

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

PUBLIC SECTOR ACCOUNTING AND FINANCE

2019- PILOT QUESTIONS- Set 2

SECTION A: COMPULSORY QUESTIONS (40 MARKS)

QUESTION 1

- a. The following transactions took place in the office of the Accountant-General of the Federal Republic of Wazobia during the month of January 2019:

Details	N' million
Crude oil sale	350,000
Domestic crude oil receipts	445,000
Miscellaneous oil receipts	105,000
Royalty on crude oil	101,000
Royalty on gas	95,000
Rentals on oil field	87,000
Gas flared penalty	77,000
Petroleum profits tax	650,000
Companies income tax	225,000
Other non oil taxes	255,000
Import duties	255,000
Export duties	125,000
Custom penalty charge	115,000
Excise duties	320,000

- i. The Nigeria Customs Service is entitled to 7% of cost of collection on all revenue collected while Federal Inland Revenue Service is entitled to 4% of non-oil revenue.
- ii. The sharing ratio is stated as follows:
- | | |
|--------------------|--------|
| Federal government | 52.68% |
| State governments | 26.72% |
| Local governments | 20.60% |
- iii. 13% derivation is paid to oil producing states and it is based on oil and gas related income.
- b. The following information relates to the accounts of MAIKO State Government in the Federal Republic of Wazobia for the year ended December 31, 2018:

	Dr.	Cr.
	N'M	N'M
Land and buildings (cost)	155,000	
Long-term investments	75,000	

Equipment and furniture	27,000	
Accumulated depreciation:		
- Land and building		16,000
- Motor vehicles		12,000
- Equipment and furniture		8,500
Motor vehicles (cost)	58,000	
Federation account allocation		115,000
Vat allocation		35,000
Grants from Federal Government		13,500
Internally generated fund		39,000
Grant from donor agency		10,000
Personal emoluments	50,000	
Maintenance of premises	2,000	
Consolidated revenue fund charges	13,000	
Overhead expenses	10,000	
Miscellaneous expenditure/income	15,000	24,500
Long-term loans		100,000
Current assets/liabilities	15,500	14,500
Consolidated revenue fund		<u>32,500</u>
Total	<u>420,500</u>	<u>420,500</u>

The following additional information is also relevant, viz:

- (i) Loan interest outstanding at the end of the year was ~~N~~5 billion.
- (ii) Depreciation on fixed assets is charged at the following rates on cost:
 - Building - 5% (cost of land is ~~N~~100billion)
 - Motor vehicles - 20%
 - Equipment and furniture - 15%
- (iii) A building costing ~~N~~5 billion with accumulated depreciation of ~~N~~2 billion was sold for ~~N~~4.5 billion. This transaction has not been adjusted in the accounts.
- (iv) Interest on receivable amounted to ~~N~~4 billion

- c. Also the following is a summary of the actual and budgeted revenue and expenditure of Federal Republic of Wazobia for years 2017 and 2018

S/N	Description	2018		2017	
		Actual ₦'000	Budgeted ₦'000	Actual ₦'000	Budgeted ₦'000
	<u>Recurrent revenue</u>				
	Statutory allocation: faac	2,611,780	1,996,950	1,879,920	1,672,390
	Value added tax allocation	76,120	79,120	74,380	76,440
	Externally generated revenue	89,240	37,630	23,380	37,440
	Total Recurrent Revenue	2,777,140	2,113,700	1,977,680	1,786,270
	<u>Capital Receipts</u>				
	Internal loans: treasury bonds	1,498,699	1,960,250	-	300,280
	External loans	1,263,410	1,741,480	1,368,595	510,800
	Total capital revenue	2,762,109	3,701,730	1,368,595	811,080
	Total recurrent expenditure	1,112,159	1,247,035	862,002	792,195
	Total capital expenditure	890,684	1,177,080	606,892	907,300

Required:

- Prepare the Federation Account for the month of January 2019. (15 Marks)
- Prepare the Statement of Financial Performance of the State for the year ended December 31 2018 and Statement of Financial Position as at that date (14 Marks)
- Calculate the following ratios of budget to actual for 2017 and 2018 (to 2 decimal places)
 - Statutory allocation
 - Value added tax
 - Internally generated revenue
 - Total recurrent expenditure
 - Total capital expenditure

(11 marks)

(Show all workings)

Total

(40 Marks)

SECTION B: YOU ARE REQUIRED TO ANSWER THREE OUT OF FIVE QUESTIONS IN THIS SECTION

QUESTION 2

- A budget is a financial and or quantitative statement prepared and approved prior to a defined period of time for the purpose of attaining a given objective. A budget is normally for one year. It is therefore a short-term plan.

Required:

Explain five factors militating against the budgeting system in the public sector in Nigeria. (10 marks)

- b. Within the framework of the cost benefit analysis (CBA), identify and explain **three** probable challenges that should be addressed in the measurement of benefits of a major road construction project.

(10 marks)

(Total 20 marks)

QUESTION 3

- a. Public Private Partnerships (PPP) have been an attractive method of funding infrastructure investment in recent years. Both the three tiers of governments in Nigeria favoured Public Private Partnerships as a way of improving infrastructure without exceeding debt limits.

Required:

Explain what is meant by 'Public Private Partnership' (PPP), stating **two** reasons why PPP has been introduced as an alternative to traditional procurement method and state **two** criticisms or disadvantages of PPP.

