



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

**STUDENTS' COMPANION APRIL 2013
PROFESSIONAL EXAMINATION FOUNDATION
NEW SYLLABUS**

QUESTION AND SUGGESTED SOLUTIONS

**THE CHARTERED INSTITUTE OF TAXATION OF
NIGERIA APRIL 2013: PROFESSIONAL EXAMINATION
FOUNDATION : GENERAL PRINCIPLES OF LAWS
ATTEMPT ALL QUESTIONS. SHOW ALL WORKINGS. TIME: 3 HOURS**

FOUNDATION (NEW SYLLABUS)

FOUNDATION GENERAL PRINCIPLES OF LAW

- 1 a i List and discuss the rules of Interpretation of statutes. (5 marks)
- ii “The received English law can be divided into three parts, viz: Common Law, Doctrine of Equity and Status of General Application.” Discuss. (3 marks)
- b The maxim Nemo dat quod non habet has various exceptions. Discuss four of these exceptions. (4 marks)
- c i “It is important in the knowledge of general principles of law to be acquainted with the sources of law that is applicable in a particular country or locality”. Discuss in relation to Nigeria. (4 marks)
- ii “An incorporated company is regarded by the law as a person just as a human being”. Justify the statement. (4 marks)
- (Total: 20 marks)

SOLUTION

- 1 a (i) The rules of Interpretation of Statutes are:
- i. The Literal Rule
- ii. The Golden Rule
- iii. The Mischief Rule
- i. Literal Rule: Literal Rule of Interpretation means that the court must give words in statute their original meaning. It means that they are to confine themselves to the four corners of the statutes before them.
- ii. Mischief Rule: Under this rule of Interpretation, the following must be considered:
- What was the law before the making of the Act (Statute intended to be interpreted)?
 - What was the mischief or defect for which the old law did not provide?
 - What remedy has the Parliament resolved and appointed to cure the disease of the old law?

The Court is then to interpret the statute in such a way that would suppress the mischief (problem) and advance the remedy (solution).

Golden Rule: where the statute or law to be interpreted is ambiguous or where the literal meaning is capable of leading to

absurdity, the law should interpret the statute in such a way as to remove the ambiguity or absurdity.

- iii. Common Law: It refers to principles and rules of law which were applicable in the whole of England as distinguished from local customs which applied to a particular area. The distinctive feature of Common law is that they are judge made laws which are to be found in prior decided cases.

Equity: Equity was developed to mitigate the harshness of the rules of common law by disallowing a party to insist on mere letters of the law where it will lead to injustice; the court has a discretionary power in certain circumstances to apply doctrines of equity.

Statutes of General Application (SOGA): these are Statutes applicable throughout England before the first day of January 1900 and extended to Nigeria such Statutes continue to apply in Nigeria, except where they have been replaced by Nigerian statutes.

- b. Nemo dat quod non habet means that you cannot give what you don't have. This means that only the owner of goods (or his agent) can give a good title to the buyer. The following are the exceptions to the general rule:

- i. Sale in Market Overt: The market overt is an open, public and legally constituted market. A sale of good by a non-owner in a market overt if it is sold during the usual hour of business and in accordance with the usage of the market confers a good title of buyer, provided the buyer buys in good faith and without notice of defects in the seller's title. The good must be such as are usually sold in the market and must be openly exhibited.
- ii. Sale by a mercantile agent – Any sale or other disposition in the ordinary course of his business by a mercantile agent in possession of good or documents of title with the owner's consent confers the owner's title on a buyer who takes in good faith without notice of the agent's lack of authority. A mercantile agent is a person who in the ordinary course of his business has authority either to sell goods or to consign goods for the purpose of sale, or to buy goods.
- iii. Estopped – A sale of goods by a person who is neither the real owner of the goods nor a person authorised to sell them, may nevertheless, confer a valid title to a bona fide buyer, if the true owner, either by words or conduct misleads the buyer into thinking that the seller is the owner or that he has the owner's authority to sell.
- iv. Sale by an Agent – a person who buys goods from an agent acting for the owner of the goods will get a good title to them provided the transaction was within the agent's actual or apparent authority.

- v. Sale under order of Court – where a court of competent jurisdiction orders the sale of any goods if they are perishable in nature.
 - vi. Sale by a person with voidable title – a person may acquire goods under a contract which is voidable. However, where the owner does not act in time and the goods are re-sold before the contract is avoided, the subsequent buyer acquires a good title to the goods , provided that he acts in good faith and has no knowledge of the seller’s defect in title.
 - vii. Sale by seller in Possession – this demonstrates the importance to the buyer of obtaining possession of goods as soon as possible after the completion of the contract of sale.
 - viii. Sale by buyer in Possession
 - Buyers must have obtained actual possession of the goods or documents of title
 - It must be with the consent of the seller
 - The buyer must have bought or agreed to buy.
- C.
- i. The sources of Nigerian law are as follows:
 1. Customary Laws – These consist of rules or customs – accepted by members of a community as binding on them.
 2. Nigerian legislations – These are laws passed by a Nigerian legislative body. They are:
 - Ordinances – Laws passed before 1st October 1954
 - Acts – Laws enacted by the National Assembly in a civilian regime
 - Laws – Statutes made by the State Houses of Assembly in a civilian regime
 - Decree – Laws made by the Federal Government in a Military regime.
 - Edicts – Laws made by State Governments in a Military regime.
 3. English Law – these are common law, doctrines of Equity and statutes of General Application.
 4. Judicial Precedents – these are laws found in judicial decisions of superior courts binding on lower courts.
 5. International Treaties – International Treaties are agreements between two or more sovereign states. They become binding on Nigeria when ratified and enacted into law by the National Assembly.
 6. Textbooks.
 - ii. An incorporated company is regarded by the law as a person just as a human being. The company so incorporated becomes a body corporate by the name contained in the memorandum of association and capable of exercising the functions of an incorporated company.

The incorporated company is distinct and separate from its members or owners. The consequences of the effect of separate personality of a company from its owners and members are as follows:

1. Perpetual Succession – The death of one or all the members of a company does not affect the continuity or existence of the company.
 2. Power to make contract
 3. Power to sue and be sued in its own name
 4. Power to own properties
- 2 a “The Supreme Court is the last bus stop as far as the journey of the course is concerned in Nigeria”. Discuss. (10 marks)
- b List and discuss four (4) remedies available to an unpaid seller. (5 marks)
- c The basic element in goods and services are “give and take”, Under what circumstances can “give and take” be termed to be bad and unenforceable?. (5 marks)
- (Total: 20marks)

SOLUTION

- 2 a. The hierarchy of courts as stipulated in the courts as stipulated in the 1999 Constitution of Nigeria is as follows:
- i. Supreme Court
 - ii. Court of Appeal
 - iii. Federal High Court
 - iv. - High Court of FCT
- National Industrial Court of Appeal of FCT
 - v. Sharia Court
 - vi. Customary Court of Appeal of FCT
 - vii. High Court of the State
 - viii. Customary Court of Appeal of a State
 - ix. Magistrate Court
 - x. District Court
1. Supreme Court – this is the apex court of the land. Appeals i.e. from Court of Appeal to the Supreme Court
 2. Court of Appeal – this lies next in line and appeals i.e. from Courts No. 3,4,4b,5-7.
- 4 b. The remedy of an unpaid seller are as follows:
- i. Right of lien – this is the right of the unpaid seller to retain possession of the goods until the price is paid. This can arise:

