THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
PROFESSIONAL EXAMINATION II
PUBLIC SECTOR ACCOUNTING AND FINANCE

SECTION A (Attempt All Questions)

PART I MULTIPLE-CHOICE QUESTIONS (20 MARKS)

1. Every officer authorized to sign payment vouchers is required to maintain a/an
   A. departmental vote expenditure accounts book.
   B. cheque summary register.
   C. cash book.
   D. payment voucher register.
   E. adjustment voucher register.

2. The installation of proper internal control and accounting systems is the function of the
   A. Internal Auditor.
   B. Officer Controlling Expenditure.
   C. Sub-accounting Officer.
   D. Sub-head Controller.
   E. Accounting Officer.

3. The method which values stock at the end of an accounting period at the latest prices is called
   A. current market price method.
   B. last-in-first-out (LIFO) method.
   C. first-in-first-out (FIFO) method.
   D. weighted average method.
   E. simple average method.

4. Imprest Warrants are issued by the
   A. Accounting officer.
   B. Revenue collector.
   C. Accountant-General.
   D. Minister of Finance.
   E. Sub-Accounting Officer.

5. Every issue of a receipt book is usually accompanied by a serially numbered form, printed in quadruplicate, called
   A. receipt issue register.
   B. receipt book issue note.
   C. receipt and distribution register.
   D. receipt and licence register.
   E. revenue book register.
6. Which **ONE** of the following budgeting methods do Extra-Ministerial Departments and Agencies adopt?
   A. Incremental Budgeting method
   B. Zero-Base Budgeting method
   C. Rolling Plan Budgeting method
   D. Planning, Programming and Budgeting System
   E. Performance Budgeting.

7. The methods and principles applied by an entity to record its financial transactions are known as
   A. accounting practice.
   B. accounting basis.
   C. accounting method.
   D. accounting policy.
   E. accounting principle.

8. The Authority/Warrant issued prior to the approval of the Appropriation Bill at the beginning of the year is known as
   A. provisional general warrant.
   B. annual general warrant.
   C. supplementary general warrant.
   D. virement warrant.
   E. supplementary contingencies warrant.

9. A basis which records anticipated expenditure evidenced by a purchase order and/or contract is called the
   A. budgeting basis.
   B. commitment basis.
   C. accrual basis.
   D. modified accrual basis.
   E. modified cash basis.

10. The instrument which is used to re-vote capital expenditure estimate which had lapsed over the years is known as
    A. development fund supplementary warrant.
    B. development fund (special) warrant.
    C. development fund general warrant.
    D. development fund virement warrant.
    E. development fund reserve expenditure warrant.

11. All the following are marketable Federal Government debt instruments, **EXCEPT**
    A. Treasury bills.
    B. Promissory notes.
    C. Treasury bond.
    D. Treasury certificate.
    E. Federal government development stock.
12. Which of the following will lead to a reduction in aggregate disposable income in the economy?
   A. Increase in transfer payment
   B. Increase in external borrowing
   C. Reduction in company income tax
   D. Surplus budgeting
   E. Deficit budgeting.

13. Which of the following is a tax on the supply of goods and services which is borne by the final consumer but collected at each stage of production and distribution chain?
   A. Value added tax (VAT).
   B. Petroleum profit tax.
   C. Capital transfer tax
   D. Excise duties
   E. Export duties.

14. A budgeting technique which requires every item of expenditure to be justified as if the particular activity or programme is taking off for the first time is called ………………
   A. flexible budgeting technique.
   B. rolling budget technique.
   C. perspective budgeting technique.
   D. traditional budgeting technique.
   E. zero-base budgeting technique.

15. The deliberate manipulation of the extent and timing of taxes and revenue by the government to achieve certain economic objectives is called……………………
   A. discretionary fiscal policy.
   B. policy drag.
   C. built-in-stabilizer.
   D. fiscal responsibility.
   E. compensatory fiscal policy.

16. Which of the following goods and services is NOT supplied by the public sector?
   A. National defence
   B. National health service
   C. Clothes
   D. Police protection
   E. Vehicle licensing.

17. Which of the following is a direct tax?
   A. Import duty
B. Excise duty  
C. Value added tax  
D. Petroleum profit tax  
E. Export duty.

18. Which of the following is an expansionary fiscal policy?  
A. Reduction in government spending  
B. Reduction in taxation  
C. Reduction in government transfer payment  
D. Reduction in external debt  
E. Budget Surplus.

19. The policy initiative which emphasizes positive returns on public sector investment is called  
A. indigenization.  
B. privatization.  
C. commercialization.  
D. nationalization.  
E. industrialization.

20. Public debts that are due for settlement each month are financed by the Federal Government through  
A. a reduction in expenditure.  
B. increasing the tax rate imposed on the public.  
C. asking corporate organizations for donations.  
D. selling new bonds to the public.  
E. asking States and Local Governments for donation.
PART II  SHORT ANSWER QUESTIONS  (20 MARKS)

1. Which body is empowered to oversee the new policy guidelines on procurement and award of contracts in Government Ministries and Parastatals?

2. What type of imprest is operated from the commencement to the end of a financial year?

3. What document is used in Government to effect transfer from one account to another without the movement of cash?

4. All Warrants must be issued and duly signed by the ..................

5. The salaries and allowances of statutory officers are charged to the ..................

6. The Contingencies Fund derives its income from the .....................

7. The government recurrent expenditure is met from the .....................

8. Section 35 of the Public Procurement Act 2007 put the mobilization fees payable to a supplier or contractor at not more than .....................%.

9. An expenditure item whose benefits accrue for more than one year is ..................

10. What is the financial statement which shows the sources and uses of cash for a period called?

11. A conscious and carefully-planned schedule of acquisition, deployment and retirement of foreign loans contracted by the government is referred to as ..................

12. Besides revenue sharing, the main mechanism for inter governmental transfer is ..................... from higher to lower levels.

13. A development plan which is always split into many short-term plans of three or five years, in order to achieve long-term objectives is called.....................

14. Since the early 1970s, the primary engine for economic growth and development in Nigeria has been the revenue from ..................... sector.
15. The divestment of the Federal Government shareholding in some public enterprises and the restructuring of designated ones to operate profitably on commercial basis is being executed under the programme of …………………… and …………….. 

16. A financial statement prepared by the government to meet extra expenditure not originally proposed is known as ……………………….. 

17. A system of assessment of public projects which lays emphasis on the tests of actual performance of projects against their expected standards is called …………………………… 

18. An arrangement in which the private sector is co-opted into financing socio-economic infrastructure that were usually exclusively provided by the government is known as ………………….. 

19. In the Discounted cash flow (DCF) method of project evaluation, the rate at which the net present value is zero for a given set of cashflows is called …………………………… 

20. A public debt management strategy which involves changing the maturity structure of the loan is referred to as……………………..
SECTION B

QUESTION 1 - CASE STUDY

At the inaugural meeting of Finance and General Purposes Committee of ANWALSAN Local Government Council of Agannigan State, the newly sworn in Chairman declared openly that he was not comfortable with the reports, records and financial statements he had perused when he took over the chairmanship of the Council. According to him, the basis of the preparation of most of the documents was unacceptable.

The Chairman, Dr. Ewen, is a medical doctor, who claimed to be a technocrat. He had served on the Board of Directors of some profit making outfits. He currently has two functioning trading outfits and a small scale manufacturing concern.

He told the other council members and management staff present at the meeting that he was currently studying the following documents, which he bought about four months ago:
(a) The Corrupt Practices and Other Related Offences Act, 2002;
(b) The Public Procurement Act, 2007;
(c) The 1999 Constitution of the Federal Republic of Nigeria;
(d) The Independent Corrupt Practices and Other Related Offences Act; and
(e) The Economic and Financial Crimes Commission Act.

The Chairman is familiar with the published accounts of banks and companies in which he had invested money. He was, however, not conversant with the financial reports of government establishments.

The Chairman has spent time going through the last few years’ financial reports and statements of the Council and comparing them seriously with those of trading/commercial outfits.

He kept his mind open at the meeting and specifically gave the new committee the following assignments to answer these following posers:
(a) Why the Council did not prepare Profit and Loss Account;
(b) Why the Council had not been declaring dividends;
(c) Why the Council did not register with the Corporate Affairs Commission; and
(d) Why the Council did not hold Annual General Meetings just as public quoted companies or profit making outfits.

As the Chairman of the newly inaugurated Finance and General Purposes Committee, you are required to outline reactions to the posers raised by the Council Chairman, for discussion at the imminent meeting of your Committee.

(Total 15 Marks)
**QUESTION 2**

The following balances were extracted from the Head Ledgers of Rima State Treasury in December, 2008:

<table>
<thead>
<tr>
<th>Head</th>
<th>Item</th>
<th>Amount (₦‘million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>211</td>
<td>Contribution from Consolidated Revenue Fund (CRF)</td>
<td>1,727,331</td>
</tr>
<tr>
<td>212</td>
<td>External Grant</td>
<td>1,600,000</td>
</tr>
<tr>
<td>213</td>
<td>Internal Loan</td>
<td>2,549,600</td>
</tr>
<tr>
<td>214</td>
<td>External Loan</td>
<td>3,246,700</td>
</tr>
<tr>
<td>220</td>
<td>Rural Development</td>
<td>120,000</td>
</tr>
<tr>
<td>225</td>
<td>Mining and Quarrying</td>
<td>149,000</td>
</tr>
<tr>
<td>231</td>
<td>Air Transport</td>
<td>129,000</td>
</tr>
<tr>
<td>233</td>
<td>Education</td>
<td>253,824</td>
</tr>
<tr>
<td>234</td>
<td>Health Care</td>
<td>170,000</td>
</tr>
<tr>
<td>239</td>
<td>Environment</td>
<td>12,000</td>
</tr>
<tr>
<td>240</td>
<td>Housing</td>
<td>139,000</td>
</tr>
<tr>
<td>245</td>
<td>Defence</td>
<td>643,000</td>
</tr>
<tr>
<td>246</td>
<td>General Administration</td>
<td>421,000</td>
</tr>
</tbody>
</table>

In addition, the following pieces of information were derived from the Approved Capital Budget of the State:

<table>
<thead>
<tr>
<th></th>
<th>(₦ million)</th>
<th></th>
<th>(₦ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>211</td>
<td>5,132,000</td>
<td>220</td>
<td>182,148</td>
</tr>
<tr>
<td>212</td>
<td>4,782,000</td>
<td>225</td>
<td>223,160</td>
</tr>
<tr>
<td>213</td>
<td>1,095,000</td>
<td>231</td>
<td>117,828</td>
</tr>
<tr>
<td>214</td>
<td>1,521,000</td>
<td>233</td>
<td>215,032</td>
</tr>
<tr>
<td></td>
<td></td>
<td>234</td>
<td>162,130</td>
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<td></td>
<td></td>
<td>239</td>
<td>43,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>240</td>
<td>137,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>245</td>
<td>650,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>246</td>
<td>400,000</td>
</tr>
</tbody>
</table>

The funds are assumed to flow evenly during the period.
You are required to prepare the Development Fund Statement of Accounts for the period ended December 31, 2008. 

(Total 15 Marks)

**QUESTION 3**

The process of Federation Account distribution starts by ascertaining from the Central Bank of Nigeria (CBN) how much has accrued and is available for
distribution. The Central Bank of Nigeria renders the COMPONENT STATEMENTS of the Federation Account for the relevant month.

(a) List any **FOUR** of the contents of the COMPONENT STATEMENTS rendered by the Central Bank. (4 Marks)

(b) Describe Zero-Base Budgeting and briefly compare it with the traditional/incremental budgeting. (11 Marks)

**QUESTION 4**

(a) List **TWO** powers of the Fiscal Responsibility Commission as contained in the Act which established the Body. (4 Marks)

(b) Section 8 (1) of the Act stipulates the conditions for cessation of membership of the Commission.

Required:
Enumerate any **SIX** of the conditions as spelt out in the Act. (6 Marks)

(c) Write short notes on the following:
   (i)  Entity Concept
   (ii) Going Concern Concept
   (iii) Periodicity Concept
   (iv) Consistency Concept
   (v) Historical Cost Concept.

(Total 15 Marks)

**QUESTION 5**

With the aid of concrete examples, explain the reasons for Government’s continued ownership of enterprises in Nigeria. (Total 15 Marks)

**QUESTION 6**

It is generally accepted that States and Local Governments in Nigeria are excessively dependent on statutory allocations for their finances.

(a) Give any **TWO** reasons for this state of affairs.

(b) Suggest any **THREE** measures to improve the situation.

(Total 15 Marks)
SOLUTIONS TO SECTION A

MULTIPLE CHOICE QUESTIONS

1. D
2. E
3. C
4. C
5. B
6. A
7. B
8. A
9. B
10. A
11. B
12. D
13. A
14. E
15. A
16. C
17. D
18. B
19. C
20. D
SHORT ANSWER QUESTIONS

1. National Council on Public Procurement
2. Standing Imprest
3. Adjustment Voucher
4. Minister of Finance
5. Consolidated Revenue Fund
6. Consolidated Revenue Fund
7. Consolidated Revenue Fund
8. 15%
9. Capital Expenditure
10. Cash Flow Statement
11. External Debt Management
12. Grants
13. A Perspective Plan
14. Oil
15. Privatisation and Commercialisation
16. A Supplementary Budget
17. Planning, Programming Budgeting System (PPBS)
18. Public-Private Partnership (PPP)
19. Internal rate of return
20. Debt Restructuring
SOLUTIONS SECTION B

SOLUTION 1 - CASE STUDY

(a) WHY THE COUNCIL DID NOT PREPARE PROFIT AND LOSS ACCOUNT

The purpose/aim of a Local Government Council is not to make profit per se, but to provide social services to the people in the community. The costs of such services are borne by the tax payers.

The standardized reporting format advocated for Local Governments by the International Federation of Accountants are:

(i) A Declaration of Responsibility for the Financial Statements to be issued and signed by the Treasurer of the Local Government Council concerned, in accordance with the provisions of the Finance (Control and Management) Act, Cap 144 LFN 1990 and the generally accepted accounting practice.

(ii) An Audit Certificate to be issued and signed by the Auditor-General for Local Government, in accordance with the provisions of the 1999 Constitution of Federal Republic of Nigeria and generally accepted auditing standards.

(iii) Statement No 1: Cash Flow Statement

(iv) Statement No 2: Statement of Assets and Liabilities

(v) Statement No 3: Statement of Consolidated Revenue Fund

(b) WHY THE COUNCIL HAD NOT DECLARED DIVIDENDS:

The owners of commercial/trading outfits invest money in the various organizations. Whatever profit or loss made belongs to them. The firms or companies employ and pay people to administer or run the companies on behalf of the owners.

Dividend payment is just one of the means of rewarding the shareholders for their investments in the companies. A Local Government Council does not have shareholders. The Federal and State Governments make allocations to the Councils. The Local Government Councils source internally generated revenue from local taxes, rates, fines and proceeds of small scale commercial ventures such as farming.
There is a legal provision for the appropriation of company profit by way of dividend payment to shareholders. There is no such provision for a Local Government Council which has only stakeholders rather than shareholders.

c. **WHY THE COUNCIL DID NOT REGISTER WITH THE CORPORATE AFFAIRS COMMISSION**

Only public companies are required by law to register with the Corporate Affairs Commission. Local Government Councils are creations of the 1999 Constitution of the Federal Republic of Nigeria. Unlike companies, they are the third tier of Government.

d. **WHY THE COUNCIL DID NOT HOLD ANNUAL GENERAL MEETINGS**

It is mandatory for companies or organizations registered under the Companies and Allied Matters Act to hold Annual General Meetings. There are specific statutory duties to be executed at such meetings, for example, the consideration and approval of the audited financial statements and auditors' reports. There is no law or regulation compelling or requiring Local Government Councils to hold such meetings.

**SOLUTION 2**

**RIMA STATE**

**DEVELOPMENT FUND STATEMENT OF ACCOUNTS FOR THE YEAR ENDED**

**DECEMBER 31, 2008**

<table>
<thead>
<tr>
<th>Head</th>
<th>Item</th>
<th>Estimates</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
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<td></td>
<td></td>
<td>N million</td>
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</tr>
<tr>
<td></td>
<td>(a)</td>
<td>12,530,000</td>
<td>9,123,631</td>
</tr>
<tr>
<td>220</td>
<td>Rural Development</td>
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<td>246</td>
<td>General Administration</td>
<td>400,000</td>
<td>421,000</td>
</tr>
<tr>
<td></td>
<td>(b)</td>
<td>2,130,298</td>
<td>2,036,824</td>
</tr>
<tr>
<td></td>
<td>Surplus (c) = (a) – (b)</td>
<td>10,399,702</td>
<td>7,086,807</td>
</tr>
</tbody>
</table>

**SOLUTION 3**

(a) The contents of COMPONENT STATEMENTS rendered by Central Bank of Nigeria are:
(i) The crude oil receipt from the Nigerian National Petroleum Corporation, less deductible payments;

(ii) Royalties, rent and other revenue from the Ministry of Petroleum Resources;

(iii) Petroleum profits tax, Companies income tax collected by the Federal Inland Revenue Service;

(iv) Import and Excise Duties collected by the Nigerian Customs Service; and

(v) Tax on petroleum products.

(b) Zero Base Budgeting (ZBB) is a planning and budgeting tool which uses cost/benefit analysis of projects and functions to improve resource allocation, in an organization. The budget usually consists of decision packages which are analysed, evaluated and rated in the order of priority, on the basis of the cost/benefit analysis. Management can then evaluate possible activities for the coming period and select those which will best achieve the organization’s goals.

It is also a programme budgeting reform that requires every item of expenditure to be justified as if the particular activity or programme is taking off for the first time. It is the preparation of operating budget from a ‘zero base’ of expenditure cost.

**COMPARISON WITH TRADITIONAL/INCREMENAL BUDGETING**

Zero-Base Budget is commonly differentiated from traditional budgeting which tends to concentrate on the incremental change from the prior year. Traditional budgeting assumes that the prior year activities are essential, must be continued, are currently performed in a cost-efficient and optimal manner and will be cost-effective in the up-coming year. Under this perspective, costs are developed in a “line item” basis, rather than on activity stand point. Zero-Base budget organizes all budget costs in the form of activities and/or operations (decision packages) and evaluates the effectiveness of each decision package as if it were a new activity.

**SOLUTION 4**

(a) Two powers of the Fiscal Responsibility Commission are:

   (i) Compelling any person or government institution to disclose information relating to public revenue and expenditure.
(ii) Causing an investigation into whether any person has violated any provisions of the Act.

(b) The conditions for cessation of membership of the Fiscal Responsibility Commission are as follows:

(i) If the member becomes bankrupt or makes a compromise with his creditors;

(ii) If he is convicted of a felony or any offence involving dishonesty, corruption or fraud;

(iii) If he becomes incapable of performing the functions of his office by reason of infirmity of the mind or body;

(iv) If the President is satisfied that it is not in the interest of the Council or the public for him to continue in office and thereby removes him;

(v) If he has been found guilty of violation of the Code of Conduct or serious misconduct in his duties;

(vi) If he resigns his appointment by a notice under his hand to the President; or

(vii) If in the case of a person who became a member by virtue of his office and he ceases to hold such office for whatever reason.

(c)

(i) Entity Concept
   This involves treating economic unit as a separate entity from the parties having proprietary interests in it.

(ii) Going Concern Concept
   This involves the assumption that an organization will operate in perpetuity.

(iii) Periodicity Concept
   Financial Statements are prepared to a particular period, say, 1 year, which could be used as a yardstick in measuring changes in position.

(iv) Consistency Concept
   When a method is selected, it should be continued unless conditions warrant a change.
(v) Historical Cost Concept
This assumes that historical cost is the appropriate basis for initial accounting recognition of all transactions entered into.

**SOLUTION 5**

**Arguments for government ownership of enterprises in Nigeria:**

(i) **Natural monopolies:**
There are goods that cannot be produced under competitive conditions by the private sector. It may be that competition may lead to a wasting of resources by the competitors. An example is the operation of railway services.

(ii) **Economies of scale:**
The level of operation may be so large that economies of scale will be reaped only after a given minimum number of units has been produced, for example, electricity supply.

(iii) **High initial cost of production:**
The initial cost of setting up the enterprise may be so high that the private sector may not be able to afford, for example, Iron and steel complex.

(iv) **Strategic industries:**
The commercial interest of private enterprises may be in conflict with the national interest in some key areas such as industries producing weapons and exploitation of natural resources like forestry and crude oil. Government should run such industries for the general interest of the country.

(v) **Stability and Growth:**
Based on their motive, the private sector may not produce certain goods and services in the quantities needed for the long term growth of the economy. The government is needed to fill in the gap, for example, in the area of educational facilities.

(vi) **Welfare considerations/Social benefits:**
As a result of the positive externalities or social benefits derived from them, the government may be inclined to provide certain goods and services. For example, education will reduce ignorance, diseases and poverty. In addition, health facilities will reduce diseases and promote healthy living.

(vii) **Political considerations:**
Public enterprises are sources of political power and patronage in terms of creating jobs for party stalwarts.
**SOLUTION 6**

(a) The reasons for excessive dependence of State and Local Governments on statutory allocations for their finances include the following:

(i) Reliance on a mono-cultural economic base
Earnings from the oil sector, such as petroleum profits tax, NNPC earnings from direct sales of oil, pipeline licence fees, royalties, rent on oil well and penalties for gas flared constitute a substantial proportion of fund in the Federation Account.

(ii) Poor performance in internal revenue generation activities
The State and Local governments are not making enough efforts to generate revenue from other sources, such as commercial undertakings, taxes and rent on government property.

(iii) High concentration and centralization of fiscal resources at the Federal level:
Besides revenue from oil production activities, the Value added tax (VAT) which is also an important item in the national revenue structure is controlled at the federal level.

(b) Measures to improve the present precarious fiscal dependence will include:

(i) Review of revenue allocation formula:
The principles of revenue derivation and internal revenue generation efforts should be rated higher than equality of States’ population and developmental needs. This will encourage the State and Local Governments to expand their internal revenue base.

(ii) Devolution of tax powers on State and Local Governments:
The Federal Government should allow the States to control the administration and collection of VAT.

(iii) Promotion of private investments:
The State and Local Governments should encourage private investments in their areas. Such private sector activities will generate revenue in the forms of taxes, user charges, etc.

(iv) Encouragement of manufacturing activities:
The Federal and State Governments, especially, should use fiscal incentives and provision of infrastructure to promote manufacturing activities. The State and Local Governments would benefit from the linkage effects of such activities.
1. The Federal Government makes use of the following agencies to collect revenue EXCEPT
   A. Federal Inland Revenue Service
   B. Nigerian National Petroleum Corporation
   C. Nigeria Prisons Service
   D. Nigeria Customs Service
   E. Government Investment Department.

2. Which one of the following functions is NOT performed by a revenue collector?
   A. Ensuring that all books are posted up to date
   B. Promptly charging in his account all disbursements incurred
   C. Exercising control over receipt and documentation of public revenue
   D. Promptly bringing to account, as a receipt, any cash or stamp found in excess of the balances shown in the cash book
   E. Ensuring that the cash balance held does not exceed the authorized figure.

3. A true description of a transcript is a monthly
   A. summary of receipt and payment transactions of a self accounting department or unit.
   B. summary of total receipts and payments of a self-accounting department or unit, analysed according to sub-heads and below-the-line accounts.
   C. total analysis of receipt and payment transactions of a self-accounting department or unit.
   D. summary of analysis of receipt and payment transactions of a self-accounting department or unit.
   E. summary of bank transactions of a self accounting department or unit.
4. The document which shows the total salaries and allowances of staff in each ministry or department for a future period is called

A. management planning budget.
B. personal emolument budget.
C. personnel cost budget.
D. overhead cost budget.
E. salaries cost budget.

5. A surplus budget can be used to

A. increase the level of economic activities in the country.
B. generate more employment opportunities.
C. increase the amount of money in circulation.
D. reduce inflationary pressure.
E. increase the goods and services available.

6. All but one of the following is NOT a method of preparing a public sector organization’s annual budget.

A. Zero base method
B. Planning, programming and budgeting system
C. Traditional method
D. Incremental method
E. Line-item method.

7. The annual estimates aggregated with the supplementary provisions constitute

A. base estimate.
B. capital estimate.
C. revenue estimate.
D. commitment growth estimate.
E. revised estimate.

8. International Public Sector Accounting Standards No 2 is in relation to

A. leases.
B. borrowing costs.
C. consolidated financial statements.
D. cash flow statements.
E. construction contracts.
9. The fiscal year of public sector organizations is

A. period within which corporations’ debtors should settle outstanding accounts.
B. time span of twelve months, between 1 January and 31 December, every year.
C. time span of twelve months, between 1 April of current year to 31 March of the following year.
D. period within which corporations’ creditors should be paid.
E. the period within which all financial statements should be audited.

10. The statement which shows how the profit realized is shared between the providers of capital, employees and tax authorities is known as

A. income statement.
B. sources and application of funds.
C. value–added statement.
D. cash flow statement.
E. working capital statement.

11. The revenue source which generates the bulk of the revenue in the local government apart from statutory allocation is

A. personal income tax.
B. tenement rate.
C. import duties
D. bicycle licence fees.
E. market stall fees.

12. Which of the following fiscal policy actions is contractionary?

A. Payment of subsidies by the Federal Government to the State Governments in the financing of State roads.
B. A decrease in government budget deficit.
C. An increase in unemployment benefits
D. A general increase in subsidy to agriculture
E. An increase in the rate of capital gains tax.

13. Fiscal policy measures to eliminate balance of payments deficit include all the following EXCEPT

A. Increase in export duties
B. Decrease in value –added tax
C. Borrowing from the IMF
D. Increase in import tariffs
E. Tax holiday for import substituting industries.
14. The phenomenon of de-industrialization in the Nigerian economy is caused by

A. trade protectionist measures.
B. poor state of economic infrastructures.
C. favourable industrial climate.
D. the size of the market.
E. improved technology in the industrial sector.

15. When a creditor nation decides to write off the liabilities of a debtor nation, it is called

A. debt–equity swap.
B. debt restructuring.
C. ban on external loan.
D. debt forgiveness.
E. debt repudiation.

16. Sources of revenue payable to the Federation Accounts do not include

A. rent on government properties.
B. petroleum profit tax.
C. company income tax.
D. royalties on minerals.
E. excise duties.

17. Instruments of fiscal policy include:

I. Government expenditure
II. Government Borrowing
III. Taxation

A. I
B. II
C. III
D. I & II
E. I, II & III

18. Indirect taxes do not include

A. licence fees.
B. import duty.
C. export duty.
D. excise duty.
E. expenditure tax.
19. A source of revenue that contributes the most to the coffers of the Federal government of Nigeria is

A. personal income tax.
B. petroleum profit tax.
C. value added tax.
D. company income tax.
E. import duty.

20. If the government wishes to increase the level of Net National Product, it will

A. reduce the size of the budget deficit.
B. reduce taxes.
C. reduce its expenditure.
D. reduce transfer payment.
E. increase taxes.
PART II - SHORT ANSWER QUESTIONS (20 MARKS)

1. The Warrant that authorizes the release of funds included in the approved annual or supplementary estimates but excluded from the Annual General Warrant is called ……………………….

2. The process of determining how best to allocate a company’s resources to long-term capital proposals and new products is known as ……………………..

3. The use by several undertakings, within the public sector, of the same accounting principles and/or practices is called ……………………..

4. The principal revenue-generating activities of the entity and others that are neither investing nor financing activities are called ……………………..

5. All moveable properties purchased from public fund or otherwise acquired by the government are referred to as ……………………..

6. The documents used to transfer stock from one store to another is called ……………………..

7. Inflows and outflows of cash and cash equivalents are called ……………………..

8. The acquisition and disposal of long-term assets and other investments not included in cash equivalents are known as ……………………..

9. The supervision of activities of an entity, with the authority and responsibility to control its financial and operating decisions is called ……………………..

10. State any ONE accounting basis under which financial transactions are recorded in the private sector.

11. The sale of external debt at a favourable discount for equity participation in domestic enterprise is described by the term ……………………..

12. The share of the Federal, State or Local Governments from the Federation Accounts revenue is called ……………………..

13. The method by which resources are shared among the Federal, State and Local governments is based on the ……………………..

14. A technique of public sector project appraisal with emphasis on the least cost of achieving the specific objective of a project and choosing among alternative lines of action is known as ……………………..
15. The sector of the Nigerian economy which employs the bulk of the nation’s population is ……………………..

16. Government expenditure on construction of roads, buildings and provision of pipe-borne water, in public tertiary institutions, are categorized as ……………………..

17. The institution that is entrusted with the issue and management of Federal Government loans publicly issued in Nigeria is ……………………..

18. The authority which confers power on government officers controlling expenditure or vote, to incur expenditure is called ……………………..

19. The type of budget that can be used to stimulate a depressed economy is ……………………..

20. In external debt financing, International Institutions such as the World Bank and International Monetary Fund (IMF) are classified as ……………………..
SECTION B   (60 MARKS)

QUESTION 1- CASE STUDY

The President of the Federal Republic of Utopia just presented the annual budget to the joint sitting of the country’s National Assembly. The country derives the lion share of its revenue from the export of crude oil. In spite of the huge revenue derived from this source, the needs of the country are more. This is why the revenue estimates of the budget which the President presented are lower than the proposed expenditure. The President proposed that the excess of expenditure over revenue could be financed from an increase in taxation, instead of the removal of petroleum subsidy.

During the debate of the President’s budget speech in the upper house, the Senator representing Adah Federal constituency of Myopia State, wondered why the President was considering further erosion of the purchasing power of the people who were already suffering from low real income, due to the high rate of inflation. “Instead of putting more burden on the people,” a senator interjected, “let the Central Bank print more money to cover the difference in the proposed expenditure and revenue estimates”. He had hardly finished when another senator shouted him down. At this point, the Senate President frowned at the senator who humiliated his colleague. The Senator shouted down was too infuriated to continue his speech.

Another Senator stood up to suggest the idea of taking loans from, according to him, “IMF, Paris Club and the London Club of Creditors”. The debate went on and on. At the end of the day, there was no agreement as to the source of financing for the difference in expenditure and revenue. The Senate then adjourned till the following week.

Required:
(a) Identify the type of budget presented by the President of the Federal Republic of Utopia. (3 Marks)
(b) Identify the various sources of financing this type of budget highlighted in the passage. (6 Marks)
(c) Examine the viability and economic implication of each source identified (6 Marks)
(Total 15 Marks)

QUESTION 2

(a) Differentiate between ‘Value Added’ and ‘Value-Added Statement’. (4 Marks)

(b) The following summarized information has been obtained from UNIPET KONSULT, the consultancy outfit of the University of PETELE STATE, in respect of the year ended December 31, 2008.
Using the vertical method of presentation, you are required to prepare:

i) Conventional profit statement of UNIPET KONSULT; and  
ii) Valued-Added statement  

(11 Marks)  

(Total 15 Marks)  

QUESTION 3  

The trial balance of TINUBA Local Government Council as at 31 December 2008 is as follows:

<table>
<thead>
<tr>
<th>DR</th>
<th>CR</th>
<th>₦</th>
<th>₦</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td></td>
<td>181,992</td>
<td></td>
</tr>
<tr>
<td>Tenement Rate</td>
<td></td>
<td>3,898,908</td>
<td></td>
</tr>
<tr>
<td>Interest and Penalties</td>
<td></td>
<td>7,800</td>
<td></td>
</tr>
<tr>
<td>Licences</td>
<td></td>
<td>2,108,592</td>
<td></td>
</tr>
<tr>
<td>Fines</td>
<td></td>
<td>928,500</td>
<td></td>
</tr>
<tr>
<td>Water rates</td>
<td></td>
<td>841,350</td>
<td></td>
</tr>
<tr>
<td>Sundry revenue</td>
<td></td>
<td>82,950</td>
<td></td>
</tr>
<tr>
<td>Market fees</td>
<td></td>
<td>132,900</td>
<td></td>
</tr>
<tr>
<td>Parks and recreation</td>
<td></td>
<td>1,480,740</td>
<td></td>
</tr>
<tr>
<td>Pension contribution</td>
<td></td>
<td>382,800</td>
<td></td>
</tr>
<tr>
<td>Health and welfare</td>
<td></td>
<td>2,191,260</td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td></td>
<td>3,010,500</td>
<td></td>
</tr>
<tr>
<td>Sundry expenses</td>
<td></td>
<td>29,640</td>
<td></td>
</tr>
<tr>
<td>Investments (short-term)</td>
<td></td>
<td>4,500,000</td>
<td></td>
</tr>
<tr>
<td>Staff advances</td>
<td></td>
<td>63,750</td>
<td></td>
</tr>
<tr>
<td>Loans – Better Life Programme</td>
<td></td>
<td>75,000</td>
<td></td>
</tr>
<tr>
<td>- Governors’ forum</td>
<td></td>
<td></td>
<td>37,500</td>
</tr>
<tr>
<td>Fund balance</td>
<td></td>
<td></td>
<td>3,877,182</td>
</tr>
</tbody>
</table>

| Total                   |                         | 11,915,682 | 11,915,682 |

Additional relevant information:
i. The underlisted amounts had not been adjusted:
ii. The Reserve fund is 2% of the total internal revenue of the local government.

