



ICAN STUDENTS' JOURNAL

OCTOBER/DECEMBER, 2017

VOL.21, No.4



Cost Of Capital And Project

- Specific Discount Rates

- Three Students Win ICAN Essay Competition Scholarship
- ICAN Holds 47th Annual Conference In Grand Style



STUDENTS PYE NIGERIA LTD.

(Accountancy & Financial Tutors)

PYE HOUSE, 14, Oweh Street, (Near WAEC Office) Jibowu, Yaba
08124339835, 09095631513, 08035029239
studentspye@yahoo.com
www.studentspye.com.ng, www.studentspye.com.ng

The Leading Financial Tutors in Nigeria

**Over 30 Years of Seamless Experience
(1986 - Till Date)**

Our Edge:

- Air conditioned lecture rooms
- Experienced and Committed Lecturers
- Producer of ICAN Prize Winners
- Secured Overnight Reading Facilities
- Standby Power Generating Set
- Secured Parking Space
- Standard Books/lecture Materials
- Conducive & Affordable Female Hostel
- Flexible Payment

Prepares students for the following exams:

The Institute of Chartered Accountants of Nigeria (ICAN) PROFESSIONAL

ATSWA

- * Basic Accounting processes and Systems
- * Economics
- * Business Law
- * Communication Skills

ATS 1

- * Principles and Practices of Financial Accounting
- * Public Sector Accounting
- * Quantitative Analysis
- * Information Technology

ATS 2

- * Preparation and Audit of Financial Statements
- * Cost Accounting and Budgeting
- * Preparing Tax Computation and Returns
- * Management

ATS 3

Association of Chartered Certified Accountants (ACCA)

- * SKILL LEVEL KNOWLEDGE * PROF. ESSENTIALS

Chartered Institute of Management Accountants CIMA Global (UK)

- * Certificate Level * Management (Gateway) Level
- * Operational Level * Strategic (Final) Level

KNOWLEDGE

- * Quantitative Techniques
- * Financial Accounting
- * Management Information
- * Business Law
- * Business Finance

SKILLS

- * Financial Reporting
- * Audit
- * Taxation
- * Performance Management
- * Public Sector Accounting
- * Management Governance & Ethics

FINAL

- * Corporate Reporting
- * Advance Audit & Assurance
- * Strategic Financial Management
- * Advance Tax
- * Case Study

SOME OF OUR PRIZE WINNERS



Obayemi Temitope Esther

PRIZES WON: 45TH AATWA INDUCTION

- Merit Prize: 1st Position
- Subject Prize:
 - * Best in Principles of Auditing
 - * Best in Cost Accounting
- Special Prize:
 - * Best Qualifying Female Candidate in Sept. 2016 Diet
 - * Best Qualifying Female Candidate for the year 2016



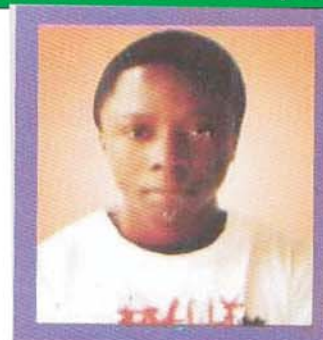
Omolola Tobi

1st Overall ATS II March 2015 Diet
and Winner in PPFA, OSA & QA
2nd Overall Best in ATS III
Winner in Cost Accounting & Management



Tijani Quadiri

2nd Best Overall in ATS II March 2015 Diet



Longe Oluwafemi O.

1st Overall in ATS III Sept. 2015 Diet Exam
& Best Male Qualifying Student
Winner in Tax

Full Time: Mon - Fri 8:30am - 5:30pm
Part Time: Sat & Sun 8.00am - 8:00pm

UNIVERSITY DEGREE WITHOUT JAMB
Get Your Bsc Degree in Accounting, Bus Adm & other related courses through us from NUC accredited University

Tutorial lecture also available to National Open University Students in Accounting, Economics, Tourism Entrepreneurship e.t.c

... Our Symbol of Commitment to Your Welfare



IN THIS ISSUE

NEWS

4

- ICAN President Tasks SWAN On Exam Malpractices, Sexual Harassment
- Three Students Win ICAN Essay Competition Scholarship
- ICAN Inducts 1,519 New Members
- ICAN Holds 47th Annual Conference In Grand Style

COVER

8

- Cost Of Capital And Project - Specific Discount Rates

THE EXAMINER

13

EDITORIAL BOARD

Chairman

Etofolam F. OSUJI (Dr.), mni, FCA

Deputy Chairmen

Ahmed Modu KUMSHE (Dr.), FCA

Frederick OGUNJUBOUN, FCA

Members

Okechukwu ADAWAISI, ACA

Mojisola ADEWOYIN (Mrs.), ACA

Aisha Uwani ALIYU (Mrs.), ACA

Asukwo Joseph ITA, ACA

Emmanuel NWOKEDIUKO, ACA

Augustine OJEH, ACA

Efe OVRAWAH (Ms.), ACA

Oyefemi Oyelami OYETUNJI, FCA

Mariam Abosede TIAMIYU (Mrs.), ACA

Bichi Sule UMAR, FCA

Editorial Staff

EDITOR

Bunmi Owolabi

DEPUTY EDITOR

Dayo Kowe

ASSISTANT EDITOR

Muyiwa Dare

ADVERTS

Jacob Nkem

REPORTER

Ruth Idumuekwu

ICAN Students' Journal

(ISSN: 1119-9636) is published quarterly by the Institute of Chartered Accountants of Nigeria. Plot 16, Professional Centre Layout, Idowu Taylor Street, Victoria Island, P.O. Box 1580, Lagos. Tel: 09053847510, 09053847511, E-mail: info.ican@ican.org.ng corporateaffairs@ican.org.ng; ICAN Website: www.icanig.org

The views expressed by correspondents or contributors in this journal are not necessarily those of the Institute. The Institute reserves the right to refuse, cancel, amend or suspend an advertisement or insertion and no liability can be accepted for loss arising from non-publication or late publication of any advertisement or insertion. All articles are subject to editing. By making submissions to ICAN Students' Journal, the contributors undertake that the contributions are original and have not been accepted or submitted elsewhere for publication.

Correspondence should be addressed to:
The Corporate Communication and Marketing Directorate, ICAN
P.O. Box 1580, Lagos.

Editor's Note

The relationship between accountability, good governance and nation building was the main thrust of the recently concluded 47th Annual Accountants' Conference of the Institute of Chartered Accountants of Nigeria (ICAN) held at the International Conference Centre and Sheraton Hotels, Abuja. The theme of the conference is **"Nigeria First: Accountancy, Nation Building and the Future"**

The idea and opinion of all the speakers and discussants at the conference was a pointer to the fact that any nation desirous of development should not hold accountability with levity.

The Accountant-General of the Federation, Alhaji Ahmed Idris who represented President Muhammadu Buhari at the conference expressed satisfaction on ICAN's support for federal government's anti-corruption campaign, through its establishment of Whistle Blower Support Fund and Accountants' Disciplinary Tribunal. The details of the conference proceedings are reported in this edition.

You will also read about one of the highlights of the conference which was presentation of awards and scholarships to three University students who performed well in the essay competition organised by the Institute.

In our cover article, **"Cost of Capital and Project-Specific Discount Rate"**, the author, Dr. Ben Ukaegbu explained how to apply Capital Asset Pricing Model (CAPM) while calculating a project-specific discount rate in an investment appraisal decision. In the part 1 of the article published in the last edition of this journal, CAPM and its components were introduced and how the model could be used to estimate cost of equity. It is the continuation of the article that is reported in this edition.

For the benefit of our students who desire tuition centres for lectures before writing our examinations, the full list of ICAN-accredited tuition centres is published in this edition.

Our regular column – The Examiner – is also featured to serve as guide to students on how to tackle questions and pass their examinations. Your comments and contributions are welcome. Write to: corporateaffairs@ican.org.ng or editor@ican.org.ng

ICAN President Tasks SWAN On Exam Malpractices, Sexual Harassment

Members of the Society of Women Accountants in Nigeria (SWAN) have been advised to develop programmes to enlighten female students and women alike, against examination malpractices and sexual harassment in the society.

