payment of ₦31,500 for postage was posted to the credit side of the account.
  - (vii) A balance of ₦1,180 due from a debtor was brought down as ₦1,810.

**You are required to prepare:**

- (1) Journal entries to correct the errors. (14 Marks)
- (2) The suspense account and show the corrections to be made. (4 Marks)
- (Total 20 Marks)

**SOLUTION TO QUESTION 4**

- (a) Features of a suspense account are:
- Suspense account is a dummy account.
  - It is a temporary account that must be closed up at any time.
  - It does not form part of ledger prepared based on double entry.

(b) Handbag Company Limited Journal Entries

|       |  | Dr     | Cr     |
|-------|--|--------|--------|
|       |  | ₦      | ₦      |
| (i)   | Wages  | 1,400  |        |
|       | Suspense   |        | 1,400  |
|       | <i>Being correction of wages not posted</i>          |        |        |
| (ii)  | Sales  | 3,600  |        |
|       | Suspense   |        | 3,600  |
|       | <i>Being correction of sales overcast</i>            |        |        |
| (iii) | Mallam   | 8,400  |        |
|       | Nullam   |        | 8,400  |
|       | <i>Being correction of error of commission</i>       |        |        |
| (iv)  | Machines Repairs                                     | 600    |        |
|       | Machinery account                                    |        | 600    |
|       | <i>Being correction of error of principles</i>       |        |        |
| (v)   | Suspense   | 4,400  |        |
|       | Purchases  |        | 4,400  |
|       | <i>Being correction of purchases overcasted</i>      |        |        |
| (vi)  | Postages   | 63,000 |        |
|       | Suspense   |        | 63,000 |
|       | <i>Being correction of complete reversal entries</i> |        |        |
| (vii) | Suspense   | 630    |        |
|       | Trade debtors  |        | 630    |
|       | <i>Being correction of a transposition error.</i>    |        |        |

(c) Suspense Account

|                | ₦             |          | ₦             |
|----------------|---------------|----------|---------------|
| Difference b/f | 62,970        | Wages    | 1,400         |
| Purchase       | 4,400         | Sales    | 3,600         |
| Debtors        | <u>630</u>    | Postages | <u>63,000</u> |
|                | <u>68,000</u> |          | <u>68,000</u> |



## EXAMINER'S REPORT

The question tests candidates' understanding of the usage of journal entries for the correction of errors in the suspense account. The performance was poor as less than 50% of about 80% of the candidates that attempted the question scored below 50% of the allocated marks.

Candidates commonest pitfall was their inability to adequately identify the type of error that needs to be corrected resulting in wrong journal entry been raised.

Candidates are advised to devote more time to their study when preparing for the Institute future examination.

5. Kalokalo Nig. Plc's Statement of Profit or Loss for the year ended 31 December, 2016 and Statement of Financial Position as at 31 December, 2015 and 31 December, 2016 were as follows:

### KALOKALO NIG. PLC STATEMENT OF PROFIT OR LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER, 2016

|  | ₦'000      | ₦'000           |
|--|------------|-----------------|
| Revenue                                |            | 36,000          |
| Raw Material Consumed                  | 3,500      |                 |
| Personnel Cost                         | 4,700      |                 |
| Depreciation                           | 5,900      |                 |
| Loss on Disposal of Non-Current Assets | <u>900</u> | <u>(15,000)</u> |
|  |            | 21,000          |
| Interest Payable                       |            | <u>(1,400)</u>  |
| Profit before Taxation                 |            | 19,600          |
| Taxation                               |            | <u>(6,200)</u>  |
| Profit for the year after Taxation     |            | <u>13,400</u>   |

### KALOKALO NIG. PLC STATEMENT OF FINANCIAL POSITION

|                                   | 2016            |               | 2015            |               |
|-----------------------------------|-----------------|---------------|-----------------|---------------|
| ASSETS                            | ₦'000           | ₦'000         | ₦'000           | ₦'000         |
| Property Plant & Equipment (Cost) | 79,800          |               | 78,000          |               |
| - Depreciation                    | <u>(15,900)</u> |               | <u>(11,200)</u> |               |
|                                   |                 | 63,900        |                 | 66,800        |
| <b>CURRENT ASSETS</b>             |                 |               |                 |               |
| Inventory                         | 1,200           |               | 1,000           |               |
| Trade Receivables                 | 3,800           |               | 2,900           |               |
| Bank                              | <u>2,400</u>    |               | <u>2,800</u>    |               |
|                                   |                 | <u>7,400</u>  |                 | <u>6,700</u>  |
| Total Assets                      |                 | <u>71,300</u> |                 | <u>73,500</u> |
| <b>EQUITY &amp; LIABILITIES</b>   |                 |               |                 |               |
| Share Capital                     | 18,000          |               | 17,000          |               |
| Share Premium                     | 1,800           |               | 1,200           |               |
| Retained Earnings                 | <u>35,800</u>   |               | <u>25,700</u>   |               |
|                                   |                 | 55,600        |                 | 43,900        |

**NON-CURRENT LIABILITIES**

|            |        |        |
|------------|--------|--------|
| Loan Notes | 10,000 | 25,000 |
|------------|--------|--------|

**CURRENT LIABILITIES**

|                |               |               |
|----------------|---------------|---------------|
| Trade Payables | 600           | 300           |
| Taxation       | <u>5,100</u>  | <u>4,300</u>  |
|                | <u>5,700</u>  | <u>4,600</u>  |
|                | <u>71,300</u> | <u>73,500</u> |

\* During the year the company Kalokalo Nig. Plc paid ₦4,500,000 to acquire a new machine.

\* Dividends paid during year 2016 totalled ₦3,300,000 and interest paid was ₦1,400,000.

**Required:**

Prepare Statement of Cashflow for the year ended 31 December, 2016 in accordance with the requirement of IAS 7, using indirect method. (20 Marks)

**SOLUTION TO QUESTION 5**

(a) **KALOKALO NIG. PLC**  
**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER**  
**2016**

|  | ₦'000        | ₦'000           |
|--|--------------|-----------------|
| Net Profit Before Taxation                               | 19,600       |                 |
| <u>Adjustments</u>                                       |              |                 |
| Add: Depreciation  | 5,900        |                 |
| Loss on sale of Non-Current Assets                       | 900          |                 |
| Interest Expense   | 1,400        |                 |
| <u>Movement in Working Capital:</u>                      |              |                 |
| Increase in Inventories                                  | (200)        |                 |
| Increase in Receivables                                  | (900)        |                 |
| Increase in Payables                                     | <u>300</u>   |                 |
|  | 27,000       |                 |
| Interest Paid  | (1,400)      |                 |
| Dividend Paid  | (3,300)      |                 |
| Tax paid (4,300 + 6,200 – 5,100)                         | (5,400)      |                 |
| Net Cash Flows from Operating Activities                 |              | 16,900          |
| <u>Cash Flows From Investing Activities:</u>             |              |                 |
| Receipt from Sale of an Non-Current Assets (WI)          | 600          |                 |
| Payment to acquire PPE                                   | (4,500)      |                 |
| Net Cash Flow from Investing Activities                  |              | (3,900)         |
| <u>Cash Flow from Financing Activities</u>               |              |                 |
| Loan Notes (10,000 – 25,000)                             | (15,000)     |                 |
| Issue of Share Capital (18,000 – 17,000 + 1,800 – 1,200) | <u>1,600</u> |                 |
| Net Cash Flow from Financing Activities                  |              | <u>(13,400)</u> |
| Decrease in Cash and Cash Equivalent in the year         |              | (400)           |
| Cash and Cash Equivalent as at 31/12/2015                |              | <u>2,800</u>    |
| Cash and Cash Equivalent as at 31/12/2016                |              | <u>2,400</u>    |