- a. Where the goods have been sold without any stipulation as to credit
 - b. Where the term of credit has expired
 - c. Where the buyer becomes insolvent
- ii. Right of stoppage in Transit- this is a right allowing the unpaid seller to stop the goods while they are in transit, resume possession of them and retain them until payment of the price.
 - iii. Right of Resale – this right arises where:
 - a. The goods are of perishable nature
 - b. Where the unpaid seller gives notice to the buyer of his intention to resell and the buyer does not within a reasonable time pay or tender the price
 - c. Where buyers default
 - iv. Right to withhold Delivery – where property has not passed, the unpaid seller has a right of withholding delivery of the goods
 - v. Action for contract price – this can occur where :
 - a. The property in the goods has passed to the buyer and he wrongfully neglects or refuses to pay
 - b. Where the price is payable on a day certain irrespective of delivery.
 - vi. Action for damages for non-acceptance. This is done where the buyer wrongfully neglects or refuses to accept and pay for the goods.
- 3 a A contract of employment does not run forever. Discuss (6 marks)
- b i What is a partnership? (1 mark)
- ii List and discuss four (4) types of partnership. (5 marks)
- c “There are situations when the veil of incorporation would be lifted”. Discuss at list four (4) instances. (8 marks)
- (Total: 20 marks)

SOLUTION

- 3 a. A Contract of employment is a contract voluntarily entered into between an employer and employee. A Contract of employment may come to an end in the following circumstances.
- i. Effluxion of Time: at the end the agreed period, the contract comes to an end.

- ii. By agreement – by mutual agreement between the parties, a contract of employment can come to an end.
 - iii. By frustration – the performance of the contract of the employment may be frustrated by events such as death, prolonged illness, incapacity, illegality and war.
 - iv. By Notice – Either party to a contract of employment may terminate the contract on the expiration of notice given to the other party of his intention to terminate the contract of employment.
 - v. By Dismissal – an employer may summarily dismiss his employee where the employee has conducted himself in a manner that is not in the employer's interest.
- b.
- i. Partnership is defined as a relationship which subsists between persons carrying on business in common with a view to profit
 - ii. The following are types of Partnership that exist:
 - a. Active Partnership: this is where the Partner actively participates in the business of the partnership.
 - b. Dormant Partnership: this is where, although the person's name does not feature in the Partnership, he shares in the profit of the business
 - c. Nominal Partnership: this is a relationship where the partner lends his name to a business without having any real interest in it.
 - d. Limited Partnership this is a partnership that has one or more general partners and one or more persons who are not liable for partnership debts beyond the amount contributed at the time of joining the partnership.
 - e. General Partnership – this is a partnership where the partners are liable without limit for debts of the partnership.
 - c. It was firmly established in the case of Salomon V Salomon that once incorporated, a company becomes different and distinct from the owners. From the time of incorporation, a veil is placed over the membership of the company as a corporate body.

The following are instances when the veil of incorporation would be lifted:

- i. If the corporate veil is being used as a means to defraud or avoid legal responsibility.
- ii. Where a company carries on business for more than six months with less than two members, every director or officer of the company during this period shall be jointly and severally liable with the company for the debts of the company contracted during the period.
- iii. In determining whether a company is a subsidiary of another.

- iv. Where an Officer or Director of a company signs a bill of Exchange or a promissory note or an order on behalf of a company without indicating that he was signing as an agent of the company, such office or director would be personally liable for the amount or debt unless the company pays it.
 - v. In deciding whether a company is an alien enemy or not.
 - vi. In the process of winding up of a company.
- 4 a Briefly highlight the obligations of both the owner and hirer in a hire purchase transaction. (6 marks)
- b i Define mistake in contractual relationship (1 mark)
 - ii Give three (3) types of mistakes (3 marks)
 - iii Briefly explain the effect of mistake in a contract (2 marks)
- c i list and explain the five (5) types of agents (6 marks)
 - ii What is the legal effect of the act of agents? (2 marks)
- (Total: 20 marks)

SOLUTION

- 4 a. The obligations of the owner are:
- i. To deliver the goods to the hirer
 - ii. Under obligation not to refuse instalment of hired rent validity tendered
 - iii. The obligation to possess title to the goods
 - iv. Implied warranty that the hirer will enjoy quiet possession of the goods during the period of the agreement.
 - v. Implied condition that the good supplied is fit for the purpose for which they are intended.
 - vi. Implied condition that the goods must correspond with the description in the agreement.
- Duties of the hirer are:
- 1. Duty to accept delivery of goods.
 - 2. The hirer is obliged to take reasonable care of the goods failing which he will be liable for any loss or damage to the goods.
 - 3. The hirer is under obligation to pay the instalments as at when due.
 - 4. The hirer is bound to re-deliver the goods to the owner upon the termination of the hiring.
- b. i. Mistake in contract occurs when a party enters into a contract believing a particular set of facts to exist when in the facts do not exist.
- ii. Types of Mistake are:
- a. Common Mistake
 - b. Mutual Mistake

c. Unilateral Mistake

- iii. The effect of common mistake in contract is that such contract is declared null and void.

The effect of mutual mistake is that the courts will conclude that no enforceable contract had been created.

The effect of unilateral mistake is that the court will make a prima facie presumption that despite the mistake, a contract has been concluded between the parties.

c i Types of Agents are:

- i. General Agents
- ii. Universal Agents
- iii. Special Agents
- iv. Mercantile Agents
- v. Factors
- vi. Brokers
- vii. Del Credee agents
- viii. Auctioneers

i. General Agents – is one who is authorised or has authority arising out of and in the ordinary course of business, trade or profession, to act on behalf of the principal generally in transaction of a particular kind.

ii. Universal Agents – they have unrestricted authority.

iii. Special Agents – these are agents who are appointed only for a specific purpose, occasion or in respect of a particular matter.

iv. Mercantile Agents – This is an agent who in the customary course of his business as such agent, has authority to sell goods or to consign good for the purpose of sale, or to buy goods

v. Factors – this is an agent entrusted with the possession of goods for the purpose of sale. He has authority to sell goods in his own name and receive the purchase price.

- ii Third Party can enforce the contract against either the agent or against the principal when he discovers the principal's existence. The undisclosed principal also has the right to intervene and sue the third party.

- 5 a The decision of a company are generally taken at the meeting of its members, which constitute its primary organ. The acts of this organ bind the company only when the meeting is properly constituted, the proceedings are regular and the resolutions are

duly passed. This accounts for the detailed statutory provisions regulating the calling, convening and holding of the companies meetings.

Required:

Mention the persons entitled to receive the notice of a general meeting. (10 marks)

- b The position of an Auditor of a company is a very important one. This is so because the user of corporate report is expected to rely on their reports to make intelligent decisions. There is therefore the need for accuracy of the information disclosed by the auditor. It is in recognition of this vital position of auditors that the law requires an audit of the accounts prepared by a company to be carried out by competent and independent auditors.