The President of the Institute, Ismaila Zakari made the appeal while playing host to the Executive members of SWAN who paid a courtesy visit to his office in Lagos on Wednesday, October 4, 2017.

He condemned the situation where examination malpractice was gaining ground even from primary school till tertiary level, adding that some parents were also conniving with school authorities to perpetrate the evil.

"One thing I want SWAN to pursue right now is how to tackle examination malpractices among students. The rate is becoming alarming to the extent that some parents are even conniving with school authorities to encourage it. I also want SWAN to tackle sexual harassment of women in our society. SWAN can fashion out programmes that will work against all these social evils in our society."

"I therefore advise that SWAN should work against examination malpractice going on in WAEC, NECO and JAMB examinations. Unethical practices are the bane of success in this country. We need to condemn and tackle it," he expressed.

Speaking further, Zakari advised the SWAN to think of how to improve the skills of its members to make them employable or become good entrepreneurs.

Earlier, the SWAN Chairperson, Mrs Folake Onabolu had told Zakari that her Exco members were in his office to formally congratulate him on his election as the 53rd ICAN President.

While thanking him for his support to SWAN over the years, Onabolu promised SWAN's continued support for ICAN's course, adding that members of SWAN were ready to serve the Institute in any capacity.



ICAN President, Ismaila Zakari with some newly inducted members from Kano State

Three Students Win ICAN Essay Competition Scholarship

As part of its strategic efforts to continue to promote accounting education among young Nigerian students, the Institute organised an essay

competition for students in ICAN-accredited tertiary institutions in Nigeria.

The topic of the essay competition is **"Accuracy and Integrity: The Unchanging ICAN motto in a Rapidly Changing World"**. A total of 148 entries were received and moderated by KPMG Professional Services in conjunction with the Institute.

Out of the 148 entries received, the

best three were identified.

In order to honour and reward the three winners, they were invited to the just concluded 47th Annual Accountants' conference in Abuja where they were unveiled at the conference gala nite and presented with their awards of plaque, laptop and scholarship to write ICAN professional examinations. The three winners are:

1. Nwabufolu Juliet Amaka - 1st Prize
2. Abdulsalam Ibrahim Korede - 2nd Prize
3. Amuda Mujeeb Olaolorun - 3rd Prize



ICAN essay competition winners

ICAN Inducts 1,519 New Members

The newly inducted members of the Institute have been charged to improve on their professional skills through continuous training and learning in order to remain relevant in the ever changing and dynamic economy.

This advice was given by the President of the Institute, Ismaila M. Zakari at the 60th

induction ceremony for new members in Lagos recently.

In his address at the occasion, the President advised the 1,519 new members to take advantage of the Institute's provisions for further learning, which is not limited to the Mandatory Continuing Professional Education (MCPE) programmes, but also

programmes of the specialist faculties created to provide technical support for members in the discharge of their duties.

"Due to the dynamic nature of the market, skills acquired today risk losing their relevance far more quickly than in the past. For you to continue to remain relevant in the scheme of things, it is therefore imperative, in my view, that you actively participate in the MCPE programmes and also join any of these Faculties you consider most relevant to your needs," he said.

He noted that the Institute's code of ethical conduct though has local application they nevertheless conform to internationally accepted standards.

He said, 'the Institute would not condone any professional misdemeanour on the part of any Chartered Accountant irrespective of how highly or lowly placed in the Profession or Society. Since we do not have any sacred cow, the machinery of the Institute's Disciplinary processes would be brought to bear on all such deviant cases. I pray that the good Lord will continue to direct your actions right so that you do not run foul of the Institute's Rules'.

On her part, the Guest Speaker, Dr. (Mrs.) Catherine Okpareke, a Past President of the Institute said the stage was set for the country to take its destiny in its hands in view of the economic challenges in recent times, noting that there should be a radical movement in developing the indigenous African economic strategy.

She urged the new members to further improve themselves particularly in the area of competence and skill in order to contribute meaningfully in all sectors of the economy.



An inductee with special need receiving his certificate scroll from ICAN President, Ismaila Zakari



Cross-Section of Inductees

ICAN Holds 47th Annual Conference In Grand Style

The 47th Annual Accountants Conference has come and gone but its effects could not be forgotten soon.

The conference, held between October 16 and October 20, 2017 at the International Conference Centre and Abuja Sheraton Hotels and Towers, Abuja had “Nigeria First: Accountancy, Nation Building and the Future” as its theme.

President Buhari who was represented at the Conference in Abuja by the Accountant-General of the Federation, Alhaji Ahmed Idris, declared the conference open.

In declaring the conference open, Buhari commended the efforts of ICAN in supporting the anti-corruption campaign of his administration through the establishment of Whistle-blower Support Fund and Accountants’ Disciplinary Tribunal.

He also observed that accounting and auditing play key roles in public finance management through the provision of reliable financial statements of entities in both public and private sectors.

He therefore advised accountants to put the country first in their professional

endeavour to tackle tendencies towards corruption. He added that to put Nigeria first, government must also entrench a system that would motivate and encourage youths to focus on innovation, agriculture and technology.

“All Nigerians must work together to build a Nigeria that would witness sustainable economic growth. My administration remains committed to creating the enabling environment and remains resolute in its desire to deliver good governance to Nigerians”.

The lead paper, “*The Future of the Accountancy Profession*” presented by the Chief Executive Officer of International Federation of Accountants (IFAC), Mr. Fayezul Choudhury acknowledged that Nigeria has a place in the global accountancy profession and commended the Institute’s role in the development of the profession in the region and in the continent. While advising ICAN to leverage on her position in the continent to become a strong voice in the advocacy for corrupt-free, transparent and accountable governments on the continent, he urged the Institute to play a greater role in strengthening regulations.

He also encouraged members of the Institute to be more active in governance and act as

an important civil society advocate to ensure transparency and accountability.

According to him, the future of the profession should be built on its “foundation stones” which he identified as standards, quality capacity development and the protection of the public interest.

He explained that though the future looks bleak at the moment as a result of the worsening turbulence which has impacted the world economy negatively, he expressed optimism that accountants will play a major role in quickening the economic recovery. He said the way accountants respond to the rapid changes in technology will go a long way in determining the future of the profession.

Mr. Choudhury maintained that for accountants to be relevant in the future, they must not only be grounded in ethical issues but must also accept and adapt speedily to changes in processes and workflow occasioned by rapid changes in technology. He further stated that the profession must align with the aspirations of young people and consciously attract their best and brightest, adding that the future of the accountancy profession lies in the vibrancy of the youths.

Other papers presented at the conference include “*ICAN Accountability Index: Reforming Public Finance Management for the Future*”; “*Nigeria: The Future of Work and Youth Unemployment*”; “*Cyber Security: What Chartered Accountants Need to Know*”; “*Cancer and Early Detection and Wearable Technology for Stress Management*”; “*Young Professionals: Emerging Leaders of Change and Nation Building*”; “*The Future of Corporate Reporting*”; and “*Islamic Finance: Global Trends and Potentials for Chartered Accountants*”.

In his welcome address, the ICAN President, Isma’ila Muhammadu Zakari, FCA, declared that one unique feature of the conference is the presentation and launching of the ICAN Accountability



Accountant General of the Federation, Ahmed Idris cutting the tape to declare the conference open

Index which is the first of its kind mechanism for assessing public finance management and public governance practices of Nigerian public sector institutions including the federal, state and local governments.

He explained that the theme of the conference connotes Chartered Accountants should be ready to lead the way, combining their talent with strategy, to bring together likeminded stakeholders to brainstorm and strive to formulate practicable solutions to the nation's problems.

"In our continuing effort to sharpen our professional ethics of our and contribute to nation building, I am pleased to inform this audience that ICAN has recently adopted the revised global ethical code on Non-Compliance with Laws and Regulations (NOCLAR) launched by the International Ethics Standards Board for Accountants (IESBA)"

"This code is a whistle blowing initiative which mandates professional accountants and auditors to expose any act of non-compliance to laws and regulations by their employers and clients to relevant authorities. The code guides professional accountants and auditors on actions to be taken in the public interest when they become aware of a potential illegal act committed by their clients or employers," he declared.

Declaring the conference close, the Lagos State Commissioner for Finance, Mr. Akinyemi Ashade, FCA, expressed appreciation to those who took time out to attend the conference. He also commended the Institute for putting the conference in place, advising that those in authority should make use of suggestions and advices given by participants.