Workings:

Property, Plant and Equipment

|           | ₦'000         |            | ₦'000         |
|-----------|---------------|------------|---------------|
| 1/1/2018  | 78,000        | 31/12/2016 | 79,800        |
| Additions | <u>4,500</u>  | Disposal   | <u>2,700</u>  |
|           | <u>82,500</u> |            | <u>82,500</u> |

Accumulated Depreciation

|                       | ₦'000         |                      | ₦'000         |
|-----------------------|---------------|----------------------|---------------|
| 31/12/2018            | 15,900        | 1/1/2016 b/d         | 11,200        |
| Depreciation Disposal | <u>1,200</u>  | Charged for the year | <u>5,900</u>  |
|                       | <u>17,100</u> |                      | <u>17,100</u> |

|   | ₦'000      |
|---|------------|
| Carrying value of assets disposed [2,700 – 1,200] | 1,500      |
| Not loss reported                                 | <u>900</u> |
| Proceed from disposal                             | <u>600</u> |

### EXAMINER'S REPORT

The question tests the candidates' knowledge of preparation of statements of cashflows in accordance with IAS 7 using indirect method. About 30% of the candidates attempted the question and performance was very poor as more than 90% of those that attempted the question scored below 50%.

The commonest pitfalls was that most of candidates that attempted the question do not understand what the statements of cashflow is all about as required by IAS 7 using indirect method. Candidates are advised to pay more attention to this aspect of the syllabus by making use of good textbooks that treat the topic in conjunction with the Institute's Pathfinder.



**CHARTERED INSTITUTE OF TAXATION OF NIGERIA**  
**APRIL 2018: PROFESSIONAL EXAMINATION**  
**FOUNDATION: ECONOMICS**

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

1. (a) The table below shows a hypothetical data on the balance of payments of a given country in a certain year.

| Items                | Exports<br>(₦' m) | Imports<br>(₦' m) |
|----------------------|-------------------|-------------------|
| Unrequired transfer  | 1,500             | 1,000             |
| Direct Investment    | 1,750             | 2,000             |
| Insurance            | 500               | 1,000             |
| Merchandise          | 1,500             | 2,500             |
| Portfolio Investment | 1,000             | 1,750             |
| Banking              | 1,250             | 1,300             |
| Shipping             | 750               | 1,200             |

**Required:**

Calculate and interpret:

- (i) The Balance of Trade (2 Marks)
  - (ii) The Balance on Current Accounts (2 Marks)
  - (iii) The Balance on Capital Accounts (2 Marks)
  - (iv) The Overall Balance of Payments (2 Marks)
- (b) Explain the relationship between interest rate, inflation rate and foreign exchange rate. (7 Marks)
- (c) Explain Five (5) factors that can affect the level of National Income in Nigeria. (5 Marks)  
 (Total 20 Marks)

**SOLUTION TO QUESTION 1**

- (a) **BALANCE OF TRADE (BOT) = Visible Export Value less Visible Import Value**

(i) i.e. 
$$\begin{aligned} \text{BOT} &= \text{Merchandise Exports} - \text{Merchandise Import} \\ &= (\text{₦ } 1,500 - \text{₦ } 2,500) \text{ million} \\ &= \text{₦ } 1,000 \text{ million (unfavorable BOT)} \end{aligned}$$

This means that the merchandise imports is more than the merchandise exports which gives an unfavorable balance of trade i.e. trade deficits.

- (ii) **BALANCE OF CURRENT ACCOUNTS**

$$\begin{aligned} &= \text{BOT} + \text{Other Export Service} - \text{Other Imports Service} \\ &= \text{₦}(-1,000) + (500 + 750 + 1,250 + 1,500) - (1,000 + 1,200 + 1,300 + 1,000) \text{ million} \\ &= (-1000) + (4,000 - 4,500) \text{ million} \\ &= -1,000 + 4,000 - 4,500 \\ &= \text{₦ } 1,500 \text{ million deficit i.e. there is an unfavorable balance.} \end{aligned}$$

$$\begin{aligned}
\text{(iii) The Balance on Capital Accounts} &= \text{Capital Export} - \text{Capital Import} \\
&= [(1,750 + 1,000) - (2,000 + 1,750)] \text{ million} \\
&= (2,750 - 3,750) \text{ million} \\
&= \text{₦1,000 million deficits}
\end{aligned}$$

There is an unfavorable balance in capital accounts because it has a deficit balance.

$$\begin{aligned}
\text{(iv) The Overall Balance of Payments} &= \text{Balance on Current Accounts} + \text{Balance on Capital Account} \\
&= (1,500) + (1,000) \text{ million} \\
&= \text{₦2,500 million deficits}
\end{aligned}$$

The overall balance of payments has an unfavorable balance i.e. a deficit balance.

- (b) The relationship between interest rate, inflation rate and foreign exchange rate. Interest rate is the rate at which interest is paid by borrowers (debtors) for the use of money that they borrow from lenders (creditors). Specifically, the interest rate is a percentage of principal paid on a certain number of times per period for all periods during the total term of the loan or credit.

Inflation rate is the rate at which prices increase overtime resulting in a fall in the purchasing value of money. This is also the percentage change of price index overtime. It is the annual percentage change in the price level.

Foreign exchange rate is the price of the domestic currency stated in terms of another currency. A foreign exchange rate compares one currency with another to show their relative values.

The interaction of these rates is an ongoing study for the monetary authorities. It is however, considered that those periods of increases in interest rates are an attraction of foreign investment into the domestic economy and pressure on demand for the local currency, in this case the Naira. Higher interest rates will cause increase in inflation rates and a negative influence on the country's currency.

On the other hand, lower interest rates will spur demand for goods which will lead to economic growth with a generally positive influence on the value of a country's currency but this will discourage foreign investment.

- (c)
- (i) **Available of natural resources:** A country i.e. Nigeria with abundance of natural resources will experience increase in national income than a country with little or no natural resources.
  - (ii) **Industrial Development:** Industrialization also influences national income. The presence of industries or increased industrial activities can contribute positively to national income.
  - (iii) **Working Population:** A country with high working population is likely to increase her national income than a country with a low population.
  - (iv) **Nature of Factors of Production:** The availability of the factors of production such as capital, labour, land and entrepreneur will enhance the national income of a country.
  - (v) **Political Situation:** Political stability in any country can contribute positively to national income while political instability reduces it.
  - (vi) **Availability of Capital:** If capital is available, national income will rise and vice – versa

- (vii) **Gain from International Trade:** International trade is an engine of growth in developing economies. The higher the level of gain in international trade the higher the level of national income and vice – versa.
- (viii) **Level of Technology:** The higher the level of technology, the higher the national income, because technology enhances innovation and improves method of production.

**EXAMINER’S REPORT**

The question tests candidates understanding of balance of payment, inflation rate, interest rate and national income.

Candidates demonstrated poor understanding of the question and performance was very poor as almost all the candidates scored less than 50% of the allocated marks.

The candidates’ commonest pitfall is lack of adequate knowledge of the topic.

Candidates are advised to cover all the topics in the syllabus when preparing for future examination.

