Cost Of Capital And Project
- Specific Discount Rates

- Three Students Win ICAN Essay Competition Scholarship
- ICAN Holds 47th Annual Conference In Grand Style
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Obayemi Temitope Esther
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- Subject Prize:
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  * 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
- Winner in PPFA, OSA & OA

Tijani Quadiri
- 2nd Overall Best in ATS III
- Winner in Cost Accounting & Management

Longo Oluwafemi O.
- 1st Overall in ATS II Sept. 2015 Diet Exam
- Best Male Qualifying Student

...Our Symbol of Commitment to Your Welfare
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."

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.

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 plague, laptop and scholarship to write ICAN professional examinations. The three winners are:

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


In his welcome address, the ICAN President, Isma’ilu Muhammadu Zakari, FCA, declared that one unique feature of the conference is the presentation and launching of the ICAN Accountability
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, 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. Samin Danja entertained the participants. There was also an open raffle draw in which a member of the Institute, Mr. Adetok 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: Nwabufo 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.
This article, the second in a series of two, looks at how to apply CAPM when calculating a project-specific discount rate to 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:

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

Where:
- **\(\beta_a\)** = asset beta
- **\(\beta_e\)** = equity beta
- **\(\beta_d\)** = debt beta
- **\(V_e\)** = market value of company’s shares
- **\(V_d\)** = market value of company’s debt
- **\(T\)** = 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 Ungereared
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 (\(\beta_d\)) 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 (\(\beta_e\)). 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:
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:

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

\[
\beta_a = \text{asset beta} \\
\beta_e = \text{equity beta} \\
V_e = \text{market value of company’s shares} \\
V_d = \text{market value of company’s debt} \\
(V_e + V_d(1 - T)) = \text{after tax market value of company} \\
T = \text{company profit tax rate}
\]

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-geared equity beta:

\[
E(r_i) = R_f + \beta_i(E(r_m) - R_f)
\]

\[
E(r_i) = \text{return required on financial asset } i \\
R_f = \text{risk-free rate of return} \\
\beta_i = \text{beta value for financial asset } i \\
E(r_m) = \text{average return on the capital market}
\]

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.
(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. 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 x 75/(75 + 25(1 – 0.25)) = 0.64

Asset beta for Obi plc = 0.90 x 60/(60 + 40(1 – 0.25)) = 0.60

Asset beta for Tokuns = 1.20 x 50/(50 + 50(1 – 0.25)) = 0.688

Averaging the asset betas:

\[
\frac{(0.64 + 0.60 + 0.688)}{3} = \frac{1.928}{3} = 0.643
\]

Regearing the average asset beta:

\[
0.643 = \frac{\beta_e \times 80}{80 + 20(1 – 0.25)} = \beta_e \times 0.842.
\]

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.
List Of Recognised Tuition Centres

1 Able God Professional Tutors
   47, Ikorony /Egan Road, Market B/stop, Igando, Lagos.

2 Accountancy Tutors Nigeria Limited
   1-9, Ilorin/Katsina Road, By Independence Way, Marafa Estate, Kaduna State.

3 Accountancy Training Centre, Makurdi
   Uni-Agric Road, Opposite First Gate, Makurdi, Benue State.

4 Accuracy Tutors, Aba
   No 76, St Michael’s Road, Aba, Abia State.

5 Alphamarshall Professional Limited
   72, Mbano Street, Phase 3, Kubua, Abuja.

6 Atlas Professionals Limited, Ota, Ogun
   BELL University of Technology, Ota Ogun State.

7 Best Option Tuition Centre, Makurdi
   9, Kashim Ibrahim Road, Makurdi, Benue State.

8 Bratim Training Centre Limited
   Ground Floor, National Library Building, Adjacent Reiz Continental Hotel, Central Area, Abuja.