Required

- i Mention the persons who cannot be appointed as auditors of a company. (5 marks)
- ii Identify persons that cannot be appointed as an adviser. (5 marks)
- (Total: 20 marks)

SOLUTION

5. a. The following persons shall be entitled to receive notice of a General meeting:
- i. Every member
 - ii. Every person upon whom the ownership of a share devolves by reasons of his being a legal a legal representative, receiver or trustee in bankruptcy of a member.
 - iii. Every director of the company
 - iv. Every creditor of the company; and
 - v. The Secretary of the company

No other person other than those mentioned above shall be entitled to receive notices of General meetings.

- b. The following persons, however, cannot be appointed as an auditor of a company:
- i. An officer or servant of the company
 - ii. A person who is a partner of or in the employment of an officer or servant of the company
 - iii. A person or firm who or which offers to the company professional advice in consultancy capacity in respect of secretariat, taxation or financial management.
 - iv. A body corporate

An Auditor is not an officer or servant for the purpose of this provision, and the disqualifications extend and apply to persons who in respect of any period of an audit were in the employment of the company or were otherwise themselves connected therewith in any matter.

FOUNDATION ECONOMICS

- 1 a What do you understand by Tax Policy? (6 marks)
b What do you understand by Tax Evasion and Avoidance? (8 marks)
c Explain the judicial approaches to tax avoidance. (6 marks)
(Total: 20 marks)

SOLUTION

- 1 a **TAX POLICY:**
A policy put in place by the government on tax issues or Tax related issues. Tax Policy can be defined as a formal articulated and documented set of fundamental principles that guide the tax system in a country.
The tax Policy should be complied with at all time, which would regulate tax system and provide a basis for tax legislation and tax administration.
Tax Policy is an initiative of the Federal Government of Nigeria which is being driven by the Federal Ministry of Finance.
- b (i) **TAX EVASION:**
There are bound to be leakages in every system. Tax authorities are to identify all such avenues for leakages in the Nigeria Tax system, minimise or eradicate these leakages.
Tax Evasion is a deliberate refusal to pay tax or make tax returns with the intension of fraudulent retaining tax avenue or concealing the actual tax status of the tax payer.
- (ii) **TAX AVOIDANCE:**
This is the means by which tax liability is minimized or avoided by exploiting the loopholes in the tax law. While evasion is illegal and criminal offence in nature, avoidance is not illegal but it is not encouraged.
- c Criminal prosecution of tax evaders is necessary to send the right signals to defaulters that evasion is a criminal offence and would be viewed with all seriousness by tax authorities and law enforcement agencies. This process shall be carried out in line with provisions of tax and other relevant legislation. With respect to avoidance, tax authorities and legislators should identify and address the loopholes in the laws to minimise the incidence of tax avoidance. Where a particular provision of the law is subject to various interpretations which create avenue for avoidance, necessary clarification shall be provided in the form of information circulars or rulings to resolve any such ambiguity.
- 2 a Outline ten (10) features of the country's economy which are associated with under - development. (10 marks)
b Discuss any five (5) of the main features listed above. (10 marks)

SOLUTION

2 The main features of the country economy which are associated with under development are as follows:-

- i Low per Capital Income
- ii Extreme Poverty
- iii Dependence on Agriculture
- iv Low Level of Technology
- v Under Utilization of Natural Resources
- vi Economic System is Foreign Dominated and Oriented
- vii High Population Rate
- viii High Dependency Ratio
- ix Underemployment and unemployment
- x A large Segment of the Population suffer from ill-health, Malnutrition and Illiteracy.
- Xi Low level of Manpower Development
- Xii Poor Infrastructural Facilities
- Xiii Political Instability

Low Per Capital Income:

The per Capital. Income is defined as the real Gross National Product divided by the population. The per Capital Income is very low in most of the under – developed, or developing economies.

Extreme Poverty:

Extreme poverty means having less than \$1 for your daily needs. But poverty is not measured in money alone. Poor people lack education, they lack health care and they often live in city slums in under developing countries.

Dependence on Agriculture:

Agriculture is the primary sector of the developing economies. The developing countries export primary products in the form of raw materials from agriculture such as Cocoa, rubber, Coffee and cotton.

Low Level of Technology:

The technological development in most of under developed economies is still under developed when compared with those in advanced economies.

High Population Growth Rate:

The population of developing countries grows at geometrical progression. The birth rates are very high thereby causing population pressure in some developing countries while the means of subsistence grows at arithmetical progression.

High Dependency Ratio:

The implication of the population explosion of the under developed countries is that the population of children under 15 years of age is almost half of the entire population.

Political Instability:

Political instability is also one of the features of developing countries. Constant changes in government through military takeover e.g. Coup d'état occurs frequently in under developed countries.

- 3 “In an economy where consumption is very high, there is combination of forces that affects supply of loanable funds.”
- a Identify any five (5) factors that affect or determine the level of savings (5 marks)
 - b Discuss these factors (15 marks)
- (Total: 20 marks)

SOLUTION

- 3 In an economy where consumption pattern is very high, there are so many factors that determine the level of saving:
- (a) Income (b) Income Distribution (c) Level of Commitment
 - (d) Availability of attractive savings facilities (e) Rate of Interest on Savings
 - (f) Inflation (g) Liquidity (h) Attitude of society towards thrift
 - (i) Government Policy (2 marks)
- a Income
Savings is based on income as nobody can save more than his income. The higher the level of income in an economy, other things being equal, the higher will be the level of savings. (3 marks)
- b Income Distribution:
The more unevenly distributed income is, the lower will be the level of savings. This is because if a rich man transfers part of his savings to a poor man, the level of savings will fall because the amount taken from the savings of the rich man would be spent by the poor man. (3 marks)
- c Level Of Commitment
If as family is paying debt on hire purchase there may be no left-over for saving. The same happens if the family is large. (3 marks)

d Availability Of Attractive Savings Facility

People can only save, if there are facilities to do so. For example, Evolution of daily collectors has increased savings among petty traders. So also has the rural banking scheme improves savings in rural areas. The cost, convenient and people's confidence as regard savings institutions are very important.

(3 marks)

e Rate Of Interest On Savings

High interest may induce savings especially when other investment avenues are not as attractive. (3 marks)

f Inflation

Inflation will reduce savings because savings cannot be maintained in real terms, moreover, a large part of the income will be spent on present consumption because of high prices. (3 marks)

g Liquidity Of Savings

People will save more if they know they can easily convert their savings to cash. (3 marks)

h Attitude Of the Society Towards Thrift

Some people generally have good inclination to save at any income level and this will influence their propensity level to save. (3 marks)

i Government Policy

Government may institute compulsory savings institutions like NISTF & compulsory pension schemes. (3 marks)

4 The classical theory of utility is useful in several ways: it enables us to give at least a partial explanation for the law of demand; it helps to explain the process and conditions underlying customer equilibrium and it enables us to identify and assess the magnitude of consumer surplus. You are therefore expected, to

- a. Define the term – Total Utility (TU) (3 marks)
- b. Explain the term – Marginal Utility (MU) (3 marks)
- c. The following table gives the total utilities schedule for the consumption of tins of peak milk and loaves of bread.

