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ICAN

50 years

ACCURACY & INTEGRITY

Honouring Our Past, Securing Our Future

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IN THIS ISSUE

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Editor's Note

The Institute has been awash with celebration since September 1, 2015 when it clocked 50 years. Apart from the golden jubilee celebration, the Institute also held its 45th Annual Accountants' Conference within the period. Various activities such as book launch, essay competition among students of tertiary institutions, health walk and anniversary lecture were performed during the period.

*The essay competition with the topic **"The Next 50 years of Professional Accountancy Practice: Making ICAN Globally Relevant"** was highly competitive and the best 10 entries were selected by KPMG professional services for various prizes. The winners were invited to the 45th Annual Accountants' Conference in Abuja where they were presented with their various prizes. Details of all these are included in this edition.*

It has been observed that the effect of gearing on the cost of capital and the optimum capital structure are areas students often avoid for lack of understanding and clarity. Therefore, in our lead article: "Optimal Capital Structure, Gearing and the Arbitrage Process: A Review" the author, Ben Ukaegbu reviews the capital structure theories and illustrates the arbitrage process with typical examination question scenario.

He explained that what the students require is an understanding of the general principles and the appreciation of the earlier and subsequent work of Modigliani and Miller and not the ability to work through their proof.

Our regular column - The Examiner - is also published to serve as a guide to students on what the examiner wants and how students can approach questions. Your comments and contributions are welcome. Write to: corporateaffairs@ican.org.ng or aoowolabi@ican.org.ng

ICAN, Others Advise FG On Budget Implementation

The 51st President of the Institute, Otunba Olufemi Deru FCA and other well meaning Nigerians have called on President Muhammadu Buhari to embark on a drastic reform of the nation's economy in order to reposition it on the path to sustainable growth and development.

This call was made at a symposium organised by ICAN to deliberate on the Federal Government's 2015 Budget with the theme "Come Back Nigeria: The Nation's Fiscal Challenges and Way Forward for the New Administration".

In his welcome address, Otunba Deru said the Institute as a professional body believes that the nation's economy needs drastic reforms beyond cosmetic privatisation of government companies. He noted that it was imperative to begin this with the plugging of all revenue loopholes, revisiting and redefining priorities as a nation, slashing of cost of governance, investing more in capital goods as well as enforcing fiscal discipline.

According to him, "to make progress as a nation, we must move away from paying lip service to diversification of the economy to real action. Indeed, diversification of the economy should no longer be a dream but an urgent imperative".

Similarly, the former Governor of Central Bank of Nigeria and Emir of Kano, Mallam Muhammadu Sanusi who was the special guest of honour at the occasion noted that the issue of review of budgetary process had been discussed over the years without any realistic approach to tackle it.

He therefore advised the federal government to work on its revenue generation process.

Ten Students Win ICAN 50th Anniversary Essay Competition

Ten students have emerged as winners of the 50th Anniversary essay competition organized as part of activities to mark the Institute's golden jubilee celebrations. The title of the essay is "*The Next 50 years of Professional Accountancy Practice: Making ICAN Globally Relevant*"

The winners are: Meck Doramen Emmanuel (Bingham University, Karu); Adekunbi Ademola Oluwaseun (University of Ilorin); Akpan Aniebet-Abasi Pius (University of Calabar); Nnamani Chidinma Lynda (University of Nigeria, Nsukka); Sodeinde Adenike Oyindamola (Babcock University, Ilishan); Waheed Tunde Obafemi (The Polytechnic, Ibadan); Ibikunle Olumide Adedeji (Babcock University, Ilishan); Famosa Oluwaseyi (Obafemi Awolowo University, Ile-Ife); Elendu Testimony (University of Nigeria, Nsukka) and Madayese John Oluwashola (Obafemi Awolowo University, Ile-Ife).

Ten students of various higher institutions that won prizes in the essay competition organized by the Institute as part of activities to mark its 50th anniversary

The prizes which included plaque, certificate, laptop and scholarship to write ICAN examinations for the best three were presented to the winners at the International Conference Centre, Abuja, during the 45th Annual Accountants' Conference and 50th Anniversary celebration.

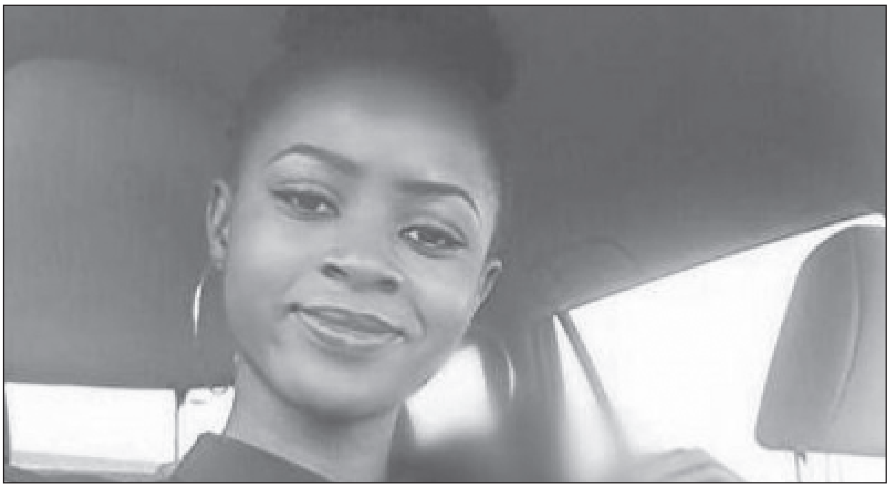
Sixty six (66) entries were received out of which 60 met the deadline. At the end of the thorough screening conducted by KPMG professional services, 37 essays scaled through the assessment out of which the best 10 were selected.

KPMG Professional Services partnered with ICAN to receive and screen the entries while PricewaterhosueCoopers Nigeria donated the Laptops presented to the students.

ICAN Commiserates With Family Of Electrocuted Unilag Student

The Institute has commiserated with the family of the University of Lagos undergraduate, Miss Oluchi Anekwe who was electrocuted by a damaged cable of Eko Electricity Distribution Plc (EKEDP) recently.

A delegation of the Institute to the family of Late Oluchi who was a student of the Accounting Technician Scheme West Africa (ATSWA) was led by the Deputy Registrar, Technical Services, Mr. Abel Asein. Prior to her untimely death, Oluchi had registered for the part II of the Institute's ATS examinations held in September.



Late Miss Oluchi Anekwe

It would be recalled that Oluchi who was a 300-level Accounting student at the University died on Tuesday, September 8, 2015 at about 7pm when an 11KV overhead transmission cable belonging to EKEDP electrocuted her.

ICAN Launches Residency Programme

The Institute has introduced a new scheme to encourage undergraduates to consider accounting as a career.

Under the scheme tagged "High School Residency/Awareness Programme" undergraduates in various departments were treated to a two-day session of seminars and mentoring talks on accounting and the benefits of belonging to the profession.

The maiden edition of the programme which was held recently at Bells University of Technology, Ota, Ogun State attracted 214 undergraduates from eight tertiary institutions across the country.

Speaking at the occasion, the 51st President of ICAN Otunba Samuel Olufemi Deru, FCA, said the programme was designed for young men and women to take advantage of a unique opportunity for a prosperous career in accountancy.

The president who was represented by the Institute's 2nd Deputy Vice President Alhaji Razaq Jaiyeola noted that it would also serve as part of the agent for modeling the youths who are the future hope of the nation.