9 Career Intelligent Professionals

10 Crest Professional Tutors

11 Deo-Gratia Professional Tutors, Oshogbo
    25, Oyedokun Street, Ago-Wande, Oke -Onitea Road, Oshogbo, Osun State.

12 Edge Educational Services & Logistics
    47, Athur Eze Avenue (Emmaus House), Awka, Anambra State.

13 Edo Wyse School of Professional
    75/98, Arthur Eze Avenue, by Unizik Temp-Site Junction, Awka, Anambra State.

14 Excel Professional Centre
    11, Queen Elizabeth Road, Mokola, Ibadan, Oyo State.

15 Excellent Associates Tutors
    African Church Model College, College Road, Ifako-Ijaiye, Ogba Lagos.

16 Excelfent Tutors, Abakaliki
    7, Water Works Road, Abakaliki.

17 Foresight Professional Institute
    24 Road Opposite H Close, Festac Town, Lagos.

18 Gusau Business School
    Off Sokoto Road, Opp. Janyau Primary School, Gada Biyu, P.O.Box 315, Gusau, Zamfara State.

19 Galaxy Professional Tutor & Consultant

20 Global Focus Initiative Consulting Co.

21 Integrity Professional Academy, Warri
    253 Warri Sapele Road, Warri.

22 IQ Bryte, Ipaja Lagos
    Towergate Private School, Falola Street, Off Church B/Stop Ipaja, Lagos.

23 JK Consulting Co. Ltd, Abuja
    4th Floor, Wing B, City Plaza; Plot 596, Ahmadu Bello way, Garki II, Abuja.

24 Knight Business School, Oyingbo
    80, Murtal Mohammed Way, Ebute-Metta.

25 Jodoc Accountancy Tutors
    St John Catholic Church Primary School, Rumuokwurushi, Portharcourt, Rivers State.

26 Maximum Professional Associate
    27, Duduyemi Street(Salvation House) off Olugbede Market, Egbeda.

27 Legacy Associate Limited
    Olatunji HSE/Legacy HSE, 299/295, Ikorodu Rd, Idiroko B/stop, Maryland, Lagos.
<table>
<thead>
<tr>
<th>No.</th>
<th>Company Name</th>
<th>Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>28</td>
<td>MIKON Professional Tutor</td>
<td>34A, Boundary Road, G.R.A. Benin City, Edo State.</td>
</tr>
<tr>
<td>29</td>
<td>MSL, School of Accountancy &amp; Mgt. Studies</td>
<td>L8, Ahmadu Bello Way, Katsina Round-about, same building with Studio 24, Kaduna, Kaduna State</td>
</tr>
<tr>
<td>30</td>
<td>Networth Professional Tutors, V/I</td>
<td>1 Bishop Aboyade Cole Street, Opposite ExxonMobil House, Off Ozumba Mbadiwe, V/I</td>
</tr>
<tr>
<td>31</td>
<td>Onitsha Business School, Onitsha</td>
<td>19A Lady Regina Nwankwu Avenue, GRA, Onitsha, Anambra State</td>
</tr>
<tr>
<td>32</td>
<td>Pass Associates Limited</td>
<td>9 - 11, Ogunyade Street, Gbagada, Lagos</td>
</tr>
<tr>
<td>33</td>
<td>Password Professional Tutors, Akoka</td>
<td>Oluwole Pry School Complex, Beside Unilag Main gate, Akoka</td>
</tr>
<tr>
<td>34</td>
<td>PLUM Academy Limited</td>
<td>336, Lagos Abeokuta Expressway, Super B/stop, Abule-Egba, Lagos</td>
</tr>
<tr>
<td>35</td>
<td>Portharcourt School of MGT &amp; Economics</td>
<td>6B, Abeokuta Street, D/Line Port Harcourt, Rivers State</td>
</tr>
<tr>
<td>36</td>
<td>POSSE Associates Tutors, Enugu</td>
<td>WTC Primary School Compound, Off WTC B/Stop, Near University of Nigeria, Enugu Campus (UNEC)</td>
</tr>
<tr>
<td>37</td>
<td>Potec Training Centre, Port-Harcourt</td>