Quantity	Total Utility (Units)	
	Tins of Peak Milk	Loaves of Bread
1	1,000	4,200
2	7,000	7,200
3	11,500	9,600
4	15,500	11,400
5	18,500	12,600

- i. Complete the table for the Marginal Utility of tins of peak milk for each quantity. (2 marks)

- ii. Complete the table for the Marginal Utility of loaves of bread for each quantity. (2 marks)
 - iii Complete the table for the Marginal Utility per naira of tins of peak milk for each quantity, if a tin of peak milk is ₦250 (2 marks)
 - iv Complete the table for the Marginal Utility per naira of loaves of bread for each quantity, if a loaf of bread is ₦150 (2 marks)
 - v Determine the combination of the tins of peak milk and loaves of bread that the consumer will consume to maximize his utility, if his income is ₦1,850 (6 marks)
- (Total: 20 marks)

SOLUTION

4 a Total Utility

Utility refers to the property of a commodity that enables it to satisfy consumers want. It is the amount of satisfaction derived from consuming a product and is measured in utility. Without the property, there would be no demand. Total Utility (TU) refers to the total amount of satisfaction obtained by a consumer from the consumption of some quantity of goods or services. Total Utility (TU) of a commodity consumed depends on the quantity of the product consumed.

b Marginal Utility (Mu)

This refers to the change in Total Utility (TU) as an individual consumes each additional unit of a commodity. (MU) is positive but declines steadily as long as more of the commodity is consumed or the TU increase, reaches the peak and later decreases

(2 marks)

Marginal Utility can be represented mathematically as follows

$$Mu_x = \frac{\Delta TU_x}{\Delta x} \quad (1 \text{ mark})$$

Where Mu_x = Marginal Utility of commodity X

ΔTU_x = Change in Total Utility and

ΔQ_x = Change in the quantity consumed of commodity X

c (i) (ii) (iii) (iv)

Units (Tin of Peak Milk)	TU_M	MU_M	$\frac{MU_M}{P_M}$	Units (Loaves) of Bread	TU_L	MU_L	$\frac{MU_L}{P_L}$
(Q_M) (i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)
1	1000	-	-	1	4200	-	-
2	7000	6000	24	2	7200	3000	20
3	11500	4500	18	3	9600	2400	16
4	15500	4000	16	4	11400	1800	12
5	18500	3000	12	5	12600	1200	8

- (a) (c) (b) (d)
 (2 marks) (2 marks) (2 marks)
 (2 marks)

(v) The above revealed that the first condition of

$$\frac{MU_M}{P_M} = \frac{MU_L}{P_L} \text{ is fulfilled at two different levels of consumption}$$

First, $\frac{MU_M}{P_M} = \frac{MU_L}{P_L} = 16$; for 4 Tins of peak milk and 3 Loaves of Bread (1½ marks)

Second $\frac{MU_M}{P_M} = \frac{MU_L}{P_L} = 12$; for 5 Tins of peak milk and 4 loaves of bread (1½ marks)

We now need to test the two different levels to know the utility maximization taking into consideration, the budget constraint.

1st: $Y = P_M Q_M + P_L Q_L$ (Budget Constraint)
 $\text{N250 (4) + N150 (3) = N1450}$

2nd $Y = \text{N250 (5) + N150 (4) = \underline{\text{N1850}}$ (2 marks)

Thus 5 Tins of peak milk and 4 loaves of bread will yield maximum satisfaction; where the first combination is not because it amounted to ~~N1450~~ and his budgets can still accommodate up to ~~N1850~~ on both Milk and Bread

- 5 a Mention and discuss five factors that determine the size of National Income (10 marks)
- b The information given below is for an economy. All amounts given in billions of Naira.

Net Factor Income from abroad	3.0
Indirect Business Taxes	20.4
Subsidy	4.0
Transfer Payment	4.8
Undistributed Profits	5.2
Social Insurance Distribution	7.0
Personal Tax	3.0
Company Tax	2.2
Consumption of fixed capital	34.0
Gross Domestic Product	202.0

- Compute
- i The Gross National Product (GNP) (2 marks)
 - ii The Net National Product (NNP) (2 marks)
 - iii The National Income(Y) (2 marks)
 - iv The Personal Income (PI) (2 marks)
 - v The Personal Disposable Income (PDI) (2 marks)

SOLUTION

- 5 a Factors that determine the size of National income
- (i) The stock of capital equipment in terms of machinery and industrial equipment needed to boost the production of goods and services.
 - (ii) The level of technological development determine the sophistication of equipment as well as the techniques of production. The use of modern technology will save time and reduce cost which increase efficient and as well as volume of National Income.
 - (iii) Abundant supply of natural resources as well as efficient utilization of the resources will lead to increase in National Income.
 - (iv) Increased stock of foreign private investment, loans, grants, and aid could boost the country's National Income and properly utilized.
 - (v) The quantity and quality of human resources also determine the size of a country's National Income. Rapidly growing highly skilled labour enhances National Income. Furthermore, the age distribution of the population determines the countries National Income. The greater the labour force group relative to the dependent group, the better for the economy.
 - (vi) Stable society and political environment provides the enabling environment for rapid economic growth. It motivates both foreign domestic investors to engage in production activities in the economy.
 - (vii) Well developed and efficient infrastructural facilities such as electricity, roads, etc and in promoting investment and hence economic growth. The resultant effect is increase in National Income. (10 marks)

b	(i) – (iii)	₦ b	
	Gross Domestic Product (GDP)	202.00	
	Plus Net Factors Income from Abroad	3.00	
	Gross National Product (GNP)	205,00	(1 mark)
	Less: Consumption of Fixed Capital	<u>34.00</u>	
	Net National Product (NNP)	171.00	(1 mark)
	Less: Indirect Business Taxes	<u>10.20</u>	
	National Income (NI = Y)	<u>1,680</u>	(1 mark)

(iv) Personal Income (PI) = NI – SIC – T_C – U_{TT} + Tr

	<u>N b</u>	<u>N b</u>	
	National Income (NI)	160.80	

Less: Soc. Ins. Contr. (S/C)	7.0	
Company Tax (TC)	2.2	
Undistributed π (U π)	<u>5.2</u>	<u>14.40</u>
		146.40
Add Transfer Payment (Tr)		<u>4.80</u>
PERSONAL INCOME (PI)		<u>151.20</u>
(v) Personal Disposal Income (PDI)	P1 - T _x	
	<u>N b</u>	
Personal Income (PI)		151.20
Less Personal tax (T _x)		<u>3.00</u>
Personal Disposable Income (PDI)		<u>148.20</u>

(4 marks)

(3 marks)

FOUNDATION ACCOUNTING

- 1 Shehu Adeola Enterprises Ltd. presents you the following list of balances on 31st August, 2011

SHEHU ADEOLA ENTERPRISES LTD

List of balances as at 31st August 2011

	N000
Sales	184,000.00
Stock at 1/09/2010	7,500.00
Purchases	150,000.00
Sales Return	1,300.00
Purchases Return	1,000.00
Bad Debt	350.00
Bad Debt Recovered	306.00
Discount Allowed	180.00
Discount Received	218.00
Fixtures and Fittings	33,500.00
Motor Vehicle	60,500.00
Insurance	1,300.00
Rent	3,900.00
Commission	180.00
Agency Fees Received	390.00
Advertisement	410.00
Lighting & Heating	430.00
Capital	50,000.00
Trade Debtors	7,400.00
Cash in Hand	4,000.00
Cash in Bank	9,276.00
10% Loan	36,000.00
Trade Creditors	7,502.00

The following additional information was given:

- Stock as at 31/08/2011 was valued at N9,600,000.00.00
- Unpaid expenses on 31/08/2011 were insurance N510,000.00 and advertisement N380,000.00

- iii. Expenses paid in advance were:
- | | |
|----------------------|------------|
| Lighting and Heating | 200,000.00 |
| Rent | 650,000.00 |
- iv. An agency commission of ₦210,000.00 was due but not yet received while another agency fee of ₦130,000.00 not yet due has already been received. A commission of ₦70,000.00 relating to the period commencing from 1st September, 2011 has been received.
- v. The 10% loan was obtained on 1st June 2011 but the interest on loan is outstanding.
- vi. After the preparation of accounts, a debt of ₦55,000.00 written off was recovered by cash and another debt of ₦1,100,000.00 considered to be good became irrecoverable.

