

# **INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA (ICAN)**

## **SET 2**

### **PILOT QUESTIONS PUBLIC SECTOR ACCOUNTING AND FINANCE**

#### **SECTION A (COMPULSORY)**

##### **Question 1**

##### **Construction Contract**

In a bid to reduce unemployment through the creation of jobs for the citizenry of the Federal Republic of Nigeria, an Indigenous Cement Company, Tedango Plc. established a Cement Company in Kokori, Koko State of Nigeria.

The company's operation, aside from providing employment for the people of the area, caused some degree of environmental challenges, resulting in health hazards to the inhabitants of the area. The only bridge that linked Kokori with other towns and villages in the area was damaged by the heavy vehicular traffic caused by the activities at the Cement Plant.

In order to mitigate the hazards caused the community by this damaged bridge, the Ministry of Works and Services was contracted to construct a long-lasting bridge to replace the damaged one. The Ministry is predominantly funded by appropriation and is empowered to undertake limited construction work on a commercial basis for private entities. With the authority of the Honourable Commissioner for Works and Services, the Ministry entered into a fixed price commercial construction contract for ₦90million to build the bridge. There was no tender publication for the job and the ministry was the only bidder for the construction work.

The initial amount of revenue agreed in the contract was ₦90 million. The contractor's (Ministry of Works and Services) initial estimate of contract costs was ₦80 million. It will take three (3) months to construct the bridge. By the end of the first month, the Ministry's estimate of contract costs has increased to ₦80.5 million.

In the second month, the client (Tedango Plc) approved a variation resulting in an increase in contract revenue of ₦2million and estimated additional contract costs of ₦1.5 million. At the end of the second month, costs incurred included ₦1million for standard materials stored at the site to be used in the third month to complete the project.

The Ministry determines the stage of completion of the contract by calculating the proportion that the contract costs bear for work performed to date bear to the latest estimated total contract costs. A summary of the financial data during the construction period is as follows:

	1 <sup>st</sup> Month	2 <sup>nd</sup> Month	3 <sup>rd</sup> Month
	N000	N000	N000
Initial amount of revenue agreed in contract	90,000	90,000	90,000
Variation	-----	2,000	2,000
Total Contract Revenue	<u>90,000</u>	<u>92,000</u>	<u>92,000</u>
Contract costs incurred to date	20,930	61,680	82,000
Contract costs to complete	59,570	20,320	-----
Total Estimated Contract Costs	<u>80,500</u>	<u>82,000</u>	<u>82,000</u>
Estimated Surplus	<u>9,500</u>	<u>10,000</u>	<u>10,000</u>
Stage of Completion	<u>26%</u>	<u>74%</u>	<u>100%</u>

**NB:** The stage of completion for the 2<sup>nd</sup> month (74%) was determined by excluding from contract costs incurred to date the value of standard materials stored at the site for use in the third month.

The bridge was completed and delivered to the client, TEDANGO Plc. at the end of the agreed three month period of construction.

**Required:**

- Calculate the amounts of revenue, expenses and surplus to be recognized in the statement of financial performance in the three years in accordance with IPSAS 11 on Construction Contract. **(20 Marks)**
- Assuming that the contractor and the contractee are citizens of Nigeria, do you think that the contract award complied with the Public Procurement Act of 2007? **(4 Marks)**
- What are the provisions of IPSAS 11 on recognition of Contract Revenue and Expenses? **(6 Marks)**

**Total 30 Marks**

## SECTION B (Answer any two questions)

### Question 2

- a State and explain the functions of:
- (i) The Joint Tax Board (5 marks)
  - (ii) State Board of Internal Revenue (5 marks)
- b The total assessable income of an individual taxpayer is the aggregate total of his incomes from all sources after allowable deductions, including losses.
- (i) State any five sources of an individual taxpayer's assessable incomes (5 marks)
  - (ii) State any five Personal Reliefs/Allowances an individual taxpayer can claim. (5 marks)