"Having met the requirements set out by the technical committee for this programme, it is heartening to state that Bells University of Technology is the first tertiary institution to host ICAN on this programme and as we go round the six geo-political zones of the country, I am optimistic more tertiary institutions would take the advantage," he stated.

The Vice Chancellor of the University, Professor Isaac Adeyemi, who was represented by the Deputy Vice Chancellor, Professor Olusegun Oreola extolled the virtues of ICAN for its initiative in meeting up with its social responsibility in setting a path for youths at this crucial time.

He praised the Institute for opening its doors to people from other disciplines to be introduced to accounting profession. He assured the Institute that Bells University would uphold the confidence reposed in it and continue to partner with ICAN.

Examination Malpractice: ICAN Blacklists Professional Student

In line with its discipline and zero tolerance for examination malpractices, the Institute has blacklisted a student caught cheating during the May 2015 professional examination.

The student, **Bamidele Ayodele** was caught on May 19, 2015 at the Abuja Centre, with pre-written materials related to "Taxation" paper he was writing.

After a thorough investigation, the Council of the Institute approved that the student be blacklisted and banned from all the Institute's examinations. He was subsequently deregistered as a candidate of the Institute and have all the papers taken during the May 2015 diet professional examination cancelled.

ICAN Inaugurates Gombe Study Centre

In fulfillment of its mandate of producing world-class Chartered accountants, the Institute of Chartered Accountants of Nigeria (ICAN) in partnership with New Nigeria Development Company (NNDC) on Tuesday, October 27, 2015 inaugurated the NNDC-ICAN study centre in Gombe, the capital of Gombe state.

Speaking at the commissioning of the Centre, the 51st President of ICAN, Otunba Samuel Olufemi Deru, FCA urged members of the Institute in Gombe state to use the Centre to raise the bar of producing world class chartered accountants that would drive the development of the state and by extension, the nation.

He said: "The initiative provides an avenue to attract the best and brightest into the accountancy profession, training facility aimed at motivating tuition houses, produce competent and employable chartered accountants, as well as provide high quality human capital for the development of Nigeria".

Gombe State Governor, Alhaji Ibrahim Dankwabo, FCA, cutting the tape to formally open the NNDC-ICAN Study Centre in Gombe, assisted by ICAN President, Otunba Olufemi Deru, FCA and other dignitaries at the event.

Otunba Deru further expressed his appreciation to the executive governor of Gombe State, Alhaji Ibrahim Hassan Dankwanbo, FCA who graciously approved that Gombe State should join other states to leverage on the benefits of this laudable initiative.

The New Nigeria Development Company (NNDC) recently renewed its partnership agreement with ICAN to implement the initiative in many states in the northern part of the country.

It would be recalled that the NNDC-ICAN Study Centre was part of the Students Special Project (SSP) initiative of ICAN to assist regions with low number of chartered accountants, so that candidates would have access to study materials and conducive atmosphere to study and pass their examinations in order to qualify as chartered accountant. Ilorin, Kaduna, Kano, Bayelsa, Calabar have been benefitting from the initiative since inception in 2007.

PwC Endows Prize For Best Candidate In Management, Government And Ethics

PricewaterhouseCoopers (PwC), a firm of chartered accountants has endowed the sum of N10m to the Institute's prize fund.

The money was donated on behalf of the retired partners of the firm for the best candidate in management, governance, and ethics in the Institute's professional examination.

The gesture according to the firm was to support ICAN's cause to elicit the interest of Nigerian youths in the profession and also attract the best brains into accountancy.

The country senior partner of the firm, Mr. Uyi Akpata presented the donation to the Registrar/Chief Executive of ICAN, Mr. Rotimi Omotoso who expressed ICAN's appreciation to the firm.

According to him "PwC's commitment to the Institute's prize fund would further our cause to elicit the interest of Nigerian youths in accountancy profession".

Honouring Our Past, Securing Our Future:

ICAN Celebrates 50th Anniversary And 45th Annual Accountants' Conference

The Institute of Chartered Accountants of Nigeria (ICAN) which got its charter on september 1st through the act of parliament no 15 of 1965 is now 50 years old. Prior to becoming what is known today as ICAN, the key facilitator of the Institute, Mr. Akintola Williams and his colleagues felt strongly that there should be a body that would oversee the activities of Accountants and help improve the standard of accounting work in offices in the country having all qualified abroad. That was how the forerunner of the Institute - Association of Accountants in Nigeria (AAN) started. Five years after the Association was established, its membership had grown tremendously and the logical next step was to establish it as a professional body which it pursued with vigour leading to the granting of a charter status, an Act of Parliament No. 15 of 1965.

This necessitated a change of name to the Institute of Chartered Accountants of Nigeria in 1965. The act empowered the Institute to regulate and set standard of knowledge and skill to be attained by persons seeking to become members of the accountancy profession in Nigeria among other objectives.

Fifty years after, the Institute is still waxing strong and has produced over 40,000 chartered accountants and has over 120,000 students on its register. It conducts professional examinations twice in a year. It has not deviated from its vision to be a leading global professional body pursuing its mission to produce world-class Chartered Accountants, regulate and continuously enhance their ethical standards and technical competence in the public interest.

Largely, ICAN borrowed some ideas from established Institutes at the time especially the Institute of Chartered Accountants of England and Wales (ICAEW) in drawing up its charter. The implication was that ICAN was fashioned after ICAEW, which also collaborated with it on various aspects such as development of syllabus and mounting of examinations locally.

The Institute did not commence examinations locally until 1967 and ICAEW continued to supervise it until 1970 when ICAN conducted its first examination locally with its own resources and personnel here in Nigeria. ICAN is a founding member of the International Federation of Accountants (IFAC), the Pan African Federation of Accountants (PAFA) and the Association of Accountancy Bodies in West Africa (ABWA) where it currently plays leading roles. However, to commemorate the golden jubilee celebration, ICAN rolled out the drums and lined up various activities ranging from anniversary lecture on the theme "Honouring Our Past, Securing Our Future"; Health Walk; Book Launch; Essay competition among students of tertiary institutions and the grand finale at the 45th Annual Accountants' Conference that coincided with the golden jubilee celebration in September 2015.

The 45th Annual Accountants' conference was held between August 31 and September 4, 2015 at the International Conference Centre and Abuja Sheraton Hotels and Towers. The conference with the theme **"ICAN: Building on a Legacy of Service"** was declared open by President Muhammadu Buhari GCFR, represented by the Permanent Secretary, Federal Ministry of Finance, Mrs. Anastasia Mabi Daniel-Nwaobia.

Akintola Williams

The conference was attended by a total of 3,758 delegates including invited guests and resource persons drawn from Africa, Europe and America. Also, three serving state governors - the Executive Governor of Gombe State, Alh. Ibrahim Dankwambo, FCA, the Executive Governor of Lagos State, His Excellency, Mr. Akinwummi Ambode, FCA and the Executive Governor of Ogun State, His Excellency, Senator Ibikunle Amosun, CON, FCA, graced the occasion.

The lead paper, ***"Repositioning Nigeria for Sustainable Development: From Rhetoric to Performance"*** presented by the Vice President of Nigeria, Professor Yemi Osinbajo pointed to the fact that public interest can be referred to as the net benefits derived for, and procedural rigor employed on behalf of all society in relation to any action, decision or policy.

According to him, for actions, decisions and policies to advance the public interest, the benefits must not only outweigh the cost, the processes for reaching the decision must follow due process, be transparent, independent, participatory and publicly accountable.
After an exhaustive examination, brainstorming and deliberations on the theme and sub-themes through technical sessions, the conference participants agreed that current economic travails of the country should be seen as an opportunity for the government to effect policies that would result in the structural diversification of the economy for sustainable development.