<td>1 Chinda Street, Off Stadium Road, Opposite BEKO Port-Harcourt</td>
</tr>
<tr>
<td>38</td>
<td>Precept with Passion</td>
<td>164, Iju Road, Opposite Fagba grammar school, Station Bus - Stop, Agege Lagos</td>
</tr>
<tr>
<td>39</td>
<td>Professional Tutor for Success</td>
<td>PTS Building, Opposite NUJ Secretariat, Iwo/Ibadan Road, Dada Estate, Oshogbo, Osun State</td>
</tr>
<tr>
<td>40</td>
<td>Protrac Associates Limited</td>
<td>1, Lagos Road, Ikorodu, Lagos</td>
</tr>
<tr>
<td>41</td>
<td>Real Professional Tutors</td>
<td>Wuse Zone 6, School Compound, behind Oando filling Station, Abuja</td>
</tr>
<tr>
<td>42</td>
<td>Risk Free Standards Associates Limited</td>
<td>5, Olusoji Idowu Street, Off Association Avenue, Ilupeju, Obanikoro B/Stop, Lagos</td>
</tr>
<tr>
<td>43</td>
<td>Safe Associate Limited</td>
<td>31, Ore-Ofe Street, Gbaja, Off Barracks B/Stop, Onitolo, Opposite Laspotech Surulere Campus, Lago</td>
</tr>
<tr>
<td>44</td>
<td>Salvage Professional School, Ibadan</td>
<td>9, Kabiawu Street, Opp. Veterinary, Mokola Ibadan</td>
</tr>
<tr>
<td>45</td>
<td>Sapati International School</td>
<td>Off Ajase-Ipo Road, Sapati-Ile Road, Ilorin, Kwara State</td>
</tr>
<tr>
<td>46</td>
<td>Sky Associates Nigeria Limited</td>
<td>LEA Primary School, Wuse Zone 3, Abuja</td>
</tr>
<tr>
<td>47</td>
<td>Soteria Business School</td>
<td>Beside DB Petrol Station, Bola Ige B/Stop, Liberty Road, Oke-Ado, Ibadan, Oyo State</td>
</tr>
<tr>
<td>48</td>
<td>Starry gold Academy</td>
<td>Suit D2 Alhaja Humani Shopping Mall, 82 Kudirat Abiola Way, Oregun, Lagos</td>
</tr>
<tr>
<td>49</td>
<td>Students SWOT Associate, Enugu</td>
<td>3, Independent Layout, PRODA office, Opposite Hotel Presidential, Enugu</td>
</tr>
<tr>
<td>50</td>
<td>Students PYE Nigeria Limited</td>
<td>14, Oweh Street, Jibowu Lagos</td>
</tr>
<tr>
<td>51</td>
<td>Superiorpoints Associates Limited</td>
<td>148 Olojo Drive, FCMB Building, Opposite Ojo Local Govt Secretariat, Ojo</td>
</tr>
<tr>
<td>52</td>
<td>Sure Success Better Consult, Lokoja</td>
<td>Ule Close, GRA, Lokoja, Kogi State</td>
</tr>
<tr>
<td>53</td>
<td>SQUAD Associates</td>
<td>Ojodu Junior Grammar School, Grammar School B/S Berger</td>
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<td>54</td>
<td>Synergy Professionals</td>
<td>2, Afric Road, Off Funsho Williams Avenue, Iponri, Surulere, Lagos State</td>
</tr>
<tr>
<td>55</td>
<td>Taraba Business School, Jalingo</td>
<td>Opposite Civil Service Commission, 183 Hammaruwa Way, Jalingo</td>
</tr>
</tbody>
</table>
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:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>N3,144,000</td>
</tr>
<tr>
<td>Commission</td>
<td>525,000</td>
</tr>
<tr>
<td>Rent received</td>
<td>1,350,000</td>
</tr>
<tr>
<td>Gain from sale of shares</td>
<td>300,000</td>
</tr>
<tr>
<td>Pension received from employment</td>
<td>450,000</td>
</tr>
<tr>
<td>Benefits-in-kind (all assessable)</td>
<td>225,000</td>
</tr>
<tr>
<td>Interest on Fixed Deposit (gross)</td>
<td>180,000</td>
</tr>
</tbody>
</table>