You are required to prepare in a vertical form
a) The revenue account for the year ended December 31, 2008  (10 Marks)
b) The statement of asset and liabilities as at December 31, 2008  (5 Marks)

(Total 15 Marks)

QUESTION 4

You have just been recruited into Djabi Federal Civil Service and posted to the Consolidated Accounts Department. The Department is responsible for the preparation of all accounts of the service. The Accountant General has requested you to re-analyse the records below using the following bases:

i) Budgetary;
ii) Commitment;
iii) Accrual; and
iv) Cash.

<table>
<thead>
<tr>
<th>Head</th>
<th>Item</th>
<th>Budgeted Amounts '000</th>
<th>Amount for which contracts were issued '000</th>
<th>Value of job executed '000</th>
<th>Value of job paid for '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.01</td>
<td>Construction of J.S Tarka Way</td>
<td>900,000</td>
<td>1,600,000</td>
<td>1,400,000</td>
<td>1,300,000</td>
</tr>
<tr>
<td>5.02</td>
<td>Extension to the secretariat</td>
<td>500,000</td>
<td>480,000</td>
<td>480,000</td>
<td>440,000</td>
</tr>
<tr>
<td>5.03</td>
<td>Purchase of stationery</td>
<td>600,000</td>
<td>560,000</td>
<td>560,000</td>
<td>540,000</td>
</tr>
<tr>
<td>5.04</td>
<td>Supply of granite stones</td>
<td>400,000</td>
<td>540,000</td>
<td>520,000</td>
<td>500,000</td>
</tr>
<tr>
<td>5.05</td>
<td>Treasury books printed</td>
<td>100,000</td>
<td>120,000</td>
<td>120,000</td>
<td>200,000</td>
</tr>
<tr>
<td>5.06</td>
<td>Drugs/equipment purchased</td>
<td>1,000,000</td>
<td>960,000</td>
<td>900,000</td>
<td>800,000</td>
</tr>
</tbody>
</table>

(Total 15 Marks)

QUESTION 5

(a) Describe the terms ‘domestic debt’ and ‘external debt’.  (6 Marks)
(b) Explain three sources of each of the above two types of debt available to the government.  (9 Marks)

(Total 15 Marks)
QUESTION 6

Highlight five ways by which the Federal Government of Nigeria finances her development plans.  

(Total 15 Marks)
SOLUTIONS TO SECTION A

PART 1 - MULTIPLE CHOICE QUESTIONS

1. C
2. B
3. B
4. C
5. D
6. B
7. E
8. D
9. B
10. C
11. B
12. B
13. A
14. B
15. D
16. A
17. E
18. A
19. B
20. B
PART II - SHORT ANSWER QUESTIONS

1. Reserved Expenditure Warrant.
2. Investment Appraisal/Capital Budgeting.
3. Uniform Accounting.
4. Operating Activities
5. Stores.
8. Investing Activities
9. Oversight
10. Accrual basis, Cash basis, modified cash basis, modified accrual basis and commitment basis. (Any one)
11. Debt-equity swap
12. Statutory allocation
13. Revenue Allocation formula
14. Cost effectiveness analysis
15. The Agricultural sector
16. Capital Expenditure
17. The Central Bank of Nigeria (CBN)
18. Warrants
19. Deficit Budget
20. Multilateral Creditors
SOLUTIONS TO SECTION B

SOLUTION 1 - CASE STUDY

(a) The type of budget presented by the President of the Federal Republic of Utopia is a deficit budget.

(b) The sources that are identified in the passage are

i. increases in taxation.
ii. removal of petroleum subsidy.
iii. printing of more money by the Central Bank.
iv. loan from the International Monetary Fund (IMF).
v. loan from London Club.
vi. loan from the Paris Club.

(c) Viability and implication of each source:

(i) Increases in taxation.
This is viable. However, it has the tendency to erode people’s purchasing power. Moreover, since the real income of the people is already low, there is the risk of the economy going into recession.

(ii) Removal of petroleum subsidy.
This is viable but it may lead to inflation in an economy where the real income is already falling. The subsidy removal will further impoverish the people.

(iii) Printing of more money by the Central Bank.
There are two possibilities here. Since there is no indication that the volume of goods and services increases, the option is inflationary. However, since the real income of the people is low, printing of more money may lead to an increase in disposable income, demand for goods and services and ultimately, increased economic activities and national income.

(iv) Loan from the IMF.
This option is not viable as the IMF will grant only balance-of-payments support loans. The Body will not release loan to finance a budget deficit.

(v) Loan from London Club.
This is an option to consider. The objective of the London Club creditors is to make profits. The rate of interest is, therefore, likely to
be prohibitive. Moreover, the club grants loans for mainly trade arrears.

(vi) **Paris Club of Creditors.**
This group is an official government creditors' club with repayment terms that are relatively more liberal, since profit making is not the main motive of lending.

**SOLUTION 2**

- 'Value Added' is the amount by which the sales value of production was enhanced by the effort of the organization and its employees. It is the wealth created by the combined efforts of both the organization and the employees.

- Value-Added Statement is the information format prepared to show how the excess of turnover brought out materials and services, has been applied to items such as provisions for depreciation, employers, government and employees.

(i) **UNIPET KONSULT**
**CONVENTIONAL PROFIT STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2008.**

<table>
<thead>
<tr>
<th></th>
<th>N million</th>
<th>N million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>19,770</td>
<td></td>
</tr>
<tr>
<td>Less</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchased material used in production</td>
<td>10,800</td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>4,680</td>
<td></td>
</tr>
<tr>
<td>Services consumed</td>
<td>2,130</td>
<td></td>
</tr>
<tr>
<td>Depreciation of fixed assets</td>
<td>360</td>
<td></td>
</tr>
<tr>
<td>Loan interest</td>
<td>360</td>
<td>(18,330)</td>
</tr>
<tr>
<td>Profit Before Tax (PBT)</td>
<td></td>
<td>1,440</td>
</tr>
<tr>
<td>Taxation</td>
<td></td>
<td>(600)</td>
</tr>
<tr>
<td>Profit After Tax (PAT)</td>
<td></td>
<td>840</td>
</tr>
<tr>
<td>Dividend proposed</td>
<td></td>
<td>(330)</td>
</tr>
<tr>
<td>Profit carried forward</td>
<td></td>
<td>510</td>
</tr>
</tbody>
</table>
UNIPET KONSULT

<table>
<thead>
<tr>
<th></th>
<th>N million</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>19,770</td>
<td></td>
</tr>
<tr>
<td>Bought out materials and services used in production</td>
<td>(12,930)</td>
<td></td>
</tr>
<tr>
<td>Value added</td>
<td>6,840</td>
<td>100</td>
</tr>
</tbody>
</table>

Applied to:
- Employees: 4,680 69%
- Government (Corporate tax): 600 9%
- Providers of capital:
  - Interest of loan: 360 5%
  - Proposed dividend: 330 5%
- For expansion/maintenance of assets:
  - Retained earnings: 510 7%
  - Depreciation: 360 5%

Total: 6,840 100%

SOLUTION 3

TINUBA LOCAL GOVERNMENT

a) REVENUE ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2008

<table>
<thead>
<tr>
<th>Income</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenement Rate</td>
<td>3,898,908</td>
</tr>
<tr>
<td>Interest and penalties</td>
<td>7,800</td>
</tr>
<tr>
<td>Licenses</td>
<td>2,108,592</td>
</tr>
<tr>
<td>Fines</td>
<td>928,500</td>
</tr>
<tr>
<td>Water rate</td>
<td>841,350</td>
</tr>
<tr>
<td>Market fees (N132,900 + N7,500)</td>
<td>140,400</td>
</tr>
<tr>
<td>Sundry revenue</td>
<td>82,950</td>
</tr>
</tbody>
</table>

Total: 8,008,500

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parks and recreation (N1,480,740 + N11,250)</td>
<td>1,491,990</td>
</tr>
<tr>
<td>Pensions contributions</td>
<td>382,800</td>
</tr>
<tr>
<td>Health and welfare</td>
<td>2,191,260</td>
</tr>
<tr>
<td>Administration</td>
<td>3,010,500</td>
</tr>
<tr>
<td>Sundry expenses</td>
<td>29,640</td>
</tr>
</tbody>
</table>
Less: Reserve fund (2% of ₦8,008,500)  
Surplus  
Fund balance b/f  
Fund balance c/f  

(b)

TINUBA LOCAL GOVERNMENT  
STATEMENT OF ASSETS AND LIABILITIES AS AT 31 DECEMBER 2008

<table>
<thead>
<tr>
<th>Assets</th>
<th>₦</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>4,500,000</td>
</tr>
<tr>
<td>Cash</td>
<td>181,992</td>
</tr>
<tr>
<td>Loans</td>
<td>75,000</td>
</tr>
<tr>
<td>Market fees o/s</td>
<td>7,500</td>
</tr>
<tr>
<td>Staff Advances</td>
<td>63,750</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,828,242</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>₦</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve fund</td>
<td>160,170</td>
</tr>
<tr>
<td>Fund balance</td>
<td>4,619,322</td>
</tr>
<tr>
<td>Accrual-Park &amp; recreation</td>
<td>11,250</td>
</tr>
<tr>
<td>Loan:- Governors’ forum</td>
<td>37,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,828,242</strong></td>
</tr>
</tbody>
</table>

SOLUTION 4

(1) ANALYSIS USING THE BUDGETARY BASIS

<table>
<thead>
<tr>
<th>Head</th>
<th>Item</th>
<th>Budgeted Amounts</th>
<th>Amount for which contracts were issued</th>
<th>Amount of job executed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>₦'000</td>
<td>₦'000</td>
<td>₦'000</td>
</tr>
<tr>
<td>5.01</td>
<td>Construction of J.S Tarka Way</td>
<td>1,300,000</td>
<td>900,000</td>
<td>400,000</td>
</tr>
<tr>
<td>5.02</td>
<td>Extension to the secretariat</td>
<td>440,000</td>
<td>500,000</td>
<td>60,000</td>
</tr>
<tr>
<td>5.03</td>
<td>Purchase of stationery</td>
<td>540,000</td>
<td>600,000</td>
<td>60,000</td>
</tr>
<tr>
<td>5.04</td>
<td>Supply of granite stones</td>
<td>500,000</td>
<td>400,000</td>
<td>(100,000)</td>
</tr>
<tr>
<td>5.05</td>
<td>Treasury books printed</td>
<td>200,000</td>
<td>100,000</td>
<td>(100,000)</td>
</tr>
<tr>
<td>5.06</td>
<td>Drugs/Equipment purchased</td>
<td>800,000</td>
<td>1,000,000</td>
<td>200,000</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>3,780,000</strong></td>
<td><strong>3,500,000</strong></td>
<td><strong>(280,000)</strong></td>
</tr>
</tbody>
</table>
ANALYSIS USING THE COMMITMENT, ACCRUAL AND CASH BASES

<table>
<thead>
<tr>
<th>Head</th>
<th>Item</th>
<th>(ii) Commitment Basis N’000</th>
<th>(iii) Accrual basis N’000</th>
<th>(iv) Cash basis N’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.01</td>
<td>Construction of J.S Tarka Way</td>
<td>1,600,000</td>
<td>1,400,000</td>
<td>1,300,000</td>
</tr>
<tr>
<td>5.02</td>
<td>Extension to the secretariat</td>
<td>480,000</td>
<td>480,000</td>
<td>440,000</td>
</tr>
<tr>
<td>5.03</td>
<td>Purchase of stationary</td>
<td>560,000</td>
<td>560,000</td>
<td>540,000</td>
</tr>
<tr>
<td>5.04</td>
<td>Supply of granite stones</td>
<td>540,000</td>
<td>520,000</td>
<td>500,000</td>
</tr>
<tr>
<td>5.05</td>
<td>Treasury books printed</td>
<td>120,000</td>
<td>120,000</td>
<td>200,000</td>
</tr>
<tr>
<td>5.06</td>
<td>Drugs/Equipment purchased</td>
<td>960,000</td>
<td>900,000</td>
<td>800,000</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>4,260,000</td>
<td>3,980,000</td>
<td>3,780,000</td>
</tr>
</tbody>
</table>

Tutorial
It is only under the budgetary basis that estimated figures are compared with actual cash paid out.

SOLUTION 5

(a) Domestic debt refers to total debt obligations or accumulated borrowing of the Federal Government from her citizens. In general, domestic debt is procured through instruments such as Treasury Bills, Treasury Certificates, Treasury Bonds and Government Development Stocks.

External or Foreign debt refers to total money owed by the government to overseas governments and residents. For example, in Nigeria, external debt takes the following forms:

(i) trade arrears when a country trades with other countries and is unable to pay;
(ii) balance of payments supports loan provided by multilateral institutions;
(iii) project–tied loan; and
(iv) loans for socio-economic needs.

(b) (i) Sources of Domestic Debt

- Commercial banks (deposit money banks) as part of their investment portfolios, Deposit Money Banks (DMBs) buy government debt instruments sold by the Central Bank on behalf of the Federal Government.
- Non-bank public entities such as insurance companies, savings institutions, State and Local Governments, statutory boards/corporations, individuals who subscribe to government securities.
• Central Bank of Nigeria: The CBN absorbs the unsubscribed portion of government securities floated in the primary market.

(ii) **Sources of External Debt**

• **Paris Club of Creditors**
  The club represents only government guaranteed creditors. Membership includes USA, U.K, Federal Republic of Germany, France and Canada, that guarantee the export activities of their nationals.

• **London Club of Creditors**
  These are mainly uninsured and unguaranteed debts extended by their commercial banks to nationals of debtor nations. Members of the club are commercial banks mainly in industrialized countries.

• **Multilateral Creditors**
  These are international institutions funded by member nations. They include the World Bank and its affiliates, International Monetary Fund (IMF), African Development Bank (ADB), European Investment Bank (EIB) and International Fund for Agricultural Development (IFAD) that provides credit for development purposes, balance of payments support and private ventures.

**SOLUTION 6**

The Federal Government of Nigeria finances her development plan through the:

(a) money realized through the exportation of crude oil to her international customers like the United States of America accounts for over ninety percent of her total revenue;

(b) deficit budgeting backed by printing of more money by the Central Bank of Nigeria;

(c) revenue generated from duties collected on imported goods like drugs, motor vehicles, etc. The proceeds collected by government from import duties account for a reasonable percentage of internally generated revenue which are used to finance some items like the construction of roads, dams, etc included in the development plan of the government;
(d) revenue from petroleum profit tax imposed on forms involved in the exploration of crude oil in Nigeria e.g Shell oil, Mobil oil etc is another source;

(e) revenue collected from royalties paid by mining companies;

(f) internal borrowing from commercial banks or sale of bonds to the public; and

(g) External borrowing from some international financial institutions like IUMF, ADB, etc.
SECTION A (Attempt All Questions)

PART I  MULTIPLE-CHOICE QUESTIONS  (20 Marks)

1. A reporting entity according to SAS 5, is required to disclose in the financial statements in respect of every construction contract all these EXCEPT
   A. The value of construction work-in-progress
   B. Receivables
   C. Progress payments and advance payments
   D. Foreseeable losses on any one contract set-off against anticipated profits of other contracts
   E. Retention.

2. A Parent Company is said to lose control of a Subsidiary on the occurrence of any of the following EXCEPT when the Subsidiary
   A. becomes subject to the control of government.
   B. becomes subject to court control.
   C. becomes subject to administrator's control.
   D. Is operating under severe long-term restrictions that significantly impairs its ability to transfer funds to the parent company.
   E. is existing under of a contractual agreement.

3. According to SAS 2, the financial statements of a reporting enterprise should state all these EXCEPT
   A. The name of the enterprise
   B. The period of time covered
   C. A brief description of its activities
   D. Its legal form; and relationship with its significant local and overseas suppliers, including the immediate and ultimate parent, associated and affiliated company.
   E. Notes to the accounts.

4. Which one of these is not a pre-requisite for a Capital Reduction Scheme to be effected by a Company?
   A. It must be authorised by its Articles.
   B. It must be by a special resolution passed at a general meeting.
   C. It must be approved by a court.
   D. The resolution must specify the amount of reduction.
   E. The specified amount must be registered with CAC and SEC.
5. IAS 37 requires that Contingent Liabilities should be disclosed in the financial statements rather than being recognized. Which of these is NOT a disclosure requirement according to the standard?

A. An estimate of its financial effect  
B. An indication of the uncertainties that exist  
C. The possibility of any reimbursement  
D. The extent to which the Directors contributed to the liability  
E. A brief description of the nature of the contingent liability

6. A Company acquires the Net Assets of a business for which it issues 400,000 of its Ordinary Shares of ₦1 each. The business acquired has an overdraft of ₦100,000 but no long term debt. What is the impact on the Gearing and the Net cash position of the company?

<table>
<thead>
<tr>
<th>Gearing</th>
<th>Net cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Decreases</td>
<td>Increases</td>
</tr>
<tr>
<td>B. Decreases</td>
<td>Decreases</td>
</tr>
<tr>
<td>C. Increases</td>
<td>Increases</td>
</tr>
<tr>
<td>D. Increases</td>
<td>Decreases</td>
</tr>
<tr>
<td>E. No effect</td>
<td>Decreases</td>
</tr>
</tbody>
</table>

7. The table below shows information from the Balance Sheets of two Companies, X and Y.

<table>
<thead>
<tr>
<th></th>
<th>X</th>
<th>Y</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N’000</td>
<td>N’000</td>
</tr>
<tr>
<td>Ordinary Shares</td>
<td>800</td>
<td>900</td>
</tr>
<tr>
<td>10% Debentures</td>
<td>600</td>
<td>150</td>
</tr>
<tr>
<td>Profit and Loss Account</td>
<td>300</td>
<td>650</td>
</tr>
</tbody>
</table>

Which providers of finance would experience the greatest degree of risk in times of falling profits?

A. Debenture holders of Company X  
B. Debenture holders of Company Y  
C. Ordinary shareholders of Company X  
D. Ordinary shareholders of company Y  
E. The risk exposure is the same

8. Which of the following is NOT a method of ‘Window Dressing’ financial statements?

A. Omitting an Asset acquired on Hire Purchase  
B. Understating Goodwill  
C. Transferring a large amount to General Reserve  
D. Writing off debts before they become bad  
E. Making a provision for redundancy cost.
9. The International Accounting Standards Board (IASB) consists of which one of the following?
   A. Representatives from accounting bodies in the developed world
   B. Accounting experts representing selected countries
   C. Representatives from accountancy organisations from various parts of the world
   D. Accountants representing the International Organisation of Securities Commissions (IOSCO)
   E. Representatives from Accountancy Bodies of member countries of the United Nations.

10. If in a business combination, the appraisal value of the identifiable Net Assets acquired exceeds the acquisition cost, such excess value after re-assessment, should be reported as a

   A. reduction in the values assigned to current asset and a deferred credit for any unallocated portion.
   B. whole reduction of the values assigned to current and non current assets and a deferred credit for any unallocated portion.
   C. pro-rata reduction of the values assigned to current and non current assets and a deferred credit for any unallocated portion.
   D. deferred credit
   E. credit immediately in the Profit and Loss Account.

11. When initiating either a formal or informal conflict resolution process, a Professional Accountant should consider the following EXCEPT

   A. Relevant facts
   B. Ethical issues involved
   C. External review by legal practitioner
   D. Fundamental principles related to the matter
   E. Established internal procedures

12. The principle of integrity imposes an obligation on every Professional Accountant to

   A. be straightforward in professional and business relationships
   B. be professionally qualified
   C. ensure that he conducts his assignment according to the dictates of the management
   D. pay his employees as at when due
   E. pay his business tax promptly.
13. The professional accountant should make which one of the following users of his services to be aware of the limitation inherent in his services to avoid the misrepresentation of an expression of opinion as an assertion of fact?
   A. Clients, employers, investors and government.
   B. Professional colleagues, employers, investors and government.
   C. Employees, investors and government.
   D. Tax authority and employees.
   E. Internal auditors, tax authority and employer.

14. The people within a company operate from two major ethical dimensions. These are:
   A. Particular individual’s ethical framework guiding his behaviour and the organisations’ official ethical policies and culture.
   B. Particulars of individual’s ethical framework guiding their behaviour and the management staff ethical views.
   C. The individual and community ethical perspectives.
   D. The organisations’ culture and ethical perspective.
   E. The behaviour of clients and managements ethical values.

15. The Code of Best Practice on Corporate Governance in Nigeria is divided into which one of the following three parts?
   A. Board of directors, employee and audit committee
   B. Board of directors, management and audit committee
   C. Internal audit, board of directors and audit committee
   D. Board of directors, shareholders and audit committee
   E. Management, shareholders and board of directors

16. Ethics is a systematic attempt to understand the nature and foundation of morality and its effect on our conduct. Thus, to say that ethics is normative, implies that it is.......................  
   A. Descriptive
   B. Proscriptive
   C. Prescriptive
   D. Protective
   E. Operative

17. The triple bottom line position states that a Corporation can and should be evaluated not only in terms of its financial bottom line, but also in terms of its...........
   A. Environmental and social bottom line
   B. Environmental and ethical bottom line
   C. Ethical and social bottom line
   D. Environmental and ethical/social bottom line
   E. Social and legal bottomline
18. Rest’s components of framework for ethical behaviour include the following EXCEPT moral……...

A. sensitivity
B. judgements
C. motivation
D. psychology
E. character

19. Sarbanes-Oxley Act 2002 attempts to....................

A. assure investors of board’s independence
B. prove the integrity of the Accountant
C. minimise the Accountant’s involvement in corporate scandals
D. redeem Enron
E. ensure honesty

20. The following are ethical issues for Professional Accountants EXCEPT:

A. Under-reporting income
B. Creative accounting
C. Falsifying accounts
D. Avoidance of Tax
E. Integrity
PART II    SHORT ANSWER QUESTIONS    (20 MARKS)

1. The theory in ethics which holds that an action is morally right if the consequences of that action are more favourable than unfavourable only to the agent performing the action, is known as........................

2. An ethical theory that holds that an action is right if it produces, or if it tends to produce, the greatest amount of good for the greatest number of people affected by the action is known as................

3. The obligation a business assumes towards a society is referred to as ...........

4. When an action done knowingly and willingly by an organisation affects some of its stakeholders, such an organisation will be held................

5. A leader who is able to sustain fundamental notions of morality such as care and respect for persons, justice and honesty, in changing organizational, social, and global contexts is referred to as an...................

6. Set of procedures, customs, policies, laws and institutions affecting the way a Corporation or Company is directed, administered or controlled is called ……………….

7. Code of behaviour that delineates expectation for social behaviour according to contemporary conventional norms within a society, social class or group is called ……………………….

8. A form of applied ethics that examines ethical principles and moral or ethical problems that arise in a business environment is called …………………

9. Give TWO examples of intrinsic human good.

10. State two fundamental principles that a Professional Accountant is required to comply with.

11. A contract method in which no interim charges/credits are made to Profit and Loss Account is called ……….

12. According to SAS 5, how are costs relating to aspects of a contract that are not immediately certifiable, treated?

13. When assessing whether an entity has the power to govern the financial and operating policies of another entity, it usually considers the existence and effect of …………
14. A Parent Company might lose control of a Subsidiary in multiple transactions. Those transactions should be accounted for as ……………

15. Investment in an associate is usually tested for impairment losses by comparing its recoverable amount with its ……………

16. In Cash Flow Statement, activities that involve obtaining resources as a borrower or issuer of securities, repaying debts and paying dividends is known as …………………

17. At the initial stage, recognition of financial liabilities should be measured at cost, subsequently, they should be measured at cost less ……………. and …………………

18. A method that is a significant takeover of part of a Company, typically involving the closing of plants, firing of employees, and relocation of activities is known as ………………………

19. The interest expense that is not explicitly recognised in a loan agreement is referred to as ………………………

20. Trade creditors focus their attention in a firm’s …………….position or short-term…………………….
SECTION B - ATTEMPT QUESTION 1 AND ANY OTHER THREE (60 MARKS)

QUESTION 1 – CASE STUDY

As a young Branch manager at a relatively small retail office within a large Bank holding company, Sara has been challenged by her superiors to increase Loan and Deposit volumes within her local Banking market. In Sara’s first year on the job, she has designed and implemented an aggressive calling program in which she visits local businesses soliciting for new Corporate accounts for the Bank. Her initial efforts have been most successful. In spite of strong competition from other local financial institutions, Sara has managed to attract a new N320 million funds deposit from a local Estate Management firm, Silver Valley Estates, and she is currently negotiating with Silver Valley’s President to provide a N48 million mortgage loan for his new personal residence.

At a recent credit committee meeting at the Bank’s regional headquarters where Sara presented the mortgage loan request and received approval from the Bank’s senior management for this loan, Sara was called to her boss’ office. She could hardly contain her excitement in greeting her boss, telling him of the new mortgage loan she was planning to make. Upon hearing the news, Sara’s boss frowned and told her of a mistake that occurred in the Bank’s Deposit Operations Centre, several weeks earlier.

It seems a number of cheques worth N3.2 million deposited into Silver Valley’s Rental Collection Account two months earlier were returned to the Bank for reasons of insufficient funds. Instead of promptly deducting the bounced cheques from Silver Valley’s account and returning them to the firm, one of the Deposit Operations clerks at the Bank, inadvertently placed the cheques in his bottom desk drawer and forgot about them. After several weeks, the Bank’s Auditors located the Cheques, and now Sara must debit Silver Valley’s account and return the Cheques to the firm.

Sara protests to her boss that this action would clearly be wrong, because the Bank’s written policy states that cheques accepted for Deposit cannot be returned after the tenth business day following their date of Deposit. In addition, Sara explains that one condition of the Bank’s mortgage loan approval to Silver Valley’s President is that the firm must maintain a major Deposit account with Sara’s Branch. She knows that if she charges the Silver Valley account for the bounced cheques, she will anger Silver Valley’s President, lose the N320 million Deposit accounts and the new mortgage loan, and sacrifice all future businesses from Silver Valley to competing financial institutions in her local market.

Sara’s boss claimed that he understands her dilemma, but he is adamant in his instruction to her. The bank cannot afford a N3.2 million loss to a new Corporate
Depositor, and she must debit Silver Valley’s account to cover the bounced cheques. Moreover, Sara was quietly warned that discussing this matter with any other senior officers of the Bank will prove most damaging to her career.

**Required:**
(a) Bearing in mind that the Bank’s written policy states that cheques accepted for deposit cannot be returned after the tenth business day following their date of deposit, evaluate the ethical implications of debiting Silver Valley’s account and returning the cheques to the firm.  

(b) Evaluate Sara’s boss’ position.

(c) Advise Sara on the next line of action, bearing in mind that she has been quietly warned that discussing this matter with any other senior officers of the Bank will prove most damaging to her career.

(d) Suggest an IT solution to forestall or promptly reflect a repetition of the Deposit Operations clerk’s lapse.

**QUESTION 2**

**SUPERCOM LIMITED.**

**Balance Sheet as at 31 May, 2009**

<table>
<thead>
<tr>
<th></th>
<th>Cost or Valuation N'000</th>
<th>Acc. Dep. N'000</th>
<th>NBV N'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed Assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible: Goodwill</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tangible: Freehold premises</td>
<td>800</td>
<td>-</td>
<td>800</td>
</tr>
<tr>
<td>Plant and Machinery</td>
<td>400</td>
<td>180</td>
<td>220</td>
</tr>
<tr>
<td>Motor Vehicle</td>
<td>120</td>
<td>90</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,320</strong></td>
<td><strong>270</strong></td>
<td><strong>1,050</strong></td>
</tr>
<tr>
<td><strong>Current Assets:</strong> Stock</td>
<td>196</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors</td>
<td>81</td>
<td></td>
<td>277</td>
</tr>
</tbody>
</table>
Creditors: Amount falling due within one year:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Overdraft</td>
<td>18</td>
</tr>
<tr>
<td>Trade Creditors</td>
<td>53</td>
</tr>
<tr>
<td>Ordinary Dividend</td>
<td>20 (91) 186</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,236</td>
</tr>
</tbody>
</table>

Creditors: Amount falling due after one year:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>10% Debentures 2010/2012</td>
<td>(80)</td>
</tr>
<tr>
<td></td>
<td>1,156</td>
</tr>
</tbody>
</table>

Share Capital and Reserve:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary Shares of £1 each</td>
<td>500</td>
</tr>
<tr>
<td>Share Premium</td>
<td>180</td>
</tr>
<tr>
<td>Revaluation Reserve</td>
<td>340</td>
</tr>
<tr>
<td>General Reserve</td>
<td>120</td>
</tr>
<tr>
<td>Retained Profit</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>1,156</td>
</tr>
</tbody>
</table>

**Extract from Profit and Loss Account for the year ended 31 May 2009**

<table>
<thead>
<tr>
<th></th>
<th>€'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Profit</td>
<td>65</td>
</tr>
<tr>
<td>Interest on Debentures</td>
<td>(12) 53</td>
</tr>
<tr>
<td>Transfer to General Reserve</td>
<td>20</td>
</tr>
<tr>
<td>Ordinary Dividends</td>
<td>30 (50)</td>
</tr>
<tr>
<td>Retained profit for the year</td>
<td>3</td>
</tr>
</tbody>
</table>

**Cash flow statement for the year ended 31 May 2009**

**Cash flows from operating activities:** (See below) 108

**Cash flows from Investing activities:**

Payment to acquire tangible assets:
- Plant and Machinery (180)
- Motor Vehicles (60)
- Receipts from Sale of tangible fixed asset (see below) 50 (190)

**Cash flows from Financing activities:**

- Issue of 100,000 Ordinary Shares of £1 each 200
- Redemption of Preference Shares at par (100)
- Redemption of Debentures at par (50)
- Equity Dividend paid (30)
- Preference Share Dividend paid (4)
- Debenture interest paid (12) 4
- Decrease in Cash (78)
Reconciliation of Operating Profit with Net Cash Inflow from Operating activities

<table>
<thead>
<tr>
<th>Description</th>
<th>£’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit</td>
<td>65</td>
</tr>
<tr>
<td>Goodwill written off</td>
<td>50</td>
</tr>
<tr>
<td>Depreciation: Plant and Machinery</td>
<td></td>
</tr>
<tr>
<td>Motor Vehicles</td>
<td>40</td>
</tr>
<tr>
<td>Loss on sale of Motor vehicles (see below)</td>
<td>6</td>
</tr>
<tr>
<td>Profit on sale of Plant and Machinery (see below)</td>
<td>(10)</td>
</tr>
<tr>
<td>Increase in Stock</td>
<td></td>
</tr>
<tr>
<td>Increase in Debtors</td>
<td></td>
</tr>
<tr>
<td>Decrease in Creditors</td>
<td></td>
</tr>
<tr>
<td>Net Cash inflow from Operating activities</td>
<td>108</td>
</tr>
</tbody>
</table>

Further information relevant to the year ended 31 May 2009.
1. Motor Vehicles which had cost £40,000 were sold for £5,000.
2. Plant and Machinery which had cost £100,000 was sold for £45,000.
3. The Freehold Premises were purchased in 1995 for £600,000.
4. £50,000 Debentures had been redeemed at par on 31 May 2009.
5. The Company redeemed its 6% Preference Shares on 1 June 2008.