Participants also identified corruption as the bane of sustainable and inclusive growth and development in the country and therefore recommended that financial incentives should be given to whistleblowers and informants who provide information to anti-corruption agencies like the Economic and Financial Crimes Commission (EFCC) and Independent Corrupt Practices Commission (ICPC) that ultimately result in the successful prosecution of financial crimes. It was also recommended that the incentive should not be less than 10% of the funds recovered from the perpetuators of the crime.

Declaring the conference open, the representative of President Muhammadu Buhari, Mrs. Anastasia Mabi Daniel-Nwobia noted the Institute's strategic contributions to the country's capacity building efforts and its defence of public interest. She expressed appreciation over ICAN's usual support, advice and submission of memoranda to the government which had assisted in policy formulation. She reiterated government's commitment to the security of lives and properties of the citizenry as well as eradicating corruption and urged other professionals to emulate ICAN by putting the interest of the public first in their operations, adding that nation building requires collective sacrifice.

In his welcome address, the ICAN President, Otunba Samuel Olufemi Deru declared that in line with its pioneering public

ICAN President welcoming Nigeria's Vice President, Professor Yemi Osinbajo to the conference

Cross-section of participants at the conference

(L-R) Ogun state governor, Senator Ibikunle Amosun; ICAN President, Otunba Olufemi Deru; Representative of President Muhammadu Buhari, Mrs. Anastasia Mabi Daniel-Nwaobia and Lagos state governor, Mr. Akinwumi Ambode

interest mandate of setting standards and regulating accountancy profession in the country, ICAN has upheld the ideals and made remarkable progress in the 50 years of its existence.

The ICAN President also declared that the next 50 years of ICAN hold a lot of promises for the Institute, accounting profession and the nation, even in the face of challenges if all the rich human and natural endowments are efficiently harnessed and optimally deployed. He urged the government to press forward with its crusade to sanitise the system, set a new tone for governance as well as chart the right direction for the nation.

In his remark while declaring the conference closed, the Executive Governor of Gombe State, Alhaji Ibrahim Dankwambo 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 endeavour to make

(L-R) The 45th Annual Conference Committee Chairman, Mrs. Comfort Eyitayo; Gombe State governor, Alhaji Ibrahim Dankwabo; ICAN President, Otunba Olufemi Deru

use of the various suggestions from the conference, for the benefit of the nation's development.

The sub-themes of the conference include: *Repositioning Nigeria for Sustainable Development: From Rhetoric to Performance; Achieving Nigeria of our Dream: The Responsibility of Professional Accountants; Infrastructure, Technology and Human Capital: Powering the Engine of Enterprise; Fiscal Responsibility in Public Financial Management: Confronting the Challenges (IPSAS); Economic Diversification: Integrating Nigeria into the Global Value Chain; Integrated Reporting: Raising the Bar of Accountability and Transparency and Innovative Business Models: Leveraging Technology, E-Commerce and Social Media.*

Apart from paper presentations, workshops and plenary sessions, there was a gala night on Thursday during which the high-ranking juju musician, King Sunny Ade entertained the participants. There was also an open raffle draw in which three members of the Institute won brand new cars. 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. The topic was " *The Next 50 years of Professional Accountancy Practice: Making ICAN Globally Relevant*". to mark the ICAN's 50th Anniversary and Golden Jubilee Celebrations. Awards and recognitions were given to the top ten winners who were hosted for five days in Abuja throughout the conference. There were also sporting activities such as jogging, excursions and exhibitions. Other programmes of the conference include District Societies competition where various District Societies won trophies for their performances.

(L-R) ICAN Registrar/Chief Executive, Rotimi Omotoso; ICAN Vice President, Deacon Titus Soetan; Mrs Deru; ICAN President, Otunba Olufemi Deru; ICAN 2nd Deputy Vice President, Alhaji Razak Jaiyeola; 1st Deputy Vice President, Alhaji Mohammed Zakari and 45th Annual Conference Committee Chairman, Mrs Comfort Eyitayo, cutting the 50th anniversary cake.

ICAN

50 years

ACCURACY & INTEGRITY

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

(Established by Act of Parliament No. 15 0f 1965)

List Of Recognised Tuition Centres As At August 29, 2014

1. Able God Professional Tutors 47, Ikotun/Egan Road, Market B/stop, Igando, Lagos. E-mail: agpcentres@yahoo.com, Phone: 08028430567

2. Accountancy Tutors Nigeria Limited 1-9, Ilorin/Katsina Road, By Independence Way, Marafa Estate, Kaduna State. Email: acas_2007@yahoo.com, Phone: 08037861401, 08028782686

3. Accuracy Tutors, Aba No 76, St Michael's Road, Aba, Abia State. E-mail: ijiomao@yahoo.co.uk 08068548135

4. Alphamarshall Professional Limited 72, Mbano Street, Phase 3, Kubua, Abuja. E-mail: muge@alphamarshall.org 08068798944

5. Atlas Professional Centre, Ota, Ogun BELLS University of Technology, Ota Ogun State. E-mail: atlasprofessionals@gmail.com 08033195330, 08053947907

6. Best Option Tuition Centre, Makurdi 9, kashim Ibrahim Road, Makurdi, Benue State. E-mail: terencegoddy@yahoo.com 8034932068

7. Bratim Training Centre Limited Ground Floor, National Library Building, Adjacent Reiz Continental Hotel, Central Area, Abuja. E-mail: tejan@bratim.com 08059125288, 08030408384

8. Career Intelligent Professionals New Capital School, 17/30 Kwame Nkrumah Crescent, Asokoro Abuja. E-mail: careerip@yahoo.com 08077303645

9. Crest Professional Tutors Plot 238/240, Apapa Oshodi Expressway, Odo-Olowu Bus stop, Ijeshatedo, Lagos. E-mail: crestprofessionals@gmail.com 08056243941, 07025289695, 08033721559

10. Deo-Gratia Professional Tutors, Oshogbo 25, Oyedokun Street, Ago-Wande, Oke-Onitea Road, Oshogbo, Osun State. E-mail: deogratiasp.t.edu@gmail.com 08060053496

11. Edo Wyse School of Professional 75/98, Arthur Eze Avenue, by Unizik Temp-Site Junction, Awka, Anambra state. E-mail: edo-wyse@hotmail.com, fidelisabiahu@yahoo.com 07038584227, 08065303399

12. Excel Professional Centre 11, Queen Elizabeth Road, Mokola, Ibadan, Oyo State. E-mail: excelprofessionalcentreeng@yahoo.com, moolaoluwa@yahoo.co.uk 07081488611

13. Foresight Professional Institute 24 Road Opposite H Close, Festac Town, Lagos. E-mail: foresight_professional@yahoo.com 08033164620

14. Gusau Business School Off Sokoto Road, Opp. Janyau Primary School, Gada Biyu, P.O.Box 315, Gusau, Zamfara State. E-mail: info@gusaubusinessschool.com, gbs2015@yahoo.com 08060976226, 08082585301

15. Galaxy Professional Tutor & Consultant L.E.A Primary School, by Mopol Junction, Opposite Diamond Bank Plc, Nyanya, Abuja. E-mail: galaxytutors11@yahoo.com 08063513106, 08056922440

16. Global Focus Initiative Consulting Co. Junior Secondary School, Apo Legislative/National Assemply Quarters, Zone B,Apo, Abuja. E-mail: gfcproftutors@gmail.com 081505496912, 09091591598