The conference was attended by a total number of 4,225 delegates including resource persons and invited guests, compared to last year's figure of 3,702. A total of 11 countries were represented at the conference including Benin Republic, Cameroon, Canada, Gambia,



IFAC Chief Executive Officer, Mr. Fayeul Choudhury delivering his paper at the conference



(L-R) Gombe State Governor, Ibrahim Dankwabo; ICAN President, Ismaila Zakari and Jaiz Bank Chairman, Alhaji Umaru Abdul Mutallab

Ghana, Niger Republic, Sierra Leone, Togo, United Kingdom, United States of America and Nigeria, the host country.

Apart from paper presentations, workshops and plenary sessions, there was a gala nite on Thursday during which a highlife musician, Mr. Sanni Danja entertained the participants. There was also an open raffle draw in which a member of the Institute, Mr. Adetoki Adebisi Adegbuyi (MB 40876) won brand new Hyundai car. Other prizes like LCD television, gas cookers, laptops, fridges, were also won during the Gala.

Aside this, the Institute also organised a National Essay Competition for undergraduates of tertiary institutions in the country. Awards and recognitions were given to the first three winners who attended the conference. The best three winners are: Nwabuo Juliet Amaka (1st), Abdulsalam Ibrahim Korede (2nd), Amuda Mujeeb Olaolorun (3rd). There were also sporting activities, excursions and exhibitions. Another programme of the conference was District Societies' parade.

Cost Of Capital And Project

- Specific Discount Rates (Continued from the last edition)

By Ben Ukaegbu

Introduction

This article, the second in a series of two, looks at how to apply CAPM when calculating a project-specific discount rate to in an investment appraisal decision. The first article in the series introduced CAPM and its components, showed how the model could be used to estimate cost of equity, and also introduced the asset beta formula.

CAPM, as we are by now familiar, is a method of calculating the return required on an investment, based on an assessment of its risk. When the business risk of an investment project differs from the business risk of the investing company, the return required on the investment project is different from the average return required on the investing company's existing business operations. For example, if Dangote plc, a conglomerate, intends to invest in the Flour mill or Brewing Sector, it is inappropriate to use Dangote's weighted average cost of capital (WACC) to appraise the new project. In order to estimate the applicable cost of capital relevant to the 'new' sector, it is necessary to determine the risk of the new investment as this would reflect the business risk of the investment project.

Proxy Companies and Proxy Betas

The first step in using CAPM to calculate a project-specific discount rate is to obtain information on companies with business operations similar to those of the proposed investment project. For example, if a flour mill company was looking at an investment in the brewing sector, it would need to obtain information on some brewing companies; these companies are referred to as 'proxy companies'. Since their equity betas represent the business risk of the proxy companies' business operations, they are referred to as 'proxy equity betas' or proxy betas'.

In the context of CAPM, these proxy betas can be used to represent the business risk of the proposed investment project. For example, the proxy betas from several brewing companies ought to represent the business risk of an investment in brewing companies.

Business and Financial Risks

If one looks at the equity betas of several brewing companies, it is very unlikely that they would all have the same value. The reason for this is that equity betas reflect not only the business risk of a company's operations, but also the financial risk of a company. The **systematic risk** represented by equity betas, therefore, includes both business risk and financial risk.

In the first article in this series, we introduced the idea of the asset beta, which is linked to the equity beta by the asset beta formula. This formula is as follows:

$$\beta_a = \left[\frac{V_e}{(V_e + V_d(1-T))} \beta_e \right] + \left[\frac{V_d(1-T)}{(V_e + V_d(1-T))} \beta_d \right]$$

β_a = asset beta

β_e = equity beta

β_d = debt beta

V_e = market value of company's shares

V_d = market value of company's debt

$((V_e + V_d(1 - T)))$ = after tax market value of company

T = company profit tax rate

In order to calculate a project-specific discount rate, it is therefore necessary to remove the effect of the financial risk or gearing from each of the proxy equity betas to find their asset betas. These betas reflect business risk alone and if a company has no gearing, and hence no financial risk, its equity beta and its asset beta are identical.

Beta Geared and Ungeared

The asset beta formula is somewhat daunting under examination conditions hence it is a common practice to make a simplifying assumption that the debt beta (β_d) is zero. This is a relatively minor adjustment and simplification as it is assumed that the debt beta is usually very small in comparison to the equity beta (β_e). In addition, the market value of a company's debt (V_d) is usually very small in comparison to the market value of its equity (V_e), and the tax efficiency of debt reduces the weighting of the debt beta even further.

Our assumption that the debt beta is zero implies that the asset beta formula becomes:

$$\beta_a = \left[\frac{V_e}{(V_e + V_d(1-T))} \beta_e \right]$$

β_a = asset beta

β_e = equity beta

V_e = market value of company's shares

V_d = market value of company's debt

$((V_e + V_d(1 - T))$ = after tax market value of company

T = company profit tax rate

If the equity beta, the gearing, and the tax rate of the proxy company are known, this amended asset beta formula can be used to calculate the proxy company's asset beta. Since this calculation removes the effect of the financial risk or gearing of the proxy company from the proxy beta, it is usually called 'ungearing the equity beta'. Similarly, the amended asset beta formula is called the 'ungearing formula'.

Averaging Asset Betas

After the equity betas of several proxy companies have been ungeared, it is usually found that the resulting asset betas have slightly different values. This outcome is not surprising since it is very unlikely that two proxy companies will have exactly the same business risk from a systematic risk point of view. Even two brewing companies will not be making the same lager, beer or malt or selling the same product into the same market.

In order to remove the effect of the slight differences in business operations and business risk that are reflected in the asset betas, these betas are averaged. A simple arithmetic average is calculated by adding up the asset betas and then dividing by the number of asset betas being averaged.

Re-gearing the Asset-Beta

The average asset beta represents the business risk of the proposed investment project. Before a project-specific discount rate can be calculated, however, the financial risk of the investing company needs to be taken into consideration. In other words, having ungeared the proxy equity betas when calculating the asset betas, it is now necessary to 'regear' the average proxy asset beta to reflect the gearing and the financial risk of the investing company.

One way to approach regearing is to use the ungearing formula, inserting the gearing and the tax rate of the investing company,

and the average asset beta, and leaving the equity beta as the only unknown variable. Another approach is to rearrange the ungearing formula in order to represent the equity beta in terms of the asset beta, as follows:

$$\begin{aligned} \beta_e &= \beta_a((V_e + V_d(1 - T))/V_e) \\ &= \beta_a((1 + (1 - T)V_d/V_e)) \end{aligned}$$

β_a = asset beta

β_e = equity beta

V_e = market value of company's shares

V_d = market value of company's debt

$((V_e + V_d(1 - T))$ = after tax market value of company

T = company profit tax rate

The gearing and the tax rate of the investing company, and the average proxy asset beta, are inserted into the right-hand side of the regearing formula in order to calculate the regeared equity beta.

Calculating the Project-specific Discount Rates

CAPM can now be used to calculate a project-specific cost of equity and once the values have been obtained for the risk-free rate of return, and either the equity risk premium or the return on the market, these can then be inserted into the CAPM formula along with the re-gear equity beta:

$$E(r_i) = R_f + \beta_i(E(r_m) - R_f)$$

$E(r_i)$ = return required on financial asset i

R_f = risk-free rate of return

β_i = beta value for financial asset i

$E(r_m)$ = average return on the capital market

The project-specific cost of equity can be used as the project-specific discount rate or project-specific cost of capital.

Summary of Steps in the Calculations

The steps in calculating a project-specific discount rate using the CAPM can now be summarised, as follows: Identify suitable proxy companies.



equity risk premium is 5% per year. Assume also that all the companies pay tax at a rate of 25% per year. Calculate a project-specific discount rate for the proposed investment.