Required:
(a) Prepare SUPERCOM Ltd's Balance Sheet as at 31 May 2008 (10 Marks)
(b) Write a report to the management of SUPERCOM Ltd showing the purposes of a Cash Flow Statement and explain its advantages to the Managing Director who still prefers the use of Funds Flow Statement. (5 Marks)
(Total 15 Marks)

QUESTION 3

TORITEL Limited manufactures a wide variety of pharmaceuticals, medical instruments, and other related medical supplies. Eighteen months ago the company developed and began to market a new product line of antihistamine drugs under various trade names. Sales and profitability of this product line during the current fiscal year greatly exceeded management’s expectations. The new product line will account for 10% of the company's total sales and 12% of the company's operating income for the fiscal year ended June 30, 2009. Management believes sales and profits will be significant for several years.

Toritel is concerned that its market share and competitive position may suffer if it discloses the volume and profitability of its new product line in its annual financial statements. Management is not sure of how SAS 24 applies in this case.

Required:
(a) State THREE purposes of requiring segment information in financial statements (3 Marks)
(b) Identify **SIX** factors that should be considered when attempting to decide on how products should be grouped to determine a single business segment.  

(6 Marks)

(c) What options, if any, does Toritel Ltd. have with the disclosure of its new antihistamine product line? Explain your answer.  

(6 Marks)

*(Total 15 Marks)*

**QUESTION 4**

Patience Ventures has misplaced her Final Accounts for the year ended 31 December 2009. The Company has decided to reconstruct the Accounts from the available data.

At 31 December 2009, Stock was valued at ₦162,000. (This was 20% more than the stock at 1 January 2009)

For the year ended 31 December 2009

- Stock Turnover 10 times
- Gross profit margin 35%
- Net profit margin 22%
- Fixed asset turnover 4 times
- Debtors’ days 34 (based on 365 days in the year)
- Creditors’ days 42 (based on 365 days in the year)
- Current ratio 2.5 : 1

The current assets consist of stock, trade debtors and bank balance. All sales and purchases were made on credit. The Proprietor drew ₦420,000 from the business during the year.

**Required:**

(a) Prepare, in as much detail as possible, Patience’s Venture Trading and Profit and Loss Account for the year ended 31 December 2009 and the Balance Sheet at that date. Make all calculations to the nearest Naira.  

(8 Marks)

Hurry Enterprises carries on a similar business to that of Patience Ventures and has the following data for the year ended 31 December 2009.

- Stock Turnover 12 times
- Gross Profit Margin 40%
- Net Profit Margin 20%
- Fixed Assets Turnover 5 times
- Debtors’ days 31
- Creditors’ days 36
(b) Compare Hurry Enterprises’ performance with that of Patience Ventures and indicate **THREE** ratios that show which business is more efficient and profitable. 
(7 Marks) 
(Total 15 Marks) 

**QUESTION 5**

(a) What is Corporate Governance? 
(3 Marks)
(b) State and explain **FOUR** commonly accepted principles of Corporate Governance. 
(12 Marks) 
(Total 15 Marks)

**QUESTION 6**

(a) The International Federation of Accountants (IFAC) Code of Ethics for Professional Accountants, stipulates that a Professional Accountant is required to comply with some fundamental principles. Explain briefly **FOUR** of these principles? 
(8 Marks)
(b) State **SEVEN** safeguards that may reduce to an acceptable level the threats faced by Professional Accountants in the work environment. 
(7 Marks)
(Total 15 Marks)
PART I: MULTIPLE – CHOICE QUESTIONS

1. D
2. D
3. E
4. E
5. C
6. B
7. C
8. C
9. C
10. E
11. C
12. A
13. A
14. A
15. D
16. C
17. D
18. D
19. A
20. D
PART II:SHORT ANSWER QUESTIONS

1. Ethical egoism
2. Utilitarianism
3. Social responsibility
4. Morally Responsible
5. Ethical Leader
6. Corporate Governance
7. Etiquette
8. Business Ethics
9. Life, Play, Knowledge and Harmony with other people
10. Principles of Integrity, professional competence and due care, objectivity and confidentiality.
11. The Completed Contract Method
12. Not charged to revenue and deferred till certifiable
13. Existing Potential voting rights currently exercisable or convertible.
14. A single Transaction
15. Carrying amount
16. Financing Activities
17. Repayment and amortisation
18. Restructuring
19. Implicit interest
20. Liquidity; Solvency
SOLUTIONS TO SECTION B

SOLUTION 1

(a) The main source of the dilemma in this case is the fact that a number of cheques worth ₦3.2 million deposited into Silver Valley's rental collection account two months earlier were returned to the Bank for reason of insufficient funds. But the cheques were not promptly deducted from Silver Valley's account and returned to the firm, rather one of the Deposit Operations clerks at the Bank inadvertently placed the cheques in his bottom desk drawer and forgot about them. In addition to that is the Bank's written policy which states that cheques accepted for deposit cannot be returned after the tenth business day following their date of deposit, there is the question of responsibility.

A corporate policy is usually a documented set of broad guidelines formulated after an analysis of all internal and external factors that can affect a firm's objectives, operations, and plans. Formulated by the firm's Board of Directors, Corporate policy, lays down the firm's response to know and possible situations and circumstances. It also determines the formulation and implementation of strategy, and directs and restricts the plans, decisions, and actions of the firm's officers in the achievement of its objectives. It promotes objectivity and integrity in decision making.

Going by the explanations above, one can infer that debiting Silver Valley's account and returning the cheques to the firm two months after they were deposited would be unfair and an act of insincerity motivated by selfish interest and shrouded in subjectivity. It in fact, shows lack of integrity and responsiveness. It totally breaches the Bank's policy.

One can absolve Silver Valley of responsibility in this matter because they probably did not know the account had no sufficient funds, but for the Bank, they ought to be held accountable for the unfortunate mistake that occurred in the Bank's Deposit Operations Centre. It would therefore be a great injustice if Silver Valley is made to bear the consequences.

This will have a further implication on the Bank's relationship with Silver Valley's other corporate customers and the stakeholders generally. For Sarah, it would be a big blow to her career as the act according to her will anger Silver Valley's President, make them lose the ₦320 million deposit accounts and the new mortgage loan, and sacrifice all future business from Silver Valley to competing financial institutions in her local market. This will mean loss of business for herself, her Branch and the Bank as a whole.
Sara’s boss insisted that Sara must debit Silver Valley’s account to cover the bounced cheque loss because the Bank cannot afford a ₦3.2 million loss.

He is clearly insensitive to Sara’s fear that the Bank might lose the ₦320 million Deposit accounts and the new mortgage loan, and in fact sacrifice all future business from Silver Valley to competing financial institutions in her local market. It is not very clear why her boss will prefer a greater loss of ₦320 million Deposit and ₦48 million mortgage loan to a ₦3.2 million loss. However one can deduce that he is primarily concerned with his own personal interest which explains why he quietly warned Sara with a threat, not to discuss the issue with any other senior officer of the bank.

(b) Sara’s boss position on the matter contravenes the Business Ethical principle which justifies only the actions, decisions and policies that are intended to produce the greatest happiness for the greatest number of people known as Utilitarianism and the Stakeholders Theory as a model of business morality. It states that the concern of business managers should go beyond profit to include helping society gain a greater sense of the meaning of community by honouring individual dignity and promoting overall welfare and accommodate wider stakeholders’ interests.

Finally, his position will be difficult to sustain especially when he is not affected and therefore cannot be universalised. Even as an ethical egoist, he would likely not support this same position if he were in the position of Silver Valley. We therefore conclude that his position is not justifiable and therefore unethical.

(c) Based on the information provided in the case, Sara has to either lose Silver Valley or her job. If she must retain Silver Valley as a customer, then she must protect their interest and thereby go against her boss’ instruction.

It would not be difficult to advise Sara on what to do if one makes reference to Discourse Ethics as proposed by Horst Steinmann and Albert Lohr, as an approach in making ethical decisions in business.

Steinmann and Lohr argued that ethical reflections have to start from real-life experiences rather than belief systems which could be too diverse. They contend that the ultimate goal of ethical issues in business should be the peaceful settlement of conflicts, and “peace in society”, where “Peace” refers to general free consensus among all parties concerned. The theory does not try to set out the conditions that make an act ethical; rather, this approach sets out a procedure for arriving at ethical conclusions based on reasoned agreement among participants. With this goal in mind, different parties in a conflict are expected to sit together and engage in a discourse about the settlement of the conflict, and ultimately provide a solution that is
acceptable to all. This ideal discourse is expected to “answer certain philosophical criteria such as impartiality, non persuasiveness, non-coercion and expertise of the participants”.

Such a discourse would lead to norms for a special situation which would be an expression of the rational consensus of all affected persons or represented parties. In establishing a rational ‘ideal discourse’ about specific problems, this approach is thus supposed to be norm-generating.

In other words, Sara should either inform everybody affected or get them to discuss what has happened with the aim of settling what might appear as a conflict between the parties. This is particularly advisable since her boss is not comfortable with Sara discussing with any other senior staff of the organization. To my mind, this would mean that he does not have the final say and therefore cannot sack Sara. Moreso, if the issue is discussed, Sara’s interest will not just be protected, the actual culprit will be disciplined and trust will be sustained in the organization and between their stakeholders.

(d) Install an Electronic Tracking System/Device to trigger an Alert within a specified time frame of an event such as this (return cheques not reflected) reoccurring.

SOLUTION 2

(a) In this question it is necessary to work back from the Balance Sheet at 31 May 2009 to arrive at the position of Supercom Ltd. at 31 May 2008.

SUPERCOM LTD
BALANCE SHEET AS AT 31 MAY 2008

<table>
<thead>
<tr>
<th></th>
<th>Cost or Valuation</th>
<th>Acc. Dep.</th>
<th>NBV</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N’000</td>
<td>N’000</td>
<td>N’000</td>
</tr>
<tr>
<td>Fixed Asset:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible: Goodwill</td>
<td>-</td>
<td>-</td>
<td>50</td>
</tr>
<tr>
<td>Tangible:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freehold premises</td>
<td>600</td>
<td>140</td>
<td>460</td>
</tr>
<tr>
<td>Plant and Machinery</td>
<td>320</td>
<td>205</td>
<td>115</td>
</tr>
<tr>
<td>Motor Vechicle</td>
<td>100</td>
<td>83</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>1,020</td>
<td>428</td>
<td>592</td>
</tr>
<tr>
<td>Total Fixed Asset</td>
<td></td>
<td></td>
<td>642</td>
</tr>
<tr>
<td>Current Assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock (196-36)</td>
<td>160</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors (81-25)</td>
<td></td>
<td>56</td>
<td></td>
</tr>
<tr>
<td>Bank (78-18)</td>
<td></td>
<td>60</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>276</td>
<td></td>
</tr>
</tbody>
</table>
Creditors:

Amount fallen due within one year:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Creditors (53+18)</td>
<td>71</td>
</tr>
<tr>
<td>Preference Dividend</td>
<td>4</td>
</tr>
<tr>
<td>Ordinary Dividend</td>
<td>20</td>
</tr>
</tbody>
</table>

Creditors:

Amount falling due after more than one year:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>10% Debentures 2010/2012</td>
<td>(85+50)</td>
</tr>
</tbody>
</table>

Share Capital and Reserve:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary Shares of £1 each</td>
<td>(500-100)</td>
</tr>
<tr>
<td>6% Preference shares of £1 each</td>
<td>100</td>
</tr>
<tr>
<td>Share Premium</td>
<td>(180-100)</td>
</tr>
<tr>
<td>Revaluation Reserve</td>
<td>-</td>
</tr>
<tr>
<td>General Reserve</td>
<td>(120-20)</td>
</tr>
<tr>
<td>Retained Profit</td>
<td>(16-3)</td>
</tr>
</tbody>
</table>

Working Note:

1. Freehold premises at cost (given) £600,000. The Revaluation Reserve has been made up as follows:

Increase in Freehold premises at cost £200,000
Depreciation at 31 May 2005 £140,000

2. Plant and Machinery at cost

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 May 2009</td>
<td>400</td>
</tr>
<tr>
<td>Less additions in 2009</td>
<td>(180)</td>
</tr>
<tr>
<td>Add disposal in 2009</td>
<td>100</td>
</tr>
<tr>
<td>At 31 May 2008</td>
<td>320</td>
</tr>
</tbody>
</table>

Depreciation of P & M

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 May 2009</td>
<td>180</td>
</tr>
<tr>
<td>Provided in 2009</td>
<td>(40)</td>
</tr>
<tr>
<td>On Disposals</td>
<td>65</td>
</tr>
<tr>
<td>Profit on disposal</td>
<td>10</td>
</tr>
</tbody>
</table>

Disposal of P & M

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>100</td>
</tr>
<tr>
<td>Acc. Depv.</td>
<td>(65)</td>
</tr>
<tr>
<td>Proceeds</td>
<td>(45)</td>
</tr>
</tbody>
</table>

3. Motor vehicle at cost

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 May 2009</td>
<td>120</td>
</tr>
<tr>
<td>Less additions in 2009</td>
<td>(60)</td>
</tr>
<tr>
<td>Add disposal in 2009</td>
<td>40</td>
</tr>
<tr>
<td>At 31 May 2008</td>
<td>100</td>
</tr>
</tbody>
</table>

Depreciation of MVs

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 May 2009</td>
<td>90</td>
</tr>
<tr>
<td>Provided in 2009</td>
<td>(36)</td>
</tr>
<tr>
<td>On Disposals</td>
<td>29</td>
</tr>
<tr>
<td>Loss on disposal</td>
<td>6</td>
</tr>
</tbody>
</table>

Disposal of MVs

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>40</td>
</tr>
<tr>
<td>Acc. Deprn.</td>
<td>(29)</td>
</tr>
<tr>
<td>Proceeds</td>
<td>(5)</td>
</tr>
</tbody>
</table>

4. Ordinary Dividends

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued at 31 May 2009</td>
<td>20</td>
</tr>
<tr>
<td>Paid in 2009</td>
<td>30</td>
</tr>
<tr>
<td>Debited in P &amp; L a/c</td>
<td>(30)</td>
</tr>
<tr>
<td>Accrued at 31 May 2008</td>
<td>20</td>
</tr>
</tbody>
</table>

5. Include the Revaluation Reserve in the Balance Sheet at 31 May 2008, although it did not exist at that date. Examiners require a positive response if a mark is to be
awarded for correct recognition of the situation. Omission of the item from the answer could suggest that the candidate had overlooked it or had not understood how to deal with it.

(b) Report to the Management of SUPERCOM Ltd.

Date: 31 May 2009
To: The Managing Director
From: The Consultant

SUBJECT: PURPOSE OF CASH FLOW STATEMENT AND ITS ADVANTAGES OVER FUNDS FLOW STATEMENT

A cash flow statement provides information about the cash receipts and cash payments of an Enterprise over a given period. It indicates the pattern of cash generation and utilization.

Cash flow statement can assist the Management in the following areas:

(i) To assess the impact of its current transactions on its performance and financial position.

(ii) To assess the ability of the company to meet its debt obligations, pay dividends and meet other claims.

(iii) To reconcile Profit/Loss and cash flow. A business may be making profit but have lesser liquid funds at the end of the period when compared with the beginning of the period.

A cash flow statement is preferred to Funds Flow Statement because it evaluates corporate liquidity while the latter is based on movements in Working Capital which can obscure movements relevant to the viability and liquidity of the company.

If you require further clarification or explanation, we will be obliged to do so.

Thank you.

ER and Associates
Signed.

SOLUTION 3

(a) Purpose of segment information in financial statements.
(i) It provides effective analysis and comparison of entities whose operation cuts across different classes of business and geographical boundaries.
(ii) It provides better understanding of the entity’s past performances.
(iii) It provides better assessment of the entity’s risks and returns.
iv) It provides more informed judgements about the entity as a whole.

(b) The factors to be considered in grouping segment information include:
(i) Information about products and services.
(ii) Information about the geographical areas.
(iii) Information about major customers.
(iv) Existing profit centres.
(v) Nature of the product or service.
(vi) The nature of the production processes.
(vii) Market and marketing methods.
(viii) The nature of their regulatory environments, e.g. for Banks, Insurance, Oil and Gas, public utilities etc.

(c) Concern is sometimes expressed that disclosing information about segments may weaken an entity’s competitive position because more information is made available to competitors, customers, suppliers and others as rightly observed by Toritel Ltd. For this reason, some consider it appropriate to withhold certain information where disclosures are deemed to be detrimental to their entity; the required disclosure about segments are no more detailed or specific than the disclosures typically provided by an entity that operates a single entity. The only information that Toritel Ltd. can disclose is that which is intended primarily to permit users of Financial Statements to make better assessment of the past performance and future prospects of the Company.

**SOLUTION 4**

(a) PATIENCE VENTURES
TRADING PROFIT AND LOSS ACCOUNT FOR THE YEAR
ENDED 31 DECEMBER 2009

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (₦1,485,000 x 100/65)</td>
<td>2,284,615</td>
</tr>
<tr>
<td>Cost of sales:</td>
<td></td>
</tr>
<tr>
<td>Opening stock (₦162,000 x 5/6)</td>
<td>135,000</td>
</tr>
<tr>
<td>Purchases (balancing figure)</td>
<td>1,512,000</td>
</tr>
<tr>
<td>(balancing figure)</td>
<td>1,647,000</td>
</tr>
<tr>
<td>Closing stock (given)</td>
<td>(162,000)</td>
</tr>
<tr>
<td>(65% of Sales)</td>
<td>1,485,000</td>
</tr>
<tr>
<td>Gross Profit (35% of ₦2,284,615)</td>
<td>799,615</td>
</tr>
<tr>
<td>Expenses (balancing figure)</td>
<td>297,000</td>
</tr>
<tr>
<td>Net Profit (22% of ₦2,284,615)</td>
<td>502,615</td>
</tr>
</tbody>
</table>
**BALANCE SHEET AS AT 31 DECEMBER 2009**

<table>
<thead>
<tr>
<th></th>
<th>₹</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets (₹2,284,615/4)</td>
<td></td>
<td>571,154</td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock</td>
<td>162,000</td>
<td></td>
</tr>
<tr>
<td>Trade Debtors (₹2,284,615*34/365)</td>
<td>212,813</td>
<td></td>
</tr>
<tr>
<td>Bank (balancing figure)</td>
<td>60,147</td>
<td></td>
</tr>
<tr>
<td>(balancing figure)</td>
<td>434,960</td>
<td></td>
</tr>
<tr>
<td>Trade Creditors (₹1,512,000*42/365)</td>
<td>173,984</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>₹</th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital (Opening) (balancing figure)</td>
<td>749,515</td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>502,615</td>
<td></td>
</tr>
<tr>
<td>(balancing figure)</td>
<td>1,252,130</td>
<td></td>
</tr>
<tr>
<td>Drawings</td>
<td>420,000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>₹</th>
</tr>
</thead>
<tbody>
<tr>
<td>832,130</td>
<td></td>
</tr>
</tbody>
</table>

**Patience Ventures and Hurry Enterprises**

i. Hurry’s Stock turnover is 12 compared with 10 for Patience. Hurry earns her profit at a faster rate than Patience. Her cash flow is improved by the higher stock turnover.

ii. Hurry’s gross profit margin of 40% is more than Patience’s 35% which indicates that the company earns a higher margin on their sales. The company may have cheaper sources of supply. Patience’s mark up may be lower than Hurry’s. Without more information about their individual circumstances, further comment is not possible.

iii. Hurry’s net profit margin (20%) is 2% lower than Patience’s (22%). This shows that Patience’s overheads are comparatively lower than Hurry’s. Not all overheads are easily controllable, and Hurry may have to pay higher rent, for example, because of the situation or size of its premises.

iv. Hurry’s turnover is 5 times its fixed assets but Patience’s turnover is only 4 times. Hurry is using its fixed assets more efficiently and making them more profitable.

v. Hurry’s debtors ratio is 31 days, which is 3 days less than that of Patience (34 days). This indicates that Hurry controls her debtors more efficiently and its cash flow has improved as a result.
vi. Hurry Ltd pays their creditors 6 days earlier than Patience ltd (36 days compared to 42 days). No information is provided regarding the credit terms each receives. If Hurry Enterprises obtains their goods more cheaply than Patience, as suggested in (ii), the period of credit the company is allowed may be less than Patience receives. On the other hand, if Hurry is not taking the full period of credit they are allowed, the company is not managing their cash flow to the best advantage.

**Conclusion.** With the exception of her payment of creditors, Hurry Enterprises appears to be running its business more efficiently than Patience Ventures.

**SOLUTION 5**

a. Corporate Governance is the set of processes, customs, policies, laws, and institutions guiding the ways an organisation is directed, administered or controlled. It also includes the relationship among the many stakeholders involved and the goals for which the organisation is governed.

b. Commonly accepted principles of Corporate Governance include:
   
i. **Rights and equitable treatment of Shareholders:** Organisation should respect the rights of Shareholders and help them to exercise those rights. They can help Shareholders exercise their rights by effectively communicating information that is understandable and encouraging Shareholders to participate at General Meetings.

   ii. **Interests of other Stakeholders:** Organisations should recognise that they have legal and other obligations to all legitimate stakeholders, i.e. employees, customers, government etc.

   iii. **Roles and responsibility of the Board:** The Board members have various range of skills and understanding to be able to deal with various business issues and the ability to review and challenge management performance. It needs to be of sufficient size and have an appropriate level of commitment to fulfil its responsibilities and duties. There are issues about the appropriate mix of executive and non-executive Directors.

   iv. **Integrity and ethical behaviours:** Ethical and responsible decision making is not only important for public relations, but it is also a necessary element in risk management and avoidance of lawsuits.

   v. **Code of Conduct:** Organisations should develop a code for their directors and executives to promote ethical and responsible decision
making. It is important to understand, though, that absolute reliance by a company on the integrity and ethics of individual is bound to lead to eventual failure. Because of this, many organisations establish compliance and ethics programs to minimize the risk that the firm steps outside of ethical and legal boundaries.

vi. **Disclosure and transparency**: Organisations should clarify and make publicly known the roles and responsibilities of the Board and Management, to provide Shareholders with a level of Accountability. They should also implement procedures to independently verify and safeguard the integrity of the company’s financial reporting systems. Disclosure of material matters concerning the organisation should be timely and balanced to ensure that all investors have access to clear and factual information.

**SOLUTION 6**

(a) A Professional Accountant is required by IFAC Code of Ethics to comply with the following fundamental principles:

(i) **Integrity**: A Professional Accountant should be straightforward and honest in all professional and business relationships.

(ii) **Objectivity**: A Professional Accountant should not allow for bias, conflict of interests or undue influence of others to override his Professional or business judgements.

(iii) **Professional competence and due care**: A Professional Accountant should continue to update and sustain professional knowledge and skills at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislations and techniques. A Professional Accountant should act diligently and in accordance with applicable technical professional standards when providing professional services.

(iv) **Confidentiality**: A Professional Accountant should respect the confidentiality of information to third parties without proper and specific authority unless there is a legal or professional information required as a result of professional and business relationships and should not disclose any such rights or duty. Relationships should not be used for the personal advantage of the Professional Accountant or third parties.
(v) **Professional Behaviour**: A Professional Accountant should comply with relevant laws and regulations and should avoid any action that can discredit the profession.

(b) **Safeguards required in work environment include the following**:

(i) The employing organisation’s ethics and programs.

(ii) Appropriate disciplinary process.

(iii) Policies and procedures to implement and monitor the quality of employees’ performance.

(iv) Leadership that stresses the importance of ethical behaviour and the expectations that employees will act in an ethical manner.

(v) Timely communication of the employing organization emphasizing the importance of employing high calibre and competent staff.

(vi) Policies and procedures to empower and encourage employees to communicate to senior levels within the employing organisation any ethical issues that concern them without fear of retribution.

(vii) The employing organisation’s system of corporate oversight or other oversight structures.

(viii) Appropriate disciplinary processes.

(ix) Consultation with other appropriate Professional Accountants.

(x) Strong internal controls.
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
PROFESSIONAL EXAMINATION II
FINANCIAL REPORTING AND ETHICS

SECTION A (Attempt All Questions)

PART I  MULTIPLE-CHOICE QUESTIONS  (20 Marks)

1. A Company buys a business by paying cash of N12.5m and issuing shares for the balance in full payment. The Shares have a par value of N1.00 each and an agreed market value of N2.50 each. The Assets and Liabilities of the business together with the agreed values are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Net book value</th>
<th>Agreed valuation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant and machinery</td>
<td>N‘000</td>
<td>N‘000</td>
</tr>
<tr>
<td></td>
<td>15,000</td>
<td>22,000</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>17,500</td>
<td>13,250</td>
</tr>
<tr>
<td>Stock</td>
<td>24,000</td>
<td>21,500</td>
</tr>
<tr>
<td>Debtors</td>
<td>2,500</td>
<td>2,250</td>
</tr>
<tr>
<td>Creditors</td>
<td>8,000</td>
<td>9,000</td>
</tr>
</tbody>
</table>

How many shares will be issued to satisfy the purchase of the business?
A. 15,000,000  
B. 20,100,000  
C. 20,400,000  
D. 20,000,000  
E. 50,000,000

2. The purpose of Cash Flow statement is to
(i) provide information about cash receipts and cash payments over a given period
(ii) indicate the pattern of cash generation and utilisation
(iii) show the cash available at all times
(iv) show that the profit of an enterprise is related to its liquidity.
Which of the under-listed options is correct?

A. (i) only
B. (iv) only
C. (i), (ii) & (iii)
D. (i), (ii) & (iv)
E. (iii) & (iv)
3. For what purpose would management undertake sensitivity analysis? To
   A. calculate employees’ bonuses.
   B. determine levels of depreciation.
   C. determine the effect of profit on dividends.
   D. determine the selling price of a product.
   E. determine level of sensitivity.

4. A company wishes to reduce its Gearing. Which of the following actions will
   achieve this?
   A. A Bonus issue of Ordinary Shares
   B. An issue of Debentures
   C. An issue of Convertible Loan Stock
   D. A rights issue of Ordinary Shares
   E. Issuance of Ordinary Shares and Debentures

5. A limited liability company has the following Share Capital at 31 December
   2008. 

   Ordinary shares of ₦1 each fully paid 5,000
   7.5 % Preference Shares of ₦1 each fully paid 200

   The market price of the Company’s Ordinary Shares at 31 December 2008 is
   ₦1.45. The Company’s Profit and Loss Appropriation Account for the year
   ended 31 December 2008 shows:

   ₦’000   ₦’000
   Profit after tax 470
   Preference dividend 15
   Ordinary dividend 52 67
   Retained profit for the year 403

   What is the Earnings Yield (E/Y) as at 31 December 2008?
   A. 6.8%
   B. 6.3%
   C. 6.0%
   D. 5.6%
   E. 5.9%

6. Like Ethical Egoism, Utilitarianism is concerned with
   A. rights.
   B. duties.
   C. rules.
   D. acts.
   E. consequences.
7. Chartered Accountants sub-consciously make ethical decisions in every aspect of the daily performance of their professional role. In most instances, the thought process and the decision made is instinctive - a simple recognition of right and wrong. The key steps for an Accountant making ethical decisions are the following EXCEPT:

A. Identifying the threats.
B. Evaluating the significance of each threat identified.
C. Determining if there are any prohibitions that preclude performing the engagement.
D. Strategic Benchmarking.
E. Documenting the threats and a description of the safeguard applied.

8. The Accountants' fundamental principles in making ethical decisions include the following EXCEPT:

A. Integrity.
B. Objectivity.
C. Competence.
D. Performance and Courtesy.
E. Competitiveness.

9. In evaluating compliance with fundamental principles, a Professional Accountant may be required to resolve a conflict in the application of fundamental principles. The resolution process that he/she should consider does NOT include

A. relevant facts and relevant parties.
B. ethical issues involved.
C. studying other relevant cases.
D. fundamental principles related to the matter in question.
E. established internal procedures; and alternative courses of action.

10. The perceived relevance or importance of an ethical issue to individuals, work groups and/or an organisation is known as Ethical

A. Identity.
B. Propensity.
C. Intencity.
D. Intensity.
E. Intentionality.

Use the information below to answer questions 11 & 12.
Okoro Enterprises contributes Inventories to a 50:50 Joint Venture it has undertaken with Marina Trading Company. The recorded historical cost of the Inventories is ₦2 million. The fair value (Net Realisable Value) of the Inventories is estimated at the date of transfer and recorded by the Joint Venture at ₦2.2 million.
11. What gain should Okoro Enterprises recognise in its Financial Statements?
   A. ₦2.2million  
   B. ₦0.1million  
   C. ₦0.2million  
   D. ₦2.0million  
   E. ₦0.3million

12. What loss should be recognised if the fair value of Inventory is recorded as ₦1.8million instead of ₦2.2million?
   A. ₦1.8million  
   B. ₦2.0million  
   C. ₦1.0million  
   D. ₦0.1million  
   E. ₦0.2million

13. International Accounting Standards (IAS) No. 34 specifies minimum contents of Interim Financial Statements to include all these EXCEPT Condensed:
   A. Balance Sheet  
   B. Income Statement  
   C. Statement of Changes in Equity  
   D. Audit Report  
   E. Cash Flow Statement.

14. International Accounting Standards (IAS) No. 24 lists all these as not necessarily related parties EXCEPT:
   A. A Joint Venture in which the entity is a venturer.  
   B. Two Venturers sharing joint control in a Joint Venture.  
   C. Two Entities having common Directors or key management.  
   D. Any single customer, supplier, franchisor, distributor or general agent.  
   E. Entities such as trade unions, public utilities, providers of finance, government department/agencies in their normal business dealings.

15. Under the revised International Accounting Standards (IAS) No. 1, the alternative to the Statement of Changes in Equity is Statement of
   A. total recognised Gains and Losses  
   B. total Income and Expenses  
   C. recognised Income and Expenses  
   D. recognised Gains and Losses  
   E. Affairs.

16. “In trying to promote human fulfilment, good intentions are not enough; we must endeavour to use effective means”. This is known as the Principle of
   A. Efficiency
B. Fairness
C. Role Responsibility
D. Rationality
E. Impartiality.

17. The act of divulging, either within the Company or publicly, a Corporation’s unethical practice is called
A. Ethical complaining.
B. Whistle blowing.
C. Fraud alert.
D. Unethical practice alarm.
E. Corporate scandal alarm.

18. Which of the following is NOT true as regards the responsibility of a business firm?
A. The firm is to keep the law and increase its profit.
B. The firm is not to pursue only survival and growth of the business.
C. The firm is to pursue programmes that should maximize shareholder wealth.
D. The firm should pay its workers living wage.
E. Economic surplus generated by a Company belongs exclusively to the Shareholders.

19. Which of the following is NOT one of the circumstances that may create self interest threats for a Professional Accountant?
A. Financial interest, loan or guarantee.
B. Concern for employment security.
C. Appropriate personal use of the Corporate asset.
D. Incentive compensation arrangements.
E. Commercial pressure from outside the employing organisation.

20. Some of the issues involved in Corporate Governance are as follows, **EXCEPT:**
A. Interest control.
B. Taxation policy.
C. Dividend policy.
D. Oversight and management risk.
E. The resources made available in carrying out their duties.
PART II SHORT ANSWER QUESTIONS (20 Marks)

1. When managers take responsibility for the consequences of their decisions not only for their own short term profits but also for the natural environment for society generally and for all groups that may be affected by those decisions, they are said to be involved in ........................................

2. The ethical theory which refers to a type of argument that attempts to establish normative or ethical truths by examining the pre-suppositions of discourse is ........................................

3. The view that a Corporation will succeed by accumulating resources and/or enhancing its competitive position is ........................................

4. In the relationship between the businessman and the customer, the paradigm which stresses the overriding objective of the business person to advance, at all cost, his own individual interest is ........................................

5. The process by which shareholders seek to ensure that their Corporation is run according to their intention is ........................................