2. (a) Given the hypothetical utility schedule below, illustrate graphically and explain the concepts of Marginal Utility and Total Utility.

| Quantity | Total Utility | Marginal Utility |
|----------|---------------|------------------|
| 1        | 60            | -                |
| 2        | 82            | 22               |
| 3        | 100           | 18               |
| 4        | 116           | 16               |
| 5        | 126           | 10               |
| 6        | 134           | 8                |
| 7        | 140           | 6                |
| 8        | 140           | 0                |
| 9        | 132           | -8               |
| 10       | 126           | -6               |

(7½ Marks)

- (b) List Five (5) importance of Economics as a subject. (5 Marks)

- (c) Given the demand cost function of a Monopoly as:  
 $P = 400 - 4q$

$$C = 100 + 20q$$

Compute the maximum profit.

(7½ Marks)  
 (Total 20 Marks)

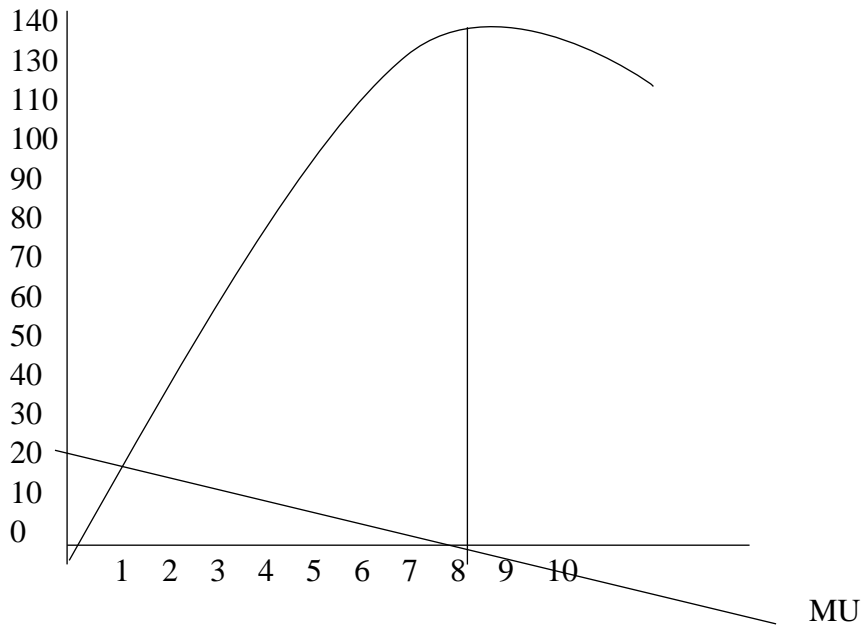
**SOLUTION TO QUESTION 2**

- (a) Total Utility: Total utility refers to the sum of all the various units of all utilities derived by a consumer from the various units of goods and services the consumer consumes.

$$TU_x = X_1 + X_2 + X_3 + \dots + X_n$$

Marginal Utility: This is defined as the change in total utility as a result of a unit change in the consumption per unit of goods and services time.

$$MU = \frac{\Delta TU}{\Delta Q}$$



The total utility increased at every successive intake of the good being consumed but at a decreasing rate while the marginal utility has a downward slope.

(b) Importance of Economics as a Subject

- (i) The study of Economics helps the government to evolve better macroeconomics policies to enhance economic growth and development.
- (ii) It helps policy makers to plan for economic growth and development.
- (iii) The knowledge of economics helps firms to understand market situation.
- (iv) It helps in the knowledge of how to prepare the annual budget.
- (v) It helps an individual to be able to adjust to different economic or market situations in an attempt to maximize satisfaction.
- (vi) The knowledge of economics helps firms to know how to maximize profits in the production of goods and services.
- (vii) It prepares an individual with the mind of contributing his own quota to the growth and development of the country.

(c) The monopolist will maximize profit when

$$\begin{aligned} \pi &= TR - TC \\ TR &= Pq = (400 - 4q) q \\ &= 400q - 4q^2 \\ MR &= \frac{\delta TR}{\delta q} = 400 - 8q \end{aligned}$$

$$MC = \frac{\delta TC}{\delta q} = 20$$

Profit is maximized at  $MR = MC$

$$400 - 8q = 20$$

$$\begin{aligned}
- 8q &= -400 + 20 \\
- 8q &= -380 \\
q &= \frac{380}{8} \\
q &= 47.5
\end{aligned}$$

Price is (P):

$$\begin{aligned}
\text{When } q &= 47.5 \\
P &= 400 - 4q \\
&= 400 - 4(47.5) \\
&= 400 - 190 \\
P &= 210
\end{aligned}$$

$$\begin{aligned}
\text{The Profit} &= \text{TR} - \text{TC} \\
\pi &= (400q - 4q^2) - (100 + 20q) \\
\pi &= (400(47.5) - 4(47.5)^2) - (100 + 20(47.5)) \\
\pi &= (19,000 - 9,025) - (100 + 950) \\
\pi &= 9,975 - 1050 \\
\pi &= 8,925 \\
&= \text{N}8,925
\end{aligned}$$

Second order condition

$$\frac{\delta \text{TC}}{\delta q} = 0 \text{ while } \frac{\delta^2 \text{TC}}{\delta q^2} = 0$$

$$\frac{\delta \text{TR}}{\delta q} = 400 - 8q \text{ and } \frac{\delta^2 \text{TR}}{\delta q^2} = -8$$

Thus  $\delta^2 \text{TR} = -8, < \delta^2 \text{TC} = 0$

The profit ~~N~~8,925 is the maximum profit both the first and second order conditions are met.

### EXAMINER'S REPORT

The question tests candidates' knowledge of utility, importance of economics and the monopoly's cost function.

Candidates demonstrated lack of understanding of the question and performance was very poor as all the candidates scored about 10% of the allocated marks.

The commonest pitfall of the candidates was lack of understanding of the topics tested by the question.

Candidates are advised to cover all areas of the syllabus when preparing for future examination.



3. (a) Highlight Five (5) factors that bring about changes in the circular flow of income. (5 Marks)
- (b) (i) What is economic integration? (2½ Marks)
- (ii) Mention and briefly explain Three (3) types of regional economic integration. (7½ Marks)
- (c) State Five (5) characteristics each of public and private limited liability companies. (5 Marks)
- (Total 20 Marks)

### SOLUTION TO QUESTION 3

- (a) **FACTORS THAT BRING ABOUT CHANGE IN THE CIRCULAR FLOW OF INCOME**
- i. **Savings:** This constitutes part of income which is not consumed immediately. They have the tendency to reduce the expenditure of the households and firms. Saving is the disposable income not consume.
  - ii. **Injection:** This is an injection of fund into the circle which causes an increase in the incomes of households and firms besides their normal processes of selling productive resources and manufactured goods.
  - iii. **Taxes:** This is a reduction in the volume of money in circulation as it reduces the expenditure of firms and human households.
  - iv. **Import and Exports:** Import refers to expenditure in foreign made goods and services leading to withdrawals from the circular flow of income while exports refers to income from home made goods and services leading to injection into the circular flow of income.
  - v. **Aids and Grants:** This refers to privilege from government or other sources which increase the volume of fund in the circular flow of income.
  - vi. **Investments:** This reduces and creates additional income either immediately or in future.
  - vii. **Withdrawal:** This is part or all the income that is not allowed to pass through the normal channel of circular flow of income.
- (b) (i) **Economic Integration**  
This may be defined as a form of international co-operation among nations to foster their economic interests.
- (ii) **Types of Regional Economic Integration**
- (i) Free Trade Area
  - (ii) Common Market
  - (iii) Economic Union
  - (iv) Custom Union
- **Free Trade Area:** This is the type of integration in which member countries agree to remove all restrictions to trade, tariffs, quotas, etc are not imposed on goods coming from or going to member nations. There is always a common internal tariff policy among member nations.
  - **Common Market:** Also known as economic community. This is a form of co-operation in which there is a common internal and external tariff policy. There is free mobility of labour and capital between member states i.e. there is free movement of goods, services, capital and labour. A common market

harmonizes taxation, social and economic policies. A good example of common market is European Economic Community (EEC).