Suggestion Solution

Ungearing the proxy equity betas: Asset beta for Abu plc

$$= 0.80 \times 75 / (75 + 25(1 - 0.25)) = 0.64$$

$$\text{Asset beta for Obi plc} = 0.90 \times 60 / (60 + 40(1 - 0.25)) = 0.60$$

$$\text{Asset beta for Tokuns} = 1.20 \times 50 / (50 + 50(1 - 0.25)) = 0.688$$

Averaging the asset betas:

$$(0.64 + 0.60 + 0.688) / 3 = 1.928 / 3 = 0.643$$

- (i) Determine the equity betas of the proxy companies, their gearings and tax rates.
- (ii) Ungear the proxy equity betas to obtain asset betas.
- (iii) Calculate an average asset beta.
- (iv) Regear the asset beta.
- (v) Use the CAPM to calculate a project-specific cost of equity.

The following specimen question is used to demonstrate the understanding of the foregoing write-up.

Demonstration Question

Akalik plc, a diversified company is planning to invest in a new project that is significantly different from its existing business operations. The company is financed 20% by debt and 80% by equity. The finance director has identified three companies with business operations similar to the proposed investment, and details of these companies are as follows:

- (i) Abu plc has an equity beta of 0.80 and is financed 25% by debt and 75% by equity.
- (ii) Obi plc has an equity beta of 0.90 and is financed 40% by debt and 60% by equity.
- (iii) Tokuns plc has an equity beta of 1.20 and is financed 50% by debt and 50% by equity.

Assume that the risk-free rate of return is 3% per year, and that the

Regearing the average asset beta: $0.643 = \beta_e \times 80 / (80 + 20(1 - 0.25)) = \beta_e \times 0.842$. Hence $\beta_e = 0.643 / 0.842 = 0.764$

If the regearing equation were used:

$$\beta_e = 0.643 \times (1 + (1 - 0.25)20/80) = 0.764$$

Calculating the project-specific discount rate:

$$E(r_i) = R_f + \beta_i(E(r_m) - R_f) = 3 + (0.764 \times 5) = 3 + 3.82 = 6.82\%$$

Further Readings

Brealey, Richard; Myers, Stewart and Allen, Franklin
Principles of Corporate Finance, 9th Ed. McGraw-Hall International

Lumby, S. and Jones, Chris
Corporate Finance: Theory & Practice, 8th ed. Cengage, 2011

Watson, Denzil and Head, Antony
Corporate Finance: Principles & Practice, 5th Ed. FT Prentice Hall, 2010

Ben Ukaegbu,
is Deputy Registrar, Technical Services.

The opinions expressed are purely his based on academic understanding of the subject matter and in no way represent that of Institute of Chartered Accountants of Nigeria.



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

(Established by Act of Parliament No. 15 Of 1965)

List Of Recognised Tuition Centres

- | | |
|---|--|
| <p>1 Able God Professional Tutors
47, Ikotun/Egan Road, Market B/stop, Igando, Lagos.</p> <p>2 Accountancy Tutors Nigeria Limited
1-9, Ilorin/Katsina Road, By Independence Way, Marafa Estate, Kaduna State.</p> <p>3 Accountancy Training Centre , Makurdi
Uni-Agric Road, Opposite First Gate, Makurdi, Benue State.</p> <p>4 Accuracy Tutors, Aba
No 76, St Michael's Road, Aba, Abia State.</p> <p>5 Alphamarshall Professional Limited
72, Mbano Street, Phase 3, Kubua, Abuja.</p> <p>6 Atlas Professionals Limited, Ota, Ogun
BELLS University of Technology, Ota Ogun State.</p> <p>7 Best Option Tuition Centre, Makurdi
9, kashim Ibrahim Road, Makurdi, Benue State.</p> <p>8 Bratim Training Centre Limited
Ground Floor, National Library Building, Adjacent Reiz Continental Hotel, Central Area, Abuja.</p> <p>9 Career Intelligent Professionals
New Capital School, 17/30 Kwame Nkrumah Crescent, Asokoro Abuja.</p> <p>10 Crest Professional Tutors
Plot 238/240, Apapa Oshodi Expressway, Odo-Olowu Bus stop, Ijeshatedo, Lagos.</p> <p>11 Deo-Gratia Professional Tutors, Oshogbo
25, Oyedokun Street, Ago-Wande, Oke -Onitea Road, Oshogbo, Osun State.</p> <p>12 Edge Educational Services & Logistics
47, Athur Eze Avenue (Emmaus House), Awka, Anambra State.</p> <p>13 Edo Wyse School of Professional
75/98, Arthur Eze Avenue, by Unizik Temp-Site Junction, Awka, Anambra state.</p> <p>14 Excel Professional Centre
11, Queen Elizabeth Road, Mokola, Ibadan, Oyo State.</p> | <p>15 Excellent Associates Tutors
African Church Model College, College Road, Ifako-Ijaiye, Ogba Lagos.</p> <p>16 Excellent Tutors, Abakaliki
7, Water Works Road, Abakaliki.</p> <p>17 Foresight Professional Institute
24 Road Opposite H Close, Festac Town, Lagos.</p> <p>18 Gusau Business School
Off Sokoto Road, Opp. Janyau Primary School, Gada Biyu, P.O.Box 315, Gusau, Zamfara State.</p> <p>19 Galaxy Professional Tutor & Consultant
L.E.A Primary School, by Mopol Junction, Opposite Diamond Bank Plc, Nyanya, Abuja.</p> <p>20 Global Focus Initiative Consulting Co.
Junior Secondary School, Apo Legislative/National Assembly Quarters, Zone B,Apo, Abuja.</p> <p>21 Integrity Professional Academy, Warri
253 Warri Sapele Road, Warri.</p> <p>22 IQ Bryte, Ipaja Lagos
Towergate Private School, Falola Street, Off Church B/Stop Ipaja, Lagos.</p> <p>23 JK Consulting Co. Ltd, Abuja
4th Floor, Wing B, City Plaza; Plot 596, Ahmadu Bello way, Garki II, Abuja.</p> <p>24 Knight Business School, Oyingbo
80, Murtal Mohammed Way, Ebute-Metta.</p> <p>25 Jodoc Accountancy Tutors
St John Catholic Church Primary School, Rumuokwurushi, Portharcourt, Rivers State.</p> <p>26 Maximum Professional Associate
27, Duduyemi Street(Salvation House) off Olugbede Market, Egbeda.</p> <p>27 Legacy Associate Limited
Olatunji HSE/Legacy HSE, 299/295, Ikorodu Rd, Idiroko B/stop, Maryland, Lagos.</p> |
|---|--|

- 28 **MIKON Professional Tutor**
34A, Boundary Road, G.R.A. Benin City, Edo State.
- 29 **MSL, School of Accountancy & Mgt. Studies**
L8, Ahmadu Bello Way, Katsina Round-about, same building with Studio 24, Kaduna, Kaduna State
- 30 **Networth Professional Tutors, V/I**
1 Bishop Aboyade Cole Street, Opposite ExxonMobil House, Off Ozumba Mbadiwe, V/I
- 31 **Onitsha Business School, Onitsha**
19A Lady Regina Nwankwu Avenue, GRA, Onitsha, Anambra State
- 32 **Pass Associates Limited**
9 - 11, Ogunyade Street, Gbagada, Lagos
- 33 **Password Professional Tutors, Akoka**
Oluwole Pry School Complex, Beside Unilag Main gate, Akoka
- 34 **PLUM Academy Limited**
336, Lagos Abeokuta Expressway, Super B/stop, Abule-Egba, Lagos
- 35 **Portharcourt School of MGT & Economics**
6B, Abeokuta Street, D/Line Port Harcourt, Rivers State
- 36 **POSSE Associates Tutors, Enugu**
WTC Primary School Compound, Off WTC B/Stop, Near University of Nigeria, Enugu Campus (UNEC)
- 37 **Potec Training Centre, Port-Harcourt**
1 Chinda Street, Off Stadium Road, Opposite BEKO Port-Harcourt
- 38 **Precept with Passion**
164, Iju Road, Opposite Fagba grammar school, Station Bus - Stop, Agege Lagos
- 39 **Professional Tutor for Success**
PTS Building, Opposite NUJ Secretariat, Iwo/Ibadan Road, Dada Estate, Oshogbo, Osun State
- 40 **Protrac Associates Limited**
1, Lagos Road, Ikorodu, Lagos
- 41 **Real Professional Tutors**
Wuse Zone 6, School Compound, behinde Oando filling Station, Abuja
- 42 **Risk Free Standards Associates Limited**
5, Olusoji Idowu Street, Off Association Avenue, Ilupeju, Obanikoro B/Stop, Lagos
- 43 **Safe Associate Limited**
31, Ore-Ofa Street, Gbaja, Off Barracks B/Stop, Onitolo, Opposite Laspotech Surulere Campus, Lago
- 44 **Salvage Professional School, Ibadan**
9, Kabiawu Street, Opp. Veterinary, Mokola Ibadan
- 45 **Sapati International School**
Off Ajase-Ipo Road, Sapati-Ile Road, Ilorin, Kwara State
- 46 **Sky Associates Nigeria Limited**
LEA Primary School, Wuse Zone 3, Abuja
- 47 **Soteria Business School**
Beside DB Petrol Station, Bola Ige B/Stop, Liberty Road, Oke-Ado, Ibadan, Oyo State
- 48 **Starry gold Academy**
Suit D2 Alhaja Humani Shopping Mall, 82 Kudirat Abiola Way, Oregun , Lagos
- 49 **Students SWOT Associate, Enugu**
3, Independent Layout, PRODA office, Opposite Hotel Presidential, Enugu
- 50 **Students PYE Nigeria Limited**
14, Oweh Street, Jibowu Lagos
- 51 **Superiorpoints Associates Limited**
148 Olojo Drive, FCMB Building, Opposite Ojo Local Govt Secretariat, Ojo
- 52 **Sure Success Better Consult, Lokoja**
Ule Close, GRA, Lokoja, Kogi State
- 53 **SQUAD Associates**
Ojodu Junior Grammar School, Grammar School B/S Berger
- 54 **Synergy Professionals**
2, Afric Road, Off Funsho Williams Avenue, Iponri, Surulere, Lagos State
- 55 **Taraba Business School, Jalingo**
Opposite Civil Service Commission, 183 Hammaruwa Way, Jalingo