17. Jodoc Accountancy Tutors St John Catholic Church Primary School, Rumuokwurushi, Portharcourt, Rivers State. E-mail: jodoctutors@yahoo.com, olulanajohn@yahoo.com 08034041855

18. Legacy Associate Limited Olatunji HSE/Legacy HSE, 299/295, Ikorodu Rd, Idiroko B/stop, Maryland, Lagos. E-mail: legacyassociates@ymail.com 08028719480, 08063330748

19. MIKON Professional Tuitor 34A, Boundary Road, G.R.A. Benin City, Edo State. E-mail: mikoninstitute@yahoo.com 07035066990, 08032065000

20. MSL, School of Accountancy & Mgt. StudiesL8, Ahmadu Bello Way, Katsina Round-about, same building with Studio 24,

Kaduna, Kaduna State. E-mail: mucomail@yahoo.com 08038492871

21. Pass Associates Limited 9 - 11, Ogunyade Street, Gbagada, Lagos. E-mail: pass.centre@yahoo.com 08033750527, 08027082699

22. PLUM Academy Limited 368, Lagos Abeokuta Way, Oja-Oba B/stop, Abule-Egba, Lagos. E-mail: plumacademyltd@yahoo.com 08083687713, 08078635086, 08061382365

23. Portharcourt School of MGT & Economics 6B, Abeokuta Street, D/Line Port Harcourt, Rivers State. E-mail: info@phsme.com.ng 08056425355, 08169999886

24. POSSE Associates Tutors WTC Primary School Compound, Off WTC B/Stop, Near University of Nigeria, Enugu Campus (UNEC) Ogui Newp Layou, Enugu State. E-mail: sesan.sosanolu@yahoo.com 08038036940

25. Precept with Passion 164, Iju Road,Opposite Fagba grammar school, Station Bus -Stop, Agege Lagos. E-mail: consultingpwp@gmail.com 08053642805

26. Professional Tutor for Success PTS Building, Opposite NUJ Secretariat, Iwo/Ibadan Road, Dada Estate, Oshogbo, Osun State. E-mail: ptsosogbo@gmail.com, ayoajayiobe@yahoo.com 08023526689, 07031927805 2016

27. Protrac Associates Limited 1, Lagos Road, Ikorodu, Lagos. E-mail: protract@protraconline.org 08033050580, 08057742568 2014

28. Real Professional Tutors Wuse Zone 6, School Compound, behinde Oando filling Station, Abuja. E-mail: realtutorsltd@hotmail.com 08136111191, 036184645 2013

29. Risk Free Standards Associates Limited 5, Olusoji Idowu Street, Off Association Avenue, Ilupeju, Obanikoro B/Stop, Lagos. E-mail: riskfreestandards@yahoo.com, seyiolanrewaju@yahoo.com 08023050654, 08039475507, 013423986

30. Safe Associates Limited 31, Ore-Ofe Street, Gbaja, Off Barracks B/Stop, Onitolo, Opposite Laspotech Surulere Campus, Lagos. E-mail: safeican@yahoo.com, info@safeassociatesltd.com 08023210622, 08023177050

31. Sapati International School Off Ajase-Ipo Road, Sapati-Ile Road, Ilorin, Kwara State. E-mail: yomimajor@yahoo.co.uk, principalsapati@yahoo.com 08067923014, 08034661929 2016

32. Sky Associates Nigeria Limited LEA Primary School, Wuse Zone 3, Abuja. E-mail: skyassociatetutors@yahoo.com, 08033176283, 08033144671

33. Soteria Business School Beside DB Petrol Station, Bola Ige B/Stop, Liberty Road, Oke-Ado, Ibadan, Oyo State. E-mail: info@soteriaschool.com 07030049999, 07031259316

34. Students PYE Nigeria Limited 14, Oweh Street, Jibowu, Lagos. E-mail: studentspye@yahoo.com 08055776374

35. Superiorpoints Associates Limited KM 29, Badagry Expressway, Opposite LASU Main gate, Ojo, Lagos. E-mail: gomoregbee@yahoo.com 07064963490, 07044913730

36. SQUAD Associates 7, Abodunrin Caulcrik Street, Camp David School Opp. Access Bank, Cartepillar B/stop, Ogba, Lagos. E-mail: sqdassociates@gmail.com, idrisalabi1@yahoo.co.uk 08028635966, ‘08038314631

37. The Triumphant Professional & Associates 7, Olaiya Street, Off Govt Avenue, Alausa, Ikeja, Lagos. E-mail: bayotifa@yahoo.com 08037166704, 08033627669.

38. Toptalented Tutors, Al-Akeedat College Beside Mega Chiken, Ikota, Lekki, Lagos. E-mail: blessplato@yahoo.com 08037764827

39. Trace Professional Associates Limited Kilometre 27, Lagos / Abeokuta Expressway, Lagos. E-mail tracepass@hotmail.com, abimat4christ@yahoo.com 08058680537.

40. Triumph Dynamics Professional Limited, UMC Demonstration School, Molete, Ibadan, Oyo State. E-mail: triumphglobal2000@yahoo.com 08034087611

41. Unique Professional Tutors Limited, Govt Junior Secondary Sschool, Tudun Wada, Zone 4, Wuse, Abuja. E-mail: uniquetutors@yahoo.com 08032695961

42. WYSE Associates Limited, c/o Immaculate College Compound, Maryland, Lagos. E-mail: wysestudents@yahoo.com, adeniji.adeniyi@gmail.com 08033078065, 08023168451

43. Zaria Business School. 10B, Teresa Bowyer Road, PZ, Sabon Gari, GRA, Zaria, Kaduna State. E-mail: sarubuolaw@yahoo.com, solammedica@yahoo.com 08037010974

Optimal Capital Structure,
Gearing And The Arbitage Process: A Review

By Ben Ukaegbu

Abstract: *The effect of gearing on the cost of capital and the optimum capital structure are areas students often avoid for lack of understanding and clarity. What is required however, is an understanding of the general principles and the appreciation of the earlier and subsequent work of Modigliani and Miller. The ability to systematically work through their proof is not required. In this paper, Dr. Ukaegbu reviews the capital structure theories and illustrates the arbitrage process with typical examination question scenario.*

Introduction

Gearing is a term used to describe the relationship between shareholders' capital in addition to reserves and either prior charge capital or borrowings or both. In the US, financial gearing is referred to as 'leverage'. Prior charge capital is capital which has a right to payment to interest or preference dividend before there can be any earnings for ordinary shareholders. It also has a prior claim on the company's assets in the event of a winding up or liquidation. Prior charge capital is usually regarded as consisting of any preference share capital plus interest-bearing debt.

Gearing ratios - low and high

A company which is financed mainly by equity capital is said to be lowly geared. The higher the proportion of prior charge capital, the higher the gearing ratio. A highly geared company is one in which the equity capital (including reserves) is less than prior charge capital. A company is lowly geared if the gearing ratio is less than 50%, highly geared if the ratio is over 50% and neutrally geared if it is exactly 50%.

The financial gearing of a company may have an important impact on management decisions. A company that is highly geared with heavy interest charges to meet is unlikely to be in a better position to withstand movement in business cycles. Similarly, a company that is lowly geared may be viewed as being in a better position to withstand uncertainties in business because its financing charges are not so high.

The effect of gearing on cost of capital

A company has to consider the effect of gearing on its cost of capital. This is because a firm's cost of capital is dependent on its level of capital gearing (capital structure). There are however, two main theories about the effect of changes in gearing on the corporate weighted average cost of capital (WACC) and share values. These are: (a) **the traditional view** and (b) **the net operating income** approach, for which a behavioural justification was provided by Modigliani and Miller, (M & M) (1958).