- **Economic Union:** This is a type of integration which takes the form of total integration of the member countries. It is aimed at harmonizing social, economic, industrial, commercial and technological policies of member nations. Furthermore, it involves the unification of member nations' monetary and fiscal policies. A good example of Economic Union is Economic Community of West Africa States (ECOWAS).
- **Custom Union:** Involves abolition of all forms of internal trade barriers among member nations and adoption of common external tariffs.

(c) **Characteristics of private limited company**

- (i) The minimum number of shareholders in a private limited company is two and the maximum number is fifty.
- (ii) Shareholders contribute their funds for the business as shares.
- (iii) The shareholders enjoy profits earned by the company.
- (iv) It has a large number of shareholders when compared with partnership and sole proprietorship.
- (v) A company does not sell shares to the public to raise capital.

**Characteristics of public limited company**

- (i) A public limited company must follow some special formalities before registration. They secure incorporation by filing the article of association and memorandum of association with the Registrar of Companies.
- (ii) The shareholders are regarded as owners of the company while the management is in the hand of the board and management i.e. ownership is separated from the management.
- (iii) A public limited company is authorised by law to carry on business specified in the object clause of its memorandum of association.
- (iv) The death or withdrawal of some shareholders will not affect the existence of the company. It enjoys perpetual existence.
- (v) The minimum number of shareholders in a public limited company is seven and it has no maximum members.

**EXAMINER'S REPORT**

The question tests candidates' understanding of circular flow of income, economic integration and characteristics of public and private limited liability companies. Performance was below average as candidates only demonstrated fair understanding of the question and score below average of the marks allocated. The candidates' commonest pitfall was lack of understanding of part (a) of the question.

Candidates are advised to cover all areas of the syllabus when preparing for future examination.

4. (a) Write short notes to differentiate the following:
    - (i) Cardinal Utility and Ordinal Utility. (4 Marks)
    - (ii) Incremental Budgeting and Zero-based budgeting. (4 Marks)
    - (iii) Implicit Cost and Explicit Cost. (4 Marks)
  - (b) Explain Five (5) characteristics of Oligopoly. (5 Marks)
  - (c) Mention Three (3) advantages of Indirect Taxes. (3 Marks)
- (Total 20 Marks)

## SOLUTION TO QUESTION 4

- (a) (i) Cardinal utility is the utility wherein the satisfaction derived by the consumers from the consumption of good or service can be expressed numerically. It is believed that utility can be measured in monetary unit. The measurement of utility is subjective units called utils.

Ordinal utility states that the satisfaction which a consumer derives from the consumption of good or service cannot be expressed in numerical units. It is believed that consumers could only rank i.e. indicate whether utility is less or more than. The basic tool used in this theory is through indifference curve analysis.

- (ii) Zero – based budgeting is a method where current year’s budget is prepared from the scratch i.e. taking the base as zero. The old and new activities of the business are ranked according to their importance and based on that, resources are allocated to each activity without considering the previous budgets or achievements.

Incremental budgeting is a budgeting method where current year’s budget is prepared by making changes in the previous year’s budget. The changes are in the form of addition or reduction of expenses to previous year’s budget.

- (iii) Explicit Costs  
The costs which involve outflow of cash due to the use of factors of production are known as explicit costs. It is also called out – of – pocket costs. Examples are wages and salaries, rent, advertisement, etc.

### Implicit Costs

These are costs which do not involve cash outlay. They are also known as imputed costs. Examples are interest on owner’s capital, salary of the owners but which he does not receive, estimated rent of the building that belongs to the entrepreneur etc.

- (b) Five characteristics of oligopoly
- (i) Few sellers (firms), many buyers. The market is regarded as one of the competitions among few firms.
  - (ii) Barrier to entry is common in oligopolistic industry. Because of this, there are few firms that are capable to withstand the huge capital for investment.
  - (iii) Mutual Interdependence: There is mutual interdependence because any change in the price or output of one firm has a significant influence on the sales and profits of other firms in the industry.
  - (iv) Sizable proportion of the industry’s output may be produced by a few large firms.
  - (v) Firms may produce either homogenous or differentiated goods. This will encourage competition on price, production and quantity.
  - (vi) The presence of price and (non – price) competition or collusion.
  - (vii) Intensive advertisement and sale promotion.
- (c) Five merit of indirect taxes
- (i) Sources of government revenue.
  - (ii) Protection of infant industries.
  - (iii) Used to correct balance of payment deficit.

- (iv) Used to check importation of harmful commodities.
- (vi) Easy and cheap to collect.
- (vi) Used for the prevention of dumping.
- (vii) Not easy to evade.
- (viii) Bridge the gap between the rich and the poor
- (ix) Tax payers do not feel the burden and it is hidden from view

### EXAMINER'S REPORT

The question tests candidates' understanding of some economic concepts, oligopoly and advantages of indirect taxes.

Candidates' performance was fair as about 45% of the candidates scored 50% of the allocated marks. The candidates' commonest pitfall was their inadequate understanding of the economic concepts tested.

Candidates are advised to familiarize themselves with all the economic concepts in the syllabus when preparing for future examination.

5. (a) Explain Five (5) advantages of Monopoly. (5 Marks)

(b) Given the short run total cost function as:

$$TC = 100 + 50Q - 12Q^2 + Q^3$$

Where TC is Total Cost and Q is the firm's level of output. If the firm produces 10 units; calculate:

- (i) Total Fixed Cost (1 Mark)
- (ii) Average Total Cost (3 Marks)
- (iii) Average Variable Cost (3 Marks)
- (iv) Marginal Cost (3 Marks)

(c) With graphical illustration, show the effects of an increase and decrease in demand with constant supply of normal economic good. (5 Marks)

(Total 20 Marks)

### SOLUTION TO QUESTION 5

(a) Advantages of Monopoly

- (i) Standardization: Standardization, which is the basis of cheaper production, is better practiced under monopoly.
- (ii) Economies of large scale production: Economies of large scale production is possible under monopoly since it has no competitors.
- (iii) It leads to invention: Monopolists, in an attempt to have full control of the market, do engage in intensive research, leading to inventions.
- (iv) Better use of resources: Resources available to a monopolist are better utilized to maximize production.
- (v) Avoidance of duplication: There is avoidance of duplication and waste often associated with perfect market/competition, especially in the supply of social services.
- (vi) Greater opportunity to expand operations: A greater opportunity to expand operations because the uncertainty usually associated with a state of free competition has been eliminated.

- (vii) Centralized management: There is effective and proper central management under monopoly.
- (b) (i) Total Fixed Cost: From the total cost function, it is evident that when the level of output is zero, then the firm's cost will be 100; thus  $TFC = 100$ .