Our goal is to ensure success in ICAN exams. We have, therefore, provided solutions to some past questions to guide candidates in future exams. Although these suggested solutions have been published under the Institute's name, they do not represent the views of the Council of the Institute. ICAN will, therefore, not enter into any correspondence about them.

Taxation (SKILLS LEVEL EXAMINATION - May 2017)

Question 1

Damilola Adewunmi is the Human Resources Manager of Mighty Steel Nigeria Limited. He is married and blessed with three children.

- (i) The following details relate to Damilola Adewunmi for the year ended December 31, 2015:

	N
Salary	3,144,000
Commission	525,000
Rent received	1,350,000
Gain from sale of shares	300,000
Pension received from employment	450,000
Benefits-in-kind (all assessable)	225,000
Interest on Fixed Deposit (gross)	180,000

- (ii) Damilola contributes N22,500 monthly towards the upkeep of his aged mother. His elder brother, Adekunle, also contributes N37,500 monthly.
- (iii) Damilola took an insurance policy on his life and pays a premium of N15,000 monthly.
- (iv) The children are University undergraduates and enjoy scholarship for only tuition from his State Government.
- (v) Damilola took a loan to build an owner-occupied house on which he pays N90,000 annual interest.
- (vi) For an outstanding performance, he was given an end-of-year bonus in the sum of N90,000.
- (vii) Withholding Tax of N18,000 was deducted in respect of interest on Fixed Deposit.

You are required to:

- Calculate the income tax payable for the relevant year of assessment. (10 Marks)
- Calculate the income tax payable for the relevant year of

assessment, assuming 2015 is the year of assessment with the following additional information:

Contribution to National Housing Fund	78,600
Contribution to National Health Insurance Scheme	210,000
Contribution to Pension Scheme	235,800

(10 Marks)

- Explain briefly the following:
 - Itinerant worker (1 Mark)
 - Non-resident individual (1 Mark)
 - Earned income (1 Mark)
 - Resident individual (1 Mark)
 - Unearned income (1 Mark)
 - List FIVE dividends exempted from tax. (5 Marks)
- (Total 30 Marks)**

Question 2

- Mr. Bull Dozer has just submitted his application for export license to Nigerian Export Promotion Council. The Council demanded a Tax Clearance Certificate before granting him an export license.

Mr. Bull Dozer was worried and had approached you to explain whether or not the presentation of this document is a condition precedent for all government transactions in Nigeria. Required: State TEN transactions in respect of which a Tax Clearance Certificate may be demanded by a government agency. (10 Marks)

- The Tax Appeal Tribunal has power to adjudicate on tax disputes and controversies where appeal is not discontinued by the Appellant.

Required:

State TEN of the procedures for hearing the appeal before the Tax Appeal Tribunal. (10 Marks) **(Total 20 Marks)**

Question 3

Muyiwa, Seyi and Akpan are Partners in an Accounting Firm in Lagos; Museak & Co (Chartered Accountants). The Statement of Profit or Loss for the year ended December 31, 2015, is as shown below:

	N	N	N
Gross Profit			65,000,000
Salaries and wages	5,100,000		
Office expenses	4,000,000		
Provision for bad debts	2,000,000		
Depreciation	1,500,000		
Repairs and maintenance	2,500,000		
Donations	400,000		
Training of staff	2,000,000		
Medical expenses	1,200,000		
Travelling expenses	500,000		
Interest on loan granted by Seyi	400,000		
Interest on Capital Accounts:			
Muyiwa	1,200,000		
Seyi	600,000		
Akpan	250,000		
		2,050,000	
			21,650,000
Net Profit for the year			43,350,000

Additional information is as follows:

- Donation was for laying of foundation of the new St Peter's Church;
- The vehicle of Muyiwa's wife involved in an accident was repaired at a cost of N550,000 and this was included in repairs and maintenance;
- Medical expenses in the sum of N500,000 representing the cost of flying the principal partners' father-in-law abroad for treatment was funded by the partnership;
- Akpan made a voluntary contribution of N500,000 under the Pension Reforms Act 2004 (as amended);

(v) Capital allowances agreed with the tax authority was N4,000,000; and

(vi) Partners sharing profit: Muyiwa 6; Seyi 4; Akpan 2.

You are required to compute:

- The Adjusted Income of Museak & Co (Chartered Accountants) for tax purposes. (6 Marks)
 - The Chargeable Income of each Partner (6 Marks)
 - The tax payable by each of the Partners (8 Marks)
- (Total 20 Marks)**

Question 4

Jandon is a Nigerian who lived abroad for so many years. He came back few years ago to set up a business in Nigeria and appointed your firm to audit his financial statements.

You are a trainee Chartered Accountant and your firm has also just completed its audit of Jandon's financial statements for the year ended December 31, 2014.

Jandon prepared his own tax computations for the year ended December 31, 2014 and sent the returns to the Revenue Authority. The tax returns have, however, been disputed by the Revenue Authority.

You are required to explain the following to Jandon:

- The options open to the Revenue Authority on receipt of a Letter of Objection. (2 Marks)
 - The content of a Notice of Objection (3 Marks)
 - The jurisdiction of the Tax Appeal Tribunal (6 Marks)
 - The conditions to be fulfilled for an appeal to the Federal High Court to be valid. (4 Marks)
 - The options open to an aggrieved taxpayer who is not satisfied with the decision of the Federal High Court. (5 Marks)
- (Total 20 Marks)**

Question 5

Campbell Limited located in Arama Town has been in business since 1994 and is involved in manufacturing of plastic containers.

The company's accounts for the year ended December 31, 2014 showed the following results:

	N	N
Turnover		1,909,425
Less Expenses:		
Transport and travelling	93,000	
Salaries and wages	224,000	
Printing and stationery	25,000	
Donation to ICAN building fund	5,000	
Audit fees	20,000	
Stamp duty on increase in share capital	75,000	
Rent	50,000	
Depreciation	234,450	
Tertiary Education Tax	37,325	763,775
Net profit		1,145,650

The following additional information was extracted from the computations of Capital Allowance and Income Tax for Assessment Year 2014:

- (i) Unutilised Capital Allowance brought forward N70,000
 (ii) Tax Written Down Values of the following assets purchased in 2011:

	N
• Motor vehicles	40,000
• Furniture and Fittings	60,000
• Plant	70,000

- (iii) In year 2014, the company purchased the following assets:

	N
• 2 Motor vehicles	840,000
• 4 Furniture and Fittings	160,000
• 1 Generating set	300,000

You are required to:

- a. Compute Capital Allowances assuming that assets purchased in 2011 have been used for two years. (7 Marks)
 b. Compute the Total Profits, Companies Income Tax (CIT) and Tertiary Education Tax (TET) for the relevant year of assessment. (8 Marks) **(Total 15 Marks)**

Question 6

The recently employed Accounts Officer of Oriade Limited understands that the company must report Withholding Tax information to the Revenue Authority according to the provisions of the law. Being a fresh graduate, he does not know how Withholding Tax is reported to the Revenue Authority.