You are required to prepare:

- a. A trial balance as at 31/08/2011
- b. Trading, profit and loss account for the year ended 31/08/2011

No balance sheet is required.

(20 marks)

SOLUTION

1.

SHEHU ADEOLA ENTERPRISES LTD

Trial balance as at 31/08/2011

	DR ₦'000	CR ₦'000
Sales		184,000
Stock at 1/09/2010	7,500	
Purchases	150,000	
Returns (Inwards & Outwards)	1,300	1,000
Bad Debts	350	
Bad Debts Recovered		306
Discounts (allowed & received)	180	218
Fixtures & Fittings	33,500	
Motor Vehicles	60,050	
Insurance	1,300	
Rents	3,900	
Commission Received		180
Agency Fee Received		390
Advertisement	410	
Lighting & Heating	430	
Capital		50,000
Trade Debtors	7,400	
Trade Creditors		7,502
Cash In hand	4,000	
Cash at Bank	9,276	
10% Loan		36,000
	279,596	279,596

SHEHU ADEOLA ENTERPRISES LTD

TRADING, PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 31/08/11

	₦'000	₦'000
Sales		184,000
Less Sales Returns		<u>1,300</u>
Net Sales		182,700
Opening Stock	7,500	
Purchases	<u>150,000</u>	
	157,500	
Less Purchases Returns	<u>1,000</u>	
Available for Sale	156,500	
Less Closing Stock	<u>9,600</u>	
Cost of Goods Sold		<u>146,900</u>
		35,800
Agency Fee (390+210-130)		470
Commission (180-70)		110
Bad Debt recovered (306+55)		<u>218</u>
		36,959
Insurance (1300+510)	1,810	
Advertisement (410+380)	790	
Lighting & Heating (430-200)	230	
Rent (3900-650)	3,250	
Interest on Loan	900	
Bad Debts (350+1100)	1,450	
Discount Allowed	180	
		<u>8,610</u>
Net Profit		<u>28,349</u>

Workings

1. Interest on Loan = $10/100 * 36,000 * 3/12 = 900$
2. Trade Debtors 7,400 – 1100 = 6,300.

2. General Bottling Company Limited, at one of its board meetings decided to introduce a new production line. As a result of lack of sufficient fund, the company also decided on 1st January 2010 to acquire a new polar machine on terms providing for payment of a deposit of N10m, to be followed by 5 equal instalments payable half yearly at N5m commencing on 30th June 2010.

The cost of the machine to All Equipment Plc, the vendor, was N21m and the cash sale price was N25m. General Bottling Company Ltd treats the difference between the hire purchase price and cash sales as interest. This is taken into account uniformly over the entire period of the agreement. Depreciation is provided at 10% per annum by straight line method.

All Equipment Plc does not recognise as “sale” goods sent out on hire purchase contract until the last instalment on it is paid. Both companies prepare accounts annually to 31st December each year and all instalments have been paid on due date.

You are required to show:

- i. The ledger entries in the books of General Bottling Company Ltd.
- ii. The General Bottling Company Limited’s Balance Sheet extract as at 31st December 2011.
(20 marks)

SOLUTION

2

IN THE BOOKS OF GENERAL BOTTLING CO. LTD

ALL EQUIPMENT PLC.

N			N		
1/1/10	Bank Deposit	10,000,000.00	1/1/10	Polar machine	25,000,000.00
30/6/10	Bank Instalment	5,000,000.00	1/1/10	Hire Purchase int. susp	10,000,000.00
31/12/10	Bank Instalment	5,000,000.00			<u>35,000,000.00</u>
31/12/10	Balance c/d	15,000,000.00			
		<u>35,000,000.00</u>			
30/6/11	Bank Instalment	5,000,000.00	1/1/11	Balance b/d	15,000,000.00
31/12/11	Bank Instalment	5,000,000.00			
31/12/11	Balance c/d	5,000,000.00			
		<u>15,000,000.00</u>			<u>15,000,000.00</u>
			1/1/12	Balance b/d	5,000,000.00

POLAR MACHINE ACC

N

1/1/10	All Equipment plc	<u>25,000,000.00</u>	31/12/10	Balance c/d	<u>25,000,000.00</u>
1/1/11	Balance c/d	<u>25,000,000.00</u>	31/12/11	Balance c/d	<u>25,000,000.00</u>
1/1/12	Balance b/d	25,000,000.00			

3. The following is the Profit and Loss Account of WAZOBIA Limited. for the year ended 31st December 2012.

Turnover		2,856,728.00
Less: Expenses		
Materials and Services	2,044,392.00	
Salaries & Wages	219,016.00	
Depreciation	25,690.00	
Pension Schemes	14,000.00	
Local Government Tenement Rate	144,550.00	
Welfare & Staff Benefits	<u>8,582.00</u>	
	<u>2,456,230.00</u>	
Profit before Interest and Tax		
400,498.00		
Less: Interest on Overdraft	3,500.00	
Interest on Loan	<u>15,680.00</u>	
	<u>19,180.00</u>	
Net Profit before Tax		
381,318.00		
Withholding Tax	67,438.00	
Company Tax	<u>78,512.00</u>	
	<u>145,950.00</u>	
Net Profit After Tax		
235,368.00		
Dividend to Shareholders		
<u>157,500.00</u>		
Retained Profit		
<u>77,868.00</u>		

You are required to prepare the Value Added Statement of the company for the year ended 31st December, 2012.
(20 marks)

SOLUTION

HIRE PURCHASE INTEREST SUSPENSE A/C

N			N		
1/1/10	All Equipment Plc	10,000,000.00	31/12/10	H.P Int. a/c	
				2/5x10,000,000	4,000,000.00
				31/12/10 Balance c/d	6,000,000.00
		<u>10,000,000.00</u>			<u>10,000,000.00</u>
1/1/11	Balance b/d	6,000,000.00	31/12/11	H.P Int a/c	
				2/5 x 10,000,000	4,000,000.00
			31/12/11	Balance c/d	2,000,000.00

HIRE PURCHASE INTEREST A/C

31/12/10	HP Int. Suspense a/c	4,000,000.00	31/12/10	P & L a/c		4,000,000.00
31/12/11	PH Int Suspense a/c	4,000,000.00	31/12/10	P & L a/c		4,000,000.00

PROFIT AND LOSS A/C

31/12/10 HP INT.	4,000,000.00			
31/12/10 Depreciation	2,500,000.00			
	6,500,000.00			
31/12/10 HP INT.	4,000,000.00			
31/12/10 Depreciation	2,500,000.00			
	6,500,000.00			