(ii) Average Total Cost  
 Given total output (Q) equal to 10  
 Total Cost (TC) =  
 $TC = 100 + 50(10) - 12(10)^2 + (10)^3$   
 $= 100 + 500 - 1200 + 1000$   
 $= 400$

Therefore, Average total cost (ATC) =  
 $ATC = \frac{TC}{Q}$   
 $ATC = \frac{100}{10} + 50 - 12Q + Q^2$   
 $= \frac{100}{10} + 50 - 12(10) + (10)^2$   
 $= 10 + 50 - 120 + 100$   
 $= 40$

or simply:  $\frac{TC}{Q} = \frac{400}{10} = 40$

- (iii) Average Variable Cost  
 If we divide the TVC function by output (Q), we get AVC function:

$$AVC = \frac{50Q - 12Q^2 + Q^3}{Q}$$

$$AVC = 50 - 12Q + Q^2$$

$$= 50 - 12(10) + (10)^2$$

$$= 50 - 120 + 100$$

$$= 30$$

- (iv) Marginal Cost  
 Marginal cost is the first derivative of total variable cost function

$$MC = \frac{\delta TVC}{\delta Q}$$

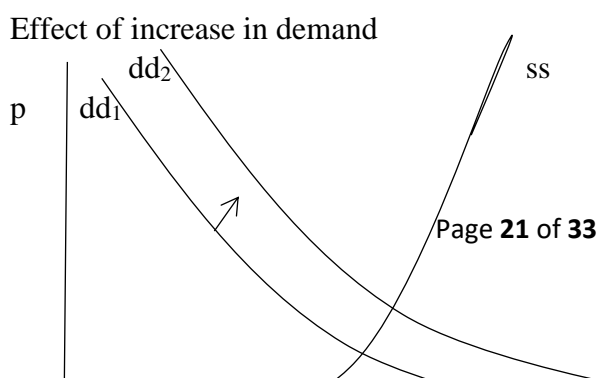
$$= 50 - 24Q + 3Q^2$$

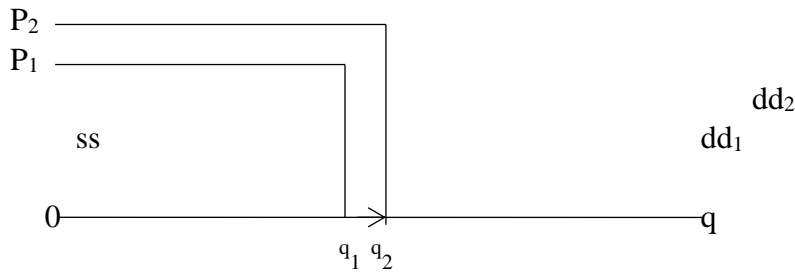
$$= 50 - 24(10) + 3(10)^2$$

$$= 50 - 240 + 300$$

$$= 110$$

- (c) Effects of an increase and decrease in demand with constant supply of normal economic good.

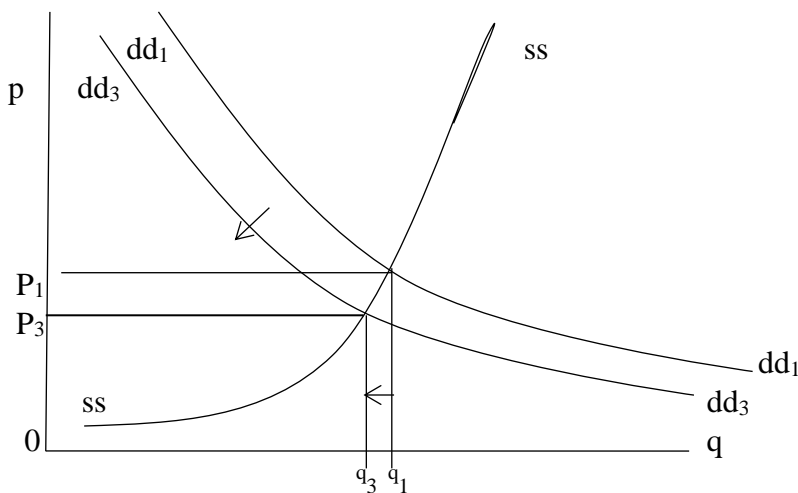




An increase in demand with constant supply:

- Increase in price of the commodity from  $P_1$  to  $P_2$
- New or higher equilibrium level
- Increase in quantity demanded from  $q_1$  to  $q_2$

Effect of decrease in demand with constant supply:



- Decrease in the price of the commodity from  $P_1$  to  $P_3$
- A reduced new equilibrium level is attained
- Reduction in quantity demanded from  $q_1$  to  $q_3$

### EXAMINER'S REPORT

The question tests candidates' understanding of monopoly, short run total costs and effects of increase and decreased in demand.

Performance was very poor as candidates' demonstrated lack of understanding of short run total cost function and how to graphically illustrate the effect of increase and decrease in demand.

The commonest pitfall of the candidates was inadequate understanding of short run total cost function and graphical illustration of increase and decrease in demand.

Candidates are advised to study all areas of the syllabus when preparing for future examination.



**CHARTERED INSTITUTE OF TAXATION OF NIGERIA**  
**APRIL 2018: PROFESSIONAL EXAMINATION**  
**FOUNDATION: GENERAL PRINCIPLES OF LAW**

**ATTEMPT ALL QUESTIONS.**

**TIME: 3 HOURS.**

1. (a) State Five (5) acts that are within the usual authority of a partner. (10 Marks)
- (b) State and explain Five (5) kinds of agents. (10 Marks)
- (Total 20 Marks)

**SOLUTION TO QUESTION 1**

- (a) (i) Buying goods on account of the firm;  
(ii) Contracting debts and paying debts on the firm's accounts;  
(iii) Pledging and selling the partnership goods;  
(iv) Drawing, making, signing, endorsing, accepting, transferring, negotiating and procuring the discounts of negotiable instruments;  
(v) Engaging servants for the firm's business;  
(vi) Receiving and giving good receipts for debts;  
(vii) Borrowing money for the firms business.
- (b) (i) **Special Agents:** They are agents appointed only for a specific purpose to which their authority is restricted.
- (ii) **General Agents:** They are authorized or have authority, arising out of the ordinary course of business, trade or profession, to act on behalf of the principal generally in transactions of a particular kind.
- (iii) **Mercantile Agents:** They have authority to sell (in the customary course of their business) goods or to consign goods for the purpose of sale, or to buy goods or to raise money on security of the goods belonging to the principal.
- (iv) **Factors:** They are agents entrusted with the possession of goods for the purpose of sale. Possession of goods is the distinctive character of a Factor. A Factor has authority to sell goods in his own name and receive the purchase price unless otherwise instructed. A Factor may not pledge the goods since they are entrusted to him for the purpose of sale, but he has a general lien on the goods and their purchase price for the amount due to him as remuneration from the principal.
- (v) **Brokers:** They are commercial agents employed to make contracts between the principal and third parties for a commission called brokerage. They are not generally liable to their principals for failure of the buyer to pay the purchase price. They do not have possession of the goods and in this they differ from factors. A broker has no lien on the goods and cannot sign the contract in his own name.
- (vi) **Universal Agents:** They have unrestricted authority. They are usually appointed under an unlimited Power of Attorney and the principal is bound by all acts done on his behalf by the universal agent.