You are required to explain:

- a. The peculiarities of Withholding Tax. (3 Marks)

- b. Where international transactions are involved:
 i. The rate of Withholding Tax. (1 Marks)
 ii. Types of income involved. (3 Marks)
 c. The currency of payment where the currency of transaction is not in Naira. (3 Marks)
 d. FIVE particulars contained in the Withholding Tax Payment Schedule. (5 Marks) **(Total 15 Marks)**

NIGERIAN TAX RATES

1. CAPITAL ALLOWANCES

	Initial %	Annual %
Office Equipment	50	25
Motor Vehicles	50	25
Office Buildings	15	10
Furniture and Fittings	25	20
Industrial Buildings	15	10
Non-Industrial Buildings	15	10
- Agricultural Production	95	Nil
Plant and Machinery – Others	50	25

2. INVESTMENT ALLOWANCE 10%

3. RATES OF PERSONAL INCOME TAX

Graduated tax rates with consolidated relief allowance of N200,000 or 1% of Gross Income whichever is higher + 20% of Gross Income.

	Taxable Income (N)	Rate of Tax (%)
First	300,000	7
Next	300,000	11
Next	500,000	15
Next	500,000	19
Next	1,600,000	21
Over	3,200,000	24

After the relief allowance and exemption had been granted, the balance of income shall be taxed as specified in the tax table above.

4. COMPANIES INCOME TAX RATE 30%
 5. TERTIARY EDUCATION TAX (2% of Assessable Profit)
 6. CAPITAL GAINS TAX 10%
 7. VALUE ADDED TAX 5%

Taxation

(SKILLS LEVEL EXAMINATION - May 2017)

Suggested Solutions

Solution to Question 1

- a. Damilola Adewunmi Computation of Income Tax Payable for 2015 Year of Assessment

	N	N
Basic Salary		3,144,000
Commission		525,000
Bonus		90,000
Benefits-in-kind		225,000
GROSS INCOME		3,984,000
Consolidated Relief Allowance(see working)		(996,800)
		2,987,200

Tax Exempt Items:

Insurance	180,000	
Mortgage Interest	90,000	(270,000)
Chargeable Income		2,717,200

Income Tax Payable

	N
1st N300,000 @ 7%	21,000
Next N300,000 @ 11%	33,000
Next N500,000 @ 15%	75,000
Next N500,000 @ 19%	95,000
Next N1,117,200 @21%	234,612
	N2,717,200
	458,612

- b. Damilola Adewunmi Computation of Income Tax Payable for 2015 Year of Assessment

	N	N
Basic Salary		3,144,000
Commission		525,000
Bonus		90,000
Benefits-in-kind		225,000
GROSS INCOME		3,984,000
Consolidated Relief Allowance (See Working)		(996,800)
		2,987,200

Tax Exempt Items:

Insurance Premium	180,000
-------------------	---------

National Housing Fund Contribution	78,600
National Health Insurance Scheme	210,000
Pension Contribution	235,800
Mortgage Interest	90,000
	(794,400)
Chargeable Income	2,192,800

Income Tax Payable

	N
1st N300,000 @ 7%	21,000
Next N300,000 @11%	33,000
Next N500,000 @ 15%	75,000
Next N500,000 @ 19%	95,000
Next N592,800 @ 21%	124,488
	N2,192,800
	348,488

c.

i. Itinerant Worker

An itinerant worker means an individual irrespective of his status, who works at any State during a year of assessment (other than a member of the armed forces) for wages, salaries or livelihood by working in more than one State, and work for a minimum of twenty (20) days in at least three (3) months of every assessment year.

ii. Non-resident Individual

A non-resident individual is a person who is not domiciled in Nigeria or who stays in Nigeria for less than 183 days in a 12-month period but derives income or profit from Nigeria.

iii. Earned Income

This refers to an income derived from a trade, business, profession, vocation or employment carried on or exercised by him and a pension derived by him in respect of a previous employment. It includes profits, salaries, wages, commissions, bonuses, etc.

iv. Resident Individual

An individual is regarded as resident in Nigeria if he

- is domiciled in Nigeria;
- sojourns in Nigeria for a period or periods all amounting to 183 days or more in a 12-month period; and
- serves as a diplomat or diplomatic agent of Nigeria in a country other than Nigeria.

v. Unearned income

This is income derived from a source other than trade, business, profession or employment e.g. dividend, rental income, royalty, interest, etc.

d. The following dividends are excluded from tax:

- i. Dividend paid out of pioneer profit;
- ii. Dividend paid by issue of bonus shares;
- iii. Dividend from small companies (revenue less than N2,000,000);
- iv. Dividend paid by companies assessed under Petroleum Profits Tax;
- v. Dividend from companies in petrochemical and liquefied natural gas;
- vi. Dividend earned from abroad and brought into Nigeria by a Nigerian resident in convertible currency and paid into a domiciliary account in a bank approved by the government; and
- vii. Dividend distributed by a Unit Trust.

Working:

Consolidated Relief Allowance Higher of N200, 000 or 1% of Gross Income + 20% of Gross Income = N200,000 + N796,800 = N996,800

Examiners' Report

The question tests candidates' understanding of the assessment of an individual.

Candidates had a good understanding of the question and performance was above average.

The commonest pitfall was the inability of the candidates to recognise the fact that investment incomes are taxed on preceding year basis.

Candidates are advised to pay attention to incomes assessable on preceding year basis.

MARKING GUIDE

	MARKS	MARKS
a. Computation of Chargeable Income:		
8 points raised @ 1 mark each	8	
4 points in Computation of Tax liability @ ¼ mark each	1	
Tax payable	1	10
b. Computation of Chargeable Income:		
The first 5 points @ ½ mark each	2½	
The five Exempt Items @ 1 mark each	5	
Chargeable Income @ ½ mark	½	
5 points in Computation of Tax liability @ ¼ mark each	1¼	
Tax Payable	¾	10
c. The 5 definitions @ 1 mark each	5	
d. The first 5 dividends exempted from tax @ 1 mark each	5	
	30	

Solution to Question 2

a. TRANSACTIONS IN RESPECT OF WHICH A TAX CLEARANCE CERTIFICATE MAY BE DEMANDED BY GOVERNMENT AGENCY

The requirement to obtain a Tax Clearance Certificate on an annual basis places the onus on the taxpayers to ensure full compliance with the requirements of the tax laws. The following are transactions in respect of which a Tax Clearance Certificate may be demanded by a government agency:

- i. Application for Government loan for industry or business;
- ii. Registration of motor vehicles;
- iii. Application for firearms license;
- iv. Application for foreign exchange or exchange control permission to remit funds outside Nigeria;
- v. Application for Certificate of Occupancy;
- vi. Application for award of contracts by governments, their agencies and registered companies;
- vii. Application for approval of building plans;
- viii. Application for trade license;
- ix. Application for transfer of real property;
- x. Application for import or export license;
- xi. Application for agent license;
- xii. Application for pools or gaming license;
- xiii. Application for registration as a contractor;
- xiv. Application for distributorship;
- xv. Confirmation of appointment by government, as chairman or member of public board, institution, commission, company or to any other similar position made by the government;
- xvi. Stamping of guarantor's form for Nigerian Passport;
- xvii. Application for registration of a limited liability company or of a business name;
- xviii. Application for allocation of market stalls;
- xix. Appointment or election into public office;
- xx. Change of ownership of vehicle by vendor; and
- xxi. Application for a plot of land.

b. PROCEDURES FOR HEARING AN APPEAL BEFORE A TAX APPEAL TRIBUNAL

Where an appeal is not discontinued, the procedures for hearing the appeal before the Tax Appeal Tribunal are as follows:

- i. The Tax Appeal Tribunal gives seven (7) days notice to the appellant and Federal Inland Revenue Service (FIRS) of the date and place fixed for hearing of the appeal;
- ii. An appeal should be heard by not less than three members of the Tax Appeal Tribunal in attendance with the Chairman or any other member, (in the absence of the Chairman), presiding;
- iii. A member with vested interest in any matter before the Tax Appeal Tribunal must disclose such interest and abstain from attending any sitting at which the matter is to be heard;
- iv. All appeals before the Tax Appeal Tribunal are heard in public;
- v. Appellant may be represented by a professional adviser or may give his evidence by written notice;
- vi. Appellant leads the case, by proving that the assessment is excessive, that is, onus of proof is put on the appellant;
- vii. If the representative of the FIRS can prove to the Tax Appeal Tribunal that:
 - The appellant failed to file returns, audited accounts etc. as required by the provisions of Companies Income Tax (CITA) C21 LFN 2004 (as amended); or
 - The appeal is frivolous, vexatious or an abuse of appeal process; or
 - It is expedient to require the appellant to pay a security deposit:
 - The Tax Appeal Tribunal may make an order that the appellant pay deposit to the tax authority on account of tax being disputed before the matter could be heard; and
 - The deposit payable, is the lower of tax paid in the immediately preceding year and half of the tax charged (which is on an appeal), plus 10% of the deposit.
- viii. The Tax Appeal Tribunal can confirm, reduce, increase, or annul the assessment, as deemed necessary;
- ix. The Tax Appeal Tribunal's decisions are recorded in writing, by the Chairman, and a Certified True Copy is supplied to the appellant or the FIRS on request, within 3 months of the decision;
- x. Particulars of the extent to which the Tax Appeal Tribunal is

dissatisfied with the appellant's accounts, books, etc, non-compliance with precepts representative and refusal to answer questions put, should all be noted in the decision of the Tax Appeal Tribunal; and

- xi. Notice of the amount of tax chargeable, as determined by the Tax Appeal Tribunal, shall be served on the company by FIRS.

The tax payable as determined by the Tax Appeal Tribunal is payable within one month of the date of Notice of Assessment notwithstanding that an appeal may be pending on same before the Federal High Court.

Examiners' Report

The question tests candidates' knowledge of issues relating to Tax Clearance Certificate and procedures for hearing an appeal before the Tax Appeal Tribunal.

Candidates had a fair understanding of the question and performance was average.

The commonest pitfall was the inability of the candidates to differentiate between Objection and Tax Appeal.

Candidates are advised to read wider for future examinations by reading ICAN Study Text and other relevant study materials.

MARKING GUIDE

MARKS

- | | |
|--|----|
| a. 1 mark each subject to a maximum of any 10 transactions | 10 |
| b. 1 mark each subject to a maximum of any 10 procedures | 10 |
| | 20 |

Solution to Question 3

(a) COMPUTATION OF ADJUSTED INCOME OF MUSEAK & CO (CHARTERED ACCOUNTANTS) FOR 2016 ASSESSMENT YEAR

	N	N
Net Profit for the year		43,350,000
Add: Disallowable expenses:		
Provision for bad debts	2,000,000	
Depreciation	1,500,000	
Repairs and Maintenance	550,000	
Donations	400,000	
Medical expenses	500,000	
4,950,000		
Adjusted Income		48,300,000
Agreed Capital allowances		(4,000,000)
Distributable Income		44,300,000

(b) **Computation of Partners Chargeable Income**

	Muyiwa N	Seyi N	Akpan N	Total N
Interest on Capital	1,200,000	600,000	250,000	2,050,000
Share of Profit (6:4:2)	22,150,000	14,766,667	7,383,333	44,300,000
	23,350,000	15,366,667	7,633,333	46,350,000
Interest on Loan	0	400,000	0	400,000
Partners Assessable Income	23,350,000	15,766,667	7,633,333	46,750,000
Consolidated Relief Allowance	(4,903,500)	(3,353,333)	(1,726,667)	(9,983,500)
	18,446,500	12,413,334	5,906,666	36,766,500
Tax Exempt Items:				
Contribution to Pension Scheme	(0)	(0)	(500,000)	(500,000)
Chargeable Income	18,446,500	12,413,334	5,406,666	36,266,500

(c) **Computation of Tax Payable by Partners:**

	Muyiwa N	Seyi N	Akpan N
Chargeable Income	18,446,500	12,413,334	5,406,666
First N300,000@7%	21,000	21,000	21,000
Next N300,000@11%	33,000	33,000	33,000
Next N500,000@ 15%	75,000	75,000	75,000
Next N500,000@19%	95,000	95,000	95,000
Next N1,600,000@21%	336,000	336,000	336,000
Above N3,200,000@24%			
Muyiwa: N18,446,500 – N3,200,000@24%	3,659,160		
Seyi: N12,413,334 – N3,200,000@24%		2,211,200	
Akpan: N5,406,666 – N3,200,000@24%			529,600
	4,219,160	2,771,200	1,089,600

NOTES:

- Consolidated Relief Allowance is the higher of N200,000 or 1% of Gross Income plus 20% of Gross Income.
- The deduction of Capital allowances from the Adjusted Income before arriving at the Distributable Income is preferable to sharing of Capital Allowances amongst the partners.

Examiners' Report

The question tests candidates' knowledge of taxation of partners in partnership business.

Many candidates attempted this question and performance was average.

The commonest pitfall was the inability of the candidates to calculate Consolidated Relief Allowance and identify disallowable expenses.

Candidates are advised to pay attention to computation of tax liabilities of partners.

MARKING GUIDE

	MARKS	MARKS
a. Heading	½	
Net profit	½	
5 disallowable expenses @ ½ mark each	2½	
Sub-total	1	
Adjusted income	½	
Agreed Capital allowances	½	
Distributable Income	½	6
b. Heading	1½	
Interest on Capital	½	
Share of Profit	½	
Sub-total	½	
Interest on loan	½	
Partners Assessable Income	½	
Consolidated Relief Allowance	½	
Sub-total	½	
Contribution to Pension Scheme	½	
Chargeable Income	½	6
c. Heading	1	
First N300,000@7%	½	
Next N300,000@11%	½	
Next N500,000@ 15%	½	
Next N500,000@19%	½	
Next N1,600,000@21%	½	
Above N3,200,000@24%	1½	
Tax payable by the 3 partners @ 1 mark each	3	8
		20

Solution to Question 4

- (a) Options Open to the Revenue Authority on Receipt of Letter of Objection

On receipt of the Notice of Objection, the tax authority has the following options:

- Review and revise the assessment to an amount that is mutually-agreeable to the taxpayer and the Federal Inland Revenue Service. If this occurs, the tax authority will amend the assessment and serve on the company a notice of revised tax payable; or
- Review and refuse to revise the assessment to the amount claimed by the taxpayer.

In a situation where the taxpayer fails to agree with the tax authority on the amount of tax payable, and the Federal Inland Revenue Service does not see any reason to further revise the assessment, then it will issue a Notice of Refusal to Amend its assessment.

- (b) Content of a Notice of Objection In line with the provision of

Section 69 of Companies Income Tax Act Cap C21 LFN 2004 (as amended), for a Notice of Objection to be valid, it must:

- be in writing and addressed to the Chairman, Federal Inland Revenue Service;
- state the grounds of objection, namely:
 - Amount of Assessable and Total Profit of the company for the relevant assessment year; and
 - Amount of tax which the taxpayer claims is payable for the year of assessment.
- be raised within thirty days of the date of service of the Notice of Assessment.

- (c) Jurisdiction of the Tax Appeal Tribunal

- The Tribunal shall have power to adjudicate on disputes, and controversies arising from the following tax laws (hereinafter referred to as "the tax laws"):
 - Companies Income Tax Act CAP C21 LFN 2004 (as amended)
 - Personal Income Tax Act CAP P8 LFN 2004 (as amended)
 - Petroleum Profits Tax Act CAP P13 LFN 2004 (as amended)
 - Value Added Tax Act CAP V1 LFN 2004 (as amended)
 - Capital Gains Tax Act CAP C1 LFN 2004 (as amended)
 - Any other law contained in or specified in the First Schedule to this Act or other laws made from time to time by the National Assembly.
- The Tribunal shall apply such provisions of the tax laws referred to in sub-paragraph (1) of the paragraph as may be applicable in the determination or resolution of any dispute or controversy before it.