GENERAL BOTTLING CO LTD

BALANCE SHEET EXTRACT AS AT 31ST DECEMBER 2011

FIXED ASSETS	COST	DEPRECIATION	N.B.V
Polar Machine	25,000,000.00	5,000,000.00	20,000,000.00
CURRENT LIABILITIES			
Hire Purchase Creditor (All Equipment Plc)			5,000,000.00
Less: Hire Purchase Int. Suspense a/c			2,000,000.00
			<u>3,000,000.00</u>

VALUE ADDED STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2012

					N	N	%
TURNOVER						2,856,728.00	
Less: Bought in materials & services						2,044,392.00	
VALUE ADDED						812,336.00	100.00
Applied As Follows:							
To the benefit of employees:							
salaries					219,016.00		
Pension Scheme					14,000.00		
Welfare & Other benefits					8,582.00	241,598.00	29.74
To Government:							
Local Government tenement rate					144,550.00		
Withholding Tax					67,438.00		
Company tax					78,512.00	290,500.00	35.76
To Providers of Capital:							
Interest on Overdraft					3,500.00		
Interest on Loan					15,680.00		
Dividend to shareholders					157,500.00	176,680.00	21.75
Retained for replacementy & expansion of business:							
Depreciation					25,690.00		
Retained Profit					77,868.00	103,558.00	12.75
						812,336.00	100.00

4. a. Yejide Nigeria Ltd undertakes to build a giant Coal Bunker for Western Coal Ltd at a contract price of N150,000,000.00 estimating that the work will take 18 months to complete. At the financial year end on 31st March 2008, the expenditure on the contract were as follows:

	N'000
Materials	30,000.00
Direct Wages	40,000.00
Direct Expenses	5,000.00
Plant at cost	35,000.00
Plant hire	2,000.00
Sundry Tools	3,000.00

The written down value of plant for the year ended 31 March, 2008 was N25,000,000 while the value of sundry tools was estimated to be N500,000. At the end, the Value of Work Certified was N100,000,000 while cash received from the customer amounted to N60,000,000.

You are required to prepare the Contract and Contractee's accounts for the year ended 31st March, 2008.

(16 marks.)

- b i. What is Pre-contract cost (2 marks).

ii. Explain the term “Mobilisation fee”.
 marks)
 .
 marks.)

(2

(Total: 20

SOLUTION TO QUESTION 4A

YEJIDE NIGERIA LTD

CONTRACT ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2008

	N'000		N'000
Material	30,000.00	Plant (WDV) c/d	25,000.00
Direct wages	40,000.00	Tools (WDV) C/D	500.00
Direct Expenses	5,000.00	Work in progress c/d	93,700.00
Plant Hire	2,000.00		
Plant at Cost	35,000.00		
Tools at Cost	3,000.00		
Profit Recognised	4,200.00		
	<u>119,200.00</u>		<u>119,200.00</u>

WESTERN COAL LIMITED

CONTRACTEE'S ACCOUNT

	N'000		N'000
Value of work certified	100,000	Cash Received	60,000
		Contract Debtor c/d	40,000
	<u>100,000</u>		<u>100,000</u>

b. PRE-CONTRACT COST:

These are the cost incurred before contracts are won by the contractor. These costs should be expensed in the period in which it is incurred or deferred and charged to the contract where there is reasonable assurance that the contract will be won. (2 marks)

ADVANCE PAYMENT / MOBILIZATION FEES

These are the amount received by the contractor before the work is performed.

$$\text{Profit Taken} = \frac{2}{3} \times \text{Cash received}$$

$$= \frac{2}{3} \times \frac{\text{Value}}{100,000} \times \text{X} \times \text{AP} (125,000 - 115,000)$$

$$= \text{N}4,200$$

(2 marks)

- 5 Sentaye Enterprises is into sales of computer parts and the business is based in Kano. It keeps an account with Ahuja Microfinance Bank Ltd. Presented below are the cash book (bank column) and the business bank statement with Ahuja Microfinance Bank Ltd. for the month of June 2011.

**SENTAYE ENTERPRISES
BANK CASH BOOK**

DATE	PARTICULARS	AMOUNT(N)	DATE	PARTICULARS	AMOUNT(N)
1/6/11	Balance b/d	148,272.00	2/6/11	F. Amu	12,750.00
2/6/11	J. Galadima	11,250.00	5/6/11	T. I jaiya	5,175.00
4/6/11	Sales	18,840.00	7/6/11	Cash	21,495.00
6/6/11	J. Lawal	22,500.00	11/6/11	S. Hassan	9,150.00
8/6/11	Sales	3,768.00	15/6/11	Mallam Yau	18,000.00
10/6/11	Sales	10,500.00	18/6/11	M. Iyabode	14,400.00
12/6/11	Nwachukwu L.	25,500.00	20/6/11	S. Catherine	36,000.00
14/6/11	P. Agbede	4,482.00	25/6/11	M. Salisu	12,675.00
26/6/11	A. Alamu	6,750.00			
30/6/11	W. Taribo	<u>24,750.00</u>	30/6/11	Balance c/d	<u>146,967.00</u>
		<u>276,612.00</u>			<u>276,612.00</u>

1/7/11 Balance b/d 146,967.00

AHUJA MICROFINANCE BANK LTD
CUSTOMER NAME: SENTAYE ENTERPRISES
PERIOD COVERED: JUNE 1, 2011 – JULY 2, 2011
CURRENCY: NIGERIA NAIRA

DATE	DETAILS	DR.	CR.
BALANCE			
1/6/11	Balance c/fwd		152,520.00
1/6/11	Cheque	4,248.00	148,272.00
4/6/11	Sundries		18,480.00
7/6/11	Cheque	21,495.00	145,617.00
9/6/11	Sundries		3,768.00
11/6/11	Sundries		10,500.00
15/6/11	Cheque		11,250.00
18/6/11	Cheque	12,750.00	158,385.00
21/6/11	Cheque	5,175.00	153,210.00

25/6/11	Cheque		22,500.00	175,710.00
28/6/11	Cheque	36,000.00		139,710.00
28/6/11	Cheque		4,482.00	144,192.00
30/6/11	Bank Charges (COT)	399.00		143,793.00
30/6/11	Bank Charges (VAT)	21.00		143,772.00
30/6/11	Transfer		3,840.00	147,612.00
30/6/11	Transfer	18,000.00		129,612.00
1/7/11	Cheque	12,675.00		116,937.00
2/7/11	Cheque		6,750.00	123,687.00

You are to prepare:

- The business adjusted Cash Book
- The Bank Reconciliation Statement as at June 30, 2011.

(Total: 20 marks).