(10 Marks)

- b. In a bid to reduce unemployment and create job for the citizenry of the Federal Republic of Wazobia, an indigenous cement company, Dango Plc, established a cement company in Isebe, Yewa State of Wazobia.

The company's operation, aside from providing employment for the people of the area, brought along with it some degree of environmental challenges, resulting in health hazards to the inhabitants of the area. The only bridge that link Isebe with other towns and villages in the area was damaged by the heavy vehicular traffic caused by the activities at the cement plant.

In order to mitigate the hazards caused the community by this damaged bridge, the Ministry of Works and Housing was contracted to construct a 'long-lasting' bridge to replace the damaged one. The Ministry of Works and Housing is predominantly funded by appropriation and is empowered to undertake limited construction work on a commercial basis for private entities. With the authority of the Honourable Minister for Works and Housing, the Ministry entered into a fixed price commercial construction contract for ₦90 (50billion) million to construct the bridge in 2016. There was no tender publication for the job and the ministry was the only bidder for the construction work.

The initial amount of revenue agreed in the contract was ₦50 billion. The contractor's (Ministry of Works and Housing's) initial estimate of contract costs was ₦40 billion. It will take three (3) years to construct the bridge. By the end of 2016, the Ministry's estimate of contract costs has increased to ₦41 billion.

In 2017, the client, Dango Plc approved a variation resulting in an increase in contract revenue of ₦2 billion and estimated additional contract costs of ₦1.5 billion. At the end of the second year, costs incurred include ₦1 billion for standard materials stored at the site to be used in the third month to complete the project.

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

Details	2016	2017	2018
	₦' million	₦' million	₦' million
Initial amount of revenue agreed in contract	50,000	50,000	52,000
Variation	0	2,000	0
Total contract revenue	50,000	52,000	52,000
Contract costs incurred to date	10,250	31,125	42,500
Contract costs to complete	30,750	10,375	0
Total estimated contract costs	41,000	41,500	42,500
Estimated surplus	9,000	10,500	9,500
Stage of completion	25%	75%	100%

Required:

Calculate the amounts of revenue, expenses and surplus to be recognised in the statement of financial performance in the three years in accordance with IPSAS 11 on construction contract. (10 Marks)

(Total 20 marks)

QUESTION 4

- a. Countries borrow for various reasons. Using Nigeria as a case study, the level of public debt has maintained an upward trend. You are required to discuss **three** major reasons and **two** major benefits for the increase in public debt in Nigeria. (10 marks)

- b. Kokomaiko State Government set up Poultry farming in order to meet one of the promises he made to the electorates when he was campaigning for the state governorship. He is however apprehensive about the viability of the project and its ability to finance itself in view of increasing production costs. The expected cash-in-hand as at January 1, 2019 is ₦1,300,000.

The following information concerns the budgeted sales and purchases of the farm

	Sales Budget ₦'mill	Purchases Budget ₦'mill
October 2018	30	
November 2018	25	15
December 2018	50	35
January 2019	40	25
February 2019	42	35
March 2019	45	40

Analysis of records shows that debtors settle according to the following pattern:

- 50% within the month of sale
- 30% in following month
- 20% in the following two month

All purchases are on credit. Past experience shows that 80% of purchase costs are settled in the month of transaction and the balance in the subsequent month. Overhead costs of 75% of the purchases for the month will have to be paid monthly. The State Government will give monthly allocation of ₦10 million.

Required

Prepare the Okokomaiko State Government's cash budget for the first quarter (January to March) of the year 2019.

(10 marks)

(Total 20 marks)

QUESTION 5

- a.i. Federal Ministry of Health had the following transactions for the year ended December 30, 2018

- The Ministry issued purchase order to ABC Pharmaceutical Company Ltd to supply 250,000 packets of panadol tablets worth ₦1,500,000. The consignment was supplied on 15 June 2018. The supplier was paid 75% of the cost as at the end of the financial year.
- In addition, a consignment of 100,000 packets was received from another supplier (EMZA Ltd) valued at ₦1,000,000. The supplier was fully paid. As at the end of the year only 130,000 packets were issued from the store to user departments. The entity adopts FIFO method of valuing stock.
- During the physical verification of items in the store, it was discovered that 5,000 packets of the tablets bought on 15 June, 2018 were damaged by water. The value of the items was estimated at ₦100,000.

You are required to:

Prepare the relevant journal entries to record the above transactions in the books of Federal Ministry of Health for the year ended December 31 2018 and identify four disclosure requirements in the financial statements as per IPSAS 12 on Inventories
(10 marks)

- b. Define the concept of fiscal federalism and briefly explain the ownership pattern of the national debt and the distinction between external debt and internal debt.
(10 marks)

Total (20 marks)

QUESTION 6

- a. The budgeting process is a cycle of events which occur sequentially every year and which result in the approved budget. In ministries and extra-ministerial departments, budget preparation and approval undergo three levels.

You are required to:

Discuss the three levels of budget preparation and approval.

(10 marks)

- b. Identify the roles being played by the "Bureau of Public Enterprises" in Nigerian economy and **distinguish** clearly with examples between the following pair of concepts;
- i. Public and private production; and
 - ii. Public goods and public choice.

(10 marks)

(Total 20 marks)