(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:

a. 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

b. Explain briefly the following:

   i. Itinerant worker (1 Mark)
   ii. Non-resident individual (1 Mark)
   iii. Earned income (1 Mark)
   iv. Resident individual (1 Mark)
   v. Unearned income (1 Mark)

c. List FIVE dividends exempted from tax. (5 Marks)

Question 2

a. 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)

b. 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)
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:

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Profit</td>
<td>65,000,000</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>5,100,000</td>
</tr>
<tr>
<td>Office expenses</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Provision for bad debts</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>2,500,000</td>
</tr>
<tr>
<td>Donations</td>
<td>400,000</td>
</tr>
<tr>
<td>Training of staff</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Medical expenses</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Travelling expenses</td>
<td>500,000</td>
</tr>
<tr>
<td>Interest on loan granted by Seyi</td>
<td>400,000</td>
</tr>
<tr>
<td>Interest on Capital Accounts:</td>
<td></td>
</tr>
<tr>
<td>Muyiwa</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Seyi</td>
<td>600,000</td>
</tr>
<tr>
<td>Akpan</td>
<td>250,000</td>
</tr>
<tr>
<td></td>
<td>2,050,000</td>
</tr>
</tbody>
</table>

Net Profit for the year = 21,650,000

Additional information is as follows:

(i) Donation was for laying of foundation of the new St Peter s Church;

(ii) 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;

(iii) 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;

(iv) 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:

a. The Adjusted Income of Museak & Co (Chartered Accountants) for tax purposes. (6 Marks)

b. The Chargeable Income of each Partner (6 Marks)

c. 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:

a. The options open to the Revenue Authority on receipt of a Letter of Objection. (2 Marks)

b. The content of a Notice of Objection (3 Marks)

c. The jurisdiction of the Tax Appeal Tribunal (6 Marks)

d. The conditions to be fulfilled for an appeal to the Federal High Court to be valid. (4 Marks)

e. 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:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>1,909,425</td>
</tr>
<tr>
<td>Less Expenses:</td>
<td></td>
</tr>
<tr>
<td>Transport and travelling</td>
<td>93,000</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>224,000</td>
</tr>
<tr>
<td>Printing and stationery</td>
<td>25,000</td>
</tr>
<tr>
<td>Donation to ICAN building fund</td>
<td>5,000</td>
</tr>
<tr>
<td>Audit fees</td>
<td>20,000</td>
</tr>
<tr>
<td>Stamp duty on increase in share capital</td>
<td>75,000</td>
</tr>
<tr>
<td>Rent</td>
<td>50,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>234,450</td>
</tr>
<tr>
<td>Tertiary Education Tax</td>
<td>37,325</td>
</tr>
<tr>
<td>Net profit</td>
<td><strong>1,145,650</strong></td>
</tr>
</tbody>
</table>

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:

- Motor vehicles: N40,000
- Furniture and Fittings: N60,000
- Plant: N70,000

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

- 2 Motor vehicles: N840,000
- 4 Furniture and Fittings: N160,000
- 1 Generating set: N300,000

**You are required to:**

a. Compute Capital Allowances assuming that assets purchased in 2011 have been used for two years. (7 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)