SOLUTION

5 a. SENTAYE ENTERPRISES

ADJUSTED CASH BOOK AS AT JUNE 30, 2011

	N		N
Balance b/d	146,967.00	Bank Charges (COT)	399.00
Transfer (CSL)	3,840.00	Bank Charges (VAT)	21.00
		Standing order	18,000.00
		Balance c/d	132,387.00
	<u>150,807.00</u>		<u>150,807.00</u>
Balance b/d	132,387.00		

SENERO ENTERPRISES

BANK RECONCILIATION STATEMENT AS AT JUNE 30, 2011

	N		N
Balance as per bank statement			129,612.00
Add: Uncredited Lodgements:			
Nwachukwu L.	25,500.00		
A. Alamutu	6,750.00		
w.Taribo	24,750.00		57,000.00
			<u>186,612.00</u>
Less: Unpresented Cheques:			
S.Hassan	9,150.00		
Mallam Yau	18,000.00		
M. Iyabede	14,400.00		
M. Salisu	12,675.00		54,225.00
Balance as per adjusted cash Book			<u>132,387.00</u>

FOUNDATION PRINCIPLES OF TAXATION

- 1 a i List the five (5) contents of an annual return (5 marks)
- ii When is an assessment considered to be final and conclusive? (3 marks)
- b What is the maximum time limit to file the annual return? (2 marks)
- c List three (3) reasons required to declare the office of an Appeal Commissioner vacant. (3 marks)
- d Who appoints a Federal Appeal Commissioner? (2 marks)
- e What are the five (5) grounds that make an Appeal to be valid? (5 marks)
- (Total: 20 marks)

SOLUTION

- 1 a i Annual return should contain the following?
- (i) The Audited Financial Statement
- (ii) The Tax Computation
- (iii) The Capital Allowances Computations
- (iv) The undertaking that the information contained in the annual is true. This must be signed by either the company Secretary or Director.
- (v) A copy of duly completed self-assessment form. (5 marks)
- a ii an assessment is considered final and conclusive when:
- (i) No valid objection or appeal has been lodged within statutory time limit
- (ii) No further notice has been given of a further appeal against the decision of the appeal commissioner
- (iii) When a tax payer fails to file a notice of appeal with the State High Court within 30 days from the date of receiving judgment of the body of appeal commissioners
- (iv) When a tax payer fails to obtain judgment in his favour at the court of higher jurisdiction. (3 marks)
- b An annual return must be filed within:
- (i) 18 months from the date of commencement or within 6 months after the first account was prepared whichever is earlier – for a new company.
- (ii) Within 6 months from the year end for an existing company. (2 marks)

- c Three reasons to declare the office of an Appeal Commissioner vacant are:
- (i) Where he absented himself from two consecutive meetings without approval from the Chairman.
 - (ii) Where he is confirmed to be of unsound mind
 - (iii) Where he has been convicted for a criminal offence
 - (v) Where he attended a meeting concerning a Tax payer in which he has interest without informing the other commissioners. (3 marks)
- d An officer of a body of Federal Appeal commissioners is appointed by the Minister of Finance. (2 marks)
- e The necessary condition that can make an appeal valid are:
- (i) The Tax file number
 - (ii) The relevant years of assessment
 - (iii) The date that notice of refusal to amend was received
 - (iv) The assessable profit for the year of assessment has been disputed
 - (vi) The taxable profit has been disputed
 - (vii) The amount of tax payable is disputed
 - (viii) The ground of appeal must be the same as ground of objection. (5 marks)
- 2 a What is a “Tax Clearance Certificate”? (1 marks)
- b Mention three (3) items that are contained in Tax Clearance Certificate (3 marks)
- c Highlight six (6) uses of Tax Clearance Certificate (6 marks)
- d Define Withholding Tax Credit Note and itemise the information included in it. (5 marks)
- e i What is benefit in kind? (3 marks)
- ii Describe two examples. (2 marks)
- (Total: 20 marks)

SOLUTION

- 2 a Tax clearance certificate is issued to a tax payer when the relevant Tax Authority is satisfied that the tax assessed on the tax payer has been fully paid or that no tax is due. The certificate must be issued to the person within two weeks of the demand.
- b The information to be disclosed on a Tax clearance Certificate are:

- (i) Total Profit or Chargeable Income
- (ii) Tax Payable
- (iii) Tax paid
- (iv) Tax outstanding or statement that no tax is due (3 marks)

c Use of Tax clearance Certificate are:

- (i) Registration of Motor Vehicle
- (ii) Application for government loan for business
- (iii) Application for fire-arm licence.
- (iv) Application for Certificate of Occupancy
- (v) Application for trade license
- (vi) Application for approval of Building Plan
- (ix) Application for award of contracts by government.

(6 marks)

d Withholding Tax Credit Note is note issued to every beneficiary as an evidence that withholding tax has been deducted from its business, in recognition of the fact that withholding tax is an advance payment of tax which may be used to reduce tax liabilities. A credit note includes:

- (i) A credit note number
- (ii) The name of the tax payer who deducted and remitted the withholding tax
- (iii) The name of the beneficiary from whose invoice withholding tax was deducted
- (iv) The nature of transaction
- (v) The date of transaction
- (vi) The name of the bank used for remittance (4 marks)

Benefit-in-Kind the condition where the employer provides its assets for the use of an employee either partly or wholly. The value of benefit – in kind is added to other taxable income of the employees. (1 mark)

Examples of benefit-in-kind:

a Provision of Vehicle: where a vehicle is provided for an employee, the benefit – in – kind is equivalent to 5% of either the cost or market value of the car whichever is higher. This is applicable where the vehicle is owned by the employer but where the car is hired, the benefit – in - kind is the amount paid. (2 mark)

- b Provision of Accommodation: Where accommodation used by employee is provided by the employer, the benefit in kind is 5% of the cost or market value whichever is higher. And where the accommodation is rented the actual rent paid. (20 marks)
- 3 a Name the five (5) Tax Administrative machinery currently in existence in Nigeria. (5 marks)
- b Briefly explain the functions and powers of the State Board of Internal Revenue (10 marks)
- c What is minimum Tax and how shall minimum Tax be computed? (5 marks)
- (Total: 20 marks)

SOLUTION

- 3 a Five (5) Tax Administrative Machinery in Nigeria
- (i) The Joint Tax Board (JTB)
 - (ii) The Federal Board of Inland Revenue (FBIR)
 - (iii) The state Board of Internal Revenue (SBIR)
 - (iv) Local Government Revenue Committee
 - (v) Joint State Revenue committee (5 marks)
- b Functions of the State Board of Internal Revenue
- (i) The state Board is responsible for the assessment and collection of Pay as You Earn and other Personal Income Tax
 - (ii) Ensuring the effectiveness and optimum collection of all taxes and penalties due to government.
 - (iii) Doing all such things as may be deemed necessary and expedient for the Assessment and Collection of and account for all amounts so collected in a manner to be prescribed by the Commissioner.
 - (iv) Making recommendation where appropriate to the JTB on tax policy, tax reforms, tax registration, tax treaties and exemptions as may be required from time to time.
 - (v) Generally controlling the management of the State Service on matters of policy, subject to the provision of the law setting up the State Services.

- (vi) Appointing, promoting, transferring and imposing discipline on employees of the State Service. (10 marks)

Minimum Tax shall be computed on the following conditions:

- (i) Minimum Tax is levied when there is no taxable profit.
(ii) Where the taxable profit result in a tax liability that is lower than the minimum tax payable.