6. A manager who acts as the Corporate conscience is called ........................................

7. An approach in managing ethics primarily designed to ensure that the company acts within the letter of the law, and that violations are presented, detected and punished, is known as ...........................................................approach.

8. State any TWO factors that must be considered in ethical conflict resolution.

9. The approach in managing ethics which combines a concern for the law with the emphasis on managerial responsibility is ........................................

10. A reporting system which includes economic elements, core financial, social, economic performance data and measures, is ........................................

11. According to International Financial Reporting Standard (IFRS) 3, over what period should Goodwill be amortised?

12. All taxable temporary differences give rise to a ........................................

13. An example of a financial instrument that combines the features of both equity instruments and financial liabilities is ........................................

14. An example of Compound Instrument, is ........................................
15. A liability of uncertain timing or amount is a ............................

16. The disclosure of information of the effect that the operations of an entity has on the natural environment is .................................

17. Chukwu Plc has in issue 1,000,000 15% Cumulative Preference Shares, which it issued many years ago. In the year ended 31 October 2009, the Directors were unable to pay all the Preference Share dividend but paid ₦120,000 and were negotiating with the holders to waive the balance. How much Preference dividend will be considered when calculating Earnings Per Share?

18. Interpretation of Financial Statements helps to ascertain the financial ..................and................ of the entity.

19. In computing Returns on Capital Employed (ROCE), the term Capital Employed could be defined in various ways, depending on the profit figure used as the numerator. State any TWO variants of Capital Employed.

20. A concept of income measurement whereby income emerges only after financial resources are recovered is ............................
SECTION B – ATTEMPT QUESTION 1 AND ANY OTHER THREE (60 MARKS)

QUESTION 1 – CASE STUDY

Palm Oil Plc is a company which produces Palm Oil. It has two factories located in Ilu Ogbon in Ondo State and New Town in Cross River State, which are predominantly oil palm producing communities. The Company’s factory is the only major business organisation in Ilu Ogbon, whereas in New Town, there are a few other factories that produce other commodities. The Company has no Oil Palm Plantation of its own. The Palm Oil factories are being fed by the palm produce of Oil Palm farmers in both Ilu Ogbon and New Town environs. The establishment of the factories in these two towns has really helped the farmers in concentrating on production of Fresh Fruits Bunches (FFB) rather than dissipating energy in processing them. They just sell their FFB to Palm Oil Plc.

The pricing of the FFB is adequate as far as the farmers are concerned, because the price the Company pays compares favourably with those obtainable for other Oil Palms produced in other towns. Palm Oil Plc realised that Corporate and Social Responsibility has to be an integral part of its Corporate agenda. The company, is aware of the environmental, social, and economic impact caused by a business of its scale and, therefore, it has decided to implement a wide range of initiatives to improve the quality of life of its customers and the society at large. The company over the years has been granting scholarships to indigenes of the locality in which its factories are located and engaging in other community work, such as, the building of town halls for the communities. The company, apart from the community development projects, has been law abiding in paying its taxes and complying with necessary environmental laws.

The financial results of the Company for the last five years have been very impressive and the Shareholders have been having good returns on their Investment. Despite the fact that the Company is making sufficient profits, it has not been meeting the obligations to its Creditors. The Company has been making some unnecessary Capital restructuring to the detriment of its Creditors. The Company’s workforce in Ilu Ogbon comprises casual labourers who account for 55% of the total workforce and the remaining are permanent workers. The situation is, however, different in New Town where 80% of the workforce are permanent workers. In Ilu Ogbon factory, 60% of the casual workers have served the Company for between 5 to 10 years and those that are in permanent employment are laid off at the slightest misbehaviour without giving them fair hearing. The workers in the Company are forbidden from forming a Workers’ Union.

The company is currently considering closing the factory at Ilu Ogbon and concentrating on New Town factory. The Company intends to move the plant and machinery in Ilu Ogbon to New Town for more expansion. In the opinion of the
Board of Directors of the Company, the decision will lead to cost savings. Closing the Ilu Ogbon factory will lead to retrenchment of the entire workforce with the exception of very few managerial staff that will be moved to New Town factory. Seventy percent of the staff on permanent employment in Ilu Ogbon have been in the employment of the company for an average of 20 years and they have served the company meritoriously for this period. The Company’s conditions of service only stipulate one month notice or a month salary in lieu of notice for staff whose services are no longer required and there is no further benefit. The casual workers could be laid off anytime without notice or any payment in lieu of notice.

In view of the problem of unemployment in the country, the employees have accepted the conditions of service of the Company, more so when there is no Union to fight for improved conditions of service.

The Board of Palm Oil Plc is now considering these alternatives in carrying out their decisions to close down the Ilu Ogbon factory.

(a) Retrench the workers in line with the company’s conditions of service.

(b) Give permanent staff some voluntary compensation on their retrenchment which will reduce the company’s profit by 30% and reduce the dividend to be given to the shareholders for the year.

(c) Lay off the casual workers without any benefit.

**Required:**

(i) Outline any FIVE ethical issues in this case. (5 Marks)

(ii) Comment on the alternatives the Board is considering in closing down the Ilu Ogbon factory. (10 Marks)

(Total 15 Marks)

**QUESTION 2**

On 1 April 2007, ADISA PLC owned 65% of the Equity Share Capital of DOTUN LTD and 70% of the Equity Shares of TADE COY. LTD. On 1 April 2008, ADISA PLC purchased the remaining 35% of the Equity Shares of DOTUN LTD. In the two years ended 31 March 2008 and 31 March 2009, the following transactions occurred between the three companies.

(a) On 30 June 2007, ADISA PLC manufactured a machine for use by DOTUN LTD. The cost of production was ₦2million. The machine was delivered to DOTUN LTD at an invoiced price of ₦2.5million. DOTUN LTD paid the invoice on 31 August 2007. DOTUN LTD depreciated the machine over its anticipated useful life of 5 years, charging a full year’s depreciation in the year of purchase.
(b) On 30 September 2008, DOTUN LTD sold some goods to TADE COY. LTD at an invoiced price of ₦1.5 million. TADE COY. LTD settled the invoice on 30 November 2008. The goods had cost DOTUN LTD ₦1.2 million to manufacture. By 31 March 2009, TADE COY. LTD had sold all the goods outside the group.

(c) For each of the years ended 31 March 2008 and 31 March 2009, ADISA PLC. provided management services to DOTUN LTD and TADE COY. LTD. ADISA Plc did not charge for these services in the year ended 31 March 2008 but in the year ended 31 March 2009, decided to impose a charge of ₦1 million per annum on TADE COY. LTD. The amount of ₦1 million is due to be paid by TADE COY. LTD on 31 May 2009.

Required:
Summarise the related party disclosures which will be required in respect of transactions in (a) to (c) above, for both of the years ended 31 March 2008 and 31 March 2009 in the financial statements of ADISA PLC., DOTUN LTD and TADE COY. LTD.  

Note: You may assume that ADISA PLC presented consolidated financial statements for both of the years.

QUESTION 3

(a) Financial Statements provide a wide range of information, among which, is measure of the company’s liquidity. A measure of overall liquidity of a firm is cash conversion cycle.

(i) What is Cash Conversion Cycle (CCC)?
(ii) Demonstrate your understanding of Cash Conversion Cycle from the financial statements below:

SHAC FLOW PLC.

<table>
<thead>
<tr>
<th>FIXED ASSETS</th>
<th>₦'m</th>
<th>₦'m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant and Equipment</td>
<td>245</td>
<td></td>
</tr>
<tr>
<td>Other Non-Current Assets</td>
<td>15</td>
<td>260</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CURRENT ASSETS</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories</td>
<td>186</td>
<td></td>
</tr>
<tr>
<td>Trade Accounts Receivable</td>
<td>49</td>
<td></td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>20</td>
<td>255</td>
</tr>
</tbody>
</table>

(2 Marks)

(10 Marks)
CURRENT LIABILITIES

Short Term Debts 15
Trade Accounts Payable 5
Income Tax Payable 5

Net Current Assets 230

SHAREHOLDERS EQUITY

Authorised Share Capital N’m
1,200 million Ordinary Shares of 50k each 600
Issued and Fully Paid 202
Retained Earnings 264
Shareholders’ Equity 466
10% Debenture 24

SHAC FLOW PLC
INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER, 2009

N’m

Net Sales 153
Cost of goods sold (121)
Gross Profit 32

Selling, General and Admin Expenses (5)
Operating profit 27
Interest Income 8
Interest Expenses (2)
Operating Income before Tax 33
Provision for Tax (13)
Operating Income after Tax 20

Cumulative Effect on accounting change (2)
Reported Net Income 18

Operating Income after tax available for Shareholders 20
Reported Net Income available for Shareholders 18
Notes
The following balances were extracted from the Company’s books as at 31 December, 2008

<table>
<thead>
<tr>
<th></th>
<th>₦’m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories</td>
<td>152</td>
</tr>
<tr>
<td>Trade Account Receivables</td>
<td>36</td>
</tr>
<tr>
<td>Trade Account Payables</td>
<td>3</td>
</tr>
</tbody>
</table>

(b) What is market liquidity of a firm? How is market liquidity determined? (3 Marks)

(Total 15 Marks)

QUESTION 4

(a) On 1 January 2007, Richco Company Ltd secured a facility of ₦20 million to finance the production of two assets, both of which will be built within a year.

On 1 January 2009, Richco Company Ltd commenced draw-down of the facility and production commenced immediately.

The draw-downs were utilised as follows:

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>A</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>₦’m</td>
<td>₦’m</td>
</tr>
<tr>
<td>1 January 2009</td>
<td>3.33</td>
<td>6.67</td>
</tr>
<tr>
<td>1 July 2009</td>
<td>3.33</td>
<td>6.67</td>
</tr>
</tbody>
</table>

The loan interest rate was 19% per annum and Richco Company Ltd can invest any surplus funds at 6%.

Required:
Calculate the borrowing costs which may be capitalised for each of the assets and consequently the cost of each asset as at 31 December 2009. Ignore compound interest. (10 Marks)

(b) On 1 January, 2005, a parent company acquires an 80% interest in a subsidiary for ₦1.28 million, when the identifiable Net Assets of the subsidiary are ₦1.2 million. The subsidiary is a cash-generating unit. At 31 December 2005, the recoverable amount of the subsidiary was ₦800,000. The carrying amount of the subsidiary’s identifiable assets is ₦1.08 million.

Calculate the impairment loss at 31 December 2005. (5 Marks)

(Total 15 Marks)
QUESTION 5

(a) Ethics is the study of values and customs of a people or a group the analysis of moral beliefs and concepts. What is Business Ethics? (5 Marks)

(b) Explain the following classifications of ethical theories: Teleology and Deontology. (10 Marks)

(Total 15 Marks)

QUESTION 6

(a) Explain briefly any THREE ways to encourage ethical behavior in the financial services sector. (9 Marks)

(b) Explain briefly any THREE of the following fundamental principles of Business Ethics.

   (i) Solidarity
   (ii) Rationality
   (iii) Role responsibility
   (iv) Efficiency
   (v) Fairness (6 Marks)

(Total 15 Marks)
SOLUTIONS TO SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

1. A
2. D
3. D
4. D
5. B
6. C
7. D
8. E
9. C
10. D
11. B
12. E
13. D
14. A
15. C
16. A
17. B
18. E
19. C
20. B
PART II SHORT ANSWER QUESTIONS

1. Corporate Social Responsibility.
2. Discourse Ethics.
3. The economic approach to corporate governance.
4. The Warfare Paradigm.
5. Corporate Governance.
7. Compliance based.
8. Relevant facts, Ethical issues involved and Fundamental principles related to the matter in question.
9. Integrity based approach.
10. Sustainability Accounting.
11. Goodwill should not be amortised or Nil.
12. Deferred Tax Liability.
13. Redeemable Preference Shares.
14. Convertible Debt or Convertible Preference Shares
15. Provision.
17. ₦150, 000.
18. Strengths: weaknesses
19. Any two of the following:
   (a) Shareholders’ Fund plus Long-term loans plus current liabilities
   (b) Shareholders’ Fund plus Long-term loans
   (c) Shareholders’ Fund only i.e. Equity + Preference Shares+ Reserves
   (d) Equity Shareholders’ Fund i.e. Equity + Reserves

Tutorial

Q. 17 This is because for cumulative preference shares, the dividend to be considered is the entire dividend due in an accounting year whether paid or not.
SOLUTIONS TO SECTION B

SOLUTION 1- CASE STUDY

(a) Some ethical issues that can be deduced from the case are as follows:
   (i) The company is not expected to put its creditors at risk. Unnecessary restructuring of capital that put the creditors into risk is a breach of corporate responsibility to the creditors;

   (ii) The company seems to be alive to its social responsibility to the communities where it operates, though at the expense of the workforce and creditors;

   (iii) A Company is supposed to reasonably guarantee job stability for its workforce;

   (iv) Workers should be allowed to form a Union since there must be freedom of association;

   (v) Keeping casual workers for as long as five to ten years without being absorbed into permanent employment is not ethical for the company; and

   (vi) The company is pursuing maximum returns to the shareholders at the expense of other stakeholders such as employees and creditors.

(b) (i) The proposal to close the company’s factory in Ilu Ogbon could be seen as a way of relinquishing Palm Oil Plc’s Social Responsibility to Ilu Ogbon community. This is because the closure will cause unemployment in the community since the factory is the major source of employment in the locality.

   (ii) The Company is more concerned with cost savings and increased profitability without considering the social implications of moving the only factory in Ilu Ogbon to New town where there are other companies that provide employment to people in the locality.

   (iii) Retrenching workers without any provision for compensation is unethical more so when many of the employees had served the company meritoriously for most of their productive lives. The proposal to pay compensation should be accepted even if it will reduce the returns to the Shareholders.

   (iv) A business is not supposed to exist only for the Shareholders. The interest of other stakeholders is also paramount.
(v) The casual labourers ought to be given adequate notice of the plan to close the factory and at least reasonable compensation should be given to them.

**SOLUTION 2**

**YEAR ENDED 31 MARCH 2008**

**RELATIONSHIP**

ADISA PLC. has a 65% subsidiary (DOTUN LTD) and a 70% subsidiary (TADE Co. Ltd)

ADISA PLC. is a related party of DOTUN LTD and TADE COY. LTD and vice versa.

DOTUN LTD and TADE COY. LTD are also related parties because they are subject to “common control”. Thus, any transactions between ADISA Plc. DOTUN LTD and TADE Co. Ltd need not be disclosed in ADISA Plc consolidated accounts as they are eliminated.

**DISCLOSURES**

**ADISA PLC.**

(a) Intra-group sale of machine for ₦2.5 million at a profit of ₦500,000. No balance is outstanding.

(b) Management services provided to DOTUN LTD (Nil Charge).

No disclosure is required in the group accounts of ADISA PLC. of these items as they are eliminated.

**DOTUN LTD.**

(a) Parent (an ultimate controlling party) is ADISA PLC.

(b) Machine purchased from parent of ₦2.5 million (original cost ₦2 million) and depreciation charge ₦500,000.

No amount is outstanding at year end.

(c) Purchase of management services from ADISA PLC. (Nil charge).

**TADE COY. LTD.**

(a) Parent (an ultimate controlling party) is ADISA PLC.

(b) Purchase of management services from ADISA PLC. (Nil charge).

For all transactions, the nature of the related party relationship (i.e parent, subsidiary, fellow subsidiary), should be disclosed.
YEAR ENDED 31 MARCH 2009

RELATIONSHIP
ADISA PLC. has a 100% subsidiary (DOTUN LTD) and a 70% subsidiary (TADE COY. LTD)

ADISA PLC is a related party of DOTUN LTD. and TADE COY. LTD and vice versa. DOTUN Ltd. and TADE COY. LTD are related because they remain under common control. Any transactions between ADISA PLC., DOTUN LTD., and TADE COY. LTD need not be disclosed in ADISA PLC consolidated accounts as they are eliminated.

DISCLOSURES
ADISA PLC.

(a) Management services provided to DOTUN (Nil charge) and

(b) TADE COY. LTD (₦1m outstanding).

No disclosure is required in the group account of ADISA PLC. of these items as they are eliminated.

DOTUN LTD.

Parent (and ultimate controlling party) is ADISA PLC.

Disclosure of intragroup transactions is still required even though DOTUN LTD is a wholly owned subsidiary.

(a) Sale of inventories to TADE COY. LTD for ₦1.5million (original cost ₦1.2million) all sold. No amount outstanding at year end.

(b) Purchase of management services from ADISA PLC. (Nil charge).

TADE COY. LTD.

(a) Parent (an ultimate controlling party) is ADISA PLC.

(b) Purchase of inventories from DOTUN LTD. for ₦1.5million (original cost ₦1.2million) all sold, no amount outstanding at year end.

(c) Purchase of management services from ADISA PLC. costing ₦1million are outstanding at year end.

For all transactions, the nature of the related party relationship (i.e. parent, subsidiary, fellow subsidiary) should be disclosed.
SOLUTION 3

(a) Cash conversion circle is one which combines information from the receivable turnover, the inventory turnover, and the accounts payable turnover. The argument here is that, cash is tied up in assets for a certain number of days. Specifically, cash is committed to receivables for the collection period and is also tied up for a number of days in inventory – the inventory processing period. At the same time, the firm receives an offset to this capital commitment from its own suppliers, who provide interest-free loans to the firm by carrying the firm’s payables.

A firm’s payables payment period is the inverse of its Payable Turnover Ratio ie:

\[
\text{Payables Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Trade Payable}}
\]

\[
\text{Payables Payment Period} = \frac{365}{\text{Payables Turnover Ratio}}
\]

Based on the above, cash conversion cycle equals

\[
\begin{align*}
\text{Receivables Days} &+ \frac{\text{Inventories Processing Periods}}{\text{Days}} - \frac{\text{Payables Payment Periods}}{\text{Cycle}} = \text{Cash Conversion Cycle} \\
= &\frac{365}{\text{Receivables Turnover}} + \frac{365}{\text{Inventories Turnover}} - \frac{365}{\text{Payables Turnover}} = \text{Cash Conversion Cycle} \\
\end{align*}
\]

\[
\begin{align*}
= &\frac{\text{Annual Sales}}{\text{Average Receivables}} + \frac{\text{Cost of Goods Sold}}{\text{Average Inventories}} - \frac{\text{Cost of Sales}}{\text{Average Trade Payables}} = \\
= &\frac{153}{(36 + 49)/2} + \frac{121}{(152 + 186)/2} - \frac{121}{(3 + 5)/2} = 30.25 \\
= &\frac{365}{3.6} + \frac{365}{0.72} - \frac{365}{30.25} = 596.26 \\
= &101.39 + 506.94 - 12.07 = 596.26 \text{ days}
\end{align*}
\]
Shac Flow Plc. has too long inventory processing period of about 507 days. It also pays its bills 10 days earlier than when cash is received from its credit customers. This leads to too long cash conversion cycle of 517 days. This company needs to re-examine its credit policies with a view to encouraging early payment by the credit customers. The firm's long term trend and comparison with other firms is desirable in this instance.

(b) The market liquidity of a firm is the firm's ability to buy or sell an asset quickly with little or no price change from a prior transaction given no new information. The above definition must be well noted as one can still sell an illiquid stock quickly, but the price would be significantly different from the prior price. In the alternative, the Broker might be able to get a specified price but could take several days to do so.

Major determinants of market liquidity reflected in market trading data, include several internal corporate variables such as:
(i) the number of shares.
    total market value of outstanding shares.
(ii) bid-ask spread - a smaller spread indicates greater liquidity.

The more shares outstanding, the more stockholders buy or sell at any time for numerous purposes. Numerous buyers and sellers provide liquidity.

**SOLUTION 4**

(a)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>A</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>₦</td>
<td>₦</td>
</tr>
<tr>
<td>BORROWING COSTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To 30 June 2009</td>
<td>316,350</td>
<td>633,650</td>
</tr>
<tr>
<td>To 31 Dec 2009</td>
<td>632700</td>
<td>1,267,300</td>
</tr>
<tr>
<td>949,050</td>
<td>1,900,950</td>
<td></td>
</tr>
<tr>
<td>Less: Investment Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To June 2009</td>
<td>99,900</td>
<td>200,100</td>
</tr>
<tr>
<td>849,150</td>
<td>1,700,850</td>
<td></td>
</tr>
<tr>
<td>Cost of Assets</td>
<td>N’m</td>
<td>N’m</td>
</tr>
<tr>
<td>Expenditure Incurred</td>
<td>6.66</td>
<td>13.34</td>
</tr>
<tr>
<td>Cost of Borrowing</td>
<td>0.85</td>
<td>1.70</td>
</tr>
<tr>
<td>7.51</td>
<td>15.04</td>
<td></td>
</tr>
</tbody>
</table>

**Workings**

**Borrowing Costs**

<table>
<thead>
<tr>
<th>ASSETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>To June 2009</td>
</tr>
<tr>
<td>₦3.33m x 19% x 6/12</td>
</tr>
<tr>
<td>₦6.67m x 19% x 6/12</td>
</tr>
</tbody>
</table>
To Dec., 2009
₦6.66m x 19% x 6/12  632,700
₦13.34 x 19% x 6/12  1,267,300

**Investment Income**
₦3.33m x 6% x 6/12  99,900
₦6.67m x 6% x 6/12  200,100

(b) At 31 December, 2005, the cash-generating unit consists of the Subsidiary’s identifiable Net Assets (carrying amount ₦1.08million) and Goodwill of ₦320,000 (₦1,280,000 - 8% x ₦1.2million). Goodwill is grossed up to reflect the 20% minority interest.

<table>
<thead>
<tr>
<th>Goodwill</th>
<th>Net Assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>₦320</td>
<td>₦1,080</td>
<td>₦1,400</td>
</tr>
</tbody>
</table>

Unrecognised Minority interest

<table>
<thead>
<tr>
<th>Goodwill</th>
<th>Net Assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>₦80</td>
<td>-</td>
<td>₦80</td>
</tr>
<tr>
<td>₦400</td>
<td>₦1,080</td>
<td>₦1,480</td>
</tr>
</tbody>
</table>

**SOLUTION 5**

(a) The field of Business Ethics deals with questions about the acceptability of certain business practices. For example, should a salesman omit facts about a product’s poor safety record in a sales presentation to a client? Should an Accountant report inaccuracies discovered in an audit of a client, knowing that his firm will probably be fired by the client for doing so? Should an automobile producer avoid adopting a new safety device that could save thousands of lives simply because it would make the car too expensive for many consumers to afford? Regardless of the legality of these actions, whatever decision anyone makes in such situations will surely be judged by others as right or wrong.

Business Ethics is the branch of ethics that examines ethical rules and principles within a commercial context; the various moral or ethical problems that can arise in a business setting; and any special duties or obligations that apply to persons engaged in commerce. It is the study of the nature and grounds of business morality. Business ethics seeks to provide an explicit ethical framework within which to evaluate business and, especially, Corporate activities.

Business Ethics is a form of applied ethics that aims at inculcating a sense, within a company’s employee-population, of how to conduct business responsibly. In other words, it deals with the principles and values that govern decisions and actions in business. The phrase 'business ethics' can be
used to describe the actions of individuals within an organization as well as the organization as a whole.

Generally speaking, Business Ethics is a normative discipline, whereby particular ethical standards are formulated and then applied. It makes specific judgments about what is right or wrong, which is to say, it makes claims about what *ought* to be done or what *ought not* to be done. Generally speaking, Business Ethics is concerned with the study of what is good and bad, right and wrong, just and unjust in business.

(b) (i) **Teleological** theories determine the ethics of an act by looking at the probable outcome or consequences of the decision (the ends). It judges the rightness or wrongness of an action based on its consequences. Actions are, therefore, not good in themselves; their moral values are totally based on the effects that follow from them. Actions have no intrinsic value, but merely, serve as means to attain that which has value. In considering the consequences of an action, the good effect should be weighed against the bad effect on all the people affected by it. If the good effect outweighs the bad effect, then it tends to be a good action, but if the bad outweigh the good, then it tends to be a bad action, hence not morally right.

(ii) **Deontological** theories determine the ethics of an act by looking at the process of the decision (the means). The deontological tradition holds that what makes an action right is not the sum of its consequences but the fact that it conforms to the moral law.

The German philosopher, Immanuel Kant (1728-1804) is a major contributor to Ethics of duty. He thought that morality and the question of rightness and wrongness of actions was not dependent on a particular situation or on the consequences of the action. Rather, morality was simply a question of certain eternal, abstract and unchangeable principles that humans should apply to all ethical problems. Hence his moral philosophy is deontological.

To be moral, therefore, one must consciously act according to rules previously calculated by ‘reason’ to be right or just and the incentive for observing those rules must be respect for duty alone.

**SOLUTION 6**

(a) Enron, WorldCom, Tyco, Adelphia, Cendant, Rite Aid, Sunbeam, Waste Management, HealthSouth, Andersen, Ernst &Young, KPMG, Deloitte & Touche, PricewaterhouseCoopers, J.P. Morgan, Merrill, Morgan Stanley and in Nigeria, Afribank Nigeria Plc, Cadbury Nigeria Plc and Akintola Williams
Deloitte, Union Dicon Salt, Oni Olasebikan etc, are some of the names of Companies, Accounting Firms and Investment Firms that have all been implicated in some ethically questionable activities in the past few years; activities that have resulted in fines or criminal convictions. The challenge is how to encourage ethical behaviour in the financial services sector.

The following are some of the ways that can encourage ethical behaviour in the sector:

(i) There must be recognition of unethical activities taking place. It is important that financial services professionals commit to, as most of their codes insist they do, putting the best interests of their clients first, and develop a strong character to withstand temptation.

(ii) What is also critical for encouraging ethical behaviour is to reduce, as much as possible, the pressure created by the corporate culture of the market place. For instance, a market place that measures success almost exclusively by profit, creates pressure on companies and their managers to succeed, whatever, it takes. Their companies, who are in turn forced by the demands of profitability, often force financial service professionals to act in ways that are unethical.

(iii) Leadership in general is concerned with vision, principle and integrity. Leadership is, especially, about the power to motivate others through words and deeds. Ethical leadership is, therefore, about ethically motivating others in ethical directions.

(iv) Companies, Accounting Firms and Investment Firms should make efforts to set out specific standards of appropriate ethical conduct for their employees to follow. Through an effective process of ethics management, institutionalise ethical behaviour compliance. This can be done by first aligning the individual vision to the corporate vision and then through strategic implantation. Ethics managers, officers or committees can be appointed to co-ordinate and/or take responsibility for managing ethics in their organisation.

(v) Ethics education and training cannot be neglected in encouraging ethical behaviour in the financial service sector. Its provision might either be in-house or externally through ethics consultants, universities and colleges or corporate ethics specialists.

(b) (i) The principle of Solidarity states that we must be concerned with the well being of all human beings, not only with ourselves, since if we fail to do so, we undermine our own fulfilments.
(ii) **The principle of Rationality** states that one should always strive to act intelligently. Acting rationally means guiding oneself by an intelligent consideration of the way in which our actions are likely to help or harm the fulfilment of human beings. In acting rationally one should not allow emotions or feelings to derail one from the paths dictated by one’s intelligence.

(iii) **The principle of Role Responsibility** states that one does not have equal responsibility for all the aspects of the well-being of all human beings. A person’s special circumstance, capacity, role and commitment gives him a priority responsibility for certain aspects of the well-being of others.

(iv) **The principle of Efficiency** states that in an attempt to promote human fulfilment, good intentions are not enough, one must endeavour to use effective means.

(v) **The principles of Fairness** states that one should apply the same standards for judging one’s own actions, those of people who are dear to one and those of strangers. The principle indicates that one must avoid discriminatory tendencies in dealing with people of diverse backgrounds.
1. Which of the following is NOT the reason why maximization of Earnings Per Share is not considered a fully appropriate objective of an organisation?

A. It does not take account of the timing or duration of expected returns.
B. It is based on accounting profits.
C. Accounting profits are not as important as Earnings Per Share.
D. It does not consider the risk or uncertainty of the prospective earnings stream.
E. It does not take into account any dividend the company might pay.

2. The following are the major decision areas of the finance function of an organization EXCEPT

A. credit management
B. financing
C. dividend
D. investment
E. share – repurchase

3. Strategic planning is also known as

A. Business Strategy
B. Operational Strategy
C. Competitive Strategy
D. Tactical Strategy
E. Corporate Strategy

4. Which aspect of strategic decision–making is concerned with the choice of method in entering a market or business?

A. Marketing
B. Business
C. Dividend
D. Financial
E. Investment
5. Assume that the interest rate is greater than zero, which of the following cash-inflow streams would you prefer?

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. 4,000</td>
<td>3,000</td>
<td>2,000</td>
<td>1,000</td>
</tr>
<tr>
<td>B. 2,500</td>
<td>2,500</td>
<td>2,500</td>
<td>2,500</td>
</tr>
<tr>
<td>C. 1,000</td>
<td>2,000</td>
<td>3,000</td>
<td>4,000</td>
</tr>
<tr>
<td>D. 4,000</td>
<td>1,000</td>
<td>2,000</td>
<td>3,000</td>
</tr>
<tr>
<td>E. 4,000</td>
<td>2,000</td>
<td>1,000</td>
<td>3,000</td>
</tr>
</tbody>
</table>

6. The largest provider of short-term credit for a business is
A. Bank overdraft
B. Commercial papers
C. Loans
D. Trade credit
E. Factoring

7. The Right of a shareholder to maintain his proportionate share of ownership in the company is called
A. maintenance Right
B. deal Right
C. pre-emptive Right
D. shareholders Right
E. voting Right

8. Protective covenants are to protect
A. employees
B. the interests of the company
C. shareholders
D. bondholders
E. mortgagees

9. A company refunds its bonds for any of the following reasons **EXCEPT** to
A. issue new bonds at higher rate of interest
B. show higher reported profits
C. reduce interest costs
D. eliminate restrictive covenants
E. reduce its level of gearing.
10. Mafia Plc makes a right issue at an issue price of ₦8 per share. The cum-rights price is ₦10 per share. The theoretical ex-rights price is ₦9.50 per share. What are the terms of the rights issue?

A. 1 for 3  
B. 1 for 2  
C. 2 for 1  
D. 3 for 1  
E. 1 for 1  

11. Profitability varies inversely with
A. revenue  
B. liquidity  
C. risk  
D. trading  
E. gearing  

12. Which of the following is NOT the aim of Mergers and Acquisitions?
A. Reducing cost of lending  
B. Industry sanitization  
C. Gaining monopoly power  
D. Raising capital base  
E. Eliminating inefficiencies and business failures.  

13. The following are suitable bases for the valuation of a firm for Merger and Acquisition EXCEPT:
A. realizable value method  
B. net assets method  
C. benefit/cost method  
D. cash flow technique  
E. price earning ratio.  

14. Which of the underlisted is NOT a financial support programme for promoting Small and Medium Enterprises (SMEs) in Nigeria?
A. Centre for Professional Development (CPD)  
B. The Second – Tier Securities Market (SSM)  
C. Other Technical Training and Extension Services Programme.  
D. Bank’s Equity Holding in companies  
E. International Financial Assistance  

15. Small and Medium Enterprises Equity Investment Scheme covers the following activities EXCEPT
A. Solid Minerals  
B. Tourism and Leisure  
C. Services
D. Agro – Allied
E. Schooling

16. The forward market is especially well-suited to offer hedging protection against
A. translation risk/exposure
B. economic risk/exposure
C. political risk/exposure
D. taxation risk/exposure
E. transaction risk/exposure

17. Which of the following is a legitimate reason for International Investments?
A. Most governments do not tax foreign Corporations.
B. There are possible benefits from International diversification.
C. Dividends from a foreign subsidiary are tax exempt in the United States.
D. International investments have less political risk than domestic investments.
E. Conversion to domestic currency yields higher amount.

18. If the Japanese **yen** is selling at a forward discount in the foreign exchange market, this implies that
A. interest rates are declining in Japan.
B. the currency has low exchange – rate risk.
C. the currency is gaining strength in relation to the dollar.
D. interest rates are constant in Japan.
E. interest rates are higher in Japan than in the US.