- (d) The conditions to be fulfilled for an Appeal to the Federal High Court to be valid For such appeals to be valid, the following conditions must be satisfied:

- Amount involved must not be less than N400;
- The appeal must be on points of law;
- Notice of appeal must be given to the Tax Appeal Tribunal within 30 days after the date of the judgement of the Tax Appeal Tribunal; and
- The grounds of law on which the decision of the Tax Appeal Tribunal is being challenged should be stated.

- (e) Option open to an aggrieved taxpayer who is not satisfied with the decision of the Federal High Court Further appeal against the decision of the Federal High Court shall lie with the Court of Appeal and from there to the Supreme Court.

Examiners' Report

The question tests candidates knowledge of Objections and Appeals before a Tax Appeal Tribunal.

Many candidates attempted the question and performance was average. Candidates had a fair understanding of the question.

The commonest pitfall was the inability of the candidates to state the Jurisdiction of the Tax Appeal Tribunal.

Candidates are advised to pay attention to Objections and Appeals before a Tax Appeal Tribunal as contained in ICAN Study Text.

MARKING GUIDE

	MARKS	MARKS			
(a) (i) Review and revise the assessment	1		(b) (i) Be in writing	1	
(ii) Review and refuse to revise the assessment	1	2	(ii) State the grounds of objection	1	
			(iii) Be raised within 30 days	1	3
			(c) (i) Companies Income Tax	1	
			(ii) Personal Income Tax	1	
			(iii) Petroleum Profits Tax	1	
			(iv) Value Added Tax	1	
			(v) Capital Gains Tax	1	
			(vi) Any other law	1	6
			(d) Amount involved must not be less than N400	1	
			Must be on points of law	1	
			Notice within 30 days	1	
			Grounds of law stated	1	4
			(e) Court of Appeal	2½	
			Supreme Court	2½	5
					20

Solution to Question 5

CAMPBELL COMPANY LIMITED (a) COMPUTATION OF CAPITAL ALLOWANCES FOR 2015 YEAR OF ASSESSMENT
Accounting Date or Basis Period 1/1/2014 - 31/12/2014

	Motor Vehicle	Furniture & Fittings	Plant	Total
Initial Allowance	50	25	50	
Annual Allowance	25	20	25	
	N	N	N	N
TWDV b/f	40,000	60,000	70,000	
Cost – Additions	840,000	160,000	300,000	
Initial	(420,000)	(40,000)	(150,000)	610,000
Annual – Old	(20,000)	(20,000)	(35,000)	75,000
Annual – New	(105,000)	(24,000)	(37,500)	166,500
				851,500
Investment allowance				30,000
				881,500

Workings

Initial:	MV	F&F	PLANT
	50% x 840,000 = 420,000	25% x 160,000 = 40,000	50% x 300,000 = 150,000
Annual 1	$\frac{TWDV}{V - n} = \frac{40,000}{2\text{years}} = 20,000$	$\frac{60,000}{3\text{years}} = 20,000$	$\frac{70,000}{2\text{years}} = 35,000$
Annual 2	$\frac{\text{cost} - TWDV}{4} = \frac{840,000 - 420,000}{4} = 105,000$	$\frac{160,000 - 40,000}{5} = 24,000$	$\frac{70,000}{2\text{years}} = 35,000$
	= 105,000	= 24,000	= 37,500

CAMPBELL COMPANY LIMITED

(b) COMPUTATION OF TOTAL PROFIT, COMPANIES INCOME TAX (CIT) AND TERTIARY EDUCATION TAX (TET)

	N	N
Net profit		1,145,650
Add:		
Stamp duty on increase in Share Capital	75,000	
Depreciation	234,450	
Tertiary Education Tax	37,325	346,775
Assessable Profit		1,492,425
Capital allowances:		
Brought forward	70,000	
For the year	881,500	
Relieved		(951,500)
TOTAL PROFIT		540,925

Companies Income Tax (30% of Total Profit) = N162,277.50
Tertiary Education Tax (2% of Assessable Profit) = N29,848.50

Examiners' Report

The question tests candidates' knowledge of Capital Allowances and Companies Income Tax Computations

Many candidates that attempted the question did not understand its requirements. Consequently, the performance was below average.

The commonest pitfall was the poor presentation of the solution. It is recommended that attention should be paid to the presentation of solutions.

MARKING GUIDE

	MARKS	MARKS
a. 1/3 mark each for 21 entries		7
b. Heading	½	
Net Profit	½	
Stamp duty	½	
Depreciation	½	
Tertiary Education Tax	½	
Total of disallowable expenses	½	
Assessable Profit	½	
Capital allowances	1½	
Total Profit	1	
Companies Income Tax	1	
Tertiary Education Tax	1	8
		15

Solution to Question 6

- (a) Withholding Tax is a tax deducted at source from payments made to a taxable person for the supply of goods and services.

It is not another form of tax, but simply an advance payment of tax, as the withholding tax deducted at source is off-settable against any subsequent tax liability that may be due in respect of other income.

In certain cases, the Withholding Tax deducted at source is the final tax in the hands of the recipients.

- (b) (i) The Withholding Tax rate is reduced to 7.5% for dividend, interest, and royalty for recipients of a country which has double tax treaty with Nigeria at the rates contained in the double taxation treaty.
(ii) The types of income involved are royalty, interest and dividend.
- (c) The currency in which tax is to be deducted and paid over to the relevant tax authorities is the currency of transaction. Where the transaction is in foreign currency, the tax is to be withheld in the foreign currency and paid to the relevant tax authority, through the Central Bank of Nigeria (CBN). The CBN would then effect the necessary conversion, using the ruling rate of exchange and then credit the appropriate government account with the sum.
- (d) The payment schedule must contain the following particulars:
- Name of the taxpayers who suffered the deductions;
 - Their addresses;
 - The nature of their activities/services and period covered;
 - Their tax file numbers [now Tax Identification Number (TIN)];
 - The total amount payable;
 - The rate of tax applied;
 - The amount of tax withheld;
 - The balance paid to the taxpayer;
 - The tax contract for which returns were being made;
 - The date of payment; and
 - The cheque number and date.

Examiners' Report

The question tests candidates' knowledge of the provisions of the law relating to Withholding Tax.

Many candidates attempted the question and performance was above average.

The commonest pitfall was the candidates' inability to state the rate applicable to international transactions.

Candidates are advised to study the law relating to Withholding Tax as contained in ICAN Study Text.

Be in the know anytime, anywhere

THE ICAN LIBRARIES



With ICAN, You Can

ICAN libraries are available in Victoria Island, Ebute Metta and Zone 7 Wuse, Abuja

You can also log on to the ICAN e-libraries at the following addresses:

i. search.ebscohost.com ii. site.ebrary.com/lib/icanlibrary



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA (ICAN)

(Established by the Act of Parliament No. 15 of 1965)

Founding Member, International Federation of Accountants (IFAC)



ICAN 1965



ICAN_NGR



ican1965

www.icanig.org



INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

(Established by the Act of Parliament No. 15 of 1965)

Do you want to be a chartered accountant but not yet a graduate?

No problems.

With your SSCE/GCE/NECO you can begin your journey to accountancy career through the

Accounting Technicians Scheme West Africa. (ATSWA) Route.

The **ATSWA** qualification is:

- An entry level, quasi-professional certificate in accounting
- Highly recognized by employers in Nigeria and other West African countries
- Entitles the holder to exemption from the Foundation level of the ICAN professional examinations
- Qualifies the holder for direct entry to ICAN professional examination
- Entitles the holder to belong to a quasi-professional association with its own designatory letters (AAT)



Entry requirements

- Five (5) credit passes including English Language and Mathematics in Senior School Certificate or equivalent in not more than two sittings
- National Diploma of an approved polytechnic
- National Certificate of Education (NCE)
- Any other qualification approved by ICAN

Relevant qualifications may be considered for exemption

Subjects of the Examination:



PART I Basic Accounting Process & Systems, Economics, Business Law, Communication Skills.

PART II Information Technology, Quantitative Analysis, Public Sector Accounting, Principles & Practices of Financial Accounting.

PART III Principles of Auditing, Cost Accounting, Management, Preparing Tax Computations & Returns.

Visit www.icanig.org for more details