**NGERIAN TAX RATES**

1. **CAPITAL ALLOWANCES**

<table>
<thead>
<tr>
<th>Description</th>
<th>Initial %</th>
<th>Annual %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Equipment</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>Motor Vehicles</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>Office Buildings</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Furniture and Fittings</td>
<td>25</td>
<td>20</td>
</tr>
<tr>
<td>Industrial Buildings</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Non-Industrial Buildings</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>- Agricultural Production</td>
<td>95</td>
<td>Nil</td>
</tr>
<tr>
<td>Plant and Machinery – Others</td>
<td>50</td>
<td>25</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Taxable Income (N)</th>
<th>Rate of Tax (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>300,000</td>
</tr>
<tr>
<td>Next</td>
<td>300,000</td>
</tr>
<tr>
<td>Next</td>
<td>500,000</td>
</tr>
<tr>
<td>Next</td>
<td>500,000</td>
</tr>
<tr>
<td>Next</td>
<td>1,600,000</td>
</tr>
<tr>
<td>Over</td>
<td>3,200,000</td>
</tr>
<tr>
<td></td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>24</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary</td>
<td>3,144,000</td>
<td></td>
</tr>
<tr>
<td>Commission</td>
<td>525,000</td>
<td></td>
</tr>
<tr>
<td>Bonus</td>
<td>90,000</td>
<td></td>
</tr>
<tr>
<td>Benefits-in-kind</td>
<td>225,000</td>
<td></td>
</tr>
<tr>
<td><strong>GROSS INCOME</strong></td>
<td>3,984,000</td>
<td></td>
</tr>
<tr>
<td>Consolidated Relief Allowance (see working)</td>
<td>(996,800)</td>
<td></td>
</tr>
<tr>
<td><strong>Chargeable Income</strong></td>
<td>2,987,200</td>
<td></td>
</tr>
</tbody>
</table>

Tax Exempt Items:
- Insurance: 180,000
- Mortgage Interest: 90,000 (270,000)

<table>
<thead>
<tr>
<th></th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income Tax Payable</strong></td>
<td></td>
</tr>
<tr>
<td>1st N300,000 @ 7%</td>
<td>21,000</td>
</tr>
<tr>
<td>Next N300,000 @ 11%</td>
<td>33,000</td>
</tr>
<tr>
<td>Next N500,000 @ 15%</td>
<td>75,000</td>
</tr>
<tr>
<td>Next N500,000 @ 19%</td>
<td>95,000</td>
</tr>
<tr>
<td>Next N1,117,200 @ 21%</td>
<td>234,612</td>
</tr>
<tr>
<td><strong>N2,717,200</strong></td>
<td>458,612</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary</td>
<td>3,144,000</td>
<td></td>
</tr>
<tr>
<td>Commission</td>
<td>525,000</td>
<td></td>
</tr>
<tr>
<td>Bonus</td>
<td>90,000</td>
<td></td>
</tr>
<tr>
<td>Benefits-in-kind</td>
<td>225,000</td>
<td></td>
</tr>
<tr>
<td><strong>GROSS INCOME</strong></td>
<td>3,984,000</td>
<td></td>
</tr>
<tr>
<td>Consolidated Relief Allowance (See Working)(996,800)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Chargeable Income</strong></td>
<td>2,987,200</td>
<td></td>
</tr>
</tbody>
</table>

Tax Exempt Items:
- Insurance Premium: 180,000

<table>
<thead>
<tr>
<th></th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income Tax Payable</strong></td>
<td></td>
</tr>
<tr>
<td>1st N300,000 @ 7%</td>
<td>21,000</td>
</tr>
<tr>
<td>Next N300,000 @ 11%</td>
<td>33,000</td>
</tr>
<tr>
<td>Next N500,000 @ 15%</td>
<td>75,000</td>
</tr>
<tr>
<td>Next N500,000 @ 19%</td>
<td>95,000</td>
</tr>
<tr>
<td>Next N592,800 @ 21%</td>
<td>124,488</td>
</tr>
<tr>
<td><strong>N2,192,800</strong></td>
<td>348,488</td>
</tr>
</tbody>
</table>

c. 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.

d. 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.

e. 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.

f. 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.

g. 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.

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

<table>
<thead>
<tr>
<th>MARKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. 1 mark each subject to a maximum of any 10 transactions</td>
</tr>
<tr>
<td>b. 1 mark each subject to a maximum of any 10 procedures</td>
</tr>
</tbody>
</table>