19. The two broad phases of decision-making are
A. planning and monitoring
B. monitoring and feedback
C. planning and implementation
D. monitoring and control
E. control and feedback.

20. The price at which new issues are made in the primary market is determined by the:
A. Securities and Exchange Commission
B. Registrars
C. Nigerian Stock Exchange
D. Issuing House and Issuing Company
E. Stockbrokers
SOLUTIONS TO SECTION A

PART I   MULTIPLE CHOICE QUESTIONS

1. C
2. A
3. E
4. A
5. A
6. D
7. C
8. D
9. A
10. A
11. C
12. C
13. C
14. A
15. E
16. E
17. B
18. E
19. C
20. D

TUTORIALS

10.

N

3 shares at N10 each = 30
1 rights issue at N8 = 8
4 = 38

91
The theoretical ex-rights price  = \$38

\[
\frac{4}{4}
\]

= \$9.50

Therefore the terms would be **1 rights issue for every 3 shares** presently held
PART II – SHORT ANSWER QUESTIONS (20 MARKS)

1. In the light of corporate strengths and weaknesses, the development of long range plans for the effective management of environmental opportunities and threats is known as …………..

2. The acceptance of a project whose Net Present Value (NPV) is positive, and in consonance with the objective of the organization is termed …………..

3. The area of strategy concerned with decisions relating to the sources from which funds are obtained and the amount to be paid out by a company as dividends is …………..

4. What will be the value of ₦1,000 after 8½ years if, invested at 4 per cent interest p.a. compounded semi-annually?

5. A given sum of money payable or receivable periodically into the indefinite future or over a specified period of time is called …………..

6. Yombo Plc has ₦1 ordinary share in issue. The company’s Earnings Per Share (EPS) for the year just ended is 25 kobo. The dividend payout ratio for the year is 60% and Price Earnings (PE) ratio is 20 times. What is the dividend yield ratio of the company?

7. The percentage change in earnings per share that results from a percentage change in operating income is called …………..

8. The process of selling securities and also assuring the seller a specified amount is known as …………..

9. When a firm commits excessive capital into the company’s trading activities, such that there are excessive stocks, debtors and cash, and very few creditors, then we have …………..

10. Debtors conversion period increases by 10 days and creditors conversion period decreases by 7 days. All other things being equal, the operating cycle will be increased by …………..

11. Merging with an unrelated company is called a ………….. merger.

12. An anti-takeover tactic in which a target firm pays a premium to an unfriendly firm holding a larger block of its stock in exchange for its own shares is known as …………..
13. Direct investment in SMEs by wealthy individuals or informal group of individuals (in terms of a market) who are interested in assisting new businesses that will enhance the immediate community is known as ............

14. When determining discount rates for project appraisal by the SMEs, the ............... associated with SMEs must be factored in.

15. The situation whereby the exporter or importer arranges with a bank to sell or buy a quantity of foreign currency at a future date at a rate that is determined ‘now’ is known as .................

16. A company has a nominal (money) cost of capital of 18% p.a. If inflation rate is 6% each year, what is the real cost of capital?

17. If annual risk free rate in Ghana is 25% and the annual interest rate in Nigeria is 5%, using interest rate parity, what is the expected rate of appreciation or depreciation of the Cedi relative to the Naira?

18. State the type of relationship which exists between the shareholders and the management of a company.

19. Which concept stipulates that the management of a company should act in the best interest of the owners of the business?

20. In determining the weighted average cost of capital, state the value that should be used for each component of the capital structure.
SOLUTIONS

PART II SHORT ANSWER QUESTIONS

1. Strategic Planning
2. Wealth Maximization
3. Financial Strategy
4. N1,400
5. An Annuity
6. 3.0%
7. Degree of financial leverage
8. Underwriting
9. Overcapitalization/Under trading
10. 17 days.
11. Conglomerate
12. Green mail
13. Business Angels
14. Risk
15. Forward exchange contract
16. 11.32%
17. 16%
18. Agency relationship (Principal-Agent)
19. Corporate governance
20. Market value

Workings

4. \[ A = P \frac{(1+r)^n}{m} = N1000 \frac{(1+0.04)^{8.5 \times 2}}{2} = N1,400 \]

6. Dividend Per Share \[ = 25k \times 0.6 = 15k \]
   Market Value \[ = \text{EPS} \times \text{PE} = 25K \times 20 = N5 \text{ or } 500k \]
   \[ \therefore \text{Dividend yield ratio} = \frac{15k}{100} = 3.0\% \]
16. Real rate = \( \frac{(1+m)}{(1+i)} - 1 \) i.e. \( \frac{1.18}{1.06} - 1 \) 
\[ = 11.32\%. \]

17. Percentage change in the foreign currency relative to the domestic currency is given by:
\[ \frac{1 + \text{Domestic interest rate}}{1 + \text{Foreign interest rate}} - 1 \] i.e. \( \frac{1.05}{1.25} - 1 = -16\% \)

This means that Cedi is expected to depreciate by 16\%.
SECTION B

QUESTION I - CASE STUDY

JIGAWA PLC

Mallam Abdullahi, the Financial Officer of Jigawa plc is concerned about the forthcoming negotiations with the Company's Bankers, Super Bank Plc, to renew a lending arrangement with the Bank as he has to change the current policy with its major credit customers, Arakale Plc.

Jigawa Plc maintains an overdraft account with its Bankers - Super Bank Plc. The account has become somewhat sticky, causing its overdrawn balance to remain unchanged for a long period of time except for interest charges. The Bank's General Manager is getting worried hence a letter of warning was sent to the Company for an improved operation of the account. In order to reduce the balance on the account and improve on its operation, Jigawa plc decided to change its credit policy with Arakale plc, a major customer with a yearly credit sales of N280million spread evenly, over each of the 50 weeks, which Jigawa plc operates yearly.

Credit sales to Arakale plc is such that sales on Mondays and Tuesdays are twice those for the rest of the week, i.e. Wednesdays, Thursdays and Fridays. Lodgements to the account of Jigawa plc with Super Bank plc are to be made by Arakale plc twice weekly i.e. Tuesdays and Thursdays.

Interest of 22% per annum is charged daily by Jigawa plc on any outstanding credit and administrative cost of N7,500 is incurred per lodgement.

In view of the problem with its bankers, Jigawa plc is considering a change in the lodgement arrangement with Arakale plc. It is being proposed that lodgement be made either on a daily basis or once in a week, that is every Friday of the week.

Required :
(a) Advise the company, Arakale plc, on the best policy amongst the three alternatives for the lodgement arrangement with Jigawa plc. Show your workings. (13 Marks)

(b) Indicate the annual amount by which the company will be worse off if it pursues the worst, rather than the best of the three alternatives for the lodgement arrangement. (2 Marks)

Please note that interest will be paid on the amount not lodged on a daily basis. Assume 365 days for a year. (Total 15 Marks)
 QUESTION 2

The objectives of corporate organizations can broadly be categorized into financial and non-financial.

Required:
(a) Give THREE justifications for Shareholders’ wealth maximization, as a company’s primary objective. (3 Marks)

(b) Discuss FIVE other desirable but non-financial corporate objectives of business organizations. (10 Marks)

(c) State TWO criticisms of wealth maximization objective. (2 Marks)
(Total 15 Marks)

 QUESTION 3

Stainless Limited is considering the manufacture of a new product which would involve the use of both a new machine costing N150,000 and an existing machine, which cost N80,000 two years ago, and has a current net book value of N60,000. There is sufficient capacity on this machine, which has so far been under-utilised.

Annual sales of the product would be 5,000 units at a selling price of N32 per unit.
Unit costs would be:

| Direct labour (4 hours @ N2) | 8 |
| Direct materials | 7 |
| Fixed costs including depreciation | 9 |
| **Total** | **24** |

The project would have a 5-year life, after which the new machine would have a net residual value of N10,000. Because direct labour is continually in short supply, labour resources would have to be diverted from other work which currently earns a contribution of N1.50 per direct labour hour. The fixed overhead absorption rate would be N2.25 per hour (i.e. N9 per unit). The actual expenditure on fixed overhead would not alter.

Working capital requirements would be N10,000 in the first year, rising to N15,000 in the second year and remaining at this level until the end of the project, when it will all be recovered.

The company’s Cost of Capital is 20%. Ignore taxation.
Required:
(a) Is the project worthwhile? (10 Marks)
(b) Calculate the additional Working Capital in the second year to make the project have a zero NPV? (3 Marks)
(c) State and explain the typical decision support system (DSS) model that could be used to support the Financial Manager in solving questions (a) and (b) above. (2 Marks)
(Total 15 Marks)

QUESTION 4

Dopemu Plc and Demurin Plc are Subsidiary Companies of Ketu Investments Plc. The companies have in issue 4 million ordinary shares of 50k each.

Other information relating to the two subsidiary companies are:

Dopemu Plc has 250,000 units of Convertible Debenture each with a nominal value of N100 and a coupon interest rate of 12% payable annually. Each N100 unit may be converted into 40 ordinary shares at anytime until the expiry date and any Debentures remaining unconverted will be redeemed that day at N105.

Demurin Plc has 5,000,000 warrants, each of which provides the holder with an option to subscribe for 2 ordinary shares at a price of N2.50 per share. Each warrant holder can exercise his option before the expiry date.

NOTE:
Ordinary Shares, Convertibles and the Warrants of the companies, are all actively traded in the stock market.

Required:
(a) Give FOUR factors which influence the value of Warrants and Convertibles. (3 Marks)
(b) Determine the value of each N100 unit of Convertible Debentures and each Warrant on the date of expiry and advise Ketu Investments Plc whether or not to exercise its conversion and option rights if the share prices of each Company immediately prior to the latest time for conversion and exercise were to be: (i) N2.20 (ii) N2.60 (iii) N3.00 (iv) N3.40 (6 Marks)
(c) Determine the likely current market price, or likely range of current market price of each N100 unit of Convertible Debentures, if they have a further 5 years before expiry and if the current price for each Share is:
The appropriate pre-tax rate of interest on a five-year debt security is 8%.

(Total 15 Marks)

QUESTION 5

(a) With reference to international currency market, explain the term “currency futures”. (1 Mark)

(b) Igiowo Plc processes and exports wood to foreign countries. In 60 days time, the company is due to receive a sum of US $150,000 (One Hundred and Fifty Thousand US Dollars) from processed wood recently shipped to USA. Igiowo also has financial obligation to some major suppliers of timber in the South Western part of Nigeria. The total amount of indebtedness is N12.45 million. The Finance Director of Igiowo Plc is relying on the proceeds of the exportation for the settlement of the whole debt. To ensure that the company is not exposed to any foreign exchange risk, the company decides to take cover in the currency futures market.

Quotation in the futures Forex market for 60 days is N140.005/140.322 N/U.S $.

You are required to:

(i) Advise whether the company should enter the currency futures market as a “buyer” or “seller” of U.S Dollars. (2 Marks)

(ii) Calculate the opportunity gain or loss the company would make in each case assuming the spot rates 60 days later are:

Buying/Selling
- 138.008/138.346
- 140.005/140.323
- 142.050/142.399

Ignore transaction costs and taxation. (6 Marks)

c. State SIX special financial problems which a multinational company faces but a domestic company does not face. (6 Marks)

(Total 15 Marks)
QUESTION 6

(a) Discuss briefly FOUR reasons responsible for the failure of a Merger or Acquisition. (8 Marks)

(b) Akwanga Plc, a successful engineering company, made a bid for Oloibiri Plc. The following information is available for the two companies.

<table>
<thead>
<tr>
<th></th>
<th>Oloibiri Plc</th>
<th>Akwanga Plc</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Price</td>
<td>₦25</td>
<td>₦15.50</td>
</tr>
<tr>
<td>Number of Shares</td>
<td>50m</td>
<td>125m</td>
</tr>
</tbody>
</table>

Akwanga made both Cash and a Share bid to Oloibiri Plc as follows:

(i) 2 of its Shares for every one in Oloibiri Plc, or
(ii) A Cash offer of ₦30 per share.

Akwanga Plc expects that the take-over will generate savings of ₦25m in present value terms.

Required:
Determine the new value per share in Akwanga Plc after the announcement of the merger plan, and advise the shareholders of Oloibiri Plc on which offer to accept, assuming:

(i) Shares offer
(ii) Cash offer

(7 Marks)
(Total 15 Marks)
SOLUTIONS TO SECTION B

SOLUTION 1 - CASE STUDY

ARAKALE PLC

(a) Workings

(i) Computation of daily receipts:

Annual Cash Sales = ₦280million
Total No. of Weeks = 50 weeks
Sales per Week = ₦280m ÷ 50 = ₦5.6 million

Given that daily receipts on Mondays and Tuesdays are twice those of the remaining three (3) days, then a weight can be attached to each day. A proportion of the total weight can also be attached to the weekly sales to obtain each day’s receipts as follows:

<table>
<thead>
<tr>
<th>Day</th>
<th>Weight</th>
<th>Proportion</th>
<th>Weekly Sale</th>
<th>Daily Receipt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monday</td>
<td>2</td>
<td>2/7</td>
<td>₦5.6m</td>
<td>₦1.6m</td>
</tr>
<tr>
<td>Tuesday</td>
<td>2</td>
<td>2/7</td>
<td>₦5.6m</td>
<td>₦1.6m</td>
</tr>
<tr>
<td>Wednesday</td>
<td>1</td>
<td>1/7</td>
<td>₦5.6m</td>
<td>₦0.8m</td>
</tr>
<tr>
<td>Thursday</td>
<td>1</td>
<td>1/7</td>
<td>₦5.6m</td>
<td>₦0.8m</td>
</tr>
<tr>
<td>Friday</td>
<td>1</td>
<td>1/7</td>
<td>₦5.6m</td>
<td>₦0.8m</td>
</tr>
</tbody>
</table>

(ii) Effect of the different policies on interest charges and lodgement costs:

Tuesday and Friday lodgement (current arrangement).

<table>
<thead>
<tr>
<th>Day</th>
<th>No. of days</th>
<th>Interest charged</th>
<th>Daily Sales</th>
<th>Interest payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monday</td>
<td>1</td>
<td>1</td>
<td>₦1,600</td>
<td>₦1,600</td>
</tr>
<tr>
<td>Tuesday</td>
<td>0</td>
<td>0</td>
<td>₦1,600</td>
<td>-</td>
</tr>
<tr>
<td>Wednesday</td>
<td>2</td>
<td>2</td>
<td>₦800</td>
<td>₦1,600</td>
</tr>
<tr>
<td>Thursday</td>
<td>1</td>
<td>1</td>
<td>₦800</td>
<td>₦800</td>
</tr>
<tr>
<td>Friday</td>
<td>0</td>
<td>0</td>
<td>₦800</td>
<td>-</td>
</tr>
</tbody>
</table>

Effect of Tuesday and Friday lodgement approximates to ₦4,000,000 interest payable per week.

Cost of funds per annum = \( \frac{₦4,000,000 \times 0.22 \times 50}{365} \) = ₦120,547.95

Add Administrative cost (₦7,500 x 2 x 50) = ₦750,000.00

Total Cost = ₦870,547.95

Friday lodgement Only (proposed).
<table>
<thead>
<tr>
<th>Day</th>
<th>No. of days interest is charged</th>
<th>Daily Sales N’000</th>
<th>Interest payable N’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monday</td>
<td>4</td>
<td>1600</td>
<td>6,400</td>
</tr>
<tr>
<td>Tuesday</td>
<td>3</td>
<td>1600</td>
<td>4,800</td>
</tr>
<tr>
<td>Wednesday</td>
<td>2</td>
<td>800</td>
<td>1,600</td>
</tr>
<tr>
<td>Thursday</td>
<td>1</td>
<td>800</td>
<td>800</td>
</tr>
<tr>
<td>Friday</td>
<td>0</td>
<td>800</td>
<td>0</td>
</tr>
</tbody>
</table>

Effect of Friday lodgement approximates to a N13,600,000 interest payable per week.

Cost of fund per week = \( \frac{N13,600,000 \times 0.22 \times 50}{365} \) = N409,863.01

Administrative Cost (N7,500 x 1 x 50) = N375,000.00

Total Costs = N784,863.01

**- Daily Lodgement**

For daily lodgement, the company will not pay interest

Hence, cost of fund per week = N0

However administrative cost (N7,500 x 5 x 50) = N1,875,000

Total Costs = N1,875,000

Three Options Compared:

<table>
<thead>
<tr>
<th>Tuesday &amp; Thursday Lodgement</th>
<th>Friday Lodgement</th>
<th>Daily Lodgement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Charges</td>
<td>N120,547.95</td>
<td>N409,863.01</td>
</tr>
<tr>
<td>Administrative Costs</td>
<td>N750,000.00</td>
<td>N375,000.00</td>
</tr>
<tr>
<td>Total Cost</td>
<td>N870,547.95</td>
<td>N784,863.01</td>
</tr>
</tbody>
</table>

The best policy option among the three alternatives is to adopt Friday lodgement only. This is because total cost is least with this policy.

b. The worst of the alternatives is daily lodgement because the cost is highest with this option, while the best is banking on Friday only.

The company will be worse off, if it pursues the worst alternative by N(1,875,000 – 784,863.01) = N1,090,136.99
SOLUTION 2

(a) Wealth maximization is a means of maximizing the economic welfare of the owners (Shareholders) of an organization as reflected in the market value of its Shares. Simply, it means maximizing the net present value of the difference between the value of an organization’s benefits and the value of its costs.

Maximization of Shareholders’ wealth is desirable as a Company’s primary objective because it is more inclusive than the other objectives of the firm for the following reasons:

(i) It takes account of the timing or duration of expected returns.
(ii) It considers the risk or uncertainty of the prospective earnings streams.
(iii) It is synonymous with maximizing the market price per share or value of the company.
(iv) It takes care of all other company objectives in the long run i.e it is all embracing.
(v) The ordinary shareholders being the risk bearers of the company, should attract maximum attention when determining company objectives.

(b) Apart from pursuit of financial objectives, companies also consider non-financial and operational objectives which are essential for the achievement of the overall strategic objectives.

These include:

(i) **Market Share**: Most organizations aim at controlling a larger portion of the market through provision of products or services of required quality.

(ii) **Sales Growth**: Companies strive to obtain a specified percentage of growth in sales volume at a pre-determined price so as to maximize revenue.

(iii) **Market Development**: Selling existing products and services in new markets. This involves penetrating new markets for the sale of existing goods and services.

(iv) **Technological Improvements**: Organizations pursue the acquisition of the state-of-the-art technology in manufacturing equipment. This enables the Company to keep abreast of changes in technology as they affect its operations.
(v) **Organizational Structure:** Each Company must create organizational structure that encourages appropriate delegation of authority, adequate motivation and good participation.

(vi) **Social and Ethical Responsibility:** Organizations endeavor to meet the social expectations of the society and the environment in which they operate. By doing this, a Company is able to satisfy other stakeholders within and outside the Company, such as employees, customers, suppliers, creditors etc.

(c) In spite of the wide acceptance of Shareholders wealth maximization as a Company’s primary objective, it is being criticized because of the following:

(i) difficulties in obtaining data about future cash flows.

(ii) problems of determining the appropriate discount rate.

**SOLUTION 3**

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Flow</th>
<th>DF @ 20%</th>
<th>PV</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>(150,000)</td>
<td>1</td>
<td>(150,000)</td>
</tr>
<tr>
<td>0</td>
<td>(10,000)</td>
<td>1</td>
<td>(10,000)</td>
</tr>
<tr>
<td>1</td>
<td>(5,000)</td>
<td>0.8333</td>
<td>(4,167)</td>
</tr>
<tr>
<td>1-5</td>
<td>85,000</td>
<td>2.9906</td>
<td>254,201</td>
</tr>
<tr>
<td>1-5</td>
<td>(30,000)</td>
<td>2.9906</td>
<td>(89,718)</td>
</tr>
<tr>
<td>5</td>
<td>15,000</td>
<td>0.4019</td>
<td>6,029</td>
</tr>
<tr>
<td>5</td>
<td>10,000</td>
<td>0.4019</td>
<td>4,019</td>
</tr>
</tbody>
</table>

NPV 10,364

The project is worthwhile because it has a positive NPV of ₦10,364

(b) The additional Working Capital in the second year to cause a zero NPV is to be calculated as follows

$$= \frac{₦10,364}{0.8333 - 0.4019}$$

$$= \frac{₦10,364}{0.4314}$$

$$= ₦24,024$$

(c) The typical DSS model that could be used to support the Financial Manager in solving questions (i) and (ii) above is the Capital Budgeting model in the form of...
electronic spreadsheet packages such as EXCEL which have in-built NPV and IRR functions in their application programs.

The Capital Budgeting models (Discounted Cash Flows) are used to support the Financial Manager in the financial analysis and evaluation of different capital investments alternatives. The relevant data in the decision making process is semi-structured and the models help in making certain analysis such as ‘what-if-analysis’, sensitivity analysis and so on.

**SOLUTION 4**

(a) Factors influencing the value of Warrants and Convertibles include:-
   (i) Current equity / share prices
   (ii) Conversion prices
   (iii) Date of conversion or exercise
   (iv) Trend in equity value
   (v) Market rates of interests
   (vi) Flexibility of conversion terms and dates

(b) For Convertible Debentures

<table>
<thead>
<tr>
<th>Share Price</th>
<th>Conversion Ratio</th>
<th>Value of Equity</th>
<th>Value of Debt</th>
<th>Gain (Loss)</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>No</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>2.20</td>
<td>40</td>
<td>88</td>
<td>105</td>
<td>(17)</td>
<td>do not convert</td>
</tr>
<tr>
<td>2.60</td>
<td>40</td>
<td>104</td>
<td>105</td>
<td>(1)</td>
<td>do not convert</td>
</tr>
<tr>
<td>3.00</td>
<td>40</td>
<td>120</td>
<td>105</td>
<td>15</td>
<td>convert</td>
</tr>
<tr>
<td>3.40</td>
<td>40</td>
<td>136</td>
<td>105</td>
<td>31</td>
<td>convert</td>
</tr>
</tbody>
</table>

**NOTE**: Value of equity = Share price x Conversion ratio

<table>
<thead>
<tr>
<th>Share Price</th>
<th>No of share/option exercise</th>
<th>Value of Equity</th>
<th>Option Price</th>
<th>Gain (Loss)</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>Units</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>2.20</td>
<td>2</td>
<td>4.40</td>
<td>5</td>
<td>(0.60)</td>
<td>do not exercise</td>
</tr>
<tr>
<td>2.60</td>
<td>2</td>
<td>5.20</td>
<td>5</td>
<td>0.20</td>
<td>exercise</td>
</tr>
<tr>
<td>3.00</td>
<td>2</td>
<td>6.00</td>
<td>5</td>
<td>1.00</td>
<td>exercise</td>
</tr>
<tr>
<td>3.40</td>
<td>2</td>
<td>6.80</td>
<td>5</td>
<td>1.80</td>
<td>exercise</td>
</tr>
</tbody>
</table>

(c) The market price of the convertible is the higher of the present value of the interest and redemption price of the debt and equity value.

Step 1 – Calculate the PV of the interest and redemption price.
### SOLUTION 5

(a) Currency futures are contracts to buy or sell foreign currency in future at an exchange rate agreed upon now.

(b)(i) Igiowo Plc should enter the market as a seller of US dollars. If it entered the currency futures market, the results of its hedging policy would be as shown below;

(ii) Opportunity Gain or Loss
- At the rate of N138.008 = $1
  - Sale in the spot market of $150,000 (N140.005) = 21,000,750
  - Receipt from forward transaction (N138.008) = (20,701,200)
  - Opportunity gain = 299,550

- At a rate of N140.005 to $1.
  - Sale in the spot market of $150,000 (N140.005) = 21,000,750
  - Receipt from forward transaction (N140.005) = (21,000,750)
  - Break even position = -

- At a rate of N142.050 to $1
  - Sale in the spot market of $150,000 (N140.005) = 21,000,750
  - Receipt from forward transaction (N142.050) = (21,307,500)
  - Opportunity loss = (306,750)

(c) Financial problems that a multinational Company faces which a domestic company does not face include:
(i) Managing exchange rate risk arising from the use of different currencies whose relative values are subject to unexpected change.

(ii) Non-compliance risk i.e. failure to deliver goods according to specification, by the exporter or failure to make payment according to the contract, by the importer, arising from distance and lack of familiarity with the customer or the legislation of the country of importation or exportation.

(iii) Technicalities involved in investing in the international Capital Market.

(iv) Technicalities involved when raising Capital from the international Capital Market.

(v) Country or Sovereign risk arising from economic, political or social factors.

(vi) Difference in Tax System.

(vii) Difference in Inflation Rates.

(viii) Control of Remittances.

**SOLUTION 6**

(a) Reasons responsible for failure of a Merger or Acquisition are:

(i) **Excess premium:** an acquirer may pay a value exceeding the benefits for acquiring its target Company. This happens when acquirer is too eager to acquire for prestige or increasing the size of its empire.

(ii) **Faulty evaluation:** Sometimes an acquiring company makes a wrong assessment of the benefits from the acquisition. This results in payment of higher than normal price.

(iii) **Lack of research:** A lot of data and information gathering and analysis is involved in Mergers or Acquisition. Extensive research is required. A shoddily conducted research is bound to cause destruction of the acquirer’s wealth.

(iv) **Failure to manage post-merger integration:** More often than not, acquirers are unable to integrate the acquired companies in their business. Organizational and cultural issues are always overlooked. Lack of adequate understanding of the culture of the acquired companies creates problem of integration and synergy.
(v) **Lack of experience:** Lack of prior acquisition experience.

(b) **Calculation of new value per share of Akwanga Plc:**

(i) **Share Offer**

Existing shares in Akwanga Plc 125m
Shares issued for Oloibiri Plc (50m x 2) 100m
New total number of shares 225m

Existing value of Oloibiri Plc (50m x N25) 1,250.0m
Existing value of Akwanga Plc (125m x N15.50) 1,937.5m
Present Value of savings 25.0m

Total 3,212.5m

New value per share = N3212.5m = N14.28 per share
225m

(ii) **Cash Offer:**

Total value of Akwanga Plc (as above) 3,212.5m
Less: Cash paid to Shareholders of Oloibiri Plc (50m x N30) (1,500.0m)
New Total Value of Akwanga Plc 1,712.5m

Existing number of shares = 125m

New Value per share N1,712.5m = N13.7
125m

Advice:
All things being equal, Oloibiri Plc shareholders should accept cash offer of N30 per Share because it is higher than the share offer of N28.56.

Evaluation of Offer:

No. of Shares of Akwanga Plc offered per Share of Oloibiri plc 2
New Value per Share of Akwanga Plc N14.28
New value per Share of Oloibiri Plc (N14.28x2) N28.56
Cash offered per Share of Oloibiri Plc N30.00
PART I MULTIPLE-CHOICE QUESTIONS (20 Marks)

1. Which of the following is NOT a finance function?
   A. Long-term asset mix decision
   B. Capital mix decision
   C. Profit allocation decision
   D. Short-term assets mix decision
   E. Raw materials mix decision.

2. Which of the following is NOT a characteristic of Shareholders' Wealth Maximization?
   A. Maximising the market value of the firm’s assets
   B. Maximising the Net Present Value of a course of action
   C. Accounting for the timing and risk of the expected benefits
   D. Distributing benefits in form of Dividends
   E. Maximising the market value of the firm’s Shares.

3. All the following Institutions specialise in Capital lending in order to make a return EXCEPT
   A. Pension Fund Administrators
   B. Insurance Brokers
   C. Investment Trust Companies
   D. Unit Trusts
   E. Venture Capital Organisations.

4. The right given by a Company to an Investor, allowing him to buy new Shares at a future date at a fixed and pre-determined price is called
   A. Warrants.
   B. Share option.
   C. Rights issues.
   D. Theoretical rights.
   E. Conversion rights.
5. Which of the following aptly describes the difference between today's market price of Convertible Stock and today's market price of its equivalent number of Shares? Conversion ...........
   A. Price
   B. Value
   C. Ratio
   D. Premium
   E. Discount

6. Which of the following is NOT a Financial Intermediary?
   A. Banks
   B. Securities and Exchange Commission
   C. Investment Trusts.
   D. Mortgage Institutions
   E. Insurance Companies.

7. Which of the following is a common example of Microcomputer Spreadsheet?
   A. Expert System
   B. Decision Support System
   C. Executive Information System
   D. Reporting System
   E. Database Software System

8. Tobax Plc is considering the purchase of a machine for ₦3,285,000. It would be sold after four years for an estimated realisable value of ₦1,185,000. By this time, after-tax depreciation allowance of ₦2,175,000 would have been claimed. The rate of tax is 30%.

   What is the cash flow arising as a result of the tax implications on the sale of the machine at the end of the four years?
   A. Inflow of ₦22,500
   B. Outflow of ₦75,000
   C. Outflow of ₦68,500
   D. Outflow of ₦22,500
   E. Inflow of ₦75,000

9. The Nominal Cost of Capital is 10%. The expected annual rate of inflation is 4%.

   What is the Real Cost of Capital?
   A. 10.58%
   B. 5.80%
   C. 11.44%
   D. 14.40%
   E. 9.45%
10. Which of the following is **LEAST** likely to be a reason for a Company to seek a Stock Market floatation? To
A. improve the existing owner's control over the business.
B. have access to a wider pool of finance.
C. enhance the company's image.
D. transfer capital to other uses.
E. improve marketability of shares.

11. Which of the following is **NOT** true of a Rights issue?
A. It requires a prospectus.
B. The issue price can be at a discount.
C. Rights may not be taken up.
D. Relative voting rights are unaffected if Shareholders exercise their rights.
E. Relative voting rights are affected if all the Shareholders take up their rights.

12. A Scrip Dividend is
A. dividend paid at a fixed percentage rate on the nominal value of the shares.
B. dividend paid at a fixed rate on the market value of the shares on the date that the dividend is declared.
C. dividend payment that takes the form of new shares instead of cash.
D. an issue of new shares to existing shareholders by converting equity reserves into issued share capital.
E. dividend paid to shareholders which thereafter leaves reserves unaffected.

13. Which of the following sources of finance is the most widely used by small companies?
A. Debenture issue
B. Bank borrowing
C. Rights issue
D. New Share issue
E. Retained earning

14. Which of the following risks can be eliminated by diversification?
A. Operating risk
B. Inherent risk
C. Unsystematic risk
D. Market risk
E. Systematic risk
15. When calculating the Weighted Average Cost of Capital (WACC), which of the following weighting methods is preferred?
   A. Book values of debt and equity
   B. Average levels of the market values of debt and equity (ignoring reserves)
   C. Current market values of debt and equity (ignoring reserves)
   D. Current market values of debt and equity (plus reserves)
   E. Average levels of the market values of debt and equity (plus reserves)

16. Which of the following does NOT explain the failure of Acquisitions to enhance the Shareholders' wealth?
   A. Bloated egos
   B. Market irrationality
   C. Pre-emptive action
   D. Window dressing
   E. Managerial incompetence

17. Which of the following is NOT a characteristic of a Microfinance Bank?
   A. Low average loan size.
   B. Large number of transactions.
   C. Innovative lending methodologies.
   D. Character based lending, usually unsecured.
   E. Low transaction costs.

18. All the following are characteristics of Microfinance Bank Clients EXCEPT
   A. Small businesses usually employing 1 – 10 staff
   B. Informal, usually owner operated
   C. Do not keep formal records
   D. Limited or no access to formal bank loans
   E. Inactive poor

19. Which of the following does NOT explain the need for Microfinance Banks?
   A. Improving on the social economic conditions of the poor.
   B. Providing available long term capital to be used in microeconomic activities
   C. Providing credit to the low income earners.
   D. A development strategy-one of the tools for meeting the Millenium Development Goals (MDGs)
   E. Providing microfinance services to the low income clients for income generating activities
20. Which of the following is NOT a factor to consider in cross-border Investment appraisal?
A. Taxation
B. Expected rate of return
C. Exchange risk
D. Other undefined risks
E. Life of investment
SOLUTIONS TO SECTION A

PART 1 MULTIPLE CHOICE QUESTIONS

1. E
2. A
3. B
4. A
5. D
6. B
7. B
8. D
9. B
10. A
11. E
12. C
13. E
14. C
15. C
16. E
17. E
18. E
19. B
20. D

TUTORIALS

8. There will be a Balancing Charge on the sale of the machine of ₦75,000 i.e.

₦(1,185,000 – ₦(3,285,000 – 2,175,000) = ₦75,000

This gives rise to a tax payment of ₦75,000 x 30% = ₦22,500

9. \[ \frac{1.10}{1.04} \cdot 1 = 1.058 \cdot 1 = 0.058 = 5.80\% \]
PART II  SHORT ANSWER QUESTIONS (20 MARKS)

1. The current Market Price per Share of a Company’s Ordinary Shares times the number of Shares into which the security is convertible is referred to as ..................................

