INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA (ICAN)

SET 2

PILOT SOLUTIONS
PUBLIC SECTOR ACCOUNTING AND FINANCE

SECTION A (COMPULSORY)

Question 1

CONSTRUCTION CONTRACT

a. **Calculation Of Revenue, Expenses and Surplus to Be Recognized in the Statement Of Financial Performance**

First Month	**To Date**	**Recognized in Prior Month**	**Recognized in Current Month**
	₦'000	**₦'000**	**₦'000**
Revenue (₦90,000,000 x 0.26)	23,400		23,400
Expenses (₦80,500,000 x 0.26)	20,930		20,930
Surplus	**2,470**		**2,470**
Second Month			
Revenue (₦92,000,000 x 0.74)	68,080	23,400	44,680
Expenses (₦82,000,000 x 0.74)	60,680	20,930	39,750
Surplus	**7,400**	**2.470**	**4,930**
Third Month			
Revenue (₦92,000,000 x 1.00)	92,000	68,080	23,920
Expenses (₦82,000,000 x 1.00)	82,000	60,680	21,320
Surplus	**10,000**	**7,400**	**2.600**

b. The rule is that the contract should be advertised in National dailies. Such advertisement will be responded to through bids by various bidders. The bids shall be opened and the bidder with the best technical specification and pricing shall be chosen. This was not the case with the contract. The only contractor, Ministry of Works and Services was chosen without recourse to any other contractors, whether or not their bids could be better. The award does not comply with the Public Procurement Act, 2007.

c. The provision of IPSAS 11 on recognition of Contract Revenue and Expenses are as follows:

According to paragraph 30: When the outcome of a Construction Contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. According to paragraph 44, an expected deficit on a construction contract should be recognized as an expense immediately.

According to paragraph 31: In the case of a fixed price contract, the outcome of a construction contract can be estimated reliably when the following conditions are satisfied:

i) Total contract revenue, if any, can be measured reliably;

ii) It is probable that the economic benefits or service potential associated with the contract will flow to the entity;

iii) Both the contract costs to complete the contract and the completion stage can be measured reliably;

iv) The contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract cost incurred can be compared with prior estimates.

Section B

Question 2

a i **The Joint Tax Board (JTB)**

The Board is not concerned with assessment and collection of taxes but has the responsibility to advise the federal government on tax matters such as;

- Proposal for tax legislation.
- Tax arrangement between Nigeria and other Countries
- Conflict resolution between the states of the federation as they relate to tax matters.

The board is a creation of the Income Tax Management Act of 1961

ii **State Board of Internal Revenue**

Each state in the Federal Republic administers taxes on individuals resident within its territory under Personnel Income Tax Act 1993, using the machinery of the State's Board Of Internal Revenue which itself is a creation of law.

The functions of the Board include;

- Ensuring proper assessment, collection and enforcement of taxes as provided for under the relevant statutes within its jurisdiction;
- Recommending to the Joint Tax Board tax policies, reforms, legislations, and treaties, among others;.
- Appointing, training, transferring, promoting and disciplining employees of the State Board of Internal Revenue;
- Controlling the management policies of the state service.

b i **Sources of an individual's assessable incomes**

- Gains and Profits from any trade, business or profession;
- Emoluments from employment ï salaries, wages, fees and other payments resulting from employment;.
- Interests and commissions, annuities and Royalties;
- Gains or profits resulting from rental of property
- Pensions, Incomes brought into Nigeria from abroad;
- Share options granted to employees. Liability will only arise when the option is exercised and not when it is granted;
- Post-Cessation receipts: These are received after discontinuance of such a business ï bad debts recovered charge; and
- Any balancing charge.

ii **<u>Personal Reliefs/Reliefs that can be claimed:</u>**

- Personal allowance
- Child Allowance
- Dependant Relative Allowance
- Allowance for Life Assurance
- Rent Relief paid on annual rent paid by the claimant
- Capital Allowance
- Allowable Donations

Question 3

<u>Economy Improvement and Sustenance Commission</u>

a. **<u>Revenue Account for the year ended 31st December 2013</u>**

	N'000	N'000
<u>REVENUE</u>		
Subvention from Ministry of Finance		12,000
Income from service		26,000
Income from Seminars		56,000
Subvention from Federal Government		11,600
Investment income		280
		105,880