**Total 20 marks**

### Question 3

The following balances were extracted from the books of Economy Improvement and Sustenance Commission as at 1<sup>st</sup> January and 31<sup>st</sup> December, 2013:

a.	1 <sup>st</sup> Jan 2013 ¢000	31 <sup>st</sup> Dec 2013 ¢000
Property, Plant and Equipment	160,000	
Loans outstanding	32,000	
Accumulated Depreciation	40,000	
Capital Fund	8,000	
Bank Balance	4,800	
Investment	8,000	8,000
Current Liabilities	20,000	17,600
Current Assets	12,000	14,800
Revenue Balance	84,000	-

- b. Transaction during the year 2013 were:

	¢000
Recurrent Expenditure	68,000
Subvention from Ministry of Finance	12,000
Income from service	26,000
Transfer to capital Fund	1,600
Income from seminars	56,000

Interest on Loan	7,200
Subvention from Federal Government	11,600
Capital Expenditure during the year	12,000
Investment Income	280

- c. The following information were also provided but have not been incorporated in the above balances:
- A property which cost 1.2million with an aggregate Depreciation of 400,000 was disposed of during the year for 2.88million. Profit on disposal should be transferred to Capital Fund.
  - Additional Loan of 10.4million was raised during the year.
  - Interest on loan of 7.2million was still outstanding as at year end.
  - Additional Inventories of training materials were purchased during the year. This represents an increase in the current assets.
  - Decrease in current liabilities during the year represents payment made to training facilitators.
  - Capital expenditure should be charged to Capital Fund.
  - Depreciation on Property, Plant and Equipment is charged to Capital Fund at 10% on cost.

You are required to prepare for the commission:

- Revenue Account for the year ended 31<sup>st</sup> December 2013
- Capital Fund Account for the year ended December 31<sup>st</sup> 2013
- Statement of Financial Performance for the year ended 31<sup>st</sup> December 2012.

**Show your workings**

**(20 Marks)**

**Question 4.**

The following information was obtained from the records of the Office of the Accountant-General of the Federal Republic of Lamard for the year ended 31<sup>st</sup> December 2013:

	<b>2013</b> <b>₦M</b>	<b>2012</b> <b>₦M</b>
Value Added Receipts	2,295,000	2,196,000
Miscellaneous Revenue	375,000	425,000
PIT- Direct Tax	10,500,000	7,200,000
Cost of collection (FIRS and Customs)	3,075,000	3,305,000
Personnel Costs	7,200,000	9,600,000
Share Of Statutory Allocation	13,500,000	8,450,000
CRF Charges	2,250,000	3,750,000
Grants and subvention from foreign donors	75,000	87,000

Rent Of Federal Government Properties	285,000	295,000
Overhead Charges	1,500,000	1,200,000
Subvention to Parastatals	1,800,000	1,900,000
Sale of Federal Government Properties	375,000	485,000
Repayment of Loans	870,000	243,000
Purchases and Construction of Non-Current Assets	2,500,000	2,700,000
Proceeds from Sales of Federal Government Properties in Lekki Peninsula	1,050,000	-
Purchase of Marketable Securities	500,000	300,000
Cash and Cash Equivalents 1 <sup>st</sup> Jan. 2013	3,750,000	-
Proceeds from Loans and other Borrowings	3,000,000	1,000,000
Cash and Cash Equivalent 31 <sup>st</sup> Dec., 2013	21,660,000	3,750,000

### **Required**

Prepare a Cash flow Statement for the year ended 31<sup>st</sup> December 2013 using the Direct Method (Show Comparative figures);

**Total: 20 marks**

## **SECTION C (Answer any two questions)**

### **Question 5**

The Government in Nigeria, like in other countries of the world, performs some fundamental economic functions. Identify and discuss these functions.

**(15 marks)**

### **Question 6**

Public debt is neither good nor bad. Present a balanced argument on this assertion.

**(15 marks)**

### **Question 7**

Planning-Programming . Budgeting System (PPBS) is said to be an attempt to introduce rational method of management into an area where considerable difficulties of measurement and evaluation exist.

Examine this viewpoint in the context of an appraisal exercise of a public sector programme like education.

**(15marks)**