2. A Computer-based information system that provides support to a decision-making process is called ............................

3. If cash flows are expressed in terms of the actual number of Naira that will be received or paid on various future dates, which rate should be used for discounting?

4. A Company wants a minimum Real Return of 5% a year on its Investments. Inflation is expected to be 10% a year. What is the Company’s minimum nominal Cost of Capital?

5. Investment in as many securities as possible so as to spread the return variability of the portfolio is the same as ..........................

6. The most appropriate criterion for ranking projects when there is a fund constraint is known as ..............................

7. The process of paying and receiving Dividends through the use of Electronic System is called ..............................

8. A company offers to pay a Dividend in the form of new Shares which are worth more than the alternative cash offer. What is this form of Dividend called?

9. The use of Dividend Policy to indicate the future prospects of an enterprise is called ..............................

10. State the Beta Factor of a portfolio consisting entirely of risk-free securities.

11. The entire flexible structures and processes by which financial services are delivered to small entrepreneurs on a sustainable basis is called ..........................

12. The provision of financial help or liquidity to a Corporation or business Organisation that otherwise would be on the brink of failure or bankruptcy is known as ..........................
Use the following information to answer questions 13 and 14.

The risk-free rate is 7% and the market return is 14% while the share’s beta coefficient is 1.25.

13. What is the equation for the Security Market Line?

14. What is the expected rate of return on the security?

Use the following information to answer questions 15 and 16

KUBWA Plc issued a N1,000 Bond at par. The company's Ordinary Share has a Market Price of N45, while the Conversion Price is N58.

15. What is the Conversion Value of the Bond?

16. Calculate the Conversion Premium.

17. The gain or loss that results from restating Foreign Subsidiaries' financial statements in the home currency is an example of ...................

18. Brother Plc. wants to acquire Sister Ltd. Brother Plc's Share sells for N135 per unit. Sister Ltd's Share sells for N67.50 per unit. The acquisition is accomplished by an exchange of securities. What is the exchange ratio?

19. The mathematical relationship between changes in exchange rates and changes in the price level is called ......................

20. The acronym “EDI” normally used in a computer environment stands for ..................
PART II  SHORT ANSWER QUESTIONS

1. Conversion value
2. Decision Support System (DSS)
3. Money Cost of Capital
4. 15.5%
5. Diversification
6. Benefit to Cost Ratio OR Profitability Index
7. e-dividend
8. An Enhanced Scrip Dividend
9. Signalling
10. Zero
11. Microfinance
12. Bail-out or Foreclosure
13. \[ r = rf + \beta (r_m - r_f) \text{ or } R_i = R_f + \beta (R_m - R_f) \]
14. 15.75%
15. ₦776
16. ₦224
17. Translation risk/Accounting risk
18. 1 for 2
19. Purchasing power parity (PPP)
20. Electronic Data Interchange

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4. \[ (1.05 \times 1.10) - 1 \]
   \[ = 1.155 - 1 \]
   \[ = 0.1555 \]
   \[ = 15.5\% \]
14. \[ R_i = R_f + \beta (R_m - R_f) \]
   \[ = 7\% + 1.25(14 - 7) \]
   \[ = 7\% + (1.25)(7) \]
   \[ = 7\% + 8.75\% \]
   \[ = 15.75\% \]

15. Conversion ratio = \( \frac{\text{₦1,000}}{\text{₦58}} \) = 17.24

   Conversion value = \( \text{₦45} \times 17.24 \)
   = \( \text{₦776} \)

16. Conversion premium = \( \text{₦1,000} - \text{₦776} \)
   = \( \text{₦224} \)

18. Exchange Ratio is \( \frac{67.5}{135} \) or 67.5 for 135

   i.e. 1 share for 2 shares
   1 for 2 or 0.5:1
SECTION B – ANSWER QUESTION 1 AND ANY OTHER THREE (60 MARKS)

QUESTION 1 – CASE STUDY

SUNNEC PLC

SUNNEC Plc, a medium-sized engineering firm has just reported profits of ₦1,125,000 after tax, interest, preference dividends, and declared an ordinary dividend of 15 percent. Despite the record profits, which maintain the previous pattern of overall growth, but with cyclical fluctuations, the company has been faced with liquidity problems which have restricted its operational flexibility. SUNNEC Plc has received a suggestion for a Merger from MOONLIGHT Plc which is a relatively new company – formed six years previously – and which has had a spectacular and consistent growth in profit and whose products complement those of SUNNEC Plc.

The most recent profits of MOONLIGHT Plc were ₦1,687,500 after tax and interest, with an ordinary dividend of 10 per cent.

The reason for the suggestion of a Merger given by MOONLIGHT Plc is that they have also been having liquidity problems and that an enlarged size could help overcome these. MOONLIGHT’S initial approach did not go into any detail but simply suggests that exploratory talks should be opened and that to make these talks purposeful they should assume that both Company’s profits will increase by 10 percent Price–Earnings in the next period and that for amalgamation purposes a fair Price–Earnings ratio would be 15 for MOONLIGHT Plc and 10 for SUNNEC Plc.

The summary of the most recent Balance Sheets of MOONLIGHT Plc and SUNNEC Plc are as follows:

<table>
<thead>
<tr>
<th></th>
<th>MOONLIGHT Plc</th>
<th>SUNNEC Plc</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Assets</strong></td>
<td>₦13,500,000</td>
<td>₦11,250,000</td>
</tr>
<tr>
<td>Share Capital:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary Shares</td>
<td>₦3,375,000</td>
<td>₦1,800,000</td>
</tr>
<tr>
<td>6% Pref. Shares</td>
<td>-</td>
<td>₦450,000</td>
</tr>
<tr>
<td>Reserves</td>
<td>₦6,750,000</td>
<td>₦9,000,000</td>
</tr>
<tr>
<td>10% Loan Stock</td>
<td>₦3,375,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>₦13,500,000</td>
<td>₦11,250,000</td>
</tr>
</tbody>
</table>

Required:

(a) Analyse the implications of the suggestion made by MOONLIGHT Plc.  

(11 Marks)
(b) List **FOUR** factors that should be considered at this stage in respect of this analysis. (4 Marks)

**QUESTION 2**

(a)(i) According to Carroll, what are the four main responsibilities faced by Companies when developing an ethical framework and;

(ii) In what ways can these responsibilities be addressed? (8 Marks)

(b) Discuss any **TWO** considerations, and how each will impact on each of the main functional areas of a firm. (7 Marks)

**QUESTION 3**

Two companies – Kano plc and Kaduna plc are in the same Industry, with identical Earnings per Share (EPS) for the last five years. Kano plc has a policy of paying 40 per cent of Earnings as Dividends, while Kaduna plc pays a constant amount of Dividend per Share (DPS). There is disparity between the market prices of the shares of the two companies. The price of Kano Plc’s Share is generally lower than that of Kaduna plc, even though in some years, Kano Plc paid more Dividends than Kaduna plc.

The data on Earnings, Dividends and Market Price for the two Companies are as follows:

<table>
<thead>
<tr>
<th>Years</th>
<th>EPS N</th>
<th>DPS N</th>
<th>Mkt Price N</th>
<th>EPS N</th>
<th>DPS N</th>
<th>Mkt Price N</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>6.00</td>
<td>2.4</td>
<td>18.00</td>
<td>6.00</td>
<td>2.70</td>
<td>20.25</td>
</tr>
<tr>
<td>2005</td>
<td>2.25</td>
<td>0.9</td>
<td>12.75</td>
<td>2.25</td>
<td>2.70</td>
<td>18.75</td>
</tr>
<tr>
<td>2006</td>
<td>7.50</td>
<td>3.0</td>
<td>20.25</td>
<td>7.50</td>
<td>2.70</td>
<td>18.75</td>
</tr>
<tr>
<td>2007</td>
<td>6.00</td>
<td>2.4</td>
<td>17.25</td>
<td>6.00</td>
<td>2.70</td>
<td>18.75</td>
</tr>
<tr>
<td>2008</td>
<td>12.00</td>
<td>4.8</td>
<td>21.75</td>
<td>12.00</td>
<td>2.70</td>
<td>22.50</td>
</tr>
</tbody>
</table>

**Required:**

(a) Calculate for each of the two Companies:
   (i) Payout Ratio
   (ii) Dividend Yield
   (iii) Earnings Yield (3 Marks)
(b) What are the reasons for the differences in the Market prices of the two Companies’ Shares? (10 Marks)

(c) What can Kano Plc do to increase the market price of its Shares? (2 Marks) (Total 15 Marks)

**QUESTION 4**

BANJIL is a retailer, specialising in Vitamin supplements and health foods claimed to enhance performance. One of the products purchased by BANJIL for resale is a performance enhancing vitamin drink called ‘Super’.

Banjil sells a fixed quantity of 300 bottles of ‘Super’ per week. The estimated storage cost per bottle of Super is N3 per annum. Delivery from Banjil’s current supplier takes two weeks and the purchase price per bottle delivered is N30. The supplier charges a fixed N112.50 order processing charge for each order, regardless of the Order Size.

Banjil has recently been approached by another supplier of ‘Super’ with the following offer:

(i) The cost to Banjil per bottle will be N28.50 each
(ii) There will be a fixed order processing charge of N375, regardless of Order Size.
(iii) Delivery time will be one week
(iv) Banjil estimates that due to packaging differences, the storage cost per bottle will be N2.70 per annum.

**Required:**
(a)(i) Calculate the Economic Order Quantity if Banjil changes to the new supplier and (3 Marks)
(ii) determine if it would be financially viable to change to this new supplier. (2 Marks)

(b)(i) Explain what is meant by a Just-In-Time (JIT) System and (6 Marks)
(ii) describe briefly **FOUR** of its main features. (4 Marks) (Total 15 Marks)

**QUESTION 5**

(a) Jolade plc is an all Equity Company with a Beta of 0.8, the risk rate is 10% and the expected return on the market is 18%. Jolade plc increases its gearing to a Debt /Equity ratio of 0.5.

Income tax rate is 35%. 

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Required:
(i) Compute Jolade plc’s Cost of Equity when Ungeared;
(ii) Compute Jolade plc’s Equity Beta when Geared up;
(iii) Compute Jolade plc’s Cost of Equity when Geared;
(iv) Check the answers to (i) & (iii) using the M-M formula
\[ keg = keu + (1-t)(keu-kd) D/E \]  

(8 Marks)

(b) The two Companies below are identical in every respect except for their Capital structures.

Their market values are in equilibrium as follows:

<table>
<thead>
<tr>
<th></th>
<th>Geared plc</th>
<th>Ungeared plc</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual profit before interest and tax</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Interest (₦4,000 x 8%)</td>
<td>(320)</td>
<td>(1,000)</td>
</tr>
<tr>
<td>Tax at 35%</td>
<td>(238)</td>
<td>(350)</td>
</tr>
<tr>
<td></td>
<td>442</td>
<td>650</td>
</tr>
<tr>
<td>Market Value of Equity</td>
<td>3,900</td>
<td>6,500</td>
</tr>
<tr>
<td>Market Value of Debt</td>
<td>4,000</td>
<td>-</td>
</tr>
<tr>
<td>Total Market value of Company</td>
<td>7,900</td>
<td>6,500</td>
</tr>
</tbody>
</table>

The total value of Geared plc is higher than the total value of Ungeared plc which is consistent with M & M’s proposition that \( V_g = V_u + DT \)

All profits after tax are paid out as Dividends and so there is no Dividend growth. The Beta of Ungeared plc is 1.0. The Debt Capital of Geared plc can be regarded as risk free.

Required:
Calculate:
(i) The Cost of Equity of Geared plc.
(ii) The Market Return.
(iii) The Beta Value of Geared plc.  

(5 Marks)

(c) Akin plc is an all Equity Company whose Beta value is 0.85. Bukky plc is a Geared Company which in all other respects has the same risk and operating characteristics as Akin plc.
The Capital structure of Bukky plc is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Nominal value</th>
<th>Market value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>N12</td>
<td>N25</td>
</tr>
<tr>
<td>Debt Capital</td>
<td>N8</td>
<td>N10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>N20</td>
</tr>
<tr>
<td></td>
<td></td>
<td>N35</td>
</tr>
</tbody>
</table>

The Debt Capital of Bukky plc is virtually risk free. The rate of Income Tax is 40%. What would be the predicted Beta Value of Bukky plc's Equity Capital? (2 Marks)

(Total 15 Marks)

**QUESTION 6**

DAREX Plc plans to build a new plant at a cost of ₦1,000,000. The cost is made up of the lending cost of the necessary machinery and the cost of installation. The plant is expected to last 4 years.

It is expected to generate annual sales of ₦700,000 with annual cash expenses of ₦200,000. All expenses will be paid for at the end of the year to which they relate. However, sales revenue will be received as cash flows in the following manner:

- 75% of each year's sales at the end of that year.
- 25% of each year's sales received one year later.

Assume that all expenses are tax deductible and that the company is a manufacturing concern.

Cost of Capital is 10% and tax rate is 30%. Assume one year delay in tax. For Capital Allowances purposes, assume an Initial Allowance of 20% and an Annual Allowance of 10% straight line, over ten years. Darex is a very profitable Company and can utilise all Capital Allowances in full at the earliest opportunity.

**Required:**

(a) Calculate the Net Present Value (NPV) of the project. (10 Marks)

(b) By paying a single lump sum now, the Company would obtain the services of a Credit Consultant who would ensure that all sales revenues were received in cash in the year of sale.

Ascertain the maximum amount it would be left with for paying for the services of the Credit Consultant if such payments were tax deductive expenses. (5 Marks)

(Total 15 Marks)
SOLUTIONS TO SECTION B

SOLUTION 1 – CASE STUDY

(a) Value of Shares for Amalgamation Purposes:

MOONLIGHT Plc

\[
\text{Value} = 15 \times 1.10 \times \frac{\text{N}1,687,500}{\text{N}3,375,000} = 8.25
\]

Therefore, total value

\[
= 8.25 \times \text{N}3,375,000 = \text{N}27,843,750
\]

Net Asset Value

\[= \text{N}10,125,000\]

SUNNEC Plc:

\[
\frac{10 \times \text{N}1,237,500}{\text{N}1,800,000} = 6.875
\]

Therefore total value

\[
= 6.875 \times \text{N}1,800,000 = \text{N}12,375,000
\]

Net Asset Value

\[= \text{N}9,450,000\]

(Based on the projected profits of 10% increase)

EPS:

<table>
<thead>
<tr>
<th>Company</th>
<th>Most Recent</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moonlight Plc</td>
<td>(\text{N}1,687,500)</td>
<td>(\text{N}1,856,250)</td>
</tr>
<tr>
<td></td>
<td>(\text{N}3,375,000)</td>
<td>(\text{N}3,375,000)</td>
</tr>
<tr>
<td></td>
<td>0.50</td>
<td>0.55</td>
</tr>
<tr>
<td>Sunnec Plc</td>
<td>(\text{N}1,125,000)</td>
<td>(\text{N}1,237,500)</td>
</tr>
<tr>
<td></td>
<td>(\text{N}1,800,000)</td>
<td>(\text{N}1,800,000)</td>
</tr>
<tr>
<td></td>
<td>0.63</td>
<td>0.69</td>
</tr>
</tbody>
</table>

The suggested P/E ratio gives MOONLIGHT Plc a higher value despite a poorer EPS. Again, the company is valued at 2\(\frac{3}{4}\) times net asset value whereas Sunnec is valued at just over 1 time (1.15). The earnings potential of Moonlight must be considerably greater – either in terms of consistency and/or certainty than Sunnec Plc.

Unless the Directors of Sunnec believe this, then the company would appear to be undervalued. In addition, Sunnec has Preference Shares better Gearing potential – as
it has no loan. This does not seem to be reflected in the suggested amalgamation terms.

(b) The following factors must also be considered:

(i) A detailed analysis of Moonlight Plc past profits record.

(ii) Will a Merger provide increased profits?

(iii) How realistic is the 10 per cent forecast increase in profits for both Companies?

(iv) Will the Merger improve liquidity and if so how?

SOLUTION 2

(a)(i) The main responsibilities faced by companies when developing an ethical framework are:

- Economic
- Legal
- Ethical
- Philanthropic

(ii) The ways in which these responsibilities can be addressed are:

ECONOMIC
- Management should always be acting in the best interests of the Company's Shareholders, and should therefore always be actively taking decisions that will increase Shareholders' wealth.

- Projects that have positive NPV's should be pursued as far as funds will allow, as such projects will increase the value of the company and thus Shareholders' wealth.

- Whilst Management may have a different attitude towards risk than the Shareholders, they should always manage risk according to Shareholders' requirements.

- Financing – the optimal financing mix should be chosen as far as possible.
• Dividends – there is no legal obligation to pay Dividends to Ordinary Shareholders, but the reasons for withholding Dividends must be in the interests of the Company as a whole.

LEGAL
• Companies must ensure that they are abiding by the rules and regulations that govern how they operate. Company law, health and safety, and environmental standards are examples of these boundaries.

• Failure to abide by the rules can cost Companies dearly. One only has to look at the fate of WorldCom and Enron bosses, as well as Nick Leeson of Barings Bank, as examples of how failure to operate within the legal framework can cause Companies to collapse, taking with them the jobs (and often pension funds) of thousands of employees.

ETHICAL
• Ethical responsibilities arise from a moral requirement for Companies to act in an Ethical manner.

• Pursuit of Ethical behaviour can be governed by such elements as
  - Mission statements
  - Reporting channels to allow employees expose Unethical behaviour
  - Ethics training and education (including Ethics manuals)

PHILANTHROPIC
• Anything that improves the welfare of employees, the local community or the wider environment.

• Examples include Tesco’s “Computers for Schools” campaign (UK); provision of an employees’ gymnasium; sponsorship of sporting events; charitable donations.

(b) Main functional areas of a firm include:
  • Human resources
  • Marketing
  • Market behaviour
  • Product development

HUMAN RESOURCES
• Provision of minimum wage. The introduction of the minimum wage is designed to show that Companies have an Ethical approach to how they treat
their employees and are prepared to pay them an acceptable amount for the work they do.

- Discrimination – whether by age, gender, race or religion. It is no longer acceptable for employers to discriminate against employees for any reason – all employees are deemed to be equal and should not be prevented from progressing within the Company for any discriminatory reason.

MARKETING
- Marketing campaigns should be truthful and should not claim that products or services do something that they in fact cannot. This is why such campaigns have to be very carefully worded to avoid repercussions under Trades Descriptions Acts etc.

- Campaigns should avoid creating artificial wants. This is particularly true with children’s toys, as children are very receptive to aggressive advertising.

- Do not target vulnerable groups (linked with above) or create a feeling or inferiority. Again, particularly true with children and teenagers, who are very easily led by what their peer groups have. The elderly are also vulnerable, particularly when it comes to such things as electricity and gas charges – making false promises regarding cheaper heating for example may cause the elderly to change companies when such action is not necessary and may in fact be detrimental.

MARKET BEHAVIOUR
- Companies should not exploit their dominant market position by charging vastly inflated prices.

- Large Companies should also avoid exploiting suppliers, if these suppliers rely on large Company business for survival. Unethical behaviour could include refusing to pay a fair price for the goods and forcing suppliers to provide goods and services at uneconomical prices.

PRODUCT DEVELOPMENT
- Companies should strive to use ethical means to develop new products.

- Companies should be sympathetic to the potential beliefs of Shareholders – for example, there may be large blocks of Shareholders who are strongly opposed to animal testing. Managers could of course argue that if potential investors were aware that the Company tested their products on animals then they would not have purchased Shares.
• When developing products, be sympathetic to the public mood on certain issues.

SOLUTION 3

(a) The following table shows Payout, Dividend Yield and Earnings Yield for the two Companies.

<table>
<thead>
<tr>
<th>Year</th>
<th>Payout</th>
<th>Dividend Yield</th>
<th>Earnings Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Kano</td>
<td>Kaduna</td>
<td>Kano</td>
</tr>
<tr>
<td>2004</td>
<td>0.40</td>
<td>0.45</td>
<td>0.13</td>
</tr>
<tr>
<td>2005</td>
<td>0.40</td>
<td>1.20</td>
<td>0.07</td>
</tr>
<tr>
<td>2006</td>
<td>0.40</td>
<td>0.36</td>
<td>0.15</td>
</tr>
<tr>
<td>2007</td>
<td>0.40</td>
<td>0.45</td>
<td>0.14</td>
</tr>
<tr>
<td>2008</td>
<td>0.40</td>
<td>0.23</td>
<td>0.22</td>
</tr>
</tbody>
</table>

**Workings:**

Payout Ratio \(=\) \(\frac{\text{Dividend Per Share}}{\text{Earnings Per Share}}\)

Dividend Yield \(=\) \(\frac{\text{DPS}}{\text{MPS}}\) \((\text{Market Price per share})\)

Earnings Yield \(=\) \(\frac{\text{DPS}}{\text{MPS}}\)

(b) It seems that investors evaluate the Shares of these two Companies in terms of Dividend payments. The average Dividend Per Share over a period of 5 years for both firms is \(₦2.70\). But the average market price for Kano Plc (\(₦19.80\)) has been 10 percent higher than the average market price for Kaduna Plc (\(₦18\)). The market has used a higher capitalisation rate to discount the fluctuating Dividend Per Share of Kano Plc at a lower price than that of Kaduna Plc.

(c) It is obvious that the market evaluates these firms in terms of Dividends. A higher market price might be obtained for the Shares of Kano Plc, if it increases its Dividend Payout Ratio. The Company should evaluate this option in light of fund requirement.
SOLUTION 4

CURRENT COST:

(a) Economic Order Quantity \( Q = \sqrt{\frac{2C_o D}{C_h}} \)

Where
- \( C_o = \) Cost of making one order = N112.50
- \( D = \) Annual Demand = 300 ≠ 52 = 15,600
- \( C_h = \) Holding Cost Per Unit Per Annum = N3

\[ Q = \sqrt{\frac{2 \times N112.50 \times 15,600}{3}} \]

\[ Q = \sqrt{1,170,000} \]

\[ Q = 1082 \text{ Units} \]

(ii) Demand is fixed at 300 bottles per week, and delivery from the Supplier takes two weeks. Banjil must therefore reorder when stocks fall to 600 units (2 weeks demand). The present total cost of stocking ‘Super’ for one year will be:

**Purchase Cost**

| 15,600 units @ N30 each | N468,000 |

**Ordering Cost**

<table>
<thead>
<tr>
<th>Annual Demand (Units)</th>
<th>15,600</th>
</tr>
</thead>
<tbody>
<tr>
<td>Order Size (Units)</td>
<td>1,082</td>
</tr>
<tr>
<td>Number of Orders Per Year</td>
<td>14.42</td>
</tr>
<tr>
<td>Cost of Placing One Order</td>
<td>N112.5</td>
</tr>
<tr>
<td>Annual Ordering Cost</td>
<td>1,622</td>
</tr>
</tbody>
</table>

**Holding Cost**

<table>
<thead>
<tr>
<th>Average Inventory ( \sqrt{\frac{1082}{2}} )</th>
<th>541</th>
</tr>
</thead>
<tbody>
<tr>
<td>Holding Cost Per Unit Per Annum</td>
<td>N3</td>
</tr>
<tr>
<td>Annual Holding Cost</td>
<td>1,623</td>
</tr>
<tr>
<td>Total Annual Cost</td>
<td>471,245</td>
</tr>
</tbody>
</table>
New Supplier

\[ Q = \sqrt{\frac{2 \times 375 \times 15,600}{2.70}} \]

\[ = \sqrt{4,333,333} \]

\[ = 2,082 \text{ Units} \]

To determine whether or not it is financially viable to change to new supplier, we must compare the total cost of the two.

**Total Cost of New Supplier**

**Purchase Cost**

\[
\begin{align*}
\text{N} & \times 15,600 \text{ units} @ \text{N}28.50 \text{ each} \\
& = \text{N}444,600
\end{align*}
\]

**Ordering Cost**

\[
\begin{align*}
\text{Annual Demand (Units)} & = 15,600 \\
\text{Order Size (Units)} & = 2,082 \\
\text{Number of Order Per Year} & = 7.49 \\
\text{Cost of Placing One Order} & = \text{N}375 \\
\text{Annual Ordering Cost} & = \text{N}2,809
\end{align*}
\]

**Holding Cost**

\[
\begin{align*}
\text{Average Inventory} & = \frac{2,082}{2} = 1,041 \\
\text{Holding Cost Per Unit Per Annum} & = \text{N}2.70 \\
\text{Annual Holding Cost} & = \text{N}2,809 \\
\text{Total Annual Cost} & = \text{N}450,218
\end{align*}
\]

This is \text{N}21,027 less than the existing annual purchasing cost, and therefore, it would be financially beneficial to switch to new supplier.

(b)(i) **Just-In-Time (JIT)** System of manufacturing involves obtaining goods from suppliers at the latest possible time (i.e. when they are needed on the production line), thereby avoiding the need to carry any materials or components inventory. Reduced inventory levels mean that a lower level of investment in working capital will be required. In certain environments, where the cost of a stock-out is high, JIT is inappropriate, e.g. in a hospital, the cost of a stock-out for certain items could be fatal.
(ii) The main features of a JIT system include the following:

- Deliveries will be small and frequent, rather than in bulk. Production runs will also be shorter.

- Supplier relationships must be close, since high demands will be placed on suppliers to deliver on time and with 100% quality.

- Unit purchasing prices may need to be higher than in a conventional system to compensate suppliers for their need to hold higher inventories and to meet more rigorous quality and delivery requirements. However, savings in production costs and reductions in working capital should offset these costs.

- Improved labour productivity should result from a smoother flow of materials through the process.

- Production process improvements may be required for a JIT system to function to full effectiveness. In particular set-up time for machinery may have to be reduced, workforce teams reorganised, and movement of materials within the production process minimised.

SOLUTION 5

(a) (i) \[ R_s = R_f + \beta (R_m - R_f) \]
\[ R_s = 10 + 0.8 \times (18 - 10) \]
\[ = 16.4\% \text{ i.e cost of equity of an ungeared company} \]

(ii) \[ \beta g = \beta u \times [1 + (1 - T)D/E] \]
\[ = 0.8 \times (1 + (1-0.35)(0.5)) \]
\[ = 1.06 \]

(iii) \[ R_s = 10 + 1.06 \times (18 - 10) \]
\[ = 18.48\% \]

Rate of debenture is not given. When this is so, we use risk free rate = 10%

(iv) \[ ke g = 16.4 + (1-0.35) \times (16.4 - 10) \times 0.5 \]
\[ = 18.48\% \]

(b) (i) \[ Ke = \frac{D}{MV} \]
\[ = \frac{442}{3900} \]
\[ = 11.33\% \]
(ii) Ke of Ungeared plc = 650/6500
= 10%

Since the Beta factor of Ungeared plc is one, it means that the risk of Ungeared plc is the same as the market risk, and therefore, must earn the same return. This means that 10% is the market return ($R_m = 10\%$).

(iii) $\beta_g = \beta_u (1 + (1 - T) \frac{D}{E})$

$$= 1 \times (1 + (1 - 0.35) \times \frac{4,000}{3,900})$$

$$= 1.67$$

(c) $\beta_g = \beta_u (1 + (1 - T) \frac{D}{E})$

$$= 0.85 \times (1 + (1 - 0.40) \times \frac{10}{25})$$

$$= 1.054$$

**SOLUTION 6**

(a) | Year | CF | TAX | NCF | DF(10%) | PV |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>(1,000,000)</td>
<td>-</td>
<td>(1,000,000)</td>
<td>1.00</td>
<td>(1,000,000)</td>
</tr>
<tr>
<td>1</td>
<td>325,000</td>
<td>-</td>
<td>325,000</td>
<td>0.91</td>
<td>295,750</td>
</tr>
<tr>
<td>2</td>
<td>500,000</td>
<td>(66,000)</td>
<td>434,000</td>
<td>0.83</td>
<td>360,220</td>
</tr>
<tr>
<td>3</td>
<td>500,000</td>
<td>(126,000)</td>
<td>374,000</td>
<td>0.75</td>
<td>280,000</td>
</tr>
<tr>
<td>4</td>
<td>500,000</td>
<td>126,000</td>
<td>626,000</td>
<td>0.68</td>
<td>254,320</td>
</tr>
<tr>
<td>5</td>
<td>175,000</td>
<td>18,000</td>
<td>193,000</td>
<td>0.62</td>
<td>119,660</td>
</tr>
</tbody>
</table>

**NPV**

309,950

(b) If the credit consultant is recruited, there will be the following incremental cash flows:

<table>
<thead>
<tr>
<th>Yr</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>700,000</td>
<td>700,000</td>
<td>700,000</td>
<td>700,000</td>
<td>-</td>
</tr>
<tr>
<td>Cash collected</td>
<td>(525,000)</td>
<td>(700,000)</td>
<td>(700,000)</td>
<td>(700,000)</td>
<td>(175,000)</td>
</tr>
</tbody>
</table>

175,000

175,000
The maximum sum payable is the PV of these incremental cash flows.

<table>
<thead>
<tr>
<th>Yr</th>
<th>CF</th>
<th>DF(10%)</th>
<th>PV</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>175,000</td>
<td>0.91</td>
<td>159,250</td>
</tr>
<tr>
<td>2</td>
<td>(175,000)</td>
<td>0.62</td>
<td>(108,500)</td>
</tr>
</tbody>
</table>

Workings:

1. **Computation of Capital Allowance**

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Total C/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yr. 1 (I.A)</td>
<td>(200,000)</td>
<td></td>
</tr>
<tr>
<td>(A.A)</td>
<td>(80,000)</td>
<td>280,000</td>
</tr>
<tr>
<td></td>
<td>720,000</td>
<td></td>
</tr>
<tr>
<td>Yr. 2 (A.A)</td>
<td>(80,000)</td>
<td>80,000</td>
</tr>
<tr>
<td></td>
<td>640,000</td>
<td></td>
</tr>
<tr>
<td>Yr. 3 (A.A)</td>
<td>(80,000)</td>
<td>80,000</td>
</tr>
<tr>
<td></td>
<td>560,000</td>
<td></td>
</tr>
<tr>
<td>Yr. 4 (A.A)</td>
<td>560,000</td>
<td>560,000</td>
</tr>
</tbody>
</table>

2. **Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>700,000</td>
<td>700,000</td>
<td>700,000</td>
<td>700,000</td>
</tr>
<tr>
<td>Expenses</td>
<td>(200,000)</td>
<td>(200,000)</td>
<td>(200,000)</td>
<td>(200,000)</td>
</tr>
<tr>
<td>Profits</td>
<td>500,000</td>
<td>500,000</td>
<td>500,000</td>
<td>500,000</td>
</tr>
<tr>
<td>Less: C.A</td>
<td>(280,000)</td>
<td>(80,000)</td>
<td>(80,000)</td>
<td>(560,000)</td>
</tr>
<tr>
<td></td>
<td>220,000</td>
<td>420,000</td>
<td>420,000</td>
<td>(60,000)</td>
</tr>
<tr>
<td>Tax (Payable) @ 30%</td>
<td>(66,000)</td>
<td>(126,000)</td>
<td>(126,000)</td>
<td>18,000</td>
</tr>
<tr>
<td>Year (Payable) Receivable</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
1. The Tax Clearance Certificate obtained in respect of any Company for the last three years of assessment shall disclose the following **EXCEPT**:
   A. Chargeable Income.
   B. Name of Directors.
   C. Tax payable.
   D. Tax paid.
   E. Tax outstanding.