(vii) **An auctioneer:** They are agents appointed to sell goods or property by means of public auctions. An auctioneer is the agent of the person appointing him and also, by implication, the agent of the purchaser. He has no implied authority to sell on credit. He does not warrant the goods he sells but warrants his authority to sell them.

An auctioneer has no authority to sell below the advertised reserve price, and the principal will not be bound where he sells as such. The purchaser may, however, sue the auctioneer for breach of an implied warranty of authority.

(viii) **Del Credere Agents:** They are agents, who, in return for an extra or higher rate of commission called “del-credere commission” promise that they will indemnify the principal in the event of the third parties, with whom they contract, failing to pay what is due under the contract.

2. (a) State and explain Four (4) remedies for breach of contract. (10 Marks)
- (b) The option to purchase clause is the major distinguishing feature of a hire purchase agreement. Explain. (5 Marks)
- (c) List Five (5) reasons for which an employee may be dismissed. (5 Marks)
- (Total 20 Marks)

## SOLUTION TO QUESTION 2

- (a) (i) **Damages:** An injured party is entitled to commence an action to recover damages. The Court will grant the claim where the injured party successfully establishes the alleged breach of contract. The object of the award of damages is to put the injured party, so far as money can do it in the same position as he would be, had the contract been performed.
- (ii) **Specific Performance:** This is an order compelling the defaulting party to perform his obligations according to the terms of the contract. It is an equitable remedy granted only where monetary compensation would not be adequate. It will also not be granted in contracts of personal service or in situations where an innocent third party has acquired an interest in the subject matter of the contract. The order is, therefore, not granted as of right.
- (iii) **Rescission:** Where there is a breach of a condition and not a breach of warranty of a contract, the injured party may rescind the contract and refuse further performance. He, however, may be obliged to return any benefits he has received under the Contract.
- (iv) **Quantum Meruit:** The injured party may treat the contract as discharged where there is a breach of same. He is entitled to bring an action for compensation for expenses incurred or work done towards the performance of the contract.
- (v) **Injunction:** This is an equitable remedy available to an injured party in a breach of contract. It is an order of court restraining the person to whom it is directed from doing the things specified therein or requiring him to perform certain things specified in the order.



- (b) A hire purchase agreement must contain the option to purchase clause. This means that although the hirer takes delivery of the subject matter of the hire purchase and makes payment in installments, property in the subject matter does not pass to him until he exercises the right of option to purchase. If, without having exercised the option to purchase, he sells the subject matter of the hire purchase agreement to a third party, the latter acquires no property and the owner can trace it to the third party and recover same. This is unlike what obtains in other forms of credit sale where property passes to the buyer even though he is yet to pay the full price and he can validly transfer property to a third party.
- (c) An employee may be dismissed for the following reasons:
- (i) An act or conduct likely to bring the employer into disrepute.
  - (ii) An act exposing the employer to loss of public confidence.
  - (iii) Gross immorality.
  - (iv) Abandonment of duties.
  - (iv) Gross misconduct.
  - (v) Disobedience of lawful orders.
3. (a) State Five (5) consequences of being an undischarged bankrupt. (10 Marks)
- (b) List Five (5) persons who are entitled to notice of a general meeting of a company. (5 Marks)
- (c) Explain the term 'Sale by Description'. (5 Marks)
- (Total 20 Marks)

### SOLUTION TO QUESTION 3

- (a) An undischarged bankrupt is not qualified to:
- (i) contest or be elected to the office of President, Vice President, Governor or Deputy Governor or a member of any of the Legislative houses.
  - (ii) be appointed a Justice of the Peace.
  - (iii) vote in the legislative house or councils of the federal, state or local government.
  - (iv) be admitted to practice any profession for the time being regulated by law on his own or in partnership or in any form of association (other than as employee) with any person.
  - (v) be appointed or act as a trustee of a trust estate.
  - (vi) join in the formation of a company.
- (b) According to Section 219 of the Companies and Allied Matter Act 1990 (As amended), the following persons are entitled to receive notice of a general meeting of a company:
- (i) Every member
  - (ii) A legal representative, receiver or trustee in bankruptcy of a member
  - (iii) The auditors for the time being of the company
  - (iv) Every director of the company
  - (iv) The secretary of the company
  - (v) Proxies appointed by members
- (c) Sale by Description: Where the buyer contracts relying on a description, express or implied, it is said to be a sale by description. This applies usually to cases where the buyer has not seen the goods and relies solely on the description given by the seller. It also applies to future or unascertained goods, since in both cases the buyer would not have seen the goods at the time of the contract. Even where the buyer has seen the goods

but can prove that he still relied on the description as given by the seller, the condition will still apply. Section 13 of the Sale of Goods Act 1893 provides that where there is a contract for the sale of goods by description, there is an implied condition that the goods shall correspond with the description.

In essence, any statement with reference to goods which constitute an identity of the thing sold is a sale by description. Thus, it includes *inter alia*, quantity, size, mode of packing etc.

4. (a) State Six (6) types of banking business as defined by Section 43 of the Banking Act. (6 Marks)
- (b) State Four (4) duties of a customer to his bank. (4 Marks)
- (c) When is a cheque said to be crossed? State Four (4) advantages of crossing a cheque? (10 Marks)
- (Total 20 Marks)

#### SOLUTION TO QUESTION 4

- (a) Banking business include the following:
- (i) Receiving moneys from outside sources as deposits,
  - (ii) Granting of money loans,
  - (iii) Acceptance of credits,
  - (iv) Purchase of bills and cheques,
  - (iv) Purchase and sale of securities for account of others,
  - (v) Acquiring claims in respect of loans prior to assumption of guarantees and other warranties,
  - (vi) Effecting of transfers and clearing,
  - (vii) Such other transactions as the Minister of Finance may designate as “banking business” on the recommendation of the Central Bank of Nigeria.
- (b) The duties owed by a customer to his bank are:
- (i) draw his cheque with care and diligence so as to protect his account,
  - (ii) give written instructions to his bank withdrawing his money,
  - (iii) notify the bank promptly of any known suspicious dealings with his account, and pay appropriate bank charges,
  - (iv) provide proper information in “know your customers” (KYC) form,
  - (v) inform the bank in case of theft or loss of cheque book.
- (c) A cheque is said to be crossed where two transverse lines are drawn across it with or without the words “& CO”. or other inscriptions.

Crossing a cheque has many advantages, as stated below:

- (i) it makes it difficult for a fraudulent person to obtain proceeds of the cheque.
- (ii) it gives time because of the clearing process to detect any fraud and place a stop order on the cheque.
- (iii) it creates room for specific safeguards and protection especially where the cheque is specifically crossed restricting collection to only one bank.
- (iv) it is easier to trace recipient of proceeds, in case of fraud as the account for which it is collected can always be traced
- (v) The risk consequent upon loss of the cheque or its forgery is minimized.