Traditional view of gearing and WACC

The traditional view assumes that as the level of gearing increases, the cost of debt remains unchanged up to a certain level of gearing. Beyond this 'significant' level, that is, when the amount of debt capital has reached a certain size, the cost of debt will increase. As the cost of equity rises, the level of gearing increases. WACC does not therefore remain constant but rather falls initially as the proportion of debt capital increases and then begins to increase as the rising cost of equity and possibly of debt becomes more significant. According to the traditional view, the optimum level of gearing is where the company's WACC is minimised.

The traditional theory believes that as long as the levels of borrowing are below a certain critical level, the risks to shareholders are negligible and consequently they do not require a risk premium in the return. The traditional view is that WACC, when measured against the level of gearing, is saucer shaped. Therefore, the optimum capital structure is where WACC is lowest.

Net Operating Income Approach

According to this approach, there is **no** optimal capital structure. The financing mix does not affect the average cost of capital of the company; and the **total** value of the firm remains unchanged with changes in the gearing. This alternative theory has received a great deal of attention mainly because of the theoretical and empirical work of M & M. The theory implies that the value of the firm is independent of the proportion of debt to total capitalisation. Irrespective of the effect of the debt/equity ratio on interest rates, the capitalisation rate on equity will change by an amount just sufficient to effect any possible saving or losses on the interest charge. As gearing increases, WACC will remain constant, and so no optimal level of capital gearing exists.

The basis of M&M thesis is an arbitrage process. **Arbitrage** is trading in shares or securities and debt to profit by different prices in different companies or markets. M & M assume that individuals can borrow and lend at the same rate of interest as companies. They assert that with this assumption, the capital structure of a firm does not matter because whatever the financing mix, the market value of the firm will be the same. Assuming the validity of the assumption, the arbitrage process is shown to be correct.

If we have two companies identical in all respects, except their level of gearing and if one of the firms had a higher market value than the other, the shareholders would engage in arbitrage until both companies were of the same value. This means that shareholders would sell the shares of the higher valued company and buy shares in the lower valued company until the share price of both companies reaches equilibrium.

Arbitrage – an illustration

Let us consider two companies - Ungeared plc and Geared plc, in the same risk class. These companies are identical in all respects except that Ungeared plc is financed entirely by equity (100% equity or debt free) whereas the capital structure of Geared plc includes N150,000 at 5% interest. It will be assumed that the earnings of both companies (before interest) are the same - N60,000 per annum, and we will begin by considering the traditional view of the cost of capital and suppose that the cost of equity in Ungeared plc is 10% and in Geared plc is higher at 11%.

	Ungeared Plc N	Geared Plc N
Earnings	60,000	60,000
Debt Interest (5%)		7,500
Available for Equity (Earnings = Dividends)	60,000	52,500
Assume cost of Equity	**10%**	**11%**
Market value of Equity	600,000	477,273
Market value of Debt	-	150,000
Market value of Firm	600,000	627,273
Weighted Average Cost of Capital (WACC)	**10%**	**9.6%**
Gearing Ratio	**0%**	**23.9%**

M & M's Proposition
The two companies, identical in every respect except their gearing, are therefore assumed by the traditional view to have different market values. M & M (1958) argue that this situation could not last for long because investors in Geared plc would soon see that they could get the same return for a smaller investment by investing in Ungeared plc. Exercising **arbitrage**, they would sell their shares in Geared plc and buy shares in Ungeared plc.

This sale would:

- drive up the price of Ungeared plc shares (thereby lowering the cost of the equity capital); and
- force down the price of Geared plc shares (thereby raising the cost of its equity capital) until the total market value of each company is the same. Arbitrage would then cease.

The Arbitrage Process
Arbitrage would occur as follows: Suppose Mr Banwo owns 5% of the equity in Geared plc. These would have a market value of (5% x N477,273) = N23,864. He would notice that Ungeared plc makes the same annual earnings as Geared plc (N60,000) but with a smaller investment (N600,000 compared to N627,273). He would therefore take the following steps:

Sell his shares in Geared plc for N23,864.

Borrow N7,500 at 5% interest. This amount is equivalent to 5% of the debt of Geared plc (N150,000 at 5%). In this way, Mr Banwo would have substituted personal gearing for the corporate gearing of Geared plc. His assets would be as follows:

N23,864	(from the sale of his shares)
7,500	(borrowed at 5%)
31,364	(which is 5% of the value of Geared plc)

Mr Banwo's personal gearing ratio (7,500/ 31,364 = 23.9%) is the same as the gearing ratio of Geared plc, and so M&M would argue that his financial risk is in no way changed by this process of arbitrage.

Mr Banwo would then buy 5% of the equity of Ungeared plc for N30,000 (N600,000 at 5%). To do this, he would use the borrowed N7,500 plus N22,500 of 'his own money'.

His annual earnings from Ungeared plc would be as follows:

5% of N60,000	N3,000
less the Interest he must pay on his personal loan (5% x N7,500)	N375
Net Earnings	N2,625

This is exactly the same as he would earn from keeping 5% of the equity of Geared plc (5% x N52,500) - N2,625, but he can earn this from a smaller net investment of N22,500 rather than N23,864, leaving him with surplus capital (capital gain) of N1,364.

- Alternatively, if he spends the entire N31,364 in purchasing shares of Ungeared plc, his earnings would be a dividend of N31,364/N600,000) x N60,000 = N3,136, less interest on Loan repayment of N375, leaving him with N2,761. This is N136 more than he currently earns from his investment in Geared plc.

Modigliani and Miller (1958) argue that rational investors will continue to substitute personal gearing for corporate gearing and buy shares in Ungeared plc until the price of those shares rises and the price of Geared plc shares falls and the market values of each firm are the same. At this point,

(a) the cost of equity in the company with the higher gearing (Geared plc) will be higher than the cost of equity in the other company;

(b) because both the market value and the annual earnings of each company are the same, it follows that the WACC must be the same, regardless of **GEARING**.

Unrealistic Nature of M&M'S (1958) thesis:

Modigliani & Millers can be criticised along the following lines:

- **Personal Gearing** does not carry the same risk as corporate gearing. The limited liability which companies enjoy means that the investor is safer if his company borrows on his behalf than he is if he borrows on his own account.

- **Personal borrowing** is not at the same rate of interest as corporate borrowing. In fixing interest rates, bankers or lenders have regard to the credit worthiness of the customer and the absolute size of the loan and the purpose for which the loan is being sought. Modern banking prudence prohibits lending for speculative purposes like buying and selling of stocks and shares.
- **Transaction costs**: There are considerable costs involved in buying and selling investments and in the monitoring of their performance.
- **Institutional factors:** There are institutional factors against the arbitrage process. Many institutional investors would be prohibited from borrowing to finance investment purchases. Similarly, small investors may find their banks or lenders unwilling to lend to them for this purpose.
- **Taxation** exists and debt interest is a tax deductive expense, whereas equity dividends are not.

All of the foregoing implies that even where one accepts the logic of M & M theory, one would have to anticipate that there would be distortions arising from its translation to a real world situation.