2. Tax is evaded through the following methods, **EXCEPT**:
   A. Entering into artificial transactions.
   B. Refusing to register with the relevant tax authority.
   C. Failing to furnish a Return, Statement or Information or keep records.
   D. Incorporating the taxpayers’ sole proprietor or partnership into Limited Liability Company.
   E. Refusing to make any tax returns at all.

3. Which one of the persons listed below is **NOT** a member of the Federal Inland Revenue Service (FIRS)?
   A. Directors and Heads of Department of FIRS.
   B. A Director from the National Planning Commission.
   C. A Director from the National Population Commission.
   D. The Legal Adviser of the FIRS.
   E. Registrar General of the Corporate Affairs Commission.

4. The following Taxes are collectible by the Local Government, **EXCEPT**:
   A. Road Taxes
   B. Tenement Rates
   C. Shops and Kiosks Rates
   D. On and Off Liquor Licence fees
   E. Customary Burial Grounds Permit fees
5. Under the Personal Income Tax Act CAP. P8 LFN 2004, schedule 2, there are persons that are entitled to benefit from the income of an Estate. They include all but ONE of the following. Which one?
A. Trustees  
B. Legatees and Annuitants  
C. Testator  
D. Settlor  
E. Estator

6. Which of the following Industries is NOT permitted within an Export Processing Zone (EPZ)?
A. Textile  
B. Garment  
C. Automobile  
D. Wood  
E. Rubber and Plastic

7. Value Added Tax ACT CAP VI LFN 2004 provides for the setting up of a Technical Committee that will consider all Tax matters that require professional and technical expertise and make recommendations to the Board. Who among the following is NOT a member?
A. A Chairman who is the Chairman of Federal Inland Revenue Service (FIRS).  
B. All Directors in the FIRS.  
C. The Legal Adviser of the FIRS.  
D. A Director in the Nigeria Customs Services.  
E. The Registrar General of Corporate Affairs Commission.

8. What is the penalty for knowingly accepting, receiving or using any document counterfeited or falsified for the purpose of transacting business with the Federal Inland Revenue Service?
A. ₦2,000,000 and a term of 3 years imprisonment, on conviction.  
B. ₦200,000 or a maximum term of 3 years of imprisonment or both, on conviction.  
C. ₦20,000 or a maximum term of 3 years of imprisonment or both, on conviction.  
D. ₦200,000 or a maximum term of 3 years of imprisonment, on conviction.  
E. ₦20,000 or a maximum term of 3 years of imprisonment on, conviction.
Under Capital Gains Tax Act CAP C1 LFN 2004, when an asset is partly disposed of, the cost of Partial disposal is computed as $\frac{A}{A + i} \times C$. Use this formula to answer questions 9 and 10.

9. What does “A” stand for?
   A. Market rates of the part not disposed
   B. Sales proceeds of the part disposed of
   C. Cost of acquisition of the whole asset
   D. A+B
   E. B+C.

10. What does “C” stand for?
    A. Market value of the part disposed of
    B. Sales proceeds
    C. Market value
    D. Cost of acquisition of the whole asset
    E. Sales proceeds of the part disposed of.

11. Losses are allowed to be carried forward for a maximum period of.............. years for trading Companies after which it lapses.
    A. Two
    B. Three
    C. Four
    D. Five
    E. Six.

12. The following are the conditions necessary for an expense to qualify as allowable for tax purposes under Corporate taxation EXCEPT
    A. Exclusively
    B. Necessarily
    C. Wholly
    D. Carefully
    E. Reasonably.

13. What is the minimum Qualifying Capital Expenditure to be incurred before Production day for an indigenously controlled Company for a Pioneer Certificate to be issued?
    A. ₦50,000
    B. ₦75,000
    C. ₦100,000
    D. ₦125,000
    E. ₦150,000
14. If the Commonwealth Rate of Tax (CR) exceeds one-half of the Nigerian Rate of Tax (NR), the Double Taxation Relief which will be granted under the CITA is..............
A. ½ NR
B. < ½ NR
C. >½ NR
D. 1/3 NR
E. ¼ NR

15. Which of these is not an allowable expense in the computation of Petroleum Profits Tax?
A. Bad debt written off
B. Royalty on local export sales
C. Capital expenditure
D. Customs duties on non-essentials
E. Drilling Cost.

16. Companies engaged in Petroleum Operations are assessed on the
A. Preceding year basis
B. Change of accounting year basis
C. Penultimate year basis
D. Pre-penultimate year basis
E. Accounting period basis.

17. The final tax due from a Company engaged in Petroleum Operations for an accounting period is due and payable within certain number of days after the service of notice of assessment of tax for the accounting period. The number of days is
A. 31 days.
B. 30 days.
C. 21 days.
D. 60 days.
E. 14 days.

18. The Assessable Profit of a Company assessable to tax under the Petroleum Profits Tax Act CAP 13 LFN 2004 is the
A. Adjusted profit for the period.
B. Adjusted profit for the period after adjusting for loss relief.
C. Adjusted profit for the period before adjusting for loss relief.
D. Chargeable profit.
E. Profit for the period after relief for Capital allowances.
19. Duties that are based on Instruments otherwise called Written Documents, are called..................
   A. Excise Duties.
   B. Import Duties.
   C. Stamp Duties.
   D. General Duties.
   E. Instrument Duties.

20. Which tier of Government collects Slaughter Slab Fees?
   A. Federal Government
   B. State Government
   C. Local Government
   D. A & B only
   E. B & C only.
1. Taxes can be classified into **TWO** categories, ................. and ...............  

2. The Federal Inland Revenue Service Board, the State Board of Internal Revenue and the Local Government Revenue Committee, are levels of .................  

3. Section 85(1) of Personal Income Tax Act Cap P8 LFN 2004 (PITA) provides for the establishment of a body known as the ..................  

4. Where the Turnover of a Company is higher than ₦500,000, Minimum Tax is payable at what rate on the excess?  

5. According to PITA 2004, Schedule 2, when a person dies and leaves no Will or leaves a Will but has not disposed of all his property by the Will, he is said to have died ..................  

6. How many members constitute a Tax Appeal Tribunal?  

7. Value Added Tax is a ................. tax.  

8. The profit realised from the sale of any asset under the Capital Gains Tax Act, is referred to as .................. gain.  

9. For Roll-Over relief to be granted on disposal of an asset, the consideration arising on disposal must be re-invested within a period of .................. before or .................. after the disposal date.  

10. Roll-over relief is not granted when the amount re-invested is ...............than the cost of the old asset.  


12. A Dividend received by a company after deduction of Withholding tax is regarded as what?  

13. Under which law will Total Nigeria Plc be assessable to tax?  

14. With respect to a body Corporate, what transactions are expected to be reported by every Bank in Nigeria in the quarterly returns to the relevant authority?
15. What is the Petroleum Profits Tax rate applicable to Companies in Production Sharing Contracts with the Federal Government of Nigeria?

16. Casing Head Petroleum Spirit and Crude Oil won or obtained by a Company from Petroleum Operations is known as ............

17. What is the full word for the acronym “G-Factor” in Petroleum Profits Tax Act P13 LFN 2004 (PPTA)?

18. Under PPTA, Capital incurred in an accounting period on various assets by a Company is referred to as ............... 

19. What is the title of the Administrative and Technical Head of the Stamp Duties office?

20. List **TWO** categories of transactions that are exempt from Stamp Duties.
SECTION B – ANSWER QUESTION 1 AND ANY OTHER THREE (60 Marks)

QUESTION 1 - CASE STUDY

Larbrisse Investment Ltd., a Company located in Lokoja, Kogi State of Nigeria, started operations on 1 November 2004. The accounting year end was 30 September. As a result of the economic situation, the going concern of the company became threatened and the Board contemplated cessation of business on 31 October 2008.

The adjusted profits for the years to cessation date are as follows:

<table>
<thead>
<tr>
<th>Period</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/04 to 30/09/05</td>
<td>N1,100,000</td>
</tr>
<tr>
<td>Year ended 30/09/06</td>
<td>2,400,000</td>
</tr>
<tr>
<td>Year ended 30/09/07</td>
<td>2,640,000</td>
</tr>
<tr>
<td>Year ended 30/09/08</td>
<td>3,960,000</td>
</tr>
</tbody>
</table>

An additional adjusted profit for the month of October 2008 was N340,000. As a Tax Consultant, you have been requested by the Board of Larbrisse Investment Ltd. through a letter dated 15 August 2009, to advise on the tax liability up to cessation date, giving all the options available. (18 Marks)

QUESTION 2

(a) When can an Appeal be final and conclusive? (3 Marks)

(b) Briefly describe the Self Assessment Scheme, stating five advantages. (5 Marks)

(c) Distinguish between Tax Evasion and Tax Avoidance. (3 Marks)

(d) Explain the term Back Duty Investigation. (3 Marks)

(Total 14 Marks)

QUESTION 3

Segun Ojo lived in Imo State for many years and died in 2002. He was survived by a widow and three children – two sons and a daughter.
Mr. Segun Ojo left a Will appointing Iyabo as his Executor to administer his Estate. Iyabo obtained the necessary powers under the Will and has, since 2002, been administering the Estate.

The Executor’s account showed the following income and expenses for the year ended 31 December 2005.

**Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent Income received from Properties</td>
<td>7,500,000</td>
</tr>
<tr>
<td>Dividends received from A-Z (Nigeria) Limited</td>
<td>3,750,000</td>
</tr>
</tbody>
</table>

**Expenses:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates and Ground rents</td>
<td>850,000</td>
</tr>
<tr>
<td>Commission on rent collected</td>
<td>375,000</td>
</tr>
<tr>
<td>Repairs and upkeep of properties</td>
<td>925,000</td>
</tr>
<tr>
<td>Wages of staff</td>
<td>600,000</td>
</tr>
<tr>
<td>Professional fees (to the Executor)</td>
<td>400,000</td>
</tr>
</tbody>
</table>

Under the will, Iyabo has discretion to make an ex-gratia payment in case of need to any of the beneficiaries which should not exceed ₦1,500,000 in any one year. During the year ended 31 December 2005, Iyabo paid ₦600,000 to the two sons in equal amounts.

The beneficiaries’ share of the Estate as determined by the Will is:

- Wife 2
- Son No. 1 3
- Son No. 2 3
- Daughter 2

You are required to show the amounts which the beneficiaries would include in their respective Income Tax Returns for the 2006 year of assessment in respect of their Income from the Estate.

**QUESTION 4**

(a) Under the Capital Gains Tax, state **FOUR** allowable deductions? (4 Marks)

(b) Mr. Ejiro bought a piece of land at Mokola, Ibadan, for ₦280,000 in 1993 and because of the swampy nature of the area, he had to spend ₦100,000 to put the land in proper shape. In January 1997, Mr. Ejiro sold part of the land to his
brother Osas for ₦180,000 and in September of the same year, another portion was sold to someone unknown for ₦120,000.

On valuation, a professional Valuer put the land sold to his brother at ₦220,000 while the other was valued at ₦120,000. The remaining parcel of land was also valued at ₦880,000.

Calculate the Capital Gains Tax payable and by whom. (10 Marks) (Total 14 Marks)

QUESTION 5

Under the Industrial Development (Income Tax Relief) Act 1990, Industries and Products are granted Tax Relief Periods.

Required:

(a) List EIGHT of such Industries/Products. (4 Marks)
(b) State in precise form the Conditions and Procedure for granting a Pioneer Certificate. (10 Marks) (Total 14 Marks)

QUESTION 6

The estimated tax liability of an Oil Producing Company was ₦60,000,000 for the 1996 tax year. The actual tax liability as computed per the Audited accounts of the Company was finally agreed to be ₦79,500,000.

Required:

In accordance with the provisions of Section 42 of PPT Act CAP P13 LFN, 2004,

(a) Prepare the schedule of streams of payments to tax authority by the Company for 2004 tax year (assuming the Company was served notice of assessment in November 2004.) (6 Marks)

(b) Briefly state the rules governing the time the payments of undisputed tax liability of an Oil Company should be made. (8 Marks) (Total 14 Marks)
SOLUTIONS TO SECTION A

PART II  MULTIPLE CHOICE QUESTIONS

1. B
2. D
3. C
4. A
5. B
6. C
7. E
8. B
9. B
10. D
11. C
12. D
13. A
14. A
15. C
16. E
17. C
18. B
19. C
20. C
PART II SHORT ANSWER QUESTIONS

1. Direct, Indirect
2. Tax Authority
3. Joint Tax Board
4. 0.125%
5. Intestate
6. Five (5)
7. Consumption
8. Chargeable
9. Twelve months, Twelve months
10. Less
11. Chargeable
12. Franked Investment Income
14. All transactions of ₦10,000,000 and above
15. 50% of Chargeable Profit
16. Chargeable Oil
17. Gas Projection Cost Adjustment Factor
18. Qualifying Capital Expenditure
19. Commissioner of Stamp Duties
20. (a) Liquidation Sales/ Transactions.
   (b) Treaties/ Agreements
   (c) Company Reconstruction or Amalgamations.
LARBRISSE INVESTMENT LIMITED: TAX MATTERS

We refer to your letter dated 15 August 2009 regarding the above subject matter and hereby advise as follows:

Having considered all the facts of the situation along with an analysis of the attached computations, we summarize below the tax implications underlying your proposed line of action.

On Cessation of Operations

Based on computations and as shown in Appendices I and II, liability to tax for the respective years are as follows:

(a) For the year of Cessation i.e. 2008, the Assessable Profit is ₦4,300,000 (based on the actual year of cessation); and

(b) For the Penultimate Year, i.e. the year preceding that of cessation two amounts are relevant, the amount computed based on the preceding year and the one computed based on the actual year.
It is pertinent to state that the Federal Inland Revenue Service has the right to assess your company on the higher amount, hence the assessable amount will be ₦2,970,000.

**Assessment based on the Commencement Provisions**

In respect of the above, your company has the option of electing in the two years immediately after commencement i.e. assessment years 2005 and 2006, in which you can elect to pay the lower of the amounts computed on normal rate and that based on election (Appendix III). You would therefore not need to elect for this purpose. Your company will be saving ₦1,360,000 for this decision.

Finally, we would advise that as soon as the deliberation on our submission is considered, the Returns should be sent together with the Self Assessment Payment Advice.

It is pertinent to emphasise that on failure to file the Returns within the time stipulated by law, your Company will be liable to pay ₦25,000 (Twenty five thousand Naira) for the first month of the failure and ₦5,000 for subsequent months until the Returns are filed.

We thank you most sincerely for your understanding and cooperation on this issue, and should you have any other issues concerning this, please do not hesitate to contact us.

Yours faithfully,
For VICFOJIB TAX CONSULTANTS
O. Enisso band

**APPENDIX 1**

**Cessation**

<table>
<thead>
<tr>
<th>Assessment year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>₦2,970,000</td>
</tr>
<tr>
<td>2008</td>
<td>₦4,300,000</td>
</tr>
</tbody>
</table>
Assessable profit on commencement

<table>
<thead>
<tr>
<th>Year</th>
<th>Normal Basis Amount</th>
<th>Election Basis Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>200,000</td>
<td>200,000</td>
</tr>
<tr>
<td>2005</td>
<td>1,300,000</td>
<td>1,500,000</td>
</tr>
<tr>
<td>2006</td>
<td>1,300,000</td>
<td>2,460,000</td>
</tr>
<tr>
<td></td>
<td>2,800,000</td>
<td>4,160,000</td>
</tr>
</tbody>
</table>

APPENDIX II

Calculations

Assessment Year 2004 Actual (1/11/04 – 31/12/04) $\frac{2}{11} \times 1,100,000 = 200,000$

Assessment Year 2005 (First Twelve Months) $\frac{1}{11}/04 – 31/09/05 = 1,100,000$

$\frac{1}{12} \times 2,400,000 = 200,000$

$\text{N}1,300,000$

Assessment Year 2006 (1/10/04 – 30/09/05)
Since there was no account for the 12 months ended 30/09/05, the Assessable profit for the first 12 months will be used i.e. $\text{N}1,300,000$

Assessment Year 2007 (1/10/05 – 30/09/06) = $\text{N}2,400,000$

Date of cessation of business was 31 October 2008

Assessment Year 2008 (Actual) (1/01/08 – 31/10/08)

i.e $\frac{1}{01/08} – 30/09/08$

$3,960,000$

$\frac{1}{10/08} – 31/10/08$

$340,000$

$\text{N}4,300,000$

The Penultimate Year was 2007

Assessment base on Actual 1/01/07 – 31/12/07

$\frac{9}{12} \times 2,640,000 = 1,980,000$

$\frac{3}{12} \times 3,960,000 = 990,000$

$\text{N}2,970,000$

The Assessment Year 2007 on Preceding Year Basis (PYB) 1/10/05 – 30/09/06

$\text{N}2,400,000$

Since the assessment on PYB is less than that on Actual basis the Revenue office will decide to elect and assess on $\text{N}2,970,000$
Commencement Rule – Election
Two Years 2005 and 2006

Assessment Year 2005  (1/1/05 – 31/12/05)  
1/1/05 – 30/9/05  
9/11 x ₦1,100,000 = 900,000
1/10/05 – 31/12/05  
3/12 x ₦2,400,000 = 600,000
₦1,500,000

Assessment Year 2006  (1/1/06 – 31/12/06)  
1/1/06 – 30/9/06  
9/12 x ₦2,400,000 = 1,800,000
1/10/06 – 31/12/06  
3/12 x ₦2,640,000 = 660,000
₦2,460,000

APPENDIX III

<table>
<thead>
<tr>
<th></th>
<th>Normal Basis</th>
<th>On Election</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>₦1,300,000</td>
<td>₦1,500,000</td>
</tr>
<tr>
<td>2006</td>
<td>₦1,300,000</td>
<td>₦2,460,000</td>
</tr>
<tr>
<td></td>
<td>₦2,600,000</td>
<td>₦3,960,000</td>
</tr>
</tbody>
</table>

SOLUTION 2

A. An appeal can be said to be final and conclusive where:

(i) There is no lodgement of a valid objection against an assessment as regards the amount of the total profits assessed.

(ii) The amount of the total profits has been agreed, after a revised assessment has been raised, on the objection raised by a Company.

(iii) The amount of such total profits has been determined on objection raised by a company.

(iv) The amount of such total profits has been determined on objection, revision or on appeal over the assessment made, agreed or determined on appeal.
B. **Self-Assessment Scheme**

This is a system in which a taxpayer is required to make a Return of his income and the tax liability based on such income. The taxpayer is expected to forward the Returns with the Cheque for tax due to the relevant tax authority.

With this Scheme, the taxpayer is made to assess himself instead of the traditional method of the Inland Revenue Office raising the assessment. Thus, the Revenue Office is only to verify the authenticity of such Returns.

**The Advantages of the Scheme:-**

(i) There is reduction in time taken to raise assessment by the Federal Inland Revenue Service.

(ii) It gives a measure of confidence to the taxpayer to willingly submit himself to be assessed.

(iii) It reduces the job load on the part of the Revenue staff.

(iv) The taxpayer can pay the tax in **SIX** equal monthly instalments.

(v) Since it is now mandatory for Companies with turnover of ₦1.0m and above to file Self-assessment Returns, this will surely reduce the number of tax defaulters.

(vi) It bestows a high degree of trust on the taxpayer.

C. **Tax Evasion**

This is a criminal offence in which a taxpayer does not pay or want to pay tax at all. A tax evader may sometimes be charged to court, fined and/or imprisoned.

**Tax Avoidance**

This is a situation in which the taxpayer plans his/her affairs in a way that would make him/her pay the least possible amount of tax. This is perfectly within the law.

D. **Back Duty Investigation**

Back duty investigation is usually carried out by the Revenue where they believe that Tax has been lost due to the Taxpayers fraud, intentional default, or carelessness. Back Duty means tax which has not been assessed for some years.
### SOLUTION 3

**ESTATE OF SEGUN OJO**

**COMPUTATION OF INCOME FOR YEAR ENDED 31 DECEMBER 2005**

<table>
<thead>
<tr>
<th>INCOME:</th>
<th>Total Amount</th>
<th>Sharing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross rent</strong></td>
<td>7,500,000</td>
<td></td>
</tr>
<tr>
<td>Less: Rate and Rent</td>
<td>850,000</td>
<td></td>
</tr>
<tr>
<td>Commission</td>
<td>375,000</td>
<td></td>
</tr>
<tr>
<td>Repairs</td>
<td>925,000</td>
<td>(2,150,000)</td>
</tr>
<tr>
<td><strong>Dividend (gross)</strong></td>
<td>3,750,000</td>
<td>9,100,000 Wife Son Son Daughter</td>
</tr>
<tr>
<td>Less: Other expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages</td>
<td>600,000</td>
<td></td>
</tr>
<tr>
<td>Fees</td>
<td>400,000</td>
<td>(1,000,000)</td>
</tr>
<tr>
<td><strong>Amount available for distribution in the ratio</strong></td>
<td>7,500,000 1,500,000 2,250,000 2,250,000 1,500,000</td>
<td></td>
</tr>
<tr>
<td><strong>Amount to be shown in 2006 Tax</strong></td>
<td>1,500,000 2,550,000 2,550,000 1,500,000</td>
<td></td>
</tr>
</tbody>
</table>

**Note:**
The With-Holding Tax of 15 percent on the individuals, amounting to N587,500 will be borne by the beneficiaries in the ratio of 2:3:3:2.

### SOLUTION 4

**A. Allowable deductions under Capital Gains Tax.**

(i) **Cost of acquisition or purchase price including all costs incidental to the purchase.**

(ii) **Improvement costs – wholly, reasonably, exclusively and necessarily incurred.**

(iii) **Cost wholly, reasonably exclusively and necessarily incurred in**
establishing, preserving or defending the owner's title to or rights over the assets.

(iv) Incidental costs of disposal which include:

- Fees, commissions or remuneration paid for professional services of surveyor or valuer, auctioneer, accountant, agent and or legal adviser.
- Cost of transfer or conveyance (including Stamp Duty.)
- Advertisement cost to find a Seller/Buyer.
- Cost reasonably incurred in making any valuation or appointment required for the purpose of computing the Capital Gains including expenses in ascertaining market value where required.

B. Total cost of the land = ₦280,000 + ₦100,000 = ₦380,000.

Land sold to the Brother cost

\[
\frac{₦220,000}{₦360,000 + ₦880,000} \times ₦380,000 = ₦67,419
\]

Land sold to unknown, Cost

\[
\frac{₦120,000}{₦360,000 + ₦880,000} \times ₦380,000 = ₦36,774
\]

Price of land sold to Osas = ₦220,000

Less:
Cost of land sold 67,419
Chargeable Gains 152,581

Capital Gains Tax @ 10% of ₦152,581.00 = ₦15,258 payable by Mr. Ejiro

Value of Land sold to unknown person 120,000

Less:
Cost of Land sold (36,774)
Chargeable Gains 83,226
Capital Gains Tax @ 10% of ₦83,226 = ₦8,323, payable by Mr. Ejiro

N.B
(i) Since Mr. Ejiro sold land worth ₦220,000 to his brother (Transaction not done at arm’s length) at ₦180,000, then ₦220,000 is deemed to be the effective sales value.

(ii) Since the other sale was made to an unknown person, it is deemed to have been at arm’s length, and the sales value of ₦120,000 will be regarded as the appropriate sales value.

**SOLUTION 5**

A. List of Pioneer Industries/Products that are granted tax relief.

(i) Cultivation and Processing of Food crops, Vegetables and Fruits.

(ii) Manufacture of Cocoa products.

(iii) Processing of Oil seeds.

(iv) Integrated Dairy Production.

(v) Cattle and other Livestock ranching.

(vi) Bone crushing.

(vii) Manufacture of Salt.

(viii) Mining of Lead and Zinc Ores by underground mining methods.

(ix) Manufacture of Iron and Steel from Iron Ore.

(x) Manufacture of Cement.

(xi) Manufacture of Ceramic products.

(xii) Manufacture of Animal foodstuff.

(xiii) Manufacture of Leather.

(xiv) Manufacture of Telecommunications equipment, Cables etc.

(xv) Manufacture of Office Stationery.

N.B: Any **EIGHT** above will be sufficient.
B. CONDITIONS FOR GRANTING A PIONEER CERTIFICATE.

The Act empowers the Federal Executive Council from time to time to publish a list of Industries or Products as Pioneer Industries Products, if it is satisfied that:

(i) The Industry is carried on in Nigeria on a scale suitable to the economic development of Nigeria.

(ii) There are favourable prospects of further development of such Industries in Nigeria.

(iii) It is expedient in the public interest to encourage the development or establishment of such Industries in Nigeria.

(iv) The minimum Capital Expenditure required by the company is put at N50,000 and N150,000 for an indigenously – controlled Company and for other Companies, respectively.

(v) The Company can export 50% of its products. This is according to the 1995 Federal Budget.

PROCEDURES FOR THE GRANTING OF PIONEER CERTIFICATE.

A Company that satisfies the above conditions for granting the status, may apply to the Federal Executive Council to be granted a Pioneer status. Every such application shall state the grounds upon which the application relies, and if the application is for the issue of a Pioneer Certificate, the application shall:

(i) State whether the Company is, or the proposed Company when incorporated shall be, an indigenously – controlled Company.

(ii) Give particulars of the Assets on which Qualifying Capital Expenditure will be incurred by the company including their source and estimated cost on or before Production Day and during a period of 3 years following Production Day.

(iii) Specify the place in which the assets in respect of which Qualifying Expenditure will be incurred by the Company or proposed Company are to be situated.

(iv) Estimate and state the probable Production Day of the Company or proposed Company.

(v) Specify any product and by-product (not being a pioneer product) proposed to be produced by the Company or proposed Company and give a reasonable
estimate of the quantities and value of such product and by-product during a period of one year from Production Day.

(vi) Give particulars of the Loan and Share Capital, of the proposed Company, including the amount and date of each issue or proposed issue, and source from which the Capital is to be or has been raised.

(vii) In the case of a Company already incorporated, give the name, address and nationality of each Director of the Company and the number of Shares held by him.

(viii) In the case of a proposed Company, give the name, address and nationality of each promoter of the Company.

(ix) The application shall contain a declaration signed by the applicant, that all the particulars contained in the application are true.

(x) A non-refundable fee of ₦100 in support of the application.

As soon as the application is submitted to the Minister, he shall subject it to the provisions of the Act and may approve or disapprove the application.

If the application is approved, a Pioneer Certificate shall be issued to the Company or for the Products, but subject to the terms of the Certificate.

**SOLUTION 6**

A. **Schedule of Streams of Instalments of the Tax**

<table>
<thead>
<tr>
<th>Date</th>
<th>Basis of Computation</th>
<th>Amount paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2004</td>
<td>( \frac{1}{12} \times \₦60,000,000 )</td>
<td>5,000,000</td>
</tr>
<tr>
<td>April 2004</td>
<td>( \frac{1}{12} \times \₦60,000,000 )</td>
<td>5,000,000</td>
</tr>
<tr>
<td>May 2004</td>
<td>( \frac{1}{12} \times \₦60,000,000 )</td>
<td>5,000,000</td>
</tr>
<tr>
<td>June 2004</td>
<td>( \frac{1}{12} \times \₦60,000,000 )</td>
<td>5,000,000</td>
</tr>
<tr>
<td>July 2004</td>
<td>( \frac{1}{12} \times \₦60,000,000 )</td>
<td>5,000,000</td>
</tr>
<tr>
<td>August 2004</td>
<td>( \frac{1}{12} \times \₦60,000,000 )</td>
<td>5,000,000</td>
</tr>
<tr>
<td>September 2004</td>
<td>( \frac{1}{12} \times \₦60,000,000 )</td>
<td>5,000,000</td>
</tr>
<tr>
<td>October 2004</td>
<td>( \frac{1}{12} \times \₦60,000,000 )</td>
<td>5,000,000</td>
</tr>
<tr>
<td>November 2004</td>
<td>( \frac{1}{12} \times \₦60,000,000 )</td>
<td>5,000,000</td>
</tr>
</tbody>
</table>
December 2004 Final Tax (*actual tax minus already paid*)

\[ \text{₦} (79,500,000 - 45,000,000) = 34,500,000 \]

\[ \text{₦} 79,500,000 \]

B. Time within which payment of Tax Liability of Oil Company is to be made.

(i) Every company engaged in Petroleum Operations must within two months after commencement of each accounting period submit an estimate of tax liability to the Board.

(ii) The first monthly payment shall be due and payable not later than the third month of the accounting period and shall be equal to one-twelfth’s of the estimated Tax.

(iii) Each of the following monthly instalments is due and payable not later than the end of each subsequent month.

(iv) The final instalment of tax shall be due and payable within twenty-one (21) days after the service of notice of assessment of tax for such accounting period.

(v) The amount of tax payment shall be the total assessed for that accounting period less all instalments paid on account.
SECTION A (Attempt All Questions)

PART I  MULTIPLE-CHOICE QUESTIONS  (20 Marks)

1. Which of the following is the relevant tax authority that collects taxes of individuals and sole proprietors?
   A. Federal Inland Revenue Service.
   B. Joint Tax Board.
   C. State where the individual is resident in that year.
   D. State of origin of the individual.
   E. State Capital of the individual.

2. The relevant tax authority that collects taxes of Companies and members of the Armed Forces is
   A. Federal Inland Revenue Service Board.
   B. Central Bank of Nigeria.
   C. Consolidated Fund of the Federal Republic of Nigeria.
   D. State Board of Internal Revenue.
   E. Federal Ministry of Finance.

3. Which ONE of the following means Original Assessment?
   A. Best of judgement assessment raised on a tax payer in a particular tax year.
   B. Assessment on normal basis raised on a tax payer in a particular tax year.
   C. Assessment on actual basis raised on a tax payer in a particular tax year.
   D. Additional assessment raised on a tax payer in a particular tax year.
   E. First assessment raised on a tax payer in a particular tax year.

4. A Notice of Appeal shall specify which one of the following?  Official
   A. date of service of objection.
   B. date of notice of objection.
   C. number of assessment and tax year.
   D. notice of refusal to amend.
   E. grounds of objection.
5. New Companies are required to file tax returns within
   A. 14 months from date of Incorporation or not later than 6 months after the end of its first accounting period.
   B. 15 months from date of Incorporation or not later than 6 months after the end of its first accounting period.
   C. 16 months from date of Incorporation or not later than 6 months after the end of its first accounting period.
   D. 17 months from date of Incorporation or not later than 6 months after the end of its first Accounting period.
   E. 18 months from date of Incorporation or not later than 6 months after the end of its first Accounting period.

6. Profit of which of the following businesses is EXEMPT from tax under Companies Income Tax Act Cap C21 LFN 2004?
   A. Upstream Petroleum Operations.
   B. Manufacturing Operations.
   C. Property and Investment Operations.
   D. Shipping business.
   E. Aviation business.

7. A Company is chargeable to tax in the name of
   A. Its Promoters.
   B. Any of the Shareholders.
   C. Any of the Debtors.
   D. The Company.
   E. Its biggest suppliers.

8. The following are unqualified to apply for Pioneer Status, EXCEPT
   A. A Liquidator of a Company in Nigeria
   B. A Receiver of a Company Incorporated in Nigeria
   C. Any Company Incorporated in Nigeria
   D. A Shareholder of a Company Incorporated in Nigeria
   E. A Creditor of a Company Incorporated in Nigeria.

9. Depreciation Relief Ratio under the Companies Income Tax Act Cap C21 LFN 2004, is not used in calculating Gross Adjusted Ratio for the following EXCEPT
   A. Manufacturing companies
   B. Insurance companies
   C. Banks
   D. Telecommunication companies
   E. Airlines.
10. No tax shall be payable by Pioneer companies during
   A. and after the Pioneer period.
   B. and subsequent to the pioneer period.
   C. the pioneer period.
   D. and later into the period after the pioneer status.
   E. and long after the pioneer period.

11. Companies that service oil producing companies provide the following technical services **EXCEPT**
   A. Seismic survey
   B. Drilling of well
   C. Laying of pipes
   D. Hiring of vessels for transportation
   E. Marketing of Diesel, Engine oil and Grease.