5. (a) State Five (5) conditions which must be satisfied by a person who applies for citizenship by naturalization in Nigeria. (10 Marks)
- (b) For the purpose of taxation, who is an itinerant worker? State Four (4) categories of persons who are liable to pay tax to the Federal Inland Revenue Service. (10 Marks)
- (Total 20 Marks)

### SOLUTION TO QUESTION 5

- (a) Section 27(2) of the Constitution of the Federal Republic of Nigeria 1999 (As amended) provides that no person shall be qualified to apply for the grant of a certificate of naturalization, unless he satisfies the President that:
- (i) he is a person of full age and capacity;
  - (ii) he is a person of good character ;
  - (iii) he has shown a clear intention of his desire to be domiciled in Nigeria;
  - (iv) he is, in the opinion of the Governor of the state where he is or he proposes to be resident, acceptable to the local community in which he is to live permanently, and has been assimilated into the way of life of Nigerians in that part of the Federation;
  - (v) he is a person who has made or is capable of making useful contribution to the advancement ,progress and well-being of Nigeria;
  - (vi) he has taken the Oath of Allegiance prescribed in the seventh schedule of this constitution, and
  - (vii) he has, immediately preceding the date of his application, either -
    - resided in Nigeria for a continuous period of fifteen years or
    - resided in Nigeria for a continuous period of twelve months, and during the period of twenty years immediately preceding that period of twelve months has resided in Nigeria for periods amounting in the aggregate to not less than fifteen years.
- (b) An itinerant worker is an individual who irrespective of his status works at any time during a year of assessment (other than as a member of the armed forces) for a daily wage or salaries or who customarily earns his livelihood in more than one state in Nigeria for a minimum of twenty days in at least 3 months of every assessment year.

The following categories of persons are liable to pay tax to the Federal Inland Revenue Service:

- (i) persons employed in the Armed Forces other than in a civilian capacity;
- (ii) officers of the Nigerian Foreign Service;
- (iii) every resident of the Federal Capital Territory (FCT), Abuja;
- (iv) a person resident outside Nigeria who derives income or profit from Nigeria;
- (v) persons employed in the Nigeria Police Force other than in a civilian capacity;



**CHARTERED INSTITUTE OF TAXATION OF NIGERIA**  
**APRIL 2018: PROFESSIONAL EXAMINATION**  
**FOUNDATION: PRINCIPLES OF TAXATION**

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

1. The Federal Board of Inland Revenue (FBIR) has an executive arm called the Federal Inland Revenue Service (FIRS).

**Required:**

- (a) State the composition and functions of the FIRS by virtue of Section 8 of the FIRS Establishment Act 2007. (18 Marks)
- (b) List Four (4) taxes that are within the jurisdiction of the FIRS. (2 Marks)  
(Total 20 Marks)

**SOLUTION TO QUESTION 1**

- (a) Composition of the FIRS
- (i) Executive Chairman –who shall be a person within the service, to be appointed by the President.
  - (ii) Six members with relevant qualifications and expertise, to be appointed by the President to represent each of the six geo- political zones.
  - (iii) A representative of the Attorney –General of the Federation.
  - (iv) The Governor of the Central Bank of Nigeria or his representative.
  - (v) A Representative of the Minister of Finance, not below the rank of a Director.
  - (vi) The Chairman of the Revenue Mobilization, Allocation and Fiscal Commission or his representative, who shall be any of the Commissioners representing the 36 States of the Federation.
  - (vii) The Group Managing Director of the Nigeria National Petroleum Corporation (NNPC) or his representative, who shall not be below the rank of a Group Executive Director of the Corporation or its equivalents.
  - (viii) The Comptroller-General of the Nigerian Customs Service or his representative, who shall not be below the rank of a Deputy Comptroller–General.
  - (ix) Registrar-General of the Corporate Affairs Commission or his representative not below the rank of a Director.
  - (x) The Chief Executive Officer of the National Planning Commission or his representative not below the rank of a Director.

**Functions of FIRS**

- (i) Provide the general policy guidelines relating to the functions of the service.
- (ii) Manage and superintend the policies of the service, on matters relating to the administration of the revenue assessment, collection and accounting system under the Act or any enactment or law.
- (iii) Review and approve the strategic plans of the Service.
- (iv) Employ and determine the terms and conditions of service including disciplinary measures of the employees of the Service.
- (v) Stipulate remuneration, allowances, benefits and pensions of staff and employees in consultation with the National Salaries, Income and wages Commission.

- (vi) Do such other things, which in its opinion, are necessary to ensure the efficient performance of the functions of the service under the Act.
- (b) Taxes that are within the jurisdiction of the FIRS
- (i) Companies Income Tax
  - (ii) Withholding Tax on Companies and non-resident individuals
  - (iii) Petroleum Profit Tax
  - (iv) Value Added Tax
  - (iv) Education Tax
  - (v) Capital Gains Tax on companies and non-resident individuals
  - (vi) Stamp Duties on corporate bodies
  - (viii) Personal Income Tax on:
    - Members of the Armed Forces of the Federation
    - Members of the Nigeria Police
    - Staff of the Ministry of External Affairs and non-resident individuals

### EXAMINER'S REPORT

The question tests the function of FIRS and taxes within the jurisdiction of the FIRS.

Candidates' demonstrated excellent knowledge of the question and performance was very good as above 80% of the candidates' scored above 50% of the marks allocated.

2. (a) Name the Tax Authority that was recently admitted into the Joint Tax Board (JTB). (2 Marks)
- (b) Identify the composition of this newly admitted Tax Authority. (8 Marks)
- (c) According to section 3(1) of the Personal Income Tax (Amended) Act 2011, Name Seven (7) items that constitute Employment Income accruing to an Individual. (10 Marks)
- (Total 20 Marks)

### SOLUTION TO QUESTION 2

- (a) Federal Capital Territory (FCT) Internal Revenue Service.
- (b) The composition of Federal Capital Territory Revenue Service.
- (i) The Chairman of the Service, to be appointed by the Minister of the Federal Capital Territory (FCT).
  - (ii) The FCT Director of Treasury who shall be the Deputy Chairman of the board.
  - (iii) A representative not lower than a Director from the following departments of the Federal Capital Territory Administration:
    - The Department of Legal Services
    - The Department of Lands, Planning and Survey.
    - The Department of Area Council
  - (iv) The Abuja Infrastructure and Investment Company
  - (v) Department of Public Enlightenment
  - (vi) Department of Economic Planning, Research and Strategies
  - (vii) Six persons from the six geo-political zones who shall be members of relevant professional body and knowledgeable in tax matters to represent Public Interest and two (2) of whom shall be women.
- (c) Items constituting employment Income

- (i) Salary
- (ii) Wage
- (iii) Fee
- (iv) Allowance
- (v) Compensation for loss of office
- (vi) Bonuses
- (vii) Premiums
- (viii) Benefits in kind
- (ix) Gain or Profit
- (x) Perquisites allowed, given or granted to an employee.

### EXAMINER'S REPORT

The question tests candidates' understanding of FCT's membership of Joint Tax Board and what constitute income under the Personal Income Tax (Amended) Act 2011. Candidates' demonstrated a good knowledge of the question and performance was very good. Over 70% of the candidates' scored above 50% of the marks allocated.