Less Recurrent Expenditure	68,000	
Interest on loan	14,400	82,400
		23,480
Transfer to Capital Fund		(1,600)
Revenue balance for the year		21,880
Revenue balance B/F.		84,800
Revenue balance C/F.		**106,680**

b. **Economy Improvement and Sustenance Commission**

Capital Fund For The Year Ended 31st December 2013

	₦'000	**₦'000**
Transfer from Revenue Account		1,600
Profit on Disposal of Property		2,080
		3,680
Less:		
Capital Expenditure	12,000	
Depreciation	15,880	(27,880)
		(24,200)
Capital Fund B/F.		8,000
Capital Fund C/F .		**(16,200)**

c. **Economy Improvement and Sustenance Commission**

Statement Of Financial Position as at 31st December 2013

Assets	N000	N000
Non-Current Assets		
Property, Plant and Equipments (w2) not shown		158,800
Accumulated Depreciation (w4) not shown		(55,480)
Total Non-Current Assets		103,320

Current Assets

Bank Balance (w1) not shown	31,560	
Investment	8,000	
Current Assets (31/12/2013)	14,800	
	54,360	
Current Liabilities (w5) not shown	(24,800)	
Net Current Assets		29,560
Net Assets		**132,880**

Equity and Liabilities

Revenue balance	106,680
Capital Fund	(16,200)
Total Equity	90,480

Non- Current Liabilities

Loans Outstanding	42,400
Total Non- Current Liabilities	**42,400**
Total Equity and Liabilities	**132,880**

Question 4

Federal Republic of Lamard

Cash Flow Statement For The Year Ended 31st December 2013

Receipts	**2013 ₦'M**	**2012 ₦'M**
Share of Statutory Allocation	13,500,000	8,450,000
Value added tax	2,295,000	2,196,000
Personal Income Tax - Direct Tax	10,500,000	7,200,000
Allocation for Collection Cost	3,075,000	3,305,000
Grants and Subvention Received	75,000	87,000
Miscellaneous Revenue	375,000	425,000
Total Receipts	**29,820,000**	**21,663,000**

Personnel Costs	7,200,000	9,600,000
Consolidated Revenue Charges	2,250,000	3,750,000
Overhead Charges	1,500,000	1,200,000
Subvention to Parastatals	1,800,000	1,900,000
Total Payments	12,750,000	16,450,000
Net Cash Flow From Operating Activities	**17,070,000**	**5,213,000**
Cash Flow From Investing Activities		
Sales of Federal Govt. Properties in Lekki Peninsula	1,050,000	
Purchases and Construction of Non-Current Assets	(2,500,000)	(2,700,000)
Purchases of Marketable Securities	(500,000)	(300,000)
Sales of Government Property	375,000	485,000
Rent of Government Property	285,000	295,000
Net Cash Flow From Investing Activities	**(1,290,000)**	**(2,220,000)**
Cash Flow From Financing Activities		
Proceeds from Loans and other Borrowing	3,000,000	1,000,000
Repayment of loan	(870,000)	(243,000)
Net Cash Flow From Financing Activities	**2,130,000**	**757,000**
Net Increase In Cash And Cash Equivalent	17,910,000	3,750,000
Cash and Cash Equivalent 1st Jan.	3,750,000	-
Cash and Cash Equivalent 31st December.	**21,660,000**	**3,750,000**

SECTION C

Question 5

(a) **Allocation function**. Allocation refers to any activities of government which affect the type, quantity and quality of goods and services being produced. Allocation by government includes funding public education, subsidizing health care services, subsidizing petroleum products and fertilizers, taxing cigarettes, regulating factory and automobile emissions, constructing roads and setting prices for electric power supplied by private firms to mention a few.

Allocation activities of government generally are justified if public goods, merit goods on the basis or external effects. Public goods are goods or services having the properties that; (1) they cannot be provided to one citizen without being supplied also to others and (2) once provided for one citizen, the cost of providing them to others is zero. In this category are defence and streetlights.

Merit goods are goods which consumers will not buy in sufficient quantities if they are not compelled to do so through government. Examples are health care services, public education, safety features in a car and so on. Both public and merit goods are essential to human lives, but will not be produced at all or will not be adequately supplied if left to the private sector.

(b) **Redistribution function**. In a market economy, the distribution of income is based on each person's contribution to production. Granting the differences in natural and acquired abilities, distribution of income determined exclusively by the market will produce high inequality whereby some people are very wealthy, while others are very poor. To redistribute income, government uses taxes and transfer payments. To achieve rich-to-poor redistribution, tax revenue is used to finance transfer payments in the form of free education, subsidised public health care services, and other pro-poor welfare programs.