Solution to Question 3

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

<table>
<thead>
<tr>
<th>N</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit for the year</td>
<td>43,350,000</td>
</tr>
<tr>
<td>Add: Disallowable expenses:</td>
<td></td>
</tr>
<tr>
<td>Provision for bad debts</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Repairs and Maintenance</td>
<td>550,000</td>
</tr>
<tr>
<td>Donations</td>
<td>400,000</td>
</tr>
<tr>
<td>Medical expenses</td>
<td>500,000</td>
</tr>
<tr>
<td>4,950,000</td>
<td></td>
</tr>
<tr>
<td>Adjusted Income</td>
<td>48,300,000</td>
</tr>
<tr>
<td>Agreed Capital allowances</td>
<td>(4,000,000)</td>
</tr>
<tr>
<td>Distributable Income</td>
<td>44,300,000</td>
</tr>
</tbody>
</table>
(b) Computation of Partners’ Chargeable Income

<table>
<thead>
<tr>
<th></th>
<th>Muyiwa</th>
<th>Seyi</th>
<th>Akpan</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on Capital</td>
<td>1,200,000</td>
<td>600,000</td>
<td>250,000</td>
<td>2,050,000</td>
</tr>
<tr>
<td>Share of Profit (6:4:2)</td>
<td>22,150,000</td>
<td>14,766,667</td>
<td>7,383,333</td>
<td>44,300,000</td>
</tr>
<tr>
<td>Interest on Loan</td>
<td>0</td>
<td>400,000</td>
<td>0</td>
<td>400,000</td>
</tr>
<tr>
<td>Partners’ Assessable Income</td>
<td>23,350,000</td>
<td>15,766,667</td>
<td>7,633,333</td>
<td>46,750,000</td>
</tr>
<tr>
<td>Consolidated Relief Allowance</td>
<td>(4,903,500)</td>
<td>(3,353,333)</td>
<td>(1,726,667)</td>
<td>(9,983,500)</td>
</tr>
</tbody>
</table>

Tax Exempt Items:
- Contribution to Pension Scheme: (0) (0) (500,000) (500,000)

**Chargeable Income**

<table>
<thead>
<tr>
<th></th>
<th>Muyiwa</th>
<th>Seyi</th>
<th>Akpan</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>18,446,500</td>
<td>12,413,334</td>
<td>5,406,666</td>
<td>36,266,500</td>
</tr>
</tbody>
</table>

(c) Computation of Tax Payable by Partners:

<table>
<thead>
<tr>
<th></th>
<th>Muyiwa</th>
<th>Seyi</th>
<th>Akpan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chargeable Income</td>
<td>18,446,500</td>
<td>12,413,334</td>
<td>5,406,666</td>
</tr>
<tr>
<td>First N300,000@7%</td>
<td>21,000</td>
<td>21,000</td>
<td>21,000</td>
</tr>
<tr>
<td>Next N300,000@11%</td>
<td>33,000</td>
<td>33,000</td>
<td>33,000</td>
</tr>
<tr>
<td>Next N500,000@15%</td>
<td>75,000</td>
<td>75,000</td>
<td>75,000</td>
</tr>
<tr>
<td>Next N500,000@19%</td>
<td>95,000</td>
<td>95,000</td>
<td>95,000</td>
</tr>
<tr>
<td>Next N1,600,000@21%</td>
<td>336,000</td>
<td>336,000</td>
<td>336,000</td>
</tr>
<tr>
<td>Above N3,200,000@24%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Muyiwa: 18,446,500 – N3,200,000@24% 3,659,160
Seyi: 12,413,334 – N3,200,000@24% 2,211,200
Akpan: 5,406,666 – N3,200,000@24% 529,600
4,219,160 2,771,200 1,089,600

**NOTES:**

i. Consolidated Relief Allowance is the higher of N200,000 or 1% of Gross Income plus 20% of Gross Income.

ii. 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

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:

(i) 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

(ii) 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:

i. be in writing and addressed to the Chairman, Federal Inland Revenue Service;

ii. 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.

iii. be raised within thirty days of the date of service of the Notice of Assessment.