3. (a) When is an individual holding a Nigerian Employment deemed to be a resident under Personal Income Tax Amended Act, 2011? (10 Marks)
- (b) (i) State the rules for the determination of residence of an Individual who has no place of residence but has a Pension as his only source of earned income arising in Nigeria on 1 January of a year of Assessment. (5 Marks)
- (ii) Where is an Individual deemed to be resident if he has one or more sources of unearned income but, has no residence? (5 Marks)
- (Total 20 Marks)

### SOLUTION TO QUESTION 3

- (a) An Individual holding a Nigeria employment is deemed to be resident in the Nigeria territory in which he has a place or principal place of residence on 1<sup>st</sup> January, he is deemed to be resident in the territory where he had a place or principal place of residence, immediately before his leave started. Where an individual enters a Nigerian employment during the year and becomes liable to Nigeria income tax for the first year and becomes liable to Nigerian income tax for the first time, he is deemed to be resident for that year in the territory in which he has a place or principal place of residence on the day on which he takes up the full duties of that employment in Nigeria.
- (b) (i) If the Pension is a Nigerian Pension, only payables by the government of one territory, he is deemed to be resident in that territory. Where the pension is payable by more than one government, or if there are two or more pensions arising in different territories, he is deemed to be resident of the FCT. Where the pension is not a Nigerian pension, he is deemed to be resident in the territory where the principal office of the pension fund or other pension authorizing payment of the pension is situated in Nigeria.
- (ii) If the unearned Income arises in one territory, he is deemed to be resident of that territory but where the income arises from more than one territory, he is deemed to reside in the territory from which any part of the unearned income arises.

## EXAMINER'S REPORT

The question tests residence rule under the Nigerian income tax law.

Performance was poor as over 50% of the candidates' displayed lack of understanding of the question. Therefore more than 50% of the candidates' scored less than 50% of the allocated marks.

The candidates' commonest pitfall was lack of understanding of residency rules as provided in the Personal Income Tax Amendment Act, 2011.

Candidates are advised to study all the provisions of the applicable tax laws when studying for future examination.

4. (a) Identify at least Ten (10) areas of challenges in the administration of taxes and levies in Nigeria. (10 Marks)
- (b) List Five (5) documents to be attached for the consideration of the Tax Appeal Tribunal when filing a tax appeal. (5 Marks)
- (c) When is an assessment considered to be Final and Conclusive in tax administration in Nigeria? (5 Marks)
- (Total 20 Marks)

## SOLUTION TO QUESTION 4

- (a) Problems hindering successful tax administration in Nigeria include:
- (i) Total refusal by the taxpayers to pay the lawfully assessed taxes;
  - (ii) Deliberate reduction or total omission of some income from income tax returns;
  - (iii) Deliberate reduction or total omission of some income brought into the country from income tax returns;
  - (iv) False claim of capital allowance on unqualified capital assets;
  - (v) The unwholesome practice of tax shifting through creating trust or settlement for children and other beneficiaries;
  - (vi) Shifting personal expenditure to registered business name and incorporated organizations;
  - (vii) High tax management and collection cost;
  - (viii) Inadequate and sometimes lack of motivation of tax officials;
  - (ix) Problem of taxpayers enumeration due to incorrect addresses and lack of accurate and dependable street map;
  - (x) High cost of litigation or length of time for court to give judgement on revenue matter in the court of Law;
  - (xi) Low level of technological knowledge on the part of tax officials to assess and compute taxes on the spot basis; and
  - (xii) Inadequate cooperation from the judiciary and revenue tribunals and sometimes unnecessary delay in the handling of revenue cases brought to court for settlement.
- (b) Section 59 of the fifth schedule of the Federal Inland Revenue Service (Establishment Act), 2007 specifically required the understated documents to be presented to the tax appeal tribunal.
- (i) Tax payers personal or tax identification number or file number (TIN).
  - (ii) The date on the Notice of Refusal to Amend (NORA) served on the tax payer by the tax authority.

- (iii) The year(s) to which the assessment relates.
  - (iv) The total assessable and chargeable profit or income.
  - (iv) The total tax charged.
  - (v) The grounds or reasons for the appeal, this may not be materially different from the reasons for tax objection earlier listed in the objection letter to the tax authority.
  - (vi) The address of the taxpayer to which notice, any information or document can be determined by the Secretary to the Tribunal.
- (c) The following are some of the various instances that may lead to the finality and conclusiveness of an assessment.
- (i) Where total assessable and chargeable income or profit and subsequently tax payable total has been determined and agreed to upon a successful objection or appeal and there is no further appeal to a higher body.
  - (ii) When a valid assessment is not objected to within the government stipulated time period.
  - (iii) Where an assessment was agreed upon and the tax payable determined by the Tax Appeal Tribunal to which there is no further appeal against the decision of the tribunal.
  - (iv) Provisional tax is not a final tax where an assessment has been raised and payment made, the assessment paid upon remains final and conclusive.
  - (v) Where an assessment was raised after a Tax Audit and was agreed upon as an additional tax, the assessment is deemed final and conclusive especially where there is discovery and further information on the matter.

### **EXAMINER'S REPORT**

The question tests candidates' understanding of challenges in the administration of taxes and levies in Nigeria, documents required to be filed with the Tax Appeal Tribunal when filing tax appeals and when an assessment is considered final and conclusive.

Candidates demonstrated a fair understanding of the question but performance was average as only about 50% of the candidates scored 50% and above of the allocated marks.

The candidates' commonest pitfall was inability to give enough points on the challenges of tax administration in Nigeria and list all documents that are required to be filed with Tax Appeal Tribunal.

Candidates are advised to prepare adequately for future examination.

5. (a) Explain the position of Taxation as entrenched in the Nigerian Constitution. (10 Marks)
- (b) Differentiate between Direct and Indirect Taxes and give Two (2) examples of each. (10 Marks)
- (Total 20 Marks)

### **SOLUTION TO QUESTION 5**

- (i) The constitution of Federal Republic of Nigeria came into force from 29<sup>th</sup> May, 1999.
- (ii) The constitution is the grundnorm of the country. All laws and Acts derive its force from the Federal Constitution.
- (iii) Section 1(3) of the Federal Republic of Nigeria Constitution says anything inconsistent under the constitution is a nullity.



- (iv) The constitution provides for taxing powers among the three tiers of government. Items 58 and 59 of part I (2<sup>nd</sup> Schedule) Exclusive list gives powers to legislate and impose taxes to the Federal Government, while the concurrent list allows the state and local government, some taxes and levies collectible. Tax can be defined as compulsory payment levied on the citizens by the government for the purpose of achieving its goals. This means that tax is a compulsory payment you cannot avoid or run away from. If you avoid or evade, you are charged with criminal breach of duties which bring some sanctions under the law.

Taxation has the following objectives:

- To finance the operation of the government;
- To influence certain economic activity;
- To redistribute income among taxpayers; and
- To modify spending pattern among taxpayers.

It has the characteristics of compulsory, voluntary, it is a monetary charge, collectible by a defined body, may be direct or indirect by nature.

- (b) Direct taxes are those taxes that are paid by the people or organization on whom they are imposed .A direct tax is a tax such as income tax, levied on the income of the individual or on the profit of the person who pays it e.g. Personal Income Tax (PAYE), Companies Income Tax.

Indirect Tax is that tax whose cost is borne by someone other than the person responsible for paying them .All consumption taxes are indirect taxes. For example, taxes on liquor or gasoline are items included in the price of the item. Taxes that do not come straight out of a person pay packet or assets or out of the company's profit e.g. Value Added Tax (VAT), Excise duties, etc.

### **EXAMINER'S REPORT**

The question tests candidates' understanding of the provisions of the constitution of the Federal Republic of Nigeria on taxation and direct and indirect taxes.

Candidates demonstrated shallow understanding of the provisions of the constitution on taxation, therefore, performance was poor. Less than 50% of the candidates scored up to 50% of the allocated marks.

The candidates' commonest pitfall was lack of knowledge of the provisions of the constitution on taxation.

Candidates are advised to study very well and cover all areas of the syllabus when preparing for future examination.