(c) **Economic stabilization**. Economic stabilization policies are all policies designed to promote price stability, full employment and economic growth. It also involves government actions designed to ensure stability of foreign exchange rate and interest rate in the money market. The term *macroeconomic stability* is used to describe general stability of prices of goods and services, exchange rate and interest rate, and it is a vital prerequisite for economic growth and development.

(d) **Regulation of private business**. This function is performed through a re-growth of many specialized agencies of government. In Nigeria, for instance, the Standard Organization of Nigeria (SON) and National Ford and Drug Commission (NAFDAC) were established by the Federal Government to ensure that high-quality and welfare-enhancing goods are produced as against goods that endanger human lives.

(e) **Administration of justice**. The maintenance of the police and services rendered by the courts have important economic consequences. The police is maintained to protect human lives and properties, while the courts adjudicates to sanction breaches of contracts. The level of economic activities and standards of living will be low where people commit acts of illegality with impunity.

Question 6

(a) The benefits of public debt that should be identified and explained include the following:

(i) Rapid economic growth and welfare improvement would be achieved if borrowed funds are utilized to finance economically and socially viable projects.

(ii) The confidence of local and foreign investors in the economy would be boosted if public debt is used to control inflation. New and additional investment would lead to creation of new jobs and greater output of welfare- enhancing goods and services.

(iii) If borrowed funds are spent on public works, standards of living will improve, especially via creation of new jobs and the transformation of the environment.

(iv) Public debt reduces income inequalities if it is spent on social, security and projects that are of more benefit to the lower income groups.

(v) Those who lend money to government by purchasing government securities, instead of keeping idle savings, will become richer as they acquire additional assets to boost their wealth portfolio.

(b) Disadvantages of public debt that should be identified and explained include the following:

(i) Excessive government borrowing within the economy tends to crowd out private investments. That is, government competes with private companies in the money market and deprive them loanable funds they needed to grow their activities.

(ii) It imposes future obligation on tax payers when borrowed funds are diverted to prestigious or white-elephant projects that have no direct relevance to economic growth and development.

(iii) Funding excessive interest rate on public debt in hard currency deprives the nation of foreign exchange needed to procure critical inputs, especially in a country like Nigeria that is highly import-dependent with respect to inputs required in the industrial sector. This leads to declining industrial capacity utilization and loss of industrial jobs.

(iv) Borrowing results in unbearable conditionalities of the International Monetary Fund (IMF), like trade liberalization, withdrawal of subsidies on essential products, expenditure reduction, non-increase of salary of public servants and other stiff conditions that carry grave repercussion on living standards of the people.

(v) It is an ineffective way of controlling inflation. As a matter of fact, debt servicing may create inflationary effects at a time of full-employment. Specially, the financing of domestic debt usually cause aggregate demand to increase when creditors bring the income generated through their investment in government securities into circulation.

(vi) Debt-servicing problem is aggravated when short and medium-term loans are committed to long-term projects with amortization becoming due before projects are completed.

(c) Concluding remarks

Since debt has benefits and consequences as discussed, it is therefore, necessary that government should think very well before incurring debt. Thus, the net effect of debt depends on what the debt incurred is used for. If debt is used for investment purposes, it is likely that the debt will repay itself as well as be beneficial to the country. However, if debt is used for consumption purposes it creates a burden that needs to be settled over time. The conclusion therefore is that whether debt will be beneficial or have negative consequences depends on what the debt is used to finance.

Question 7

(a) Planning-Programming-Budgeting System (PPBS) is a framework for the presentation and analysis of information to assist in reaching decisions about resource allocation to a public sector programme, in this case education programme. It seeks to establish what a government department (e.g. state Ministry of Education) is aiming to achieve in terms of what its objectives are; what activities contribute to these objectives; what resources or inputs contribute to these activities; and what the outputs are (what is being achieved).

(b) Towards achieving the rational method of management into education programmes, which is usually bedeviled by difficulties of measurement and evaluation, PPBS proceeds by undertaking the following steps

(i) Breaking down broad education programmes into detailed sub-programmes.
(ii) Devising methods of measuring the level of output of the sub-programmes, and of evaluating the resources required to provide this output.
(iii) Clarifying the objective laid down by the policy makers in respect of the broad education programmes, and possibly sub-programmes.
(iv) Finding the least-cost ways of meeting these objectives- cost effectiveness analysis (CEA) of the objectives.
(v) Clarifying the ˜opportunity costsò of these objectives and thus in turn helping to formulate future education policy objectives.