12. Companies engaged in upstream activities are not taxed under the following **EXCEPT**
   A. Companies Income Tax Act CAP C21 LFN 2004
   B. Petroleum Profits Tax Act CAP P13 LFN 2004
   C. Capital Gains Tax Act CAP C1 LFN 2004
   D. Value Added Tax CAP V1 LFN 2004

13. Liquefied Natural Gas, is Gas
   A. in its liquid state at approximately atmospheric pressure.
   B. in storage tanks at approximately atmospheric pressure.
   C. sold to individual homes at approximately atmospheric pressure.
   D. piped to individual homes at approximately atmospheric pressure.
   E. for export at approximately atmospheric pressure.

14. A Licence granted to a Company under the Mineral Act 1999 (as amended) for mining Petroleum is known as
   A. Prospecting Licence
   B. Interim Prospecting Licence
   C. Oil Prospecting Licence
   D. Oil Mining Licence
   E. On and Off Licence.

15. The objective of a Memorandum of Understanding (MOU) under the Petroleum Profits Tax Act 2004 and within an oil environment is to
   A. discourage militancy in the Niger Delta region
   B. encourage the amnesty programme of Government
C. encourage indigenization of labour  
D. enhance export of crude oil  
E. enhance the of rule of law in the Niger Delta region

16. A Capital Gain is a Gain arising from the disposal outside the ordinary course of business, of ........
A. stocks and shares.  
B. liquid assets.  
C. goods and resources.  
D. goodwill assets.  
E. capital assets.

17. A Capital Gains Tax of ₦622 was paid on an asset that cost ₦50,000 when the owner sold it after incurring an incidental cost of disposal amounting to ₦15,000. What is the disposal value of the asset?
A. ₦71,220  
B. ₦72,622  
C. ₦82,622  
D. ₦71,622  
E. ₦71,620

18. The following instruments are liable to Stamp Duties EXCEPT
A. Contract notes  
B. Agreements  
C. Instruments of Apprenticeship  
D. Conveyances on Sale  
E. Offer of employment letter.

19. The basis period for the first year of assessment under Commencement rule is date of commencement to ..........
A. 30th day of June of each year.  
B. 30th September of the year of commencement  
C. 31st day of December.  
D. 31st day of the commencement month.  
E. 31st day of the accounting year.

20. The basis period for the last year of assessment under Cessation rule is ..........  
A. 1st January to the date of cessation.  
B. 1st February to the date of cessation.  
C. 1st March to the date of cessation.  
D. 1st April to the date of cessation.  
E. 1st May to the date of cessation.
PART II SHORT ANSWER QUESTIONS

1. The funding of the Joint Tax Board is a joint responsibility of both the .................. and ..................

2. The entity to be taxed and sources of the Income to be taxed must be .................., .................. clear and not in doubt.

3. Why is Residency important in taxation?

4. What is a Revised or Amended assessment?

5. Tax Evasion and Tax Avoidance touch on Tax administration. Identify which is legal and illegal.

6. Indigenous Companies that engage in the Petroleum Industry are also known as the sole risk operators. Why are they so described?

7. The profits of the Petroleum Products Marketing Companies are chargeable to tax under ..................

8. What is the Accounting Period comprising twelve (12) months in relation to a company engaged in Petroleum Operations?

9. Crude Oil obtained under the Production Sharing Contracts are divided into ‘cost oil’, ‘tax oil’, and ‘profit oil’. What is ‘cost oil’?


11. What are the particulars required for assets on which Qualifying Expenditure will be considered incurred, by a “Pioneer Company”?

12. When is the tax withheld on Dividends, Interests or Rents, due for payment?

13. How should “Bad Debts Written Off” be treated for tax purposes?

14. The Adjusted Profit of a Company is ₦100,000 while the Total Tax liability amounted to ₦77,000. What is the Total Profit assuming 30% as Tax Rate under the Companies Income Tax Act Cap C21 LFN 2004.
15. The expenditure incurred on Fixed Assets used for trade or business which qualifies for Capital Allowance in a basis period is called ..................

16. What is the time limit for a “taxable person” to register for Value Added Tax?

17. For purposes of Minimum Tax Computation, how will you compute the Tax on Turnover?

18. What is the position, where a transaction is between Connected Persons under the Capital Gains Tax Act CAP C1 LFN 2004?


20. Taxes paid to the Federal or State Governments on Documents/Instruments to confer legal title, approval or authority on them, is known as ..................
SECTION B - ANSWER QUESTION 1 AND THREE OTHERS (60 MARKS)

QUESTION 1-CASE STUDY

1. The Accounts of Delta Nigeria Limited were delayed because of Boardroom squabbles and bickering among its members. Thus its Accounts for year ended 31 December 2007 were not filed with the tax office until 31 August 2008. Before the Accounts for the year ended 31 December 2007 were filed the company was slammed with a Best of Judgment (BOJ) Assessment of N2,150,000 on 1 February 2008 and a Provisional tax of N1,500,000 was raised for the Company to pay. The tax paid in the previous assessment year was N1,200,000.

Required:
State clearly as Tax Consultants to the company what advice you will give to deal with:

(a) The Best of Judgement assessment. (10 Marks)
(b) The Provisional Tax. (8 Marks)

NB
Your answer should be in Report format, addressed to the Financial Controller of the Company. (Total 18 Marks)

QUESTION 2

The following information were extracted from the books of accounts of Kamikaz Petroleum Limited for the year ended 31 December 2004.

(a) Total Crude Oil produced 4,264,000 barrels
(b) The ratio of domestic crude to exported crude is 3 : 5
(c) Posted price for crude oil exported is N38.50
(d) Posted price for domestic crude oil is N21.00
(e) The Capital Allowance is 20% of the fiscal value of oil sold
(f) Royalty is 15% of fiscal value of oil sold
(g) Production expenses N 2,943,150
(h) Intangible drilling expenses N10,400,000
(i) Other income N4,823,630
(j) Administrative expenses N5,592,500
Required:

(a) Calculate the Chargeable profits and Assessable Tax for the 2005 Assessment year.  (10 Marks)

Note: Show your workings

(b) With reference to the Petroleum Profits Tax Act, explain the position on penalty for failure to withhold tax.  (4 Marks)

(Total 14 Marks)

QUESTION 3

3(a) Ojo Lander Limited makes up its accounts to 31 October each year. It commenced business on 1 August 2004. You were given the operating results of the Company for the following periods:

\[
\begin{array}{|c|c|}
\hline
\text{Period} & \text{Profit} \\
\hline
3 \text{ months to 31 October 2004} & 30,000 \\
12 \text{ months to 31 October 2005} & 450,000 \\
12 \text{ months to 31 October 2006} & 650,000 \\
12 \text{ months to 31 October 2007} & 900,000 \\
\hline
\end{array}
\]

You are required to:

(i) Determine the basis periods for all the relevant years of assessment.  (5 Marks)

(ii) Compute the Assessable profits for 2004 to 2006.  (3 Marks)

NB:
Ignore Elections provisions.

(b) Adamu commenced trading in 2001 and his adjusted profits for the first five years of trading are as follows:

\[
\begin{array}{|c|c|}
\hline
\text{Year ended} & \text{Profit} \\
\hline
30 \text{ September 2002} & 10,400 \\
30 \text{ September 2003} & 16,200 \\
30 \text{ September 2004} & 13,200 \\
30 \text{ September 2005} & 19,200 \\
30 \text{ September 2006} & 14,000 \\
\hline
\end{array}
\]
You have been appointed as a tax consultant by Adamu, to advise him on whether his present accounting date should be maintained or be changed to 31 December or 31 January. (7 Marks) (Total 15 Marks)

QUESTION 4

4(a) In the context of Capital Gains Tax Act CAP C1 LFN 2004, explain the following terms:

(i) Roll-over relief
(ii) Artificial transaction
(iii) Accompany connected with another company

(b) Bia Nigeria Ltd is not into development of Properties. It however sold a building on 1 July 2007 in Lagos for ₦5,800,000. The building sold was acquired in 2005 for the sum of ₦2,588,000.

On 31 December 2007, Bia Limited based on a Board Resolution decided to reinvest part of the proceeds of the Building sold, in the acquisition of another building for ₦5,200,000, also in Lagos. This new building acquired on 31 December 2007 was sold on 30 June 2008 for ₦7,500,000. There was no further acquisition of any building by the Company after this.

Required:
Compute the Capital Gains Tax payable arising from the above transactions. (14 Marks)

QUESTION 5

5(a) (i) State the members of the Technical Committee of the Federal Inland Revenue Service Board.
(ii) What are the functions of the Technical Committee?
(iii) Enumerate the allowable deduction with respect to the following classes of Insurance Companies for tax purpose.

- Non-Life Insurance Companies
- Life Insurance Companies
- Re-Insurance Companies (8 Marks)
(b) Equity Ltd is a life Assurance company incorporated under the Companies and Allied Matters Act 2004 has its Head Office abroad and Branches in Kenya and Liberia.

Its Profit and Loss Account for the year ended 31 December 2006 is shown below:

<table>
<thead>
<tr>
<th></th>
<th>N(000)</th>
<th>N(000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life fund at 1/1/06</td>
<td>2,750</td>
<td>2,750</td>
</tr>
<tr>
<td>Premium</td>
<td>3,650</td>
<td>3,650</td>
</tr>
<tr>
<td>Investment income</td>
<td>860</td>
<td>860</td>
</tr>
<tr>
<td></td>
<td>7,260</td>
<td>7,260</td>
</tr>
</tbody>
</table>

Deduct:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims paid</td>
<td>345</td>
<td>345</td>
</tr>
<tr>
<td>Reserve for outstanding claims</td>
<td>520</td>
<td>520</td>
</tr>
<tr>
<td>Surrenders</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Bonuses</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>Commissions</td>
<td>576</td>
<td>576</td>
</tr>
<tr>
<td>Other expenses</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Life fund at 31/12/05</td>
<td>4,500</td>
<td>(6,118.00)</td>
</tr>
</tbody>
</table>

The following additional information is provided:

(i) Premium received outside Nigeria is N550,000

(ii) Depreciation attributable to Nigerian business included in the expenses was N8,000,000.

(iii) Commissions and expenses attributable to operations outside Nigeria were N176,000,000 and N15,000,000 respectively.

You are required to compute the Chargeable Profit or Loss for the year. (6 Marks) (Total 14 Marks)

**QUESTION 6**

(a) Under the Value Added Tax Act CAP VI LFN 2004, how do you determine the value of taxable Goods and Services? (4 Marks)

(b) Mr. Emeka Gladstone has lived abroad for many years. In pursuit of the cliché “home will always be home” he decided to invest part of his savings from abroad, in Nigeria. He faces constraints to his plan. He said “In other climes you
see what taxes are used for, but this is not the case in some parts of Nigeria”. He is aware of the Value Added Tax provisions, but tells you he does not want to pay this tax. He poses the question “What line of business can I engage in, for which I will not need to pay Value Added Tax?”

**Required:**
As a Tax expert, point out any TEN provisions within the VAT Act that will enable him achieve his aim, without running foul of the Tax Law.

(10 Marks)

(Total 14 Marks)
SOLUTIONS TO SECTION A

PART I MULTIPLE-CHOICE QUESTIONS

1. C
2. A
3. E
4. C
5. E
6. A
7. D
8. C
9. E
10. C
11. E
12. B
13. A
14. D
15. D
16. E
17. A
18. E
19. C
20. A

Tutorial

Question 17

Capital Gains = Disposal Value – Total Cost
Where Total Cost = (Acquisition Cost + Incidental Cost of Disposal)
∴ If Capital Gains Tax = 10% of Gains
\[ \text{₦622} = 0.1 \times \text{Gains} \]

\[ G - \frac{\text{₦622}}{0.1} = \text{₦6220} \]

Since \( G \) = Disposal Value – Total Cost

\[ \therefore \text{₦6220} = \text{DV} - (\text{₦50,000} + \text{₦15,000}) \]

\[ = \text{DV} - \text{₦65,000} \]

\[ \text{DV} = \text{₦65,000} + \text{₦6,220} \]

\[ = \text{₦71,220} \]
PART II SHORT ANSWER QUESTIONS

1. Federal and State Governments.

2. Identifiable, known.

3. It resolves the question of Relevant Tax Authority to which the tax is payable.

4. It is an assessment raised to replace an original assessment.

5. Tax Evasion is illegal whereas Tax Avoidance is legal.

6. They are described as such because they provide the funds, bear all the risks and take all the Crude produced.


8. It is a period starting from 1st January to 31st December.

9. ‘Cost Oil’ is the term given to the production sharing contract operator, to cover cost of production.

10. Assessable profit is the Adjusted profit or loss after deduction of Education Tax and adjusting for losses brought forward.

11. The particulars are the costs, source, on or before Production Day.

12. Within thirty (30) days of the deduction or when the duty to deduct arises.

13. It should be treated as an allowable expense.

14. ₦250,000

15. Qualifying Capital Expenditure.

16. Within six (6) months from the commencement of the Act or within six (6) months from the commencement of business.

17. Apply 0.25% on the first ₦500,000 of Turnover
Apply 0.125% on the excess of Turnover over ₦500,000.

18. The Open Market value or fair value of the asset.
19. It is treated as an allowable expense.

20. Stamp Duties.

**TUTORIALS**

14. Adjusted profit = N\textdollar}100,000
   Education Tax = 2\% \text{ of } N\textdollar}100,000 = N\textdollar}2,000
   Total Tax liability = Income Tax + Education Tax
   i.e. N\textdollar}77,000 = Income Tax + N\textdollar}2,000
   \therefore Income Tax = N\textdollar}77,000 - N\textdollar}2,000 = N\textdollar}75,000
   Income Tax = 30\% \text{ of Total Profit}
   \therefore N\textdollar}75,000 = 0.3 \text{ x Total Profit}
   Total Profit = \frac{N\textdollar}75,000}{0.3} = N\textdollar}250,000
SOLUTIONS TO SECTION B

SOLUTION 1

OJB TAX CONSULTANTS
LAGOS, NIGERIA

The Financial Controller, 19 November 2009
Delta Nigeria Ltd.,
Nigeria.

Dear Sir,

RE: PROVISIONAL TAX – OF ₦1,500,000 AND BEST OF JUDGEMENT ASSESSMENT OF ₦2,150,000

We acknowledge with thanks, your letter dated 5 November 2009, appointing us as Tax Consultants to your Company.

Our initial job is to proffer advice on the above subject matter. We therefore confirm as follows:

(a) The Best of Judgement assessment of ₦2,150,000
The Tax Inspector resorts to assessing a Company on his Best of Judgment (BOJ), after time allowed for the submission of its Audited Accounts and the computations of its Capital Allowances claims together with its completed self assessment form, has expired. The tax office is within its right to raise a Best of Judgment Assessment. The company can however raise an objection to the Best of Judgment Assessment. The method for raising an objection validly are:

(i) It must be in writing
(ii) The notice of objection should state the precise grounds of objection
(iii) It must be made within 30 days from the date of service of the notice of BOJ assessment

(b) The Provisional Tax of ₦1,500,000
The Tax Authority can within the tax law levy a Provisional tax on the Company within three (3) months of the commencement of each Year of assessment, that is, not later than 31st March. A company is required to pay it in one lump sum, or in not more than four (4) installments, subject to approval by the Federal Inland Revenue Service. The amount must be equal to the tax paid by the
company in the immediate preceeding year, in this case, 2007 assessment year. The question that arises is what was the tax paid in 2007? Since the tax paid in 2007 was N1,200,000 we can make a case for N1,500,000 being excessive.

**Late filing of accounts**
There is a penalty for failing to file your accounts by 30 June. The accounts were filed on 31 August 2008. The new penalty for late filing is N25,000 for the first month of default and N5,000 per month as failure continues. The total penalty for the late filing of your accounts, is N25,000 + N5,000 = N30,000.

We thank you for your co-operation and look forward to a long and beneficial relationship with you.

Yours faithfully,
for: OJB Tax Consultants
O. LABANDE

**SOLUTION 2**

**KAMIKAZ PETROLEUM LIMITED**

**Calculation of Chargeable Profit and Assessable Tax – 2005 Assessment Year**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (₦)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal value of chargeable oil</td>
<td>136,181,500</td>
</tr>
<tr>
<td>Other income</td>
<td>4,823,630</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>141,005,130</td>
</tr>
<tr>
<td>Less: (see 10 deductions)</td>
<td></td>
</tr>
<tr>
<td>Royalty</td>
<td>20,427,225</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>5,592,500</td>
</tr>
<tr>
<td>Production expenses</td>
<td>2,943,150</td>
</tr>
<tr>
<td>Intangible drilling expenses</td>
<td>10,400,000</td>
</tr>
<tr>
<td>Education Tax</td>
<td>1,992,985</td>
</tr>
<tr>
<td><strong>Assessable profit</strong></td>
<td>(41,355,860)</td>
</tr>
<tr>
<td><strong>Deduct:</strong></td>
<td></td>
</tr>
<tr>
<td>Capital allowances</td>
<td>(27,236,300)</td>
</tr>
<tr>
<td>Chargeable profits</td>
<td>72,412,970</td>
</tr>
<tr>
<td><strong>Tax @ 85% of ₦72,412,970</strong></td>
<td>61,551,024.50</td>
</tr>
</tbody>
</table>

**WORKINGS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (₦)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Crude Oil produced</td>
<td>4,264,000</td>
</tr>
<tr>
<td>Exported: 5/8 x 4,264,000</td>
<td>2,665,000</td>
</tr>
<tr>
<td>Domestic 3/8 x 4,264,000</td>
<td>1,599,000</td>
</tr>
</tbody>
</table>
Value exported 2,665,000 x ₦38.50  ₦102,602,500
Domestic 1,599,000 x ₦21.00  ₦33,579,000
ₙ₉₃₆,₁₈₁,₅₀₀
Capital allowances 20% of ₦136,181,500  ₦27,236,300
Royalty 15% of fiscal value 15% x ₦136,181,500  ₦20,427,225

(b) Failure to deduct Withholding tax or having deducted, failure to remit to the Federal Inland Revenue Service under the Petroleum Profits Tax Act within 30 days from the date the amount was deducted or the time the duty to deduct arose, shall be guilty of an offence and liable on conviction to a fine of 200% of the withholding tax not withheld, or withheld but not remitted.

SOLUTION 3

OJO LANDER LIMITED

(a)(i) Determination of Basis Periods

<table>
<thead>
<tr>
<th>Year of Assessment</th>
<th>Basis Period</th>
<th>₦</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004 (Actual)</td>
<td>1/08/04 – 31/12/04</td>
<td></td>
</tr>
<tr>
<td>2005 (First 12 months)</td>
<td>1/08/04 – 31/7/05</td>
<td></td>
</tr>
<tr>
<td>2006 (PYB)</td>
<td>1/11/04 – 31/10/05</td>
<td></td>
</tr>
<tr>
<td>2007 (PYB)</td>
<td>1/11/05 – 31/10/06</td>
<td></td>
</tr>
<tr>
<td>2008 (PYB)</td>
<td>1/11/06 – 31/10/07</td>
<td></td>
</tr>
</tbody>
</table>

OJO LANDER LIMITED

(ii) Computation of Assessable Profits (2004-2006 Assessment Years)

<table>
<thead>
<tr>
<th>Year of Assessment</th>
<th>Basis Period</th>
<th>₦</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>01/08/04 – 31/12/04</td>
<td>₦300,000 + 2/12 x ₦450,000 375,000</td>
</tr>
<tr>
<td></td>
<td>i.e. ₦300,000 + 2/12 x ₦450,000 375,000</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>01/08/04 – 31/7/05</td>
<td>₦300,000 + 9/12 x ₦450,000 637,500</td>
</tr>
<tr>
<td></td>
<td>i.e. ₦300,000 + 9/12 x ₦450,000 637,500</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>Preceding year basis</td>
<td>01/11/04 – 31/10/05 450,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>450,000</td>
</tr>
</tbody>
</table>
5 December 2009
The Managing Director
% Adamu
Ijora, Iganmu,
Lagos.

Dear Sir,

TAX PLANNING AND CHOICE OF ACCOUNTING DATE

We acknowledge with thanks your letter appointing our firm as tax consultants to your company.

Please find attached, appendices A & B as part of our advice in respect of your choice between two accounting dates as different from that presently in use.

The choice of accounting date is important because it determines the interval between earning the profit and paying the tax on the profits. With respect to the tax due on the profit earned in 2002, on the basis of a 31 December accounting date, the last due date in personal taxation is 14 December 2003 (Interval of 11½ Months) for 2003 assessment year. By shifting the accounting date to 31 January, the tax due in respect of the bulk of the profits earned in 2002, will be due for payment by 14 December 2004 (i.e. interval of 23½ months), when commencement provisions are applied. The choice of accounting date also affects the degree of overlap between basis periods and consequently the amount of assessments that will be raised by the revenue office.

It should be noted that in taxation law and practice, profits or losses are considered earned or incurred equally day by day with no regard to seasonal fluctuations, thus whatever is the accounting date, the tax liability will be the same, in aggregate over the year.

It is advisable from the figure in the appendix, that the 31 January accounting date will be a more favourable election because it gives a lower figure of Adjusted Profits in aggregate terms, and also gives a longer interval to pay the tax arising.

Once again, we thank you for the opportunity of this service while our bill for professional services will be forwarded in due course.

Yours faithfully,
ABC Tax Consultants.
Appendix A: 31 December Accounting Date

<table>
<thead>
<tr>
<th>Period</th>
<th>Formula</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 months to 31/12/2001</td>
<td>$10,440 \times \frac{3}{12}$</td>
<td>$2,610</td>
</tr>
<tr>
<td>12 months to 31/12/2002</td>
<td>$10,440 \times \frac{9}{12} \times \frac{3}{12} + 16,200 \times \frac{3}{12}$</td>
<td>$11,880</td>
</tr>
<tr>
<td>12 months to 31/12/2003</td>
<td>$16,200 \times \frac{3}{12} \times \frac{3}{12}$</td>
<td>$15,450</td>
</tr>
<tr>
<td>12 months to 31/12/2004</td>
<td>$13,200 \times \frac{3}{12} \times \frac{3}{12}$</td>
<td>$14,700</td>
</tr>
<tr>
<td>12 months to 31/12/2005</td>
<td>$19,200 \times \frac{3}{12} \times \frac{3}{12}$</td>
<td>$20,400</td>
</tr>
</tbody>
</table>

Assessments

- **2001** 1st Year – Actual  $2,610
- **2002** 1st 12 months  $2,610 + $11,880 = $11,520
- **2003** Preceding year Y/E 31/12/2002  $11,880
- **2004** Preceding year Y/E 31/12/2003  $15,450
- **2005** Preceding year Y/E 31/12/2004  $14,700
- **2006** Preceding year Y/E 31/12/2005  $20,400

Total for all assessment years  $76,560

An election for actual is not considered because of rising trend of profit.

Appendix B: 31st January Account Date

<table>
<thead>
<tr>
<th>Period</th>
<th>Formula</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 months to 31/01/2002</td>
<td>$10,440 \times \frac{4}{12}$</td>
<td>$3,480</td>
</tr>
<tr>
<td>12 months to 31/01/2003</td>
<td>$10,440 \times \frac{8}{12} + 16,200 \times \frac{4}{12}$</td>
<td>$12,360</td>
</tr>
<tr>
<td>12 months to 31/01/2004</td>
<td>$16,200 \times \frac{8}{12} + 13,200 \times \frac{4}{12}$</td>
<td>$15,200</td>
</tr>
<tr>
<td>12 months to 31/12/2005</td>
<td>$13,200 \times \frac{8}{12} \times \frac{3}{12} \times 24,000$</td>
<td>$20,800</td>
</tr>
<tr>
<td>12 months to 31/12/2006</td>
<td>$9,200 \times \frac{8}{12} \times \frac{3}{12} \times 24,000$</td>
<td>$24,600</td>
</tr>
</tbody>
</table>

Assessments

- **2001** 1st Year- Actual  $\frac{3}{4} \times 3,480$  $2,610$
- **2002** 1st 12month  $3,480 \times \frac{8}{12}$  $11,720$
- **2003** As for year 2  $11,720$
- **2004** Preceding Year 31/01/2003  $12,360$
- **2005** Preceding Year 31/01/2004  $15,200$
- **2006** Preceding Year 31/01/2005  $68,810$

Election for actual is not considered in view of rising trend of profits. The assessments on the basis of the two accounting dates are then considered, to determine which of them will be more favourable to the tax payer. From the above results, his new accounting date should be 31 January.
This gives a lower total Assessable profits of ₦68,810 as against ₦76,560, if the 31 December accounting date was chosen. The 31 January accounting date also gives a longer interval to pay the tax arising.

**SOLUTION 4**

(a) **Roll-over Relief**

Where a consideration received on disposal of an old asset used only for the purposes of a trade is applied in acquiring a new asset in replacement, to be used for the purposes of the trade, and both the old and new assets are within the same class of assets as listed in the Act, the person carrying on the trade shall, on making a claim with respect to the consideration which has been so applied, be treated for Capital Gains Tax purposes.

(i) as if the consideration for the disposal of the old asset were (if otherwise of a greater amount or value of such amount as would secure that on the disposal neither a loss nor a gain accrues to him.

(ii) as if the value of the consideration for the acquisition of the new asset were reduced by the excess of the value of the actual consideration for the disposal of the old asset over the amount of the consideration which he is treated as receiving as per above.

(b) **Artificial Transactions**

Transactions made between persons one of whom either has control over the other or is related to the other or between persons both of whom are controlled by some other persons, or if the transaction has not been entered into on the terms which fairly have been expected of independent persons engaged in the same or similar activities, dealing with one another at arms length.

(c) A company is connected with another if:

(i) the same person has control of both, or a person has control of one and a person connected with him or her have control of the other.

(ii) A group of two or more persons has control of each company and the group either consists of the same persons or could be regarded as consisting of the same persons by treating (in one or more cases) a
member of either group as replaced by a person with whom he is connected.

(iii) A company is connected with another person if that person has control of it or if that person and persons connected with him together have control of it.

(iv) Any two or more persons acting together to secure or exercise control of a company, shall be treated in relation to that company as connected with one another and with any person acting on the directions of any of them to secure or exercise control of the company.

BIA NIGERIA LIMITED
COMPUTATIONS OF CAPITAL GAINS TAX PAYABLE

<table>
<thead>
<tr>
<th></th>
<th>₦</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales proceeds 1 July 2007</td>
<td>5,800,000</td>
</tr>
<tr>
<td>Less: Cost of acquisition</td>
<td>(2,588,000)</td>
</tr>
<tr>
<td>Capital Gain</td>
<td>3,212,000</td>
</tr>
<tr>
<td>Less: Roll over relief</td>
<td></td>
</tr>
<tr>
<td>Amount re-invested</td>
<td>(5,200,000)</td>
</tr>
<tr>
<td>Cost of old building</td>
<td>2,588,000</td>
</tr>
<tr>
<td>Rollover Gain</td>
<td>(2,612,000)</td>
</tr>
<tr>
<td>Capital Gains Tax thereon @ 10%</td>
<td>600,000</td>
</tr>
</tbody>
</table>

Carrying cost of new asset:

<table>
<thead>
<tr>
<th></th>
<th>₦</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of new asset</td>
<td>5,200,000</td>
</tr>
<tr>
<td>Less: Gain rolled over</td>
<td>(600,000)</td>
</tr>
<tr>
<td>Cost c/f (Carrying cost)</td>
<td>4,600,000</td>
</tr>
</tbody>
</table>

30 June 2008 Disposal

<table>
<thead>
<tr>
<th></th>
<th>₦</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 June 2008 Disposal</td>
<td>7,500,000</td>
</tr>
<tr>
<td>Less: Carrying cost</td>
<td>(4,600,000)</td>
</tr>
<tr>
<td>Capital Gain</td>
<td>2,900,000</td>
</tr>
<tr>
<td>Capital Gains Tax thereon @ 10%</td>
<td>290,000</td>
</tr>
</tbody>
</table>

SOLUTION 5

(a)(i) There shall be a Technical Committee of the Federal Inland Revenue Service Board which shall consist of:
The Executive Chairman of the Service as Chairman
All the Directors and Heads of Department of the service
The Legal Adviser of the Service and
The Secretary to the Board

(ii) The Technical Committee shall:
- consider tax matters that require professional and technical expertise and make recommendations to the Board;
- advise the Board on any aspect of the functions and powers of the Service under this Act; and
- attend to such other matters as may from time to time be referred to it by the Board.

(iii) Non-Life Insurance Companies
The following Reserves are allowable deductions:

- For Expired Risks – 45% of the total premium for General Insurance other than Marine 25% of its total premium for Marine Cargo Insurance.

- For other Reserves, Claims and Outgoings – 25% of the total premium so that after allowance as stipulated by the Act as may be restricted has been allowed for, in any year of assessment not less than an amount equal to 15% of the total profit for tax purpose.

Life Insurance Companies

- The following deductions from its Investment Incomes and other Incomes shall apply:

  - An amount representing the sum of General Reserve and Fund equal to the Net Liabilities on policies in force at the time of an Actuarial Valuation.

  - An amount of 1% of Gross Premium or 10% of Profits (whichever is greater) to a Special Reserve Fund and Accommodation until it becomes the amount of the statutory minimum paid-up-capital.

  - All normal allowable business outgoings except that after allowing for all the outgoings and allowances under the Act as may be restricted under the Act for any year of assessment, not less than an amount equal to 20% of the gross incomes shall be available as Total Profit of the company for tax purposes.
Re-Insurance Companies

- An amount not more than 5% of the Gross Profits of the re-insurer for the year, where the General Reserve Fund is less than the initial statutory minimum Authorized Share Capital.

- An amount not more than 25% of the Gross Profit of the insurer for the year where the Fund is equal to or exceed initial statutory minimum Authorized Share Capital.

(b) EQUITY LTD
COMPUTATION OF CHARGEABLE PROFIT
FOR 2007 ASSESSMENT YEAR

N(000) N(000)

Nigerian income

\( \frac{(N\,3,650,000 - N\,550,000)}{N\,3,650,000} \times N\,7,260,000 \) 6,166,027

Less:
Claims paid 345,000
Reserve for outstanding claims 520,000
Surrenders 32,000
Bonuses 45,000
Commission(N\,576,000 - N\,176,000) 400,000
Expenses (N\,100,000,000 - N\,15,000,000) 85,000
Life fund at end (31/12/05) 4,500,000

(5,927,000)

Profit for the year 239,027

SOLUTION 6

(a) The values of taxable goods and services shall be determined at two levels: Local and Imported.

(a) Local
i. If the supply is for money consideration, its value shall be deemed to be an amount which with the addition of the tax chargeable, is equal to the consideration.
ii. If the supply is for a consideration not consisting of money, the value of the supply shall be deemed to be its market value.

iii. Where the supply of a taxable good or service is not the only matter to which a consideration in money relates, the supply shall be deemed to be such part of the consideration as is properly attributable to it.

(b) **Imported**

i. The value of imported taxable goods for this purpose shall be the amount which is equal to the price of the goods so imported and shall include:

- all taxes, duties and other charges levied either outside or by reason of importation into Nigeria, other than the tax imposed.

- all cost by way of commission, parking, transport and insurance up to the port or place of importation.

**Note:**

The open market value of supply of taxable goods or services shall be taken to be the amount that would fall to be taken as its value, if the supply were for such consideration in money as could be payable by a person in a transaction at Arms Length.

(b) The issue raised by Mr. Emeka Gladstone is one that touches on tax planning. It is not exactly trying to evade tax.

He can achieve his aim of not paying VAT by engaging in the business of Goods and Services exempted from VAT.

The goods include:

1. Medical and pharmaceutical products.
2. Basic food items.
5. Tractors, ploughs, agricultural equipment and implements purchased for agricultural purposes.

6. Fertilizer, locally produced agricultural and veterinary medicine, farming machinery and farming transportation equipment.


Services exempted from Value Added Tax (VAT) are:

1. Medical services.
2. Services provided by Community Banks and Mortgage Institutions.
3. Plays and performances conducted by educational institutions as part of learning.
4. Exported services.
5. Religious services.

However, if the proposed industry will be based in Lagos State, he may not escape payment of Sales Tax and the latest import charge.