Modigliani and Miller and Corporate Tax (1963)

M & M after much criticism revised their 1958 theory to allow for corporate tax relief on debt interest. When this is brought into account the theory identifies two advantages of borrowing and one disadvantage, and the balance shifts in favour of borrowing. A consequence to note is that there is no advantage to borrowing unless the company pays tax. If, for example, taxable profits are absorbed by high tax depreciation (capital allowances) the borrowing may not result in any further reduction in tax. Assuming, however, that the company does pay tax then, under the revised theory, the cost of debt should be evaluated after tax, and is much cheaper than in the original theory. The effect is that WACC decreases with increasing gearing. This implies that companies should borrow in order to take advantage of the tax relief on interest. However, this is unrealistic because the theory ignores bankruptcy risk, which begins to increase at higher levels of gearing. The theory also ignores investors' personal taxes.

References:

Modigliani, F and M. Miller (1958) 'The cost of capital, corporation finance and theory of investment, *American Economic Review 48, 261-96.*

........................(1963) 'Taxes and the cost of capital: a correction, *American Economic Review, 53 433-43.*

Review Question:

Nzozo plc and BABEF plc are two companies which operate in the same industry and are considered to have identical risk and operating characteristics. Both companies pursue a policy of not retaining earnings. The only differences between the two companies are in respect of size and capital structure.

The relevant data for the two companies are given below:

	Nzozo plc	***Ahmed plc***
Current market value of capital	***N***	***N***
Number of £1.00 ordinary shares	*90,000*	*150,000*
Market price per share	*N1.20*	*N1.00*
Market value of Equity	*108,000*	*150,000*
6% Irredeemable Debenture	*60,000*	-
Earnings before Interest	*20,000*	*20,000*

(It is managerial policy to distribute all income after interest on loan as dividends).

One of your clients Mr Kambona holds 3,600 ordinary shares of Nzozo plc and seeks your investment advice. Your client is able to borrow and lend at the same rate of interest as the current pre-tax cost of debt of Nzozo plc.

Required:

(i) Ignoring taxation and transaction costs, specify the beneficial arbitrage opportunities open to your client which will not change either the periodic income from investment activities or its risk.

(ii) Outline the main assumptions inherent in the analysis carried out in part (i) above.

(iii) Briefly, discuss the extent to which the assumptions are to be considered realistic and indicate how any lack of realism is likely to alter the conclusions reached.

Dr. Ben Ukaegbu is Director, Technical & Education at ICAN.

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, 2015)

Question 1

You have been invited to make a presentation to the Board of Directors of BICCI Nigeria Limited.

Your performance at the presentation will determine your appointment as the Tax Consultant to the company.

BICCI Nigeria Limited, a trading company, was incorporated on 2 March, 2009. It commenced business on 2 October of the same year, making accounts up to 30 September annually. The shareholders invested N18million in Non current assets before the company commenced business in 2009.

Other information provided are:

(i) Authorised, Issued and Fully Paid-Up Capital - N10million.

(ii) Value Added Tax and Withholding Tax Returns filed: 2010 - 2013, were carried out 2 months after each month of the transaction.

(iii) Companies Income Tax and Tertiary Education Tax returns were filed on 30 June for 2011 to 2014 Assessment Years.

(iv) Extracts from the accounts:

	30/9/13	30/9/12	30/9/11	30/9/10
	N	N	N	N
Revenue	25,320,000	21,522,000	13,989,000	7,964,000
Cost of revenue	(10,128,000)	(8,609,000)	(5,596,000)	(3,078,000)
Gross profit	15,192,000	12,913,000	8,393,000	4,886,000)
Depreciation	(2,675,000)	(2,006,250)	(1,504,688)	(1,125,516)
Selling & Distr. exp.	(8,250,000)	(6,600,000)	(5,610,000)	(5,329,500)
Admin exp.	(4,185,164)	(3,138,873)	(2,354,155)	(1,765,616)
Net Profit/(Loss)	81,836	1,167,877	(1,075,843)	(3,334,632

	30/9/13	30/9/12	30/9/11	30/9/10
	N	N	N	N
Remittances				
VAT	443,100	376,650	244,800	173,100
CIT	2,430,399	1,885,488	1,210,936	143,887
TET	244,421	184,377	94,214	27,675
	3,117,920	2,446,515	1,549,950	344,662

On 15 July, 2014, the tax inspectors visited the company and had a meeting with the Management. At the end of the meeting, the FIRS team informed the management of an impending tax audit which will take place in the company's premises on 25 August, 2014. A list of items to be made available in August, 2014, which was given to the management is as shown below:

(i) Audited Accounts: 2010 - 2013;

(ii) Bank Statements: 2010 - 2013;

(iii) Trial Balance for each year involved;

(iv) Evidence of Tax Returns filed during the years under review for Companies Income Tax/Value Added Tax/Withholding Tax/Tertiary Education Tax;

(v) General Ledger print out;

(vi) Proof of payments for (iv) above;

(vii) Evidence of registration with the relevant tax authorities;

(viii) Tax Clearance Certificate for each year; and

(ix) WHT Credit Notes, if any.

The team of Tax Inspectors visited the company on 25 and 26 August 2014 to carry out the audit.

Below are the extracts from the Interim Tax Audit Report of the FIRS:

(i)	30/9/13 N '000	30/9/12 N '000	30/9/11 N '000	30/9/10 N '000
Revenue	25,320	21,522	13,989	7,694
VAT on revenue	8,862	7,533	4,896	3,462
Undisclosed revenue	16,458	13,989	9,093	4,232
Directors' Current				
Account	19,578	21,228	19,250	18,000
Payments under WHT:				
Directors' fees	1,625	2,125	1,145	960
Rent	3,500	3,500	2,625	2,625
Professional fees	1,200	1,200	950	950
Commission	2,825	1,875	970	376

(ii) Cost of sales written back - 60%

(iii) Selling and Distribution expenses written back - 60%

(iv) Admin. expenses written back - 60%

You are required to:

a. List the documents to be provided by BICCI Nigeria Limited in order to respond to Federal Inland Revenue Service (FIRS) Interim Tax Audit Report. **(3 Marks)**

b. Compute the possible tax liabilities of BICCI Nigeria Limited in order to respond to Federal Inland Revenue Service (FIRS) Interim Tax Audit Report. **(12 Marks)**

c. Prepare a schedule of Revenue's receipts collected by the company on Value Added Tax (VAT) and Withholding Tax (WHT). **(7 Marks)**

d. Advise the management on possible tax liabilities that may arise from non-response of BICCI Nigeria Limited to the Federal Inland Revenue Service (FIRS) Interim Tax Audit Report. **(8 Marks) (Total 30Marks)**

Question 2

You have been approached by Mr. Sola Abijah, a political science graduate who did his compulsory National Youth Service in a media organisation in 2009. On completion of National Youth Service in January 2010, he was offered a part-time job as a freelance writer in two international newspapers. He receives an income (net of Withholding tax) based on the articles he writes that are published by the newspapers. In March 2010, he joined a popular political party and served as the party's temporary Public Relations Officer, also on part-time income basis.

On 2 January 2012, he secured employment on full-time basis as Senior Manager, Corporate Affairs, in Jola Investment Enterprises on a salary of N12,000,000 per annum.

He was ignorant of the requirements for filing Tax Returns and paying tax to Government. He has been served a warning by the State Board of Internal Revenue (SBIR) to desist fromnon-disclosure of his other incomes, failing which, a Best of Judgement assessment may be raised on him by the tax inspector.

Mr. Abijah has approached you to provide tax advisory services in respect of his income tax compliance requirements and the likely tax liability that may be imposed on himby the SBIR.