(c) Jurisdiction of the Tax Appeal Tribunal

i) 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.

ii) 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:

(i) Amount involved must not be less than N400;

(ii) The appeal must be on points of law;

(iii) 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

(iv) 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

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

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

<table>
<thead>
<tr>
<th>Motor Vehicle</th>
<th>Furniture &amp; Fittings</th>
<th>Plant</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Allowance</td>
<td>50</td>
<td>25</td>
<td>50</td>
</tr>
<tr>
<td>Annual Allowance</td>
<td>25</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>TWDV b/f</td>
<td>N</td>
<td>N</td>
<td>70,000</td>
</tr>
<tr>
<td>Cost – Additions</td>
<td>840,000</td>
<td>160,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Initial</td>
<td>(420,000)</td>
<td>(40,000)</td>
<td>(150,000)</td>
</tr>
<tr>
<td>Annual – Old</td>
<td>(20,000)</td>
<td>(20,000)</td>
<td>(35,000)</td>
</tr>
<tr>
<td>Annual – New</td>
<td>(105,000)</td>
<td>(24,000)</td>
<td>(37,500)</td>
</tr>
<tr>
<td>Investment allowance</td>
<td>851,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>30,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>881,500</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Workings

Initial: 

\[
\text{MV} = 50\% \times 840,000 = 420,000\]

\[
\text{F&F} = 25\% \times 160,000 = 40,000\]

\[
= 105,000\]

Annual 1:

\[
\text{TWDV} = \frac{420,000}{\text{2years}} = 20,000\]

\[
\text{MV} = 60,000 = 20,000\]

\[
70,000 = 35,000\]

Annual 2:

\[
\text{MV} = 840,000 - 420,000 = 400,000\]

\[
\text{F&F} = 160,000 - 40,000 = 120,000\]

\[
\text{PLANT} = \frac{70,000}{\text{2years}} = 35,000\]

\[
= 105,000\]

\[
= 24,000\]

\[
= 37,500\]
The Examiner

CAMPBELL COMPANY LIMITED

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

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount (N)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit</td>
<td>1,145,650</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
</tr>
<tr>
<td>Stamp duty on increase in Share Capital</td>
<td>75,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>234,450</td>
</tr>
<tr>
<td>Tertiary Education Tax</td>
<td>37,325</td>
</tr>
<tr>
<td>Assessable Profit</td>
<td>1,492,425</td>
</tr>
<tr>
<td>Capital allowances:</td>
<td></td>
</tr>
<tr>
<td>Brought forward</td>
<td>70,000</td>
</tr>
<tr>
<td>For the year</td>
<td>881,500</td>
</tr>
<tr>
<td>Relieved</td>
<td>(951,500)</td>
</tr>
<tr>
<td>TOTAL PROFIT</td>
<td>540,925</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>MARKS</th>
<th>MARKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>1/3 mark each for 21 entries</td>
</tr>
<tr>
<td>b.</td>
<td>Heading</td>
</tr>
<tr>
<td></td>
<td>Net Profit</td>
</tr>
<tr>
<td></td>
<td>Stamp duty</td>
</tr>
<tr>
<td></td>
<td>Depreciation</td>
</tr>
<tr>
<td></td>
<td>Tertiary Education Tax</td>
</tr>
<tr>
<td></td>
<td>Total of disallowable expenses</td>
</tr>
<tr>
<td></td>
<td>Assessable Profit</td>
</tr>
<tr>
<td></td>
<td>Capital allowances</td>
</tr>
<tr>
<td></td>
<td>Total Profit</td>
</tr>
<tr>
<td></td>
<td>Companies Income Tax</td>
</tr>
<tr>
<td></td>
<td>Tertiary Education Tax</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 offsettable 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:

i. Name of the taxpayers who suffered the deductions;

ii. Their addresses;

iii. The nature of their activities/services and period covered;

iv. Their tax file numbers [now Tax Identification Number (TIN)];

v. The total amount payable;

vi. The rate of tax applied;

vii. The amount of tax withheld;

viii. The balance paid to the taxpayer;

ix. The tax contract for which returns were being made;

x. The date of payment; and

xi. 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.
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- Entitles the holder to belong to a quasi-professional association with its own designatory letters (AAT)

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- National Certificate of Education (NCE)
- Any other qualification approved by ICAN

Relevant qualifications may be considered for exemption

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- **PART II**

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

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