The computation shall be:

- a Where the turn over does not exceed ₦500,000, the minimum tax shall be the highest of:
(i) 0.5% of Gross Profit
(ii) 0.5% of Net Assets
(iii) 0.25% of paid up share capital
(iv) 0.25% turnover that does not exceed ₦500,000
- b Where the turnover exceeds ₦500,000, the minimum tax shall be the highest of the figures in (a) above plus 0.125% of turnover in excess of ₦500,000. (5 marks)
- (Total: 20 marks)

- 4 a Define engagement on contract and mention two examples (3 marks)
b Differentiate between employment personnel and engagement on contract personnel. (3 marks)
c Highlight six (6) employment incomes exempted from tax (6 marks)
d Mr. Adigun who is the Personnel Manager of Global Shoe Nig. Ltd. is resident in

Abeokuta, Ogun State. He is on a basic salary of ₦410,700 per annum during the year ended 31st Dec, 2010. The company paid him other allowances and benefits as follows:

Housing	415,000
Transport	76,000
End of year bonus	45,000
Electricity & Water	43,000
Furniture and Household Maintenance	15,000

The manager who is married with six children, three of these are under sixteen years of age, and he also maintains three dependent relative.

He was paid his leave bonus for the year amounting to ₦49,170.

You are required to compute his income liability for year 2010. (8 marks)

(Total: 20 marks)

SOLUTION

- 4 a Engagement on contract means an arrangement whereby an outsourcing agent is engaged by a company to provides its personnel needs, this is often guided by service level agreement.

Examples

- (i) Routine maintenance Contract
 - (ii) Security provision Contract
- b Differences between employment and engagement on contract are as follows:
- (i) The salaries of employment personnel is directly paid by the company while the outsourcing Company pay the staff under engagement on contract.
 - (ii) The employment personnel are directly controlled by the company while the control in the engagement on contract personnel resides in the outsourcing company.
 - (iii) The condition of service applies to employment staff but does not apply to engagement on contract.
 - (iv) The tenure of employment personnel is fixed and long while under the engagement of contract, the tenure of service is not certain.
- c
- (i) Compensation for loss of office
 - (ii) Pension granted under the pension act
 - (iii) Gratuities
 - (iv) Official emolument of President, Vice president, governors, deputy governors, prior to PITA amendment 2011
 - (v) Income earned outside Nigeria by a temporary guest lecturers and other professionals, teachers, nurses, doctors and brought into Nigeria provided the income is paid in a domiciliary account.

d

MR. ADIGUN
COMPUTATION OF INCOME TAX LIABILITY FOR 2010 TAX YEAR

		₦'000	₦'000
Basic Salaries		410,700	
Housing Allowance	315,000-150,000	165,000	
Transport Allowance	76,000-20,000	56,000	
End of Year Bonus		45,000	
Electricity and Water	43,000-6,000	37,000	
Furniture and Household- Maintenance		15,000	

Leave Bonus	(49,170-10% x 410,700)	8,100	
Total Income			736,800
Less Reliefs:			
Personal Allowance	(5,000 + 20% x 736,800)	152,360	
Children Allowance	(2,500 x 3)	7,500	
Dependent Allowance	(2,000 x 2)	<u>4,000</u>	<u>163,860</u>
Taxable Income			572,940
Tax Liability			125,235

Workings

Tax liability Payable (payable)		
First ₦30,000 @ 5%		1,500
Next ₦30,000 @ 10%		3,000
Next ₦50,000 @ 15%		7,500
Next ₦50,000 @ 20%		10,000
Next ₦412,940 @ 25%		<u>103,235</u>
		<u>125,235</u>

- 5 a What are the tax rules governing cessation of business in Nigeria?
(3 marks)
- b Grace Limited has been in business for many years. As a result of the global economic meltdown, the business declined and Grace Limited ceased trading permanently on 30th September 2009. The adjusted profits were as follows:
- | | |
|--|----------|
| Year ended 30 th June, 2006 | ₦564,500 |
| Year ended 30 th June, 2007 | ₦426,000 |
| Year ended 30 th June, 2008 | ₦398,000 |
| Year ended 30 th June, 2009 | ₦265,000 |
| 3 months to 30 th September, 2009 | ₦19,000 |
- i Compute assessable profit for Grace Limited for the last three years of assessment.
(9 marks)
- ii Justify the option open to Federal Inland Revenue and comment
(3 marks)
- c Briefly define the following:
- i Wholly
- ii Reasonably

- iii Exclusively
- iv Necessarily
- v Name two persons chargeable to tax under the personal income Tax

Act.

(5 marks)

(Total: 20 marks)

SOLUTION

5 a The law requires that in cessation rule, the basis period for the assessable profit for the last two years of assessment should be determined. The assessable profit determined for these two tax years form the basis for final assessment.

In the penultimate tax year, the basis of assessment shall be on the preceding year. In the ultimate tax year, the basis for tax year shall be from the beginning of the government tax year. i.e. 1st January of the year up to the date of cessation. However the tax authority has the right to exercise an option, this is to determine whether the basis of assessing tax payer in the pen ultimate tax year should be on actual tax year basis. This right will be exercised if it will increase the tax payable by the tax payer.

Where a tax payer whose business has ceased derives or receives income after the date of cessation, Such income would be deemed to have been received on the last day of business and it will be subjected to tax.

b (i) GIRATE NIGERIA LIMITED

COMPUTATION ASSESSABLE PROFITS FOR THE LAST THREE TAX YEARS

Tax Year	Basis Period	Assessable Profit
2007	1/7/2005-30/6/2006	₦564,500
2008	1/7/2006-30/6/2007	₦426,000
2009	1/1/2009-30/9/2009	₦151,500
2009 Computation		
1/1/2009-30/6/2009	$\frac{6}{12} \times 265,000 =$	132,500
1/7/2009-30/9/2009	=	<u>19,000</u> 151,500

(ii) GIRATE NIGERIA LIMITED

COMPUTATION OF OPTION OPEN TO FEDERAL INLAND REVENUE SERVICE

Tax Year	Basis Period	Assessable Profit
2007	1/7/2005-30/6/2006	564,500
2008	1/1/2003-31/12/2008	331,500
2009	1/1/2009-30/9/2009	151,500
2008 Computation		
1/1/2008-30/6/2008	$\frac{6}{12} \times 398,000 =$	199,000
1/7/2008-31/12/2008	$\frac{6}{12} \times 265,000 =$	<u>132,500</u>
		<u>331,500</u>

NOTE:

The option open to the Federal Inland Revenue Service is in the pen ultimate Tax year where it can be decided to assess the tax payer on actual year basis. It is apparently from the above that this option would not be exercised because the assessable profit of the ~~₦~~331,500 is lower than ~~₦~~426,000 on original basis.

- c
- (i) Wholly: This means that the expense must have been incurred safely for the purpose of the trade or business. Consequently, any expense that is not seen to be directly related to the business would not be allowed.
 - (ii) Reasonably: in relative to the totality of the financial statement, it must appear to be reasonable. e.g. if the public relation expenditure for a business whose turnover is ~~₦~~10 Million comes to ~~₦~~5 Million, it will not considered reasonable.
 - (iii) Exclusively: Though the distinction between wholly and exclusively is thin, but it is important to stress that where an expense is incurred purely and only for the business, it can be deemed to be exclusive for the business.
 - (iv) Necessarily: This means that the expense must be necessary for the generation of income.
 - (v) Persons Chargeable to Tax are:
 - An individual who has taxable income for the year
 - The income of a partner from a partnership is chargeable to tax in the hands of the partner concerned.