The following additional information has been presented to you:

	Notes	2012 N	2011 N	2010 N
Emolument		8,250,000.00	-	-
Benefits-in-kind	1	3,750,000.00	-	-
Other Incomes:	2			
Part-time writing		3,875,000.00	3,293,750.00	2,140,938.00
Public relations		2,575,450.00	2,189,133.35	1,641,849.55
Other Deductions				
Withholding tax suffered at source:				
Part-time writing		193,750.00	164,687.50	107,046.90
Public relations		128,772.50	109,456.65	82,092.45
Other Deductions				
Pension contribution		660,000.00	-	-
National Housing Fund Contribution		206,250.00	-	-

In January 2012, Mr. Abijah took a Life Assurance Policy on his life with a capital sum assured of N5million and paid an annual premium of N375,000.

Note 1: Benefits-in-kind	2012 N	2011 N	2010 N
Official Car cost	2,500,000.00	-	-
Drivers allowances	1,250,000.00	-	-

Note 2: Other Incomes:			
Freelance Income (Gross)	4,068,750.00	3,458,437.50	2,247,985.00
Public Relations Income (Gross)	2,704,222.50	2,298,590.00	1,723,941.00

You are required to:

a. State the difference between employment income and part-time income. **(3 Marks)**

b. Explain why, when and to whom tax payers are expected to file income tax returns. **(5 Marks)**

c. Explain the circumstances that may arise to cause a tax authority to raise a Best of Judgment Assessment. **(4 Marks)**

d. Compute the tax liability on Mr. Abijah's Total income. **(8 Marks) (Total 20Marks)**

Question 3

Hopeful Limited, a manufacturing company has been having declining profits and liquidity problems since 2010. The company changed its accounting year-end in 2010 from 31 May to 31 December.

The shareholders injected N10million into the company in January 2011, which boosted its profits in 2011 and 2012.

Even with the increase in profits in 2011 and 2012, the Managing Director was of the opinion that it is better to cut the company's losses, once and for all, by winding-up the company. However, the Finance Director disagreed and argued that since the company's performance was now improving, it should continue to operate.

The Company's Accountant has prepared the financial statements and the following are extracts:

Profits for:	N
Year ended 31 May 2009	540,000
Year ended 31 May 2010	300,000
Seven months to 31 December 2010	645,000
Year ended 31 December 2011	1,575,000
Year ended 31 December 2012	1,876,500

The Chairman of Hopeful Limited invited you to his office on 12 June 2013, to educate him on the two concepts of change of accounting date and cessation of business as well as their tax implications.

Required:

a. Identify the steps involved in the event that HOPEFUL Limited adopts the change of accounting date. **(6 Marks)**

b. Compute the Assessable profits for 2011 – 2013, if the option to change accounting date is accepted, using both the old and the new dates. **(7 Marks)**

c. Compute the Assessable profits for the relevant years if the cessation option is accepted using the normal basis and the revised basis of assessment. **(7 Marks) (Total 20 Marks)**

Suggested Solution To Question 1

(a) List of documents to be provided by BICCI Nigeria Limited are as follows:

(i) Revenue and VAT on Revenue
The sales invoices indicating the actual revenue and the VATelement.

(ii) Undisclosed Revenue
The company's bank statements, bank tellers, stock records, daily revenue register, cash books, receipt booklets, Waybill register etc.

(iii) Directors' Current Account
Minutes of Board of Directors' meeting, cheque stubs, bank statements and vouchers, Sales in voices relating to purchases, Debit and Credit Notes, As sets Disposal Register.

(iv) Directors' fees
As in (iii) above

(v) Rent
Rent agreement, cheque stubs, bank statements and vouchers, Withholding Tax receipts evidencing deductions, receipts issued by the landlord.

(vi) Professional fees and Commission
Withholding Tax receipts, professional bills relat ing to relevant transactions, payment vouchers, bank statements.

(vii) Cost of sales
Stock records, Purchase invoices, Credit and Debit notes, Journal vouchers, bank statements, Waybills, Goods Received Notes.

(viii) Selling and Distribution expenses; and Admin expenses
All documentary evidence relating to revenue and expenditure.

(b) BICCI NIGERIA LIMITED
COMPUTATION OF INCOME TAX LIABILITY
FOR 2011 TO 2014 YEARS OF ASSESSMENT

Assessment Year	**2014**	**2013**	**2012**	**2011**
	N	**N**	**N**	**N**
Net profit/(loss) per accounts	81,836	1,167,877	(1,075,843)	3,334,632
Add: Depreciation	2,675,000	2,006,250	1,504,688	1,125,516
Assessable profit	2,756,836	3,174,127	428,845	4,460,148
Deduct: Capital allowances	1,837,891	2,116,085	285,897	2,973,432
Total profit	918,945	1,058,042	142,948	1,486,716
Tax liability				
Companies Income tax @ 30% of Total profit	275,684	317,413	42,884	446,015
Tertiary Education tax @ 2% of Assessable profit	55,137	63,483	8,577	89,203

c (i) BICCI NIGERIA LIMITED

COMPUTATION OF VALUE ADDED TAX COLLECTED

Assessment Year	2014	2013	2012	2011
	N	N	N	N
Undisclosed Revenue	16,458,000	13,989,000	9,093,000	4,232,000
VAT @ 5%	822,900	699,450	454,650	211,600
Payments during the year	(445,100)	(376,650)	(244,800)	(173,100)
Net VAT payable	379,800	322,800	209,850	38,500
Add: Penalty @ 10%	37,980	32,280	20,985	3,850
Add: Interest @ 15%	56,970	48,420	31,478	5,775
Amount payable	474,750	403,500	262,313	48,125

Additional VAT payable = N1,188,688

c (ii) WITHOLDING TAX COLLECTED

Assessment Year	2014	2013	2012	2011
	N	N	N	N
Directors' fees	1,625,000	2,125,000	1,145,000	960,000
Rent	3,500,000	3,500,000	2,625,000	2,625,000
	5,125,000	5,625,000	3770,000	3,585,000
WHT @10% (A)	512,500	562,500	377,000	358,500
Prof fees	1,200,000	1,200,000	950,000	950,000
Commission	2,825,000	1,875,000	970,000	376,000
	4,025,000	3,075,000	1,920,000	1,326,000
WHT@ 5% (B)	201,250	153,750	96,000	66,300
(A) + (B)	713,750	716,250	473,000	424,800
Add penalty @ 10%	71,375	71,625	47,300	42,480
Add interest 15%	107,063	107,438	70,950	63,720
Total WHT Payable	892,188	895,313	591,250	531,000

(d) BICCI NIGERIA LIMITED

COMPUTATION OF REVISED TAX LIABILITIES

Assessment Year	2014	2013	2012	2011	Total
	N	N	N	N	N
Adjusted profit per Client's information	2,756,836	3,174,127	428,845	4,460,148	10,819,956
Add: Overstatement of Cost of sales (60%)	6,076,800	5,165,400	3,357,600	1,846,800	16,446,600
Overstatement of selling and distribution expenses (60%)	4,950,000	3,960,000	3,366,000	3,197,700	15,473,700
Overstatement of Admin expenses (60%)	2,511,098	1,883,324	1,412,493	1,059,370	6,886,285
Revised Assess-able profit (RAP)	16,294,734	14,182,851	8,564,938	10,564,018	49,606.541
Deduct: Capital allowances	(0)	(0)	2,249,990	2,250,000	4,499,990
Revised Total Profit (RTP)	16,294,734	14,182,851	6,314,948	8,314,018	45,106,551
Tax Liabilities Revised Com-panies Income Tax liability - 30% of RTP	4,888,420	4,254,855	1,894.484	2,494,205	13,531,964
Deduct: Com-panies Income Tax paid	2,430,399	1,885,488	1,210,936	143,887	5,670,710
Net Company Income tax payable/ refu-ndable	2,458,021	2,369,367	683,548	2,350,318	7,861,254
Add: Penalty @ 10%	245,802	236,937	68,355	235,032	786,126
Interest 15%	368,703	355,405	102,532	352,548	1,179,188
Net income tax payable/ refundable	3,072,526	2,961,709	854,435	2,937.898	9,826,568

The Management of BCCI Nigeria Limited is advised to object to the tax assessment raised on it by the tax authority within 30 days of the date of service of the Notice of Assessment, failure to do so, will enable the tax authority to enforce the payment of the tax assessment.

The Notice of Objection must be in writing and addressed to the Chairman, Federal Inland Revenue Service. The grounds of objection must be clearly stated.

Workings

BICCI NIGERIA LIMITED
COMPUTATION OF CAPITAL ALLOWANCE

Date of purchase of assets	2 October 2009		
Cost of assets	N18,000,000		
Assessment Year 2009		N	N
Cost			18,000,000
Deduct: Initial allowance (50%)		9,000,000	
Annual allowance (25%)		2,250,000	
			(11,250,000)
W.D.V c/f to A.Y. 2010			6,750,000
Assessment Year 2010			
Deduct: Annual allowance			2,250,000
W.D.V c/f to A.Y. 2011			4,500,000
Assessment Year 2011			
Deduct: Annual allowance			2,250,000
W. D. V c/f to A. Y. 2012			2,250,000
Assessment Year 2012			
Deduct: Annual allowance			2,249,990
W. D. V c/f to A.Y. 2013			10
Assessment Year 2013			
Deduct: Annual allowance			0
W. D. V c/f to A.Y 2014			10

BICCI NIGERIA LIMITED
COMPUTATION OF REVISED TAX LIABILITY

Assessment Year	2014	2013	2012	2011	Total
	N	N	N	N	N
Revised Tertiary Education Tax @ 2% of RAP	325,895	283,657	171,299	211,280	992,131
Payments during the year	(244,421)	(184,377)	(94,214)	(27,675)	(550,687)
Net VAT payable	81,474	99,280	77,085	183,605	441,444

Examiners' Report
The question tests candidates' knowledge of tax audit computations.

Few candidates attemped the question, they demonstrated poor understanding of the question and performance was also very poor.

The commonest pitfall was the inability of the candidates to compute capital allowance correctly.

Candidates are advised to pay attention to tax audit procedures and computations.

Solution To Question 2

(a) The difference between employment income and part-time income is that employment income can be said to be income earned from a contract of service while part-time income is income earned from contract for services.

Employment can be brought to an end at the prerogative of the employer or the employee. Part-time engagement usually comes to an end at the end of the contract or upon the delivery of a service.

(b)(i) The reasons why tax payers are expected to file income tax is because it is mandatory under the income tax law to do so, and to avert imposition of Best of Judgment assessment.

(ii) Within ten days of the end of every month, an employer shall pay to the nearest tax office, all taxes deducted from his employees.

(iii) Tax payers are expected to file income tax returns with the relevant tax authority of their State of residence or State where they have their principal place of residence or in case of a tax payer who resides in the Federal Capital Territory Abuja, should file with the Federal Inland Revenue Service.

(c) The following are the circumstances that may arise to cause a tax authority to raise a Best of Judgement assessment:

(i) Where a company files its returns, audited accounts and tax computations, the tax authority may refuse to accept same if found unsatisfactory and therefore proceed to determine based on its "Best of Judgement," the company's Total Profit and raise its assessment thereon accordingly.

(ii) Where a company has failed to submit a self-assessment return, audited accounts, etc, and the FIRS is of the opinion that it is liable to tax, it may proceed, based on its "Best of Judgement " to determine the total profit of such a company and raise an assessment thereon accordingly.

(d) MR SOLA ABIJAH
COMPUTATION OF INCOME TAX LIABILITY
FOR 2012 ASSESSMENT YEAR

	N	N
Emolument		8,250,000.00
Freelance Income		4,068,750.00
Public Relations Income		2,704,222.50
Benefits-in-kind		
Official car (5% of	N2,500,000)	125,000.00
Driver's allowance	1,250,000.00	1,375,000.00
Gross Income		16,397,972.50

	N	N
Reliefs		
(i) Consolidated Relief Allowance		
(N200,000 + 20% of N16,397,972.50)	3,479,594.50	
(ii) Pension Contribution	660,000.00	
(iii)National Housing Fund Contribution	206,650.00	(4,345,844.50)
Chargeable Income		12,052,128.00

Tax Payable

	N	%	N	N
First	300,000	7		21,000
Next	300,000	11		33,000
Next	500,000	15		75,000
Next	500,000	19		95,000
Next	1,600,000	21		336,000
Balance	8,852,128	24		2,124,511
	12,052,000			
Tax payable				2,684,511
Less: Withholding tax:				
Part-time writing			193,750.00	
Public relations			128,772.50	322,522.50
Final tax liability				2,361,988.50

Examiners' Report
The question tests candidates' knowledge of taxation of individuals in full-time and part-time employment.

Many candidates attempted the question and performance was good.

Solution To Question 3

1)(a) STEPS TO BE TAKEN WHEN THERE IS A CHANGE OF ACCOUNTING DATE

(i) Determine the year of assessment in which the company failed to make up accounts to its normal year-end.

(ii) Identify the two subsequent tax years.

(iii) Compute the Assessable Profits on the preceding year basis for the three relevant tax years, using the old accounting date.

(iv) Compute the Assessable Profits on the preceding year basis for the three relevant tax years using the new accounting date.

(v) Aggregate the Assessable profits in (iii) and (iv) above and compare the two.

(vi) It is the practice of the Revenue to choose the higher of the Assessable Profits for the 3 years in (v) above.

(b) HOPEFUL LIMITED

COMPUTATION OF ASSESSABLE PROFITS FOR
2011 - 2013 ASSESSMENT YEARS

USING OLD ACCOUNTING DATE

Y.O.A	Basis Period	Assessable Profit
		N
2011	1/6/2009 - 31/5/2010	300,000
2012	1/6/2010 - 31/5/2011	
	(N645,000 + 5/12 x N1,575,000)	1,301,250
2013	1/6/2011 - 31/5/ 2012	
	(7/12 x (N1,575,000+5/12 x N1,876,500)	1,700,625
		3,301,875

USING NEW ACCOUNTING DATE

Y.O.A	Basis Period	Assessable Profit
		N
2011	1/1/2010 - 31/12/2010	
	5/12 x N300,000 + N645,000	770,000
2012	1/1/2011 - 31/12/2011	1,575,000
2013	1/1/2012 - 31/12/ 2012	1,876,500
		4,221,500

Comment:
Based on the foregoing calculations, it is apparent that Hopeful Limited would be subject to tax by the relevant tax authority in 2011 to 2013 on the basis of the new accounting date.

(c). HOPEFUL LIMITED

COMPUTATION OF ASSESSABLE PROFITS FOR
2011 - 2013 ASSESSMENT YEARS

Y.O.A	Basis Period	Assessable Profit
	N	N
2011	Higher of:	
	PYB: 1/6/2009 - 31/5/2010	300,000
	AYB: 1/1/2011 - 31/12/2011	1,575,000
		1,575,000
2012		
	AYB: 1/1/2012 - 31/12/2012	1,876,500

Examiners' Report

The question tests candidates' knowledge of the assessment of tax payers when there are abnormal bases situation and tax provisions of change of accounting date.

Most candidates attempted the question and performance was good.

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